Euskaltel, S.A.

Annual Accounts

31 December 2019

Directors' Report

2019

(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
Plaza Euskadi, 5
Planta 17
48009 Bilbao

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

To the shareholders of Euskaltel, S.A.:

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Euskaltel, S.A. (the Company), which comprise the balance sheet at 31 December 2019, the income statement, the statement of changes in equity, the statement of cash flows, and the notes thereto, for the year ended at that date.

In our opinion, the accompanying annual accounts present, in all material respects, a true and fair view of the equity and financial position of the Company at 31 December 2019, and of its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in note 2 to the annual accounts) and, in particular, with the accounting principles and criteria contained therein.

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 annual accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including independence requirements, that are applicable to our audit of the 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.

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Key audit matters

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

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*
The Company'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. In these circumstances, the appropriate recognition of supply costs requires the Company 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. Due to the uncertainty associated with these estimates, the effect of applying amendments to contracts agreed during the year, 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.	Our audit procedures have comprised, inter alia: a) assessing the design and implementation of the key controls relating to the supplies and discounts process, b) reading and gaining an understanding of the volume discount agreements held with suppliers, including the amendments agreed during the year, 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 Business Plan approved by Management. In this regard, we have reviewed the historical rate of attainment of these forecasts, comparing actual consumption volumes with the initial forecasts.

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Recoverable value in non-current investments in Group companies and associates. See Notes 4.5 and 8 to the annual accounts	
Key audit matter	*How the matter was dealt with in our audit*
The recoverable value in non-current investments in Group companies and associates is calculated, for companies where there are indications of impairment, by applying measurement techniques that often require judgements to be made by the Directors and assumptions and estimates to be used. Due to the uncertainty of these estimates, we consider this a key audit matter.	Our audit procedures have comprised, inter alia: - evaluating the design and implementation of key controls relating to the process of measuring the recoverable value of the investments in Group companies and associates, - evaluating the methodology and assumptions used in the estimation of the recoverable value, on the basis of value in use, using cash flow discounting methods, using our appraisal experts to assess the suitability of the discounting rate and the long-term growth rates used, - comparing the cash flow forecasts estimated in prior years with the actual cash flows obtained, - assessing the sensitivity of certain assumptions in the event of changes that could be considered reasonable, - contrasting the information contained in the model used for the recoverable value with the Business Plan approved by Management. In addition, we have assessed whether the information disclosed in the annual accounts meets the requirements of the regulatory framework for financial reporting applicable to the Company.

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Revenue recognition See Notes 4.10 and 13.1 to the annual accounts	
Key audit matter	*How the matter was dealt with in our audit*
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.	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 Company regarding the process of recording revenue from the rendering of services. We have also 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. We have also performed detailed tests including, inter alia, the following: a) Reconciliation of data from the invoicing and collection systems with the accounting records. b) Review of corrected invoices and subsequent payments.

Other information: Directors' Report

Other information exclusively comprises the 2019 directors' report, the preparation of which is the responsibility of the Directors of the Company and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the directors' report. Our responsibility regarding the information set forth in the 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 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 directors' report, which consists of assessing and reporting on the consistency of this information with the annual accounts, based on the knowledge of the Company 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 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 director's report includes a reference to the fact that the non-financial information outlined in section a) above is presented in the consolidated directors' report for the Euskaltel Group to which the Company belongs, that the information in the Annual Corporate Governance Report mentioned in such section, is included in the directors' report, and that the rest of the information in the directors' report is consistent with the annual accounts for 2019 and the content and presentation complies with the standards applicable thereto.

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

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

In preparing these annual accounts, the directors of the Company are responsible for assessing the Company'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 directors intend to liquidate the Company or cease trading, or there is no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance that the 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 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 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 Company'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 Company.

- We conclude on the appropriateness of the 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 Company'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 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 Company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with Euskaltel S.A.'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 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 Company, we determine those matters that were of most significance in the audit of the 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 Company's audit committee

The opinion expressed herein is consistent with that stated in our additional report for the Company's audit committee dated 26 February 2020.

Contract term

The ordinary general shareholders' meeting held on 1 April 2019 appointed us as Company auditors for a 1-year term commencing on 1 January 2019.

Prior to this, we were appointed by agreement of the general shareholders' meeting for a one-year period and we have been auditing the annual accounts on a continuous basis since 31 December 2013.

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

26 February 2020

Annual Accounts and Directors' Report for the year ended 31 December 2019

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

EUSKALTEL, S.A.

Balance Sheet at 31 December 2019

(Expressed in thousands of Euros)

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

ASSETS	Notes	31.12.2019	31.12.2018
NON-CURRENT ASSETS		2,627,136	2,636,542
Intangible assets	6	62,842	52,264
Property, plant and equipment	7	642,817	651,722
Land and buildings		91,870	96,175
Technical installations and other items		550,947	555,547
Non-current investments in Group companies and associates	8 & 9	1,789,487	1,804,516
Non-current investments	9	4,937	2,954
Deferred tax assets	12	127,053	125,086
CURRENT ASSETS		86,038	146,586
Inventories		1,759	3,567
Trade and other receivables	9	41,777	48,840
Current investments	9	115	38,539
Prepayments for current assets		767	901
Cash and cash equivalents	9	41,620	54,739
TOTAL ASSETS		2,713,174	2,783,128

EQUITY AND LIABILITIES	Notes	31.12.2019	31.12.2018
EQUITY		1,050,912	1,044,220
Capital and reserves	10	1,049,606	1,044,284
Capital		535,936	535,936
Share premium		355,165	355,165
Reserves		124,726	87,706
(Own shares and equity holdings)		(1,472)	(1,602)
Profit/(loss) for the year		60,261	92,089
(Interim dividend)		(25,010)	(25,010)
Valuation adjustments		(64)	(64)
Available-for-sale financial assets		(64)	(64)
Grants, donations and bequests received		1,370	-
NON-CURRENT LIABILITIES		1,372,878	1,453,635
Non-current debt	11	1,372,421	1,453,635
Deferred tax liabilities		457	-
CURRENT LIABILITIES		289,384	285,273
Current provisions		700	700
Current debt	11	238,443	206,179
Trade and other payables	11 & 12	50,241	78,117
Prepayments for current assets		-	277
TOTAL EQUITY AND LIABILITIES		2,713,174	2,783,128

Derio, 25 February 2020

euskaltel

EUSKALTEL, S.A.

Income Statement for the year ended 31 December 2019

(Expressed in thousands of Euros)

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

	Notes	2019	2018
Revenues	13.1	346,304	325,274
Work performed by the entity and capitalised	6 & 7	8,223	6,037
Supplies	13.2	(96,566)	(77,451)
Other operating income		17	292
Personnel expenses	13.3	(34,601)	(27,203)
Other operating expenses	13.4	(68,797)	(69,244)
Amortisation and depreciation	6 & 7	(74,727)	(69,957)
Non-financial capital grants		77	-
Impairment and gains/(losses) on disposal of fixed assets	6 & 7	(5,046)	(4,797)
Other profit/(loss)	13.5	(3,513)	(5,228)
RESULTS FROM OPERATING ACTIVITIES		71,371	77,723
Finance income		42,201	78,163
Finance cost		(45,999)	(47,740)
Change in fair value of financial instruments		526	(354)
Exchange gains / (losses)		(286)	291
Impairment and gains/(losses) on disposal of financial instruments		9	371
NET FINANCE INCOME/(COST)	13.6	(3,549)	30,731
PROFIT/(LOSS) BEFORE INCOME TAX		67,822	108,454
Income tax	13	(7,561)	(16,365)
PROFIT FOR THE YEAR	10	60,261	92,089

Derio, 25 February 2020

EUSKALTEL, S.A.

Statement of Changes in Equity for the year ended 31 December 2019

(Expressed in thousands of Euros)

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

A) Statement of Recognised Income and Expense for the year ended 31 December 2019

	Notes	2019	2020
a) Profit/(loss) for the year	10	60,261	92,089
Income and expense recognised directly in equity			
Grants, donations and bequests		1,904	-
Tax effect		(457)	-
Total income and expense recognised directly in equity		1,447	-
Amounts transferred to the income statement			
Grants, donations and bequests		(77)	-
Tax effect		-	-
Total amounts transferred to the income statement		(77)	-
TOTAL RECOGNISED INCOME AND EXPENSE		61,631	92,089

Derio, 25 February 2020

EUSKALTEL, S.A.

Statement of Changes in Equity for the year ended 31 December 2019

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

B) Statement of Total Changes in Equity for the year ended 31 December 2019

(Expressed in thousands of Euros)

	Registered capital	Share premium	Reserves and prior years' profit/(loss)	Own shares	Profit/(loss) for the year	Interim dividend	Valuation adjustmen ts	Grants, donations and bequests	Total
Closing balance 2017	**535,936**	**355,165**	**60,225**	**(1,887)**	**77,112**	**(22,688)**	**(64)**	**-**	**1,003,799**
Total recognised income and expense	-	-	-	-	92,089	-	-	-	**92,089**
Transactions with shareholders									
Own shares	-	-	(47)	285	-	-	-	-	**238**
Dividends	-	-	-	-	-	(25,010)	-	-	**(25,010)**
Distribution of profit/(loss)	-	-	27,528	-	(77,112)	22,688	-	-	**(26,896)**
Closing balance 2018	**535,936**	**355,165**	**87,706**	**(1,602)**	**92,089**	**(25,010)**	**(64)**	**-**	**1,044,220**
Total recognised income and expense	-	-	-	-	**60,261**	-	-	**1,370**	**61,631**
Transactions with shareholders									
Own shares	-	-	260	130	-	-	-	-	**390**
Dividends	-	-	-	-	-	(25,010)	-	-	**(25,010)**
Distribution of profit/(loss)	-	-	36,760	-	(92,089)	25,010	-	-	**(30,319)**
Closing balance 2019	**535,936**	**355,165**	**124,726**	**(1,472)**	**60,261**	**(25,010)**	**(64)**	**1,370**	**1,050,912**

Derio, 25 February 2020

EUSKALTEL, S.A.

Statement of Cash Flows for the year ended 31 December 2019

(Expressed in thousands of Euros)

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

	2019	2018
Profit for the year before tax	**67,822**	**108,454**
Adjustments for	**97,595**	**42,654**
Amortisation and depreciation	74,727	69,957
Impairment allowances	2,427	1,865
Changes in provisions	-	(77)
Allocation of grants	(77)	-
Impairment and gains/(losses) on disposals of fixed assets	5,046	4,797
Impairment and gains/(losses) on disposals of financial instruments	(9)	(371)
Finance income	(42,201)	(78,163)
Finance cost	45,999	47,740
Exchange gains/(losses)	286	(291)
Change in fair value of financial instruments	(526)	355
Other income and expense	11,923	(3,158)
Changes in operating assets and liabilities	**(22,943)**	**8,213**
Inventories	466	(1,742)
Trade and other receivables	(18,881)	(15,806)
Other current assets	134	(99)
Trade and other payables	2,593	17,216
Other current liabilities	(7,255)	8,644
Other cash flows from /(used in) operating activities	**26,947**	**11,683**
Interest paid	(45,786)	(41,433)
Dividends received	43,903	34,653
Interest received	29,777	28,719
Income tax paid	(947)	(10,256)
Cash flows from / (used in) operating activities	**169,421**	**171,004**

Derio, 25 February 2020

EUSKALTEL, S.A.

Statement of Cash Flows for the year ended 31 December 2019

(Expressed in thousands of Euros)

	2019	2018
Payments for investments	**(83,557)**	**(80,270)**
Intangible assets	(31,210)	(28,810)
Property, plant and equipment	(50,305)	(51,460)
Other financial assets	(2,042)	-
Proceeds from sale of investments	**4,738**	**32,778**
Property, plant and equipment	1,411	-
Group companies and associates	3,300	31,552
Other financial assets	27	1,226
Cash flows from / (used in) investing activities	**(78,819)**	**(47,492)**
Proceeds from and payment for equity instruments	**390**	**257**
Disposal of own equity instruments	390	257
Proceeds from and payment for financial liability instruments	**(48,782)**	**(34,300)**
Issue of:	131,918	70,700
Bonds and other marketable securities	131,000	70,700
Grants	918	-
Repayment of:	(180,700)	(105,000)
Loans and borrowings	(110,000)	(105,000)
Bonds and other marketable securities	(70,700)	-
Dividends and interest on other equity instruments paid	(55,329)	(49,603)
Dividends	(55,329)	(49,603)
Cash flows from/(used in) financing activities	**(103,721)**	**(83,646)**
Cash and cash equivalents at beginning of the year	54,739	14,873
Cash and cash equivalents at year end	41,620	54,739
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(13,119)**	**39,866**

Derio, 25 February 2020

EUSKALTEL, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019

(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 science and 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 100% of the shares of R Cable y Telecomunicaciones Galicia, S.A. (hereinafter R. Cable) (see note 8), 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), 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.

Medbuying Technologies Group, S.L. ("Medbuying") was incorporated on 7 March 2019, with the Company holding a 10% share therein. The corporate purpose of this company is to centralise purchases of mobile terminals, routers and other telecommunications accessories.

On 15 April 2019 the boards of directors of R Cable y Telecomunicaciones Galicia, S.A. and Telecable de Asturias, S.A. approved the merger of these companies with the first being the absorbing company. On 17 June 2019, R Cable y Telecomunicaciones Galicia, S.A. changed its name to R Cable y Telecable Telecomunicaciones, S.A.U.

Under prevailing legislation, the Company is the parent of a group of companies, and is obliged to present consolidated annual accounts, which were prepared on 25 February 2020 and show consolidated profit of Euros 62,018 thousand and consolidated equity of Euros 981,965 thousand (Euros 62,786 and Euros 974,886 thousand in 2018).

NOTE 2.- Basis of presentation

2.1. True and fair view

The accompanying annual accounts have been prepared based on the accounting records of Euskaltel, S.A. and in accordance with prevailing legislation and the Spanish General Chart of Accounts, to give a true and fair view of the equity and financial position at 31 December 2019 and results of operations, changes in equity, and cash flows for the year then ended.

The directors of the Company consider that the annual accounts for 2019, authorised for issue on 25 February 2020, will be approved with no changes by the shareholders at their annual general meeting.

2.2. Comparative information

The balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto for 2019 include comparative figures for the prior year as approved by the shareholders of the Company at the general meeting held on 1 April 2019.

2.3. Critical issues regarding the valuation and estimation of uncertainties

Preparation of the annual accounts 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 and deductions to the extent that it is probable that the Company will obtain sufficient taxable income against which they 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 existence of taxable temporary differences.

b) Volume discounts from suppliers

The Company'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 supply expenses under these circumstances requires that the Company be able to reliably estimate the degree of compliance with the conditions entitling it to the discount.

c) Recoverable value in investments in Group companies

The Company tests investments in Group companies that present indications of impairment. The recoverable value is determined through discounted future cash flow estimates, which require the application of judgments by Directors when establishing certain key assumptions.

All previous estimates have been updated taking into account the variables included in the Euskaltel's Business Plan. The Plan's key assumptions are based on growth through national expansion under the new brand (see note 19).

2.4. Presentation currency

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

2.5. Grouping of items

To facilitate understanding, certain items in the balance sheet, income statement, statement of changes in equity and statement of cash flows have been aggregated, details of which are included in the relevant notes to the annual accounts.

NOTE 3.- Distribution of profit

The distribution of profits for the year ended 31 December 2018, approved by the shareholders at their annual general meeting held on 1 April 2019, was 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
	92,088,479.21

The proposed distribution of reserves and profit for the year ended 31 December 2019 is as follows:

Basis of application	Euros
Voluntary reserves	62,628,972.75
Share premium	355,164,632.28
Profit for the year	60,261,040.80
	478,054,645.83

Distribution	Euros
Legal reserve	6,026,104.08
Dividends	
Interim dividend	25,010,350.40
Complementary dividend	30,369,711.20
Share premium	355,164,632.28
Voluntary reserves	61,483,847.87
	478,054,645.83

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.

On 29 October 2019, the Board of Directors agreed to pay an interim dividend against 2019 results for a gross amount of Euros 0.140 per share outstanding with dividend rights. This interim dividend, which was paid on 7 February 2020, amounted to a gross outlay of Euros 25 million (see notes 11 and 19).

These amounts did not exceed the results obtained since the end of the year by the Company, 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 2019 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 01.01.2019 to 30.09.2019 (*)	42,008
Mandatory reserves	(4,201)
Distributable profit	37,807
Proposed interim dividend (maximum amount)	(25,010)
Cash situation	
Funds available for distribution:	193,438
Cash and cash equivalents	14,188
Appropriations available	179,250
Proposed interim dividend (maximum amount)	(25,010)
Excess liquidity	168,428

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

NOTE 4.- Accounting principles

4.1. 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) 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.

b) 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.

c) 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 over the period in which Euskaltel expects to generate revenue through the commercial relationship with the customer, provided the customer does not discontinue the contract, in which case the amount pending amortisation is taken to profit and loss.

d) Impairment

The Company evaluates and determines impairment losses and reversals of impairment losses on intangible assets based on the criteria described in note 4.3.

4.2. 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 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
Cabling	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 Company's telecommunications network throughout the Basque Country.

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. Nonetheless, based on the expected use of the Company's assets, their residual value is not estimated to be significant at the 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 4.3. 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 income statement.

Finance costs that are directly attributable to the acquisition or construction of assets which will not be available for use for over a year 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.

4.3. Impairment losses on non-financial assets

The Company 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.

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 reduce the carrying amount of the assets allocated to the unit on a pro-rata basis depending on 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 Company assesses whether there is any indication that an impairment loss recognised in prior periods may no longer be applicable 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 losses are recognised in the income statement.

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

A reversal of an impairment loss for a CGU is allocated to the non-current assets of each unit, pro-rata with the carrying amounts of those assets. The carrying amount 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 income statement.

4.4. 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 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.

4.5. Financial assets

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

These financial assets are initially carried at fair value, including directly attributable transaction costs, and subsequently measured at amortised cost, recognising accrued interest at the effective interest rate. Nevertheless, trade receivables falling due in less than one year are carried at their nominal amount on both initial recognition and subsequent measurement, provided that the effect of not discounting the cash flows is immaterial.

The impairment loss is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows. Impairment losses are recognised and reversed in profit or loss. Balances receivable are derecognised when they are no longer expected to be recovered.

b) Investments in Group companies

Investments in Group companies and associates are initially recognised at cost, which is equivalent to the fair value of the consideration given, including, in the case of investments in associates, transaction costs incurred. After initial recognition, they are measured at cost less any accumulated impairment.

If there is objective evidence that the carrying amount is not recoverable, the amount of the impairment loss is measured as the difference between the carrying amount and the recoverable amount, the latter of which is understood as the higher of the fair value less costs to sell and the present value of estimated future cash flows from the investment. Impairment losses and, where applicable, reversions are recognised and reversed in profit or loss.

During 2019 the subsidiaries R Cable and Telecable have merged through the absorption of Telecable by R Cable, which has increased the value of the investment in R Cable by the amount at which the interest in Telecable was measured, in accordance with accounting and measurement standard 21. Since the merger is between subsidiaries wholly owned by the same company, it has been treated as though, in substance, the Company was making a non-monetary contribution of its interest in Telecable to R Cable.

c) Derecognition of financial assets

A financial asset is derecognised from the balance sheet when all the risks and rewards of ownership are substantially transferred.

4.6. 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.

4.7. Own shares

The acquisition of equity instruments of the Company 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 Company 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.

4.8. Financial liabilities

Financial liabilities are initially recognised at fair value, adjusted for directly attributable transaction costs, and subsequently carried at amortised cost using the effective interest method. Nevertheless, trade payables falling due in less than one year without a contractual interest rate are carried at their face value on both initial recognition and subsequent measurement, provided the effect of not discounting flows is not significant.

A financial liability, or part of a financial liability, is derecognised when the Company has complied with the attached obligation. Any difference between the carrying amount of the financial liability and the consideration given is taken to profit and loss.

Debt instrument exchanges between the Company 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 Company 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, costs or commissions adjust the carrying value of the liability and are amortised over the remaining life of the modified liability using the amortised cost method. In the latter case, a new effective interest rate is set on the date of modification, equalising the present value of the cash flows payable, according to the new conditions, with the carrying value of the financial liability at that date.

4.9. Hedge accounting

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 or less any transaction costs directly attributable to the issue of the financial instruments. Nonetheless, transaction costs are subsequently recognised in profit and loss, inasmuch as they do not form part of the changes in the effective value of the hedge.

The Company 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 as income and expense in equity. 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 in Change in fair value of financial instruments.

4.10. Revenue recognition

The main revenues generated by the Company are those related to individual or combined offerings of telephone, Pay TV, broadband and mobile telephone services.

In the case of combined offerings, the need to individually treat the different components of the bundle is analysed in order to allocate the revenue to each component.

Fixed-line and prepaid mobile telephone revenue is recognised when the services are provided.

Revenue from fixed rates with predetermined talk times is recognised on a straight-line basis over the contractual period.

Regular charges for network use (telephone, internet and Pay TV services) are recognised in the income statement over the contractual period.

For amounts collected in advance in respect of prepaid mobile telephone services, the unused amount is recognised as a liability until it has been consumed or the contractual obligations cancelled.

Revenue from leased equipment and other services is recognised in the income statement when the service is rendered.

Revenue from the sale of equipment to customers is recognised when the risks and rewards of ownership have been transferred, which normally takes place when the asset is delivered.

4.11. 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.

4.12. 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 income statement.

4.13. Related party transactions

Transactions between related parties are initially recognised at fair value. Transactions are subsequently measured in accordance with applicable accounting standards.

4.14. Income tax

The income tax expense or tax income is recognised in the 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.

4.15. Dismissal payments

Dismissal payments are recorded as personnel expenses in the year in which the Company decides to make them and a valid expectation is created vis-à-vis third parties regarding the dismissal.

4.16. 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 5.- Financial risk management

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

The Company 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 Company, 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 Company 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 Company 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 Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. The Company’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 Company adjusts the maturities of its debts to its capacity to generate cash flows to settle them.

To do this, the Company 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.

Although the Company's working capital, defined as the difference between current assets and current liabilities (maturing in less than 12 months in both cases), is negative, this is mainly because of the way the business operates, resulting in the average collection period being shorter than the average payment period, which is common practice in the sector in which the Company operates.

c) Market risk, currency risk and interest rate risk

Market risk is the risk that changes in prices could affect the Company’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 Company's scope of operations barely exposes it to currency risks, which may arise from occasional purchases in foreign currency of insignificant amounts.

Interest rate risk arises on variable-rate loans from financial institutions and related parties, which expose the Company 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 Company regularly revises its interest rate hedging policy. Under this policy, the need to contract interest rate hedges is assessed.

The Company also closely monitors the performance of interest rates in the financial market

For the year ended 31 December 2019, had interest rates risen by 100 basis points, with other variables remaining constant, profit (after tax) would have fallen by Euros 7,293 thousand (Euros 8,015 thousand for the year ended 31 December 2018).

NOTE 6.- Intangible assets

Details of intangible assets and movement are as follows:

	31.12.18	Additions	Disposals	31.12.19
Cost				
Industrial property	640	(15)	-	625
Computer software	94,174	13,379	-	107,553
Licences	2,674	-	-	2,674
Other intangible assets	37,805	17,846	(8,003)	47,648
	135,293	31,210	(8,003)	158,500
Accumulated amortisation				
Industrial property	(625)	(228)	-	(853)
Computer software	(69,929)	(8,333)	-	(78,262)
Licences	(977)	(117)	-	(1,094)
Other intangible assets	(11,498)	(6,781)	2,830	(15,449)
	(83,029)	(15,459)	2,830	(95,658)
Carrying amount	52,264	15,751	(5,173)	62,842

	31.12.17	Additions	Disposals	31.12.18
Cost				
Industrial property	590	50	-	640
Computer software	80,007	14,167	-	94,174
Licences	2,674	-	-	2,674
Other intangible assets	29,526	14,593	(6,314)	37,805
	112,797	28,810	(6,314)	135,293
Accumulated amortisation				
Industrial property	(439)	(186)	-	(625)
Computer software	(63,017)	(6,912)	-	(69,929)
Licences	(859)	(118)	-	(977)
Other intangible assets	(8,385)	(5,280)	2,167	(11,498)
	(72,700)	(12,496)	2,167	(83,029)
Carrying amount	**40,097**	**16,314**	**(4,147)**	**52,264**

The cost of fully amortised intangible assets in use at 31 December 2019 totals Euros 64,594 thousand (Euros 57,760 thousand at 31 December 2018).

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

At 31 December 2019 Company personnel expenses totalling Euros 2,524 thousand (Euros 3,962 thousand at 31 December 2018) have been capitalised as intangible assets.

NOTE 7.- Property, plant and equipment

Details of property, plant and equipment and movement in 2019 are as follows:

	31.12.18	Additions	Disposals	Transfers	31.12.19
Cost					
Land and buildings	135,364	-	-	314	135,678
Civil engineering	267,213	-	-	4,311	271,524
Cabling	289,356	-	-	6,562	295,918
Network equipment	399,710	-	(2,473)	12,862	410,099
Customer equipment	318,695	-	-	22,047	340,742
Other installations, equipment and furniture	161,668	43	-	8,280	169,991
Under construction	10,336	50,262	-	(53,122)	7,476
Other property, plant and equipment	25,394	-	-	87	25,481
	1,607,736	50,305	(2,473)	1,341	1,656,909
Accumulated depreciation					
Land and buildings	(39,112)	(4,696)	-	-	(43,808)
Civil engineering	(80,061)	(5,546)	-	-	(85,607)
Cabling	(169,087)	(6,507)	-	-	(175,594)
Network equipment	(308,168)	(14,864)	1,190	-	(321,842)
Customer equipment	(225,778)	(16,499)	-	-	(242,277)
Other installations, equipment and furniture	(114,325)	(10,190)	-	-	(124,515)
Other property, plant and equipment	(19,483)	(966)	-	-	(20,449)
	(956,014)	(59,268)	1,190	-	(1,014,092)
Carrying amount	**651,722**	**(8,963)**	**(1,283)**	**1,341**	**642,817**

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

	31.12.17	Additions	Disposals	Transfers	31.12.18
Cost					
Land and buildings	134,147	-	-	1,217	135,364
Civil engineering	265,168	-	-	2,045	267,213
Cabling	279,160	3,992	-	6,204	289,356
Network equipment	373,226	-	-	26,484	399,710
Customer equipment	301,331	-	-	17,364	318,695
Other installations, equipment and furniture	154,217	-	-	7,451	161,668
Under construction	27,146	47,468	(650)	(63,628)	10,336
Other property, plant and equipment	22,531	-	-	2,863	25,394
	1,556,926	51,460	(650)	-	1,607,736
Accumulated depreciation					
Land and buildings	(34,426)	(4,686)	-	-	(39,112)
Civil engineering	(74,570)	(5,491)	-	-	(80,061)
Cabling	(161,648)	(7,439)	-	-	(169,087)
Network equipment	(294,092)	(14,076)	-	-	(308,168)
Customer equipment	(210,730)	(15,048)	-	-	(225,778)
Other installations, equipment and furniture	(104,320)	(10,005)	-	-	(114,325)
Other property, plant and equipment	(18,767)	(716)	-	-	(19,483)
	(898,553)	(57,461)	-	-	(956,014)
Carrying amount	**658,373**	**(6,001)**	**(650)**	**-**	**651,722**

During the year ended 31 December 2019 internal expenses amounting to Euros 5,699 thousand (Euros 2,075 thousand in 2018) have been capitalised.

The cost of fully depreciated property, plant and equipment in use at 31 December 2019 is Euros 528,745 thousand (Euros 465,053 thousand at 31 December 2018).

At 31 December 2019 and 31 December 2018, sufficient insurance policies have been taken out to cover the risks to which property, plant and equipment are exposed.

At 31 December 2019, the Company's telecommunications network is pledged to secure compliance with the Company's financing obligations (see note 12).

NOTE 8.- Investments in Group companies and associates

Details of investments in Group companies and associates are as follows:

	31.12.19	31.12.18
Equity instruments		
RCable y Telecable Telecomunicaciones, S.A.U.	1,116,872	894,819
Telecable de Asturias, S.A.U.	-	222,053
EKT Cable y Telecomunicaciones, S.L.U.	3	3
Hamaika Telebista, S.A.	-	-
	1,116,875	1,116,875
	(note 9)	(note 9)

	31.12.19	31.12.18
Loans to Group companies		
RCable y Telecable Telecomunicaciones, S.A.U.	672,612	234,429
Telecable de Asturias, S.A.U.	-	453,212
	672,612	687,641
	(note 9)	(note 9)

On 27 November 2015, the Company acquired 100% of the company R Cable y Telecomunicaciones Galicia, S.A. for Euros 894,819 thousand.

On 26 July 2017 the Company acquired 100% of the shares in Parselaya, S.L., which indirectly wholly owned Telecable de Asturias, S.A. and the loans maintained by the former shareholder with Parselaya, S.L. (note 9), in the amount of Euros 181,724 thousand. The cost totalled Euros 403,777 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 fair value of this payment was estimated at Euros 1,039 thousand, which was paid during 2019. In 2018 it was recorded in the Current payables caption of the balance sheet at 31 December 2018 (note 12.1).

During 2018 the companies Parselaya, S.L. and Telecable Capital Holding, S.A. were merged by reverse takeover by Telecable de Asturias, S.A.U. Moreover, R Cable took over Telecable in 2019. As a result, in 2019 the Company has recorded the corresponding disposal of the investment in Telecable for Euros 222,053 and an addition in the investment of the merged company R Cable y Telecable for the same amount.

Details of R Cable y Telecable's financial information at 31 December 2019 are as follows:

	R Cable
Capital	40,144
Share premium	26,698
Reserves and other shareholder contributions	191,752
Profit/(loss) for the year	(23,487)
Interim dividend	-
Grants	28,087
	236,194
Results from operating activities	20,059

Results from operating activities of R Cable y Telecable includes goodwill amortisation expenses of Euros 43,348 thousand.

In 2019 the company received dividends from R Cable for Euros 5,442 thousand.

At 31 December 2019, the investments in the Group company R Cable y Telecable were pledged to secure compliance with the Company's financing obligations (see note 12).

Similarly, the Company incorporated EKT Cable y Telecomunicaciones, S.L. in 2016 with paid-up capital of Euros 3 thousand. This company has no business activity at 31 December 2019.

Similarly, the Company also has an interest in an associate, which is a 20% direct stake in Hamaika Telebista, domiciled in Bilbao, whose business drives the creation of local television channels that broadcast their programmes in Basque.

None of the subsidiaries of the Company are listed on the stock exchange.

Impairment

The Company assesses the existence of impairment indicators every year and, where detected, performs a recoverability analysis. During 2019, since the subsidiary R Cable y Telecable has generated losses of Euros 23,487 thousand, a recoverability analysis has been carried out thereon based on projections taken from the Euskaltel Group 2020-2025 Business Plan. The key assumptions thereof in relation to this Company are growth through the expansion of the R and Telecable brands in León and Cantabria, as well as continued achievement of efficiencies. Based on the analysis carried out, no evidence of impairment has been detected.

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

- Discount rate after tax: 6.3%
- Sales growth for the budgeted period: between 1% and 3.6%.
- Growth rate after the five-year period: 1.9%.
- EBITDA Margin/Non-current revenue: approximately 46-51%, in line with the aforementioned business plan.
- CAPEX/Revenue ratio: at levels of between 17% and 27%, also in line with the aforementioned business plan.

Furthermore, Management has performed a sensitivity analysis on the following key assumptions:

-EBITDA variation of -5%: Would not give rise to impairment
-Variation of -5% in the perpetuity growth rate (g): Would not give rise to impairment
-Variation of +5% in the discount rate (wacc): Would not give rise to impairment

NOTE 9.- Financial assets

9.1. Classification by category

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

	Loans and receivables		Investments in Group companies		Available-for-sale financial assets		Total	
	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18
Non-current								
Equity instruments (note 8)	-	-	1,116,875	1,116,875	1,016	19	1,117,891	1,116,894
Loans extended								
Group companies and associates (note 16.2)	672,612	687,641	-	-	-	-	672,612	687,641
Third parties	3,649	2,663	-	-	-	-	3,649	2,663
Other non-current assets	272	275	-	-	-	-	272	275
	676,533	690,579	1,116,875	1,116,875	1,016	19	1,794,424	1,807,473
Current								
Trade receivables	41,777	48,840	-	-	-	-	41,777	48,840
Investments	115	38,539	-	-	-	-	115	38,539
Cash and cash equivalents	41,620	54,739	-	-	-	-	41,620	54,739
	83,512	142,118	-	-	-	-	83,512	142,118

Loans to Group companies include the following:

- Loan extended to R Cable on 27 November 2015, which was later modified on 10 November 2016, as well as a credit account on 26 July 2017 and accrued interest payable since June 2016 for Euros 213,106 thousand. This credit account earns interest at an annual rate of 5%, payable annually, and repayment is payable in a single sum upon maturity on 27 November 2022, although early repayments have been made throughout the year.

- Credit acquired in 2017 during the acquisition of the stake in Parselaya, S.L (merged with Telecable de Asturias, S.A. at 1 January 2018) (note 8), which was renegotiated and turned into a credit account with a Euros 255 million limit and credit granted to Telecable de Asturias, S.A. (merged with R Cable at 1 January 2019) for a maximum of Euros 400 million. These credits earn interest at an annual rate of 5%, payable annually, and repayment is payable in a single sum on 26 July 2024, although early repayments have been made throughout the year. The balance of this account at 31 December 2019 amounts to Euros 459,506 thousand.

The subsidiaries' credits and bank accounts have been pledged to secure repayment of financing extended (see note 12).

Estimated income pending invoicing at the end of the year amounts to Euros 7,633 thousand (Euros 7,437 thousand at 31 December 2018).

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

9.2. Impairment

The Company calculates the provision for impairment of trade and other receivables using information available on the recovery of balances.

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

Past due	**31.12.19**	**31.12.18**
From 0 to 30 days	7,174	3,367
From 31 to 90 days	3,665	3,799
From 91 to 180 days	3,091	8,555
From 181 to 365 days	466	3,408
More than 365 days	2,655	6,606
	17,051	**25,735**
Not past due		
Invoiced	15,442	13,830
Pending invoice	9,284	9,275
	24,726	**23,105**
	41,777	**48,840**

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

	31.12.19	**31.12.18**
Gross balance	51,532	57,896
Impairment	(9,775)	(9,056)
	41,757	48,840

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

	2019	**2018**
Opening balance	**9,056**	**10,084**
Charge	2,427	1,865
Write-offs	(1,708)	(2,893)
Closing balance	**9,775**	**9,056**

NOTE 10.- Equity

10.1. Capital

At 31 December 2019, subscribed capital is represented by 178,645,360 shares with a par value of Euros 3 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 2019 are as follows:

	Number of shares	% of ownership
Zegona Limited	37,526,561	21.00%
Kutxabank, S.A.	35,514,698	19.88%
Corporación Financiera Alba	19,650,990	11.00%
Other	85,953,111	48.12%
	178,645,360	**100.00%**

10.2. Share premium

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

10.3. Reserves and prior years' profit

Details of this caption are as follows:

	31.12.19	**31.12.18**
Reserves		
Legal reserve	62,097	52,889
Voluntary reserves	62,629	34,817
	124,726	**87,706**

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.

10.4. Own shares

At 31 December 2019 the Company has 170,366 shares in its own share portfolio that were acquired at an average weighted cost of Euros 8.64 per share (227,349 shares at Euros 7.05 each at 31 December 2018).

NOTE 11.- Financial liabilities

11.1. Classification by category

Details of financial liabilities classified by category are as follows:

	Debts and payables		Liabilities held for trading	
	31.12.19	31.12.18	31.12.19	31.12.18
Non-current				
Related parties				
Non-current loans received (note 16.2)	146,501	165,267	-	-
Unrelated parties				
Loans received	1,225,082	1,285,956	-	-
Hedging derivatives	-	-	804	1,330
Other financial liabilities	34	1,082	-	-
	1,371,617	1,452,305	804	1,330
Current				
Related parties				
Current loans received (note 16.2)	6,750	11,250		
Unrelated parties				
Bonds and other marketable securities	131,000	70,700	-	-
Loans received	46,516	72,163		
Dividend payable	25,010	25,010	-	-
Suppliers	31,924	37,430	-	-
Asset purchase payables	29,417	26,017	-	-
Salaries payable	8,947	5,203	-	-
Other financial liabilities (note 8)	-	1,039	-	-
	279,564	248,812	-	-

As a result of the agreements reached during the stock flotation process, the 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 2019, Euros 150 million has been drawn down from the credit facility (Euros 220 million at 31 December 2018).

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. The coefficient at 31 December 2019 amounts to a net consolidated debt of 4.2 times consolidated EBITDA, which does not exceed the parameter established of net consolidated debt of 4.5 times consolidated EBITDA.

The following changes were made during 2019:

- Extension of A-2 tranche maturity date to 31 December 2023, amending the repayment schedule to extend future maturity dates and reducing the interest rate by 0.25%.
- Extension of the revolving facility maturity date to 31 December 2023.
- Extension of the B-1 tranche maturity to 27 November 2024

These amendments have not led to a significant change in the debt in qualitative or quantitative terms, since the future cash flows of the debt based on the new conditions, updated to the effective interest rate of the previous debt, differ from the old debt by less than 10%.
A summary of the main characteristics of the tranches at the reporting date are as follows:

	Nominal amount outstanding				
Tranche	31.12.19	31.12.18	Initial nominal amount	Interest	Maturity
B-1	235,000	235,000	235,000	Euribor +2.75%	27/11/2024
A-2	215,000	255,000	300,000	Euribor +2.00%	31/12/2023
B-4	835,000	835,000	835,000	Euribor +2.75%	27/11/2024
Credit facility	150,000	220,000	300,000	Euribor +2.25%	31/12/2023
	1,435,000	1,545,000			
Current portion	45,000	75,000			
Non-current portion	1,390,000	1,470,000			

Tranches 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		
30-06-20 to 30-12-20	2	15%
30-06-21 to 31-12-21	2	17%
30-06-22 to 31-12-22	2	18%
30-06-23 to 31-12-23	2	22%

(1) *Repayment percentage calculated based on the initial nominal amount 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:

1 year	2 years	3 years	4 years	5 years	Total
81,462	94,143	114,447	272,165	1,114,751	1,676,968

The Company 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 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 Company holds undrawn current credit facilities totalling Euros 28.25 million.

During 2017 the Parent obtained interest rate hedges to cover possible variations in the Euribor 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 2019, Euskaltel issued promissory notes for a nominal value of Euros 131,000 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 2020 and accrue interest at an average annual rate of 0.22%.

Additionally, the Group has recorded a repayment of Euros 70,000 miles the credit facility.

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.

Although Euskaltel's working capital, defined as the difference between current assets and current liabilities (maturing in less than 12 months in both cases), is negative, this is mainly because of the way the business operates, resulting in the average collection period being shorter than the average payment period, which is common practice in the sector in which the Group operates.

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:

	2019	2018
Average supplier payment period (in days)	46.83	44.23
Transactions paid ratio	47.04	43.44
Transactions payable ratio	46.08	46.68
Total payments made (thousands of Euros)	243,169	169,125
Total payments payable (thousands of Euros)	67,404	54,776

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 2019 and 2018 balances with public entities are as follows:

	2019	2018
Current tax liabilities	2,727	1,128
Value added tax	3,285	2,111
Social Security	399	415
Withholdings and payments on account	339	406
Other liabilities	2,370	2,638
	9,120	6,698

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

12.2. Income tax

A reconciliation of net income and expenses for the year with the taxable income is as follows:

	Profit and loss	
	2019	2018
Income and expenses for the year	**60,261**	92,089
Income tax	(7,561)	(16,365)
Profit before tax	67,822	108,454
Permanent differences	(6,888)	(43,072)
Temporary differences	(999)	1,303
Taxable income	**59,935**	**66,685**

Permanent differences mainly comprise dividends from Group companies (see note 8).

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

	2019		2018	
	Profit and loss	Total	Profit and loss	Total
Income and expenses for the year	67,822	67,822	108,454	108,392
Tax at 24% (26% in 2018)	16,277	16,277	28,198	28,182
Permanent differences	(1,653)	(1,653)	(11,199)	(11,199)
Prior years' adjustments	(371)	(371)	83	83
Changes in tax rates	-	-	98	98
Deductions for the current year	(3,662)	(6,692)	(816)	(816)
Prior years' capitalised deductions	(3,030)	-	-	-
	7,561	7,561	**16,365**	**16,349**

Details of deferred tax assets and liabilities by type of asset and liability are as follows

	31.12.17	Source	Reversal	Other	31.12.18	Source	Reversal	Other	31.12.19
Deferred tax assets									
Provisions	274	339	-	154	767	510	(750)	239	766
	274	339	-	154	767	510	(750)	239	766
Deductions on tax due	130,328	815	(6,641)	(183)	124,319	6,692	(4,675)	(49)	126,287
	130,602	**1,154**	**(6,641)**	**(29)**	**125,086**	**7,205**	**(5,425)**	**190**	**127,053**

Other corresponds to differences between estimated income tax and income tax declared and capitalisation of prior years' tax credits and tax rate adjustments.

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

The income tax expense is calculated as follows:

	2019	**2018**
	Profit and loss	
Current tax		
Taxable income at 24% (26% in 2018)	14,384	17,338
Deductions	(4,675)	(6,641)
Prior years' adjustments and other	(181)	151
	9,528	10,848
Deferred tax		
Source and reversal of temporary differences	240	(339)
Change in deductions	(2,017)	5,826
Tax rate adjustments	-	98
Prior years' adjustments	(190)	(68)
	7,561	**16,365**

At 31 December 2019 and 2018, the Company has no unrecognised tax credits or tax loss carryforwards.

The Company expects to apply tax loss carryforwards and tax credits for deductions amounting to Euros 3,348 thousand in its 2020 income tax return.

Given the significance of the capitalised 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.

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

- Future growth through national expansion
- Growth rates after the six-year period: 1.9%.

Management has prepared a sensitivity analysis of the recoverable value of the capitalised tax credits covering ± 5% changes in the growth rate after the projected period, and no changes in the estimated recoverable value were revealed.

NOTE 13.- Income and expenses

13.1. Revenues

The Company's activity primarily includes: the provision of combined broadband, Pay TV, mobile and fixed-line telephone services to residential customers, freelancers ("Small Office / Home Office – SOHOs"), small and medium-sized enterprises (SMEs), large accounts, the public sector and the wholesale market and others.

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

- Mass market
- Business
- Wholesale market and others

Details of revenues are as follows:

	2019	2018
Mass market customers	260,220	254,968
Business	47,178	45,754
Wholesale and other	47,146	30,881
Total	**354,544**	**331,603**
Work performed by the entity and capitalised	(8,223)	(6,037)
Other operating income	(17)	(292)
Revenues	**346,304**	**325,274**

Mass market

The Company 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. Similarly, for self-employed workers (Small Office / Home Office - SOHOs) we have a specific commercial package for this type of customer, which includes businesses with less than 10 employees. The services we sell include, inter alia, technical support, online support and electronic mail.

Business

Customers in this category - SMEs and large accounts (including the public sector) also receive fixed-line and mobile telecommunication services. Our sales team is able to offer, among other aspects, integrated, tailor-made services to financial institutions, large companies, healthcare providers and public entities.

- 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 who use our infrastructure and installations for providing services to their customers. Part of the revenues generated in the wholesale market come from the Company'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. Lastly, this caption includes revenue on the services rendered by Euskaltel to group companies.

13.2. Supplies

Details are as follows:

	2019	2018
Merchandise used		
Purchases	36,821	23,937
Changes in inventories	467	(1,742)
	37,288	22,195
Subcontracted work		
Interconnection expenses	42,754	42,214
Other supplies	16,524	13,042
	59,278	55,256
	96,566	77,451

At the end of 2018, the Company commenced an integration process of the Group’s logistics management and the increase in purchases for the year is explained in part by the acquisition of terminals on a centralised basis by Euskaltel, for subsequent sale to Group companies.

Interconnection expenses includes discounts for certain services rendered by third parties, for an amount of Euros 33,288 thousand (Euros 25,572 thousand in the comparative period). These discounts rely on the fulfilment of a certain minimum cumulative consumption until 30 June 2024. The contractual changes negotiated during 2019 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.

Discounts pending collection amounted to Euros 7,355 thousand (Euros 19,273 thousand at 31 December 2018).

The future consumptions estimate is consistent with the estimate included in the Business Plan approved by the Group. The main premise of the Company's Business Plan is future growth through nationwide expansion.

Management has prepared a sensitivity analysis for changes in discounts covering ± 5% changes in expected purchases eligible for discount and there has been no significant change to the estimates made (impact of less than +/- Euros 200 thousand).

13.3. Personnel expenses

Details are as follows:

	2019	2018
Salaries and wages	19,268	19,342
Employee benefits expense (other employee benefits expense)	4,605	4,580
Compensation	8,630	1,589
Other remuneration	2,098	1,692
Total	34,601	27,203

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

	2019	2018
Executives	30	31
Management	31	34
Other professionals	261	269
	322	334

The distribution by gender of the Company's headcount at 31 December 2019 and 2018 is as follows:

	2019			2018		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Executives	22	4	26	26	7	33
Management	20	11	31	21	13	34
Other professionals	108	145	253	119	150	269
	150	**160**	**310**	**166**	**170**	**336**

The average number of Company employees with disabilities of 33% or greater during 2018 was one person (one person in 2018).

At the date these annual accounts were authorised for issue, the board of directors of the Company was comprised of 10 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:

	2019	2018
Advertising	7,482	7,955
Repairs and maintenance	19,724	19,382
Services provided by third parties	21,278	22,326
Other external services and utilities	11,278	10,870
Tax	6,608	6,846
Losses, impairment and changes in trade provisions (note 9)	2,427	1,865
	68,797	69,244

13.5. Other profit/(loss)

Details are as follows:

	2019	2018
Contribution to the Euskaltel Foundation	2,016	1,631
Integration costs	181	1,261
Other	1,316	2,336
	3,513	**5,228**

13.6. Net finance income/(cost)

Details are as follows:

	2019	2018
Finance income		
Third parties	62	2
Dividends	5,442	41,813
Group companies and associates	36,697	36,348
	42,201	78,163
Finance cost		
On third party loans	(45,999)	(47,740)
	(45,999)	(47,740)
Exchange gains/(losses)	(286)	291
Change in fair value of financial instruments	526	(354)
Impairment and gains/(losses) on disposal of financial instruments	9	371
	(3,549)	**30,731**

Note 14.- Commitments

14.1. Sale and purchase commitments

At the reporting date, the Company has purchase commitments for the following items and amounts, all of which are related to its everyday operations and are expected to materialise in the coming year:

	2019	2018
Intangible assets	2,338	1,011
Property, plant and equipment	11,960	8,894
Inventories	378	3,337
	14,676	**13,242**

14.2. Operating lease commitments

The Company mainly rents locations for its node equipment under operating leases. These contracts have a term of between 10 and 30 years, which is considered significantly lower than the economic life of the buildings in which the equipment is located.

Future minimum payments under operating leases are as follows:

	2019	2018
Less than one year	2,899	2,434
One to five years	9,185	8,296
Over five years	10,265	12,022
	22,349	**22,752**

The operating lease expense recognised in the income statement amounts to Euros 4,951 thousand (Euros 4,698 thousand for the same period in 2018).

NOTE 15.- Related party transactions

15.1. Transactions and balances with key personnel

Details of transactions with key Company personnel are as follows:

	2019		2018	
	Board members	**Executives**	**Board members**	**Executives**
Salaries and wages	991	1,535	1,061	1,830
Other remuneration				
Compensation	1,708	3,490	-	861
Other remuneration	810	1,288	743	852
Other	990	72	979	78
	4,499	**6,385**	**2,783**	**3,621**

Compensation to board members includes the amounts relating to the dismissals of the chairman and the CEO.

The Company has no pension or life insurance obligations with current or former board members, or with other executives.

Civil liability insurance premiums paid by the Company to cover damages that could arise from actions or omissions in the performing of duties amounted to Euros 44 thousand (Euros 42 thousand in 2018).

15.2. Transactions and balances with other related parties

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

	2019			2018		
	Significant shareholders	Group companies	Total	Significant shareholders	Group companies	Total
Sales	6,785	27,098	33,883	6,088	12,877	18,965
Services rendered	(30)	(2,429)	(2,459)	(50)	(2,522)	(2,572)
Finance income and dividends	-	42,139	42,139	-	78,161	78,161
Finance cost	(5,056)	-	(5,056)	(5,271)	-	(5,271)
	1,699	**66,808**	**68,507**	**767**	**88,516**	**89,283**

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

	31.12.19		31.12.18	
	Current	Non-current	Current	Non-current
Key shareholders				
Credit accounts	41,528	-	36,523	-
Loans received (note 11)	(6,750)	(146,501)	(11,250)	(165,267)
Group companies				
Payables	(2,795)	-	(5,132)	-
Receivables	12,972	-	24,226	-
Dividend receivable	-	-	38,461	-
Loans granted (note 9)	-	672,612	-	687,641
	44,955	526,111	82,828	522,374

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

15.3. Conflicts of interest

At the 2019 reporting date no member of the Company's board of directors or their related parties, as defined in the Spanish Companies Act, has communicated any direct or indirect conflict of interest with the Company.

NOTE 16.- Other information

The firm auditing the annual accounts of the Company has invoiced the following net fees for professional services during the years ended 31 December 2019 and 2018:

	2019	2018
Audit services	144	124
Other assurance services	45	45
Other services	6	6
	195	**175**

Other assurance services include those relating to limited reviews.

NOTE 17.- Environmental information

To develop its commitment to environmental issues, an environmental strategy has been prepared and 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 aligned with the Basque Sustainable Development Environmental Strategy (2002-2020), Euskaltel voluntarily decided to join the EMAS III Regulations in 2004. The EMAS III Environmental Statement, which is verified by AENOR and includes our Company's carbon footprint, is evidence of our commitment to transparency with our stakeholders.

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

- Renewal of the Euskaltel Group's Environmental Management System certification in accordance with ISO 14001:2015, by a certified third party (AENOR) as renewed annually since 1999.
- Verification of the EMAS Environmental Statements by a recognised third party (AENOR), having updated the corresponding registrations in the Environmental Management Audit System (EMAS).
- Registration on the Carbon Footprint Registry of the Ministry for Ecological Transition.
- Performance of the Life Cycle Analysis of the Virtual Data Centre, in order to measure the environmental impact of the Virtual Data Centre throughout its life cycle, from procurement of raw materials to their end of life. This project has been developed within the framework of our membership of the Basque Ecodesign Center and in collaboration with Ihobe.
- Also within the framework of the Basque Ecodesign Center, an analysis of the positioning of Euskaltel with respect to the most recent green procurement criteria proposed by the European Commission for services rendered through Data Processing Centres applied to the Virtual Data Centre, in order to analyse, by means of an environmental surveillance exercise, the current status of Euskaltel and identify opportunities for improvement in its positioning.
- During the first half of 2019, in collaboration with the Basque Ecodesign Center, an analysis has been carried out on the actions necessary to improve the report made for the Carbon Disclosure Project on Climate Change.
- The General Shareholders' Meeting and the Euskal Encounter event have been certified as sustainable events under the Erronka Garbia certification by IHOBE.

Reporting actions carried out by the 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.

NOTE 18.- Guarantees

The Company 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 public administrations, and to comply with its long-term contractual obligations with service providers.

The Company 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 Company's financing, pledges on certain assets have been extended (see note 12).

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

NOTE 19.- Subsequent events

On 29 October 2019, the Company’s Board of Directors agreed to pay an interim dividend against 2019 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 2020.

On 12 January 2020, a contract was signed with Virgin to transfer the use of its brand to the Euskaltel Group. The signing of this agreement represents a major milestone for Euskaltel. Thanks to improved wholesale access agreements signed in December 2019, Euskaltel now has all the assets needed for its nationwide expansion (see note 2.3). This plan will bring Euskaltel to 85% of the Spanish market where it does not currently have a presence, enabling the customers in these regions to benefit from high-quality, high-value quadruple play services, taking advantage of the advanced capacities of Euskaltel. The Virgin brand will coexist with the Group’s three established brands (Euskaltel, Telecable and R), which will continue to render leading services in each of their respective regions. Euskaltel considers that the combination of their established regional brands with the Virgin brand, which it will use at national level, will provide excellent growth opportunities.

On 27 January 2020, the Board of Directors approved a new long-term Incentive Plan for the 2020-2022 period, geared towards a group of executives and employees of the Company, as well as the President of the Board of Directors, the CEO and Secretary. The Plan entails delivering the beneficiaries a variable incentive linked to the achievement of a specific share price and the accomplishment of targets linked to operating cash flow. At least 75% of the plan will be paid out in Euskaltel shares and the rest in cash.

Directors' Report for 2019

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

CONTENTS

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.

In 2019 the boards of directors of R Cable y Telecomunicaciones Galicia, S.A. and Telecable de Asturias, S.A. approved the merger of these companies with the first being the absorbing company. On 17 June 2019, R Cable y Telecomunicaciones Galicia, S.A. changed its name to R Cable y Telecable Telecomunicaciones, S.A.

Euskaltel is market leader in broadband and Pay TV services (in terms of customer base) and is the fastest-growing supplier of mobile phone services in the Basque Country (in number of lines). The company also offers products and services to small offices, customer offices, small and medium-sized businesses, large account customers and public sector entities, as well as the wholesale market.

At the end of the second quarter, a new roadmap was designed to create value using the following stages:

- New management team and an integrated, simpler and more efficient organisation.
- Strengthening the current business in current markets.
- National expansion.

2.- Business overview

<u>Mass market</u>

Euskaltel 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 Agreement with Orange España (the MVNO Agreement).

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

- Bundles: Euskaltel offers its customers the option to subscribe to a range of products in bundles comprising multiple services (high-speed broadband, Pay TV, fixed-line and mobile telephone), invoiced in a single bill at competitive prices.

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

- Broadband: Euskaltel is the leading high-speed broadband service provider in the Basque Country. The fully invested next generation fibre-optic network enables the company to offer different products at ultra high-speeds of up to 350 Mbps, which cannot be equalled by its DSL rivals. At 31 December 2019, Euskaltel offers broadband services to 289,375 mass-market customers, of which over 99% have high-speed broadband (speeds of 30 Mbps or more).

- Pay TV: Euskaltel is the leading Pay TV service provider in the Basque Country (jointly with Telefónica). A wide selection of digital TV programming, including basic and premium bundles, and also Everywhere TV (sold under the "Edonon" brand) and VoD and PVR functionalities are offered. The company offers access to premium content with the most popular local offering. At 31 December 2019, the company offers Pay TV services to 212,412 mass market customers (11% growth compared to 2018).

- Mobile phones: Euskaltel is the fastest-growing and leading mobile phone service provider in the Basque Country. At 31 December 2019, Euskaltel postpaid lines amounted to Euros 589,599 (up 7% compared to 2018).

- Fixed-line phones: Euskaltel is the leading fixed-line service provider in the Basque Country (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 Market

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

- SMEs: Euskaltel 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.

  Large Businesses: Euskaltel’s Large Account customer base includes both public entities and large corporations. The headquarters of these companies are based in the Basque Country 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, mainly in the fields of cybersecurity, data centres and cloud solutions. These include symmetrical fibre access with speeds of up to 1 Gbps, FMC, SIP Trunking, MLPS networks, cloud firewalls and virtual data centres.

The wholesale segment generated Euros 47.2 million during 2019, representing 24.2% of the company’s total revenue.

Wholesale and Other revenue

- Euskaltel renders communications services to wholesale clients (most of whom are telecommunications companies in direct competition with Euskaltel) including leased lines, data and voice services using Euskaltel’s installations and infrastructures to render services to their customers. Euskaltel renders Lease Lines Services in SDH and Ethernet technologies, Dark Fibre, 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 and Mobile Core Network.

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

- Another item included in this section is revenues from work performed by the entity and capitalised.

- Revenues from services and sales rendered by Euskaltel to Group companies are recorded in this caption.

The Wholesale and Other revenue market generated Euros 47.1 million during 2019, representing 13.6% of the company's total revenue.

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 2019 are as follows: R Cable y Telecable Telecomunicaciones, S.A.U. (100%) and EKT Cable y Telecomunicaciones, S.L.U. (100%).

Within the process of consolidation as a telecommunications group, the Euskaltel Group has defined a unique organisational strategy for the regions in which it operates, simple and efficient, with an experienced team pursuing excellence, competitiveness, adapting the structures of Euskaltel and R and Telecable to continue its growth, reinforce customer focus, develop communication solutions for businesses and private customers, maximise synergies and, thereby, boost the Group's results and profitability, while maintaining its deep roots in Galicia, Asturias and the Basque Country.

The key lines of the Group's organisational structure are based on the following:

- A new organisation that seeks to achieve best practice in the sector.

- A simpler structure: two business units (mass market and business) targeting the whole customer footprint as a single unit.

- Unique technology factory that fully integrates the network, the systems and the customer care platforms: opportunities to generate additional synergies, operating leverage and excellent customer care service.

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.

Euskaltel's Board of Directors is made up of 13 board members (1 executive member, 5 proprietary, 6 independent and 1 external member).

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 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 2019 are as follows:

Shareholder	% of capital
Zegona Group	21.00%
Kutxabank Group	19.88%
Corporación Financiera Alba, S.A.	11.00%

6.- Macroeconomic and industrial climate

Macroeconomic environment

Based on the forecasts of FUNCAS, in 2019 the Spanish economy will grow by 1.9%, which is half a point less than in the prior year, although higher than the European Union and Euro zone average. The growth moderation trend is expected to continue in 2020, reaching 1.5% growth. Growth will continue to be based on the improvements recorded over recent years in the wealth of homes and businesses, which constitutes a key mainstay for invigorating domestic demand, and in the ECB's monetary accommodation policy.

In 2019, inflation came to 0.8%, which represented a drop of 90 base points with respect to the prior year, due to the drop in the price of gas and fuels. Furthermore, the average annual variation rate of the HICP presents an upward trend over the coming years: gradually increasing from 0.8% in 2019 to 1.6% in 2022, while underlying inflation will rise from 1.1% to 1.7% in the same period, as a result of the progressive widening of the positive production gap and the expansive trend in monetary policy.

As a result of ongoing economic growth, unemployment is forecast to drop by 15% in 2018, 14.2% in 2019 and 13.5% the following year. Although these forecasts were made prior to the increase in the MIS in January 2020, its medium-term effect is not expected to be relevant.

The positive evolution forecast depends to a large extent on trade negotiations, the possibility of agreements being reached between the USA and China and improvements in the investing climate. In Europe, the forecasts are based on the United Kingdom's orderly exit from the EU. Lastly, the price of petrol is forecast to remain stable at approximately $65 per barrel. Furthermore, the new minority coalition government’s capacity to fulfil the budgets and create a climate of political stability will be key.

The Basque Country: The Economy and Finance Department forecasts growth of 2.2% for 2019, reducing it to 1.9% for 2020, one decimal point lower than the rate forecast in September, due to the international context and the evolution of industry. Employment is forecast to go up by 1.6% in 2019 and by 1.2% in 2020, which is equivalent to creating almost 15,500 jobs in 2019 and approximately 11,500 jobs in 2020. In terms of the unemployment rate, outlook has improved with the rate estimated to level off at 9.7% for 2019 and drop to 9.6% in 2020.

Galicia: The BBVA Studies Service forecasts growth in GDP of 2.2% in 2019 due to the positive performance of domestic demand and the expansion trend in tax policy, decelerating to 2.0% in 2020. Between the end of 2018 and 2020, 30,300 new jobs could be created in Galicia, which would bring the unemployment rate down to 10.5% at the end of the period.

Asturias: BBVA Research forecasts a moderation in growth from 1.7% in 2019 (compared to 1.9% in 2018) to 1.2% in 2020, to then accelerate slightly to 1.4% in 2021 between the end of 2019 and 2021. The BBVA Studies Service forecasts the creation of 3,000 new jobs in Asturias. This improvement would average out the employment rate at 13.2% by the end of 2021.

Industrial Environment

The main trends that impacted the market are the following:

- Increased revenue: industry revenue in Spain increased by 0.4% (1.5% retail revenue) during the first half of 2019 compared with the same period last year (source: CNMC), which means a significant decrease in growth compared to the prior year, due to revenue consolidation per user of customers with contracts for convergent offerings, as a result of:

    - Gradual rise in tariffs of the main operators (data).
    - Increase in input speed of convergent fibre optic offers (from 50Mbps to 100Mbps).
    - Increase in mobile data use (expected to multiply by 6 between 2007 and 2021).
    - Increased penetration of broadband.
    - Increase in number of customers with convergent product bundles combining pay TV with four telecommunications services (fixed and mobile telephony, fixed and mobile broadband) (+2.1% increase in TV market).

- Increase in new competitors: Influx of new players in the sector, generally in a value-for-money price range, as well growth of MasMóvil and the launch of Euskaltel nationwide. Unprecedented portability, especially in mobile lines.

Significant investing efforts made by operators: the fibre optic network deployed in Spain is the largest in Europe with over 33.3 million access points, covering 75% of the population. The figure for broadband lines catered for with fibre technology to the home (FFTH) has now exceeded the number of lines serviced using other technologies (9.77M vs 5.36M at September 2019). Furthermore, this infrastructure is becoming increasingly more accessible to operators due to the numerous strategic joint investment and shared infrastructure agreements between operators in recent years.

7.-Commercial activity and customer relations

Mass market

During 2019 we continued our strategy of directing our new and existing customer bases towards convergent bundles with the highest added value. In 2019, we have continued to renew the convergent product offering, resulting in improvements, especially in mobile phone and Internet access. Flexibility is what distinguishes our convergent product, allowing customers to configure their services according to their needs. At 2019 year end, there are 372,035 mass market customers.

Postpaid lines increase from 552,985 at the end of 2018 to 589,599 at December 2019, an increase of 6.6%.

Broadband products reach 289,375, representing 6.1% growth.

Pay TV products are up 10.8% from 191,637 at the end of 2018 to 212,412.

As a result, the Product/Customer ratio at 31 December 2019 stood at 3.8 products per customer, up 2.9% compared to December 2018.

Business Market

The business market presents income growth, reaching growth of 3.1% in 2019 and customer growth of 0.4%.

Without a doubt, 2019 has been a very relevant year in the Company's present and immediate future as a result, among other aspects, of the changes in Group management that took place half-way through the year and which entail relevant changes in the overall organisational model thereof.

In the Business market, this new organisational model is seen in the formation of a Business department under single management with autonomy to define its strategy and organisation. The model's advantages allow for synergies and alignment in the shared objectives which translate into improvements in each of the areas comprised therein, and which have been put into operation in the second half of 2019 and will be consolidated in the first few months of 2020.

The main advantages in the Business area are:

- Unification of the sales model and offering: Reorganisation of the sales teams, which allows businesses to be catered to by the whole group on a standardised basis, under a unified offering and a shared portfolio. The creation of aligned objectives enables us to establish single strategies and agreed targets to ensure they are met, which facilitates the paths and means of attaining them both in the sales strategy and in the selection of key products, solutions and offerings.

- Unified operating model: Operating the business customer area requires specialisation in the customer care, pre-sales and after-sales models, catering for all business customers on a unified basis. The new model allows us to focus on developing the specific skills and services required for a quality operating model that is 100% independent in responding to the needs of our customers.

In terms of Large Accounts, in 2019 we have pursued our strategy to extend the scope of our solutions which we commenced in 2018 and which have led to interesting new features for this business market, largely in terms of services, Cloud solutions and Digital Transformation.

This strategic difference has enabled us to standardise Business Continuity services (DRaaS) in the cloud2cloud and site2cloud options, thereby creating an outstanding solution at national level that significantly reinforces our innovative position on the market.

In the area of digital transformation, 2019 has seen strong drive in the implementation of a new monitoring solution (SMC2) which allows our Large Accounts to access information and independently control the communications services we render them and that our competitors are not currently offering.

On the other hand, we have continued to extend and develop the communications services we offer as a Group to all our customers, following a coordinated strategy to unify our offering and converge our sales proposal. In 2019 from a Group perspective, we have for instance developed a new specific business tariff, extended the mobile VPN functionality and increased our speed capacities for the internet/data solutions we offer.

2019 has once again been an intense year of communication in the business segment, with the creation and launch of a new communications line and business brand in September. The initiative has enabled the company's approach and focus on business customers to be bolstered under the slogan "Be close, go far", and our positioning as benchmark partner for bringing any market solution to our customers.

The initiative has been used with the different methods of contacting customers that we have continued to develop:

- Technological events with clients.

- Workshops and breakfast events with customers on topics such as security, Wi-Fi and digital transformation.

- Relaunch of Business Blogs and Social Media (LinkedIn) accompanied by an increase in communications activity and content generation (success stories, signing of agreements with associations, agreements with new partners such as WMware).

- Launch of a corporate newsletter.

- Taking part in congresses such as Basque Industry 4.0 or BeDigital in collaboration with our main partners (DataRobot and Ecomt) in areas like AI, Big Data and Energy Efficiency.

In 2019 we have also begun restructuring the large business account website for our 3 brands, beginning with Euskaltel, which is now complete.

Similarly, we continue to promote sponsorship as a sign of our bond and commitment to the region.

In terms of the SME segment, 2019 has confirmed the income growth trend already evident at the end of 2018.

The product work developed in 2018 has been marketed in 2019 with bundled Telco solutions for the Group's own DOCSIS and FTTH networks and on the FTTH NEBA Movistar and FTTH Orange networks. This drive will be bolstered once again with the launch of new functionalities in the convergent Telco solution (Business Solution) at the beginning of 2020.

In 2019 the Group has given a push to the marketing of managed Wi-Fi services - Wi-Fi Business, both for private companies and in its public administrations format -Wi-Fi AAPP, a model which has enabled the solution to be rolled out to a significant number of customers. These customers include the first city councils availing of the Wi-Fi4EU European grant-aid scheme.

As part of the joint loyalty and revenue boosting initiatives for our SME customers, in September 2019 the Group undertook an initiative to improve broadband service features for our customers by doubling Internet access speeds, direct voice access services, and offering convergent bundles including more minutes and an enhanced maintenance service, both for voice services and Internet and mobile access services. In terms of mobile services, since the end of 2019 we have improved our customers' tariff conditions by including more data in their business mobile tariffs.

These initiatives reflect our commitment to SME customer service and satisfaction, with an active policy to improve the services and features offered by our products, in comparison to the market and other available offerings.

8.- Marketing activity

New 2019 offer: More for more

In 2019 Euskaltel focused on continuing to give our customers customised offerings that meet their demands, with greater features and more products, enabling us to continue building a solid long-term relationship with our customer base.

Based on high-quality services and without losing sight of customer proximity, the products and services designed and developed by the Group have enabled us to bring new customers and our existing customer base a much more competitive offering.

In 2019 the Euskaltel group began the year by launching a new sales offering in enhancing Internet access with greater speeds, and offering much more competitive mobile tariffs than the previous rates both in terms of price and volume of gigabytes, reaching an offering of up to 100 gigabytes.

With regard to the convergent offering, the most notable aspect is flexibility, allowing clients to adapt the offering to their needs at all times with price, minute and gigabyte offers for additional lines, which allows customers to avail of these benefits on multiple lines.

This new offering also applies to the existing customer portfolio, who can access all of these benefits.

In September a new simple and modular convergent offer was launched for RACCTel+ at a much more competitive price than the current offer, with 500-mega symmetrical internet and mobile tariffs from 20GB.

Based on this offer, a play was also made for the senior customer segment of RACCTel+ with a very attractive offering. The *Mi fijo Conmigo* service is a solution that gives customers a no-strings land line wherever they are and a mobile with unlimited calls.

New sales tools

- Try them: To make the sales offering more appealing to new customers, towards the end of the year a "Try & Buy" product model was rolled out, both for internet and mobile, allowing customers to try out the product at a promotional rate for several months with free upgrades on their current contracts. In this way, we allow our customers to enjoy higher-performance services than those already under contract to show them everything we can offer with our higher-value services.

- Member Get Member: During the last quarter, we launched *Plan Amigo* to encourage our customers to promote our brand and sign up their families and friends.

Campaigns:

- Unlimited gigabytes: As a means of building loyalty and attracting new high-value customers, we launched the Free Unlimited Gigabytes on the Weekend campaign. Thanks to this innovative campaign, family customers at Euskaltel have enjoyed free unlimited gigabytes at weekends throughout the year.

- Kin Kon: We also launched the Kin Kon campaign which included a free smart phone for customers when signing up to 24 months of additional gigabyte credits.

Services

- Better service, more megabytes: Thanks to this service, Euskaltel customers can enjoy more data when their tariff runs out.

9.- R&D&i activity

The Group's innovation activity in 2019 has been unified, based on the following mainstays:

- Innovation in user interfaces.
- Innovation in TV services.
- New range of products designed for Industry 4.0.
- 5G pilots

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.

A voice-activated TV decoder remote control device has been launched onto the market in 2019, which can change channel and volume and can search content universally across all apps installed by the customer on their decoder, prioritising Euskaltel service results.

TV innovation

2019 has seen the incorporation of a second vendor to the platform, as well as the integration of backend platforms.

The most relevant innovation project carried out in 2019 has been the incorporation of voice-controlled services, introducing this service to customers' homes through a new Bluetooth device that the customer can speak commands to for content searches or recommendations, or to interact with the service by changing channel, volume or other similar commands, bringing additional accessibility to the service itself.

Furthermore, in 2019 Euskaltel launched its first unified app for all Group services, Edonon, which gives access to TV Everywhere.

Major R&D efforts continue to be invested in the ongoing improvement of TV interfaces and services rendered to the user.

Business services: Industry 4.0

During 2019 studies have been carried out on state of the art LPWAN technologies and their application in various Industry 4.0 uses, to analyse different existing technologies, the viability of doing rollouts using 2.6 Ghz band frequencies, and lastly establishing an end architecture using LTE-M.

Furthermore, a viability study has been carried out during the year on the rolling out of private LTE installations for businesses using our licensed FDD and TDD bandwidths.

Lastly, the Group has a network of certified partners who complement the value offering that can be made in the Industry 4.0 field in technologies such as IIoT platforms, Big data and Machine learning.

5G pilots

During 2019, work has been carried out on 5G pilots for the Basque Country in partnership with several operators, vendors and technological centres.

10.- 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.

Mass market	Year	
KPI	**2018**	**2019**
Total customers	361,988	372,035
Total RGUs	1,325,038	1,401,192
Fixed network	307,726	309,806
Broadband	272,690	289,375
Pay TV	191,637	212,412
Postpaid mobile	552,985	589,599
RGUs /customer	3.7	3.8

Business	Year	
KPI	**2018**	**2019**
Customers	4,740	4,757

In mobile communications, growth is underpinned by the strong performance and improvements in mobile telephony and the possibility of financing purchases of mobile devices, which have all contributed to the strong performance in this area. This has also been seen in mass market postpaid mobile contract customers, with an increase in products from 552,985 lines in 2018 to 589,599 at 31 December 2019.

Broadband has also grown from 272,690 products in 2018 to 289,375 at 31 December 2019.

The Business segment has performed positively in 2019, increasing to 4,757 customers, up 0.4 % with regards the number of customers at 31 December 2019.

Financial information	2018	2019
Total revenue	**331,603**	**354,544**
Y-o-y change		6.9%
Mass market	254,968	260,220
Y-o-y change		2.1%
Business	45,754	47,179
Y-o-y change		3.1%
Wholesale and other	30,881	47,146
Y-o-y change		52.7%
EBITDA	**160,983**	**165,386**
Revenue margin	48.5%	46.6%
Y-o-y change		2.7%
Profit for the year	**92,088**	**60,261**
Investment	**(80,273)**	**(81,608)**
Y-o-y change		1.7%
Operating cash flow	**80,711**	**83,778**
Y-o-y change		3.8%

Mass market revenues increased during the period up 2.1% with respect to the prior year, despite significant sales competition, and particularly pricing pressure, during 2019. This is mainly due to the increase in the number of fixed network customers in 2019.

Revenue from the business market amounted to Euros 47,179 thousand, up 3.1% on the prior year with growth in both the Large Accounts and the SME market.

EBITDA stands at Euros 165,386 thousand at 31 December 2019, reflecting an increase in absolute terms compared to the same period last year. This growth is due to several factors, including the increase in income, the renegotiation of wholesale agreements and the positive effect of the expense control measures put in place in the second and, above all, the third quarter, which have resulted in greater efficiencies and improved EBITDA.

At 31 December 2018 investments stood at Euros 81,608 thousand, in line with the same period in the prior year.

Operating cash flow, defined as the difference between EBITDA and investments, resulted in a EBITDA ratio of around 50%, maintaining our leading position in comparison with companies in the European industry.

The process to integrate and simplify the organisational structure has resulted in higher extraordinary and other non-recurring expenses as well as the reduction of dividends received. Despite this, profit after tax stands at Euros 60,261 thousand in 2019.

11.- 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 was Euros 2.4 million (Euros 1.9 million in 2018), equivalent to 0.7% of 2019 turnover (0.6% in 2018). Aged, non-impaired receivables past due by more than 90 days at 31 December 2019 amount to Euros 6.2 million (Euros 9.0 million at the end of 2018).

Liquidity risk

Liquidity risk is the risk that 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 2019 we had a non-current revolving credit facility of Euros 300 million, with Euros 150 million drawn down, and current undrawn credit facilities totalling Euros 28.25 million.

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

At 31 December 2019, cash and cash equivalents amounted to Euros 41.6 million (Euros 54.7 million at the end of 2018).

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 risk 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 2019, had interest rates risen by 100 basis points, with other variables remaining constant, profit (after tax) would have fallen by Euros 7.9 million (Euros 8 million for the year ended 31 December 2018).

12.- 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 2016

On 21 November 2019 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 2016. The regulation on funding the universal service cost incurred by Telefónica de España, S.A.U. states that operators whose gross annual operating revenue exceeds Euros 100 million are required to contribute to the FNSU.

The amount subject to contribution by the liable operators in 2016 amounts to Euros 16,788,209. Euskaltel, R and Telecable were found liable to contribute to the funding of the cost at a rate of 2.9%.

Universal service elements and designation of the mandatory operator

In accordance with Order ECE/1280/2019 of 26 December and Order ECE/2020 of 7 January, Telefónica de España, S.A.U. has been designated to render the elements of universal service relating to the supply of public electronic communication network connections and rendering the telephony service available to the public and the supply of a sufficient offering of public pay phones. The obligation to render these services extends, in the first instance, to 1 January 2023 and, in the second, to 1 January 2022.

Grounds for termination are expressly stated to be any modification of the scope, configuration, financing or any other essential matter regarding the universal service through the national regulations that must be ruled in transposition of the Electronic Communications Code approved on 11 December 2018 by EU Directive 2018/1972 of the European Parliament and the Council.

Main operator

On 13 November 2019 (published in the national state gazette (BOE) on 14 December 2019), 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 2018, 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.
- Allocating numeration

In accordance with the Directive, on 17 December 2019, published in the OJEU of 30 December 2019, Executive Regulations of the Commission were approved establishing the contract summary form to be used by the electronic communications service providers available to the public. These Regulations will be applicable from 21 December 2020.

Resolution by which agreement is reached to notify the European Commission of the draft measure relating to Market 1/2014 Fixed voice termination.

On 25 July 2019, the CNMC adopted the Resolution for the approval of the definition and analysis of wholesale call termination markets on public telephone networks in fixed locations, designating the operators with significant power in the market and imposing certain obligations, as well as reporting to the European Commission and the ORECE. The Resolution is applicable from the day after publication in the Spanish Official State Gazette (BOE) of 1 August 2019.

Specifically, the resolution sets out the obligation on all operators to offer symmetrical prices, applying the LRIC ascending cost model based on an efficient operator.

The obligation rests on the application of the following prices for a specific glide path:

- From entry into force until 31/12/2019: Euros 0.0643/min.
- From 1/01/2020 until 31/12/2020: Euros 0.0593/min.
- From 1/01/2021 onwards: Euros 0.0543/min.

These prices will be current until they are amended by the European Commission, if applicable, under the terms set out in the electronic communications code. A single maximum termination rate will be set for voice calls using fixed networks and mobile phones in the European Union.

5G action plan

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. Within the framework of these actions, the Government has approved Royal Decree 391/2019 of 21 June, approving the National Technical Plan for Digital Terrestrial TV and regulating certain aspects regarding the release of the second digital dividend.

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 Euros 0.19 per minute for calls and Euros 0.06 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.

Based on the resolution authorising the concentration of Telefónica/DTS on 22 April 2015. Telefónica maintains its obligation to offer Premium channels in wholesale format. 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. After this period, the Spanish National Market and Competition Commission (CNMC) must assess if a relevant modification has occurred in the structure or regulation of the markets considered, justifying the maintenance, adaptation or removal of the corresponding conditions for an additional period of up to a maximum of three (3) years.

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, 2018 and 2019 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.

- Obligations deriving from information security

  The Company’s network sand 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. This regulation sets out certain obligations for digital service providers, including cloud computing services by the Group's companies.

On 5 November 2019, Royal Decree law 14/2019 of 31 December was published in the Spanish Official State Gazette (BOE), adopting urgent measures for reasons of public safety in matters of digital administration, public sector contracting and telecommunications. This Royal Decree made certain amendments to the General Telecommunications Act of 2014 regarding the adoption of direct network and service management measures in exceptional cases affecting public order, public safety and national security.

13.- Corporate governance

a) Board of directors

The following changes to the Board of Directors have taken place in 2019:

Re-election, resignation and appointment of Board members

- At the first call to the ordinary general shareholders' meeting held on 1 April 2019, the shareholders agreed to re-elect Ms. Belén Amatriain Corbi and Mr. Iñaki Alzaga Etxeita as independent directors for the statutory period of four years.

- On 6 May 2019, Mr. Robert W. Samuelson presented his resignation from his position as member of the board of directors and member of the different board committees.

- The Board of Directors meeting held on 6 May 2019 agreed to appoint, by co-optation, Mr. José Miguel García Fernández to the board of directors to replace Mr Robert W. Samuelson as proprietary director of Zegona Communications PLC, following a favourable report by the Appointments and Remunerations Committee.

- On 5 June 2019, Mr. Francisco Arteche Fernández-Miranda presented his resignation from his position as member of the Board of Directors.

- On 5 June 2019, the Board of Directors agreed to appoint, by co-optation, Mr. Eamonn O'Hare as a new board member and proprietary director of Zegona Communications, PLC, following a favourable report by the Appointments and Remunerations Committee.

- The Extraordinary General Shareholders' Meeting held on 10 July 2019 agreed: (i) to fix the number of members of the Board of Directors at 13; (ii) to ratify the appointment by co-optation and choose Mr. José Miguel García as Executive director; (iii) to ratify the appointment by co-optation and choose Mr. Eamonn O'Hare as proprietary director; and (iv) to appoint Mr. Robert W. Samuelson as proprietary director.

- On 29 October 2019, Mr. Alberto García Erauzkin presented his resignation from his position as member and chairman of the Board of Directors.

- On 29 October 2019, the Board of Directors agreed to appoint, by co-optation, Mr. Xabier Iturbe Otaegui as a new board member and external director, following a favourable report by the Appointments and Remunerations Committee.

Appointment of a new CEO

- The board of directors' meeting held on 5 June 2019 agreed to appoint Mr. José Miguel García Fernández as the new CEO of Euskaltel.

Appointment of Non-executive Chairman

- The board of directors' meeting held on 29 October 2019 agreed to appoint Mr. Xabier Iturbe Oategui as Non-executive Chairman of Euskaltel.

Appointment of new secretary of the Board of Directors

- Mr. José Ortiz Martínez has replaced Mr. Luis Alba Ferré as the new Secretary of the Board of Directors and of the Committees reporting to the Board.

b) Committees reporting to the Board of Directors

The meeting of the Company's Board of Directors held on 24 July 2019 approved the following changes to the committees reporting to the Board of Directors, following a proposal by the Appointments and Remunerations Committee:

Audit and Control Committee

Mr. José Ángel Corres Abasolo (Chairperson)
Mr. Robert W. Samuelson
Kartera 1, S.L., represented by Ms. Alicia Vivanco González
Corporación Financiera Alba, S.A., represented by Mr. Javier Fernández Alonso
Mr. Iñaki Alzaga Etxeita
Ms. Elisabetta Castiglioni
Mr. Jonathan Glyn James

Appointments and Remunerations Committee

Mr. Miguel Ángel Lujua Murga (Chairperson)
Mr. Eamonn O´Hare
Mr. Luis Ramón Arrieta Durana
Corporación Financiera Alba, S.A., represented by Mr. Javier Fernández Alonso
Mr. José Ángel Corres Abasolo
Ms. Belén Amatriain Corbi
Mr. Iñaki Alzaga Etxeita

To comply with article 529 (14) of the Spanish Companies Act, the independent director Mr. José Ángel Corres Abasolo, was appointed as the new Chairman of the Audit and Control Committee to replace Mr. Iñaki Alzaga Etxeita, for a period of four years.

The independent director, Mr. Iñaki Alzaga Etxeita, was appointed as the new Chairman of the Strategy Committee to replace Mr. José Ángel Corres Abasolo, for a period of four years.

c) Significant events

In 2019, 30 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 Extraordinary General Shareholders' Meeting and the results thereof, the changes to the Board of Directors and the new composition of the Committees reporting to the Board of Directors, the appointment of the new CEO and new Secretary of the Board of Directors, the payment of the complementary dividend against 2018 results, the payment of an interim dividend against 2019 results, as well as the improved wholesale agreements signed with Orange.

14.- Share price evolution

Share price evolution

Closing price at 31-12-2019: €8.97

Euskaltel shares have increased in value in 2019 by 31.91%, compared to the IBEX 35 stock market index and the STOXX Europe 600 Telecom sector benchmark index for the same period, 11.69% and -1.43%, respectively.

Trading volume

Period (2 Jan/31 Dec)	Number of shares	Daily average
Standard trading	38,023,696	149,113
Block trading	10,460,991	41,023
	48,484,687	190,136

15.- 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 29 October 2019, the Company's Board of Directors agreed to pay an interim dividend against 2019 results for a gross amount of 14.0 cents 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 2020.

On 12 January 2020, a contract was signed with Virgin to transfer the use of its brand to the Euskaltel Group. The signing of this agreement represents a major milestone for Euskaltel. Thanks to improved wholesale access agreements signed in December 2019, Euskaltel now has all the assets needed for its nationwide expansion (see note 2.4). This plan will bring Euskaltel to 85% of the Spanish market where it does not currently have a presence, enabling the customers in these regions to benefit from high-quality, high-value quadruple play services, taking advantage of the advanced capacities of Euskaltel. The Virgin brand will coexist with the Group's three established brands (Euskaltel, Telecable and R), which will continue to render leading services in each of their respective regions. Euskaltel considers that the combination of their established regional brands with the Virgin brand, which it will use at national level, will provide excellent growth opportunities.

On 27 January 2020, the Board of Directors approved a new long-term Incentive Plan for the 2020-2022 period, geared towards a group of executives and employees of the Company, as well as the President of the Board of Directors, the CEO and Secretary. The Plan entails delivering the beneficiaries a variable incentive linked to the achievement of a specific share price and the accomplishment of targets linked to operating cash flow. At least 75% of the plan will be paid out in Euskaltel shares and the rest in cash.

16.- Acquisition of own shares

At 31 December 2019 we held 170,366 own shares. During the year a total of 1,908,897 shares were acquired, and 1,965,880 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.

17.- 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 + depreciation and amortisation +/- losses on the disposal and derecognition of assets + compensation and other remuneration + other non-recurring results. Other non-recurring results, when these are included, extraordinary expenses or expenses of an exceptional nature that are not recurrent, as well as integration costs are excluded.

	31.12.2018	31.12.2019
Results from operating activities	77,723	71,371
Depreciation and amortisation (notes 6 and 7)	69,957	74,727
Impairment and gains/(losses) on disposals of fixed assets (notes 6 and 7)	4,797	5,046
Compensation and other remuneration (note 13.3)	5,228	10,728
Other profit/(loss) (note 13.5)	3,278	3,514
	160,983	**165,386**

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

	31.12.2018	31.12.2019
Additions of intangible assets (note 6)	28,810	31,210
Additions of property, plant and equipment (note 7)	51,463	50,398
	80,273	**81,608**

- Operating cash flow: EBITDA - Investments

	31.12.2018	31.12.2019
EBITDA	160,983	165,386
Investments	(80,273)	(81,608)
	80,710	**83,778**

- Conversion rate: Operating cash flow / EBITDA

	31.12.2018	31.12.2019
Operating cash flow	80,710	83,778
EBITDA	160,983	165,386
	50.1%	**50.7%**

18.- Annual Corporate Governance Report

The 2019 Annual Corporate Governance Report, which forms part of the consolidated directors' report, was approved by the board of directors of Euskaltel, S.A. on 25 February 2020 and is available on the Company's website (www.euskaltel.com) and that of the Spanish National Securities Market Commission (www.cnmv.es).

19.- Non-financial information

In compliance with article 49 of the Spanish Code of Commerce, the Euskaltel Group includes the Non-Financial Information Statement for 2019 as part of the Euskaltel Group's Responsible Company Report, which is available as an Appendix to the director's report of the consolidated annual accounts of Euskaltel, S.A. This report covers the companies Euskaltel, S.A. and R Cable y Telecable Telecomunicaciones, S.A.U., and has been prepared in accordance with the Global Reporting Initiative (GRI) standards and Act 11/2018 on non-financial information and diversity.

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

Derio, 25 February 2020

In compliance with prevailing legislation, the directors of Euskaltel, S.A. have authorised for issue the annual accounts (comprising the balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto) and the directors' report for the period ended 31 December 2019.

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. Xabier Iturbe Otaegui
(Chairman)

Mr. José Miguel García Fernández
(Chief Executive Officer)

Mr. José Ángel Corres Abasolo
(Vice Chairman)

Mr. Eamonn O'Hare
(Board member)

Mr. Robert W. Samuelson
(Board member)

Kartera 1, S.L., represented by
Ms. Alicia Vivanco González
(Board member)

Mr. Luis Ramón Arrieta Durana
(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. Jonathan Glyn James
(Board member)

Euskaltel, S.A. and subsidiaries

Consolidated Annual Accounts

31 December 2019

Consolidated Directors' Report

2019

(With Auditor's Report Thereon)

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

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

KPMG Auditores, S.L.
Torre Iberdrola
Plaza Euskadi, 5
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 statement of financial position at 31 December 2019, 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 2019, 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 3.2 and 5 to the annual accounts

Key audit matter	*How the matter was dealt with in our audit*
The Group has recognised significant amounts of goodwill from the acquisitions of R Cable y Telecomunicaciones Galicia, S.A. and Telecable de Asturias S.A. (merged with effect 1 January 2019) which were carried out in 2015 and 2017. 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. 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. 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.	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. We have also performed detailed tests including, inter alia, the following: 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 business plan approved by Management 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 Management. 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 done 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. 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.

Estimation of supplier volume discount - Supplies See Note 12.2 to the annual accounts	
Key audit matter	*How the matter was dealt with in our audit*
The supply cost of 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. 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. Due to the uncertainty associated with these estimates, the effect of applying amendments to contracts agreed during the year 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.	Our audit procedures have comprised, inter alia: a) assessing the design and implementation of the key controls relating to the supplies and discounts process, b) reading and gaining an understanding of the volume discount agreements held with suppliers, including the amendments agreed during the year, 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 business plan approved by Management. 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 12.1 to the annual accounts	
Key audit matter	*How the matter was dealt with in our audit*
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.	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. We have also assessed the design and implementation and tested the effectiveness of the general controls for access to and modification of programmes, as well as automatic controls carried out on invoicing systems and other back-up systems classified as critical for the purposes of our audit. We have also performed detailed tests including, inter alia, the following: 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 2019 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 2019 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 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 26 February 2020.

Contract term

The ordinary general shareholders' meeting held on 1 April 2019 appointed us as Group auditors for a 1-year term commencing on 1 January 2019.
Prior to this, we were appointed by agreement of the ordinary general shareholders' meeting for a one-year period and we have been auditing the annual accounts on a continuous basis since 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

26 February 2020

Consolidated Annual Accounts
and Directors' Report
for the year
ended 31 December 2019

(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 2019 and 2018

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

ASSETS	Notes	31.12.2019	31.12.2018
NON-CURRENT ASSETS		2,749,034	2,721,017
Goodwill	5	1,024,923	1,024,923
Intangible assets	5	299,311	310,789
Property, plant and equipment	6	1,222,599	1,252,447
Right of use assets	7	66,210	-
Financial assets	8	8,939	7,773
Deferred tax assets	11	127,052	125,085
CURRENT ASSETS		168,246	177,671
Inventories		4,213	5,979
Trade and other receivables	8	58,242	51,132
Current tax assets	11	1,459	867
Other current assets		6,085	12,337
Cash and cash equivalents	8	98,247	107,356
TOTAL ASSETS		2,917,280	2,898,688

EQUITY AND LIABILITIES	Notes	31.12.2019	31.12.2018
EQUITY			
Capital and reserves	9	981,965	974,886
Capital		535,936	535,936
Share premium		355,165	355,165
Retained earnings		117,410	110,461
(Own shares)		(1,472)	(1,602)
Interim dividend paid during the year		(25,010)	(25,010)
Other comprehensive income		(64)	(64)
Equity attributable to equity holders of the Parent		981,965	974,886
		981,965	974,886
NON-CURRENT LIABILITIES		1,533,929	1,562,189
Deferred income		9,021	2,330
Non-current debt	10	1,368,981	1,447,317
Derivatives	10	804	1,330
Other financial liabilities	10	74,863	24,150
Deferred tax liabilities	10	80,260	87,062
CURRENT LIABILITIES		401,386	361,613
Current debt	10	195,290	154,113
Trade and other payables	10	144,043	150,077
Current tax liabilities	11	2,727	1,128
Provisions		1,524	1,677
Other current liabilities	10	57,802	54,618
TOTAL EQUITY AND LIABILITIES		2,917,280	2,898,688

Derio, 25 February 2020

EUSKALTEL, S.A. SUBSIDIARIES

Consolidated Income Statements for the years ended 31 December 2019 and 2018

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

	Notes	2019	2018
Revenues	12.1	668,303	674,642
Work performed by the entity and capitalised	5 & 6	16,763	16,377
Supplies	12.2	(163,257)	(159,602)
Other operating income		404	616
Personnel expenses	12.3	(58,713)	(51,217)
Other operating expenses	12.4	(149,608)	(165,081)
Amortisation and depreciation	5.6 & 7	(193,096)	(185,854)
RESULTS FROM OPERATING ACTIVITIES		120,796	129,881
Finance income		610	918
Finance cost		(49,888)	(49,112)
NET FINANCE COST	12.5	(49,278)	(48,194)
PROFIT/(LOSS) BEFORE TAX		71,518	81,687
Income tax	11	(9,500)	(18,901)
PROFIT/(LOSS) FOR THE YEAR	9	62,018	62,786
Profit for the year attributable to equity holders of the Parent .		62,018	62,821
Profit for the year attributable to non-controlling interests		-	(35)
		62,018	62,786
Earnings per share (Euros)		0.35	0.35

Derio, 25 February 2020

EUSKALTEL, S.A. SUBSIDIARIES

Consolidated Statements of Comprehensive Income for the years ended 31 December 2019 and 2018

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

	2019	2018
a) Consolidated profit/(loss) for the year	**62,018**	**62,786**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**62,018**	**62,786**
Attributable to equity holders of the Parent	**62,018**	**62,821**
Attributable to non-controlling interests	**-**	**(35)**
	62,018	**62,786**

Derio, 25 February 2020

EUSKALTEL, S.A. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity for the years ended 31 December 2019 and 2018

(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 comprehensive income*	*Interim dividend*	*Subtotal*	*Non-controlling interests*	*Total*
Balance at 31 December 2017	535,936	355,165	96,815	(1,887)	(64)	(22,688)	963,277	365	963,642
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 movement	-	-	87	-	-	-	87	-	87
Balance at 31 December 2018	535,936	355,165	110,461	(1,602)	(64)	(25,010)	974,886	-	974,886
Other comprehensive income	-	-	62,018	-	-	-	62,018	-	62,018
Transactions with shareholders									
Own shares	-	-	260	130	-	-	390	-	390
Dividends paid from 2018 profit	-	-	(55,329)	-	-	25,010	(30,319)	-	(30,319)
Dividends	-	-	-	-	-	(25,010)	(25,010)	-	(25,010)
Balance at 31 December 2019	535,936	355,165	117,410	(1,472)	(64)	(25,010)	981,965	-	981,965

Derio, 25 February 2020

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EUSKALTEL, S.A. SUBSIDIARIES

Consolidated Statements of Cash Flows for the years ended 31 December 2019 and 2018

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

	Notes	2019	2018
Profit for the year before tax		**71,518**	**81,687**
Adjustments for		**253,079**	**228,520**
Amortisation and depreciation	5. 6 & 7	193,096	185,854
Impairment allowances	8	5,282	4,373
Changes in provisions		(153)	73
Allocation of grants		(389)	-
Impairment and gains/(losses) on disposals of fixed assets	12.4	9,650	8,917
Impairment and gains/(losses) on disposals of financial instruments	12.5	(9)	(371)
Finance income	12.5	(76)	(231)
Finance cost	12.5	49,513	48,758
Exchange gains/(losses)	12.5	376	(316)
Change in fair value of financial instruments	12.5	(526)	354
Other income and expense	12.2	(3,685)	(18,891)
Changes in operating assets and liabilities		**(5,870)**	**22,385**
Inventories		425	(1,858)
Trade and other receivables		(12,392)	(3,406)
Other current assets		7,318	172
Trade and other payables		(2,725)	28,346
Other current liabilities		1,504	(988)
Other non-current assets and liabilities		-	119
Other cash flows from /(used in) operating activities		**(65,426)**	**(56,328)**
Interest paid		(48,740)	(41,474)
Interest received		76	231
Income tax paid		(16,762)	(15,085)
Cash flows from operating activities		**253,301**	**276,264**

Derio, 25 February 2020

EUSKALTEL, S.A. SUBSIDIARIES

Consolidated Statements of Cash Flows for the years ended 31 December 2019 and 2018

(Expressed in thousands of Euros)

	Notes	2019	2018
Payments for investments		**(155,326)**	**(153,510)**
Intangible assets	5	(56,871)	(56,493)
Property, plant and equipment	6	(97,388)	(97,017)
Financial assets		(1,067)	-
Proceeds from sale of investments		**2,812**	**501**
Property, plant and equipment		2,812	-
Collections from the sale of subsidiaries, net of cash and cash equivalents		-	501
Cash flows used in investing activities		**(152,514)**	**(153,009)**
Proceeds from and payment for equity instruments		**390**	**257**
Disposal of own equity instruments		390	257
Proceeds from and payment for financial liability instruments		**(54,957)**	**(25,205)**
Issue of:		133,156	79,795
Bonds and other marketable securities	10	131,000	70,700
Other		2,156	9,095
Repayment of:		(188,113)	(105,000)
Loans and borrowings	10	(110,000)	(105,000)
Lease liabilities	2.3	(7,413)	-
Other	10	(70,700)	-
Dividends and interest on other equity instruments paid		**(55,329)**	**(49,603)**
Dividends		(55,329)	(49,603)
Cash flows used in financing activities		**(109,896)**	**(74,551)**
Cash and cash equivalents at beginning of the year		107,356	58,652
Cash and cash equivalents at year end		98,247	107,356
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(9,109)**	**48,704**

Derio, 25 February 2020

EUSKALTEL, S.A. SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 December 2019

(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.U. (hereinafter R), 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), 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.

On 15 April 2019 the Boards of Directors of R Cable y Telecomunicaciones Galicia, S.A. and Telecable de Asturias, S.A. approved the merger of these companies with the first being the absorbing company. On 17 June 2019, R Cable y Telecomunicaciones Galicia, S.A.U. changed its corporate name to R Cable y Telecable Telecomunicaciones, S.A.U. In addition to the merger, these companies have unified their processes, with R Cable y Telecomunicaciones Galicia, S.A.U. as a company being considered a single CGU.

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 2019 are as follows: R Cable y Telecable Telecomunicaciones, S.A.U. (100%) and EKT Cable y Telecomunicaciones, S.L.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 2019 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 2019, 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 2019, authorised for issue on 25 February 2020, 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 2019 include comparative figures for the prior year.

For the purposes of comparing the 2019 and the 2018 income statement, the application of IFRS 16 described in note 2.3 should be taken into consideration.

2.3. Adoption of International Financial Reporting Standards (IFRS)

Standards applied from 1 January 2019 onwards

IFRS 16 – Leases

The Group has applied IFRS 16 Leases from 1 January 2019 using the modified retroactive method, recognising the right of use asset for an amount equal to the lease liability. The comparative information has not therefore been restated.

The lease liability in which the Group acts as lessee as a result of the entry into force of the IFRS 16 relates to the current value of the future payment commitments during the course of the lease. The first-time application of IFRS 16 has generated a liability at 1 January 2019 that does not match the minimum future payments of the operating leases set forth in Note 14.2 of the consolidated Annual Accounts for 2018 and which were calculated in accordance with the previous standard, IAS 17. The difference is mainly attributable to the following reasons:

- Payments on cancellable contracts with no cancellation charge are not included in the rental payment commitments but are included in the lease liability caption.

- Differences in terms of lease term: the extension options deemed reasonably certain form part of the lease liability measurement but are not factored into the expected operating lease payment schedule.

- The discount rate used to perform the discounting of future payments.

The Euskaltel Group estimates the lease term, based on the period of that term that cannot be cancelled and the periods covered by the renewal options available to the Euskaltel 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 discount rate used in the first-time application of IFRS 16 is between 1.35% and 6.17%, based on the remaining lease terms.

Furthermore, 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 table below contains a summary of the impact of adopting IFRS 16 on the consolidated statement of financial position at 1 January 2019:

1 January 2019 *Thousands of Euros*	**Amount before adoption IFRS 16**	**Adjustments IFRS 16**	**Amount Statement of Position**
Assets			
Right of use	**-**	**72,471**	**72,471**
Non-current assets	**2,721,017**	**72,471**	**2,793,488**
Total assets	**2,898,688**	**72,471**	**2,971,159**
Liabilities			
Other financial liabilities	**24,150**	**62,017**	**86,167**
Non-current liabilities	**1,562,189**	**62,017**	**1,624,206**
Current debt	**154,113**	**10,454**	**164,567**
Non-current liabilities	**361,613**	**10,454**	**372,067**
Total liabilities	**2,898,688**	**72,471**	**2,971,159**

At 31 December 2019 and as a result of the initial adoption of IFRS 16, the Group has recognised right of use assets relating to leases previously classified as operating leases for Euros 66,210 thousand and lease liabilities for Euros 67,421 thousand at 31 December 2019.

Similarly, in terms of the accounting treatment of leases under IFRS 16, the Group has recognised a depreciation charge on the right of use assets and a finance cost instead of operating lease expenses. These are included in the consolidated income statement at 31 December 2018 under Other operating expenses. In 2019 the Group has recorded a depreciation charge of Euros 8,722 thousand and a finance cost on lease liabilities of Euros 2,654 thousand.

The impacts of the application of IFRS 16 on the statement of cash flows for 2019 are as follows:

- increase in operating cash flows of Euros 7,411 thousand as a result, on the one hand, of the increase in profit from operating activities of Euros 10,065 thousand, which is offset by the increase in interest payments of new financial liabilities for Euros 2,654 thousand.

- decrease in cash flows on financing activities of Euros 7,411 thousand corresponding to the repayment of a portion of the principal of the new lease liabilities, which means the cash generation is not affected.

Standards applied from 1 January 2018 onwards

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 chose 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 at 1 January 2018, 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 led to a reduction of Euros 607 thousand (net of the tax effect) in reserves at 1 January 2018 due to income from sales of equipment. The effect on the consolidated income statement at 31 December 2018 was not significant.

IFRS 9 – Financial Instruments

This standard establishes new criteria for classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and a new model for financial asset impairment.

The group opted not to restate the comparative information for 2017, recognising the adjustment to the amount of financial assets and liabilities under reserves at 1 January 2018.

The impacts of the first-time application of IFRS 9 were as follows:

- **Impairment of financial assets**

The impairment model in IFRS 9 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.

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 applied 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 implemented this new method at 1 January 2018 and its impact led to a reduction in reserves of Euros 1.9 million, net of the tax effect.

- **Refinancing of financial liabilities:**

The Group performed financial operations which, in accordance with IAS39, had not given rise to significant variations in the debt instrument and, therefore, the carrying value of the liability was adjusted based on commissions, amortising these over the remaining term of the modified liability, modifying the effective internal rate of return to be applied to the liability. In accordance with IFRS 9, modifications of financial liabilities should determine the value of the cash flows of the new financial liability by calculating the effective internal rate of return of the old financial liability, recording the difference between this new carrying value and the original amount in the consolidated income statement. In this respect, the annual refinancing operations carried out by the Parent company since 2015 (the date on which the syndicated financing commenced) 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 *Thousands of Euros*	**Amount before adoption of IFRS 15 & 9**	**Adjustments IFRS 15**	**Adjustments IFRS 9**	**Amount in consolidated 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 contract 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**
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 contract 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**

<u>IFRIC 23 - Uncertainty over income tax treatments</u>

The interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over the income tax treatments.

If the company considers it likely that the tax authorities will accept an uncertain tax treatment, the interpretation requires that the company determine the tax gain (tax loss), the tax bases, the unused tax losses, the unused tax credits or the tax rates in a manner that is consistent with the tax treatment used or intended to be used in its income tax return.

If the company considers it is unlikely that the tax authorities will accept an uncertain tax treatment, the interpretation requires that the company uses the most probable amount or expected value (sum of the possible amounts, weighted by probability) to determine tax gains (tax losses), tax bases, unused tax losses, unused tax credits or tax rates. The method used should be the method the company expects to provide the best predicted uncertainty resolution.

The entry into force of this standard on 1 January 2019 has not had a significant impact on the Group's consolidated financial statements.

Standards and interpretations not yet in force at 31 December 2019

At the date of preparation of these consolidated annual accounts, the standards, amendments and interpretations issued, which have not been effective and which the Group intends to adopt from 1 January 2020 or thereafter, are:

- IAS 1 and IAS 8 - Definition of materiality
- Amendments to the references of the IFRS standards for the conceptual framework.
- IBOR reform

These standards are not expected to have a significant impact on the Group's consolidated financial statements.

Standards, amendments and interpretations of the existing standards that have not been adopted by the European Union

At the date of preparation of these consolidated annual accounts, the IASB and the IFRS Interpretations Committee had published the standards, amendments and interpretations detailed below, which are pending adoption by the European Union:

- IFRS 10 (Amendment) and IAS 28 (Amendment) Sale or contribution of assets between an investor and its associate or joint venture
- IFRS 3 (Amendment) Definition of a business
- IFRS 17 Insurance contracts

Given the Group's activities, the effect of first-time application of the new standards, amendments or interpretations on the consolidated annual accounts is not expected to be significant for the Group.

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 deductible temporary differences and unused 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 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.

All previous estimates have been updated taking into account the variables included in the Group's Business Plan. The Plan's key assumptions are based on growth through national expansion under the new brand (see note 18).

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. 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

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

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 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.

3.3. 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
Cabling	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 3.4. 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.

3.4. Right of use assets (applicable from 1 January 2019 onwards)

At the start of a contract the Group evaluates whether it contains a lease. A contract is or contains a lease if it grants the right to control the use of an identified asset over a period of time in exchange for a consideration. The period of time during which the Group uses the asset includes consecutive and non-consecutive periods of time. The Group only reassesses the terms if the contract is amended.

The Group has chosen not to apply the accounting policies detailed below to short-term leases and to leases in which the underlying asset has a value of below Euros 5 thousand. For this type of contract the Group recognises payments on a straight-line basis over the lease term.

At the start of the lease, the Group recognises a right of use asset and a lease liability. The right of use asset comprises the lease liability amount, any lease payment made on or prior to the start date, less the incentives received, the initial direct costs incurred and an estimate of the dismantling or restoration costs, as detailed in the accounting policy regarding provisions.

The Group recognises the lease liability at the present value of the lease payments outstanding on the start date. The Group discounts the lease payments at the appropriate incremental interest rate, unless the lessor's implicit interest rate can be calculated reliably.

Outstanding lease payments consist of fixed payments less any incentive receivable, variable payments dependent on an index or rate initially measured at the index or rate applicable at the start date, amounts expected to be paid for residual value guarantees, the exercise price of the purchase option where the Group is reasonably certain of exercising this option and lease termination penalty payments, provided that the lease term reflects the exercise of the termination option.

The Group measures the right of use assets at cost, less depreciation and any accumulated impairment losses, adjusted for any re-estimation of the lease liability.

If the contract transfers ownership of the asset to the Group at the end of the lease term or the right of use asset includes the purchase option price, the depreciation criteria detailed in the section on property, plant and equipment are applied from the lease start date until the end of the asset's useful life. If this is not the case, the Group depreciates the right of use asset from the start date to the earlier of the useful life of the right and the end of the lease term.

The Group applies non-current asset impairment criteria to the right of use asset.

The Group measures the lease liability, increasing it by the finance cost accrued, decreasing it by the payments made and re-estimating the carrying amount as a result of amendments to the lease or to reflect updates to the in-substance fixed payments.

The Group records the variable payments that have not been included in the initial measurement of the liability in the income statement in the period in which the events triggering their payment occur.

The Group records the re-estimates of the liability as an adjustment to the right of use asset, until the asset is reduced to zero and then subsequently in recognised in profit and loss.

The Group re-estimates the lease liability discounting lease payments at an updated rate if there is a change in the lease term or a change in the expectation that the purchase option on the underlying asset will be exercised.

The Group re-estimates the lease liability if there is a change in the expected residual value guarantee payable or a change in the index or rate used to calculate the payments, including a change to reflect modifications to market rents once they have been reviewed.

At 31 December 2019 changes due to re-estimates of lease liabilities as a result of rent reviews have not been significant.

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

Dismissal payments are recorded in the year in which the Company decides to make them and a valid expectation is created vis-à-vis third parties regarding the dismissal.

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 (applicable up to 31 December 2018)

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.

At 2018 year end, the Group had contracts for releasing surplus fibre optic capacity, for pipeline access and for the use of spaces for locating nodes. The Group also entered into fibre optic maintenance lease contracts.

Payment commitments in relation to these contracts were as follows:

	2018
Less than one year	6,770
One to five years	25,135
Over five years	17,826
	49,731

The operating lease expense recognised in the income statement for the period ended 31 December 2018 amounts to Euros 11,413 thousand.

At 31 December 2019, short-term operating lease commitments and commitments relating to low-value underlying asset leases are not significant.

3.15. 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.

3.16. 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.

Although the Group's working capital, defined as the difference between current assets and current liabilities (maturing in less than 12 months in both cases), is negative, this is mainly because of the way the business operates, resulting in the average collection period being shorter than the average payment period, which is common practice in the sector in which the Group operates.

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 risk 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 2019, had interest rates risen by 100 basis points, with other variables remaining constant, profit (after tax) would have fallen by Euros 7,923 thousand (Euros 8,015 thousand for the year ended 31 December 2018).

NOTE 5.- Intangible assets

Details of intangible assets and movement are as follows:

	31.12.2018	Additions	Disposals	31.12.2019
Cost				
Industrial property	4,038	(15)	-	4,023
Computer software	143,494	19,652	-	163,146
Licences	7,668	-	-	7,668
Brands	53,874	-	-	53,874
Other intangible assets	280,277	37,234	(15,175)	302,336
	489,351	56,871	(15,175)	531,047
Accumulated amortisation				
Industrial property	(4,038)	15	-	(4,023)
Computer software	(96,442)	(17,765)	-	(114,207)
Licences	(1,924)	(388)	-	(2,312)
Other intangible assets	(76,158)	(40,236)	5,200	(111,194)
	(178,562)	(58,374)	5,200	(231,736)
Carrying amount	310,789	(1,503)	(9,975)	299,311

	31.12.2017	Additions	Disposals	Changes in the consolidated group (note 1)	31.12.2018
Cost					
Industrial property	3,369	949	-	(280)	4,038
Computer software	121,177	24,096	-	(1,779)	143,494
Licences	7,668	-	-	-	7,668
Brands	53,874	-	-	-	53,874
Other intangible assets	261,162	31,448	(12,333)	-	280,277
	447,250	56,493	(12,333)	(2,059)	489,351
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 intangible assets	(44,616)	(35,634)	4,092		(76,158)
	(128,265)	(55,607)	4,092	1,218	(178,562)
Carrying amount	318,985	886	(8,241)	(841)	310,789

The cost of fully amortised intangible assets in use at 31 December 2019 totals Euros 105,491 thousand (Euros 112,679 thousand at 31 December 2018).

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

At 31 December 2019 Group personnel expenses totalling Euros 4,572 thousand (Euros 7,349 thousand for the same period in 2018) have been capitalised as intangible assets.

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 (Euskaltel CGU and RCable CGU, see note 1) has been calculated at its value in use according to cash flow projections determined on the basis of Euskaltel, S.A.'s six-year business plan. The Group's nationwide expansion, the main driver of growth of the new Business Plan, entails significant growth plans even in 2025, which is why the Group has deemed it reasonable to use a projection period of over five years and a stable growth rate from the sixth year onward. 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% (7.8% before tax).
- Increase in sales over the budgeted period as a result of the Group's national expansion.
- Growth rate after the six-year period: 1.9%.
- EBITDA Margin/Non-current revenue in line with the aforementioned business plan.
- CAPEX/Revenue ratio also in line with the aforementioned business plan.

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

NOTE 6.- Property, plant and equipment

Details of property, plant and equipment and movement in 2019 are as follows:

	31.12.2018	Additions	Disposals	Transfers	31.12.2019
Cost					
Land and buildings	161,397	-	-	314	161,711
Civil engineering	543,659	3,408	-	13,348	560,415
Cabling	398,570	6,527	(12,618)	36,305	428,784
Network equipment	618,372	-	(2,473)	12,862	628,761
Customer equipment	368,065	-	-	22,047	390,112
Other installations, furniture and equipment	218,251	702	(30)	10,031	228,954
Under construction	17,366	86,751	-	(93,653)	10,464
Other property, plant and equipment	68,835	-	-	87	68,922
	2,394,515	97,388	(15,121)	1,341	2,478,123
Accumulated depreciation					
Land and buildings	(40,788)	(4,696)	-	-	(45,484)
Civil engineering	(96,352)	(13,476)	-	-	(109,828)
Cabling	(201,338)	(60,690)	11,324	-	(250,704)
Network equipment	(385,317)	(16,906)	1,190	-	(401,033)
Customer equipment	(263,944)	(16,499)	-	-	(280,443)
Other installations, furniture and equipment	(133,622)	(12,767)	30	-	(146,359)
Under construction	(20,707)	(966)	-	-	(21,673)
	(1,142,068)	(126,000)	12,544	-	(1,255,524)
Carrying amount	1,252,447	(28,612)	(2,577)	1,341	1,222,599

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

	31.12.17	Additions	Disposals	Transfers	Changes in the consolidated 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
Cabling	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
	2,303,558	97,017	(6,003)	80	(137)	2,394,515
Accumulated depreciation						
Land and buildings	(35,968)	(4,820)	-	-	-	(40,788)
Civil engineering	(82,524)	(13,828)	-	-	-	(96,352)
Cabling	(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)
	(1,017,246)	(130,247)	5,327	-	98	(1,142,068)
Carrying amount	1,286,312	(33,004)	(676)	80	(39)	1,252,447

During the year ended 31 December 2019 internal expenses amounting to Euros 12,191 thousand (Euros 9,028 thousand in 2018) have been capitalised.

The cost of fully depreciated property, plant and equipment in use at 31 December 2019 is Euros 573,852 thousand (Euros 465,053 thousand at 31 December 2018).

At 31 December 2019 and 31 December 2018, sufficient insurance policies have been taken out to cover the risks to which property, plant and equipment are exposed.

NOTE 7.- Right of use assets

Movement in right of use assets during 2019 is as follows:

	1 January 2019	Additions	Disposals	Adjustments to lease liabilities	31.12.2019
Cost					
Land and buildings	7,887	84	(103)	518	8,386
Other installations	64,158	-	(170)	(470)	63,518
Other property, plant and equipment	426	2,629	(10)	(18)	3,027
	72,471	2,713	(283)	30	74,931
	(note 2.3)				
Accumulated depreciation					
Land and buildings	-	(1,516)	-	-	(1,516)
Other installations	-	(6,962)	-	-	(6,962)
Other property, plant and equipment	-	(243)	-	-	(243)
	-	(8,721)	-	-	(8,721)
Carrying amount	72,471	(6,008)	(283)	30	66,210

Other installations mainly includes:

- Ducts and pipelines
- Spaces for locating nodes
- Optical fibre

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	
	31.12.19	**31.12.18**	**31.12.19**	**31.12.18**	**31.12.19**	**31.12.18**
Non-current						
Equity instruments	-	-	1,100	101	1,100	101
Loans extended	7,235	7,067		-	7,235	7,067
Other non-current assets	604	605		-	604	605
	7,839	7,672	1,100	101	8,939	7,773
Current						
Trade receivables	58,242	51,132	-	-	58,242	51,132
Investments	464	467	-	-	464	467
Cash and cash equivalents	98,247	107,356	-	-	98,247	107,356
	156,953	158,955	-	-	156,953	158,955

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:

	31.12.19	31.12.18
Past due		
From 0 to 30 days	5,538	4,472
From 31 to 90 days	4,528	2,244
From 91 to 180 days	3,107	5,972
From 181 to 365 days	3,471	2,498
	16,644	15,186
Not past due		
Invoiced	22,338	23,538
Pending invoice	19,260	12,408
	41,598	35,946
	58,242	51,132

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

	31.12.19	31.12.18
Gross balance	75,100	64,416
Impairment	(16,858)	(13,284)
	58,242	51,132

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

	31.12.19	31.12.18
Opening balance	13,284	13,527
Charges (note 12.4)	5,282	4,373
Reversal	-	-
Write-offs	(1,708)	(4,616)
Closing balance	16,858	13,284

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

NOTE 9.- Equity

9.1.__Capital

At 31 December 2019, subscribed capital is represented by 178,645,360 shares with a par value of Euros 3 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 2019 are as follows:

	Number of shares	% of ownership
Zegona Limited	37,526,561	21.00%
Kutxabank, S.A.	35,514,698	19.88%
Corporación Financiera Alba	19,650,990	11.00%
Other	85,953,111	48.12%
	178,645,360	**100.00%**

9.2.__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 of Telecable, 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.

9.3.__Share premium

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

9.4.__Retained earnings

Details of this caption are as follows:

	31.12.19	31.12.18
Reserves		
Legal reserve	62,097	52,889
Voluntary reserves	(6,705)	(5,249)
Profit for the year	62,018	62,821
	117,410	**110,461**

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.

9.5.__Dividends and interim dividend

On 29 October 2019, the Board of Directors agreed to pay an interim dividend against 2019 results for a gross amount of Euros 0.140 per share outstanding with dividend rights. This decision was notified as a significant event on 29 October 2019. This interim dividend, which was paid on 5 February 2020, amounted to a gross outlay of Euros 25 million (see notes 10 and 18).

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 2019 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 01.01.2019 to 30.09.2019 (*)	42,008
Mandatory reserves	(4,201)
Distributable profit	37,807
Proposed interim dividend (maximum amount)	(25,010)
Cash situation	
Funds available for distribution:	193,438
Cash and cash equivalents	14,188
Appropriations available	179,250
Proposed interim dividend (maximum amount)	(25,010)

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

The proposed distribution of Parent Company reserves and profit for the year ended 31 December 2019 is as follows:

Basis of application	Euros
Voluntary reserves	62,628,972.75
Share premium	355,164,632.28
Profit for the year	60,261,040.80
	478,054,645.83

Distribution	Euros
Legal reserve	6,026,104.08
Dividends	
Interim dividend	25,010,350.40
Complementary dividend	30,369,711.20
Share premium	355,164,632.28
Voluntary reserves	61,483,847.87
	478,054,645.83

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.

9.6. Own shares

At 31 December 2019 the Company has 170,366 shares in its own share portfolio that were acquired at an average weighted cost of Euros 8.64 per share (227,349 shares at Euros 7.05 each at 31 December 2018).

9.7. 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:

	2019	2018
Profit for the year attributable to the Parent	62,018	62,821
Weighted average number of ordinary shares outstanding	178,474,994	178,418,011
Basic earnings per share (Euros)	0.35	0.35

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

	2019	2018
Ordinary shares outstanding at 1 January	178,418,011	178,380,029
Effect of own shares	56,983	37,982
	178,474,994	**178,418,011**

The Company has no diluted ordinary shares.

NOTE 10.- Financial liabilities

10.1. Classification by category

Details of financial liabilities classified by category are as follows:

	Financial liabilities at amortised cost		Liabilities designated at fair value	
	31.12.19	31.12.18	31.12.19	31.12.18
Non-current				
Related parties				
Non-current loans received (note 14.2)	146,501	165,267	-	-
Unrelated parties				
Loans received	1,222,480	1,282,050	-	-
Other financial liabilities	15,285	21,789	-	-
Lease liabilities (note 3.1)	57,371	-	-	-
Derivative financial instruments	-	-	804	1,330
	1,441,637	1,469,106	804	1,330
Current				
Related parties				
Current loans received (note 14.2)	6,750	11,250	-	-
Unrelated parties				
Bonds and other marketable securities	131,000	70,700	-	-
Loans received	46,516	72,163	-	-
Lease liabilities (note 3.1)	10,150	-	-	-
Dividend payable (note 9.5)	25,010	25,010	-	-
Suppliers and asset purchase payables	144,043	150,077	-	-
Salaries payable	11,638	8,244	-	-
Other liabilities	874	1,746	-	-
	369,231	327,940	-	-

As a result of the agreements reached during the stock flotation process, the 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 2019, Euros 150 million has been drawn down from the credit facility (Euros 220 million at 31 December 2018).

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. The coefficient at 31 December 2019 amounts to a net consolidated debt of 4.2 times consolidated EBITDA, which does not exceed the parameter established of net consolidated debt of 4.5 times consolidated EBITDA.

The following changes were made during 2019:

- Extension of A-2 tranche maturity date to 31 December 2023, amending the repayment schedule to extend future maturity dates and reducing the interest rate by 0.25%.
- Extension of the revolving facility maturity date to 31 December 2023.
- Extension of the B-1 tranche maturity to 27 November 2024.

These amendments have not led to a significant change in the debt in qualitative or quantitative terms, since the future cash flows of the debt based on the new conditions, updated to the effective interest rate of the previous debt, differ from the old debt by less than 10%. Based on IFRS 9, the difference between this new carrying value of the debt and the carrying value thereof should be recognised in the consolidated income statement, however, the impact on financial profit resulting therefrom has not been significant.

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

	Nominal amount outstanding				
Tranche	31.12.19	31.12.18	Initial nominal amount	Interest	Maturity
B-1	235,000	235,000	235,000	2.75%	27/11/2024
A-2	215,000	255,000	300,000	2.00%	31/12/2023
B-4	835,000	835,000	835,000	2.75%	27/11/2024
Credit facility	150,000	220,000	300,000	2.25%	31/12/2023
	1,435,000	1,545,000			
Current portion	45,000	75,000			
Non-current portion	1,390,000	1,470,000			

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		
30-06-20 to 30-12-20	2	15%
30-06-21 to 31-12-21	2	17%
30-06-22 to 31-12-22	2	18%
30-06-23 to 31-12-23	2	22%

(1) *Repayment percentage calculated based on the initial nominal amount 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	Total
81,462	94,143	114,447	272,165	1,114,751	1,676,968

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 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.

The consolidated Group has short-term credit facilities of Euros 49.25 million, in addition to the Euros 150 million of the aforementioned credit facility.

During 2017 the Parent Company obtained interest rate hedges to cover possible variations in the Euribor 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 2019, the Parent Company issued promissory notes for a nominal value of Euros 131,000 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 2020 and accrue interest at an average annual rate of 0.22%.

Additionally, the Group has recorded a repayment of Euros 70,000 thousand on the credit facility.

The Group has other non-current borrowings totalling Euros 1,369 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 2019 comes to Euros 17,157 thousand (Euros 23,667 thousand at 31 December 2018).

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.

Although Euskaltel's working capital, defined as the difference between current assets and current liabilities (maturing in less than 12 months in both cases), is negative, this is mainly because of the way the business operates, resulting in the average collection period being shorter than the average payment period, which is common practice in the sector in which the Group operates.

10.2. 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:

	2019	2018
Average supplier payment period (in days)	49.89	51.83
Transactions paid ratio	49.80	54.71
Transactions payable ratio	50.18	40.56
Total payments made (thousands of Euros)	500,498	383,346
Total payments payable (thousands of Euros)	162,309	97,959

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 11.- Taxes

11.1. Balances with public entities

At 31 December 2019 and 2018 balances with public entities are as follows:

	2019	2018
Assets		
Current tax assets	1,459	867
Liabilities		
Current tax liabilities	2,727	1,128
Value added tax	6,098	4,437
Social Security	739	791
Withholdings and payments on account	7,500	7,439
Other liabilities	6,700	5,865
	23,764	19,660

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

11.2. Income tax

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

	2019	2018
Current expense		
Present year	16,729	20,027
Adjustments	(35)	17
Deferred expense		
Source and reversal of temporary differences	(7,094)	(7,881)
Changes in taxable income and tax credits	3,120	6,903
Tax rate adjustments	-	98
Tax credits not recognised in prior years	(3,030)	-
Prior years' adjustments	(190)	(263)
	9,500	**18,901**

The relationship between the income tax expense and profit from continuing operations is as follows:

	2019	2018
Income and expenses for the year	**71,518**	**81,687**
Tax rate amounts (*)	17,201	21,507
Permanent differences	(302)	(674)
Effect of changes in the tax rate	-	98
Prior years' adjustments	(227)	(249)
Deductions for the current year	(4,142)	(1,781)
Prior years' capitalised deductions	(3,030)	-
	9,500	**18,901**

(*) In 2019, applicable rates are 24% for the Parent Company and 25% for the other Group companies (26% for the Parent Company and 25% for the other companies in 2018).

Prior years’ capitalised deductions mainly comprise deductions relating to investments in new fixed assets made in 2018.

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 2019 are as follows:

	31.12.18	Source	Reversal	Other	31.12.19
Deferred tax assets					
Financial liabilities	3,988	-	(2,866)	(381)	741
Property, plant and equipment	7,722	-	(1,318)	344	6,748
Intangible assets	576	-	(171)	(242)	163
Other	746	900	(963)	200	883
	13,032	900	(5,318)	(79)	8,535
Deductions on tax due	127,446	6,692	(6,782)	277	127,633
	140,478	**7,592**	**(12,100)**	**198**	**136,168**
Deferred tax liabilities					
Financial liabilities	(235)	-	48	-	(187)
Property, plant and equipment	(13,697)	-	3,692	-	(10,005)
Intangible assets	(63,440)	(542)	5,634	-	(58,348)
Grants	(9,132)	(691)	-	2,259	(7,564)
Free depreciation	(15,757)	(4)	2,606	-	(13,155)
Other	(194)	-	77		(117)
	(102,455)	**(1,237)**	**12,057**	**2,257**	**(89,376)**
	38,023	**6,355**	**(43)**	**2,455**	**46,792**
Offsetting of asset balances	**(15,393)**				**(9,116)**
Deferred assets	**125,085**				**127,052**
Deferred liabilities	**(87,062)**				**(80,260)**

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

	31.12.17	Effect of new IFRS	Source	Reversal	Other	31.12.18
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
	33,808	-	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)
	(131,993)	**(155)**	**(1,282)**	**15,054**	**15,921**	**(102,455)**
	36,186	**(155)**	**486**	**899**	**607**	**38,023**
Offsetting of asset balances	**(37,577)**					**(15,393)**
Deferred assets	**130,602**					**125,085**
Deferred liabilities	**(94,416)**					**(87,062)**

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

Except for an amount of Euros 3,348 thousand, the recovery period for unused deductions exceeds twelve months (Euros 4,817 thousand in 2018).

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 28-year prescription term.

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

- Future growth through national expansion
- Growth rates after the six-year period: 1.9%

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

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NOTE 12.- Income and expenses

12.1. 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:

- Mass market
- Business
- Wholesale market and others

Details of revenues by type of customer are as follows:

	2019	2018
Mass market customers	545,835	549,955
Business	110,040	109,040
Wholesale and other	29,595	32,640
Total	**685,470**	**691,635**
Work performed by the entity and capitalised	(16,763)	(16,377)
Other operating income	(404)	(616)
Revenues	**668,303**	**674,642**

Mass market

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. Similarly, for self-employed workers (Small Office / Home Office - SOHOs) we have a specific commercial package for this type of customer, which includes businesses with less than 10 employees. The services we sell include, inter alia, technical support, online support and electronic mail.

Business

Customers in this category - 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.

- 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 who 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 whom 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.

12.2.__Supplies

Details are as follows:

	2019	2018
Merchandise used		
Purchases	33,895	33,457
Changes in inventories	423	(1,835)
	34,318	31,622
Subcontracted work		
Interconnection expenses	93,221	92,773
Other supplies	35,718	35,207
	128,939	127,980
	163,257	159,602

Interconnection expenses includes discounts for certain services rendered by third parties, for an amount of Euros 48,891 thousand (Euros 41,310 thousand in the comparative period). These discounts rely on the fulfilment of a certain minimum cumulative consumption until 30 June 2024. The contractual changes negotiated during 2019, including the two-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 offset is Euros 51,744 thousand (Euros 48,059 thousand at 31 December 2018) and they are recorded under Trade and other payables in the consolidated balance sheet.

The future consumptions estimate is consistent with the estimate included in the Business Plan approved by the Euskaltel Group's Board of Directors. The main premise of the Group's Business Plan is future growth through nationwide expansion.

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 ± 5% of the expected consumption subject to discount, and this analysis has not yielded significant changes (impact of less than +/- Euros 200 thousand).

12.3. Personnel expenses

Details are as follows:

	2019	2018
Salaries and wages	33,945	36,265
Employee benefit expense (other employee benefit expense)	9,168	9,582
Compensation	12,934	3,478
Other remuneration	2,666	1,892
Total	58,713	51,217

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

	2019	2018
Executives	34	39
Management	41	47
Other professionals	569	613
	644	699

The distribution by gender of the Company's headcount at 31 December 2019 and 2018 is as follows:

	2019			2018		
	Male	Female	Total	Male	Female	Total
Executives	24	4	28	33	7	40
Management	33	17	50	31	15	46
Other professionals	266	244	510	345	266	611
	323	**265**	**588**	**409**	**288**	**697**

The deviation between the average headcount and the headcount at year end is mainly due to terminations carried out in July 2019 in order to streamline the Group's structure and the outsourcing of the network maintenance service to the group company R.

The average number of Group employees with a disability of 33% or greater during 2019 and 2018 was one person.

At the date these annual accounts were authorised for issue, the Board of Directors of the Company was comprised of 10 men and 3 women (9 men and 3 women at the end of the prior year).

12.4. Other operating expenses

Details are as follows:

	2019	2018
Advertising	11,880	12,651
Repairs and maintenance	54,921	59,209
Services provided by third parties	33,894	37,108
Other external services and utilities	14,636	22,608
Tax	13,952	13,796
Losses, impairment and changes in trade provisions (note 8.2)	5,282	4,373
Losses on disposals of assets (notes 5 and 6)	9,650	8,919
Other results	5,393	6,417
	149,608	165,081

The decrease in external services, which include operating lease expenses, is mainly due to application of the new IFRS 16.

Losses on disposals of assets basically relate to the intangible asset balances linked to interruptions in commercial relationships with customers before the initially expected amortization period has elapsed.

Details of other results are as follows:

	2019	2018
Contribution to the Euskaltel Foundation	2,016	1,631
Integration costs	347	1,582
Other	3,030	3,204
	5,393	6,417

12.5. Net finance income/(cost)

Details are as follows:

	2019	2018
Finance income		
Third parties	76	231
Finance cost		
Debt at amortised cost	(49,513)	(48,758)
	(49,437)	(48,527)
Exchange gains/(losses)	(376)	316
Change in fair value of financial instruments	526	(354)
Impairment and gains/(losses) on disposal of financial instruments	9	371
	(49,278)	**(48,194)**

Note 13.- Commitments

13.1.__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:

	2019	2018
Intangible assets	2,338	1,275
Property, plant and equipment	16,004	17,064
Inventories	378	3,337
	18,720	**21,676**

NOTE 14.- Related party transactions

14.1.__Transactions and balances with key personnel

Details of transactions with key Company personnel are as follows:

	2019		2018	
	Board members	Executives	Board members	Executives
Salaries and wages	991	2,128	1,061	2,606
Other remuneration				
Compensation	1,708	4,413	-	1,158
Other remuneration	810	1,853	743	1,237
Other	990	96	979	110
	4,499	**8,490**	**2,783**	**5,111**

Compensation to directors includes the amounts relating to the dismissals of the former chairman and the former CEO.

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 44 thousand.

14.2.__Transactions and balances with other related parties

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

	2019	2018
Sales	13,379	11,981
Services rendered	(237)	(230)
Finance cost	(5,190)	(5,390)
	7,952	**6,361**

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

	31.12.19		31.12.18	
	Current	Non-current	Current	Non-current
Receivables	14	-	664	-
Cash and cash equivalents	59,558	-	68,234	-
Loans received (note 10)	(6,750)	(146,501)	(11,250)	(165,267)
Payables	(227)		(763)	-
	52,595	**(146,501)**	**56,885**	**(165,267)**

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.

14.3.__Conflicts of interest

At the 2019 reporting date no member of the Company's Board of Directors or their related parties, as defined in the Spanish Companies Act, has communicated any direct or indirect conflict of interest with the Company.

NOTE 15.- 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 2019 and 2018:

	2019	2018
Audit services	249	229
Other assurance services	45	45
Other services	10	15
	304	**289**

Other assurance services include those relating to limited reviews.

NOTE 16.- Environmental information

To develop its commitment to environmental issues, an environmental strategy is prepared and set out in the 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 aligned with the Basque Sustainable Development Environmental Strategy (2002-2020), Euskaltel voluntarily decided to join the EMAS III Regulations in 2004. The EMAS III Environmental Statement, which is verified by AENOR and includes our Company's carbon footprint, is evidence of our commitment to transparency with our stakeholders.

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

- Renewal of the Euskaltel Group's Environmental Management System certification in accordance with ISO 14001:2015, by a certified third party (AENOR) as renewed annually since 1999.
- Renewal of Telecable's Energy Management System in accordance with standard ISO 50001: 2011 by a certified third party (AENOR).
- Verification of the EMAS Environmental Statements by a recognised third party (AENOR) for Euskaltel, R and Telecable, having updated the corresponding registrations in the Environmental Management Audit System (EMAS).
- Registration on the Carbon Footprint Registry of the Ministry for Ecological Transition of Euskaltel, R and Telecable's footprints.
- Life Cycle Analysis of the Euskaltel Virtual Data Centre, in order to measure the environmental impact of the Virtual Data Centre throughout its life cycle, from procurement of raw materials to their end of life. This project has been developed within the framework of our membership of the Basque Ecodesign Center and in collaboration with Ihobe.
- Also within the framework of the Basque Ecodesign Center, an analysis of the positioning of Euskaltel with respect to the most recent green procurement criteria proposed by the European Commission for services rendered through Data Processing Centres applied to the Euskaltel Virtual Data Centre, in order to analyse, by means of an environmental surveillance exercise, the current status of Euskaltel and identify opportunities for improvement in its positioning.
- During the first half of 2019, in collaboration with the Basque Ecodesign Center, an analysis has been carried out on the actions necessary to improve the report made for the Carbon Disclosure Project on Climate Change.
- The General Shareholders' Meeting and the Euskal Encounter event have been certified as sustainable events under the Erronka Garbia certification by IHOBE.

Reporting actions carried out by the 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.

NOTE 17.- 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 public administrations, 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 9).

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

NOTE 18.- Subsequent events

On 29 October 2019, the Company's Board of Directors agreed to pay an interim dividend against 2019 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 2020.

On 12 January 2020, a contract was signed with Virgin to transfer the use of its brand to the Euskaltel Group. The signing of this agreement represents a major milestone for Euskaltel. Thanks to improved wholesale access agreements signed in December 2019, Euskaltel now has all the assets needed for its nationwide expansion (see note 2.4). This plan will bring Euskaltel to 85% of the Spanish market where it does not currently have a presence, enabling the customers in these regions to benefit from high-quality, high-value quadruple play services, taking advantage of the advanced capacities of Euskaltel. The Virgin brand will coexist with the Group's three established brands (Euskaltel, Telecable and R), which will continue to render leading services in each of their respective regions. Euskaltel considers that the combination of their established regional brands with the Virgin brand, which it will use at national level, will provide excellent growth opportunities.

On 27 January 2020, the Board of Directors approved a new long-term Incentive Plan for the 2020-2022 period, geared towards a group of executives and employees of the Company, as well as the Chairman of the Board of Directors, the CEO and Secretary. The Plan entails delivering the beneficiaries a variable incentive linked to the achievement of a specific share price and the accomplishment of targets linked to operating cash flow. At least 75% of the plan will be paid out in Euskaltel shares and the rest in cash.

Directors' Report
for 2019
Euskaltel, S.A. and consolidated companies

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

CONTENTS

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.

In 2019 the boards of directors of R Cable y Telecomunicaciones Galicia, S.A. and Telecable de Asturias, S.A. approved the merger of these companies with the first being the absorbing company. On 17 June 2019, R Cable y Telecomunicaciones Galicia, S.A. changed its name to R Cable y Telecable Telecomunicaciones, S.A.

The Euskaltel Group is the leading optic fibre telecommunications group (broadband, phones, Pay TV and convergent telecommunications services) in the north of Spain, characterised by its strong roots and commitment to the regions of the Basque Country, Galicia and Asturias, where it has traditionally developed its activities through its operators Euskaltel, R Cable and Telecable, and more recently in Navarre, La Rioja, León, Cantabria and Catalonia after its strategic expansion into other neighbouring territories, always keeping a clear focus on value building and the development of the territories in which it operates. The Euskaltel Group currently caters to over 786,000 mass market and business customers.

At the end of the second quarter, a new roadmap was designed to create value using the following stages:

- New management team and an integrated, simpler and more efficient organisation.
- Strengthening the current business in current markets.
- National expansion.

2.- Business overview

Mass market

The Euskaltel Group offers its mass market 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 mass market 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.

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

- Broadband: The new generation fibre optic network, fully invested, enables the company to offer stand-out products at ultra-high speeds. At 31 December 2019, the Euskaltel Group renders 594,393 broadband services to mass market customers.

- Pay TV: 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 2019, the company offers Pay TV services to 468,333 mass market customers.

- Mobile phones: At 31 December 2019, the Euskaltel Group has 1,166,764 postpaid lines.

- Fixed-line phones: The Group 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 market:

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

- SMEs: The Euskaltel Group offers a range of solutions for medium-sized businesses 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.

- Large Businesses: the Euskaltel Group's large account customer base includes both public entities and large corporations. 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, MLPS networks, cloud firewalls and virtual data centres.

At 31 December 2019, Euskaltel provides services to 15,263 customers in this market.

Wholesale and Other revenue

- The Euskaltel Group renders communications services to wholesale customers (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.

- 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 of ownership of the Parent in each (direct and/or indirect) at 31 December 2019 are as follows: R Cable y Telecable Telecomunicaciones, S.A.U. (100%) and EKT Cable y Telecomunicaciones, S.L.U. (100%).

Within the process of consolidation as a telecommunications group, the Euskaltel Group has defined a single, simple and efficient organisational strategy for the regions in which it operates with an experienced team pursuing excellence and competitiveness, adapting the structures of Euskaltel, R and Telecable to continue its growth, reinforce customer focus, develop communication solutions for businesses and private customers, maximise synergies and, thereby, boost the Group’s results and profitability, while maintaining its deep roots in Galicia, Asturias and the Basque Country.

The key lines of the Group's organisational structure are based on the following:

- A new organisation that seeks to achieve best practice in the sector.
- A simpler structure: two business units (mass market and business) targeting the whole customer footprint as a single unit.
- Unique technology “factory” that fully integrates the network, the systems and the customer care platforms: opportunities to generate additional synergies, operating leverage and excellent customer care service.

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.

Euskaltel's Board of Directors is made up of 13 board members (1 executive member, 5 proprietary, 6 independent and 1 external member).

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 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 Remunerations 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 has been 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 2019 are as follows:

Shareholder	% of capital
Zegona Group	21.00%
Kutxabank Group	19.88%
Corporación Financiera Alba, S.A.	11.00%

6.- Macroeconomic and industrial climate

<u>Macroeconomic environment</u>

Based on the forecasts of FUNCAS, in 2019 the Spanish economy will grow by 1.9%, which is half a point less than in the prior year, although higher than the European Union and Euro zone average. The growth moderation trend is expected to continue in 2020, reaching 1.5% growth. Growth will continue to be based on the improvements recorded over recent years in the wealth of homes and businesses, which constitutes a key mainstay for invigorating domestic demand, and in the ECB's monetary accommodation policy.

In 2019, inflation came to 0.8%, which represented a drop of 90 base points with respect to the prior year, due to the drop in the price of gas and fuels. Furthermore, the average annual variation rate of the HICP presents an upward trend over the coming years: gradually increasing from 0.8% in 2019 to 1.6% in 2022, while underlying inflation will rise from 1.1% to 1.7% in the same period, as a result of the progressive widening of the positive production gap and the expansive trend in monetary policy.

As a result of ongoing economic growth, unemployment is forecast to drop by 15% in 2018, 14.2% in 2019 and 13.5% the following year. Although these forecasts were made prior to the increase in the MIS in January 2020, its medium-term effect is not expected to be relevant.

The positive evolution forecast depends to a large extent on trade negotiations, the possibility of agreements being reached between the USA and China and improvements in the investing climate. In Europe, the forecasts are based on the United Kingdom's orderly exit from the EU. Lastly, the price of petrol is forecast to remain stable at approximately $65 per barrel. Furthermore, the new minority coalition government’s capacity to fulfil the budgets and create a climate of political stability will be key.

The Basque Country: The Economy and Finance Department forecasts growth of 2.2% for 2019, reducing it to 1.9% for 2020, one decimal point lower than the rate forecast in September, due to the international context and the evolution of industry. Employment is forecast to go up by 1.6% in 2019 and by 1.2% in 2020, which is equivalent to creating almost 15,500 jobs in 2019 and approximately 11,500 jobs in 2020. In terms of the unemployment rate, the outlook has improved with the rate estimated to level off at 9.7% for 2019 and drop to 9.6% in 2020.

Galicia: The BBVA Studies Service forecasts growth in GDP of 2.2% in 2019 due to the positive performance of domestic demand and the expansion trend in tax policy, decelerating to 2.0% in 2020. Between the end of 2018 and 2020, 30,300 new jobs could be created in Galicia, which would bring the unemployment rate down to 10.5% at the end of the period.

Asturias: BBVA Research forecasts a moderation in growth from 1.7% in 2019 (compared to 1.9% in 2018) to 1.2% in 2020, to then accelerate slightly to 1.4% in 2021 between the end of 2019 and 2021. The BBVA Studies Service forecasts the creation of 3,000 new jobs in Asturias. This improvement would average out the employment rate at 13.2% by the end of 2021.

Industrial Environment

The main trends that impacted the market are the following:

- Increased revenue: industry revenue in Spain increased by 0.4% (1.5% retail revenue) during the first half of 2019 compared with the same period last year (source: CNMC), which means a significant decrease in growth compared to the prior year, due to revenue consolidation per user of customers with contracts for convergent offerings, as a result of:

  - Gradual rise in tariffs of the main operators (data).
  - Increase in input speed of convergent fibre optic offers (from 50Mbps to 100Mbps).
  - Increase in mobile data use (expected to multiply by 6 between 2007 and 2021).
  - Increased penetration of broadband.
  - Increase in number of customers with convergent product bundles combining pay TV with four telecommunications services (fixed and mobile telephony, fixed and mobile broadband) (+2.1% increase in TV market).

- Increase in new competitors: Influx of new players in the sector, generally in a value-for-money price range, as well growth of MasMóvil and the launch of Euskaltel nationwide. Unprecedented portability, especially in mobile lines.

- Significant investing efforts made by operators: the fibre optic network deployed in Spain is the largest in Europe with over 33.3 million access points, covering 75% of the population. The figure for broadband lines catered for with fibre technology to the home (FFTH) has now exceeded the number of lines serviced using other technologies (9.77M vs 5.36M at September 2019). Furthermore, this infrastructure is becoming increasingly more accessible to operators due to the numerous strategic joint investment and shared infrastructure agreements between operators in recent years.

7.-Commercial activity and customer relations

Mass market

During the year ended 31 December 2019 we continued our strategy of directing our new and existing customer bases towards convergent bundles with the highest added value. In 2019, we have continued to renew the convergent product offering, resulting in improvements, especially in mobile phone and Internet access. Flexibility is what distinguishes our convergent product, allowing customers to configure their services according to their needs. At 2019 year end, there are 771,074 mass market customers.

Postpaid lines increase from 1,119,858 at the end of 2018 to 1,116,764 at December 2019, an increase of 4.2%.

Broadband products reach 594,393, representing 3.1% growth.

Pay TV products are up 4.9% from 446,664 at the end of 2018 to 468,333.

As a result, the Product/Customer ratio at 31 December 2019 stood at 3.7 products per customer, up 2.8% compared to December 2018.

At the same time, the ARPU of our fixed-line customers has slightly decreased by Euros 0.56 (down 0.9%) to Euros 60.42 in 2019.

Business Market

The business market presents income growth for three years running, reaching growth of 0.9% in 2019 and customer growth of 2.9%.

Without a doubt, 2019 has been a very relevant year in the Company's present and immediate future as a result, among other aspects, of the changes in Group management that took place half-way through the year and which entail relevant changes in the overall organisational model thereof.

In the Business market, this new organisational model is seen in the formation of a Business department under single management with autonomy to define its strategy and organisation. The model's advantages allow for synergies and alignment in the shared objectives which translate into improvements in each of the areas comprised therein, and which have been put into operation in the second half of 2019 and will be consolidated in the first few months of 2020.

The main advantages in the Business area are:

- Unification of the sales model and offering: Reorganisation of the sales teams, which allows businesses to be catered for by the whole group on a standardised basis, under a unified offering and a shared portfolio. The creation of aligned objectives enables us to establish single strategies and agreed targets to ensure they are met, which facilitates the paths and means of attaining them both in the sales strategy and in the selection of key products, solutions and offerings.

- Unified operating model: Operating the business customer area requires specialisation in the customer care, pre-sales and after-sales models, catering for all business customers on a unified basis. The new model allows us to focus on developing the specific skills and services required for a quality operating model that is 100% independent in responding to the needs of our customers.

In terms of large accounts, in 2019 we have pursued our strategy to extend the scope of our solutions which we commenced in 2018 and which has led to interesting new features for this business market, largely in terms of services, cloud solutions and digital transformation.

In the field of Cloud services, we have incorporated a new datacentre infrastructure in Asturias which enables us to offer services in close proximity to our customers in that region and become the sole national operator with a datacentre in each of our three reference markets (the Basque Country, Asturias and Galicia).

This strategic difference has enabled us to standardise Business Continuity services (DRaaS) in the cloud2cloud and site2cloud options, thereby creating an outstanding solution at national level that significantly reinforces our innovative position on the market.

In the area of digital transformation, 2019 has seen strong drive in the implementation of a new monitoring solution (SMC2) which allows our large accounts to access information and independently control the communications services we render them and that our competitors are not currently offering.

Moreover, we have continued to extend and develop the communications services we offer as a Group to all our customers and brands, following a coordinated strategy to unify our offering and converge our sales proposal. In 2019 from a Group perspective, we have for instance developed a new specific business tariff, extended the mobile VPN functionality and increased our speed capacities for the Internet/data solutions we offer.

2019 has once again been an intense year of communication in the business segment, with the creation and launch of a new communications line and business brand in September. The initiative has bolstered the company's approach and focus on business customers under the slogan "Be close, go far", as well as our positioning as benchmark partner for bringing any market solution to our customers.

The initiative has been used with the different methods of contacting customers that we have continued to develop:

- Technology events with customers: as well as the traditional Technology Seminars with customers in the Basque Country and Galicia, we have included Asturias in 2019 with its own event.
- Workshops and breakfast events with customers on topics such as security, Wi-Fi and digital transformation.
- Relaunch of Business Blogs and Social Media (LinkedIn) accompanied by an increase in communications activity and content generation (success stories, signing of agreements with associations, agreements with new partners such as WMware).
- Launch of a corporate newsletter.
- Taking part in congresses such as Basque Industry 4.0 or BeDigital in collaboration with our main partners (DataRobot and Ecomt) in areas like AI, Big Data and Energy Efficiency.

In 2019 we have also begun restructuring the large business account website for our 3 brands, beginning with Euskaltel, which is now complete, and this will extend to the R and Telecable brands in early 2020.

Similarly, we continue to promote sponsorship as a sign of our bond and commitment to the region.

In terms of the SME segment, 2019 has confirmed the income growth trend already evident at the end of 2018.

The product work developed in 2018 has been marketed in 2019 with bundled Telco solutions for the Group's own DOCSIS and FTTH networks and on the FTTH NEBA Movistar and FTTH Orange networks. This drive will be bolstered once again with the launch of new functionalities in the convergent Telco solution (Business Solution) at the beginning of 2020.

In 2019 the Group has given a push to the marketing of managed Wi-Fi services –Wi-Fi Business–, both for private companies and in its public administrations format (Wi-Fi AAPP), a model which has enabled the solution to be rolled out to a significant number of customers. These customers include the city councils availing of the Wifi4EU European grant-aid scheme.

As part of the joint loyalty and revenue boosting initiatives for our SME customers, in September 2019 the Group undertook an initiative to improve broadband service features for our customers by doubling Internet access speeds, direct voice access services, and offering convergent bundles including more minutes and an enhanced maintenance service, both for voice services and Internet and mobile access services. In terms of mobile services, since the end of 2019 we have improved our customers' tariff conditions by including more data in their business mobile tariffs.

These initiatives reflect our commitment to SME customer service and satisfaction, with an active policy to improve the services and features offered by our products, in comparison to the market and other available offerings.

8.- Marketing activity

New 2019 offer: More for more

In 2019 the Euskaltel Group focused on continuing to give our customers customised offerings that meet their demands, with greater features and more products, enabling us to continue building a solid long-term relationship with our customer base.

As a result of this work, the main indicators are presented below:

- The percentage of homes with speeds of over 200 Megabytes is now 75%.
- Mobile penetration in the customer base is now over 83%.
- The penetration rate in 2019 of 4P-convergent bundles (with TV) exceeds 53% and the number of mobile lines per customer increased to 1.8 lines.

Based on high-quality services and without losing sight of customer proximity, the products and services designed and developed by the Group have enabled us to bring new customers and our existing customer base a much more competitive offering.

In 2019 the Euskaltel Group began the year by launching a new sales offering in Galicia and the Basque Country enhancing Internet access with greater speeds, and offering much more competitive mobile tariffs than the previous rates both in terms of price and volume of gigabytes, reaching an offering of up to 100 gigabytes.

With regard to the convergent offering, the most notable aspect is flexibility, allowing clients to adapt the offering to their needs at all times with price, minute and gigabyte offers for additional lines, which allows customers to avail of these benefits on multiple lines.

In September 2019 Telecable joined Euskaltel and R in launching a new commercial offering with greater flexibility, customisation and features, both for new and existing customers. The aim of this new offering is twofold: to boost competitiveness over the Group's competitors and to create a sales proposal with shared goals across the three brands, both in convergent bundles and in mobile tariffs.

This new offering also applies to existing customers, who can access all of these benefits.

In September a new simple and modular convergent offer was launched for RACCTel+ at a much more competitive price than the current offer, with 500-mega symmetrical internet and mobile tariffs from 20GB.

Based on this offer, a play was also made for the senior customer segment of RACCTel+ with a very attractive offering. The *Mi fijo Conmigo* service is a solution that gives customers a no-strings land line wherever they are and a mobile with unlimited calls.

<u>New sales tools</u>

- Try them: To make the sales offering more appealing to new customers, towards the end of the year a "Try & Buy" product model was rolled out, both for Internet and mobile, allowing customers to try out the product at a promotional rate for several months with free upgrades on their current contracts. In this way, we allow our customers to enjoy higher-performance services than those already under contract to show them everything we can offer with our higher-value services.

- Member Get Member: During the last quarter, we launched *Plan Amigo* to encourage our customers to promote our brand and sign up their families and friends.

<u>Campaigns:</u>

- Unlimited gigabytes: As a means of building loyalty and attracting new high-value customers, we launched the Weekend Free Unlimited Gigabytes campaign. Thanks to this innovative campaign, Euskaltel and R's Family customers have enjoyed free unlimited gigabytes at weekends throughout the year.

- Kin Kon: We also launched the *Kin Kon* campaign which included a free smart phone for customers when signing up to 24 months of additional gigabyte credits.

<u>Services</u>

- Better service, more megabytes: Thanks to this service, Euskaltel Group customers can enjoy more data when their tariff runs out.

9.- Operations Activity (Network and Technology)

During 2019, network integration has continued to be 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.

Furthermore, 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, 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, includes the following notable items:

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.

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've continued to integrate mobile platforms (HLRs, EPG, SMSC/MMSC, OTA) in the platform's unification roadmap.

Fixed-line voice network

- Recording service progress.
- Consolidation of the IMS platform as fixed voice service provider for both the mass and business segments (SMEs and large accounts).

Docsis network

- Downstream and upstream development of Docsis 3.1 in all regions enabling capacity to be expanded so as to deal with the increased speed of cable products, the growing customer base and our customers' increased traffic.

IP/MPLS core network

- Expansion of cores to absorb increased traffic and the unification of interconnections.

WI-FI network

- Wi-Fi services for companies have been further developed.

Radio network

- Our own network has been developed by taking part in 5G pilot initiatives.

FTTH GPON network

- FTTH products have been developed on our own network and on third-party networks. Design and implementation of network scalability.
- Development of services (Internet, data, voice and TV) over company FTTH for residential and business customers.
- Improved service quality based on the analysis and improvement of solutions and processes.

Datacentre

- Development of convergent solutions (computing, storage, backup, SDN).
- SDWAN solutions have been implemented.
- Datacentre connectivity and security has progressed.

Customer terminal standardisation

- Standardisation of integrated and ordinary ONTs, advanced and neutral routers.
- Standardisation of customer bus extension solutions. PLCs, mesh Wi-Fi.
- Standardisation for the group of mobile devices.

Fixed network deployment

- 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 2017-2019.
- Minetad FTTH 2018 project: Start of project to deploy FTTH-GPON with grants from the Ministry for NGA networks. This involves rolling out the project to around 32,000 properties in towns in Galicia.

Security

- Obtaining the national security layout certification (Esquema Nacional de Securidad, ENS) for Euskaltel Group datacentre, back-up and cybersecurity services, which is added to ISO certification 17.001 already available.
- Performing security audits in accordance with the annual plan.
- Implementing new security measures in corporate systems.

10.- R&D&i activity

The Group’s innovation activity in 2019 has been unified, based on the following mainstays:

- Innovation in user interfaces.
- Innovation in TV services.
- New range of products designed for Industry 4.0.
- 5G pilots

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.

A voice-activated TV decoder remote control device has been launched onto the market in 2019, which can change channels and volume and can search content universally across all apps installed by the customer on their decoder, prioritising Euskaltel service results.

TV innovation

2019 has seen the incorporation of a second vendor to the platform, as well as the integration of backend platforms.

The most relevant innovation project carried out in 2019 has been the incorporation of voice-controlled services, introducing this service to customers' homes through a new Bluetooth device that the customer can speak commands to for content searches or recommendations, or to interact with the service by changing channel, volume or other similar commands, bringing additional accessibility to the service itself.

Furthermore, in 2019 Euskaltel launched its first unified app for all Group services, Edonon, which gives access to TV Everywhere.

Major R&D efforts continue to be invested in the ongoing improvement of TV interfaces and services rendered to the user.

Business services: Industry 4.0

During 2019 studies have been carried out on state-of-the-art LPWAN technologies and their application in various Industry 4.0 uses, to analyse different existing technologies, the viability of doing rollouts using 2.6 Ghz band frequencies, and lastly establishing a final architecture using LTE-M.

Furthermore, a viability study has been carried out during the year on the rolling out of private LTE installations for businesses using our licensed FDD and TDD bandwidths.

Lastly, the Group has a network of certified partners who complement the value offering that can be made in the Industry 4.0 field in technologies such as IoT platforms, Big data and Machine learning.

5G pilots

During 2019, work has been carried out on 5G pilots for the Basque Country in partnership with several operators, vendors and technological centres.

11.- Human Resources Activity

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

Drive the development of our professionals, foster their commitment and help them to grow professionally

During 2019 a total of 18,857 hours of training were given through 194 training initiatives.

Within the skills block, in 2019 we have focused on bolstering the sales skills of the sales teams in order to build aligned and efficient teams that accomplish their sales targets. 920 working hours have been dedicated to this training.

Special attention has also been paid this year to the TalenTU group. In order to accelerate their integration into the company and support their professional development, training sessions have been held to develop negotiation and communication skills.

In a technology-based group such as ours, technology training is key; therefore upskilling in technological know-how has been provided on networks defined by software, cloud services and virtualisation; and activities based on partner services, such as Microsoft or VMWARE, enable us to bring our corporate and institutional customers quality, value-added services. 1,832 training hours has been invested in all of the above.

We are also working with large volumes of data and the processing of this data is fundamental to business decision-making. 2,532 training hours have been given in concepts such as big data, end-to-end tools such as BB.OO and Power BI, programming languages, such as Python and R, and platforms like SPARK.

Training in regulatory and systems management issues has also been provided, with a total of 672 hours on topics such as quality and environment, compliance, criminal management systems and anti-bribery and the prevention of occupational risks.

Promoting the recruitment of new talent

The TalenTU scheme has been promoted to this end, encouraging the recruitment of young employee profiles. Profiles that reinforce new areas of knowledge needed in our organisation.

To attract these profiles, we work with different institutions, universities and schools, taking part in job forums through our recruitment brand.

To help these employees adapt and integrate more successfully into the company, the TalenTU scheme provides a specific training plan for them.

Promoting equal opportunities and encouraging female talent

During the year we have concluded the Women and Leadership Programme launched in 2018, in which 14 women have taken part and two business projects have been presented.

Promoting leadership

During 2018 a leadership training project was undertaken geared towards the organisation's entire leadership team. Through this project, the Group provided training and visibility to its leaders.

In 2019 and within the new organisational structure, several of these leaders have been promoted to positions of greater responsibility.

Promoting educational cooperation

We work with different universities, professional training centres, foundations and other entities, taking interns on practical work experience schemes to promote their educational development. During 2019, we accepted 21 students on work experience.

Promoting a digital culture in the Group

Throughout 2019, we have continued to promote a digital culture in the Group, integrating new digital tools for professionals such as the following:

- We have continued to roll out portable equipment and smart phones.
- We have continued to promote the use of Office 365, which allows and encourages teamwork online.
- New digital tools and new functionalities have been incorporated to promote the implementation of digital processes in the people management area.
- We have worked to digitalise the travel and expenses request process and the process for time control and registration to facilitate management in both areas of activity, with both digital processes set to be rolled out to all staff in 2020.

All of these tools enable us to operate more efficiently, access information from anywhere and at any time, maximising self-management in terms of HR issues and promoting mobility and teamwork.

Integrating people 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 2019 we have contracted out reception, mail room and telephone-answering services to Special Work Centres, representing over Euros 366 thousand a 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. During 2019 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, internal mobility and job rotation, as well as informing employees about internal vacancies.

12.- Organisation and quality activity

Organisation

Throughout 2019 there were relevant changes to the Group's organisational structure.

The changes seek to simplify the operational structure, making it more efficient, and to meet short-time priorities and long-term goals, improving Group competitiveness by focusing on strengthening the regional brands, launching a new brand with which to grow the national market and designing a standardised value offering to customers, with a focused sales strategy based on best practice.

With this aim in mind, the Group's organisational structure has been remodelled to reinforce proximity to the customer, maintain the brands' strong regional roots in their local markets and take on the challenge of expanding the Group to the rest of the national market.

During 2019 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 Job Manual: the Group has an Organisational Job Manual that is updated as changes arise. The manual includes the main roles and responsibilities associated with the key positions in the Group.

Quality, Environment, Health and Well-being

During 2019, the Euskaltel Group has committed to continuing on the path to excellence and, taking as reference the Advanced Management Model, it has continued to develop the Group's management system through the management systems, processes and organisation function.

For the purposes of better integrating the different management systems certified by ISO standards, the decision has been made to move to an Integrated Global Management System, which involves outsourcing these systems at a specific time in the year.

2019 policy deployment has been as follows:

Quality

During 2019 the Quality policy has been rolled out and the certification of the quality management system under the standard ISO9001:2015 has been deployed in all Euskaltel Group companies.

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.

The following regulatory audits were carried out in 2019, renewing the Service Quality and Invoicing Quality certificates for the 3 operators, as well as the audit for renewing standard ISO 20000-1 Service Management Systems for Telecommunications operators.

Environmental issues

To develop its commitment to environmental issues, an environmental strategy has been prepared and set out in the 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 aligned with the Basque Sustainable Development Environmental Strategy (2002-2020), Euskaltel voluntarily decided to join the EMAS III Regulations in 2004. The EMAS III Environmental Statement, which is verified by AENOR and includes our Company's carbon footprint, is evidence of our commitment to transparency with our stakeholders.

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

- Renewal of the Euskaltel Group's Environmental Management System certification in accordance with ISO 14001:2015, by a certified third party (AENOR) as renewed annually since 1999.
- Renewal of Telecable's Energy Management System in accordance with standard ISO 50001: 2011 by a certified third party (AENOR).
- Verification of the EMAS Environmental Statements by a recognised third party (AENOR) for Euskaltel, R and Telecable, having updated the corresponding registrations in the Environmental Management Audit System (EMAS).
- Registration on the Carbon Footprint Registry of the Ministry for Ecological Transition of Euskaltel, R and Telecable's footprints.
- Performance of the Life Cycle Analysis of the Euskaltel Virtual Data Centre, in order to measure the environmental impact of the Virtual Data Centre throughout its life cycle, from procurement of raw materials to their end of life. This project has been developed within the framework of our membership of the Basque Ecodesign Center and in collaboration with Ihobe.
- Also within the framework of the Basque Ecodesign Center, an analysis of the positioning of Euskaltel with respect to the most recent green procurement criteria proposed by the European Commission for services rendered through Data Processing Centres applied to the Euskaltel Virtual Data Centre, in order to analyse, by means of an environmental surveillance exercise, the current status of Euskaltel and identify opportunities for improvement in its positioning.
- During the first half of 2019, in collaboration with the Basque Ecodesign Center, an analysis has been carried out on the actions necessary to improve the report made for the Carbon Disclosure Project on Climate Change.
- The General Shareholders' Meeting and the Euskal Encounter event have been certified as sustainable events under the Erronka Garbia certification by IHOBE.
- Reporting actions carried out by the 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

Advancements have been made in 2019 with Euskaltel's Healthy Company programme for Group companies, as a result of which management has been presented with the KRT Saludable 4.0 project, within the framework of Corporate Social Responsibility; establishing a management model that includes health and safety prevention and promotion activities, encouraging healthy living habits for both professionals and stakeholders.

During 2019, work has been done in the area of preventive management in order to promote the occupational health and safety management system, currently certified under standard OHSAS 18001, which is expected to be certified under ISO 45001 in the coming year.

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 2019 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 Group companies.

2019 highlights:

- Expanding the scope of the risk management system for Information Security to new services and locations, enabling risks to be ascertained and analysed, identifying threats, vulnerabilities and impacts on activity and 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.
- Compliance certification with the National Security Framework, in the intermediate category for the Euskaltel Group, by a recognised and accredited third party, having moved from the basic level to the intermediate level this year.
- Integration of information security management into the rest of the management systems implemented at the Euskaltel Group.

Other management systems

In January 2019 external follow-up audits of the following ISO standards were carried out:

- ISO 18295 Management Systems for Customer Contact Centres: Requirements for customer care services rendered by the Customised Support Centre, and
- ISO 22301 Business Continuity Systems for Telecable's Cloud Storage Services.

During 2019 work has been ongoing in the area of Regulatory Compliance in the implementation of an anti-bribery management system based on standard ISO 37001.

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.

Mass market	Annual	
KPIs	**2018**	**2019**
Homes passed_owned (HFC & FTTH)	2,317,785	2,468,822
Accessible homes_wholesale	39,938	3,310,812
Mass market subs	770,143	771,074
Total RGUs	2,764,099	2,845,271
Fixed Voice	620,857	615,781
BB	576,720	594,393
TV	446,664	468,333
Post-paid mobile	1,119,858	1,166,764
RGUs per subscriber	3.6	3.7

SMEs and Large Accounts	Annual	
KPIs	**2018**	**2019**
Customers	14,827	15,263

Deployment continues, both in terms of in-house deployment and also access to new households, via agreements to share networks with other operators.

In mobile communications, growth is underpinned by the strong performance and improvements in mobile telephony and the possibility of financing purchases of mobile devices, which have all contributed to the strong performance in this area. This has also been seen in mass market postpaid mobile contract customers, with an increase in products from 1,119,858 lines in 2018 to 1,166,794 at 31 December 2019.

Broadband has also grown from 576,720 products in 2018 to 594,393 at 31 December 2019.

The Business segment has performed positively in 2019, increasing to 15,263 customers, up 2.9% with regards the number of customers at 31 December 2019.

Financial Information	Year	
	2018	2019
Total revenue	**691,635**	**685,470**
Y-o-y change		-0.9%
o/w Mass market revenue	549,955	545,835
Y-o-y change		-0.7%
o/w B2B revenue	109,040	110,040
Y-o-y change		0.9%
o/w Wholesale and Other revenue	32,640	29,595
Y-o-y change		-9.3%
EBITDA	**336,441**	**344,535**
% of total revenue	48.6%	50.3%
Y-o-y change		2.4%
Net profit	**62,821**	**62,018**
Capex	**(153,510)**	**(154,259)**
Y-o-y change		0.5%
Operating Cash Flow	**182,931**	**190,276**
Y-o-y change		4.0%

Mass market revenues reflect a drop in performance for the period, decreasing by 0.9% compared to the prior year. This is the result of fierce sales pressure, particularly with regards prices, seen in 2019, although a pattern of growth has once again been seen in Q4 2019.

Revenue from the business market amounted to Euros 110,040 thousand, up 0.9% on the prior year with growth in both the Large Accounts and the SME market.

Wholesale and other revenue decreased by 9.3% to Euros 29,595 thousand, essentially as a result of Cinfo leaving the consolidation scope in July 2018.

EBITDA stands at Euros 344,535 thousand at 31 December 2019, reflecting an increase in absolute terms compared to the same period last year, with an increase in the sales margin from 48.6% to 50.3%. This increase is as a result of several factors. Despite the reduction in income, the impact of IFRS 16, the renegotiation of wholesale agreements and the positive effect of the expense control measures put in place in the second and, above all, the third quarter, reflect efficiencies and improved EBITDA.

At 31 December 2019 investments stood at Euros 154,259 thousand, in line with the same period in the prior year.

Operating cash flow, defined as the difference between EBITDA and investments, resulted in a revenue ratio of around 27.8%, maintaining our leading position in comparison with companies in the European industry.

The process to integrate and simplify the organisational structure has resulted in higher extraordinary and other non-recurring expenses. Despite this, profit after tax stands at Euros 62,018 thousand in 2019.

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 was Euros 5.3 million (Euros 4.4 million in 2018), equivalent to 0.8% of 2019 turnover (0.6% in 2018). Aged, non-impaired receivables past due by more than 90 days at 31 December 2019 amount to Euros 6.6 million (Euros 8.5 million at the end of 2018).

Liquidity risk

Liquidity risk is the risk that 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 we have enough liquidity to settle our debts as they fall due, in both normal and stressed conditions, without incurring unacceptable losses or compromising our reputation.

At 31 December 2019 we had a non-current revolving credit facility of Euros 300 million, with Euros 150 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 2019, cash and cash equivalents amounted to Euros 98.2 million (Euros 107.3 million at the end of 2018).

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 risk 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 2019, had interest rates risen by 100 basis points, with other variables remaining constant, consolidated profit (after tax) would have fallen by Euros 7.9 million (Euros 8 million for the year ended 31 December 2018).

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 2016

On 21 November 2019 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 2016. The regulation on funding the universal service cost incurred by Telefónica de España, S.A.U. states that operators whose gross annual operating revenue exceeds Euros 100 million are required to contribute to the FNSU.

The amount subject to contribution by the liable operators in 2016 amounts to Euros 16,788,209. Euskaltel, R and Telecable were found liable to contribute to the funding of the cost at a rate of 2.9%.

Universal service elements and designation of the mandatory operator

In accordance with Order ECE/1280/2019 of 26 December and Order ECE/2020 of 7 January, Telefónica de España, S.A.U. has been designated to render the elements of universal service relating to the supply of public electronic communication network connections and rendering the telephony service available to the public and the supply of a sufficient offering of public pay phones. The obligation to render these services extends, in the first instance, to 1 January 2023 and, in the second, to 1 January 2022.

Grounds for termination are expressly stated to be any modification of the scope, configuration, financing or any other essential matter regarding the universal service through the national regulations that must be ruled in transposition of the Electronic Communications Code approved on 11 December 2018 by EU Directive 2018/1972 of the European Parliament and the Council.

Main operator

On 13 November 2019, published in the national state gazette (BOE) on 14 December 2019, 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 2018, 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.
- Allocating numeration

In accordance with the Directive, on 17 December 2019, published in the OJEU of 30 December 2019, Executive Regulations of the Commission were approved establishing the contract summary form to be used by the electronic communications service providers available to the public. These Regulations will be applicable from 21 December 2020.

Resolution by which agreement is reached to notify the European Commission of the draft measure relating to Market 1/2014 Fixed voice termination.

On 25 July 2019, the CNMC adopted the Resolution for the approval of the definition and analysis of wholesale call termination markets on public telephone networks in fixed locations, designating the operators with significant power in the market and imposing certain obligations, as well as reporting to the European Commission and the ORECE. The Resolution is applicable from the day after publication in the Spanish Official State Gazette (BOE) of 1 August 2019.

Specifically, the resolution sets out the obligation on all operators to offer symmetrical prices, applying the LRIC ascending cost model based on an efficient operator.

The obligation rests on the application of the following prices for a specific glide path:

- From entry into force until 31/12/2019: Euros 0.0643/min.
- From 1/01/2020 until 31/12/2020: Euros 0.0593/min.
- From 1/01/2021 onwards: Euros 0.0543/min.

These prices will be current until they are amended by the European Commission, if applicable, under the terms set out in the electronic communications code. A single maximum termination rate will be set for voice calls using fixed networks and mobile phones in the European Union.

5G action plan

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. Within the framework of these actions, the Government has approved Royal Decree 391/2019 of 21 June, approving the National Technical Plan for Digital Terrestrial TV and regulating certain aspects regarding the release of the second digital dividend.

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 on 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 Euros 0.19 per minute for calls and Euros 0.06 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 a 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

Based on the resolution authorising the concentration of Telefónica/DTS on 22 April 2015, Telefónica maintains its obligation to offer Premium channels in wholesale format. 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. After this period, the Spanish National Market and Competition Commission (CNMC) must assess if a relevant modification has occurred in the structure or regulation of the markets considered, justifying the maintenance, adaptation or removal of the corresponding conditions for an additional period of up to a maximum of three (3) years.

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, 2018 and 2019 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.

- Obligations deriving from information security

  The Company’s network sand 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. This regulation sets out certain obligations for digital service providers, including cloud computing services by the Group's companies.

  On 5 November 2019, Royal Decree law 14/2019 of 31 December was published in the Spanish Official State Gazette (BOE), adopting urgent measures for reasons of public safety in matters of digital administration, public sector contracting and telecommunications. This Royal Decree made certain amendments to the General Telecommunications Act of 2014 regarding the adoption of direct network and service management measures in exceptional cases affecting public order, public safety and national security.

16.- Corporate governance

a) Board of Directors

The following changes to the Board of Directors have taken place in 2019:

Re-election, resignation and appointment of Board members

- At the first call to the Ordinary General Shareholders' Meeting held on 1 April 2019, the shareholders agreed to re-elect Ms. Belén Amatriain Corbi and Mr. Iñaki Alzaga Etxeita as independent directors for the statutory period of four years.

- On 6 May 2019, Mr. Robert W. Samuelson presented his resignation from his position as member of the Board of Directors and member of the different board committees.

- The Board of Directors meeting held on 6 May 2019 agreed to appoint, by co-optation, Mr. José Miguel García Fernández to the Board of Directors to replace Mr Robert W. Samuelson as proprietary director of Zegona Communications PLC, following a favourable report by the Appointments and Remunerations Committee.

- On 5 June 2019, Mr. Francisco Arteche Fernández-Miranda presented his resignation from his position as member of the Board of Directors.

- On 5 June 2019, the Board of Directors agreed to appoint, by co-optation, Mr. Eamonn O'Hare as a new board member and proprietary director of Zegona Communications, PLC, following a favourable report by the Appointments and Remunerations Committee.

- The Extraordinary General Shareholders' Meeting held on 10 July 2019 agreed: (i) to fix the number of members of the Board of Directors at 13; (ii) to ratify the appointment by co-optation and choose Mr. José

Miguel García as executive director; (iii) to ratify the appointment by co-optation and choose Mr. Eamonn O'Hare as proprietary director; and (iv) to appoint Mr. Robert W. Samuelson as proprietary director.

- On 29 October 2019, Mr. Alberto García Erauzkin presented his resignation from his position as member and chairman of the Board of Directors.

- On 29 October 2019, the Board of Directors agreed to appoint, by co-optation, Mr. Xabier Iturbe Otaegui as a new board member and external director, following a favourable report by the Appointments and Remunerations Committee.

Appointment of a new CEO

- The Board of Directors' meeting held on 5 June 2019 agreed to appoint Mr. José Miguel García Fernández as the new CEO of Euskaltel.

Appointment of non-executive chairman

- The Board of Directors' meeting held on 29 October 2019 agreed to appoint Mr. Xabier Iturbe Oategui as non-executive chairman of Euskaltel.

Appointment of new secretary of the Board of Directors

- Mr. José Ortiz Martínez has replaced Mr. Luis Alba Ferré as the new secretary of the Board of Directors and of the committees reporting to the board.

b) Committees reporting to the Board of Directors

The meeting of the Company's Board of Directors held on 24 July 2019 approved the following changes to the committees reporting to the Board of Directors, following a proposal by the Appointments and Remunerations Committee:

Audit and Control Committee

Mr. José Ángel Corres Abasolo (Chairperson)
Mr. Robert W. Samuelson
Kartera 1, S.L., represented by Ms. Alicia Vivanco González
Corporación Financiera Alba, S.A., represented by Mr. Javier Fernández Alonso
Mr. Iñaki Alzaga Etxeita
Ms. Elisabetta Castiglioni
Mr. Jonathan Glyn James

Appointments and Remunerations Committee

Mr. Miguel Ángel Lujua Murga (Chairperson)
Mr. Eamonn O´Hare
Mr. Luis Ramón Arrieta Durana
Corporación Financiera Alba, S.A., represented by Mr. Javier Fernández Alonso
Mr. José Ángel Corres Abasolo
Ms. Belén Amatriain Corbi
Mr. Iñaki Alzaga Etxeita

To comply with article 529 (14) of the Spanish Companies Act, the independent director Mr. José Ángel Corres Abasolo, was appointed as the new chairperson of the Audit and Control Committee to replace Mr. Iñaki Alzaga Etxeita, for a period of four years.

The independent director, Mr. Iñaki Alzaga Etxeita, was appointed as the new chairperson of the Strategy Committee to replace Mr. José Ángel Corres Abasolo, for a period of four years.

c) Significant events

In 2019, 30 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 Extraordinary General Shareholders' Meeting and the results thereof, the changes to the Board of Directors and the new composition of the Committees reporting to the Board of Directors, the appointment of the new CEO and new Secretary of the Board of Directors, the payment of the complementary dividend against 2018 results, the payment of an interim dividend against 2019 results, as well as the improved wholesale agreements signed with Orange.

17.- Share price evolution

Share price

Euskaltel shares have increased in value in 2019 by 31.91%, compared to the IBEX 35 stock market index and the STOXX Europe 600 Telecom sector benchmark index for the same period, 11.69% and -1.43%, respectively.

Trading volume

Period (2 Jan/31 Dec)	Number of shares	Daily average
Standard trading	38,023,696	149,113
Block trading	10,460,991	41,023
	48,484,687	**190,136**

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 29 October 2019, the Company's Board of Directors agreed to pay an interim dividend against 2019 results for a gross amount of 0.14 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 2020.

On 12 January 2020, a contract was signed with Virgin to transfer the use of its brand to the Euskaltel Group. The signing of this agreement represents a major milestone for Euskaltel. Thanks to improved wholesale access agreements signed in December 2019, Euskaltel now has all the assets needed for its nationwide expansion (see note 2.4). This plan will bring Euskaltel to 85% of the Spanish market where it does not currently have a presence, enabling the customers in these regions to benefit from high-quality, high-value quadruple play services, taking advantage of the advanced capacities of Euskaltel. The Virgin brand will coexist with the Group's three established brands (Euskaltel, Telecable and R), which will continue to render leading services in each of their respective regions. Euskaltel considers that the combination of their established regional brands with the Virgin brand, which it will use at national level, will provide excellent growth opportunities.

On 27 January 2020, the Board of Directors approved a new long-term Incentive Plan for the 2020-2022 period, geared towards a group of executives and employees of the Company, as well as the Chairman of the Board of Directors, the CEO and Secretary. The Plan entails delivering the beneficiaries a variable incentive linked to the achievement of a specific share price and the accomplishment of targets linked to operating cash flow. At least 75% of the plan will be paid out in Euskaltel shares and the rest in cash.

19.- Acquisition of own shares

At 31 December 2019 we held 170,366 own shares. During the year a total of 1,908,897 shares were acquired, and 1,965,880 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 + depreciation and amortisation +/- losses on the disposal and derecognition of assets + compensation and other remuneration + other non-recurring results. Other non-recurring results, when these are included, extraordinary expenses or expenses of an exceptional nature that are not recurrent, as well as integration costs are excluded.

	31.12.2018	31.12.2019
Results from operating activities	129,881	120,796
Depreciation and amortisation (notes 5 and 6)	185,854	193,096
Losses on disposal and derecognition of assets (note 13.4)	8,919	9,650
Indemnities and Other remuneration (note 12.3)	5,370	15,600
Other results (note 10.3)	6,417	5,393
	336,441	**344,535**

- Impact of IFRS 16 on EBITDA

	31.12.2018	31.12.2019
EBITDA	336,441	344,535
IFRS 16 (note 2.3) (*)	10,065	-
	346,506	**344,535**

(*) Considering the same impact of IFRS 16 in the previous period for comparison purposes

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

	31.12.2018	31.12.2019
Additions of intangible assets (note 5)	56,493	56,871
Additions of property, plant and equipment (note 6)	97,017	97,388
	153,510	**154,259**

- Operating cash flow: EBITDA - Investments

	31.12.2018	31.12.2019
EBITDA	336,441	344,535
Investments	(153,510)	(154,259)
	182,931	**190,276**

- Conversion rate: Operating cash flow / EBITDA

	31.12.2018	31.12.2019
Operating cash flow	182,931	190,276
EBITDA	336,441	344,535
	54.4%	**55.2%**

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

	31.12.2018	31.12.2019
Nominal value - Bank borrowings (note 10)	1,545,000	1,435,000
Nominal value - Bonds and other marketable securities (note 10)	70,700	131,000
Nominal value - Other loans with government bodies (note 10)	23,667	17,157
Nominal value - Other borrowings (note 10)	48	1,369
Gross debt	1,639,415	1,584,526
Less cash and cash equivalents (note 8.1)	(107,356)	(98,247)
Net Debt	**1,532,059**	**1,486,279**

21.- Annual Corporate Governance Report

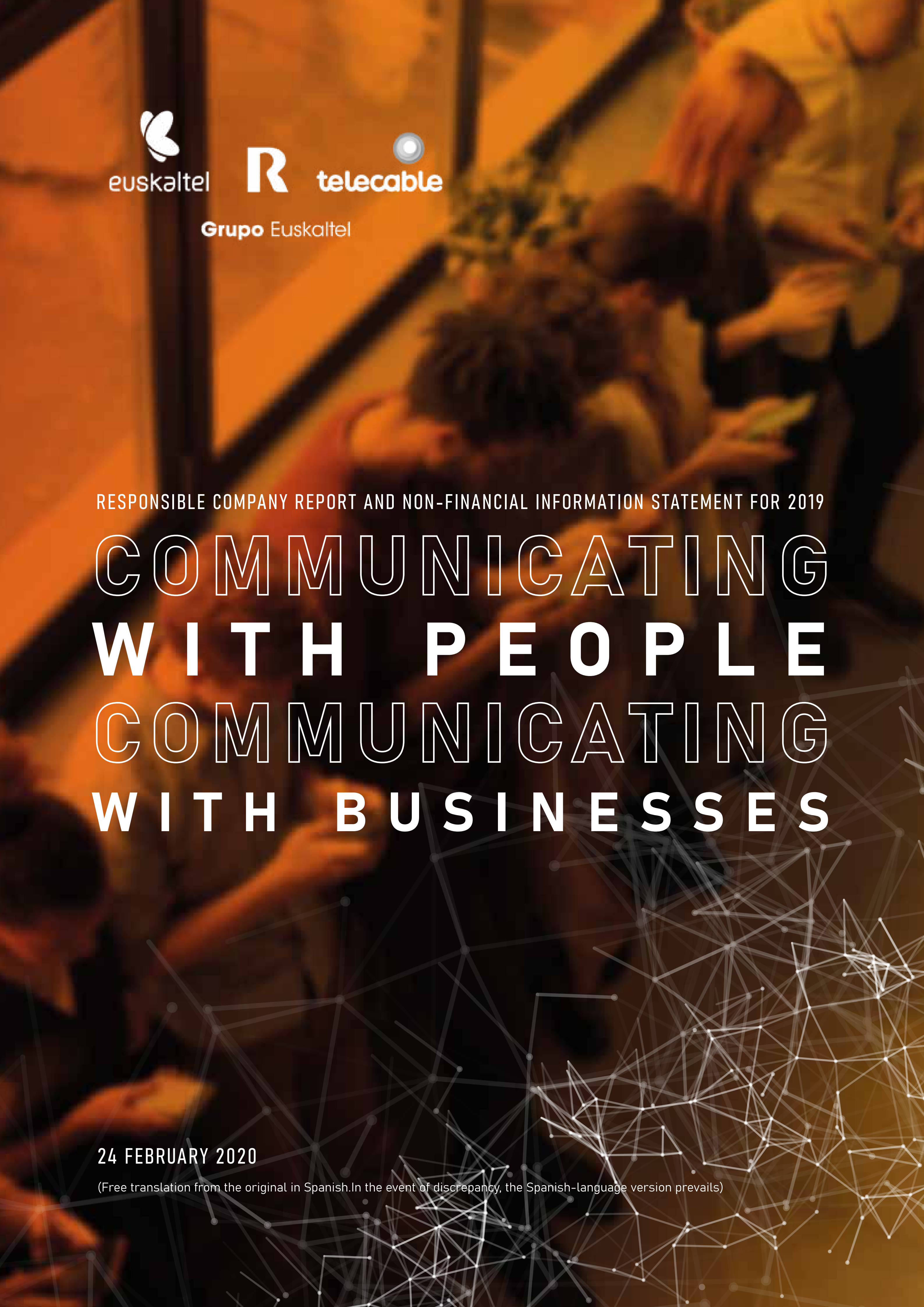
The 2019 Annual Corporate Governance Report, which forms part of the consolidated directors' report, was approved by the Board of Directors of Euskaltel, S.A. on 25 February 2020 and is available on the Company's website (www.euskaltel.com) and that of the Spanish National Securities Market Commission (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 2019 as part of the Responsible Company Report, as an Appendix. This report covers the companies Euskaltel, S.A. and R Cable y Telecable Telecomunicaciones, S.A.U., and has been prepared in accordance with the Global Reporting Initiative (GRI) standards and Act 11/2018 on non-financial information and diversity.

Appendix

Responsible Company Report 2019 - Non-financial information statement



Grupo Euskaltel

RESPONSIBLE COMPANY REPORT AND NON-FINANCIAL INFORMATION STATEMENT FOR 2019

COMMUNICATING WITH PEOPLE COMMUNICATING WITH BUSINESSES

24 FEBRUARY 2020

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

CONTENTS

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

LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

A new road map for profitable, sustainable growth

2019 our focus was on responding to the need to shift trends and results so the Euskaltel Group can achieve profitable growth, as well as to boost business sustainability effectively in view of the new challenges faced by the global telecommunications industry.
All this led us to give the company's strategy a new twist. The new road map will take us in that direction.

A road map designed by the Euskaltel Group's new management team based on simple and efficient organisation by experienced people; a strong product, a consistent offering and value for our customers; the promotion of our regional brands and launch of a new brand to grow in the domestic market; a commercial strategy grounded in best practices; a unique technology and operations plant to support the commercial side and build efficiencies; and a new market for our products in which we can grow and improve profitability.

Using these arguments, our work began in June and in only six months our implementation decisions bore fruit. Revenue for the year totalled €685.5 million thanks to last quarter growth. Ebitda amounted to €344.5 million, 2.4% up on the previous year. Net profit for the year reached €62 million.

The improvement in Ebitda and the management of investments allowed solid cash generation and a steady decline in the company's net debt.

These results mean that our shareholder remuneration commitment can be honoured for the fourth year running. The Euskaltel Group's Board of Directors approved a gross dividend on account of 2019 profits of €0.14 per share. The final dividend will be decided by the 2020 Annual General Meeting.

The financial markets showed appreciation for the company's successful new strategy in 2019, our share price having risen by over 30% during the year, which is nearly three times the performance of the Ibex 35.

This took place in a telecommunications industry that achieved poor results in European stock markets in 2019. Within the industry, Euskaltel was the fifth-best operator in Europe.

We are convinced that this sound stock performance can be explained by the launch and implementation of our road map. Recommendations by industry analysts since then highlight the market support for our strategy.
Recognition for our plan culminated in our inclusion in the Ibex Medium Cap, the prelude to the Ibex 35. We are now among the 20 listed companies, save for the Ibex 35 stocks, with the largest capitalisation adjusted for free float while meeting required liquidity ratios.

The financial markets showed appreciation for the company's successful new strategy in 2019, our share price having risen by over 30% during the year, which is nearly three times the performance of the Ibex 35.

Business results

One of the road map goals is to strengthen our telecom market positioning as the operator providing the best quality convergent services at a highly competitive price by launching unified and consistent offerings in all three brands, which is a milestone for the Group. Thanks to our commercial efforts, 2019 was a very positive year in terms of customers, confirming the success of our decision to expand into non-traditional markets other than those in which our position is already strong. The company ended 2019 with 771,074 customers in the mass-market segment, 931 more than the previous year. Our product and service offering in Navarre, León, Cantabria, La Rioja and Catalonia under the global agreement with the RACC has provided us with the necessary experience to expand across the whole of Spain, so 2020 will be exciting from a strategic viewpoint.

Steps were already taken in 2019 to face this challenge with the fullest guarantees. We renewed our wholesale agreements at the national level so as to offer highly-competitive, advanced telecom services throughout the country

So the Euskaltel Group Group will guarantee its customers access to the best fibre and mobile telecommunications services, as well as having the capacity to respond to all new service needs that users may have in the future

The company ended 2019 with 771,074 customers in the mass-market, segment, 931 more

We also achieved considerable growth in the B2B business thanks to our role as an expert facilitating, advising and accompanying companies during their digital transformation through solutions to assure a secure environment. In this segment, the company also ended the year well with 15,263 customers, 436 more than in 2018.

Challenges and opportunities

We talk about change, but the Euskaltel Group is essentially the same, because our lifeblood can be found in the value of our project, which lies in the loyalty shown by our customers, our true roots in the Basque Country, Galicia and Asturias. Our essence also includes the contribution we make to economic and social development in the regions where we operate through a broad range of business, technological, social, cultural and sports activities.

The Euskaltel Group is characterised by a territorial commitment as a telecom operator that achieves sustainability through its people and its engagement with Basque, Asturian and Galician society. Equality and diversity, quality job creation, environment and responsible consumption, innovation and sustainable infrastructures, quality education and partnerships, are some of our company's focus areas, coinciding with the 2030 Agenda at the local and global levels. So the Sustainable Development Goals have been identified while preparing the Euskaltel Group's Responsible Company Report and Non-Financial Information Statement.

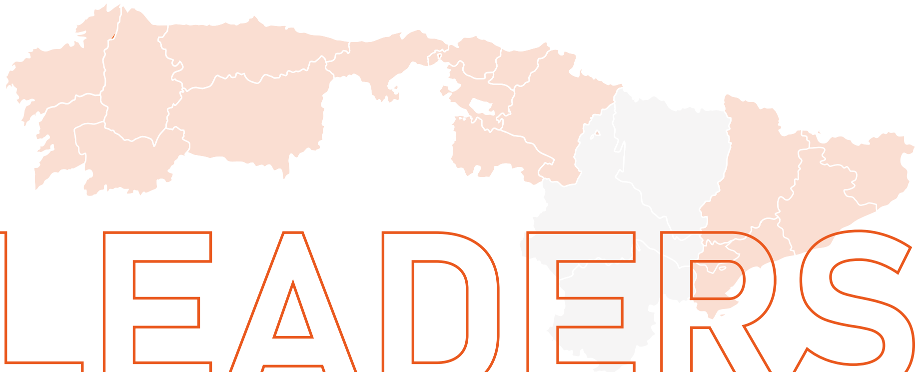
Our roots are a differential feature that tightens the bond between the Euskaltel Group and its stakeholders. In this letter we have mentioned shareholders, investors, our customers and society at large, but we must not forget the people who make this project a reality every day. We have managed to integrate three different companies into the Euskaltel Group, each with a different culture but with professionals that share the drive, enthusiasm and talent to undertake the challenges before us. Our people are our primary asset and the main ambassadors of this project's sustainability thanks to their daily commitment to excellence, equality and diversity.

Our people are our primary asset and the main ambassadors of this project's sustainability thanks to their daily commitment to excellence, equality and diversity

We have an exciting future ahead of us and there will be major opportunities in the coming years. The main challenge w ill be to successfully complete our expansion across the whole of Spain and compete on equal terms with the other telecom operators. Our primary assets are our employees and our customers. We will carry on offering a close, personal relationship to go hand-in-hand with our customers and to tackle these new and exciting challenges.

Xabier Iturbe
Euskaltel Group's Chairman

José Miguel García
Euskaltel Group's Chief Executive Officer



LEADERS

TELECOM LEADERS IN NORTHERN SPAIN

Key Indicators 2019

FINANCIAL HIGHLIGHTS

669M€
ECONOMIC VALUE GENERATED

471M€
ECONOMIC VALUE DISTRIBUTED

198M€
ECONOMIC VALUE RETAINED

685,5M€
REVENUE

0,35€
EARNINGS PER SHARE

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

EXTRA-FINANCIAL

Employees

586
DIRECT JOBS

18.857
TRAINING HOURS

3,4/4
EMPLOYEE SATISFACTION WITH REGARD TO THE TRAINING RECEIVED

Customers

771.074
PRIVATE CUSTOMERS

13.451
SMEs

75,6%
ELECTRONIC INVOICING

1.812
LARGE COMPANIES

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

Suppliers

375
LOCAL SUPPLIERS (46.4% OF THE GROUP'S TOTAL PURCHASES)

278
DOMESTIC SUPPLIERS (47% OF THE GROUP'S TOTAL PURCHASES)

100%
SUPPLIERS ASSESSED

Environment

REDUCTION IN
37,5%
SCOPE-1 EMISSIONS ON 2018

REDUCTION IN
3,63%
SCOPE-2 EMISSIONS ON 2018

REDUCTION IN
7,09%
SCOPE-3 EMISSIONS ON 2018

Society

MORE THAN
18
TECHNOLOGICAL AND SOCIAL PROJECTS AND ACTIVITIES

MORE THAN
60
RELATIONSHIPS WITH ASSOCIATIONS AND FOUNDATIONS

MORE THAN
100
SPONSORSHIPS COMPLETED

122.565 thousand €

CONTRIBUTED TO PUBLIC ADMINISTRATIONS

Corporate Governance

100%
EMPLOYEES TRAINED IN THE CODE OF ETHICS

97,96%
EMPLOYEES TRAINING IN THE ANTI-CORRUPTION POLICY

0
CASES OF CORRUPTION CONFIRMED

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

(1) Euskaltel Group, a Responsible Business

(1)

Euskaltel Group, a Responsible Business

1.1. Business model

EUSKALTEL GROUP, A COMPANY THAT BUILDS VALUE IN ITS TERRITORIES

The Euskaltel Group is the leading telecom group in northern Spain and is characterised by deep roots and a strong commitment to the regions of Euskadi, Galicia and Asturias, where business has traditionally been conducted by the operators Euskaltel, R Cable and Telecable, and more recently in Navarre, La Rioja, León, Cantabria and Catalonia thanks to our strategy of expanding into neighbouring territories while always maintaining a clear focus on value creation and community development wherever we operate.

In 2019, the Group's contribution consisted of 586 direct jobs and numerous indirect posts in the supply chain, 61 new suppliers having been contracted; 46.4% of the total volume of purchases are made from local suppliers and 47.0% from other Spanish companies.

586 DIRECT JOBS

LOCAL SUPPLIERS 46,4%

SUPPLIERS ACROSS SPAIN 47%

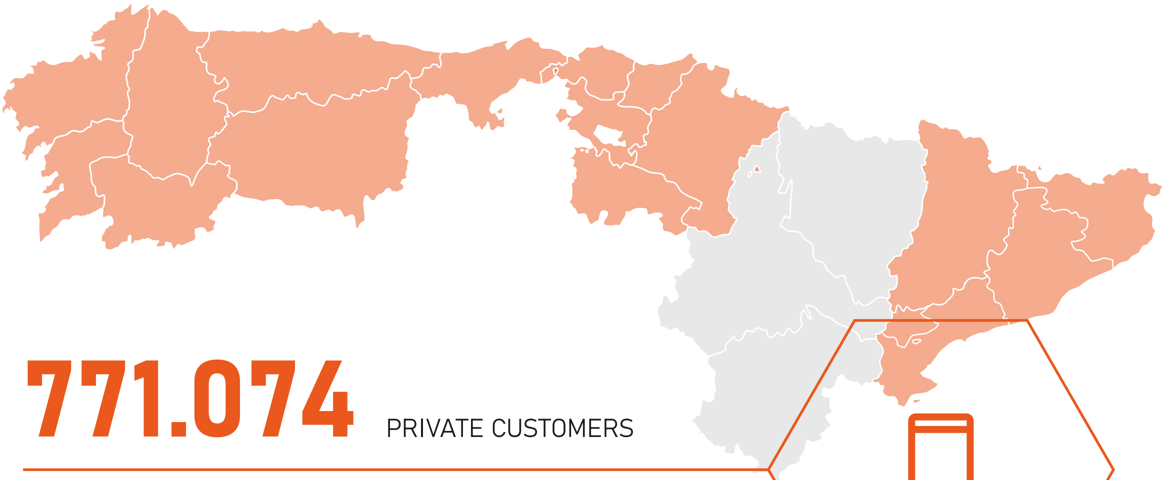
Thanks to the investment made in our own fibre optic networks and our 4G licence, the Group plays a major leading role in technical and digital development and promotion throughout Spain, providing broadband, telephone and pay TV products and services, as well as other convergent offerings, to a broad variety of customers comprising 771,074 private customers, 13,451 SMEs and 1,812 large companies by the end of 2019.

In line with our commitment to local development, in 2019 the Group's environmentally friendly management of impacts in association with environmental organisations and our social and technological development initiatives in local communities helped to achieve goals shared with local organisations and to reduce inequalities.

This allowed the Euskaltel Group to make further contributions to economic, social and environmental development in the territories where we do business, generating value for all stakeholders, including shareholders, while assuring an approach to growth grounded in responsibility and sustainability

The Euskaltel Group has made further contributions to economic, social and environmental development in the territories where we do business

Markets served



771.074 PRIVATE CUSTOMERS

13.451 PYMES

1.812 LARGE COMPANIES

EUSKALTEL GROUP'S GROWTH STRATEGY

While applying this business model, the Group has leveraged the capabilities of all the Group companies and the strategy of expansion into neighbouring regions, our market penetration having been consolidated in 2019 in our traditional regions while entering new markets so as to guarantee sustained growth without neglecting close customer relations.

So network coverage was consolidated in 2019 in the local areas of Euskadi, Galicia and Asturias that had not previously been able to access our products and services, while also establishing business in new areas through new points of sale for the Euskaltel brand in Navarre and La Rioja.

Thanks to the optic fibre agreement with Orange, we were able to consolidate the R brand's expansion into León and Cantabria. In December 2018, the Euskaltel Group and RACC created the RACCtel+ brand to do business in Catalonia.

1.2. Responsible Management Model

The Euskaltel Group's responsible management model is based on identifying possible sustainability impacts and risks in our activities and on developing and applying a variety of commitments, policies, management procedures and mitigation measures in response to the matters identified

A materiality analysis was conducted to detect any impacts of our activities, which will be prioritised on a daily basis and integrated with business and sustainability objectives while developing our business strategy.

MATERIALITY ANALYSIS

The Euskaltel Group's materiality analysis identified material impacts, risks or matters that were used to prepare our sustainability strategy for 2018 and 2019.

The following steps and procedures were followed:

1
REVIEW OF THE STAKEHOLDER MAP

Stakeholders affected by our activities or having a significant impact on the company's decisions were mapped before beginning the identification of sustainability risks and impacts.
Priority stakeholders identified in this process are employees, customers, suppliers, the environment, local communities and shareholders.

2
IDENTIFICATION OF MATERIAL ASPECTS

Once our priority stakeholders had been identified, internal and external information was analysed to detect the material matters or aspects that concern the stakeholders Zand influence the company's strategic decisions:

Internal analysis:

Internal information was studied to ascertain aspects that are relevant from the viewpoint of the company's stakeholder strategy, addressing matters such as the findings of stakeholder surveys, the Environmental Master Plan, the Code of Ethics and the Sustainability Communication Plan.

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- **External analysis:**

External information was studied to determine relevant opportunities and capabilities in the telecommunications industry, leading to the following specific actions:

1. Analysis of material aspects identified in sustainability reports and good practices of equivalent companies in the telecom industry by means of a benchmarking study.

2. Analysis of material aspects based on the sustainability requirements and evaluations of analysts and bodies of reference for sustainability, such as the Down Jones Sustainability Index or the FTSE4Good.

3. Analysis of criteria applied in sustainability standards such as the Global Compact, the Sustainable Development Goals and the GRI Standards on sustainability reporting.

4. Analysis of sustainability disputes in the industry using the Factiva tool and media analysis.

5. Analysis of prevailing legislation

Following the analyses referred to above, the following list of material stakeholder sustainability aspects was obtained for the Euskaltel Group:

Material Aspects

CORPORATE GOVERNANCE AND GOVERNING BODIES

- Balanced and diverse Board functioning and composition
- Corruption and fraud prevention
- Tax transparency
- Risk management
- Business ethics and compliance
- Stakeholder dialogue channels

HUMAN RESOURCES

- Work-life balance
- Work climate
- Diversity, equality and non-discrimination Training and diverse talent development Corporate volunteering
- Fair remuneration (wage gap)
- Responsible supply chain management
- Supplier satisfaction

SUPPLIERS

- Gestión responsable de la cadena de suministro
- Satisfacción de proveedores

CUSTOMERS

- Customer experience (service quality, customer satisfaction and
- claim management)
- Digital reliability (data protection)
- Cybersecurity
- Innovation in products and services (5G, IA, IoT, Blockchain)
- Digitalisation and digital transformation
- Responsible advertising

ENVIRONMENT

- Greenhouse gas emissions and climate change
- Circular economy
- Management policies and systems

INSTITUTIONAL RELATIONS

- Contribution to local development (employment, suppliers)
- Sustainable and inclusive products
- Human rights
- Sponsorship and foundations
- Digital health
- Responsible network deployment

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3 PRIORITISATION OF MATERIAL ASPECTS

After identifying the sustainability impacts, assessment, prevention, mitigation and control measures were developed, giving rise to the following management policies and systems for each of the organisation's stakeholders under a single sustainability strategy and plan.
Having identified material aspects relating to stakeholders, they were assessed and prioritised internally by our different departments, holding evaluation and comparison meetings. The material matters were then assessed and prioritised externally by consulting sustainability analysts and standards such as the SASB, the media, applicable internal documents and legislation, as well as the contribution to the SDGs or the United Nations Global Compact principles.

On the basis of these processes set out in a materiality matrix, 20 material matters were noted, representing priority risks and impacts to be managed in our sustainability strategy and plan

1. Balanced and diverse Board functioning and composition
2. Corruption and fraud prevention
3. Risk management
4. Business ethics and compliance
5. Customer experience (service quality, customer satisfaction and claim management)
6. Digital reliability (data protection)
7. Cybersecurity
8. Innovation in products and services (5G, IA, loT, Blockchain)
9. Publicidad responsable
10. Work-life balance
11. Diversity, equality and non-discrimination
12. Fair remuneration (wage gap)
13. Contribution to local development (employment and suppliers)
14. Sustainable and inclusive products
15. Human rights
16. Sponsorship and foundations
17. Despliegue responsable de la red
18. Greenhouse gas emissions and climate change
19. Circular economy
20. Responsible supply chain management

Having identified material aspects relating to stakeholders, they were assessed and prioritised internally by our different departments, holding evaluation and comparison meetings. The material matters were then assessed and prioritised externally by consulting sustainability analysts and standards such as the SASB, the media, applicable internal documents and legislation, as well as the contribution to the SDGs or the United Nations Global Compact principles

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SUSTAINABILITY STRATEGY

The Euskaltel Group's sustainability strategy seeks both to mitigate the impacts identified and to maximise potential development opportunities for all our stakeholders.

It is based on different management models comprising policies and procedures structured under the same Sustainability Master Plan so as to achieve economic, social and environmental objectives simultaneously and integrated with our business activity.

Integrated Management Model

Since the Euskaltel Group began to do business, our work strategy has been based on an Integrated Management System, systems having been successfully implemented under ISO, Quality, Environment, Information Security, Occupational Health standards and the National Security Scheme, as well as systems required by legislation such as Billing Quality and Service Quality.

Implementing and certifying the Management Systems also allows the Euskaltel Group to fulfil continuous improvement requirements and regulations, as a guarantee of management system effectiveness and upgrades for employees, customers and suppliers.

Environmental Management Model:

Within the overall Environmental Master Plan, the model is based on the Environmental Management System and on the EMAS and ISO 14001:2015 certification, as well as the Energy Management Policy and System under ISO 50001:2011, implemented in each of the Group companies, forming the management model to prevent and mitigate environmental impacts.

Employee Occupational Health a nd Safety Management Model:

Within the overall Occupational Health and Safety Management Policy and System and OSHAS 18001:2007 certification rolled out in each company, the model is designed to prevent and mitigate risks to the health and safety of the people who work in the Group during their activities.

Quality, Privacy and Customer Data Protection Model:

Within the overall Quality Management Policy and System and ISO 9001:2015 certification, the Customer Privacy Policy, the Web and App User Privacy Policy and the Data Protection Risk Management Policy and System comply with the General Data Protection Regulation (GDPR) and are supplemented by the Information Security Management Policy and System and ISO 27001:2017 certification in all the Group companies, as well as by the Certificates of Compliance with the National Security Scheme, which form the management model assuring the quality of the Group's activities, products and services, as well as the privacy and protection of the data furnished by customers.

On an individual level, within the Integrated Management System, for products and services marketed under the Telecable brand, we have a Business Continuity Management Policy and System certified under ISO 22301:2015, an Information Technology Service Management Policy and System certified under ISO 20000-1:2011, and a Customer Contact Centre Service Management Policy and System certified under ISO 18295:2017.

Este Modelo de Gestión de la Calidad, Privacidad y Protección de Datos de los Clientes, dentro del Sistema de Gestión Integrado, se ve reforzado con otros modelos como el Modelo de Comunicación con Clientes y sus Sistemas de Reclamación establecidos en cada una de las compañías del Grupo, y que conforman el Modelo de Gestión de Clientes.
This Quality, Privacy and Customer Data Protection Model, within the Integrated Management System, is supported by other models such as the Customer Communication Model and related Claim Systems in place in each Group company, forming the Customer Management Model.

Employee Management Model

Within the overall People Management Model and in strict compliance with the companies' collective bargaining agreements, we have a Training Plan, an Equal Opportunities Policy and a Data Protection Risk Management Policy and System in place in all the companies, forming the responsible management model for the people who work for the Group, protecting and securing their personal data, supported by the Employee Health and Safety Management Model, which is part of the Integrated Management System

Supply Chain Management Model

Within the overall Supplier Evaluation and Approval Model developed in line with ISO 9001:2015 quality criteria,

14001:2015 environmental criteria and OSHAS 18001:2007 occupational criteria, the model is supplemented by the Supplier Charter, which urges all our suppliers to comply with the Code of Ethics, thereby including the suppliers in our corporate responsibility commitments.

Corporate Governance Management Model

Within the Group's overall Good Corporate Governance Policy and Code of Ethics, which includes Conduct Instructions for all the Company's people and an Ethics Channel for related queries and complaints, the model is supplemented by the Criminal Compliance and Anti-Bribery Model and by various policies included in the Corporate Governance Model, such as the Anti-Corruption Management Policy and System and ISO 37001:2017 certification, the Tax Policy and the Conflict of Interest Policy. The model also includes the Director Selection Policy, the Director Remuneration Policy, the Auditor Contracting and Relations Policy and the Board of Directors Regulations.

Shareholder Management Model

Within the overall Shareholder and Investor Communication and Contact Policy, the model is supplemented by the General Shareholders' Meeting Regulations and the Internal Code of Conduct in Stock Markets, forming the shareholder relations model.

These models have been simultaneously developed and improved on the basis of the Group's Corporate Social Responsibility Policy so as to consolidate a business project that is coherent, responsible and sustainable over time.

The framework of strategic objectives and actions is reflected in the latest Sustainability Master Plan, which has been drawn up taking into account new requirements for listed companies, such as the CNMV's Code of Good Governance, local regulations in Galicia, Euskadi and Asturias, and our adherence and commitment to external domestic and international sustainability benchmarks, such as the Global Compact principles, the Climate Declaration or the United Nations Women's Empowerment Principles, the Luxembourg Declaration on Workplace Health Promotion of the INSHT, the Spanish Platform for Climate

Change's #PorElClima Community initiative or the CEOE and Adecco Foundation's "CEOPorLaDiversidad" Commitment, as well as the ISO standards and the European EMAS Regulation.

The Sustainability Master Plan sets out Corporate Social Responsibility objectives and strategic lines of action to be integrated into each management model and into the culture of all the Group companies, as well as aligning the mission, vision and strategic business objectives with the sustainability goals.

In 2019, work was carried out to continuously improve on these objectives, placing special emphasis on integrating business and sustainability strategies. The major milestones in 2019 were as follows:

PROMOTION OF AWARENESS AND REFLECTION PROCESSES WITH THE MANAGEMENT COMMITTEE,
so as to bolster a governance structure based on the assumption of responsibilities at the executive level in economic, environmental and social matters and increased alignment of business objectives with sustainability objectives at the corporate level.

PROMOTION OF CULTURAL TRANSFORMATION PROCESSES FOR EMPLOYEES AND THOSE RESPONSIBLE
for each of the organisation's departments, so as to support business and sustainability duties and responsibilities at the operating level.

INTEGRATION OF ALL SYSTEMS UNDER ISO STANDARDS IN AN INTEGRATED GLOBAL MANAGEMENT SYSTEM
so as to unify the audit model; creation of a specific Sharepoint space in order to systematise the monitoring of improvement actions resulting from the audits and facilitate communication with the areas involved.

The objectives and actions set out in the Sustainability Master Plan, as applied in each management model, allow us to respond to various Sustainable Development Goals (SDGs), which are in turn a benchmark when designing and implementing policies and actions to tackle challenges that are common to all economic agents.

The Euskaltel Group feels involved in this process and accepts responsibility for contributing to the goals that are directly related to our business.

So the Euskaltel Group's priority SDGs are as follows:

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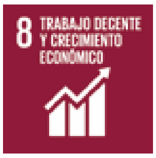
(2)

Good Corporate Governance

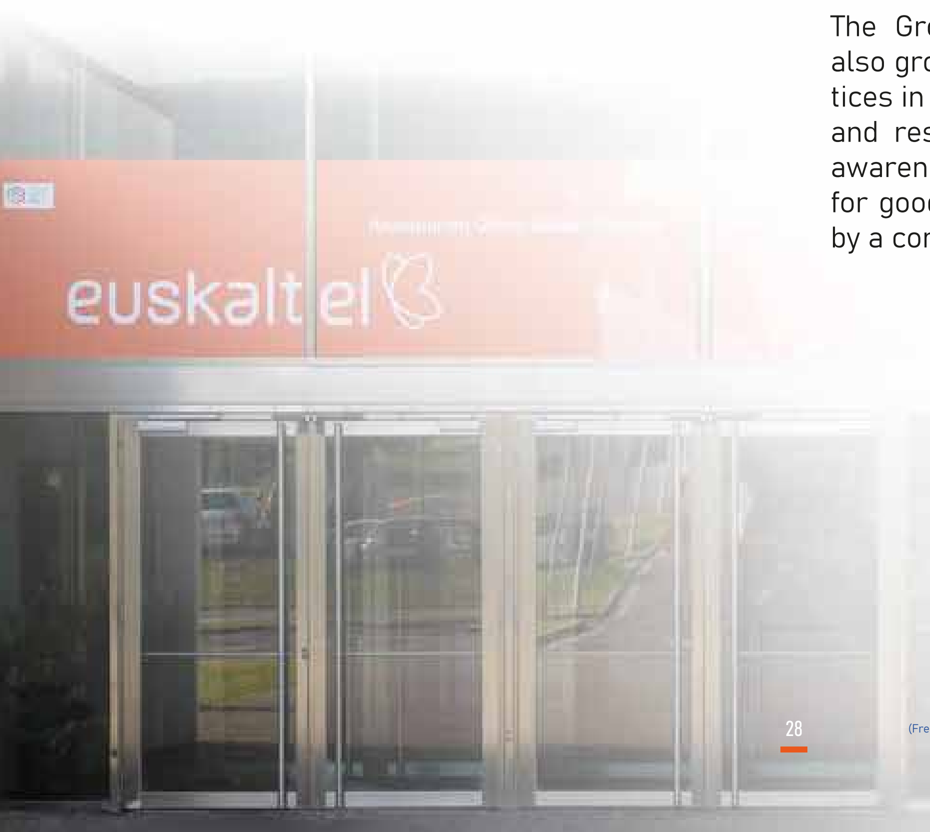
(2)

Good Corporate Governance

2.1. Corporate Governance Model



Good Corporate Governance seeks to maximise transparency, effectiveness, drive and control in all areas of the company.



This means taking on a set of values, principles and standards regulating the functioning and organisation of the administrative bodies, including their relations with shareholders, so as to assure the best possible business development.

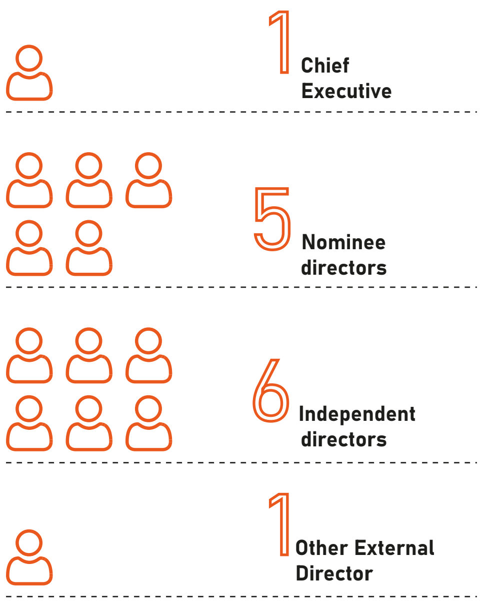
The Group's Corporate Governance Model is also grounded in the commitment to best practices in good governance and in business ethics and responsibility in all our activities, in the awareness of the importance of these concepts for good business management and supported by a consistent Regulatory Compliance Model.

BOARD OF DIRECTORS

The Board of Directors has 13 members (3 women and 10 men) comprising 1 executive director (CEO), 5 nominee directors, 6 independent directors and 1 other external director (Non-Executive Chairman), as well as the secretary and vice-secretary.

- **D. Xabier Iturbe Otaegui**
  Non-Executive Chairman
- **D. José Miguel García Fernández**
  Chief Executive Officer
- **D. José Ángel Corres Abasolo**
  Vice-Chairman, Independent Director
- **D. Eamonn O'Hare**
  Nominee Director
- **D. Robert W. Samuelson**
  Nominee Director
- **Dña. Alicia Vivanco González**
  Nominee director,
  representing Kartera 1, S.L.
- **D. Luis Ramón Arrieta Durana**
  Nominee Director
- **D. Javier Fernández Alonso**
  Nominee director,
  representing Corporación Financiera Alba, S.A.
- **Dña. Belén Amatriain Corbi**
  Independent Director
- **D. Iñaki Alzaga Etxeita**
  Independent Director
- **Dña. Elisabetta Castiglioni**
  Independent Director
- **D. Miguel Ángel Lujua**
  Independent Director
- **D. Jonathan Glyn James**
  Independent Director
- **D. José Ortiz Martínez**
  Non-Voting Secretary
- **D. Gonzalo Silveiro Regulez**
  Non-Voting Vice-Secretary

Board of Directors structure



- 1 is aged between 31 and 50
- 12 are aged over 50

Selection and Appointment of Directors

Proposals for the appointment and re-appointment of directors are submitted by the Board of Directors to the General Shareholders' Meeting, once reports have been submitted by the Appointments and Remuneration Committee, specifically assessing the candidate's honourableness, suitability, solvency, competence, experience, qualifications, training, availability and commitment, as stipulated in applicable legislation, the Company's Bylaws and the Board of Directors Regulations. Diversity of knowledge, experience, origin and gender on Euskaltel, S.A.'s Board of Directors are favoured, avoiding any kind of implicit bias that could reflect discrimination, particularly when selecting female directors.

The Board chairperson is chosen from among the directors based on a report from the Appointments and Remuneration Committee

Director Selection Policy

The Director Selection Policy assures, in a public, specific and verifiable way, that proposals for the appointment or re-appointment of directors are based on a prior analysis of the Board of Directors' needs while at the same time favouring diversity of knowledge, experience and gender on the Board, seeking to achieve a suitable balance that enriches decision-making and bring a plural view to the discussion of matters within the Board's remit, as well as meritocracy for the best qualified candidates.

The only impediments mentioned by the Director Selection Policy to becoming a Board member are those laid down in Article 9 of Euskaltel's Board of Directors' Regulations ("Incompatibilities"), which describes the circumstances in which a person cannot be appointed as a director or as the individual representing a legal person on the Board.

Finally, the Director Selection Policy includes the objective reflected in recommendation 14 of the current Code of Good Governance in Listed Companies that, by 2020, the number of female directors is at least 30% of the total.

So Euskaltel, S.A. is specifically committed to removing any kind of implicit bias that could entail discrimination and hinder the selection of female directors, who currently account for 23% of the Board members, ratifying the goal of achieving a balance of women and men in the administrative body.

Board of Directors' powers

The Board of Directors has the power to adopt resolutions on all kinds of matters not attributed by Law or the Company's Bylaws to the General Shareholders' Meeting, its main mission being to approve the Company's strategy and to oversee and control senior management as the administrators and principal representatives of Euskaltel, S.A. and its corporate interests.

So the Board has the authority to define, approve, oversee and monitor all the Group's general policies and strategies, such as the Strategic or Business Plan, annual management objectives and budgets, the Investment and Financing Policy, Dividend Policy, Treasury Share Policy, definition of the structure of the group of companies, Corporate Governance Policy, Corporate Social Responsibility Policy and Risk Control and Management Policy, including tax risks, as well as the regular monitoring of the Internal Information and Control Systems.

The Board of Directors entrusts ordinary management and administration to the Chief Executive Officer, 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 performs its duties in the Company's interests and in the common interests of all the shareholders of an independent public limited company pursuing its corporate objects in accordance with prevailing legislation, acting with unity of purpose and independent judgment.

The Board also takes into consideration the legitimate public or private interests merging in all business activities and particularly among our stakeholders. The goal is to maximise and sustain the Company's economic value and long-term performance, as an interest shared by all our stakeholders and as an aspect that must be observed at all times by the Board of Directors, its delegated bodies and internal committees, as well as by the members of the Board.

So their duties may be carried out properly, all the directors are informed annually of the status of the Sustainability Master Plan by the departments engaged in activities related to the Group's economic, social and environmental management.

Board Meetings

The Board of Directors meets as often as is appropriate to properly perform its duties, at least 6 times a year and at least once each calendar quarter.

Board Committees

The Board of Directors has created the Audit and Control Committee, the Appointments and Remuneration Committee and the Strategy Committee, whose remit is to attend, report and make proposals during Board meetings regarding the matters assigned to them from time to time by the Bylaws, the Board Regulations and their own internal rules as set out in the Audit and Control Committee Regulations, the Appointments and Remuneration Committee Regulations and the Strategy Committee Regulations.

These committees have no executive functions and act as information and consultation bodies, having the authority to report, advise and propose within their remit and governed by the provisions of the Bylaws and their own internal rules

Directors' Remuneration

Directors' remuneration is determined as laid down in the prevailing Directors' Remuneration Policy approved by the General Shareholders' Meeting and is overseen by the Appointments and Remuneration Committee. It is disclosed in the Annual Report on Directors' Remuneration published by the Group. The company R Cable y Telecable Telecomunicaciones, S.L.U. has a Sole Director (Euskaltel, S.A.), an office that is not remunerated.

Board of Directors performance evaluation

Euskaltel, S.A.'s Board evaluates performance annually. In 2019, most of the improvement proposals and recommendations identified in the previous year's evaluation process were implemented. The evaluation was carried out with the help of an external consultant in the following areas:

- **Strategy.**
- **Remit.**
- **Reporting to the Board.**
- **Committee meetings.**
- **Remuneration policies.**
- **Business continuity and tolerance level**

A new evaluation procedure was completed to measure the Board's performance in 2019, as a continuous improvement tool. The procedure has four distinct and parallel sub-processes:

1. Board self-assessment in which each director fills in a specific questionnaire.

2. Evaluation of the Chief Executive Officer.

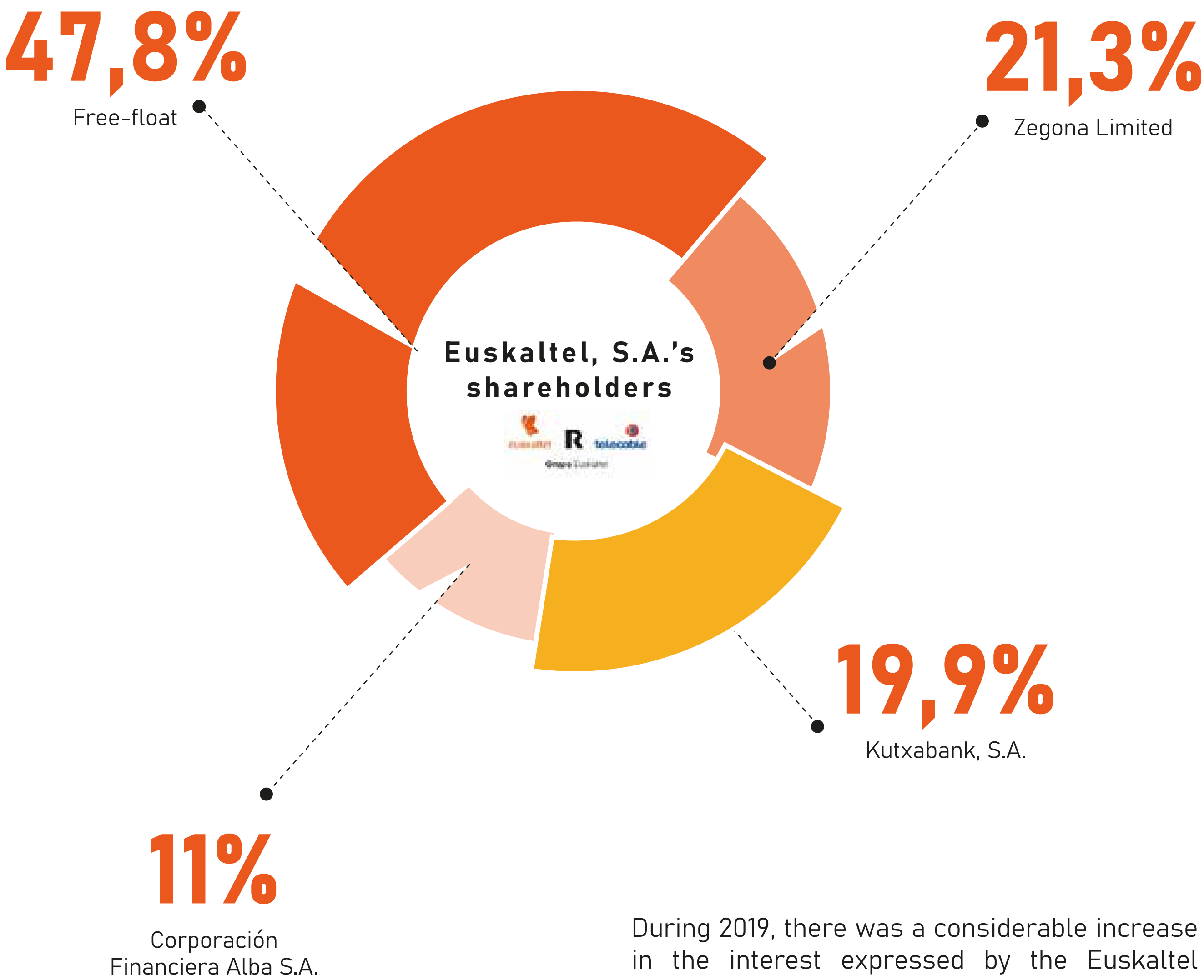
3. Audit and Control Committee self-assessment in which the committee members fill in a questionnaire based on the Spanish National Security Market Commission's Technical Guide 3/2017 on Audit Committees of Public-Interest Entities.

4. Appointments and Remuneration Committee self-assessment in which the committee members fill in a questionnaire based on the Spanish National Security Market Commission's Technical Guide 1/2019 on Appointments and Remuneration Committees of Public-Interest Entities.

The Board's effectiveness in the fulfilment of the duties assigned by Law and the Bylaws was assessed, as well as alignment with the Spanish National Security Market Commission's recommendations as guiding principles.

SHAREHOLDER STRUCTURE

Euskaltel has the following shareholder structure at 31 December 2019:



During 2019, there was a considerable increase in the interest expressed by the Euskaltel Group's shareholders and investors in knowing about the Group's status as regards ESG matters, the number of queries received through the Investor Service Channel on the Group's ESG conduct having risen, which we interpret as a growing preference as regards investor satisfaction

2.2. Regulatory Compliance Model

The Euskaltel Group's Regulatory Compliance Model, unified and updated in 2017 to integrate the Group companies and create a single, coordinated compliance model, combines models for the management of criminal, bribery and corruption, and non-criminal risks.

These risks are overseen by the Audit and Control Committee as part of its duties to monitor the effectiveness of the internal risk control and management systems, and are managed by the Regulatory Compliance Officer.

This unified model lays down internal regulations underlying the Group's policies and procedures as regards both our ethical and compliance culture and the prevention of activities that could lead to criminal liability for the organisation. It includes training and communication plans, risk assessment, controls to mitigate risks, oversight of model implementation, a communication channel and a disciplinary system.

The regulations include the Code of Ethics, the Conduct Instructions, the Good Corporate Governance Policy, the Anti-Corruption Policy, the Conflict of Interest Policy and the Tax Policy, as well as the Ethics Channel to allow employees and suppliers, customers or any third party to clarify doubts and submit queries or information on breaches of internal and external regulations applicable to the Euskaltel Group. All these rules have been approved by Euskaltel S.A.'s Board of Directors.

The Regulatory Compliance Model combines models for the management of criminal, bribery and corruption, and non-criminal risks

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

CODE OF ETHICS

The Code of Ethics lays down the basic values and principles relating to the organisation's stakeholders in the form of Conduct Instructions that must be known and observed by the Euskaltel Group's members, in addition to the policies, manuals, protocols, legislation and other applicable external regulations. The Euskaltel Group has in place certain Due Diligence Model mechanisms for the dissemination of these principles through training and control processes and an Ethics Channel through which to clarify doubts, make queries and report breaches.

The Code of Ethics must be observed by the Board members, employees and suppliers, regulating the ethical behaviour expected of all the organisation's internal and external stakeholders: employees, customers, suppliers, public administrations, shareholders and society at large.

The Euskaltel Group's values enshrined in this code are proximity, honesty, innovation and agility.

The Basic Principles of the Euskaltel Group's Code of Ethics describing how the organisation's members must behave with stakeholders, of which they are duly informed, are as follows:

1

Compliance with Legislation, Internal Regulations and Contractual Relationships

All the Euskaltel Group's activities, wherever they are carried out, are based on the Regulatory Compliance Model, which stipulates strict compliance with prevailing legislation, observance of the internal regulations established voluntarily by the Group and contractual obligations with third parties, as well as administrative and judicial resolutions, rejecting any conduct that is dishonest, abusive and fraudulent or could conflict with the confidentiality, integrity and availability of systems, networks and data.

The Code of Ethics also prohibits collaboration by the Euskaltel Group's members (Board of Directors and employees) and suppliers with third parties in a way that infringes any law and actions that could harm the Group's reputation or stakeholder perceptions.

2
Responsibility and Professionalism grounded in Ethical Conduct

All the Euskaltel Group's activities are underlain by honest, upright behaviour and zero-tolerance to all forms of corruption and bribery, by respecting and observing the Group's Anti-Corruption Policy.

3
Compliance with applicable Financial Legislation

All the Euskaltel Group's activities fulfil accounting and tax obligations in all the territories and jurisdictions in which it operates. Tax-related decisions are taken based on an objective and reasonable interpretation. The Group's financial and economic information is prepared in a reliable way, in line with applicable legislation and applying the principles of existence, occurrence, completeness, valuation, presentation, disclosure, comparability and rights and obligations in accordance with prevailing regulations and the Tax Policy.

4
Euskaltel Group's Emphasis on Personal Interests

All the Group's activities fulfil the Conflict of Interest Policy, which addresses circumstances in which personal interests of the Group's members could interfere with their duties and functions, lead them to take action for reasons other than the strict fulfilment of their responsibilities or influence decision-making, so as to assure their full independence with respect to interests other than those of the Group.

5
Responsible Communication

All the Euskaltel Group's activities are carried out under a communication and advertising approach that is responsible, truthful and transparent, respects each region's linguistic rights and avoids advertising that is misleading, unfair or unlawful, and rejecting offensive or sexist language, in line with the Group's Customer Communication Model.

6
Confidentiality, Privacy and Data Protection

All the Euskaltel Group's activities guarantee the confidentiality and privacy of all information held, observing applicable legal, administrative and judicial obligations, guaranteeing the rights of access, rectification, consultation or objection where necessary, as well as any other rights that employees or customers may have under personal data protection legislation.

7
Commitment to Human and Labour Rights

Todas las actividades del Grupo Euskaltel, independientemente del lugar en el que ejerza su actividad, cumplen, protegen y respetan los Derechos Humanos y Laborales recogidos en la legislación nacional e internacional, basados en:

All the Euskaltel Group's activities, regardless of the location, fulfil, protect and respect the Human and Labour Rights set out in domestic and international laws, which are based on:

- The International Bill of Human Rights, which includes the Universal Declaration of Human Rights and the related core instruments: International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights, as well as the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.
- The United Nations Global Compact.
- The 2030 Agenda for Sustainable Development and the United Nations 17 Sustainable Development Goals.
- The OECD's Guidelines for Multinational Enterprises.
- The International Labour Organisation's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.

In line with these Basic Principles and the Euskaltel Group's commitment to shareholder relations based on ethical criteria, transparency, honesty and proximity as regards their needs and concerns, the following specifications apply to each type of stakeholder depending on the way they are involved in the Group's activities and relationships.

Employees

The Euskaltel Group's relationship with people is founded on the support for and protection of human and labour rights, on equal opportunities, on the confidentiality and privacy of information, and on the avoidance of corrupt behaviour in all related activities:

A

Recruitment, Hiring and Evaluation

Euskaltel's recruitment processes are conducted under strict criteria of equity and equal treatment and based on candidates' professional competencies and potential, assessing performance, effort and talent with no focus on personal conditions or circumstances.

These commitments are reflected in the Equal Opportunities Policy.

B

Safety, Health and Wellbeing

Our people work in a safe, comfortable environment, protected by a Management System that prevents occupational risks and a safety culture based on training and continuous improvement, as well as on the encouragement of conduct that favours health, safety and wellbeing for employees inside and outside the organisation.

They also form part of our Occupational Health and Safety Management Policy and System and OSHAS 18001:2007 certification.

C

Seeking a Work-Life Balance

Las relaciones laborales con los empleados incluyen medidas de conciliación que permiten el correcto equilibrio entre la vida profesional y personal de los empleados.

Estos compromisos se materializan en las Medidas de Conciliación establecidas por cada una de las compañías del Grupo y en aplicación de los requisitos legales de sus convenios colectivos.

D

Equal Opportunities and Treatment, Non-Discrimination and Anti-Harassment

Labour relations are based on a policy of equality and diversity that includes the absence of any discrimination or moral or sexual harassment and on equal opportunities in treatment, training and professional development so as to assure fair, dignified, egalitarian growth unfettered by restrictions due to gender, race, religion, disability, sexual orientation or any other reason.

These commitments are reflected in the Equal Opportunities Policy and in the Training Plan.

E

Anti-Forced Labour and Child Labour

The Euskaltel Group's approach to labour relations rejects all labour performed involuntarily and under duress, and all activities that violate labour rights, including child labour, assuring reciprocal respect between the Group's employees and suppliers, and fomenting relationships based on the exchange of efforts and cooperation.

These aspects comply with Spanish legislation and the Group companies' collective bargaining agreements, as well as the Supplier Evaluation and Approval Model.

F

Respect for Private Life, Confidentiality and Personal Data Privacy

Our labour relations are strictly designed to protect privacy and confidentiality, particularly in relation to personal information. We only request and use data that are necessary to comply with applicable laws. This commitment is reflected in the Data Protection Risk Management Policy and System, the Information Security Management Policy and System, ISO 27001:2017 certification and the Certificates of Compliance with the National Security Scheme.

G

Independence and Anti-Corruption

Our labour relations are designed to assure independence and the rejection of corrupt behaviour. As regards third parties, the Euskaltel Group's employees must not request, receive or offer gifts, gratuities or courtesy items that could affect their objectivity or influence professional decision-making. This is laid down in the ISO 37001:2017-certified Anti-Corruption Management Policy and System implemented in 2019.

Customers

The Euskaltel Group's customer relations are founded on quality services, proximity to their needs and the confidentiality and privacy of their information in all related activities:

A
Quality Services

Customer relations are based on the quality of our processes and activities, and on management systems that promote quality, continuous improvement and innovation.

These commitments are reflected in the Quality Management Policy and System certified under ISO 9001:2015.

B
Safe products and Services

The safety of our products and services is an important part of our customer relations, so we assure high standards of quality and innovation.

These commitments are reflected in the Quality Management Policy and System certified under ISO 9001:2015.

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

C
Protection of Information and Confidentiality

Customer relations are founded on confidentiality, privacy and personal data protection, as provided by the General Data Protection Regulation.

These commitments are reflected in the Customer Privacy Policy, the Web and App User Privacy Policy and the Data Protection Risk Management Policy and System in place in all the Group companies.

The Information Security Management Policy and System certified under ISO 27001:2017 implemented in all the Group companies and the Certificates of Compliance with the National Security Scheme provide further support in this area.

D
Stable and Trusting Relationships

These relationships are built on our knowledge of customers and a swift, close service so as to ensure a lasting, transparent and trusting bond, thanks to a broad and affordable range of products and services aligned with their needs and tailored to their geographic area, responsible communication grounded in clarity, truthfulness and honesty, and an effective response to claims or complaints.

This is all set out in the Customer Management Model.

Suppliers

Supplier relations are based on fairness, stability and trust, as well as on the sustainability of our commercial relationships:

A
Fair Selection and Honest Contracting

We ensure that our commercial relationships with suppliers include fair selection followed by honesty and integrity during and after the contracting process.

B
Sustainable, Stable and Trusting Relationships

Supplier relationships are grounded in trust, sustainability, mutual benefit and ethical conduct so as to guarantee smooth transactions and a mutual interest in minimising any sustainability risk.

These commitments are reflected in the Supplier Evaluation and Approval Model, which is based specifically on ISO 9001:2015 quality standards, ISO 14001:2015 environmental standards and OSHAS 18001:2007 occupational health and safety standards, as well as supplier endorsement of the Euskaltel Group's Code of Ethics, Conduct Instructions and Anti-Corruption Policy

Shareholders

Shareholder relations are founded on good governance responsibilities and value building through the Corporate Governance Model, while assuring competitiveness, ethical conduct, transparency, fair competition in markets and regulatory compliance

A
Value Creation

Shareholder relations reflect honesty and transparency, as well as the responsibility to preserve, protect and increase the Group's value, as reflected in shareholder return policies.

B
Good Governance

The approach is ethical and transparent, including correct, complete and true information on the Group's activities and financial situation, supported by internal control and risk analysis and management systems covering internal and external resources, while always honouring commitments made to stakeholders.

C
Fair competition

Fair competition in the markets in which the Euskaltel Group provides its services, so as to promote a free market and reject any unfair competition practices, whether under applicable laws or voluntary standards, is an important part of our shareholder relations.

D
Proper Conduct in Stock Markets

The Euskaltel Group has an Internal Code of Conduct in Stock Markets that must be observed by all the members of the Board and the Audit and Control Committee, as well as by the Group's employees whose work is directly or indirectly related to stock market activities and those that may come under the code due to their professional relationship with the Group.

Public Administrations

Our relations with public administrations, local through to international, including regulators, are based on regulatory compliance, transparency and cooperation underlain by trust, loyalty and good faith in all related activities:

A

Regulatory Compliance

These relationships must always reflect regulatory compliance. Information and documents requested by public bodies are furnished as quickly as possible, observing the required scope of our responsibilities

B

Responsibility, Ethics and Professionalism

Our activities with public administrations are conducted in a responsible, ethical and professional way, rejecting any corrupt behaviour and promoting transparency.

C

Cooperative and Trusting Relationships

We build relationships through cooperation and mutual trust, prioritising proximity and collaboration inspired by loyalty and good faith.

Society

Social relations are driven by the commitment to responsible, sustainable and cooperative social and environmental actions in the organisation's areas of influence:

A
Socially Responsible Actions

Relations with society are grounded in social responsibility criteria in each of the Euskaltel Group's territories, where we play an active role in activities in which our social contribution can be more effective thanks to our capabilities. The Group goes beyond compliance with legal obligations and is engaged in life quality enhancement, value and wealth creation, and socio-economic development in local communities by investing in telecommunications equipment, services and infrastructures.

B
Sustainable Development and Environmental Commitment

Environmental responsibility and protection, public health and safety, efficient use of resources, energy saving and waste reduction and treatment are all part of this approach so as to minimise our environmental impact on the areas where we do business and mitigate climate change through sustainable development.

C
Sponsorships and Collaborations

Our relationship with society entails collaboration wherever we provide services, making use of the organisation's own resources and capabilities, beyond the scope of our social and environmental responsibilities and in line with the Group's strategy, so as to meet socio-economic and cultural needs through partnerships and collaboration with social and cultural organisations and associations that maximise the contributions we make to society.

PREVENTION OF CORRUPTION AND BRIBERY

The Euskaltel Group has an ISO 37001:2017-certified Anti-Bribery Management Policy and System integrated into the Corporate Governance Model and directly linked to the Good Corporate Governance Policy and the Code of Ethics. The Anti-Bribery Management System lays down prevention and due diligence mechanisms to foster a culture of compliance in anti-corruption and anti-bribery matters, including aspects such as the Anti-Corruption Policy, the Criminal Risk Prevention and Anti-Bribery Guide, training and communication plans and the Ethics Channel. The policy and guide are publicly available to all stakeholders in the Group's brand websites.

The policy binds all those related to the Euskaltel Group, from employees and Board directors to business partners

The policy binds all those related to the Euskaltel Group, from employees and Board directors to business partners, which are external parties with whom the Group has or plans to establish a commercial relationship, including customers, consumers, business partners, consortium members, external suppliers, contractors, consultants, subcontractors, sales representatives, advisors, agents, distributors, representatives, intermediaries and investors, who must oversee compliance and report any suspicions of a breach.

The policy has been approved by the Euskaltel Group's Board of Directors and is periodically monitored and revised by the Regulatory Compliance Officer. It is aligned with prestigious international benchmarks for responsible business and anti-corruption policies such as those of the OECD, the United Nations Convention against Corruption (UNCAC) and the Anti-Corruption Ethics and Compliance Programme for Business of the UNOCD (United Nations Office on Drugs and Crime), the US Foreign Corrupt Practices Act (FCPA), the UK Bribery Act and the Spanish Criminal Code.

In order to prepare the policy, the Euskaltel Group assessed bribery and corruption risks across all the aspects of its businesses and operations, identifying and managing the following vulnerable areas as part of the Anti-Corruption Management System:

FACILITATING OR GREASE PAYMENTS

The Euskaltel Group prohibits all facilitating or grease payments, defined as any small, unofficial or inappropriate payment made to a public official to obtain or accelerate a routine or necessary action to which the party making the payment is entitled, such as the issuance of permits, licences, administrative authorisations or inspections associated with the performance of a contract.

GIFTS, GRATUITIES AND COURTESY ITEMS

The Euskaltel Group prohibits all kinds of hospitality, solicitation or receipt by its Board directors and employees, from third parties, of gifts, gratuities or courtesy items that could affect their impartiality and objectivity or influence a professional commercial relationship, or of undue advantages or as a subterfuge for illegal transactions.

PATRONAGE AND SPONSORSHIP

The Euskaltel Group only arranges patronage and sponsorship where it is compatible with objective, reasonable and transparent selection criteria aligned with its corporate values and strategy, with the aim of developing and strengthening the Euskaltel Group's business and brand, and in line with applicable internal regulations and procedures.

ACCOUNTING RECORDS AND OFFICIAL INFORMATION

The Euskaltel Group prepares its economic and financial information in a reliable way, applying the principles of existence and occurrence, integrity, valuation, presentation, disclosure, comparability and rights and obligations, assuring suitable internal accounting controls and sufficiently detailed documents to support the transactions completed, in line with applicable legislation. The goal is to guarantee that transactions are reported and reflected accurately and appropriately in the accounting records and official information, without any false or misleading entries or assertions, or errors as regards the accounts, reporting periods or other related aspects.

CONFLICTS OF INTEREST

The Euskaltel Group has a Conflict of Interest Policy, which refers to any situation in which the personal interests of employees or directors could come into conflict with the Group's interests.

BUSINESS PARTNERS

The Euskaltel Group demands that all its commercial relationships with business partners be conducted in an honest, upright way, ensuring the fair award of contracts and the absence of incentives in payments associated with the supply or provision of services, analysing the legal and financial status of its business partners and requiring them to comply strictly with applicable anti-bribery legislation.

ANTI-TRUST PRACTICES

The Euskaltel Group prohibits anti-trust practices, defined as agreements or commercial practices between two or more companies to restrict competition or abuse a dominant position.

ANTI-MONEY LAUNDERING

The Euskaltel Group has an Internal Control over Financial Reporting (ICFR) System comprising financial controls, some of which are intended to mitigate the risk of money laundering, supplementing the Criminal Risk and Anti-Corruption Management Model in order to reduce the risk of crime in the Group's activities, including corruption, bribery and money laundering.

In the area of corporate governance, the new Anti-Corruption Policy under ISO 37001:2017 on Anti-Bribery Systems, the Criminal Risk Prevention and Anti-Bribery Guide and the Conflict of Interest Policy were approved in 2019. Management of the Regulatory Compliance Model was also digitalised, bringing together in a single IT tool the GDPR, ICFR and Anti-Corruption risk management models to create an international benchmark, allowing the coordinated management of risks and enhancing internal efficiency.

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(3)
People

(3) People

The People Management Model of the Euskaltel Group is structured on the basis of the Group's labour policies and procedures and the work culture maintained in each of its companies, allowing it to improve day by day in its aims of offering quality employment and achieving the commitment and motivation of all the people who make up the organisation.

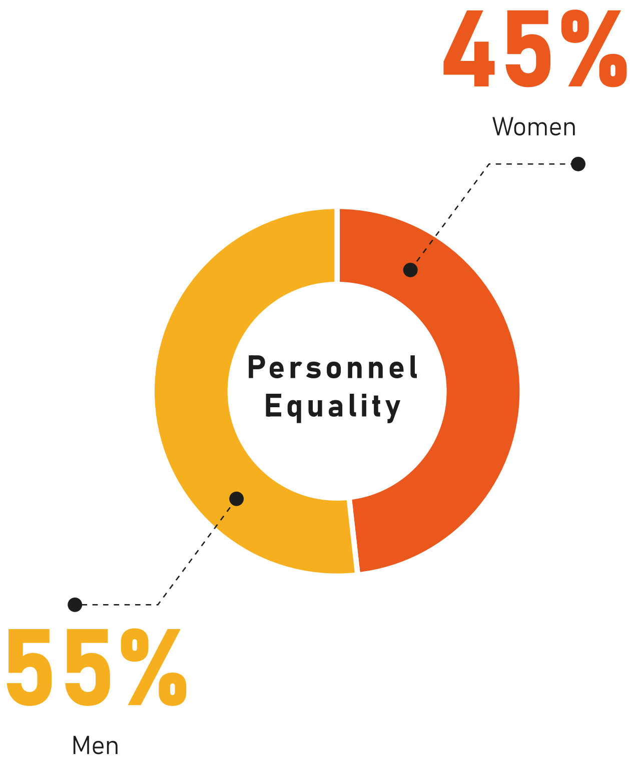
On the basis of this model, the Group makes its commitment to the stability and good working climate of its employees, promoting continuous dialogue between all members of the organisation as a method of managing labour relations and ensuring that they can best reconcile their professional, family and personal lives, in conditions of flexibility, health and safety and equal opportunities.

The Group is also committed not only to improving the current situation of the people who make up the organisation but also to their potential development, convinced that investment in people training will be the only way to ensure the fulfilment of future challenges and business goals and that they will make a difference to the Group and generate opportunities in the long term.

The Euskaltel Group is committed not only to improving the current situation of the people who make up the organisation but also to their potential development

3.1. Employment Management

The employment model of the Euskaltel Group is characterised by a scheme of permanent and full-time contracts (99.48% of staff have a full-time permanent contract) and by a work-force that reflects equality in terms of gender (55% men and 45% women in 2019) and diversity in terms of age and professional specialities, maintaining a total of 586 direct jobs in the Basque Country, Galicia and Asturias in 2019, in addition to the numerous indirect jobs maintained through its extensive supply network.



	Age	Men	Women
Directors	<=30	0	0
	31-50	10	3
	>=51	12	1
Management	<=30	0	0
	31-50	22	14
	>=51	11	3
Other professionals	<=30	3	8
	31-50	203	210
	>=51	60	26
		321	265

586

99.48% of staff have a permanent full-time contract

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3.2. Organisation of Working Hours

The Euskaltel Group is committed to an organisational model that allows people to enjoy an optimal working climate, based on trust, teamwork and flexibility, as well as the reconciliation of their family and personal life.

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ORGANISATION OF WORKING HOURS

8 DECENT WORK AND ECONOMIC GROWTH

When organising working hours the various collective agreements concerning annual and weekly working hours, entry and exit times and vacation periods are applied, adapting them to the respective calendars, schedules and work culture in each company in order to offer the greatest possible flexibility to all people.

Royal Decree Law 8/2019 of 8 March is applied in all Group companies with regard to the registration of working hours and overtime. For its application, a digital platform is envisaged to record ordinary working days. During 2019, on a temporary basis, the Office 365 platform has been made available to employees for recording their working day, which is mandatory for all personnel.

Similarly, in the case of extended working hours, all companies remain within the framework and legislation in force, guaranteeing the maximum possible flexibility in terms of entry and exit times at offices and work centres

EQUALITY AND LIFE-WORK BALANCE MEASURES

5 GENDER EQUALITY

10 REDUCED INEQUALITIES

Royal Decree Law 6/2019 of 1 March is applied in the Group's companies, with respect to the existence of measures to guarantee equal opportunities between men and women in employment and occupation.

In order to apply this law, all the possibilities it offers have been adapted to the companies' actual situation, notifying all personnel, collecting information about their needs and accepting 100% of employees who have requested them.

In addition, thanks to the existing arrangement of working hours prepared on the basis of the regulations applicable in each work centre, in order to achieve a flexible timetable, Group companies are provided with the necessary conditions to facilitate all employees' life-work balance.

Finally, the measures provided for in each of the collective agreements regarding time off and leave of absence, particularly with regard to maternity and paternity leave, are applied in all companies.

As a result of these measures, during 2019 10 men and 11 women took their respective paternity and maternity leaves, all of whom returned to work upon completion of the leave period.

10 and **11**
MEN **WOMEN**

took their respective **PATERNITY AND MATERNITY** leave

3.3. Safety, Health and Wellbeing

As part of their Integrated Management System, the Euskaltel Group companies have implemented a Health and Safety at Work Policy and Management System certified under the OHSAS 18001:2007 standard.

This Management Model enables the highest possible level of safety, health and well-being (physical, mental and social) for people, who are the Group's most important resource, to control and minimise occupational risks and to ensure that in all activities both employees and other persons who may be affected by their actions are adequately protected.

As a result of the Group's commitment to Health and Safety, all companies have adhered to the Luxembourg Declaration on Health at Work of the European Network for Workplace Health Promotion (ENWHP) since 2017.

During 2019, the necessary actions have been taken for the migration and subsequent certification under the ISO 45001:2018 standard

This Management Model allows the highest possible level of safety, health and well-being (physical, mental and social) for people, who are the Group's most important resource

HEALTHY COMPANY

In 2019, the Euskaltel Group companies initiated the KRT Saludable 4.0 project, based on various welfare actions that provide people with information about their health, contributing to the early detection of diseases and the promotion of healthy habits, among which the following initiatives stand out:

CARDIO-PROTECTED WORK CENTRES

MEDICAL EXAMINATIONS

PREVENTIVE HEALTH CAMPAIGNS: INFLUENZA VACCINES

It is offered annually regardless of the recommended periodicity for occupational risk to which the professional is exposed.

Incorporation of medical tests (vision control, spirometry, audiometry and electrocardiogram) in general for all employees for whom, based on occupational risk, these tests are not recommended.

Incorporation of analytical parameters for general health and by gender (PSA and TSH)

Inclusion in the professional's medical report of general and specific health recommendations based on the findings

In 2019 these actions were particularly appreciated by staff, achieving a high participation level and obtaining the following results:

	% people attending examinations		number attending in 2019 and 2018		% persons who repeat the examination	
	Women	Men	Women	Men	Women	Men
Basque Country	70%	71,33%	93	89	83,04%	83,18%
Asturias	60,42%	91,25%	21	61	72,41%	83,56%
Galicia	62,50%	71,65%	26	71	65%	78,02%
Total	**66,54%**	**75,91%**	**140**	**221**	**77,35%**	**81,55%**
	71,86%		**361**		**79,87%**	

Finally, in 2017 all Euskaltel Group companies were able to apply for a bonus due to the recovery of social security contributions for professional contingencies from the Ministry of Labour, Migration and Social Security thanks to the low accident rate, which has materialised in 2019.

The Ibermutua Gallega Mutual Company for Occupational Accidents, with the presence of the Director of the Galician Institute for Occupational Safety and Health (ISSGA), awarded "Recognition Diplomas" to R Cable and Telecable (Asturias and Galicia) in view of their particular commitment to occupational risk prevention.

EMPLOYEE REPRESENTATION IN RELATION TO OCCUPATIONAL HEALTH AND SAFETY

Euskaltel Group management considers and recognises that the cooperation of all personnel and the support of their representatives in the prevention of occupational risks contributes decisively to the achievement of the objectives sought in the health and safety at work area.

The information, consultation and participation process for the documentation of the Occupational Health and Safety Management System has been completed in accordance with ISO 45001:2018 for subsequent certification in 2020.

Likewise, and to facilitate the participation of all people in matters of occupational health, safety and welfare, the Euskaltel Group has implemented communication and information channels, as well as collaborative communication tools.

As a result, 100% of the Group companies' employees are represented in matters of occupational health and safety through their respective Occupational Health and Safety Committees.

ACCIDENT RATE

As a result of the above measures, during 2019 the companies in the Euskaltel Group managed to maintain a low number of accidents and low frequency and severity rates. All the accidents that have occurred are classified as minor, and there has been no suspension from work due to occupational hazards during pregnancy, nor any cases of occupational diseases.

Accidents

	2019
Accidents requiring absence	**0**
Men	0
Women	0
Accidents not requiring absenceav	**3**
Men	2
Women	1

Accident Indicators

Group-wide accident indicators (excluded in itinere)			2019
FREQUENCY RATE No.accidents with sick leave x 105/average			**0**
	By gender	Men Women	0 0
GENERAL FREQUENCY RATE No.accidents (leave + no leave) x 106/ No.hours worked			**2,70**
	By gender	Men Women	2,10 3,14
SICK LEAVE FREQUENCY RATE No.accidents with leave x 106/ No.hours worked			**0**
	By gender	Men Women	0 0
SEVERITY RATE No.working days lost / No.accidents with leave			**0**
	By gender	Men Women	0 0
Seriousness rate No.working days lost / No.accidents with leave			**0**
	By gender	Men Women	0 0

3.4. Labour Relations and Management of Social Dialogue

PFor the management of labour relations and dialogue with the employees of the Euskaltel Group, regular meetings are held with the workers' representatives and with the organisation's management areas and committees, through which the situation in the different areas affecting employees is discussed and analysed. In addition, there are direct communication channels through which communications with people are managed and which allow their concerns and needs to be heard.

In meetings with the workers' representatives and the management areas and committees, such as Financial Management, the Health and Safety Committee, the Training Committee or the Equality Committee, the company provides information on the provisions of Article 64 of the Workers' Statute, supporting legal compliance.

In addition, all personnel have access to the different companies' intranet and to Office 365 and they have company mobile phones to facilitate easy and effective communications.

It should also be noted that the intranet contains a link to the Ethics Channel, through which everyone has direct access to seek advice on the ethical and legal conduct and integrity of the organisation, as well as to report concerns related to unethical or unlawful behaviour or behaviour that affects the organisation's integrity, allowing all employees to access the channel directly and easily, and ensuring maximum discretion, professionalism and confidentiality at all times.

The intranet contains a link to the Ethics Channel, through which everyone has direct access to seek advice on the organisation's ethical and legal conduct and integrity

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

3.5. Training and Professional Development Management

EMPLOYEE TRAINING MANAGEMENT MODEL

The Euskaltel Group has managed the professional training of 100% of its employees based on its 2019 Training Plan, which is based on the annual diagnosis of their training needs in order to face the strategic changes and future challenges of the company, leading to training actions over the year to cover these needs.

An internal training platform is used to manage these training courses which also serves to register and monitor the courses, which are given by both internal and external trainers. During 2019, 18,857 hours of training were provided, distributed as follows: 8,246 hours technical training, 1,260 hours personal skills, 9,351 hours languages.

STAGES OF THE TRAINING PROCESS

1. TRAINING NEEDS ASSESSMENT
2. TRAINING PLAN IMPLEMENTATION
3. EVALUATION OF TRAINING SATISFACTION
4. END OF TRAINING PLAN
5. EVALUATION OF TRAINING EFFECTIVENESS AND TRANSFER OF WHAT HAS BEEN LEARNED

After the completion of the courses, individual evaluations of their satisfaction with the training are made by the personnel concerned and assessments of the effectiveness of the training received are made by managers in order to assess the improvements in their performance resulting from the courses.

Finally, on an annual basis, all personnel receive performance assessments based on targets and competencies from their managers, which, after validation by the director of the decision-making centre, enable a grading of professional profiles. During 2019, 100% of Group employees received performance assessments.

3,4/4

EMPLOYEE SATISFACTION WITH TRAINING RECEIVED

PHASES OF THE PERFORMANCE ASSESSMENT PROCESS

1 **SETTING TARGETS**

2 **MONITORING TARGETS**

3 **PERFORMANCE ASSESSMENT**

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

ON-BOARDING PROCESS FOR NEW EMPLOYEES

New employees joining the Group receive an initial training or on-boarding process that includes a presentation of the company, receipt of corporate documentation on matters such as Health and Safety at Work, GDPR, Quality, Cybersecurity and the Code of Ethics, and training in all areas that help them get used to their new functions.

TALENTU TRAINING PROGRAMME

TalenTu is a programme devoted to the training of junior employees with the aim of promoting their integration into the company and derives from the Group's measures to promote youth employability. The programme, which lasts two years, consists of various phases and actions aimed at managing, developing and retaining talent, enabling people to adapt to the job and acquire skills and abilities on the basis of an individualised training plan.

WOMEN WITH TALENT PROGRAMME

In 2019 the first edition of the Women with Talent programme came to an end. This programme aims to highlight the role of women in the Euskaltel Group and provide them with the skills they need to facilitate their empowerment and put all their knowledge and skills into action, providing them with unhindered growth within the organisation and accelerating their professional development, creativity and management skills, as part of the Group's measures to promote gender equality.

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

3.6. Respect for Equal Opportunities

The Euskaltel Group recognises non-discrimination and the development of labour and social relations based on equal opportunities as a strategic objective, promoting the inclusion and professional development of groups such as women, people with intellectual disabilities and young people in their access to the labour market, and emphasising the importance of diversity in all its companies.

The Euskaltel Group recognises non-discrimination and the development of labour and social relations based on equal opportunities as a strategic objective

EQUAL OPPORTUNITIES POLICY

To achieve these objectives, the Euskaltel Group applies its Equal Opportunities Policy, which has the following basic principles of action:

COMMITMENT TO DIVERSITY, PROMOTING NON-DISCRIMINATION ON THE BASIS OF GENDER, AGE, DISABILITY, MARITAL STATUS, IDEOLOGY, NATIONALITY, RELIGION, SEXUAL ORIENTATION OR ANY OTHER PERSONAL, PHYSICAL OR SOCIAL CONDITION AMONG ALL ITS EMPLOYEES IN ALL THE COMPANY'S ACTIVITIES AND PROCESSES

- **Recruitment and selection processes:** through selection based on merit and the candidates' abilities.
- **Hiring processes:** starting from the non-existence of remuneration discrepancies due to sex, age, disability, marital status, ideology, nationality, religion, sexual orientation or any other personal, physical or social condition
- **Training processes:** ensuring training for all persons in the knowledge and skills required for the efficient performance of their duties, as well as supporting all personnel in relation to their different capacities to make sure they are occupied effectively.
- **Promotion, professional development and compensation processes:** based on the equal evaluation of the knowledge and skills necessary to carry out the work through performance evaluations, and to guarantee quality in employment, promoting the maintenance of stable jobs with occupational content that guarantee a continuous improvement in all employees' skills and competences.
- **Organisation's culture:** based on communications and actions that encourage equality among all persons in the performance of their functions, including the eradication of discriminatory language, and the distribution of information on this policy to all Group members.

COMMITMENT TO GENDER EQUALITY, PROMOTING EFFECTIVE EQUALITY BETWEEN MEN AND WOMEN IN ALL ACTIVITIES AND PROCESSES ACROSS THE ORGANISATION, WHOSE SPECIFIC LINES OF ACTION ARE BASED ON:

- **Strengthening selection and professional development processes:** by facilitating the presence of qualified women in all areas of the organisation, especially where they are under-represented, including the implementation of specific training and professional development programmes for women, and by removing obstacles that could halt or hinder their careers

- **Implementation of positive action measures:** correcting the existing inequalities in terms of the reconciliation of personal, working and family life in order to achieve the correct co-responsibility between men and women, as well as promoting access by women to positions of responsibility in which they have little or no representation, specifically in governing bodies and management categories.

- **Encouraging the engagement of suppliers that apply life-work reconciliation and gender equality measures:** extending the Group's commitment to gender equality to its supply chain.

- **Promoting the employability of women:** by raising awareness and promoting collaboration programmes with educational centres to encourage the presence of women in careers and training programmes related to the lines of business of the Euskaltel Group in which the presence of women is substantially lower than that of men.

- **Collaboration in combatting gender-based violence** through specific programmes including measures for the protection, support, information and accompaniment of victims of gender violence.

COMMITMENT TO THE SOCIAL AND EQUAL INTEGRATION OF PEOPLE WITH DISABILITIES, PROMOTING EFFECTIVE EQUALITY BETWEEN ALL PEOPLE AND ESPECIALLY THOSE WITH SPECIAL DIFFICULTIES AND NEEDS, SUCH AS PEOPLE WITH INTELLECTUAL DISABILITIES.

COMMITMENT TO THE EMPLOYMENT INTEGRATION OF YOUNG PEOPLE, PROMOTING THEIR EMPLOYABILITY AND EQUALITY IN THEIR DIFFICULTIES IN ENTERING THE LABOUR MARKET.

In line with these commitments, the Euskaltel Group has adhered to the CEOE and Adecco Foundation's "CEOPorLaDiversidad" Commitment and to the United Nations Global Compact Principles of Women's Empowerment since 2011, in addition to adopting measures and participating in numerous initiatives to promote equal opportunities..

Programa Personas Accesibles

José Miguel García - Euskaltel Group CEO
Signature #CEOPorLaDiversidad

GENDER EQUALITY MEASURES

The measures adopted to comply with the Equal Opportunities Policy in the gender equality area are embodied in the Group's commitments to apply and establish Equality Plans and Committees in each of the companies through the implementation of various internal and external initiatives.

Based on the equality plans, diagnoses and improvement actions are carried out to achieve gender equality in all processes and activities across the organisation, from selection, promotion, salary policy, work time management, life-work balance, training, working conditions, health and safety, to prevention and action against sexual harassment and non-discriminatory use of language in communications.

In this respect, Euskaltel, S.A. has had an Equality Plan since 2018. In the case of R Cable y Telecable Telecomunicaciones, S.A.U., during 2019 the relevant diagnoses have been carried out to prepare Equality Plans, and the functions of its Equality Committees have been determined for implementation in the following periods.

Based on the equality plans, diagnoses and improvement actions are carried out to achieve gender equality in all the organisation’s processes and activities

Complementarily, the Euskaltel Group supports the employability, empowerment and technological development of women through various internal and external initiatives.

From its internal programme Women with Talent, the Group aims to highlight the role of women in the telecommunications sector, providing women employees with the necessary skills to facilitate their empowerment and the implementation of all their skills and knowledge, providing them with unhampered growth and accelerating their professional development and their management skills, creativity and leadership, so that they can acquire a more relevant role in the organisation.

Externally, the Group has taken part in various initiatives related to promoting the employability of women in the technology field, the following being noteworthy in 2019

EMPREGALIA 2019

Employment forum between companies and job seekers, organised by the Women in Equality Association of Vigo, in which round tables, training courses and workshops on employment and entrepreneurship are carried out to support the inclusion of women in the new technologies sector

WOMEN IN PROGRESS

Collaboration in the Women in Progress project, with the participation of the Group's CISO in this edition, organised by El Correo and sponsored by the Euskaltel Foundation, to address the problems of the gender gap in the technology professions and to encourage the presence of women in science and technology.

GALS TECH

Talk on "Strategies for a safe design: Security by Design", with the involvement of the Group's Data Protection Officer and organised by GalsTech, with the aim of addressing cybersecurity among women and particularly how to come up with a methodology similar to Privacy By Design in cybersecurity from a positive viewpoint.

MEASURES TO PROMOTE THE EMPLOYABILITY OF YOUNG PEOPLE

Euskaltel Group participates with different Universities and Educational Institutions and attends Employment Forums and Events in Galicia, the Basque Country and Asturias with the aim of attracting and retaining young talent from the telecommunications sector. These profiles are then integrated into the TalenTU programme, which allows them to adapt to their work posts, continue training and grow professionally in the Euskaltel Group companies.

During 2019, the platforms, actions and projects carried out have been:

PARTICIPATION IN FORUMS AND UNIVERSITIES TO RECRUIT TALENT

FOSTERING STEM TALENT

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

PARTICIPATION IN FORUMS AND UNIVERSITIES TO RECRUIT TALENT

UNIVERSITY OF VIGO TECHNOLOGY EMPLOYMENT FORUM

common project among the three engineering schools of the University of Vigo, whose objective is to facilitate and promote labour relations between companies and soon-to-be or new technical graduates. This is an education and work commitment in the Galicia area, as well as being part of the actions derived from the collaboration agreement with the University of Vigo.

OVIEDO UNIVERSITY XVIII EMPLOYMENT FORUM

Annual conference organised by the University of Oviedo aimed at students and graduates in the process of accessing the labour market and companies and institutions that are committed to young and qualified talent, with the aim of promoting knowledge and employment.

EMPLOYMENT CONFERENCE ENGINEERING FACULTYOF THE BASQUE COUNTRY

Annual employment and company presentation conference where students from the Bilbao School of Engineering have the opportunity to learn about job offers and the future prospects of some of the main Basque companies and multinationals present in the Basque Country, which take part with the aim of recruiting future engineering professionals

CHAIR AT THE UNIVERSITIES OF A CORUÑA AND VIGO

Collaboration agreement with the universities of A Coruña and Vigo for the creation of the Chair in Cybersecurity, which aims to promote continuous training, innovation and research in the area of cybersecurity, promoting cultural, scientific and technological development on computer security and its practical application in Galician society.

CÁTEDRA DE LA UNIVERSIDAD DE OVIEDO

Collaboration agreement with the University of Oviedo for the creation of The New Generation Video and Networking Chair, with which the Second Technical Conference on New Generation Telecommunications Networks and Services was organised, with the aim of promoting and encouraging the relationship between the University of Oviedo and the Group through an innovation campus, with activities linked to the implementation of R&D&I projects, training and knowledge exchange between companies and universities, and the hosting of students on scholarship.

FOSTERING STEM TALENT

STEM is a study plan based on the idea of educating students in four specific disciplines: science, technology, engineering and mathematics; under an applied interdisciplinary approach, and integrating these subjects in a coherent learning paradigm based on real world applications. Within this framework, we have taken part

CYBERSEC@GAL

Primer foro de ciberseguridad de Galicia, celebrado mediante una mesa redonda de empresas Tecnológicas Gallegas dentro del Plan Digitalent, bajo el objetivo de fomentar las vocaciones TIC entre los jóvenes.

XGN R ENCOUNTER AND TECHNIUM R ENCOUNTER

Evento de ámbito tecnológico dentro del Plan Digitalent donde, a lo largo de dos días, se celebra un encuentro entre aficionados de las tecnologías, concurriendo estudiantes, familias y empresarios en la celebración de talleres, conferencias y exposiciones de temática tecnológica, con el objetivo de apoyar el emprendimiento y la vocación por las TIC's.

OPEN SCIENCE

Participation in the Open Science and Technology Fair, aimed at high school students, supporting ICT careers through activities and talks.

FIRST LEGO LEAGUE

Participation in the global competition organised by FIRST LEGO Education and aimed at primary and secondary school students, with the aim of involving young people in practical STEAM experiences, building confidence and increasing their knowledge and developing learning habits within a framework of research, problem solving, coding and engineering

ROBOTICS WORKSHOPS (“CREA R”)

This is an educational project launched in various locations in Galicia. It involves robotics workshops aimed at children between the ages of 7 and 12, designed to boost their creativity, awaken their entrepreneurial spirit and train them in skills such as teamwork or public speaking.

VISITS TO THE FACILITIES IN GALICIA BY EDUCATIONAL INSTITUTIONS

Visits by students from educational institutions to the Main Operations and Data Processing Centre in Galicia:

MEASURES FOR THE INTEGRATION OF PEOPLE WITH DISABILITIES

The Euskaltel Group complies with the provisions of Royal Legislative Decree 1/2013, of 29 November through the creation of direct employment and through the creation of jobs in Special Employment Centres that work with disabled people.

Specifically, in 2019 reception, mailroom, customer care and telephony services were contracted with Special Employment Centres at a cost of €366,321, as well as through the direct hiring of one employee through a temporary employment agency.

In addition, the Euskaltel building has been adapted for people with physical disabilities and the Family Plan and the Aflora Plan have been developed among employees to contribute to the integration of people with disabilities.
The Family Plan consists of financial assistance for employees with disability issues among their family members for participation in labour integration schemes and leisure activities.

The Aflora Plan is designed to deal with any disabilities emerging among Euskaltel employees, without any cases having arisen in 2019.

Euskaltel also participates in the "Accessible People" Programme of the Gorabi-de Association, aimed at entities and individuals in Bizkaia who, without having a direct relationship with the intellectual disability sector, have become involved in the social inclusion of this group.

To this end, Euskaltel held interactive, training and awareness sessions at its facilities in Derio in work groups with people with intellectual disabilities, which proposed specific measures to facilitate understanding of the difficulties and needs of this group, helping to
promote favourable attitudes and interactions and to improve their quality of life in equal opportunity conditions.

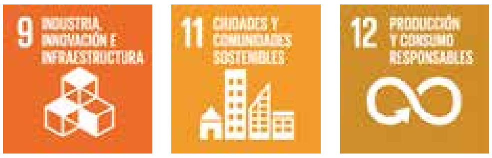
Consequently, in 2019 the Gorabi-de association awarded Euskaltel the Gorakide badge in recognition of the commitment and contribution made to people with intellectual disabilities and the values shared with the Gorabide association.

(4)
Customers

(4)

Customers

4.1. Customer Management Model



771.074
PRIVATE
NDIVIDUALS

1.812
LARGE
COMPANIES

13.451
SMEs

75,6%
ELECTRONIC
INVOICING

Private customer satisfaction by operator:

euskaltel	R	telecable
7,4	7,8	7,3

Since its early days the Euskaltel Group has been noteworthy for a relationship model with its customers based on closeness and the early detection and fulfilment of their needs, which has become its great competitive advantage.

Its commitment to providing the best service and products and its emphasis on professionalism and honesty enable it to be regarded by the private customers receiving its products and services as part of their family or circle of friends.

The Group has been providing support to SMEs and large companies for over 20 years, seeking to meet their demands and anticipate their needs through a professional team which is is entirely devoted to providing them with their technological challenges, establishing a high percentage of strong, lasting relationships with mutual trust, culminating in a lengthy track record of the satisfactory implementation of all kinds of projects.

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

4.2. Quality, Privacy and Customer Data Protection

To be able to offer its customers the highest quality in all its activities and processes, the Group has implemented a Quality Management Policy and System which is certified under the ISO 9001:2015 Standard in each of its companies and which belongs to the Group's Integrated Management System, enabling it to maintain high levels of quality and control in all its processes and services.

The Group also has a Customer Privacy Policy and a Web and App User Privacy Policy which includes a policy for marketing to non-customers, and a Data Protection Risk Management Policy and System implemented in each of its companies and belonging to the Group's Integrated Management System, enabling it to ensure maximum control over the information and personal data supplied by its customers, as well as to comply with the General Data Protection Regulation.

In order to prioritise transparency in its customer relations, the Group publishes these policies on the various corporate websites of its brands so that they are accessible to custo mers and all stakeholders.

In order to prioritise transparency in its customer relations, the Group publishes its policies on the various corporate websites of its brands so that they are accessible to customers and all stakeholders

In addition, a copy of the data protection policy is included in all contracts with customers so that they can know from the outset how and why their personal data is being processed, as well as informing them of their rights and allowing them to freely manage how they want future business relationships to be conducted. It should be noted that this policy has been revised with the approval of the Spanish Data Protection Agency.

On a complementary basis, to ensure optimum levels of information security, the Group has implemented an Information Security Policy and Management System certified under ISO 27001:2017 in each of its companies.

On an individual level, for products and services marketed under the Telecable brand, a Business Continuity Management Policy and System certified under ISO 22301:2015, an Information Technology Service Management Policy and System certified under ISO 20000-1:2011, and a Customer Contact Centre Service Management Policy and System certified under ISO 18295:2017 are maintained.

During 2019, it should be noted that all the Group's companies received a Certificate of Compliance with the National Security Scheme for physical and virtual data centre, backup and cybersecurity services, and that progress was made in cyber risk management through the implementation of new security and anti-fraud measures and SOC management.

Information Security Management ISO 27001 Certified

International Organization for Standardization ISO 9001

ISO 20000

ISO 22301

ISO 18295

4.3. Communication with Customers

In order to guarantee its commitment to transparent and honest relations with its customers in accordance with responsible communications and advertising principles, the Group notifies its customers of any changes in rates two months in advance and carries out checks through annual audits of the quality of its invoicing.

In addition, in order to continue providing close and speedy customer service, the Euskaltel Group has a consistent and agile customer service and complaints system that allows it to meet the different needs of individual customers and companies that rely on its services.

The communications channels available to customers for any type of query are via telephone, web, app, social networks (twitter, Facebook) or by visiting a physical store.

These channels allow companies to record the reason for the communications and the customer's data in order to start the analysis, resolution and response process as soon as possible, which are carried out regardless of whether they are substantiated or whether the customers' claims are valid.
Depending on the type of communication received, the Euskaltel Group has different procedures for processing them: customer complaints or complaints related to customer management, official bodies, terminal management, technical failure, damage, provisioning or billing and collection.

Communications and/or complaints channels

- Phone
- Web
- App
- Physical store
- Social networks

In the specific cases of billing errors, the Euskaltel Group companies inform the customers concerned of the situation that has occurred and how it will be resolved in order to correct the errors made in future bills. The Euskaltel Group also maintains a compensation policy in the case of complaints which are resolved in the customer's favour, in which the compensation is reflected in a counter which can be easily viewed by the customer.

Trends in the number of complaints and resolution times are published quarterly on our brands' Service Quality sites as established in the Service Quality Order (IET/1090/2014), in accordance with the guidelines set by the Secretary of State for Telecommunications and Digital Infrastructures.

Euskaltel *R Cable* *Telecable*

4.4. Distinctive Offer of Products and Services

As part of its commitment to meet its customers needs and to build loyalty among new customers, in 2019 the Euskaltel Group has sought to increase the value of its services and to offer new commercial products to private customers, as well as new value solutions to companies by offering convergent solutions that combine connectivity on any technology.

The Euskaltel Group seeks to increase the value of the services it provides and to offer new commercial solutions

A competitive offer for all kinds of households

During 2019 the Group continued to provide solutions to the multiple needs of customers in relation to telecommunications services, and is committed to accommodating the variety of products available in the market by incorporating new solutions and improving existing ones.

Its value proposition ranged from enhancements to solutions designed for families that need multiple mobile lines and convergence options without the need for a fixed line to offers for senior profiles that require mobility in both their fixed and mobile terminals to take both services wherever they need them.

Family. The most popular package for households with multiple mobile lines.

The Group improved the convergent offer with the highest value for its customers, updating it to current and future needs by adding options with increased capacity and a wider range of options to choose from in the "Family" package.

In addition, we are committed to adding value by including unlimited data consumption during weekends to all Family customer lines.

No landline, but more gigabytes

Since the fixed-line telephone is no longer relevant for a significant part of the Group's customers, such as young people, a new value proposition was launched for them: "remove your fixed-line telephone and get more gigabytes for your mobile".

"Try our services" offer

The Group opted for an innovative formula of letting its customers try out the products before buying them. "Try it, and if you're convinced, call us to keep it" is a transparent formula that lets customers try a product or service before having to buy it.

Member Get Member

The Group launched an initiative to thank customers who recommend them. The "plan amigo" was implemented in this connection in which customers were rewarded with a discount in their bills for each customer they recommended

Terminals and Gigabytes

In summer, as customers make more use of their data, the Group responded to its customers needs by launching the KIN-KON offer, based on obtaining a mobile phone for 0 euros and signing up for an additional 10 gigabytes for €6 per month.

Enterprise Solution.
The Converged Communications Cloud Solution

In 2019, the Group has continued its commitment to offering convergent solutions that combine connectivity on any technology, such as the integration of fixed and mobile telephony in the cloud with advanced user functions and digital solutions for collaboration, teamwork and security, allowing companies to enjoy total autonomy for their online management.

The Enterprise Solution for SMEs has concentrated this commitment and development on its products, constituting a very important milestone in the process of simplifying and unifying the Group's portfolio for the business market and allowing access to better and more competitive communications in terms of supply, technology and functionality.

This product was launched in 2019 for the Euskaltel and R brands, with the aim of extending it later to the Telecable brand.

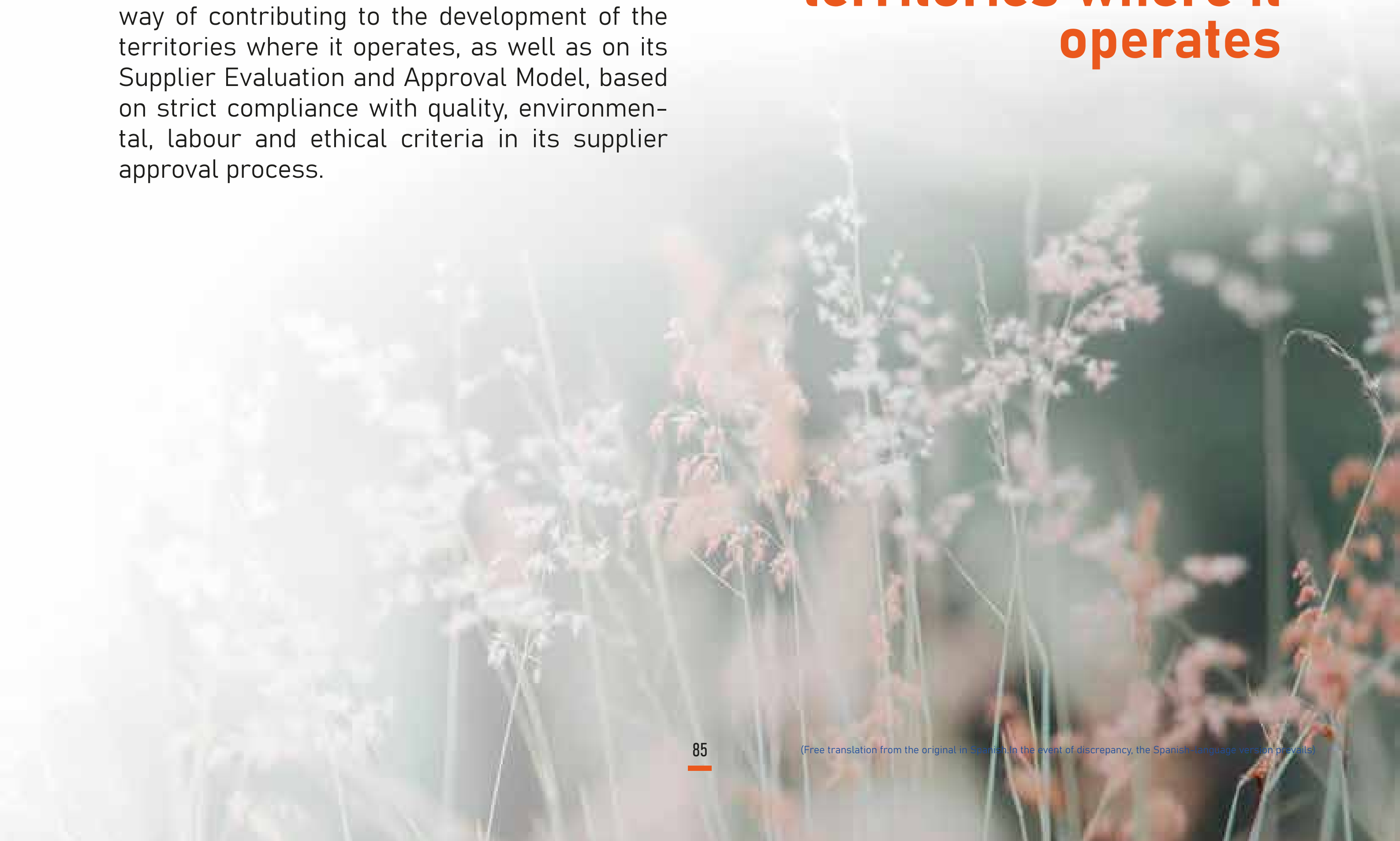
(5)
Suppliers

(5) Suppliers

5.1. Supply Chain Management Model

The Euskaltel Group has based its Supply Chain Management Model on the prioritisation of nearby local and national procurements as a way of contributing to the development of the territories where it operates, as well as on its Supplier Evaluation and Approval Model, based on strict compliance with quality, environmental, labour and ethical criteria in its supplier approval process.

The Euskaltel Group has based its Supply Chain Management Model on prioritising nearby local and national procurements as a way of contributing to the development of the territories where it operates



5.2. Supply Chain

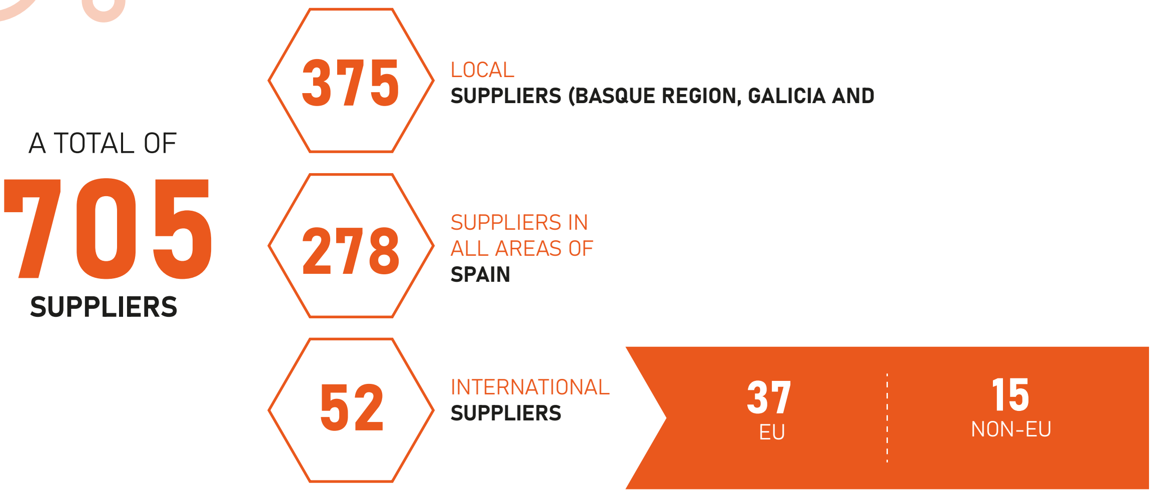
The Group's supply chain, whose largest procurement volume is based on the purchase of services, technology and network operations, is characterised by its highly local character.

Of the total of 705 suppliers that make up its supply chain, 375 are local suppliers or suppliers from the Basque Country, Galicia and Asturias, representing 46.4% of total purchases, and 278 are national suppliers, representing 47.0% of total purchases.

As a minority, and given the complexity of the sector in certain procurement matters, 6.6% of total purchases are made outside Spain (52 suppliers), of which 37 are suppliers from the European Union and 15 are suppliers from outside the European Union (11 in the United States, 1 in Switzerland, 1 in Colombia, 1 in China and 1 in Taiwan).

To ensure traceability and control of the entire supply chain, the Group has management tools that allow the various companies to monitor all their purchases and supplies.

In addition, certain procedures and the e-management application are available for the exchange of legal documentation, Group requirements and technical requirements in projects, facilitating the appropriate coordination of activities between the companies taking part in Group projects and the integration of preventive health and safety management in order to guarantee the well-being of all the people in its supply chain.



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

5.3. Supplier approval and evaluation

When initiating relations with its potential suppliers, the Euskaltel Group applies a selection process in which prior compliance with quality criteria under ISO 9001:2015, environmental criteria under ISO 14001:2015 and occupational health and safety criteria under OSHAS 18001:2007 are evaluated, in addition to financial and legal criteria.

As a complement to this process, all suppliers receive the Code of Ethics, its Conduct Instructions and the Anti-Corruption Policy, with the aim of informing them of all the ethical requirements they must comply with to form part of the Group's supply chain, as well as the existence of an Ethics Channel, in order for suppliers to assume the ethics and due diligence commitments within the objectives shared by both companies. This co-responsibility is embodied in the Supplier Charter, which is delivered during the contracting processes part of their commitment.

All contracting processes are governed by fair and honest selection principles in order for all suppliers to have the same equal opportunities

Likewise, the entire contracting process is governed by fair and honest selection principles with the aim of ensuring that all suppliers have equal opportunities when it comes to being selected to form part of the supply chain.

Every year, a compliance and performance assessment is made with respect to the quality, environmental and health and safety criteria applied in the approval process. Suppliers may lose their approved status as a result of the assessment outcome, with the consequent discontinuance of business relations.

Accordingly, any supplier that fails to meet these criteria must go through the approval process again in order to become part of the Euskaltel Group's supply chain.

(6)
Environment

(6)

Environment

6.1. Environmental Management Model

The companies that make up the Euskaltel Group have been aware since its formation of their link with the environment, maintaining their commitment to the environment as one of the basic pillars for becoming a responsible and sustainable company. Therefore, the Environmental Management System of the Euskaltel Group, as part of its Integrated Management System and its strategic environmental commitment, is based on the latest Environmental Master Plan, which includes, under the same policy, common objectives and actions to mitigate the Group's environmental impact.

The Euskaltel Group continues to maintain its commitment to the environment as one of the basic pillars for becoming a responsible and sustainable company

This management is based on the Euskaltel Group's environmental commitments and initiatives, such as the Principles of the United Nations Global Compact, adhered to in 2003, the Global Compact Climate Declaration, made in 2007, or the #PorElClima Community, which it joined in 2017. Likewise, the Euskaltel Group's environment strategy is aligned with the Basque Environmental Strategy for Sustainable Development (2002 - 2020), as well as with SDG 12 "Responsible production and consumption" and SDG 13 "Climate action".

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

The Environmental Master Plan is implemented along four strategic lines:

1

Environmental Management Excellence (Green Organisation)

This strategy aims to deploy policies to reduce the environmental impact of the Group's activities by promoting good environmental practices, including the development of the Environmental Management System and measures related to the environmental dimension of the organisation, such as measuring and recording the carbon footprint and analysing the product's environmental footprint.

2

Communication of Environmental Performance (Green Communication)

The aim of this line is to promote communication and dialogue with all stakeholders based on a commitment to transparency, truthfulness and the preparation and notification of activities carried out both through this report and the various environmental statements.

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

3

Sustainable Products (Green Product)

This strategic line seeks to improve the environmental dimension of the Euskaltel Group's products and to enhance the value of these actions for customers, carrying out technological surveillance activities on other companies, product life cycle analyses and activities aimed at promoting the circular economy.

4

Actions to Combat Climate Change

This line aims to align the environmental strategy with sustainable development objectives, working on the reduction of the carbon footprint, analysis and compliance with international initiatives or the ODS.

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 in all Group companies (certified by AENOR since 1999).

Following this policy of external endorsement of the internal commitments acquired and with the aim of staying in line with the Basque environmental strategy, Euskaltel decided to adhere voluntarily to the EMAS regulation since 2004. Since 2018, all Group companies have adhered to the EMAS regulation.

In addition, and given the organisation's concern to reduce its impact on climate change, the Group has an Energy Management Policy and System based on the ISO 50001:2011 standard, having certified the Energy Management System for DPCs in Asturias. As a tool for achieving its objectives in this area, an Energy Committee has been established, which plans and reviews the whole Group's energy efficiency objectives and plans on an annual basis, with quarterly monitoring.

The Euskaltel Group has therefore assumed the responsibility of carrying out environmental management that minimises the negative impacts on its surroundings, promoting good environmental practices.

To this end, it carries out an annual evaluation of the environmental aspects associated with its activities based on the criticality of the related environmental impact, taking into account both direct and indirect aspects and under normal, abnormal 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 company has its own significant issues, with energy consumption being a common aspect for all companies, as well as other significant environmental matters such as the generation of hazardous waste (lead batteries) and Greenhouse Gas emissions from electricity consumption.

In addition, within the framework of each company's Environmental Management System, the services they provide to their customers are analysed from a life cycle perspective, including the impact of their services on their utilisation by their customers.

During 2019, in view of the environmental impact of cloud services, the study focused on the Life Cycle Assessment (LCA) of Euskaltel's Virtual Data Centre (VDC), carried out on a "cradle to grave" basis. The main objective of carrying out the LCA is to identify the critical aspects within the operation and useful life of the VDC from an environmental viewpoint in order to propose areas for improvement, also serving as a powerful communication tool for both users to whom the VDC provides service and for the company itself, reflecting the organisation's commitment to the Environment

euskaltel

See Euskaltel's Environmental Statement

https://www.euskaltel.com/webektes-t/-GaleriaCorporativo/Do-cu-mentos/nosotros/responsabilidad_social/ 2019/2019-declaracion-ambiental.pdf

See R's Environmental Statement

See R's Environmental Statement
https://legal.mundo-r.com/legal/sites/-de-fault/files/imce/pd-fs/Declaracion-mediombiental-18-es.pdf

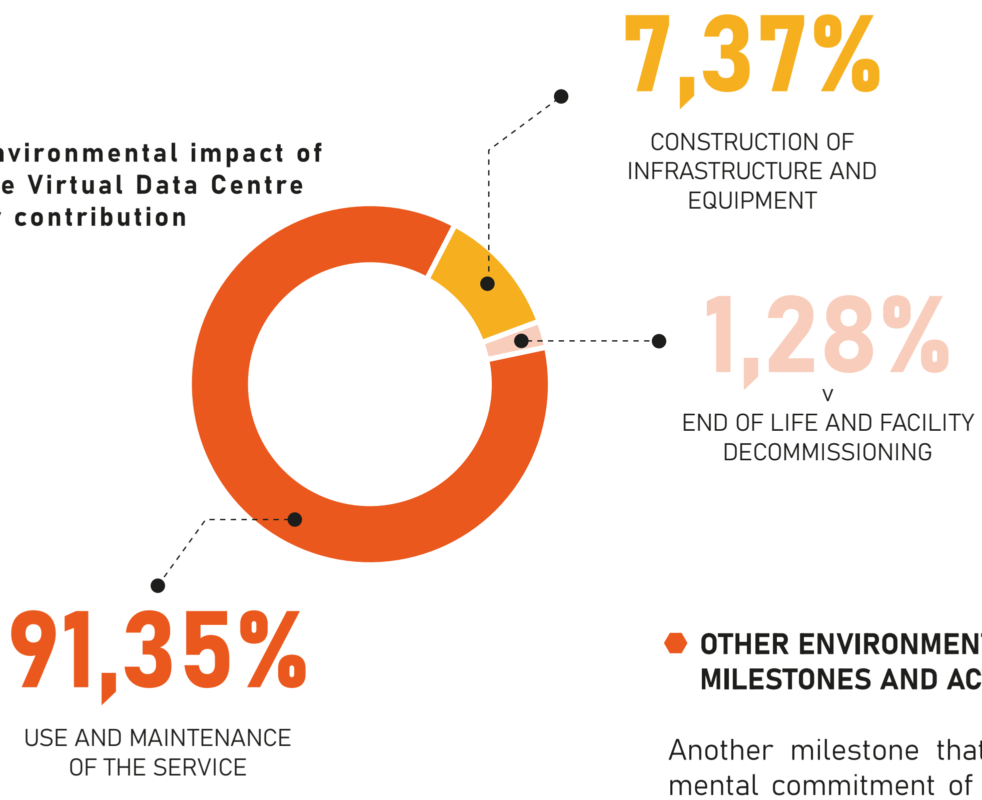
telecable

See Telecable's Environmental Statement

https://telecable.es/bundles/app/docs/-Te-lecable-EMAS-2018.pdf

As a result of the LCA performed, it can be seen that the main environmental impact is associated with the use and maintenance stage of the VDC service, with a much bigger impact than the infrastructure and equipment construction stages and the end of life and decommissioning stages.

Environmental impact of the Virtual Data Centre by contribution



OTHER ENVIRONMENTAL MILESTONES AND ACTIONS

Another milestone that reflects the environmental commitment of the Group's companies and their capacity to establish alliances for sustainable development was the public-private collaboration agreement for the management of the Basque Eco-design Centre, a commitment initiated by Euskaltel in 2012 together with IHOBE (Basque Government's Environmental Management corporation), and renewed for 2016-2020, which seeks to achieve the objective shared with the Basque Government of promoting the development of ideas and actions that contribute to improving business competitiveness in the Basque Autonomous Region while preventing the generation of environmental impacts through the development and application of eco-design, eco-innovation and circular economy methodologies.

Within the framework of this collaboration, during 2019 an analysis has been made of Euskaltel's positioning in relation to the most recent EU green public procurement criteria in terms of services supplied through Data Processing Centres (hereinafter DPCs) in order to analyse, by means of an environmental monitoring exercise, the current status of the Euskaltel Group DPCs and identify opportunities to improve their positioning.

In addition, thanks to the Group's commitment to environmentally sustainable events, during 2019 both General Shareholders' Meetings and the Euskal Encounter event were held under the "Erronka Garbia" certification for sustainable events. This certificate, awarded by IHOBE (Basque Government's Environmental Management corporation), recognises events that include measures to minimise environmental impacts in both their design and organisation, establishing the steps to follow for planning and holding the events, measuring their impact and systematising continuous improvement, emphasising 6 priority areas of action: mobility, energy, water, procurement, infrastructure and waste.

ERRONKA GARBIA
EVENTO AMBIENTALMENTE SOSTENIBLE

During 2019 both General Shareholders' Meetings and the Euskal Encounter event were held under the "Erronka Garbia" certification for sustainable events

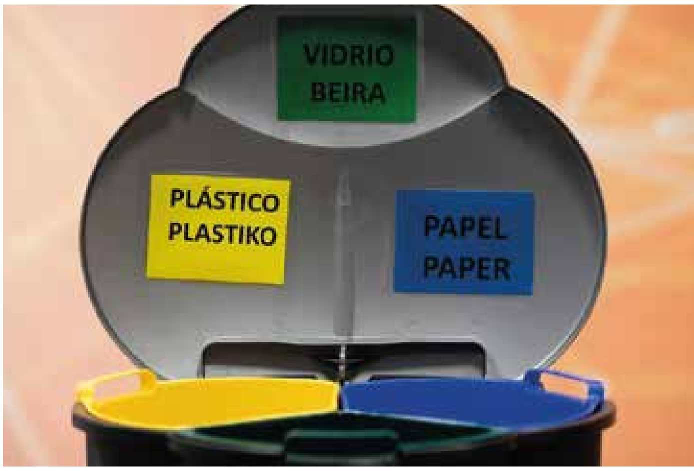
6.2. Materials, Waste and Water Management

The Euskaltel Group considers that efficiency in the use of resources is both an economic and an environmental issue. For this reason, it continues to promote the efficient use of resources (water consumption and energy consumption) through the Environmental and Energy Management Systems implemented in the Group, thanks to which it is possible to measure, assess and act to continue implementing measures to increase energy efficiency and optimise the consumption of resources and operational processes.

The Group has identified, among its most signi ficant material consumption, the consumption of Electrical and Electronic Equipment (EEE), which includes decoders, cable modems, routers and cables, and the consumption of paper and cardboard.

It also identifies among its most significant waste the generation of WEEE (Waste Electrical and Electronic Equipment), cellulosic waste and lead acid batteries, as well as less significant materials such as plastics, fluorescents, batteries and organic waste.

In this respect, integrated with the Environmental Master Plan, the Euskaltel Group applies the ISO 14001:2015 standard for responsible management, applying circular economy measures to reduce consumption and generate less waste.



Responsible Management of Electrical and Electronic Equipment (EEE)

Electrical and Electronic Equipment (EEE) is identified as the most significant material and waste in Euskaltel Group companies. EEE are part of a fast-growing industrial sector, given that the innovation cycles for this equipment are increasingly brief and the replacement of these devices is accelerating, making EEE a growing source of waste, requiring measures to be taken to prevent the generation of such waste by encouraging the reuse of equipment. In line with current legislation (RD 110/2015), it is considered a priority to continue to progressing in the efficient use of resources, in their reuse and recycling and to contribute to the reduction of EEE to a minimum, bearing in mind that in this sector the recovery of valuable secondary materials is particularly relevant, since EEE are very complex products that generally include numerous parts and components.

Our commitment to responsible resource management and the circular economy is one of the keys to the Euskaltel Group's operational process in this area, emphasising reuse as opposed to recycling or disposal

Accordingly, this commitment to responsible resource management and the circular economy is one of the keys to the Group's operations in this area, emphasising reuse over recycling or disposal. For this purpose, customer equipment that exceeds the established requirements, such as decoders, cable modems or routers, are recovered and reconditioned, reducing the impact of consumption of these materials. In cases where reuse is not possible, equipment is recycled by delivering it to an authorised WEEE manager, achieving a significant reduction in the waste generated at the end of the process and the lowest possible environmental impact.

During 2019, the consumption of this equipment was 253.99 tonnes, an increase of 59.51% over the previous year, due to a change in the equipment installed with customers as a result of technological development.

Likewise, during 2019 more than 217,000 of these devices were reused, representing 56% of installed customer equipment.

As a result of the Group's commitment to the territories in which it operates, and also thanks to its awareness and responsibility for impacts beyond its own territory, we should mention the Framework Agreement for Collaboration between the Alboan Foundation and the Euskaltel Group for the "Mobiles for the Congo" initiative within the framework of the "Conflict-Free Technology" campaign, which aims to inform, raise awareness and collect used mobile phones from the public and generate economic resources through the sale and reuse of the terminals collected, which go to financing international cooperation projects in the Democratic Republic of the Congo through the Jesuit Refugee Service organisation.

Responsible Management of Paper Consumption and Cellulose Waste

Paper consumption results from the production of bills, communications with customers and office activities that cannot be replaced by the digital use of information. Less use of these materials and the use of electronic invoicing is encouraged. For the management of the waste generated, all the paper generated is destroyed as it might contain confidential data. The paper waste (cellulosic waste) is delivered to a specialised company that transports it to crushing plants and then delivers it to an authorised manager for recycling.

As a result of these measures to reduce the consumption and generation of cellulosic waste, in 2019 paper consumption was 144.19 tonnes, a reduction of 23.42% compared to the previous year, when consumption was 188.30 tonnes. Likewise, paper waste derived from the business in 2019 was 19.53 tonnes, a reduction of 20.43% with respect to the previous year in which paper waste was 24.54 tonnes.

Paper consumption results from the production of bills, communications with customers and office activities that cannot be replaced by the digital use of information

Responsible Management of Lead Acid Battery Consumption and Waste

Lead batteries are used to ensure continuity in the supply of electricity both in the network and in the corporate buildings of the Euskaltel Group companies. They give rise to hazardous waste generated at the end of the useful life of the batteries and in accordance with the current battery replacement policy, by which they are removed through corrective maintenance processes due to failure or loss of capacity that could jeopardise the availability of the service at the facility where they are located. When applying this policy, the distribution of this waste from one year to the next is often not consistent, with peaks arising in the amount of the waste generated as the battery stock ages.

As a result, in 2019, lead battery waste per product was 13.90 kg of batteries/1000 products (with a 9.8% increase over the previous year in which waste was 12.66 kg/1000 products).

During 2018, a project was undertaken in Asturias to replace batteries with more efficient ones, so that they would provide the same service while generating less waste at the end of their useful life, and this has continued throughout 2019.

Responsible Management of Plastic Consumption and Waste

The consumption of plastics is mainly due to the consumption of food and beverages by employees, which is managed by placing yellow containers in the corporate buildings of the Euskaltel Group companies, which are removed and managed for subsequent recycling by local companies.

In this area, during 2019 the plastic containers used in the pre-prepared food service for employees at the corporate building in Derio have been replaced by compostable and biodegradable containers, thereby limiting the generation of single-use plastic containers

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

Responsible Management of Lighting and Battery Waste

In the Euskaltel Group companies it is usual to generate fluorescent lamp waste from the lighting systems in buildings and network centres. In addition, waste is derived from the batteries used in the remote controls of decoders.

This waste is deposited in containers located in the companies' buildings where the employees can also deposit batteries generated in their homes, and then delivered to an authorised manager or a clean point.

As a result, in 2019, lighting and battery waste amounted to 1,214 kg, a 118.49% increase over the previous year when this waste amounted to 556 kg). This difference in quantities is due to the variability implied by the fact that battery collections are not carried out every year if a sufficient volume has not been produced.

Responsible water management

Water is supplied from the various municipal networks where the Euskaltel Group companies are located and is mainly used by the companies' employees, as well as for other secondary uses such as garden watering, building cleaning work and use in the cooling of telecommunications network equipment.

During 2019, water consumption was 7,900 m3, an increase of 5.92% over the previous year when 7,458 m3 was consumed. Actions have been taken to limit water consumption, such as placing aerators on taps to reduce consumption. In addition, meters are being checked by the supply companies to ensure the accurate measurement of consumption

6.3. Energy Management

For the Euskaltel Group, electricity consumption is one of the most significant environmental aspects and is the main source of energy consumption by far. Electricity is consumed by the telecommunications network (to provide services to customers), the DPC and the central services buildings (lighting, computers, air conditioning).

In this respect, integrated with the Environmental Master Plan, the Euskaltel Group has defined an Energy Management System based on the ISO 50001:2011 standard with the aim of continuously improving its energy performance, having certified the Energy Management System for the Asturias DPC. An Energy Committee has also been set up, responsible for the Group's energy efficiency plan and objectives and their quarterly monitoring. The application and certification of the ISO 14001:2015 and EMAS standards and their respective environmental statements in each Group company is aimed at continuously improving energy consumption management and reducing greenhouse gas emissions.

In addition, with the aim of reducing the climate impact of energy consumption, a green energy purchase agreement has been concluded to guarantee the supply of electricity based on renewable assets for Euskaltel. This agreement was the first PPA (Power Purchase Agreement) signed between an energy company and a telecommunications operator in Spain.

As an energy efficiency tool, the Euskaltel Group has a mobility model that seeks, in addition to reducing traffic accidents, to reduce energy consumption through the rationalisation of travel and the provision of remote communication and collaboration tools for its employees.

Responsible Electricity Consumption Management

The electricity consumed by Euskaltel Group companies is used to provide services to the telecommunications networks (to serve customers), the data centres or the central services buildings (i.e. lighting, computers and air conditioning).

During 2019, electricity consumption was 67,242.46 Mwh, an increase of 1.34% over the previous year, when electricity consumption stood at 66,356.56 Mwh, due to the increase in products supplied to customers, which grew by 2.6%.

However, in order to increase energy efficiency, in 2019 a project was undertaken to replace the heating and cooling installations in Derio's corporate building involving an investment of €173,457, resulting in a saving of 20% of the electricity consumption at this facility.

REDUCTION OF

10,84%

IN DIESEL CONSUMPTION

COMPARED TO 2018

Responsible Fuel Management

Fuel (diesel) consumption has a mainly productive purpose and is used by the Euskaltel Group companies in the operation of generators and vehicles to transport employees on company assignments.

Generator sets come into operation when the main power supply fails in corporate buildings and network nodal centres or during maintenance operations and therefore their consumption, while not predictable, is low. In the specific case of Asturias, natural gas is used for heating the corporate building.

Savings and rationalisation criteria are applied in the use of vehicles for employee travel on company assignments, with measures such as the need to authorise travel for work purposes, optimising trips by using the lowest possible number of cars and using videoconferencing for meetings between employees in different locations.

During 2019 diesel consumption stood at 1,353.64 Mwh, an increase of 10.84% over the previous year when 1,518.27 Mwh was consumed. For its part, natural gas consumption in Asturias during 2019 stood 129.56 Mwh, an increase of 0.18% over the previous year when natural gas consumption totalled 129.33 Mwh.

Responsible Energy Efficiency Management

To minimise the impact of energy consumption and in accordance with the Environmental Master Plan, the Euskaltel Group has defined an Energy Management System based on the ISO 50001:2011 standard to continuously improve its energy performance, having certified the Energy Management System for the Asturias DPCs.

An energy efficiency plan is defined on an annual basis which describes the actions to be carried out during the year to improve the Group's performance in this area.
The Energy Committee is responsible for the energy efficiency plan and its monitoring, as well as for the Group's energy efficiency targets and their quarterly monitoring.

The energy efficiency plan involves actions aimed at reducing electricity consumption. Some of these actions have been carried out through the renewal of equipment, such as uninterrupted power supply systems, replacement of energy systems, migration and disconnection of television headends or replacement of air conditioning systems with more efficient equipment. The shutdown of obsolete or unused technologies to eliminate phantom electricity consumption has also been addressed.

The Euskaltel Group is carrying out technological replacements for new customers (from HFC to FTTH technology), which means lower energy consumption to provide service to customers due to the simplification of the network which also results in an improvement in service and a reduction in incidents, and implies fewer resources used in solving them.

An energy efficiency plan is defined on an annual basis which describes the actions to be carried out during the year to improve the Group's performance in this area

6.4. Air Pollution Management

The Euskaltel Group identifies energy and fuel consumption as its most significant environmental impact with respect to air pollution, together with emissions of cooling gases.

In this respect, in line with the Environmental Master Plan and its strategy against climate change, the Group is registered with the Register for carbon footprint, compensation and carbon dioxide absorption projects kept by the Ministry for Ecological Transition, carrying out calculations of the carbon footprint of its activities for determining its annual CO2 emission reduction plans and calculations and reports on Greenhouse Gas emissions controlled by the organisation, including direct emissions from sources within the organisation (Scope 1), indirect emissions from externally generated electricity (Scope 2), and other indirect and externally generated emissions from the use of employee vehicles for business travel and air travel (Scope 3), with annual reduction plans for these emissions being verified by an independent third party.

Emissions of Coolant and Combustion Gases

Emissions of cooling gases produced in Group companies are due to leaks in the air conditioning system circuits and therefore preventive maintenance activities are carried out to limit the emergence of these leaks and the plan for the replacement of fluorinated gases (R-22 gas) in place since 2012 is applied under which, when emissions of this gas occur, the equipment is recharged with other authorised gases that are more energy efficient and do not damage the ozone layer, with the aim of progressively eliminating R-22 gas from the refrigeration systems.

In the case of combustion emissions, the different companies produce SO2 and NOx gas emissions derived from the consumption of fuel, both in generators and in the vehicles used on company assignments.

To minimise these emissions, the Group determines annual plans to reduce CO2 emissions, which mainly consist of measures to reduce energy and fuel consumption. These are set out in the section on responsible energy efficiency management, in addition to selecting equipment that meets the energy requirements under current legislation.

Greenhouse Gas (GHG) Emissions

The Group companies' activities are such that their direct GHG emissions (Scope 1) are minimal. Priority is given to reducing emissions from fuel used in generators and employee travel and those associated with the consumption of natural gas for heating at the Asturias office and, on a secondary basis, accidental emissions of refrigerant gases from the air conditioning systems in the event of malfunction.

The remaining emissions are indirect emissions (Scope 2) from the generation of the electricity consumed by Group companies and other indirect and external emissions (Scope 3) derived from the use of employee vehicles in business trips and from air travel emissions.

In order to minimise these emissions, the Euskaltel Group determines annual GHG emission reduction plans (associated with the energy efficiency plan), which mainly consist of measures to reduce energy and fuel consumption, as set out in the section on responsible energy efficiency management. The Euskaltel Group is also committed to reducing 25% of its greenhouse gas emissions by 2020.

As a result of these measures, in 2019 direct GHG emissions (Scope 1) stood at 794.58 tonnes, 37.5% less than in the previous year, indirect GHG emissions (Scope 2) stood at 20,777.94 tonnes, a 3.63% reduction per the previous year, and indirect GHG emissions (Scope 3) were 307.92 tonnes, 7.09% down on the previous year.

REDUCTIÓN OF

▼ 37,5%

DIRECT GHG EMISSIONS (SCOPE 1)

▼ 3,63%

INDIRECT GHG EMISSIONS (SCOPE 2)

▼ 7,09%

INDIRECT GHG EMISSIONS (SCOPE 3)

Other Noteworthy Climate Change Projects

Since 2012, as part of its membership of the Basque Ecodesign Center, Euskaltel has undertaken various projects aimed at calculating the impact of its activities on climate change:

- **Internet Access Service Life Cycle Analysis**
- **OSOA Product Life Cycle Analysis**
- **Euskaltel Organisation Environmental Footprint**
- **Euskaltel WiFi Life Cycle Analysis**
- **Euskaltel Climate Change Adaptation Programme**

Since 2012, as part of its membership of the Basque Ecodesign Center, Euskaltel has undertaken various projects aimed at calculating the impact of its activities on climate change

In 2019, in view of the environmental impact of cloud services, the following projects were undertaken

Life Cycle Analysis (LCA) of the Euskaltel Virtual Data Center, with the main objective of identifying the critical aspects within the functioning and useful life of the VDC to propose areas for improvement

An analysis of Euskaltel's positioning in relation to the most recent green public procurement criteria in terms of services supplied through Data Processing Centres (DPCs) in order to analyse, by means of an environmental monitoring exercise, the current status of the Euskaltel Group DPCs and identify opportunities to improve their positioning

Likewise, it should be noted that as a result of the Euskaltel Group's participation in the CDP Global Climate Change Survey, in which it has taken part since 2016, and due to the activities described in that survey, its rating was upgraded in 2019 to level B- in the area of environmental and climate impact management from the level C rating it had obtained to date.

Likewise, for all the companies that have completed the climate change questionnaire, CDP assigned a Supplier Engagement Rating (SER) in 2019 which is an indicator of companies' climate action with their suppliers. The Euskaltel Group obtained an A rating for the actions undertaken to reduce indirect emissions (Scope 3).

(7) Society

(7) Society

7.1. Growing with the Territory

The Euskaltel Group has grown as an organisation together with those communities in which it develops, providing wealth to all groups involved in its activities, with a focus on creating shared value and the goal of being more than a business.

The Euskaltel Group is also a key player in the social development of its local communities, contributing to numerous programmes and activities that seek to improve employment and technological opportunities in the territories where it operates.

The Euskaltel Group has grown as an organisation together with the communities in which it operates, contributing to the wealth of all the groups involved in its activities

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

Generation and distribution of economic

	2019	
Revenue	668.303	Thousand euro
Other operating income	404	Thousand euro
Financial income	610	Thousand euro
ECONOMIC VALUE GENERATED	**669**	**MILLION EURO**
Procurement	33.895	Thousand euro
Work carried out for other companiess	128.939	Thousand euro
Wages and salaries	58.713	Thousand euro
Other operating expenses	120.724	Thousand euro
Financial expenses	49.888	Thousand euro
Dividends	55.329	Thousand euro
Corporate income tax and duties	23.452	Thousand euro
ECONOMIC VALUE DISTRIBUTED	**471**	**MILLION EURO**
ECONOMIC VALUE RETAINED	**198**	**MILLION EURO**
REVENUE	**685,5**	**MILLION EURO**
EARNINGS PER SHARE	**0,35**	**EURO**
PROFIT BEFORE TAXES	**71.518**	**THOUSAND EURO**
NET PROFIT	**62.018**	**THOUSAND EURO**

Pre-tax profits made in Spain in 2019

71.518

thousand euro

Public grants received in 2019

929

thousand euro

Corporate income tax paid

Corporate income tax paid	Other contributions to society		
	VAT and IGIC	PIT and SS	Levies and IAE
16.755.926€	58.375.535€	31.388.703€	16.044.861€

122.565.025€

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7.2. Programs for the Promotion of Local Employability

The Euskaltel Group is committed to developing measures to attract and develop young local talent in the telecommunications sector as a way of generating a positive impact on employment and development in the communities in which it operates.

To this end, it collaborates with various universities and educational institutions and attends different forums and employment events in Galicia, the Basque Country and Asturias with the aim of fostering the growth of profiles in the technological field, attracting the best young talent and integrating it into the workforce. In addition, to enable the optimum professional development of these profiles, the Group has designed the TalenTU programme, where they are given the opportunity to continue to grow professionally and improve their income when pursuing their careers.

The Euskaltel Group is also committed to measures that promote the employability and professional development of women, creating internally the Women with Talent programme through which it seeks to accelerate the professional development of women in the Group's workforce and consolidate their growth towards management positions, and participating externally in various initiatives that promote the employability of women in the technological field.

Both measures are described in the "Respect for Equal Opportunities" section.

7.3. Local Development Programmes. Euskaltel Foundation

In its commitment to the social and technological development of local communities, the Euskaltel Foundation has led a wide range of actions with the aim of strengthening the connection between people and companies and developing ICT-related initiatives.

Specifically, the strategic objectives of the Euskaltel Foundation since its creation have been:

Specifically, the objectives of the Euskaltel Foundation since its creation have been:

1

STRENGTHEN YOUNG PEOPLE'S RELATION WITH ICT

With the commitment to bring ICT closer to young people, activities related to new technologies are encouraged and supported in different areas of interest to young people, such as leisure or training, and projects based on new technologies are promoted.

2

HAVING A PRESENCE IN BASQUE SOCIETY THAT IS USEFUL FOR PEOPLE AND COMPANIES

With the commitment to bring ICT closer to Basque society, the knowledge and responsible use of new technologies are explained to Basque society and projects of a social and business nature based on the use of new technologies are encouraged.

3

ACTING AS A ICT SECTOR BENCHMARK IN THE BASQUE AUTONOMOUS REGION

With the aim of being a benchmark for new technologies in the Basque Country, it participates in all initiatives and events on new technologies where the foundation can demonstrate its leadership in the field.

To meet these strategic objectives, activities and programmes have been established that are oriented towards the fulfilment of its social goals, fundamentally in areas such as the development of the information society, technological development, youth, promotion of real equality between women and men, education, business entrepreneurship, linguistic diversity and cultural diffusion.

Specifically, the following strategic lines are followed:

Strategic lines

1. Projects to Promote New Technologies
2. Entrepreneurship and digital incubators
3. Social technology
4. Projection of a global image in the Basque Country

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

In this respect, the main programmes and activities involving the Euskaltel Foundation during 2019, differentiated by line of action and beneficiary groups, were the following:

1 Projects to Promote New Technologies

FIRST LEGO League

The First Lego League is a reference programme for STEAM Education in Euskadi, organised by InnoBasque, Mondragón Univertsitatea and Euskaltel, based on an international robotics contest where more than 500 participants between 9 and 16 years old must think like engineers and scientists and solve a real problem, applying the values of discovery, teamwork and friendly professionalism.

Women in Progress

Women in Progress is a two-day event organised by El Correo and aimed at empowering women in the telecommunications sector, especially young girls at the age of deciding their professional future

Encounters Network

The Encounters are a meeting between professionals and enthusiasts of computers and new technologies, including companies and administrations, with activities aimed at exchanging knowledge and news about virtual reality and video games, talks, workshops, competitions, awards, learning 3D printing and acquisition of computer products, as well as being aimed at organising competitions, exhibitions of digital creative work and activities related to free software, bringing together experts in cybersecurity, systems and programming to overcome computer challenges. The network, provided by Euskaltel, has allowed almost 10,000 computers to surf at a speed of 80 Gbps.
They are held both in the Basque Country and in Galicia. The Euskal Encounter, with more than 20,000 attendees and 27 years behind it, is the most international. The Gipuzkoa Encounter and the Araba Encounter are also held in the Basque Country. In Galicia the most important events are the XGN R Encounter followed by the Technium R Encounter.

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

Innova

Innova is a conference on innovation, digital business and creativity organised by the newspaper El Correo and aimed at business people, professionals, entrepreneurs or students interested in communication, innovation, marketing and digital business, where experts from various fields meet, from marketing and advertising to digital business, music, psychology or architecture, in their common commitment to innovation whatever the business sector or activity.

EuskalHack

EuskalHack Security Congress is an initiative of the first Ethical Hacking Association in the Basque Country, formed by professionals linked to research in computer security and computer forensics and aimed at both experts and non-specialists in the security industry for the promotion and dissemination of technical knowledge in this area.

WordCamp Irun

WordCamp is an event aimed at professionals in programming, design, web development and marketing, where talks were held on digital entrepreneurship, nomadism and WordPress.

GAMEGUNE

Gamegune is the most veteran eSports event or competition in Spain, which brings together video game fans and top-level professional gamer teams from various nationalities for top-level video game tournaments. In 2019, it took place at the Euskaltel headquarters in the Bizkaia Technology Park.
As well as the games, the Euskaltel headquarters hosted the new edition of the Game-guneTV programme which current issues in the world of eSports and which was also broadcast through Twitch, hosting various partners, youtubers, programmers, players and other guests to discuss issues of interest to the eSports community and share experiences and opinions about the evolution of the various Gamegune tournaments. In addition to the live tournament, Gamegune also has an online tournament where the League of Legends Storm Circuit is played.

Buber Sariak

Buber Sariak is a competition aimed at web sites set up in the Basque Country with the aim of exhibiting and rewarding the best Basque technological projects, awarding prizes to projects in the Basque language, free software, social and honorary, gastronomy and tourism, citizen participation, the agricultural sector, the machine tool sector, innovation, business internationalisation and trade. It is promoted by Asociación Internet & Euskadi, an association that aims to defend the general interests of citizens in relation to the information society.

NativosR

NativosR is a programme focused on the development of workshops and informative talks in town councils in Galicia for the generation that grew up before the digital era. It is an initiative aimed at parents, grandparents, tutors and teachers to understand digital equipment and the use of RRSS, digital devices and the Internet. The aim of these informative talks is to demystify the belief that this generation is competent in the use of technology because they were born into it and to inform about new terminologies and how the digital shift affects us.

2 Entrepreneurship and Digital Incubators

Bind 4.0.

BIND 4.0 is an acceleration program aimed at new companies with technological products or services with application in the fields of advanced manufacturing, intelligent energy, health technology and food technology. It is a public-private initiative that promotes the development of promising new companies in the 4.0 industry through training, mentoring and connections with the main industrial players in the Basque Country.

F2P

The F2P Vitoria-Gasteiz Campus is an initiative promoted by the Basque Government, the Provincial Council of Alava and the City Council of Vitoria-Gasteiz under the coordination of BIC Araba, aimed at startups from all over the world in the field of video game creation.

Global Innovation Day

As part of the Science, Technology and Innovation Week in the Basque Country, the Global Innovation Day is an open, dynamic and participative event based on networking, knowledge exchange, project presentation and experimentation, going deeper into the possibilities opened up by artificial intelligence and learning about projects on disruptive innovation.

3 Social Technology

HETEL (Association of Vocational Training Centres in the Basque Country)

HETEL is an association devoted to vocational training and support for the dissemination of scientific careers among young people. The Euskaltel Foundation is a strategic ally that has made it possible to collaborate in projects such as:

SHARE:

Inter-centre project where vocational training students from HETEL centres, at the Euskaltel headquarters (Derio), had to take up the challenge of working in groups for a month and a half to develop the installation of several application servers in each educational centre, simulating a company with various locations and developing a corporate network of a fictitious company located in different areas, for which they had the support and experience of Euskaltel.

e-MOTIVE:

e-MOTIVE is an international cooperation project between vocational training centres to carry out distance group work and facilitate virtual mobility.

Kaixo mundua

KaixoMundua.eus is a web creation and digital training contest aimed at young people between 12 and 18 years of age in educational centres, created at the initiative of the PuntuEUS Foundation to promote the digital skills of young people. In 2019, the pilot project included a day in which young people learned, had fun and networked by sharing their projects.

Elhuyar Zientzia Azoka

The Euskaltel Foundation again collaborated in the Science Fair for young people, which is organised annually by the Elhuyar Foundation. Workshops and stands prepared by young people between 13 and 16 years of age from different schools and institutes are displayed for the general public.

Scratch eguna

Scratch Eguna is a project carried out in schools where students, working in groups, develop a project in which Scratch is the common link.

EiTB Maratoia

The Euskaltel Foundation has been collaborating for over a decade with the EiTB Solidarity Marathon for the cause of research against major diseases, making a generous monetary contribution. The is one of the most popular initiatives and one that has the greatest response in the social responsibility actions area promoted by people within the organisation. In 2019, the marathon raised money for Childhood Cancer.

4 Projection of a Global Image in the Basque Country

The Euskaltel Foundation also works as a trustee in the following foundations and cultural centres in the Basque Country with the aim of spreading its message:

- Fundación Artium
- Fundación Guggenheim
- Fundación PUNTU.eus
- Kursaal Eszena

For its part, the Euskaltel Group has sponsored various sporting and cultural activities with the aim of contributing to social and cultural causes and to the empowerment of women in sport.

Promoting Gender Equality and Inclusive Policies

Inclusive sport sponsorship

El Grupo Euskaltel fomenta las políticas inclusivas a través del deporte como Celta Integra y Rugby Universitario Bilbao.

Sponsorship of Women's Sports Clubs

The Euskaltel Group sponsors female teams such as Athletic Club Bilbao, Real Sociedad, Club Atlético Osasuna, Telecable Hockey Club, Ibaizabal Saski Baloia Taldea, Roll it Girl, Rabba Girl, Fundación Bizkaialde (allowing women athletes to access the highest competitive levels).

Solidarity Initiatives

Aspace

The ASPACE BIZKAIA Foundation is a non-profit association which works to meet the needs of people with cerebral palsy, so that they can achieve the highest level of professional development and autonomy and also by raising social awareness about the problem to achieve a more inclusive society.

Every year a Christmas market is held to raise funds for different associations, and in 2019 a cheque for the amount raised was handed over to the ASPACE BIZKAIA Foundation.

Radio Conta

The Euskaltel Group collaborates with this charity whose profits go to research into childhood cancer.

Fundación CESPA

The Euskaltel Group collaborated through sponsorship with the CESPA Foundation, whose mission is to provide comprehensive attention to people at risk of social exclusion. From the beginning it has focused on people with addiction problems, developing the educa-tional and therapeutic programme "Proyecto Hombre" in Asturias.

Fundación José Cardín

The Euskaltel Group collaborates through sponsors-hips with the José Cardín Foundation which organises a charity Christmas concert, the profits from which were donated in 2019 to the Spanish Cancer Associa-tion.

Social Sponsorship

CThe Euskaltel Group collaborates with various entities and institutions to transmit messages of proximity, familiarity and contribution to the economic development of the territories in which it operates. In the sports area the Group has maintai-ned its commitment to Asturian, Basque and Galician sports clubs such as Basquet Coruña, club Baloncesto Ourense, Deportivo de la Coruña, Athletic Club, Eibar SD, Real Sociedad, Deportivo Alavés, Club Atlético Osasuna, Bilbao Basket, Sporting de Gijón, among others.

Commitment to local culture entails collaboration in researching and publicising territorial cultures such as the Museo do Pobo Gallego and the Fundación Ópera Oviedo, as well as strengthening the Group's features and roots in each territory though the sponsorship of bilingual primary school events for the support to the Basque language.

(8)
APPENDICES

(8)

Appendices

8.1. Criteria for drawing up the 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 Euskaltel Group 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. This Responsible Company Report pays special attention to the issues identified as relevant in the materiality analysis carried out.

In addition, as signatories to the United Nations Global Compact, this Report provides a response to the progress made in complying with the Principles established by that initiative, as well as the Sustainable Development Objectives that represent the Group's activities and towards which it can contribute through its responsible management.

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. All the data reported cover the Euskaltel Group companies since 1 January 2019.

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 2019. 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 said law and the Corporate Governance Recommendations of the CNMV have been taken into account in the Report. EKT Cable y Telecomunicaciones, S.L. is a Group company which in 2019 had no business activity of any kind or personnel, and therefore no data have been reported in this report with respect to this company.

AENOR

Declaración de Verificación de Información No Financiera

declaración de Verificación de AENOR para

EUSKALTEL, S.A.

relativa al estado consolidado de información no financiera MEMORIA DE EMPRESA RESPONSABLE Y ESTADO DE INFORMACIÓN NO FINANCIERA 2019 GRUPO EUSKALTEL

conforme a la ley 11/2018

correspondiente al ejercicio anual finalizado el 31 de diciembre 2019

En Madrid a 25 de febrero de 2020

Rafael García Meiro
Director General

1999/0485/VNOF-2020

AENOR INTERNACIONAL S.A.U. C/ GÉNOVA 6, 28004 MADRID
Página 1 de 4

EUSKALTEL, S.A. (en adelante la organización) con domicilio social en: PARQUE TECNOLÓGICO - EDIFICIO 809. 48160 DERIO (BIZKAIA) y en su nombre, Dña. MARIA SOLEDAD GONZÁLEZ MORÁN, en cargo de Directora de Organización y Sistemas de Gestión (Calidad, Medio Ambiente y Bienestar y Salud), ha encargado a AENOR llevar a cabo una verificación bajo un nivel de aseguramiento limitado de su Estado de Información No Financiera (en adelante EINF) conforme a la Ley 11/2018 por la que se modifica el Código de Comercio, el texto refundido de la Ley de Sociedades de Capital aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio, y la Ley 22/2015, de 20 de julio, de Auditoría de Cuentas, en materia de información no financiera y diversidad (en adelante, la Ley 11/2018).

Como resultado de la verificación efectuada AENOR emite la presente Declaración, de la cual forma parte el EINF verificado. La Declaración únicamente es válida para el propósito encargado y refleja sólo la situación en el momento en que se emite.

El objetivo de la verificación es facilitar a las partes interesadas un juicio profesional e independiente acerca de la información y datos contenidos en el EINF de la organización, elaborado de conformidad con la Ley 11/2018.

Responsabilidad de la organización. La organización tuvo la responsabilidad de reportar su estado de información no financiera conforme a la Ley 11/2018. La formulación y aprobación del EINF así como el contenido del mismo, es responsabilidad de su Órgano de Administración. Esta responsabilidad incluye asimismo el diseño, la implantación y el mantenimiento del control interno que se considere necesario para permitir que el EINF esté libre de incorrección material, debida a fraude o error, así como los sistemas de gestión de los que se obtiene la información necesaria para la preparación del EINF. La organización de acuerdo al compromiso formalmente adquirido, ha informado a AENOR que no se han producido, desde la fecha de cierre del ejercicio reportado en el informe no financiero hasta la fecha de la verificación, ningún acontecimiento que pudiera suponer la necesidad de realizar correcciones al informe.

Programa de verificación conforme a ISO/IEC 17029:2019. AENOR, de conformidad a la citada Ley, ha realizado la presente verificación como prestador independiente de servicios de verificación. La verificación se ha desarrollado bajo los principios de "enfoque basado en evidencias, presentación justa, imparcialidad, competencia técnica, confidencialidad, y responsabilidad" exigidos en la norma internacional ISO/IEC 17029:2019 "Evaluación de la conformidad – Principios generales y requisitos para los organismos de validación y verificación".

Igualmente, en el Programa de verificación, AENOR ha considerado los requisitos internacionales de acreditación, verificación o certificación correspondientes a las materias de información contempladas en la Ley:

- Reglamento Europeo EMAS (Verificación Medioambiental)

AENOR

- SA 8000 (principios y derechos laborales internacionales conformes a la ILO (Organización Internacional del Trabajo), La Declaración Universal de los Derechos Humanos y la Convención sobre los Derechos del Niño. SAAS Procedure 200)
- Sistema de Gestión Medioambiental (ISO 14001).
- Sistema de Gestión de Responsabilidad Social, esquemas IQNet SR 10 y SA8000.
- Sistema de Gestión de la Calidad (ISO 9001).
- Sistema de Gestión de la Energía (ISO 50001).
- Sistema de Gestión de Seguridad y Salud en el Trabajo (ISO 45001).

Adicionalmente, los criterios e información que se han tenido en cuenta como referencia para realizar el Programa de verificación han sido:

1) La ley 11/2018 de 28 de diciembre, por la que se modifica el Código de Comercio, el texto refundido de la Ley de Sociedades de Capital aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio, y la Ley 22/2015, de 20 de julio, de Auditoría de Cuentas, en materia de información no financiera y diversidad.

2) La Directiva 2014/95/UE del Parlamento Europeo y del Consejo de 22 de octubre de 2014 por la que se modifica la Directiva 2013/34/UE en lo que respecta a la divulgación de información no financiera e información sobre diversidad por parte de determinadas grandes empresas y determinados grupos.

3) La Comunicación de la Comisión Europea 2017/C 215/01, Directrices sobre la presentación de informes no financieros (metodología para la presentación de información no financiera).

4) La norma internacional ISO/IEC 17029.2019 Evaluación de la conformidad – Principios generales y requisitos para los organismos de validación y verificación.

5) Los criterios establecidos por la iniciativa mundial de presentación de informes de sostenibilidad en los estándares GRI cuando la organización haya optado por este marco internacional reconocido para la divulgación de la información relacionada con su desempeño en materia de responsabilidad social corporativa.

AENOR se exime expresamente de cualquier responsabilidad por decisiones, de inversión o de otro tipo, basadas en la presente Declaración.

Durante el proceso de verificación realizado, bajo un nivel de aseguramiento limitado, AENOR realizó entrevistas con el personal encargado de recopilar y preparar el EINF y revisó evidencias relativas a:

- Actividades, productos y servicios prestados por la organización.

AENOR

- Consistencia y trazabilidad de la información aportada, incluyendo el proceso seguido de recopilación de la misma, muestreando información sobre la reportada.
- Cumplimentación y contenido del estado de información no financiero con el fin de asegurar la integridad, exactitud y veracidad en su contenido.
- Carta de manifestaciones del Órgano de Administración.

Las conclusiones por tanto se fundamentan en los resultados de ese proceso de carácter muestral, y no eximen a la Organización de su responsabilidad sobre el cumplimento de la legislación que le sea de aplicación.

El personal involucrado en el proceso de verificación, la revisión de conclusiones y la decisión en la emisión de la presente Declaración, dispone de los conocimientos, habilidades, experiencia, formación, infraestructuras de apoyo y la capacidad necesarios para llevar a cabo eficazmente dichas actividades.

CONCLUSIÓN

Basado en lo anterior, en nuestra opinión, no hay evidencia que haga suponer que el estado de información no financiera incluida en la MEMORIA DE EMPRESA RESPONSABLE Y ESTADO DE INFORMACIÓN NO FINANCIERA 2019 GRUPO EUSKALTEL y para el ejercicio anual finalizado el 31 de diciembre de 2019, no proporcione información fiel del desempeño de EUSKALTEL, S.A. y sociedades referenciadas en el estado de información no financiera consolido, en materia de responsabilidad social conforme a la Ley 11/2018. En concreto, en lo relativo a cuestiones ambientales, sociales y relativas al personal, incluida la gestión de la igualdad, la no discriminación y la accesibilidad universal, los derechos humanos, lucha contra la corrupción y el soborno y la diversidad.

8.2. GRI content index

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
GRI 101 Bases					
101	Principles	8. Appendices	Group	-	-
GRI 102 General disclosures					
Organisation's profile					
102-1	Organisation name	Euskaltel, S. A R Cable and Telecable Telecomunicaciones S.A.U.	Group	-	-
102-2	Activities, brands, products and services	1. Euskaltel Group, a Responsible Business 4. Customers	Group	-	-
102-3	Location of headquarters	Back cover	Group	-	-
102-4	Location of activities	Euskaltel Group, a Responsible Business	Group	-	-
102-5	Ownership and legal form	2. Corporate governance	Group	-	-
102-6	Markets served	1. Euskaltel Group, a Responsible Business	Group	-	-
102-7	Size of the organisation	1. Euskaltel Group, a Responsible Business 7. Society	Group	-	-
102-8	Information on employees and other workers	8. Appendices	Group		Principle 6
102-9	Supply chain	5. Suppliers	Group	-	-
102-10	Significant changes in the organisation and its supply chain	During 2019 there were no significant changes in the organisation. With regard to the supply chain, 61 new suppliers have been engaged.	Group	-	-

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

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
102-11	Precautionary principle or approach	Annual Corporate Governance Report 2019 of Euskaltel, S.A. https://www.euskaltel.com/CanalOnline/inversores/gobierno-corporativo#20151026085847506	Group	-	-
102-12	External initiatives	1. Euskaltel Group, a Responsible Business 3. People 6. Environment 7. Society	Group		-
102-13	Membership of associations	8. Appendices	Group		-
Strategy					
102-14	Declaration by the highest governance body	Letter from the Chairman and the CEO	Group	-	-
102-15	Key impacts, risks and key opportunities	1. Euskaltel Group, a Responsible Business	Group	-	-
Ethics and Integrity					
102-16	Values, principles, standards and norms of behaviour	2. Corporate Governance	Group		Principle 6
102-17	Mechanisms for consultation and resolution of uncertainty over ethics	2. Corporate Governance	Group		Principle 6
Governance					
102-18	Governance structure	2. Corporate Governance	Group	-	-
102-19	Decision making	2. Corporate governance	Group	-	-
102-20	Level of executive responsibility related to economic, environmental and social topics	2. Corporate governance	Group	-	-
102-21	Consulting stakeholders on economic, environmental, and social topics	1. Euskaltel Group, a Responsible Business The Board of Directors delegates the task of consulting stakeholders on economic, environmental and social issues to the head of Corporate Social Responsibility of the Euskaltel Group.	Group		Principle 6

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

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
102-22	Composition of the highest governance body and its committees	2. . Corporate governance Annual Corporate Governance Report 2019 of Euskaltel, S.A. https://www.euskaltel.com/CanalOnline/inversores/gobier-no-corporativo#20151026085847506	Group		-
102-23	Chairmanship of the highest governance body	2. . Corporate governance	Group		-
102-24	Appointment and selection of the highest governance body	2. Corporate governance	Group		-
102-25	Conflicts of interest	IAnnual Corporate Governance Report 2019 of Euskaltel, S.A. https://www.euskaltel.com/CanalOnline/inversores/gobier-no-corporativo#20151026085847506	Group		-
102-26	Highest governance body's role in establishing the mission, values and strategy	2. Corporate Governance	Group	-	-
102-27	Collective knowledge of the highest governance body	2. Corporate Governance	Group		-
102-28	Assessment of the performance of the highest governance body	2. Corporate governance	Group	-	-
102-29	Idenfification and management of economic, environmental and business impacts	1. Euskaltel Group, a Responsible Business	Group		-
102-30	Effectiveness of risk management processes	Euskaltel S.A. Annual Corporate Governance Report 2019 https://www.euskaltel.com/CanalOnline/inverso-res/-gobierno-corporativo#20151026085847506	Group	-	-
102-31	Review of economic, environmental, and social topics	2. 2. Corporate governance	Group	-	-
102-32	Participation of highest governance body in sustainable reporting	The Board of Directors is the body responsible for reviewing and approving this Responsible Company Report 2019, after verification by a third party	Group	-	-
102-33	Notification of criticalconcerns	The CEO and the directors of each decision-making centre are entrusted with informing the Board of Directors of all information regarding the company's performance.	Group	-	-
102-34	Nature and total number of critical concerns notified to the highest governance body	In general, in 2019, the Board has dealt with issues related to the business in the areas where the Euskaltel Group operates, monthly management reports, preparation of the annual accounts, proposal for the application of results, proposal for the payment of dividends, periodic public reporting, budgets and definition of objectives, approval of annual reports, convening the Ordinary General Meeting and the Extraordinary General Meeting of	Group	-	-

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

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
		Shareholders, drafting of the proposed resolutions and the corresponding directors' reports to the General Meeting, appointment of new directors by co-optation, appointment of the Chief Executive Officer, appointment of the Secretary to the Board of Directors approval of the new internal organisational structure, corporate policies, information on the main legislative developments, updating of the scope of consolidation and of the investees, significant shareholders of Euskaltel and information on corporate governance, among others.			
102-35	Remuneration policy	Report on remuneration of the Directors of Euskaltel,S.A 2019 https://www.euskaltel.com/CanalOnline/inversores/go-bierno-corporativo#20151026085847507	Group	-	-
102-36	Process for determining remuneration	Report on the remuneration of Euskaltel,S.A Directors 2019 https://www.euskaltel.com/CanalOnline/inversores/-gobierno-corporativo#20151026085847507 In 2019, external and independent consultants have participated in the process for determining the directors' remuneration	Group	-	-
102-37	Stakeholder involvement in remuneration	Report on the remuneration of Euskaltel,S.A Directors https://www.euskaltel.com/CanalOnline/inversores/-go-bierno-corporativo#20151026085847507	Group		-
102-38	Annual remuneration ratio	Relation between remunerations in the "Other professionals" group is 50.77% Only employees covered by a Collective Agreement are included)	Group	-	-
102-39	Percentage increase in annual total compensation	Taking the "Other Professionals" group as a reference, the increase in fixed remuneration in 2019 was 3%.	Group	-	-
Stakeholder Engagement					
102-40	List of stakeholders	1. Euskaltel Group, a Responsible Business	Group	-	-
102-41	Collective bargaining	87.03% of the Group's employees are covered by collective bargaining agreements. Managers and Directors are excluded	Group		Principle 1 and 3
102-42	IIdentifying and selecting stakeholders	1. Euskaltel Group, a Responsible Business	Group	-	-
102-43	Involvement approach for stakeholders	Communication channels with stakeholders are based on various communication tools, such as: social networks, media relations and collaboration with universities and other institutions, in the case of relations with the community; websites, mobile applications, customer surveys and customer service, in the case of	Group	-	-

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

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
		relations with customers; the intranet and internal channels in the case of relations with employees, the investor relations office and the general shareholders' meeting, in the case of relations with shareholders, and the Ethics Channel for all stakeholders. For the materiality analysis carried out for the 2018-2019 financial year , customers and shareholders participated directly in the preparation of the report through surveys.			
102-44	Main issues and concerns raised	1. Euskaltel Group, a Responsible Business	Group	-	-
Reporting practice					
102-45	Entities included in consolidated financial statements	Euskaltel, S. A R Cable and Telecable Telecomunicaciones S.A.U EKT Cable and Telecomunicaciones, S.L.U.	Group	-	-
102-46	Defining report content and boundaries for topics	8. Appendices	Group	-	-
102-47	List of material topics	1. Euskaltel Group, a Responsible Business	Group	-	-
102-48	Restatements of information	8. Appendices	Group	-	-
102-49	Changes in reporting	During 2019 there were no changes in reporting with respect to the 2018 annual report	Group	-	-
102-50	Period of preparation of the report	FY 2019	Group	-	-
102-51	Date of latest report	FY 2018	Group	-	-
102-52	Reporting cycle	Annual	Group	-	-
102-53	Contact point for matters related to the report	Back cover	Group	-	-
102-54	Claims of reporting in accordance with the GRI standards	AENOR Verification Report	Group	-	

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

Standards	Descriptión	Response to the indicator / Section	Scope	SDG	Global Compact
102-55	Index of GRI contents	8. Appendices	Group	-	-
102-56	External review	AENOR Verification Report The Euskaltel Group requests the services of AENOR, an accredited external company, for the verification of the Responsible Company Report under GRI standards, and for the verification of the Non-Financial Information	Group	-	-

GRI 103 Management

Standards	Descriptión	Response to the indicator / Section	Scope	SDG	Global Compact
103-1	Explanation of the material topic and its boundaries	Management approach indicated in each of the sections of this table.	Group	-	-
103-2	Management approach and components		Group	1, 8, 16	Principle 6
103-3	Assessment of the management approach		Group	-	-

GRI 201 Economic performance

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapters 7. Society, 6. Environment and 3. People

Standards	Descriptión	Response to the indicator / Section	Scope	SDG	Global Compact
201-1	Direct economic value generated and distributed	7. Society	Group	2, 5, 7, 8, 9	-
201-2	Financial implications and other risks and opportunities due to climate change	Due to the nature of our activity, there are no risks or financial implications arising from the consequences of climate change.	Group	13	-
201-3	Obligations arising from social benefit plans and ther retirement plans	100% of the Group's employees have a number of social benefit plans related to the products or services provided.	Group	8	-
201-4	Financial assistance received from the public authorities	During 2019, the amount received through subsidies and grants from public adminis-trations amounted to a total of € 929,422.89	Group	-	-

Standards	Descriptión	Response to the indicator / Section	Scope	SDG	Global Compact

GRI 202 Market presence

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapter 2. Corporate governance and 3. People

Standards	Descriptión	Response to the indicator / Section	Scope	SDG	Global Compact
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 2019 was 1.66 for women and 1.33 for men.	Group	1, 5, 8	-
202-2	Percentage of directors from the local community	The Group's management team is made up of the CEO, the Decision-Making Centre Directors and the Function Directors. 96.30% of the management team are fromSpain, including the CEO and the Chairman (27 persons). Only one person in the management team comes from a country other thanSpain.	Group	8	Principle 6

GRI 203 Indirect economic impacts

Topic included in the Group materiality analysis
Management approach and assessment referred to in Chapter 7. Society

Standards	Descriptión	Response to the indicator / Section	Scope	SDG	Global Compact
203-1	Investment in infrastructures and support services	The Euskaltel Group bases its vocation and approach as a comprehensive telecommunications operator with guaranteed future development on the deployment of its own high-capacity network and capillarity. Consequently, the investment made in 2019 in infrastructure and support services amounted to € 100,406,841.	Group	1, 2, 3, 4, 5, 6, 8, 10, 11, 12, 13, 14, 15	-
203-2	Significant economic indirect impacts	During 2019, there have been no significant indirect economic impacts	Group	1, 2, 3, 4, 5, 6, 8, 10, 11, 12, 13, 14, 16	-

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

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact

GRI 204 Procurement practices

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapter 5. Suppliers

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
204-1	Proportion of expenditure On local suppliers	46.4% of the total volume of purchases is made from local suppliers (Basque Country, Galicia and Asturias) 47.0% of the total volume of purchases is made from suppliers located in the rest of Spain	Group	12	-

GRI 205 Anticorruption

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapter 2. Corporate governance

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
205-1	Operations evaluated in relation to corruption-related risks	2. Corporate Governance	Group	16	Principle 10
205-2	Communication and training on policies and anti-corruption procedures	During 2019, as part of a communication and training plan on regulatory compliance, training was provided on the Anti-Corruption Policy and the Code of Ethics, among other matters. In this respect, 97.96% of employees have completed anti-corruption training and expressly accepted the Group's Anti-Corruption Policy, reaching a total of 577 people. Likewise, 100% of the employees have completed training in the Code of Ethics and expressly accepted the commitments contained therein, reaching a total of 586 people. With regard to the Board of Directors, in December 2019 the Audit and Control Committee was notified of a report by the Regulatory Compliance Officer on the review of the Anti-Bribery System implemented, which was made available to it. In February 2020, this report will again be delivered to the Audit and Control Committee for submission to the Board of Directors, and in March 2020 a specific training course on corruption and bribery is planned for the Board of Directors.	Group	16	Principle 10
205-3	Confirmed incidents of corruption and action taken	During 2019, no incidents occurred that involved a breach of regulations or of the good governance practices established by the Group.	Group	16	Principle 10

GRI 206 Anti-competitive behaviour

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapter 6. Environment

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
206-1	Legal actions due to matters of unfair competition, anti-competitive or monopolistic practices	During 2019 there have been no legal actions for unfair competition, anti-competitive or monopolistic practices	Group	16	-

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
GRI 301 Materials					
301-1	Materials used by weight or volume	Paper consumption in 2019: 144.19 Tonnes (23.42% reduction compared to 2018) Consumption of Electronic and Electrical Equipment in 2019: 253.99 tonnes (59.51% increase compared to 2018	Group	8, 12	-
301-2	Recycled input materials used	Percentage of Materials Recycled in 2019 55.99% (12.05% decrease ompared to 2018)	Group	8, 12	Principle 7 y 8
301-3	Reclaimed products and their packaging	Percentage of products sold and their packaging materials that are reclaimed at the end of their useful life in 2019: 1.73% (0.03% increase compared to 2018)	Group	8, 12	Principle 7,8 y 9
GRI 302 Energy					
Topic included in the materiality analysis of the Euskaltel Group Management approach and evaluation described in Chapter 6. Environment					
302-1 302-2	Energy consumption inside and outside the organisation	Total energy consumption in 2019: 68,725.66 MWh. (1.06% increase against 2018) Break-down by energy source: - Electricity consumption in 2019: 67,242.46 Mwh (1.34% increase against 2018) -Natural gas consumption in 2019: 129.56 Mwh (0.18% increase against 2018) -Diesel consumption in 2019: 1,353.64 Mwh (10.84% decrease against 2018)	Group	7, 8, 12, 13	Principle 7 y 8
302-3	Energy intensity	Total Energy Intensity in 2019: 22,77 Mwh (1,51% reduction against 2018)	Group	7, 8, 12, 13	Principle 8
302-4	Reduction in energy consumption	Reduction in energy consumption in 2019: 721.5 Mwh (1.06% increase against 2018)	Group	7, 8, 12, 13	Principle 7,8 y 9
303-5	Reduction in energy requirements of roducts and services	Reduction in energy required by products and services in 2019: 0.35 (1.51% reduction against 2018)	Group	7, 8, 12, 13	Principle 7,8 y 9

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

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
GRI 303 Water					
Topic included in the materiality analysis of the Euskaltel Group Management approach and evaluation described in Chapter 6. Environment					
303-1	Water consumption by source	The water consumed derives from the Consorcio de Aguas del Gran Bilbao water supply system, while water used by R comes from the Empresa Municipal de Aguas de la Coruña S.A., Aqualia and Viaqua networks, depending on the location of the work centres. Water consumed by Telecable comes from the Empresa Municipal de Aguas de Gijón S.A. in the case of buildings at the Parque Tecnológico de Gijón, while for the Oviedo DPC the water comes from the network managed by FCC Aqualia, Concesionaria del Servicio de Agua y Saneamiento de Oviedo. Total water consumption in 2019: 7,900 m3 (5.92% increase against 2018)	Group		Principle 7 y 8
303-2	Water sources significantly impacted by water extraction	The Euskaltel Group does not have any water sources affected by its water extraction	Group		Principle 7 y 8
303-3	Recycled and reused water	The Euskaltel Group does not recycle or reuse water	Group		Principle 8 y 9
GRI 304 Biodiversity					
Topic included in the materiality analysis of the Euskaltel Group Management approach and evaluation described in Chapter 6. Environment					
304-1	Operational sites owned, leased, managed in, or adjacent to protected areas and unprotected areas of high biodiversity value		Group		Principle 8

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

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
304-2	Significant impacts of activities, products and services on biodiversity	The Euskaltel Group does not own any land in areas of high biodiversity value. During 2019, 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	6, 14, 15	Principle 8
304-3	Habitats protected or restored		Group	6, 14, 15	Principle 8
304-4	IUCN Red List species included in the national conservation lists whose habitats are in areas affected by the activity		Group	6, 14, 15	Principle 8

GRI 305 Emissions

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapter 6. Environment

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
305-1	Direct GHG emissions (Scope 1)	The emission sources considered in scope 1 are: consumption of fuel by generator sets and fleet vehicles in work assignments, plus those resulting from fluorinated gas leaks. This also includes natural gas at the Gijón offices. Direct GHG emissions (Scope 1) in 2019: 794.58 tonnes, reduction of 37.5% over the previous year.	Group	3, 12, 13, 14, 15	Principle 7,8 y 9
305-2	Indirect GHG emissions (Scope 2)	The emission source considered in scope 2 is electricity consumption. Indirect GHG emissions (Scope 2) in 2019: 20,777.94 tn (3.63% reduction against 2018)	Group	3, 12, 13, 14, 15	Principle 7,8 y 9
305-3	Other indirect GHG emissions (Scope 3)	The emission sources considered in Scope 3 are: fuel consumption from the use of non-Group owned means of transport used in business assignments (cars owned by employees, planes, trains, taxis). Indirect GHG emissions (Scope 3) in 2019: 307.92 tn (7.09% reduction against 2018)	Group	3, 12, 13, 14, 15	Principle 8
305-4	GHG emission intensity	GHG emission intensity in 2019: 7.15	Group	12, 13, 14, 15	Principle 8 y 9

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

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
305-5	Reduction of GHG emissions	Reduction of GHG emissions compared to 2018: 5.54%	Group	12, 13, 15	Principle 8 and 9
305-6	Emissions of ozone-depleting ubstances	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	3, 12, 13	Principle 8 y 9
305-7	NOx, SOx and other atmospheric emissions	Atmospheric emissions during 2019: 1.2606 (60.87% increase per previous year)	Group	3, 12, 13, 14, 15	Principle 8 y 9

GRI 306 **Effluents and waste**

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapter 6. Environment

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
306-1	Total water discharge by quality and destination	The Euskaltel Group has no industrial wastewater discharges and sanitary water discharges are made to the municipal sewage network in the locations of the Euskaltel Group.	Group	3, 6, 12, 14	Principle 7 y 8
306-2	Waste by type and treatment method	Non-hazardous waste generation (paper) in 2019: 19.53 tonnes (20.43% reduction compared to 2018) Generation of hazardous waste (WEEE, lead-acid batteries, fluorescents) in 2019: 279.53 tonnes (46.83% increase compared to 2018)	Group	3, 6, 12	Principle 7 y 8
306-3	Significant spills	During 2019 no accidental spills were recorded	Group	3, 6, 15, 12, 14	Principle 8

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

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
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.	Group	3, 12	Principle 8
306-5	Water bodies affected by waste and effluents	During 2019 there have not been spills that have affected water sources or ecosystems.	Group	6, 14, 15	Principle 8

GRI 307 Environmental compliance

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapter 6. Environment

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
307-1	Non-compliance with environmental laws and regulations	In 2019, there has been no non-compliance with environmental laws and regulations	Group	16	Principle 7 y 8

GRI 308 Supplier Environmental Assessment

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
308-1	New suppliers that were screened using environmental criteria	All suppliers of the Euskaltel Group must pass an approval and assessment process that includes environmental criteria. During 2019, 61 new suppliers were engaged following the same approval and environmental assessment procedure.	Group	12	Principle 9
308-2	Negative environmental impacts on the supply chain and measures taken	All suppliers of the Euskaltel Group must pass an approval and assessment process that includes, in particular, an environmental impact analysis. During 2019, the same annual environmental assessment procedure has been followed and corrective actions have been carried out for all suppliers.	Group	12	Principle 9

GRI 401 Employment

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapter 3. People

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
401-1	New employee hires and turnover ratio	8. Appendices	Group	5, 8	Principle 6

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

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
401-2	Benefits offered to full-time employees that are not provided to temporary or part time employees	The Euskaltel Group offers the same working conditions to all employees irrespective of their type of contract or working schedule	Group	8	Principle 6
401-3	Parental leave	3. People	Group	5, 8	Principle 6
GRI 402	**Labour-management relations**				
Topic included in the Group materiality analysis Management approach and assessment referred to in Chapter 3. People					
402-1	Minimum notice period in relation to operational changes	In general, organisational changes are notified to the employees affected and to the area concerned before being made official in the organisational charts that are posted on the companies' intranet, with no minimum notice period.	Group	8	Principle 3
GRI 403	**Occupational health and safety**				
Topic included in the materiality analysis of the Euskaltel Group Management approach and evaluation described in Chapter 3. People					
403-1	Worker representation in joint health and safety committees	100% of the Group companies' employees are represented in matters of occupational health and safety through their respective Occupational Health and Safety Commit-tees.	Group	3, 8	-
403-2	Types of accident and rates of accidents, occupational illnesses, lost days, and absenteeism, and number of related deaths	3. People	Group	3, 8	-
403-3	Workers with a high risk or incidence of work-related illnesses	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 workers' representatives	During 2019, a process of information, consultation and participation has been carried out with respect to the documents prepared for the Occupational Health and Safety Management System for its migration to the ISO 45001;2018 standard, as well as the renewal/change of the External Welfare Services for the Technical and Occupational Medicine disciplines. The occupational health and safety issues in the collective agree-ments governing the three Group companies remain in force.	Group	3, 8	-

GRI 404 Training and education

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapter 3. People

404-1	Average training hours per year by employee	8. Appendices	Group	Principle 6
404-2	Programmes for upgrading employee skills and transition assistance	3. People	Group	-
404-3	Percentage of employees that receive professional performance and development assessments	3. People	Group	Principle 6

GRI 405 Diversity and equal opportunity

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapter 3. People

405-1	Diversity in governing bodies and staff	2. Corporate Governance 3.People	Group	Principle 6
405-2	Ratio of basic salary of women in relation to men	8. Appendices	Group	Principle 6

GRI 406 No Discriminación

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapter 3. People

406-1	Incidents of discrimination and corrective actions taken	In 2019 there were no discrimination-related incidents	Group	Principle 6

GRI 407 Freedom of association and negotia-

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapter 2. Corporate Governance.

407-1	Operations or suppliers in which freedom of association and collective bargaining may be at risk	The Euskaltel Group complies with current legislation on freedom of association and collective bargaining with its employees. In addition, the Code of Ethics and the Ethics Channel cover all potential risks of human rights violations, specifically the right to freedom of association and collective bargaining. Furthermore, as the Group's activity and its procurements are mainly local, national or within the European Union, there is no significant risk of non-compliance with the right to freedom of association and collective bargaining in its supply chain.	Group	Principle 3

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact

GRI 408 Child labour

Non-material topic for the Euskaltel Group

408-1	Operations and suppliers identified that involve a potential risk of incidents of child exploitation	The Euskaltel Group complies with current legislation, which prohibits the admission of minors to work. In addition, the Code of Ethics and the Ethics Channel cover all potential risks for the violation of Human Rights, specifically the prohibition of child labour. Furthermore, as the Group's activity and its procurements are mainly local, national or within the European Union, there is no significant risk of child labour in its supply chain.	Group	8, 16	Principle 5

GRI 409 Forced labour

Non-material topic for the Euskaltel Group

409-1	Operations and suppliers at significant risk for incidents of forced labour	The Euskaltel Group complies with current legislation, which prohibits forced labour, freely offering work and giving employees the freedom to leave whenever they wish. In addition, the Code of Ethics and the Ethics Channel cover all potential risks of human rights violations, specifically the prohibition of forced labour. Furthermore, as the Group's activity and its procurements are mainly local, national or within the European Union, there is no significant risk of forced labour in its supply chain.	Group	8, 16	Principle 4

GRI 410 Collective security practices

Tema incluido en el análisis de materialidad del Grupo Euskaltel
Enfoque de gestión y evaluación contemplados en el capítulo 5. Proveedores

410-1	Security personnel trained in Human Rights policies or procedures	The security personnel that work with the Euskaltel Group belong to organisations that have received the Group's Code of Ethics when their services are contracted, which includes human rights clauses. Therefore, these personnel are committed to complying with the content of the Code of Ethics. The contracted companies are also informed of the existence of the Ethics Channel for any complaints or queries concerning human rights violations	Group	16	Principle 1 y 2

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

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
GRI 411	**Rights of indigenous peoples**				
Non-material topic for the Euskaltel Group					
411-1	Incidents of violations involving rights of indigenous people	Within the Euskaltel Group's areas of activity there are no indigenous communities.	Group	 	Principle 1
GRI 412	**412 Human Rights assessment**				
Topic included in the materiality analysis of the Euskaltel Group Management approach and evaluation described in Chapter 2. Corporate Governance.					
412-1	Operations that have been subject to human rights impact assessments	The Code of Ethics and the Ethics Channel cover all potential risks of human rights violations. For that reason, it has not been considered necessary to carry out an analysis of this matter among the employees. Likewise, as most suppliers are governed by Spanish legislation, it has not been considered necessary to carry out human rights assessments in the supply chain.	Group	 	Principle 1
412-2	Training for employees in Human Rights policies and procedures	The Code of Ethics includes clauses on human rights. Employees receive training on the Code of Ethics and the existence of the Ethics Channel to ensure that these rights are not violated. In 2019, all employees have completed training in the Code of Ethics and expressly accepted the commitments contained therein, reaching a total of 586 people	Group	-	Principle 1 y 2
412-3	Significant investment agreements and contracts that include Human Rights clauses or have undergone human rights sceening.	The Euskaltel Group does not have any significant investment agreements that include clauses incorporating human rights concerns, or that have undergone human rights screening	Group	-	Principle 1 y 2

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

GRI 413 Local communities

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapter 7. Society

413-1	Operations with local community involvement, impact evaluations, and development programmes	7. Society	Group	Principle 1
413-2	Operations with significant current and potential negative impacts on local communities	The Euskaltel Group has no operations centres that have had or may have negative effects on local communities.	Group	Principle 1

GRI 414 Supplier Social Assessment

Topic included in the materiality analysis of the Euskaltel Group
Management approach and evaluation described in Chapter 5. Suppliers

414-1	New suppliers that have been assessed according to social criteria	All Euskaltel Group suppliers must pass an approval and assessment process that particularly includes social criteria based on safety and health in the workplace and the acceptance of the Code of Ethics, which includes clauses on working conditions and human rights. as well as the Anti-Corruption Policy. During 2019, 61 new suppliers were engaged following the same approval and assessment procedure based on social criteria.	Group	Principle 2
414-2	Negative environmental impacts on the supply chain and measures taken	All Euskaltel Group suppliers must pass an approval and assessment process that particularly includes a social impact analysis based on safety and health in the workplace and the acceptance of the Code of Ethics, which includes clauses concerning working conditions and human rights, as well as the Anti-corruption Policy. During 2019, the same annual social assessment procedure has been followed and corrective actions have been carried out for all suppliers.	Group	Principle 2

GRI 415 Public Policy

Non-material topic for the Euskaltel Group

415-1	Political contributions	The Euskaltel Group does make any kind of contributions, in cash or in kind, to political parties or their candidates	Group	Principle 10

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

Standards	Description	Response to the indicator / Section	Scope	Scope	Global Compact
GRI 416	**Customer health and safety**				
Topic included in the materiality analysis of the Euskaltel Group Management approach and evaluation described in Chapter 7. Society					
416-1	Impact evaluation on health and safety of products and services	The Euskaltel Group is responsible for placing on the market equipment manufac-tured by third parties, ensuring that the equipment it acquires and markets are legally compliant particularly with regard to electromagnetic fields.	Group		-
416-2	Cases of non-compliance related to health and safety impacts of products and services	During 2019, there have been no incidences of non-compliance related to the health and safety impacts of products and services.	Group		-
GRI 417	**Marketing and Labelling**				
Topic included in the Group materiality analysis Management approach and assessment referred to in Chapter 4. Customers					
417-1	Requirements on information and labelling of products and services	All products supplied by the Euskaltel Group are certified and meet the require-ments set by different national and international bodies. The Group complies with the legal requirements on the processing of personal data of the products and services acquired by its customers as provided in the GDPR. It also complies with legal requirements regarding packaging labelling, in accor-dance with Law 11/1997 on packaging and packaging waste	Group		-
417-2	Cases of non-compliance related to information and abelling of products and services	During 2019, there have been no inciden-ces of non-compliance related to information on and labelling of products and services.	Group		-
417-3	ICases of non-compliance related to communications and marketing	During 2019 there have been no cases of non-compliance related to marketing communications.	Group		-

Standards	Description	Response to the indicator / Section	Scope	SDG	Global Compact
GRI 418	**Customer privacy**				
Topic included in the Group materiality analysis Management approach and assessment referred to in Chapter 4. Customers					
418-1	Substantial complaints related to breaches of customer privacy and loss of customer data	During 2019, 42 customer complaints were received directly from the DPD and 7 complaints through the AEPD. No definitive penalties have been imposed and there is only one disciplinary procedure in progress	Group	16	-
GRI 419	**Socio-economic compliance**				
Topic included in the Group materiality analysis Management approach and assessment referred to in Chapter 7. Society					
419-1	Non-compliance with laws and regulations in the social and economic area	In 2019 a complaint was received from consumer organisations with a penalty amounting to €150	Group	16	-

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

8.3.Contents - Law 11/2018

Content	Section
BUSINESS MODEL	
Business model organisation, structure and business environment	1. Euskaltel Group, a Responsible Business 2 Corporate governance 4. Customers 5. Suppliers
Markets in which the company operates	1. Euskaltel Group, a Responsible Business
Organisation's objectives and strategies	1. Euskaltel Group, a Responsible Business
Main factors and trends affecting the organisation's future development	One of the main factors and trends affecting the evolution of the Euskaltel Group is the significant increase in the interest of its shareholders in ASG criteria. This is a growing trend identified not only internally but also externally from external studies that presage that ESG investment criteria will be increasingly relevant to fund managers when making investment decisions.
SUSTAINABILITY MODEL	
Sustainability policies	1. Euskaltel Group, a Responsible Business
Riesgos de sostenibilidad	1. Euskaltel Group, a Responsible Business
ENVIRONMENTAL INFORMATION	
GENERAL INFORMATION	
Effects of the company's activities. on the environment and on health and safety, evaluation procedures or environmental certification	6. Environment
Precautionary principle	The precautionary principle is applied from an environmental viewpoint through the maintenance and revision of its environmental management systems (EMAS, ISO 14001:2015, ISO 50001:2011) and their continuous renewal.
Resources devoted to preventing environmental risk	8. Appendices
Provisions and guarantees for environmental risks	The Euskaltel Group has third-party liability insurance that covers risks and liabilities for accidental environmental pollution. This insurance has an annual cost of € 121,316.89.

Content	Section
POLLUTION	
Measures associated with carbon emissions	6.Environment
Measures associated with light, noise and other pollution	Due to the nature of the Euskaltel Group's activity, there are no impacts in terms of light or noise pollution.
WASTE AND CIRCULAR ECONOMY	
Initiatives aimed at favouring he circular economy	6. Environment
Measures associated with light, noise and other pollution	6. Environment
Actions to combat food waste	Due to the nature of the Euskaltel Group's activities food waste is not considered material and no actions are carried out in this area.
CONSUMPTION	
Water: consumption and supply.	6. Environment
Raw materials: consumption and reduction measures	6. Environment
Energy: consumption, energy efficiency measures	6.Environment

Content	Section
CLIMATE CHANGE	
Greenhouse Gas emissions	6. Environment
Climate change adaptation measures	Beyond the measures adopted to reduce its impact on climate change, due to the nature of its activity the Euskaltel Group does not expect climate change to have significant financial consequences for its business.
Emission Reduction targets	The Euskaltel Group is also committed to reducing 25% of its GHG emissions
BIODIVERSITY	
Conservation measures	The Euskaltel Group does not own any land in areas of high biodiversity value. During 2019, 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.
Impacts on protected areas	
SOCIAL AND PERSONNEL-RELATED INFORMATION	
EMPLOYMENT	
Total number and distribution of employees by gender, age, country and professional classification	8. Appendices
Total number and distribution of types of employment contract	8. Appendices
Annual average of permanent contracts, temporary contracts and part-time contracts by gender, age and professional	8. Appendices
Number of lay-offs by gender, age and professional category;	8. Appendices

Content	Section
Average remuneration and trends therein by gender, age and professional classification or equal value	8. Appendices
Wage gap, remuneration for the same posts or the company's average remuneration	8. Appendices
Average remuneration for directors and executives t	8.Appendices Report on the remuneration of Euskaltel,S.A Directors https://www.euskaltel.com/CanalOnline/inversores/gobierno-corporativo#20151026085847507
Right to disconnect policies for employees	Disconnection policies will be included in the current negotiation of the collective agreements applicable to the Group companies.
Employees with disabilities	8. Appendices
ORGANISATION OF WORKING HOURS	
Organisation o f work	3. People
Number of hours of absenteeism	8. Appendices
Work-life conciliation measures	3. People
OCCUPATIONAL HEALTH AND SAFETY	
Occupational health and safety conditions	3. People
Occupational accidents, in particular frequency and severity	3. People
Occupational illnesses, analysed by gender	3. People

Content	Section
INDUSTRIAL RELATIONS	
Arrangements for social dialogue	3. People
Percentage of employees covered by a Collective Agreement by country	87.03% of the Group's employees are covered by collective bargaining agreements. Managers and Directors are excluded
Main content of the collective agreements in relation to occupational health	Euskaltel Group fully applies the occupational health and safety requirements of its collective agreements based on its Occupational Health, Safety and Welfare Policy and the application of the Occupational Health and Safety Policy and Management System certified under the OHSAS 18001:2007 standard in each of its companies.
PROFESSIONAL TRAINING AND DEVELOPMENT	
Policies implemented in the training area	3. People
Total hours of training by professional category	8.Appendices
EQUAL OPPORTUNITIES	
Measures implemented to promote equality, equality plans and non-discrimination policy, and diversity management	3. People
HUMAN RIGHTS	
Due diligence procedures on human rights and, if applicable, mitigation, management and remedies	The Due Diligence Model applied by the Group in the Human Rights area is based on its Code of Ethics, which contains clauses on Human Rights that must be complied with by all Group members, on the training courses on the Code of Ethics that all employees receive, and on the Ethics Channel, where any employee can make enquiries and report any violations of Human Rights and which is publicly accessible for all stakeholders on the Group companies' corporate websites. In addition, the Euskaltel Group provides the Code of Ethics to its Suppliers for it to be part of the Group's supply chain, and they have the Ethics Channel at their disposal for potential violations of their Human Rights.

Content	**Section**
Complaints about cases of human rights violations	During 2019 there have been no complaints of human rights violations.
Promotion and fulfilment of ILO conventions related to the freedom of association and collective bargaining	The Code of Ethics of the Euskaltel Group contains clauses on Human Rights, particularly on freedom of association and collective bargaining. All Group employees receive training on the Code of Ethics and have access to the Ethics Channel. In addition, the Euskaltel Group provides the Code of Ethics to its Suppliers for it to be part of the Group's supply chain, and they have the Ethics Channel at their disposal for potential violations of their Human Rights, including those related to freedom of association and collective bargaining.
Elimination of discrimination in the workplace, forced or mandatory labour and child labour	The Code of Ethics of the Euskaltel Group contains clauses on Human Rights, particularly on the prohibition of discrimination, forced labour and child labour. All Group employees receive training on the Code of Ethics and have access to the Ethics Channel. In addition, the Euskaltel Group provides the Code of Ethics to its Suppliers for it to be part of the Group's supply chain, and they have the Ethics Channel at their disposal for potential violations of their Human Rights, including those related to discrimination, forced labour and child labour.
FIGHT AGAINST CORRUPTION AND BRIBERY	
Measures taken to prevent corruption and bribery	2. Corporate governance
Measures to combat money laundering	2. Corporate governance
Aportaciones a fundaciones y otras entidades sin ánimo de lucro	In its Anti-Corruption Policy, the Euskaltel Group has included instructions on gifts, presents or gratuities, by virtue of which it expressly prohibits patronage of political parties and/or their related foundations and campaigns, and undertakes to strictly comply with the applicable legislation regarding the non-financing of political parties. Likewise, the Euskaltel Group has no relations with and makes no contributions to lobbies. The contributions to non-profit associations made by the Euskaltel Group and the Euskaltel Foundation are disclosed in Chapter 8. Appendix (Pages 111-112)

Content	Section
SOCIETY	
LOCAL COMMUNITIES	
Impact of the company's activities: employment, local development, local populations and region	7. Society
Dialogue with the local community	In associations with representatives of the Euskaltel Group, we attend regular presential meetings with the governing bodies of these associations in order to participate directly in the decision-making process for initiatives or projects. In associations where there are no representatives of the Euskaltel Group, we attend regular meetings called by their representatives and participate in initiatives through collaboration.
Actions by association or sponsorship.	8. Appendices
SUPPLY CHAIN	
Inclusion of social, gender equality and environmental matters in the procurement policy	5. Suppliers
Consideration in relations with suppliers and subcontractors of their social and environmental responsibility	5.Suppliers
Supervision systems and audits and their results	5.Suppliers
CONSUMERS	
Consumer health and safety measures	4. Customers
Complaints system, complaints received and their resolution	4. Customers

Content	Section
TAX	
Profits obtained country by country before taxes	7. Society
Corporate income tax paid	7. Society
Public grants and subsidies received	7. Society

8.4. GRI Indicators Appendix

LABOUR INDICATORS

NEW HIRES

Age	Total
<= 30 years	**4**
Women	3
Men	1
31 a 50 years	**15**
Mujer	4
Men	11
>= 51 years	**3**
Women	1
Men	2
	22

*Not including CEO and Chairman

STAFF TURNOVER

STAFF TURNOVER

13,81%

EXTERNAL TURNOVER INDEX FOR 2019 BY GENDER AND AGE

	Age	2018	2019
Men	<=30	2	8
	31-50	14	65
	>=51	10	29
Women	<=30	2	3
	31-50	9	23
	>=51	1	6

AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE

	Age	Women	Men
Directors	<=30	0	0
	31-50	60	25
	>=51	25	48
Manager	<=30	0	0
	31-50	16	43
	>=51	15	41
Other employees	<=30	40	44
	31-50	35	35
	>=51	34	32

ENVIRONMENTAL INDICATORS

MATERIAL AND WATER CONSUMPTION

	2018	2019	Unit
Paper	188,30	144,19	Tn
Cable	76,32	43,27	Tn
Equipment	159,24	253,99	Tn
Water	7.458	7.900	m^3

WASTE GENERATION

		2018	2019	Unit
Non-hazardous waste	Paper	24,54	19,53	Tn
		24,54	**19,53**	Tn
Hazardous waste	WEEE*	152,71	237,07	Tn
	Acid lead batteries	37,23	41,93	Tn
	Fluorescents	0,43	0,52	Tn
		190,37	**279,53**	Tn

*As a result of a legislative change, WEEE has been treated as hazardous waste instead of non-hazardous waste.

RECYCLED INPUT MATERIALS USED

2018	2019
1,7%	1,7%

*Refers to % of recycled paper used over total paper consumed

RECLAIMED PRODUCTS

2018	2019
63,66%	55,99%

OVERALL ENERGY CONSUMPTION

	2018	2019	Unit
Electricity Diesel	66.356,56	67.242,46	MWh
(internal)** Diesel	670,03	843,56	MWh
(external)**/***	848,24	510,08	MWh
Natural gas	129,33	129,56	MWh
Energy intensity*	23,12	22,77	kwh/producto
Total ENERGY	**68.004,16**	**68.725,66**	MWh
Total DIESEL	**1.518,27**	**1.353,64**	MWh

*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 0.084l/km has been applied for diesel.
**** Electricity consumption has increased by 885.9 Mwh due to the rise in products supplied to customers, and energy intensity has decreased by 0.35kwh/product, entailing a 2% reduction.

GHG EMISSIONS

	2018	2019	measure unit
Direct emissions (Scope 1)	1.271,22	794,58	Tn CO_2 eq
Indirect emissions (Scope 2)	21.560,80	20.777,94	Tn CO_2 eq
Other indirect emissions (Scope 3)	331,40	307,92	Tn CO_2 eq

*The data on indirect emissions Scope 2 in 2018 has been recalculated using the MITECO 2018 electricity mix ** Cable consumption is assumed by contracted companies

		2018	2019	measure unit
Direct GHG emissions (Scope 1)	CO_2	192,49	235,44	Tn CO_2 eq
	CH_4	0,02	0,02	Tn CO_2 eq
	N_2O	0,15	0,19	Tn CO_2 eq
	HFC	1.078,56	558,93	Tn CO_2 eq
	PFC	0	0	Tn CO_2 eq
	SF_6	0	0	Tn CO_2 eq
		1.271,22	794,58	Tn CO_2 eq
Indirect GHG emissions (Scope 2)	CO_2	21.560,80	20.777,94	Tn CO_2 eq
Intensity of GHG emissions	CO_2	7,76	7,15	Kg CO_2 e./prod.
Other indirect emissions (Scope 3)	CO_2	331,40	307,92	Tn CO_2 eq
Total emissions (Scope 1+2+3)		23.163,42	21.880,43	Tn CO_2 eq

* GHG emissions calculated using an in-house tool
** To calculate HCFC, HFC and SF6 emissions in equivalent tonnes of CO2 the Potential Atmospheric Heating data under European Regulation (EC) No 517/2014 have been used

OTHER SIGNIFICANT AIR EMISSIONS

	2018	2019	measure unit
SO_2	0,0009	0,0014	Tn
NO_x	0,7215	1,1802	Tn
Solid particles	0,0612	0,079	Tn
TOTAL	0,7836	1,2606	Tn

* In 2019, to calculate SO2, NOx and PM emissions, data included in the European Environment Agency Guide "EMEP / EEA air pollutant emission inventory guidebook 2019" have been used

ENVIRONMENTAL INVESTMENT (€)

	2018	2019
Waste management (managers and means)	42.696	35.555
Inversión (sustitución instalaciones de frío y calor)	-	173.457
Consulting and auditing	5.471	17.578
TOTAL	48.167	226.590

8.5. . GRI Indicators Appendix

EMPLOYMENT

TOTAL NUMBER AND DISTRIBUTION OF EMPLOYEES BY GENDER, AGE, COUNTRY ANDOCCUPATIONAL CLASSIFICATION, INCLUDING NUMBER OF EMPLOYEES WITH DISABILITIES (31/12/2019)

	Age	Men	Women
Directors	<=30	0	0
	31-50	10	3
	>=51	12	1
Managers	<=30	0	0
	31-50	22	14
	>=51	11	3
Other employees	<=30	3	8
	31-50	203	210
	>=51	60	26
		321	**265**
		586	
Employees with disabilities		**1**	**0**

1

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

TOTAL NUMBER AND DISTRIBUTION OF TYPES OF EMPLOYMENT CONTRACT (31/12/2019)

	Contract o	Permanent		Temporary	
	Working day	F.T.	P.T.	F.T.	P.T.
GENDER	H	320	0	0	1
	M	263	0	1	1
AGE	<=30	10	0	1	0
	31-50	462	0	0	0
	>=51	111	0	0	2
PROFESSIONAL CATEGORY	Directors	26	0	0	0
	Managers	50	0	0	0
	Other	507	0	1	2
TOTAL		**583**	**0**	**1**	**2**

ANNUAL AVERAGE OF PERMANENT CONTRACTS, TEMPORARY CONTRACTS AND PART-TIME CONTRACTS BY GENDER, AGE AND PROFESSIONAL CLASSIFICATION (2019)

Contract average by age

	Age			
STANDARD PERMANENT FULL TIME	<=30	12,5	642,67	Total 649,42
	31-50	502,17		
	>=51	127,75		
TEMPORARY FULL TIME	<=30	4,67	4,83	
	31-50	0,17		
TEMPORARY PART TIME	>=51	1,92	1,92	

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

Contract average by gender

	Gender			
STANDARD PERMANENT FULL TIME	Women	277,08	642,67	Total 649,42
	Men	365,58		
TEMPORARY FULL TIME	Women	1,25	4,83	
	Men	3,58		
TEMPORARY PART TIME	Women	0,92	1,92	
	Men	1		

Contract average by professional category

	Professional category			
STANDARD PERMANENT FULL TIME	Directors	33,08	642,67	Total 649,42
	Manager	57,67		
	Other	551,92		
TEMPORARY FULL TIME	Other employes	4,83	4,83	
TEMPORARY PART TIME	Other employes	1,92	1,92	

NUMBER OF DISMISSALS BY GENDER, AGE AND PROFESSIONAL CLASSIFICATION (31/12/2019)

	Age	Men	Women
DIRECTORS	<=30	0	0
	31-50	3	2
	>=51	9	1
MANAGERS	<=30	0	0
	31-50	2	4
	>=51	5	0
OTHER EMPLOYEES	<=30	0	0
	31-50	17	11
	>=51	9	5
	Subtotal	45	23
	TOTAL	68	

AVERAGE REMUNERATION AND WAGE GAP

Premisas del análisis de retribuciones:

1.The actual total remuneration of full-time employees (FTE) has been taken into account, such that the remuneration of employees with reduced working hours has been annualised.

2.For employees on maternity and paternity leave in both 2018 and 2019, both fixed remuneration and actual total annualised remuneration (2018) (as if they had been working throughout the year) have been taken into account.

3.In order to facilitate a better comparison, the additions made in 2018 and 2019 have not been taken into account for the analysis of salary equality in total remuneration, since the data on actual annualised variable remuneration in 2019 was not available at the time of these calculations.

4.Trainees, employees with more than 220 days' sick leave and employees working part-time (25% timetable) were not included in the analysis.

5.Directors' remuneration includes actual variable compensation paid. The Euskaltel Group does not pay per diems to its executives.

AVERAGE REMUNERATION AND WAGE GAP BY GENDER AND AGE (31/12/2019

AGE	M / W	Annualised actual total		
		Average		
		Men	Women	Gap
<30 years	3/6	26.567	29.295	**-10%**
31-50 years	228/223	50.930	44.709	**12%**
>50 years	81/28	74.579	52.177	**30%**

The companies that make up the Euskaltel Group were formed more than 20 years ago with personnel mainly comprising men. This means that in the group of employees over 50 years of age, men predominate over women.

AVERAGE REMUNERATION AND WAGE GAP BY GENDER AND AGE (31/12/2018)

AGE	M / W	Annualised actual total remuneration		
		Average		
		Men	Women	Gap
<30 years	14/9	26.640	29.022	**-9%**
31-50 years	284/246	50.047	44.356	**11%**
>50 years	88/27	81.169	48.088	**41%**

* The above table reflects the total annualised average actual remuneration for 2018. The data published in the 2018 annual report have been updated by applying the same calculation method as in the 2019 report to facilitate comparability.

AVERAGE REMUNERATION AND WAGE GAP BY GENDER AND PROFESSIONAL CATEGORY (31/12/2019)

GROUP	M / W	Annualised actual total remuneration		
		Average		
		Men	Women	Gap
Directors	21/4	142.669	129.744	**9%**
Management	12/6	85.307	85.373	**0%**
Middle management	99/52	58.550	54.812	**6%**
Technical staff	163/143	44.724	41.605	**7%**
Support staff	17/52	36.855	34.151	**7%**

To calculate the wage gap, remunerations have been compared between equivalent professional segments.
The wage gap is understood as the percentage that women earn less than men. The remuneration policy applied by the Euskaltel Group is not gender biased. Fixed compensation reflects experience and responsibility in the organisation, while variable compensation rewards the achievement of objectives.

AVERAGE REMUNERATION AND WAGE GAP BY GENDER AND PROFESSIONAL CATEGORY (31/12/2018)

GROUP	M / W	Annualised actual total remuneration		
		Average		
		Men	Women	Gap
Directors	20/2	166.501	158.276	**5%**
Management	15/10	84.314	85.048	**-1%**
Middle management	98/45	64.389	53.999	**16%**
Technical staff	232/140	43.061	41.303	**4%**
Support staff	21/85	39.722	36.373	**8%**

* The above table reflects the total annualised average actual remuneration for 2018. The data published in the 2018 annual report have been updated by applying the same calculation method as in the 2019 report to facilitate comparability.

ORGANISATION OF WORKING HOURS

NUMBER OF HOURS OF ABSENTEEISM (31/12/2019)

Bizkaia	**8.271,5**
Gipuzkoa	**46,6**
Araba	**0**
A Coruña	**4.400,4**
Santiago	**857,7**
Asturias	**3.582**
Hours absenteeism due to temporary disability	**17.158,2**

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

PROFESSIONAL TRAINING AND DEVELOPMENT

TOTAL HOURS OF TRAINING BY PROFESSIONAL CATEGORY

	Age	Women	Men
DIRECTORS	<= 30	0	0
	31 a 50	239	329
	>=51	49	864
MANAGERS	<= 30	0	0
	31 a 50	258	853
	>=51	46	450
OTHER EMPLOYEES	<= 30	397	311
	31 a 50	5.946	6.903
	>=51	574	1.640
	TOTAL	7.508	11.349

FIGHT AGAINST CORRUPTION

CONTRIBUTIONS TO FOUNDATIONS AND NON-PROFIT ORGANISATIONS BY THE EUSKALTEL GROUP

	CONTRIBUTION (€)
FUNDACION ATHLETIC CLUB	**210.000**
FUNDACION BILBAO BASKET	**40.000**
IPURUA KIROL FUNDAZIOA	**50.000**
ASOCIACION EMPRESARIOS DE GIPUZKOA	**23.939**
EUSKALIT-FUNDACION VASCA PARA LA	**1.215**
FUNDACION DEUSTO	**100.000**
IKASTOLEN ELKARTEA	**28.842**
FUNDACION RAMON RUBIAL	**8.000**
HIRUKIDE	**6.000**
SOCIEDAD FILARMÓNICA DE BILBAO	**4.000**
FUNDACION BIZKAIA BIZKAIALDE	**7.000**
FUNDACION LABORAL SAN PRUDENCIO	**10.000**
NAFARROAKO BERTSOZALE ELKARTEA	**3.500**
ASOC.PERIODISTAS DE BIZKAIA	**4.500**
ASOCIACION CULTURAL DALE AL PLAY	**4.000**
FUNDACION CONSEJO MUNDIAL	**4.000**
FUNDACIÓN FICOBA	**4.239**
EUSKARABENTURA ELKARTEA	**5.000**
FUNDACION ESPAÑOLA DE CALIDAD ASIST	**3.000**
AED	**8.000**
ASOC INGENIEROS DE TELECOMUNICACION	**6.000**
ASPEGI ASOCIACION PROFESIONALES EMP	**3.000**
ELHUYAR FUNDAZIOA	**178.757**
ASOCIACION ZINEGOAK ELKARTEA	**12.000**
FUNDACION 5+11	**54.000**
FUNDACIÓN EUSKALTEL	**1.680.717**
FUNDACIÓN EUSKALTEL (Euskal Encounter)	**343.193**
	2.802.900

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CONTRIBUTIONS TO FOUNDATIONS AND NON-PROFIT ORGANISATIONS BY THE EUSKALTEL GROUP

	CONTRIBUTION (€)
ASOCIACIÓN GALLEGA DE EMPRENDEDORES	**2.100**
PUNTUEUS FUNDAZIOA	**26.620**
AGENCIA VASCA DE LA INNOVACIÓN	**17.520**
FUNDACIÓN ARTIUM	**60.000**
ELHUYAR FUNDAZIOA	**9.416,95**
FUNDACION SABINO ARANA	**8.000**
FUNDACION GUGGENHEIM	**96.310**
EUSKALHACK	**3.000**
FUNDACION CIDADE DA CULTURA	**6.750**
FUNDACION SEMANA VERDE	**27.000**
ASOCIACION TECHNIUM	**7.000**
HETEL	**7.000**
	270.718,95

SOCIETY

ENTITIES WITH WHICH THE EUSKALTEL GROUP HAS RELATIONS

·ADEGI (Gipuzkoa employers' association)
·AOP (Association of operators for portability)
·ASCOM
·ASOCIACIÓN A PASAXE
·ASOCIACIÓN DE EMPRESARIOS DEL POLIGONO DE A GRELA
·ASOCIACIÓN DE EMPRESARIOS MOS
·ASOCIACIÓN GORABIDE
·ASOCIACION GRAN ÁREA COMERCIAL OBELISCO
·ASOCIACIÓN MUJERES EN IGUALDAD DE VIGO
·ASPEGI
·AULA DE MÚSICA DE LA FUNDACIÓN PADRE OSSÓ (University academic centre associated with the University of Oviedo)
·AULA DE TECNOLOGÍA DEL COLEGIO INMACULADA DE GIJÓN
·BILBAO METROPOLI30
·BAINET
·BEdC (Basque Ecodesign Center)
·BILBAO BASKET
·BILBAO CENTRO (Traders' Association)
·BILBAO DENDAK (Traders' Association)
·CABLEUROPE
·CÁMARA COMERCIO DE BILBAO
·CÁMARA DE COMERCIO GIJÓN
·CÁMARA COMERCIO GIPUZKOA
·CEBEK (Bizkaia Owners' Association)
·CÍRCULO DE EMPRESARIOS VASCOS
·CÍRCULO EMPRESARIOS DE GALICIA
·CÍRCULO FINANCIERO DE GALICIA
·CLUB ASTURIANO DE CALIDAD
·CLUB FINANCIERO ATLÁNTICO
. CLUB FINANCIERO VIGO
·CLUB TENIS DE AVILÉS
·CLUB DE TENIS DE GIJÓN
·CLUSTER AUDIOVISUAL GALEGO
·CLUSTER TIC DE GALICIA (Association of ICT companies in Galicia)
·CLUSTERTIC (Association of ICT companies in Asturias)
·CONFEBASK
·CONFEDERACION DE EMPRESARIOS DE A CORUÑA
·CONFEDERACIÓN DE EMPRESARIOS DE PONTEVEDRA
.COLEGIO INGENIEROS TELECOMUNICACIONES
·CONFEDERACIÓN DE EMPRESARIOS DE OURENSE
·CYC
·DALE AL PLAY
·DIGITALES (Spanish Association for Digitization)
·DIVERTIA
·DONOSTI SHOPS (Traders' Association)
·EIKEN (Basque audiovisual cluster)
·EL COMERCIO
·ESCUELA PÚBLICA VASCA
·ETIS
·EUSKALIT (Basque Foundation for Quality)
·FEMETAL (Federation of Metal Entrepreneurs of Asturias)
·FESTIVAL INTERNACIONAL DE CINE DE GIJÓN
·FICBUEU
·FUNDACIÓN CITIC (IT research centre)

·FUNDACIÓN GRADIANT (Telecommunications Technology Centre in Galicia)
·FUNDACIÓN TECNALIA
·FUNDACIÓN VALDES SALAS
·FUNDACIÓN ASPACE BIZKAIA
·FUNDACIÓN BIZKAIALDE
·FUNDACIÓN CESPA
·FUNDACIÓN CONSEJO MUNDIAL
·FUNDACIÓN FERNANDO ALONSO
·FUNDACIÓN FICOBA
·FUNDACIÓN JOSÉ CARDÍN
·FUNDACIÓN JÓVENES EMPRESARIOS
·FUNDACIÓN OPERA DE OVIEDO
·FUNDACIÓN RAMON RUBIAL
·FUNDACIÓN SAN PRUDENCIO
·FVEM (Federation of Metal Companies in Vizcaya)
·GAIA (Association of Knowledge Industries and Applied Technology)
·GALICIATIC
·GASTEIZ ON (Traders' Association)
·GIPUZKOA BASKET
·IBAIZABAL SASKIBALOI TALDEA
·ICA (Institute of Administrative Directors)
·IHOBE (Public corporation for Environmental Management)
·IKASTOLEN ELKARTEA
·INKOLAN (Grouping of public service operators)
·INNOBASQUE (Basque Agency for Innovation)
·ISMS FORUM (Association for the Promotion of Information Security)
·IZAITE (Business Forum for Sustainability)
·KONTSUMOBIDE
·MERCADO DE LA COSECHA
·MUSEO DO POBO GALEGO
·NOITE ENXEÑERÍA INFORMÁTICA (COEITG)
·NOITE GALEGA DAS COMUNICACIÓNS (COETG)
·OBRADOIRO CAB
·OPEN SCIENCE
·ORKESTRA (Basque Competition Institute)
·OTEA (Association of Hotel and Tourism Industry of Asturias)
·OVIEDO BALONCESTO
·PACTO MUNDIAL (Spanish Network of the United Nations Global Compact)
·SEA (Owners' Association of Álava)
·UNIRISCO
·R.C. CELTA
·R.C. DEPORTIVO
·REAL CLUB DE CULTURA COVADONGA
·REAL SOCIEDAD
·SPORTING DE GIJÓN
·TELECABLE HOCKEY CLUB
·UNIVERSIDAD DE OVIEDO

ASSOCIATIONS, FOUNDATIONS AND INSTITUTIONS WITH WHICH THE EUSKATEL FOUNDATION HAS RELATIONS

·ASOCIACIÓN EUSKALAMIGA
·ASOCIACIÓN EUSKALHACK
·ASOCIACIÓN HETEL
·ASOCIACIÓN INTERNET&EUSKADI
·ASOCIACIÓN TECHNIUM
·AYUNTAMIENTO DE TOLOSA
·AYUNTAMIENTO DE VITORIA-GASTEIZ
·DIPUTACIÓN FORAL DE ARABA
·DIPUTACIÓN FORAL DE GIPUZKOA
·FUNDACIÓN ARTIUM
·FUNDACIÓN ELHUYAR
·FUNDACIÓN GUGGENHEIM
·FUNDACION PUNTU.EUS
·FUNDACIÓN SABINO ARANA
·FUNDACIÓN SEMANA VERDE
·FUNKO
·GOBIERNO VASCO
·INNOBASQUE
·XUNTA DE GALICIA

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

Derio, 25 February 2020

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 2019.

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. Xabier Iturbe Otaegui
(Chairman)

Mr. José Miguel García Fernández
(Chief Executive Officer)

Mr. José Ángel Corres Abasolo
(Vice Chairman)

Mr. Eamonn O'Hare
(Board member)

Mr. Robert W. Samuelson
(Board member)

Kartera 1, S.L., represented by
Ms. Alicia Vivanco González
(Board member)

Mr. Luis Ramón Arrieta Durana
(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. Jonathan Glyn James
(Board member)