

# Euskaltel, S.A.

## **Consolidated Annual Accounts**

31 December 2017

## **Consolidated Directors' Report**

2017

(together with the Independent Auditor's Report)

(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 CONSOLIDATED ANNUAL ACCOUNTS

#### Opinion

We have audited the consolidated annual accounts of Euskaltel, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the consolidated balance sheet at 31 December 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, 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 2017, 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.

### Business combination

See Notes 3.2 and 5 to the annual accounts

<i>Key audit matter</i>	<i>How the matter was dealt with in our audit</i>
<p>On 26 July 2017 the Group's parent company acquired from an unrelated third party 100% of the shares of Parselaya, S.L., indirect holder of 100% of Telecable de Asturias, S.A. In accordance with the applicable financial reporting regulatory framework, the Group has recorded the assets and liabilities acquired in the business combination at fair value, plus a goodwill of Euros 433 thousand, calculated as the difference between the values assigned to the assets and liabilities acquired and the cost of the business combination.</p> <p>A high degree of judgement is required to estimate the fair value of the assets and liabilities identified. An inappropriate estimate, due to applying an inadequate judgement or due to an error, could lead to incorrect recognition of the assets and liabilities acquired and, therefore, the goodwill arising from the combination. We consider this transaction to be a key audit matter for the Group due to its significance, the impact on the consolidated annual accounts and the inherent judgement associated thereto.</p>	<p>Our audit procedures have entailed, inter alia, reading the share purchase agreement for Parselaya, S.L., and assessing the design and implementation of the key controls relating to the registration process of the business combination.</p> <p>In this regard, with the assistance of our appraisal specialists, we have obtained the advisory report on the measurement carried out an independent expert commissioned by the Group and assessed the methodology and the key assumptions used by the independent expert to identify and determine the fair values of the assets and liabilities acquired and the useful lives of certain assets acquired. We have requested proof of the independent expert's independence and we have assessed their qualifications and experience. We have also assessed if the information stated on the transaction in the consolidated annual accounts complies with the disclosure requirements of the regulatory framework applicable to business combinations.</p>

## Intangible Asset Measurement - Goodwill

See Notes 3.3 and 6 to the annual accounts

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

## Intangible Asset Measurement - Goodwill

See Notes 3.3 and 6 to the annual accounts

<i>Key audit matter</i>	<i>How the matter was dealt with in our audit</i>
	framework and, in particular, we have ensured that the information regarding the sensitivity of the impairment evaluation results, in the event of changes in key assumptions included, have taken into account the possible changes in key assumptions and, therefore, adequately reflect the inherent appraisal risks.

## Estimation of supplier volume discount - Supply costs

See Note 13.2 to the annual accounts

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

## Revenue recognition

See Notes 3.14 and 13.1 to the annual accounts

<i>Key audit matter</i>	<i>How the matter was dealt with in our audit</i>
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 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

## Revenue recognition

See Notes 3.14 and 13.1 to the annual accounts

<i>Key audit matter</i>	<i>How the matter was dealt with in our audit</i>
	<p>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:</p> <p>a) Obtaining external confirmations for a sample of outstanding invoices, performing, if applicable, alternative verification procedures by means of subsequent proof of collection.</p> <p>B) Reconciliation of data from the invoicing and collection systems with the accounting records.</p> <p>C) Review of contract conditions with major clients.</p>

## Other information: Consolidated directors' report

Other information exclusively comprises the 2017 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 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.
- 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 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 2017 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**

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

In preparing these consolidated annual accounts, the directors of the Parent company are responsible for assessing the Group's capacity to continue as a going concern, disclosing, where applicable, the matters relating to the business continuity and accounting on a going concern basis unless these directors intend to liquidate the Group or cease trading, or has 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**

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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 use by the directors of the Parent company 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 the managing, supervising and performing the Group audit. We are solely responsible for the auditor's opinion expressed.

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

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

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

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

## **Report on other legal and regulatory requirements\_\_\_\_\_**

### **Additional report for the Parent company's audit committee**

The opinion expressed herein is consistent with that stated in our additional report for the Parent company's audit committee dated 28 February 2018.





### Contract term

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The Extraordinary Meeting of Shareholders held on 12 November 2015 appointed us as Group auditors for a 3-year term, from the year ended 31 December 2015.

KPMG Auditores, S.L.  
R.O.A.C nº S0702

Cosme Carral López-Tapia  
R.O.A.C nº 18.961

28 February 2018



**Consolidated Annual Accounts  
and Directors' Report  
for the year  
ended 31 December 2017**

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

## EUSKALTEL, S.A. AND SUBSIDIARIES

### Consolidated Balance Sheet at 31 December 2017

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

(Expressed in thousands of Euros)

ASSETS	Notes	31.12.2017	31.12.2016
<b>NON-CURRENT ASSETS</b>		<b>2,768,346</b>	<b>2,109,099</b>
Goodwill	5	1,024,923	591,442
Intangible assets	6	318,985	181,327
Property, plant and equipment	7	1,286,312	1,192,345
Financial assets	8	7,524	7,226
Deferred tax assets	12	130,602	136,759
<b>CURRENT ASSETS</b>		<b>136,222</b>	<b>221,118</b>
Inventories	9	4,144	4,134
Trade and other receivables	8	54,154	47,765
Current tax assets	12	6,745	5,777
Other current assets		12,527	6,152
Cash and cash equivalents	8	58,652	157,290
<b>TOTAL ASSETS</b>		<b>2,904,568</b>	<b>2,330,217</b>
<b>EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>EQUITY</b>			
Capital and reserves	10	963,341	741,735
Capital		535,936	455,536
Share premium		355,165	207,604
Retained earnings		96,815	102,735
(Own shares)		(1,887)	(1,363)
Interim dividend paid during the year		(22,688)	(22,777)
Other comprehensive income		(64)	(64)
Equity attributable to equity holders of the Parent		963,277	741,671
Non-controlling interests		365	423
		<b>963,642</b>	<b>742,094</b>
<b>NON-CURRENT LIABILITIES</b>		<b>1,694,422</b>	<b>1,378,019</b>
Prepayments for non-current assets		500	-
Non-current payables	11	1,583,359	1,302,235
Provisions		-	1,741
Derivatives	11	976	-
Other financial liabilities		15,171	7,537
Deferred tax liabilities	12	94,416	66,506
<b>CURRENT LIABILITIES</b>		<b>246,504</b>	<b>210,104</b>
Current payables	11	50,050	59,362
Trade and other payables	11	140,082	109,288
Current tax liabilities	12	7,470	2,032
Provisions		1,604	1,059
Other current liabilities		47,298	38,363
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,904,568</b>	<b>2,330,217</b>

Derio, 27 February 2018

## EUSKALTEL, S.A. AND SUBSIDIARIES

### Consolidated Income Statement for the year ended 31 December 2017

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

(Expressed in thousands of Euros)

	Notes	2017	2016
Revenues	13.1	609,275	561,426
Work performed by the entity and capitalised	6 & 7	12,399	11,121
Supplies	13.2	(132,874)	(129,163)
Other operating income		524	360
Personnel expense	13.3	(42,452)	(38,365)
Other operating expenses	13.4	(166,899)	(132,192)
Amortisation and depreciation	6 & 7	(164,749)	(147,827)
Impairment		-	(312)
RESULTS FROM OPERATING ACTIVITIES		115,224	125,048
Finance income		228	37
Finance cost		(49,109)	(47,891)
NET FINANCE COST	13.5	(48,881)	(47,854)
PROFIT BEFORE INCOME TAX		66,343	77,194
Income tax	13	(16,781)	(15,049)
PROFIT FOR THE YEAR	10	49,562	62,145
Profit for the year attributable to equity holders of the Parent		49,621	62,145
Profit for the year attributable to non-controlling interests		(59)	-
		49,562	62,145
Earnings per share (Euros)		0.30	0.41

Derio, 27 February 2018

## EUSKALTEL, S.A. AND SUBSIDIARIES

### Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

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

(Expressed in thousands of Euros)

	Notes	2017	2016
a) Consolidated profit/(loss) for the year	13	49,562	62,145
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>49,562</b>	<b>62,145</b>
Attributable to equity holders of the Parent		49,621	62,145
Attributable to non-controlling interests		(59)	-
		<b>49,504</b>	<b>62,145</b>

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Derio, 27 February 2018

## EUSKALTEL, S.A. AND SUBSIDIARIES

### Consolidated Statement of Changes in Equity for the year ended 31 December 2017

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

(Expressed in thousands of Euros)

Equity attributable to equity holders of the Parent									
	Registered capital	Share premium	Retained earnings	Own shares	Other comprehensive income	Interim dividend	Subtotal	Non-controlling interests	Total
Closing balance, 2015	455,536	207,604	40,858	(1,429)	(64)	-	702,505	419	702,924
Other comprehensive income	-	-	62,145	-	-	-	62,145	-	62,145
Transactions with shareholders									
<i>Own shares</i>	-	-	(284)	66	-	-	(218)	-	(218)
<i>Dividends</i>	-	-	-	-	-	(22,777)	(22,777)	-	(22,777)
Other movements	-	-	16	-	-	-	16	4	20
Closing balance, 2016	455,536	207,604	102,735	(1,363)	(64)	(22,777)	741,671	423	742,094
Other comprehensive income	-	-	49,621	-	-	-	49,621	(59)	49,562
Transactions with shareholders									
<i>Capital increases</i>	80,400	174,200	(481)	-	-	-	254,119	-	254,119
<i>Business combinations (note 10)</i>	-	(26,639)	-	-	-	-	(26,639)	-	(26,639)
<i>Own shares</i>	-	-	(455)	(524)	-	-	(979)	-	(979)
<i>Dividends paid from 2016 profit</i>	-	-	(54,605)	-	-	22,777	(31,828)	-	(31,828)
<i>Dividends</i>	-	-	-	-	-	(22,688)	(22,688)	-	(22,688)
Other movements	-	-	-	-	-	-	-	1	1
Closing balance, 2017	535,936	355,165	96,815	(1,887)	(64)	(22,688)	963,277	365	963,642

Derio, 27 February 2018

## EUSKALTEL, S.A. AND SUBSIDIARIES

### Consolidated Statement of Cash Flows for the year ended 31 December 2017

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

(Expressed in thousands of Euros)

	Notes	2017	2016
Profit for the year before tax		66,343	77,194
Adjustments for		205,190	189,073
Amortisation and depreciation	6 & 7	164,749	147,827
Impairment allowances	8	3,695	3,039
Changes in provisions		(1,655)	30
Impairment and gains/(losses) on disposals of fixed assets	13.4	6,678	2,458
Impairment and gains/(losses) on disposals of financial instruments		392	(405)
Finance income	13.5	(228)	(35)
Finance cost	13.5	48,006	48,148
Exchange gains / (losses)	13.5	(265)	148
Change in fair value of financial instruments	13.5	976	-
Other income and expense	13.2	(17,158)	(12,137)
Changes in operating assets and liabilities		9,533	10,724
Inventories		465	(452)
Trade and other receivables		(1,630)	13,660
Other current assets		(1,507)	(2,941)
Trade and other payables		14,527	1,251
Other current liabilities		(5,526)	(794)
Other non-current assets and liabilities		3,204	-
Other cash flows from /(used in) operating activities		(63,383)	(44,574)
Interest paid		(49,044)	(40,690)
Interest received		228	35
Income tax paid		(14,567)	(3,919)
Cash flows from / (used in) operating activities		217,683	232,417

Derio, 27 February 2018

## EUSKALTEL, S.A. AND SUBSIDIARIES

### Consolidated Statement of Cash Flows for the year ended 31 December 2017

(Expressed in thousands of Euros)

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

	Notes	2017	2016
<b>Payments for investments</b>		<b>(262,243)</b>	<b>(98,297)</b>
Acquisition of subsidiaries, net of cash and cash equivalents	5	(153,669)	-
Intangible assets	6	(36,426)	(33,156)
Property, plant and equipment	7	(72,148)	(65,141)
<b>Proceeds from sale of investments</b>		<b>220</b>	<b>104</b>
Property, plant and equipment		220	104
<b>Cash flows from / (used in) investing activities</b>		<b>(262,023)</b>	<b>(98,193)</b>
<b>Proceeds from and payment for equity instruments</b>		<b>(1,459)</b>	<b>(305)</b>
Issue of equity instruments		(481)	-
Acquisition of own equity instruments		(978)	(305)
<b>Proceeds from and payments for financial liability instruments</b>		<b>1,766</b>	<b>-</b>
Issue of:		275,164	-
Loans and borrowings		272,850	-
Other		2,314	-
Repayment of:		(273,398)	-
Loans and borrowings		(273,398)	-
<b>Dividends and interest on other equity instruments paid</b>		<b>(54,605)</b>	<b>-</b>
Dividends		(54,605)	-
<b>Cash flows from / (used in) financing activities</b>		<b>(54,298)</b>	<b>(305)</b>
Cash and cash equivalents at beginning of year		157,290	23,371
Cash and cash equivalents at year end		58,652	157,290
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(98,638)</b>	<b>133,919</b>

Derio, 27 February 2018



## **EUSKALTEL, S.A. AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 December 2017**

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

#### **NOTE 1.- General information**

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

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

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

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

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

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 2017 are as follows: R Cable and Telecomunicaciones Galicia, S.A. (100%), Parselaya, S.L.U. (100%), Telecable Capital Holding, S.A.U. (100%), Telecable de Asturias, S.A.U. and Cinfo, Contenidos Informativos Personalizados, S.L. (67.2%).

## 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 2017 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, 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 2017, authorised for issue on 27 February 2018, 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 2017 include comparative figures for the prior year.

#### Reclassification of comparative figures relating to the previous year

Certain figures for 2017 have been reclassified in these consolidated financial statements to conform to the current year's presentation and to facilitate their comparison. The reclassification was as follows:

	<i>Thousands of Euros</i>	
	<i>dr.</i>	<i>cr.</i>
<i>Deferred tax assets</i>		10,121
<i>Deferred tax liabilities</i>	10,121	

### 2.3. Critical issues regarding the valuation and estimation of uncertainties

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

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

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

a) Capitalisation of tax credits

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

b) Impairment of goodwill

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

c) Volume discounts from suppliers

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

## **2.4. Presentation currency**

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

## **2.5. Standards and interpretations issued and not applied**

### IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments entered into force on 1 January 2018 and partially replaces IAS 39, simplifying the recognition and measurement criteria for financial instruments. It maintains a mixed measurement model and establishes only two main categories for financial assets: amortized cost and fair value. It also simplifies hedge accounting and provides greater flexibility.

The Group considers that this standard will only have a significant impact on the following matters:

- The Group will apply the simplified approach to the calculation of the impairment of financial assets, which takes into consideration expected credit losses over the life of the asset. The Group estimates that this new approach will have a negative impact on its equity within a range of between Euros 1.5 million and Euros 2.7 million, crediting the heading Trade and other receivables in the consolidated balance sheet.
- For cases involving the exchange of debt instruments or modifications to contractual terms that do not result in the cancellation of a financial liability, IFRS 9 stipulates that the company must recalculate the new discounted amortised cost of the new estimated flows using the effective interest rate applied to the original financial liability. Any difference between that amount and the carrying amount of the modified debt would be recognised as income or expense in the income statement. In 2015, 2016 and 2017 the Group applied several changes to existing debt. These contractual modifications have been recognised as a continuation of the pre-existing debt under IAS 39. The Group has estimated the impact of applying the requirements established by IFRS 9 with respect to the financial liability modifications by calculating the difference between the original contractual cash flows and the modified contractual cash flows discounted using the original effective interest rate. The Group expects a positive impact on its equity as a result of this requirement established by the new standard of between Euros 3 million and Euros 4 million, charging the heading Non-current payables in the consolidated balance sheet.

## IFRS 15 - Revenue from Contracts with Customers

IFRS 15 - Revenue from Contracts with Customers entered into force on 1 January 2018 and establishes the criteria for recognising revenue from contracts with customers. This standard will replace 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.

IFRS 15 allows different practical solutions in order to facilitate the application of the new standard. Euskaltel has assessed the various practical solutions that are available and has adopted the following:

- Grouping of contracts: Euskaltel applies the standard's requirements to groups of contracts with similar characteristics since the effect of performing an individualized contract-by-contract analysis or by analysing groups of contracts with similar characteristics would not give rise to significant differences in their calculation.
- Financial component: 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.
- Contract intake and compliance costs: the directly identifiable costs for the intake of or compliance with a contract will be considered to be an expense when the amortisation period less than one year.

Euskaltel will also adopt IFRS 15 using the modified retrospective transition method, which means that the accumulated effects of adopting the standard will be recognised, upon first application, by implementing the practical case that allows applying the standard only to unfulfilled contracts at 1 January 2018. The application of this method will require making an adjustment against reserves for the accumulated effect in 2018.

Euskaltel has assessed the effects of applying this new standard to the various business models and offers that currently exist, as described below:

- Euskaltel has determined its main compliance obligation in accordance with IFRS 15 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 application of the new standards will give rise to greater recognition of revenue on the sale of equipment and lower monthly revenue for telecommunication services under those contracts with permanence requirements and the delivery of equipment for which there are discounts or subsidies applied to the equipment. This is due to the fact that the recognition of revenue takes place based on the assignment of the total amount payable by the customer for the various contract compliance obligations in accordance with their independent relative sales prices.

Euskaltel has estimated the impact of this change on retained earnings at 1 January 2018 to fall within a range of between Euros 0.4 million and Euros 1.1 million. That impact will also give rise to the creation of a contractual liability at that date, approximately ranging between Euros 0.5 million and Euros 1.5 million.

- IFRS 15 requires separate disclosure of contract assets and liabilities in the balance sheet. This will give rise to some reclassifications starting on 1 January 2018 with respect to contracts including customer discounts and promotions that are currently included under other headings of the balance sheet.

## IFRS 16 - Leases

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

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

The Group is currently estimating the impact of this new standard on those contracts. This analysis includes an estimation of the lease term, based on the period of that term that cannot be cancelled and the periods covered by the renewal options available to Euskaltel and which are considered to be reasonably certain. Assumptions are also used to calculate the discount rate, which primarily depends on the incremental financing rate for the estimated terms. The Group is assessing not recognising the non-lease components separately from those that are lease components for certain classes of assets when the materiality of the non-lease components is not significant compared to the total value of the lease.

The Group has not yet completed the implementation process and therefore it is currently not possible to reliably estimate the impact that the application of this standard will have, although it is believed that the amendments introduced by IFRS 16 will have a significant impact on the Group's financial statements as from the date of adoption, including the recognition in the balance sheet of the assets relating to the usage rights and obligations relating to some of the contracts that are classified as operating leases under current legislation. The amortisation of the right to use the assets and the recognition of the interest on the lease obligation will replace a significant part of the amount recognised in the income statement as an operating lease expense under the current standard.

## **NOTE 3.- Accounting principles**

### **3.1. Subsidiaries**

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

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

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

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

### **3.2. Business combinations**

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

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

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

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

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

### **3.3. Intangible assets**

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

#### **a) Goodwill**

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

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

#### **b) Computer software**

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

Computer software maintenance costs are charged as expenses when incurred.

#### **c) Licences**

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

#### **d) 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 the Group 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.

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

e) Impairment

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

### 3.4. Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

### **3.5. Impairment losses on non-financial assets**

The Group evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. Nonetheless, the Group tests goodwill 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 assets**

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 consolidated profit or loss. Balances receivable are derecognised when they are no longer expected to be recovered.

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

### **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. 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 Group 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.

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, 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.

### **3.11. 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.

### **3.12. 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.

### **3.13. Employee benefits**

#### **a) Termination benefits**

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

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

#### **b) Short-term employee benefits**

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

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

### **3.14. Revenue recognition**

The main revenues generated by the Group 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 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 consolidated 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 consolidated 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.

### **3.15. Leases**

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

### **3.16. Foreign currency transactions**

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

### **3.17. 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.

### **3.18. 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 seven-year financing plan with annual reviews and regular analyses of its financial position, which includes long-term projections, together with daily monitoring of bank balances and transactions.

c) Market risk, currency risk and interest rate risk

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

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

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

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

For the year ended 31 December 2017, had interest rates risen by 100 basis points, with other variables remaining constant, profit (after tax) would have fallen by Euros 7,182 thousand (Euros 6,539 thousand for the year ended 31 December 2016).

## NOTE 5.- Business combinations

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

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

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

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

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

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

Details of the calculation of goodwill are as follows:

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

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

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

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

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

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

- Brand: The fair value of this intangible asset was calculated by applying the relief-from-royalty method, the most significant parameters of which were a royalty of 1.25%, based on royalties observed in the sector, a discount rate of 8.1% and a perpetuity growth rate of 0.5%.

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

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

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

## NOTE 6.- Intangible assets

Details of intangible assets and movement are as follows:

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

	31.12.2015	Additions	Disposals	Transfer s	31.12.16
<b>Cost</b>					
Industrial property	1,803	207	-	277	2,287
Computer software	91,148	13,476	-	40	104,664
Licences	5,893	35	-	-	5,928
Brands	32,171	-	-	-	32,171
Other intangible assets	107,970	19,361	(3,255)	-	124,076
	<u>238,985</u>	<u>33,079</u>	<u>(3,255)</u>	<u>317</u>	<u>269,126</u>
<b>Accumulated amortisation</b>					
Industrial property	(128)	(288)	-	-	(416)
Computer software	(48,419)	(16,491)	-	-	(64,910)
Licences	(91)	(891)	-	-	(982)
Brands	-	-	-	-	-
Other intangible assets	(6,030)	(16,524)	1,063	-	(21,491)
	<u>(54,668)</u>	<u>(34,194)</u>	<u>1,063</u>	<u>-</u>	<u>(87,799)</u>
<b>Carrying amount</b>	<u>184,317</u>	<u>(1,115)</u>	<u>(2,192)</u>	<u>317</u>	<u>181,327</u>

The cost of fully amortised intangible assets in use at 31 December 2017 totals Euros 75,567 thousand (Euros 47,162 thousand at 31 December 2016).

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

At 31 December 2017 Group personnel expenses totalling Euros 4,844 thousand (Euros 4,098 thousand at 31 December 2016) 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 has been calculated at its value in use according to cash flow projections determined on the basis of the five-year business plan approved by the Board of Directors at Euskaltel, S.A. Cash flows beyond this period are extrapolated using the growth rates estimated, which do not exceed average long-term growth rates for the sector.

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

- Discount rate after tax: 7.5% (8.25% before tax).
- Sales growth for the budgeted period: between 1.3% and 2.5%.
- Growth rate after the five-year period: 2.4%.
- EBITDA Margin/Non-current revenue: approximately 50%, in line with the aforementioned business plan.
- CAPEX/Revenue ratio: at levels of between 15% and 22%, also in line with the aforementioned business plan.

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



## NOTE 7.- Property, plant and equipment

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

	31.12.16	Additions	Business combination s (note 5)	Disposals	Transfers	31.12.17
<b>Cost</b>						
Land and buildings	156,626	-	3,742	-	82	160,180
Civil engineering	503,139	-	30,372	-	838	534,349
Cablings	360,279	-	-	-	4,429	364,708
Network equipment	498,981	6,077	70,105	(2,530)	16,971	589,604
Client equipment	326,847	-	-	-	23,038	349,885
Other installations, equipment and furniture	206,263	23	-	-	2,818	209,104
Under construction	12,913	65,706	-	(222)	(48,176)	30,221
Other property, plant and equipment	24,319	342	40,846	-	-	65,507
	<u>2,089,367</u>	<u>72,148</u>	<u>144,795</u>	<u>(2,752)</u>	<u>-</u>	<u>2,303,558</u>
<b>Accumulated depreciation</b>						
Land and buildings	(30,764)	(5,272)	-	-	68	(35,968)
Civil engineering	(75,016)	(11,307)	-	-	3,799	(82,524)
Cablings	(160,983)	(17,395)	-	-	(753)	(179,131)
Network equipment	(302,586)	(45,613)	-	1,038	168	(346,993)
Client equipment	(202,968)	(28,611)	-	-	-	(231,579)
Other installations, equipment and furniture	(105,747)	(11,816)	-	-	(4,233)	(121,796)
Under construction	(18,958)	(1,248)	-	-	951	(19,255)
	<u>(897,022)</u>	<u>(121,262)</u>	<u>-</u>	<u>1,038</u>	<u>-</u>	<u>(1,017,246)</u>
<b>Carrying amount</b>	<u>1,192,345</u>	<u>(49,406)</u>	<u>145,087</u>	<u>(1,714)</u>	<u>-</u>	<u>1,286,312</u>

Details of property, plant and equipment and movement in 2016 are as follows:

	31.12.15	Additions	Disposals	Transfers	31.12.16
<b>Cost</b>					
Land and buildings	156,269	-	-	357	156,626
Civil engineering	494,308	3,963	-	4,868	503,139
Cablings	353,015	639	(18)	6,643	360,279
Network equipment	475,483	8,654	(367)	15,211	498,981
Client equipment	305,063	-	(181)	21,965	326,847
Other installations, equipment and furniture	201,516	239	(200)	4,708	206,263
Under construction	17,999	49,262	(392)	(53,956)	12,913
Other property, plant and equipment	24,066	49	-	204	24,319
	<u>2,027,719</u>	<u>62,806</u>	<u>(1,158)</u>	<u>-</u>	<u>2,089,367</u>
<b>Accumulated depreciation</b>					
Land and buildings	(25,234)	(5,530)	-	-	(30,764)
Civil engineering	(63,775)	(11,241)	-	-	(75,016)
Cablings	(144,803)	(16,198)	18	-	(160,983)
Network equipment	(265,254)	(37,542)	250	(40)	(302,586)
Client equipment	(182,222)	(20,839)	93	-	(202,968)
Other installations, equipment and furniture	(84,764)	(21,214)	191	40	(105,747)
Under construction	(17,889)	(1,069)	-	-	(18,958)
	<u>(783,941)</u>	<u>(113,633)</u>	<u>553</u>	<u>-</u>	<u>(897,022)</u>
<b>Carrying amount</b>	<u>1,243,778</u>	<u>(50,827)</u>	<u>(606)</u>	<u>-</u>	<u>1,192,345</u>

During the year ended 31 December 2017 borrowing costs and internal expenses amounting to Euros 51 thousand and Euros 7,555 thousand, respectively, (Euros 134 thousand and Euros 7,023 thousand, respectively, in 2016) have been capitalised.

The cost of fully depreciated property, plant and equipment in use at 31 December 2017 is Euros 487,975 thousand (Euros 385,047 thousand at 31 December 2016).

At 31 December 2017 and 2016, sufficient insurance policies have been taken out to cover the risks to which property, plant and equipment are exposed.

## NOTE 8.- Financial assets

### 8.1. Classification by category

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

	Loans and receivables		Available-for-sale financial assets		Total	
	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16
<b>Non-current</b>						
Equity instruments	-	-	859	1,456	859	1,456
Loans extended	6,085	5,256	-	-	-	5,256
Other non-current assets	580	514	-	-	-	514
	<u>6,665</u>	<u>5,770</u>	<u>859</u>	<u>1,456</u>	<u>7,524</u>	<u>7,226</u>
<b>Current</b>						
Trade receivables	54,154	47,765	-	-	54,154	47,765
Investments	438	468	-	-	438	468
Cash and cash equivalents	58,652	157,290	-	-	58,652	157,290
	<u>113,244</u>	<u>205,523</u>	<u>-</u>	<u>-</u>	<u>113,244</u>	<u>205,523</u>

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

### 8.2. Impairment

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

	31.12.17	31.12.16
<b>Past due</b>		
From 0 to 30 days	5,456	5,302
From 31 to 90 days	3,684	1,858
From 91 to 180 days	5,408	1,201
From 181 to 365 days	<u>4,546</u>	<u>2,052</u>
	19,094	10,413
<b>Not past due</b>		
Invoiced	22,315	24,758
Pending invoice	<u>12,745</u>	<u>12,594</u>
	<u>35,060</u>	<u>37,352</u>
	<u>54,154</u>	<u>47,765</u>

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

	<u>31.12.17</u>	<u>31.12.16</u>
Gross balance	65,077	59,614
Impairment	<u>(10,923)</u>	<u>(11,849)</u>
	<u>54,154</u>	<u>47,765</u>

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

	<u>31.12.17</u>	<u>31.12.16</u>
Opening balance	11,849	12,221
Charge	3,695	3,420
Reversal	(623)	(543)
Write-offs	<u>(3,998)</u>	<u>(3,249)</u>
Closing balance	<u>10,923</u>	<u>11,849</u>

## NOTE 9.- Inventories

Details are as follows:

	<u>31.12.17</u>	<u>31.12.16</u>
Terminals and equipment		
Mobile telephones	1,555	1,273
Decoders	971	31
Material for subcontractors	2,403	2,199
Other inventories	<u>96</u>	<u>1,512</u>
<b>Total gross value</b>	<b>5,025</b>	<b>5,015</b>
Impairment	<u>(881)</u>	<u>(881)</u>
<b>Total</b>	<b><u>4,144</u></b>	<b><u>4,134</u></b>

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

## NOTE 10.- Equity

### 10.1. Capital

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

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

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

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

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

Details of shareholders at 31 December 2017 are as follows:

	<u>Number of shares</u>	<u>% ownership</u>
Kutxabank, S.A.	38,087,977	21.32%
Zegona Limited	26,800,000	15.00%
Corporación Financiera Alba, S.A. (*)	17,904,785	10.02%
Other	95,852,598	53.66%
	<u><u>178,645,360</u></u>	<u><u>100.00%</u></u>

(\*) Through its solely-owned subsidiary Alba Europe, S.a.r.l

### 10.2. Capital management

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

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

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

### 10.3. Share premium

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

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

### 10.4. Retained earnings

Details of this caption are as follows:

	31.12.17	31.12.16
Reserves		
Legal reserve	45,177	37,645
Voluntary reserves	2,076	2,945
Profit/(loss) for the year	49,562	62,145
	<b>96,815</b>	<b>102,735</b>

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

### 10.5. Dividends and interim dividend

On 24 October 2017, the Board of Directors agreed to pay an interim dividend against 2017 results for a gross amount of Euros 0.127 per share outstanding with dividend rights. This decision was notified as a significant event on that date. This interim dividend, which was paid on 1 February 2018, amounted to a gross outlay of Euros 22.7 million (see note 11).

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

The provisional accounting statement drawn up at 30 September 2017 in accordance with the legal requirements, and which showed that there was enough liquidity to distribute the dividend is as follows:

	<u>Millions of Euros</u>
Net result obtained from 01.01.2017 to 30.09.2017 (*)	33.4
Mandatory reserves	(3.3)
Distributable profit	30.0
Proposed interim dividend (maximum amount)	(22.7)
<u>Cash situation</u>	
Funds available for distribution:	54.9
Cash and cash equivalents	4.9
Appropriations available	50.0
Proposed interim dividend (maximum amount)	(22.7)
Excess liquidity	32.2

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

The proposed distribution of Parent Company profit for the year ended 31 December 2017 is as follows:

	<u>Euros</u>
Legal reserve	7,711,183.10
Dividends	
Interim dividend	22,687,960.72
Complementary dividend	26,975,449.36
Voluntary reserves	19,737,237.80
	<u>77,111,830.98</u>

The proposed dividend distribution is equivalent to one total unified dividend, including the interim dividend paid, of Euros 0.278 per share outstanding at year end.

The total proposed dividend consists of a 100% payout of net consolidated profits after non-controlling interests.

That dividend distribution complies with the obligations assumed under the financing agreement concluded by the Group, which limits the distribution of extraordinary dividends or the purchase of own shares for redemption in the event that the consolidated net debt/consolidated proforma EBITDA ratio exceeds 4x.

## 10.6. Own shares

At 31 December 2017 the Company has 265,331 shares in its own share portfolio that were acquired at an average weighted cost of Euros 7.11 per share (162,033 own shares were acquired at an average weighted cost of Euros 8.41 each at 31 December 2016).

## 10.7. Earnings per share

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

Basic earnings per share are calculated as follows:

	<u>2017</u>	<u>2016</u>
Profit for the year attributable to the Parent	49,621	62,145
Weighted average number of ordinary shares outstanding	162,746,696	151,683,327
Basic earnings per share (Euros)	<u>0.30</u>	<u>0.41</u>

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

	<u>2017</u>	<u>2016</u>
Ordinary shares outstanding at 1 January	151,683,327	151,705,554
Effect of own shares	(103,298)	(22,227)
Effect of capital increase	11,166,667	-
	<u>162,746,696</u>	<u>151,683,327</u>

The Company has no diluted ordinary shares.

## NOTE 11.- Financial liabilities

### 11.1. Classification by category

Details of financial liabilities classified by category are as follows:

	<u>Debts and payables</u>		<u>Liabilities held for trading</u>
	<u>31.12.17</u>	<u>31.12.16</u>	<u>31.12.17</u>
<b>Non-current</b>			
<b>Related parties</b>			
Non-current loans received (note 15.2)	171,250	176,993	-
<b>Unrelated parties</b>			
Loans received	1,412,109	1,125,242	-
Hedging derivatives	-	-	976
Other financial liabilities	12,658	7,537	-
	<u>1,596,017</u>	<u>1,309,772</u>	<u>976</u>
<b>Current</b>			
<b>Related parties</b>			
Current loans received (note 15.2)	6,750	9,254	-
<b>Unrelated parties</b>			
Loans received	43,300	50,021	-
Dividend payable	22,688	22,777	-
Suppliers	97,225	76,024	-
Asset purchase payables	42,858	33,350	-
Salaries payable	7,878	4,522	-
Other liabilities	1,742	1,207	-
	<u>222,441</u>	<u>197,155</u>	<u>-</u>



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 has since been changed to Euros 300 million). At 31 December 2017, Euros 280 thousand had been drawn down from the credit facility (at 30 June 2016 no amount had been drawn down).

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.

The following changes were made during 2017:

- Modification of the maturity dates for tranches A1 and A2 and an extension of the grace period for the repayment of principal for an additional year.
- Reduction of 43 basis points in the interest rate applied to tranches B1 and B2.
- Extension of the maturity date of the non-current credit facility by one year to June 2021.
- Contracting of a new tranche of institutional borrowings totalling Euros 835 million, which will be used to repay the outstanding amounts under tranches A1, B2 and B3.
- Increase in the available credit facility amount up to a maximum of Euros 300,000 thousand.

These modifications do not represent a substantial change in the borrowings.

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

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

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

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

	No. of six-month periods	(1)
<b>Six-monthly maturity</b>		
Period 30-06-18 to 31-12-18	2	15%
Period 30-06-19 to 31-12-19	2	25%
Period 30-06-20 to 31-12-20	2	30%
30 June 2021	1	30%

(1) *Repayment percentage calculated based on the 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	> 5 years	Total
87.6	116.2	127.7	406.2	263.3	879.6	1,880.5

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.

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

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

The Group has other non-current borrowings totalling Euros 81 thousand.

Other non-current and current financial liabilities include loans carried at amortised cost granted by different public administrations for network deployment work in certain population centres. The nominal value of the loans at 31 December 2017 comes to Euros 15,086 thousand (Euros 10,574 thousand at 31 December 2016).

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

## 11.2. Suppliers

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

	<u>2017</u>	<u>2016</u>
Average supplier payment period (in days)	44.08	46.78
Transactions paid ratio	45.54	47.68
Transactions payable ratio	37.80	43.87
Total payments made (thousands of Euros)	413,472	398,670
Total payments payable (thousands of Euros)	96,002	74,506

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 2017 and 2016 balances with public entities are as follows:

	<u>2017</u>	<u>2016</u>
Assets		
Current tax assets	6,745	5,674
Liabilities		
Current tax liabilities	7,470	2,032
Value added tax	7,313	7,697
Social Security	827	658
Withholdings and payments on account	702	998
Other liabilities	5,052	190
	<u>21,365</u>	<u>11,575</u>

The subsidiary R Cable and the subsidiaries of the Telecable subgroup (Parselaya, Telecable Holding and Telecable de Asturias) are open to the inspection of the main taxes to which they are liable for all years that have not become statute-barred, except for corporate income tax at Parselaya, which it is only open to the inspection of 2015.

### 12.2. Income tax

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

	<u>2017</u>	<u>2016</u>
Current expense		
Present year	14,863	3,882
Adjustments	645	-
Deferred expense		
Source and reversal of temporary differences	(9,264)	2,402
Changes in taxable income and tax credits	7,655	13,580
Tax credits not recognised in prior years	(755)	(2,902)
Prior years' adjustments	37	(1,912)
	<u>16,781</u>	<u>15,049</u>

The effective tax rate has been calculated as follows:

	<u>2017</u>	<u>2016</u>
Income and expenses for the year	<b>66,343</b>	<b>77,194</b>
Tax (25% and 28%)	19,315	21,099
Permanent differences	(1,377)	(375)
Prior years' adjustments	682	(1,912)
Deductions for the current year	(1,199)	(1,218)
Other adjustments	(640)	(2,545)
	<u><b>16,781</b></u>	<u><b>15,049</b></u>

Certain capitalised deductions are undergoing a tax inspection at the date these consolidated annual accounts were prepared. The Group's directors do not believe that any significant contingencies will arise.

Details of deferred taxes at 31 December 2016 are as follows:

	<u>31.12.15</u>	<u>Source</u>	<u>Reversal</u>	<u>Other</u>	<u>31.12.16</u>
<b>Deferred tax assets</b>					
Provision for bad debts	286	-	(171)	-	115
Property, plant and equipment	8,718	-	(1,595)	(203)	6,920
Intangible assets	1,596	156	(513)	230	1,469
Other assets	46	-	(175)	330	201
	10,646	156	(2,454)	357	8,705
Tax loss carryforwards	7,210	-	(8,497)	1,287	-
Deductions on tax due	139,863	861	(5,944)	3,395	138,175
	<b>157,719</b>	<b>1,017</b>	<b>(16,895)</b>	<b>5,039</b>	<b>146,880</b>
<b>Deferred tax liabilities</b>					
Financial liabilities	(412)	-	63	-	(349)
Property, plant and equipment	(20,574)	-	2,724	-	(17,850)
Intangible assets	(31,584)	-	3,226	-	(28,358)
Grants	(11,152)	-	1,039	-	(10,113)
Free depreciation	(12,112)	(8,442)	1,286	(241)	(19,509)
Other	(448)	-	-	-	(448)
	<b>(76,282)</b>	<b>(8,442)</b>	<b>8,338</b>	<b>(241)</b>	<b>(76,627)</b>
	<u><b>81,437</b></u>	<u><b>(7,425)</b></u>	<u><b>(8,557)</b></u>	<u><b>4,798</b></u>	<u><b>70,253</b></u>

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

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

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 7,685 thousand, the recovery period for unused deductions exceeds twelve months.

The capitalisation of tax credits is based on annual recoverability analyses carried out by the Group. Almost all of the deductions pertain to the Parent Company. The Company's business plans show that the Group 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 15-year prescription term.

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

- EBITDA growth for the budgeted period: between 2.4% and 3.9%.

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

## NOTE 13.- Income and expenses

### 13.1. Revenues

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

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

- Residential
- Business
- Wholesale

Details of revenues by type of customer are as follows:

	<u>2017</u>	<u>2016</u>
Residential	416,465	373,140
Business		
SOHOs	76,396	70,461
SMEs	32,709	31,705
Large accounts	61,443	64,403
Wholesale and other	35,185	33,198
<b>Total</b>	<b><u>622,198</u></b>	<b><u>572,907</u></b>
Work performed by the entity and capitalised	(12,399)	(11,121)
Other operating income	(524)	(360)
<b>Revenues</b>	<b><u>609,275</u></b>	<b><u>561,426</u></b>

#### Residential

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

#### Business

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

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

#### Wholesale market and others

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

### 13.2. Supplies

Details are as follows:

	<u>2017</u>	<u>2016</u>
<b>Merchandise used</b>		
Purchases	22,946	26,245
Changes in inventories	465	(452)
	<u>23,411</u>	<u>25,793</u>
<b>Subcontracted work</b>		
Interconnection expenses	84,740	74,941
Other supplies	27,722	28,579
	<u>109,463</u>	<u>103,520</u>
<b>Impairment of merchandise</b>	-	(150)
	<u><u>132,874</u></u>	<u><u>129,163</u></u>

Interconnection expenses includes discounts for certain services rendered by third parties, for an amount of Euros 30,710 thousand (Euros 12,137 thousand in the comparative period). The negotiated changes to agreements during 2017 led to a significant increase in the amount of merchandise used that could be subject to such discounts.

The amount of the discounts pending collection is Euros 29,168 thousand (Euros 15,616 thousand at 31 December 2016) and they are recorded under Trade and other payables in the consolidated balance sheet.

Management has prepared a sensitivity analysis for the accrued discount covering  $\pm 5\%$  changes in expected purchases eligible for discount and there has been no significant change to the estimates made (impact of less than  $\pm$  Euros 900 thousand).

### 13.3. Personnel expenses

Details are as follows:

	2017	2016
Salaries and wages	34,221	30,794
Employee benefits expense (other employee benefits expense)	8,231	7,571
Total	42,452	38,365

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

	2017	2016
Senior management	38	40
Management	50	53
Other professionals	541	468
	629	561

The distribution by gender of the Company's headcount at 31 December 2017 and 2016 is as follows:

	2017			2016		
	Male	Female	Total	Male	Female	Total
Senior management	34	8	42	33	7	40
Management	35	15	50	39	15	54
Other professionals	362	285	647	244	219	463
	431	308	739	316	241	557

The average number of Group employees with disabilities of 33% or greater during 2017 and 2016 was three people.

At the date these annual accounts were authorised for issue, the board of directors of the Company was comprised of 9 men and 3 women (7 men and 3 women at the end of the prior year).



### 13.4. Other operating expenses

Details are as follows:

	<u>2017</u>	<u>2016</u>
Advertising	11,497	10,633
Repairs and maintenance	39,764	38,788
Services provided by third parties	42,173	41,460
Other external services and utilities	31,083	25,455
Tax	12,389	7,166
Losses, impairment and changes in trade provisions	3,072	2,877
Impairment losses and disposals of fixed assets	6,678	2,458
Other gains/(losses)	<u>20,243</u>	<u>3,355</u>
	<u>166,899</u>	<u>132,192</u>

Losses on the disposal and derecognition of assets basically relate to the intangible assets associated with interruptions in commercial relationships with customers before the initially expected amortization period had elapsed and total Euros 5,364 thousand (Euros 2,192 thousand in 2016).

Other profit/(loss) at 31 December 2017 includes Euros 4,719 thousand relating to the CRTVE fee for 2016, expenses totalling Euros 5,565 thousand for advisory services relating to the acquisition of Perselaya, S.L. described in Note 1 and indemnities totalling Euros 5,861 thousand. This item mainly included indemnities at 31 December 2016.

### 13.5. Net finance income/(cost)

Details are as follows:

	<u>2017</u>	<u>2016</u>
<b>Finance income</b>		
Third parties	228	37
<b>Finance cost</b>		
Payables at amortised cost	<u>(48,006)</u>	<u>(48,148)</u>
	(47,778)	(48,111)
<b>Exchange gains / (losses)</b>	265	(148)
<b>Change in fair value of financial instruments</b>	(976)	-
<b>Impairment and gains/(losses) on disposals of financial instruments</b>	<u>(392)</u>	<u>405</u>
	<u>(48,881)</u>	<u>(47,854)</u>

## Note 14.- Commitments

### 14.1. Sale and purchase commitments

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

	<u>2017</u>	<u>2016</u>
Intangible assets	950	687
Property, plant and equipment	14,441	11,667
Inventories	<u>4,793</u>	<u>1,131</u>
	<u><u>20,184</u></u>	<u><u>13,485</u></u>

### 14.2. Operating lease commitments and other associated commitments

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

Payment commitments in relation to these contracts are as follows:

	<u>2017</u>	<u>2016</u>
Less than one year	4,711	6,305
One to five years	20,109	21,641
Over five years	<u>19,224</u>	<u>20,608</u>
	<u><u>44,044</u></u>	<u><u>48,554</u></u>

The operating lease expense recognised in the income statement for the period ended 31 December 2017 amounts to Euros 12,814 thousand (Euros 9,611 thousand for the same period in 2016).

## NOTE 15.- Related party transactions

### 15.1. Transactions and balances with key personnel

Details of transactions with key Company personnel are as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Board members</u>	<u>Senior management</u>	<u>Board members</u>	<u>Senior management</u>
Salaries and wages	1,038	2,146	660	1,792
Other remuneration	1,445	1,513	635	1,869
	<u><u>2,483</u></u>	<u><u>3,659</u></u>	<u><u>1,295</u></u>	<u><u>3,661</u></u>

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

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

## 15.2. Transactions and balances with other related parties

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

	<u>2017</u>	<u>2016</u>
Sales	16,221	15,939
Services	(544)	(2,053)
Finance income	27	-
Finance cost	<u>(9,476)</u>	<u>(7,499)</u>
	<u><b>5,621</b></u>	<u><b>6,387</b></u>

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

	<u>31.12.17</u>		<u>31.12.16</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Receivables	3	-	25	-
Cash and cash equivalents	29,752	-	121,452	-
Loans received	(6,750)	(171,250)	(9,254)	(176,993)
Payables	(866)	-	(661)	-
	<u><b>22,139</b></u>	<u><b>(171,250)</b></u>	<u><b>111,562</b></u>	<u><b>(176,993)</b></u>

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

## 15.3. Conflicts of interest

At the 2017 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 Group.

## NOTE 16.- Other information

The firm auditing the Group's annual accounts (KPMG Auditores, S.L.) has invoiced the following net fees for professional services during the years ended 31 December 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Audit services	244	161
Other assurance services	57	59
Other services	4	4
	<u><b>305</b></u>	<u><b>224</b></u>

Other assurance services and other services include those relating to limited reviews.

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

## NOTE 17.- Environmental information

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

Since 1999 Euskaltel has had an Environmental Management System which complies with European Regulation 1221/2009 (EMAS III) and the UNE-EN ISO 14001: 2015. As a result of this commitment to excellence in environmental management, the Company has had its Management System certified and its Environmental Impact Declaration for 2016 validated by a recognised independent party, in accordance with EMAS regulation.

The Euskaltel Group has drawn up an environmental framework for 2017-2019 that sets out the strategy, programmes and initiatives to be implemented and developed for managing environmental impact, in line with the Basque Environmental Strategy for Sustainable Development 2002-2020 and the Climate Change Strategy for the Basque Country to 2050, promoted by the Basque Government.

The Company, committed to the fight against climate change, prepared a plan for reducing greenhouse gas emissions in 2017. The Company has also broadened this commitment by calculating its carbon footprint based on ISO 14064 guidelines and preparing the greenhouse gas emissions report for 2016. As part of its transparency undertaking, since 2015, Euskaltel has been entered on the Carbon Footprint Registry of the Ministry of Agriculture, Food and the Environment.

Euskaltel is a member of the Basque Ecodesign Center, an entity with headquarters in the Basque Country and the fruit of collaboration between private sector companies and the Basque Government. The purpose of this centre is to design and execute innovative ecodesign projects. Within the framework of this collaboration, in 2017, the Company continued applying the methodology established to calculate its carbon footprint and analyse the life cycle of products; whilst going through the process of calculating the corporate ecological footprint of the Organisation, a pioneering initiative in the corporate field. Also, in line with the Climate Change Strategy for the Basque Country to 2050, the Company has taken part in preparing and piloting a methodology for organisations to adapt to climate change, coordinated by Ihobe.

The Company's Environmental Management System aims to minimise the impact of its activity on the environment and improve processes from an ecological standpoint. Thus, the 4G(LTE) network deployment under way since 2015 has been undertaken on the basis of criteria that ensure a responsible network deployment, with strict compliance of regulations regarding electromagnetic fields, to the point that 100% of the Company's base stations have emissions levels below the limits required by law. Within this framework site sharing agreements have also been made to minimise visual and energy impacts and to reduce waste generation.

In 2017 the subsidiaries R Cable and Telecable Asturias, implemented an Environmental Management System that complies with the standard UNE-EN ISO 14001: 2015. As a result of this commitment to environmental excellence, its Management System has been certified and the Company has joined, together with Euskaltel, the initiative #por el clima in the fight against climate change. This commitment has also started with the implementation by Group companies of the Energy Efficiency Standard ISO5001, which has been certified by Aenor at the company in Asturias.

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

## **NOTE 18.- Guarantees**

The Group has to submit certain guarantees as part of its everyday commercial activity, for concession and spectrum tenders derived from legal obligations through its participation in the development of the telecommunications sector, for network deployment licences from 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 11).

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

## **NOTE 19.- Subsequent events**

On 26 October 2017, the Company's Board of Directors agreed to pay an interim dividend against 2017 results for a gross amount of 12.7 cents (Euros 0.127) per share outstanding with dividend rights (which amounts to a maximum dividend of Euros 22.7 million). This interim dividend, totalling Euros 22.7 million, was paid to shareholders on 1 February 2018.



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**Directors' Report  
for  
2017**

**Euskaltel, S.A. and consolidated companies**

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## 1.- Introduction

Euskaltel, S.A. (hereinafter Euskaltel) was incorporated with limited liability under the Spanish Companies 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, this, bring an end to Telefónica's monopoly over the sector.

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

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

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

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

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

The Euskaltel Group offers its services to a market of 6 million people, serving over 800,000 residential and business customers. Euskaltel, R and Telecable are leaders in optic fibre (broadband, phones, Pay TV and convergent telecommunications services) in the Basque Country, Galicia and Asturias, respectively, with a solid customer base and complementary business models. A mobile phone operator with its own 4G licence in the Basque Country, Galicia and Asturias, it has the largest proprietary fibre optic network in place on the market.

## 2.- Business overview

### Residential segment

At the end of July 2017, the Euskaltel Group acquired Telecable, the leading telecommunications operator in Asturias, creating a Telecommunications Group in the north of Spain with over 2.1 million homes passed, 660 thousand residential customers, 101 thousand business customers and 15 thousand companies.

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



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

- Bundles: The Euskaltel Group offers its customers the option to subscribe to a range of services in bundles comprising multiple services (high-speed broadband, Pay TV, fixed-line and mobile telephone) at competitive prices. There are two, three and four-service bundles available: double play or 2P, triple play or 3P and quadruple play or 4P. In line with market trends and our own marketing efforts, focusing on cross-selling across the existing customer base, there has been an increase in sales of triple play and quadruple play bundles with significant customer base growth and new subscribers in these segments. As a result, 80.5% of residential customers subscribed to one of the below bundles at 31 December 2017: 12.5% to 2P (12.5% in 2016), 26.3% to 3P (26.3% in 2016) and 41.7% to 4P (39.4% in 2016).

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

- Broadband: The Euskaltel Group is the leading high-speed broadband service provider in the Basque Country, Asturias and Galicia. The fully invested next generation fibre optic network enables the company to offer different products ultra high-speeds of up to 500 Mbps, which cannot be equalled by its DSL rivals. At 31 December 2017, the Euskaltel Group offers broadband services to 488,708 residential customers, of which over 99% have high-speed broadband (speeds of 30 Mbps or more).
- Pay TV: The Euskaltel Group is the leading Pay TV service provider in the Basque Country, Asturias and Galicia (jointly with Telefónica). A wide selection of digital TV programming, including basic and premium bundles, and also Everywhere TV (sold under the "Edonon", "Tedi" and "TV conmigo" brand), functionalities of VoD and PVR. The company offers access to premium content with the most popular local offering. At 31 December 2017, the company offers Pay TV services to 393,356 residential customers.
- Mobile phones: The Euskaltel group is the fastest-growing and leading mobile phone service provider in the Basque Country, Asturias and Galicia. At 31 December 2017, the company offers mobile phone services to 529,459 residential customers.
- Fixed-line phones: The Euskaltel Group is the leading fixed-line service provider in the Basque Country, Asturias and Galicia (with the second highest market share, behind Telefónica). The company offers fixed-line services with unlimited national calls to fixed-lines and a wide range of price plans for fixed-line to mobile calls and fixed-line to international numbers.

#### Business segment

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

- SOHOs: The Euskaltel Group has a specific product offering for small office/home office customers (less than ten employees), which includes premium tech support, web hosting and e-mail services. Euskaltel has a dedicated outsourced sales force and recently launched an online sales platform for SOHOs. At 31 December 2017, the Euskaltel Group provides services to 101,378 customers in this segment.

- **SMEs:** The Euskaltel Group offers a range of solutions for medium-sized businesses (from 10 to 40 employees) with relatively high tech needs. These services include broadband access with speeds of up to 500 Mbps, symmetrical fibre access with speeds of up to 1 Gbps, MPLS Network, fixed-line/mobile convergence (FMC), IP Switch and advanced IT services. At 31 December 2017, Euskaltel provides services to 12,918 customers in this segment.
- **Large Businesses:** the Euskaltel Group's Large Account customer base includes both public entities and large corporations. The headquarters of these companies are chiefly based in the Basque Country, Asturias and Galicia and a portion of the Large Account customers also do business outside their home regions. Large Accounts have technically complex requirements and the company designs tailor-made solutions based on each customer's specific needs. These include symmetrical fibre access with speeds of up to 1 Gbps, FMC, SIP Trunking, MPLS networks, cloud firewalls and virtual data centres.

#### Wholesale and Other revenue

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

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

### **3.- Corporate structure**

The companies that, along with Euskaltel, S.A., comprise the Euskaltel Group, and the percentage ownership of the Parent in each (direct and/or indirect) at 31 December 2017 are as follows: R Cable y Telecomunicaciones Galicia, S.A.U. (100%), Parselaya, S.L.U. (100%), Telecable Capital Holding, S.A.U. (100%), Telecable de Asturias, S.A.U. (100%) and Cinfo, Contenidos Informativos Personalizados, S.L. (67.2%).

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

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

- On the one hand, strengthening proximity to the customer, maintaining the local roots of the brands in the Basque Country, Galicia and Asturias markets, strengthening Euskaltel, R and Telecable business unit autonomy, with responsibility over operations, and guaranteeing close customer monitoring, service and care. The new structure also places greater focus on the business segment in the three markets.

- On the other hand, supporting areas that strengthen the Group's path of growth in the Basque Country, Galicia and Asturias by maintaining the Corporate Marketing and Innovation areas for the development and implementation of specific communication solutions for businesses and individuals, the launch of new products, and pursuing technological alliances in the ICT field.
- At the same time, the organisational structure aims to maximise operating efficiencies, retaining the Economic-Financial, Network, Information Systems and Human Resources corporate departments. These cross-sectional areas ensure agility, homogeneity and flexibility in decision-making, leading the Group's teams in the Basque Country, Galicia and Asturias.

#### **4.- Board of directors**

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

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

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

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

##### **A) In terms of the General Meeting of Shareholders:**

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

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

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

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

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

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

**D) In terms of board members and senior management:**

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

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

**E) In terms of other duties:**

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

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

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

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

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

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

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

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

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

None of these three Commissions 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 Remuneration Committee Regulations and Strategy Committee Regulations).

Their main task is to assist, inform and raise proposals to the Board of Directors on matters assigned to them by the 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 Remuneration Committee

Without prejudice to the tasks that may be assigned at any time by the Board of Directors, the Appointments and Remuneration 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 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, proposing 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 Remuneration Committee, the Strategy Committee will fulfil the following basic duties:

- (i) To 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) To 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) To analyze and propose recommendations or improvements to the strategic plans provided to the Board of Directors in light of the Company's competitive position.
- (iv) To 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 2017 are as follows:

Shareholder	% capital
Kutxabank Group	21.32%
Zegona Group	15.00%
Corporación Financiera Alba, S.A.	10.02%
Abanca Corporación Bancaria, S.A.	4.48%
Artemis Investment Management LLP	4.95%

Source: CNMV

## 6.- Macroeconomic and industrial climate

### Macroeconomic environment

The Spanish economy showed signs of strength in 2017, in terms of growth. The improved international economic context (particularly in Europe) gave rise to a significant upwards revision of export markets.

The outlook continues to be favourable in the medium-term, but the expectation is that macroeconomic policies will provide less support for the business, and fiscal policy is expected to remain neutral while the impact of monetary policy on financing conditions is expected to be moderate.

The business environment in the Eurozone has been positive and the projection is that the growth seen over the past few months will be maintained over the course of 2018. There are some risks associated with factors such as the high values reached by some financial assets, difficulties to rebalance the Chinese economy and the Brexit process.

Spain's economic growth rate in 2016 was 3.2% (source: INE), and it is expected to be 3.1% in 2017 (source: Funcas). The consensus outlook for 2018 is for 2.6% growth (source: Funcas). However, it is difficult to make a reliable prediction due to the difficulty in quantifying the financial effect of situations such as the removal of the active economic support measures within the EEC, the final Brexit agreement, or continuing political instability in Catalonia.

The Basque Country has experienced many of the same recent economic trends as the rest of Spain. Recovery is also consolidating there, with GDP growing 3.1% in 2016 (source: Eustat) and up to 2.9% in 2017 (source: Basque Government) or even 3.0% (source: Funcas, Laboral Kutxa and Hispalink). A slight deceleration process has begun over the year, far below what was originally forecast, but still holding back growth forecasts for 2018 to between 2.5% (Basque government) and 2.7% (source: Funcas and Laboral Kutxa). Moreover, the Basque corporate sector continues to show signs of stabilisation, with the ongoing improvement of the harmonised business confidence index (ICEA), from 1.9% in 2016, and continuing to grow a further 3.6% in 2017 (source: INE). In addition, after several years of negative growth in the number of companies on the Social Security register, in recent years the Basque Country has recovered 1,603 businesses lost during the economic crisis, 94 of these in 2017 (source: Spanish Ministry of Employment and Social Security).

These economic trends are also seen in Galicia, but with certain specific characteristics. Its GDP growth rate in 2016 was 3.1% (source: Galician Statistics Institute), but could reach 3.3% in 2017, levelling off again in 2018 to between 2.6% and 3.0%, according to sources (Funcas, Hispalink and BBVA). The Galician corporate sector continues to show signs of stabilisation, with the ongoing improvement of the harmonised business confidence index (ICEA), from 2.3% in 2016, and continuing to grow a further 4.2% in 2017 (source: INE). Over the past few years (since February 2013, the time of the fewest number of companies in Galicia between the maximum level reached in July 2008 and December 2017) 5,808 companies were again registered in Galicia with Social Security, and 415 of them registered in 2017 (source: Spanish Ministry of Employment and Social Security). Galicia leads growth in Services Sector Activity Indicators (SSAI), which measure the evolution of activity by businesses in non-financial services. In the last 12 months, up to November 2017, the SSAI climbed 8.13% in Galicia, 0.84 b.p. less than a year ago and 1.77 b.p. above the State-wide figure (source: INE).

Although fewer statistical data are available for Asturias, growth is expected to be 1.7% in 2017 (source: Funcas), much lower than the growth outlook for Spain, the Basque Country or Galicia. The outlook for 2018 ranges between 1.6% according to Funcas and 2.3% according to Hispalink and BBVA. The Asturian corporate sector continues to show signs of stabilisation, with the ongoing improvement of the harmonised business confidence index (ICEA), from 1.6% in 2016, and continuing to grow a further 2.2% in 2017 (source: INE). Over the past few years (since February 2014, the time of the fewest number of companies in Asturias between the maximum level reached in July 2008 and December 2017) 1,050 companies were again registered in Asturias with Social Security, and 144 of them registered in 2017 (source: Spanish Ministry of Employment and Social Security). Asturias is ranked 16 out of 17 autonomous regions in terms of growth in Services Sector Activity Indicators (SSAI), which measure the evolution of activity by businesses in non-financial services. In the last 12 months, to November 2017, the SSAI climbed 4.40% in Asturias, 1.82 b.p. more than a year ago and 1.97 b.p. below the State-wide rate (source: INE).

### **Industrial Environment**

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

- **Pressure on convergence:** The market has been characterised by a rapid transition towards convergence of fixed-line and mobile services, with operators bundling services such as broadband, Pay TV, mobile and fixed-line telephony services into integrated offerings. In October 2012, Telefónica introduced heavily-discounted convergent offerings under the quadruple-play offer commercially known as “Fusión”. As a result, prices in the market dropped significantly with a rapid shift to convergence as other operators followed Telefónica's example. The proportion of the market represented by 3P/4P bundles at the end of 2013 was 30.7%, 49.3% at the end of 2015, and has increased to 54.3% in 2016 and 55.1% in the first quarter of 2017 (source: CNMC quarterly reports).
- **Consolidation:** During recent years, the Spanish market has been characterised by a pronounced consolidation process. Vodafone acquired Ono (23 July 2014); Telefónica, which had previously taken over Tuenti (August 2010), acquired DTS (Canal+) (1 May 2015); Orange, which had previously taken over Simyo (December 2012), acquired Jazztel (1 July 2015); Euskaltel acquired R Cable (27 November 2015); and MásMóvil, which had previously taken over Quantum, Embou, Neo, Youmobile and Happy Móvil, acquired Pepephone in 2016 (13 September 2016) and Yoigo (6 October 2016). The process has continued in 2017: Euskaltel buys Telecable (26 July 2017) and moves towards integration are seen among small, existing local cable operators in Spain (Ahimas).

- Price increase: The decrease in the number of operators has generally favoured a more rational competitive behaviour making various price rise as possible in exchange for improvements in the services rendered during 2017. The CPI for communications in 2017 was below the general CPI, although it remained positive. The year-on-year rate for December is 0.24% compared to the general CPI at 1.1% and the annual average was 1.30%, compared to the average general CPI of 1.96% (source: INE).
- Investment efforts in NGA networks (4G in mobile, Docsis 3.0 and FTTH): Another consequence of the reduction in the number of operators is enhanced investment in infrastructures, in many cases shared among several operators to ensure profitability. In addition to the FTTH infrastructure sharing agreements between Orange and Vodafone (2013), the agreement between Orange and Vodafone to share the rollout of the 4G networks (2015), the agreement to assign Jazztel assets to MásMóvil (2015) and the agreement covering the joint deployment of FTTH networks between MásMóvil and Orange (2016), expanded to share locations and access by MásMóvil to Orange's FTTH networks (2016), in 2017 an agreement was reached covering Vodafone access to Telefónica's FTTH network (March 2017) and another was reached between Orange and Euskatel to share FTTH infrastructure (November 2017). As a result of these investment efforts, Docsis 3.0 technology has become widespread in cable operator networks and significant progress has been made in the deployment of FTTH networks, enabling Spain to become the leader among the top European economies in NGA broadband network coverage: ranked first in FTTH and second in Docsis 3.0 cable.

The State Secretariat for Telecommunications and the Information Society (SETSI) has not yet published the 2017 Broadband coverage report, although at the end of 2017 Telefónica reported a deployment to nearly 20 million properties passed, one of the largest in the world.

- Importance of high-speed internet: Spain is one of the largest broadband markets in Europe, with approximately 14.31 million broadband subscribers at 30 November 2017 (source: CNMC). In terms of high-speed broadband access (lines capable of at least 30 Mbps), the level of penetration of the Spanish market has seen growth in recent years, with fibre, including cable and FTTH, representing 63.0% of the Spanish market in November 2017 (compared to 53.0% the year before), and FTTH increasing considerably between 2012 and 2017, from 2.9% in December 2012 to 44.9% in November 2017 of Spanish fixed-line broadband subscribers (source: CNMC).
- Importance of TV: With the growth of service convergence, TV has consolidated itself as the key factor for securing customers. Proof of this is the significant investment efforts being made in content. Concern has also mounted among network operators about TV OTT (paid online TV streaming platforms), calling for these to be subjected to the same rules and restrictions for rendering the same services. However, according to a survey carried out by the CNMC among homes with internet access in 2Q16, only 10.7% used these platforms to watch online pay TV. After one year the use of OTT is 22.5%, i.e. 11.8% more than one year ago. By platform, Yomvi (7.8% in 2Q16 compared with 12.8% in 2Q17) and Netflix (from 1.8% in 2Q16 to 7.3% in 2Q17) are the most used.

Industry revenue in Spain increased by 5.5% (0.9% retail revenue) during the first half of 2017 compared with the same period last year (source: CNMC), and the expectation is that revenue in 2018 in the European market will increase by 0.6% (source: JP Morgan). Changes have also been observed among the main players as a result of the consolidation. For example, Orange exceeded Vodafone in revenue during the third quarter of 2016 in Spain and remained ahead during the following four quarters up until 3Q17 (the latest quarter for which information had been published by operators at the date of this report).

Trends in the different services rendered (source: monthly CNMC reports):

- **Fixed-line phones:** In the last 12 months (November 2016 to November 2017) 219,239 new fixed-line phone contracts have been won, increasing the range by 1.15% (-0.34% Residential, +4.92% Business). Business lines grew by 4.19% on average between January 2017 and November 2017, which is similar growth as that seen in the same period in 2008 (+4.52%), after the repeated declines in the number of lines between 2009 and 2016 (always using the average for the period between January and November in the year concerned), while residential lines have slowed on a year-on-year growth basis since April 2017, including declines in September 2017 (-0.15%), October 2017 (-0.41%) and November 2017 (-0.34%).
- **Mobile phones:** In the last 12 months (up to November 2017) 1,170,667 new mobile phone contracts have been won, increasing the range by 2.04% (-8.25% prepaid, +4.52% postpaid pay; +0.82% Datacards; +10.27% M2M). Growth during 2017 in postpaid lines with year-on-year growth of between 3.81% in January 2017 and 4.52% in November 2017, whereas prepaid lines drop a little further with the year-on-year rate falling from -7.27% in January 2017 to -8.25% in November 2017.
- **Mobile broadband:** In the last 12 months (up to November 2017) 2,550,074 mobile broadband line contracts have been won, increasing the range by 6.46% (+6.86% in Pay-as-you-go; +6.39% in Postpaid), representing 80.9% of mobile lines (53.94% of Pay-as-you-go and 88.68% of Postpaid lines), 3.87 b.p. more than 12 months prior.
- **Fixed broadband:** In the last 12 months (up to November 2017) 603,587 new fixed-line broadband contracts have been won, increasing the range by 4.40% (-19.11% DSL; +1.58% Cable; +36.14% FTTH). Replacement of DSL lines with FTTH is accelerating. In that 12-month period 1,218,905 DSL lines were lost, increasing FTTH by 1,707,032 (444,778 Movistar and 1,262,254 remaining operators).

## 7.-Commercial activity and customer relations

### Residential market

During the year ended 31 December 2017 we continued our strategy of directing our new and existing customer bases towards convergent bundles with the highest added value. In 2017, we have continued to renew the convergent product offering, resulting in improvements, especially in the mobile phone and TV services. Flexibility is what distinguishes our convergent product, allowing customers to configure their services according to their needs. This strategy has brought our portfolio of customers on 3P or 4P contracts to 68.0% of the total at year end, compared to 65.8% for these high added-value customers at the 2016 close.

The acquisition of Telecable at the end of July 2017 also gave rise to a significant increase in the number of the Group's residential customers. The year ended with 660,946 residential customers, 21.0% more than last year, of which 131,172 customers originated from Telecable.

This growth is supported by good performance in mobile phones and pay TV. However, the main increase in residential customers and products in 2017 was the result of the acquisition of Telecable in July 2017.

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

In the case of fixed-line phone customers who have also contracted a mobile service, the increase was 20.6% with 529,459 customers. Overall, we have seen an increase in postpaid mobile lines from 763,683 in 2016 to 914,668 in 2017, with Telecable contributing with 143,446.

In the other driving force of convergent growth, Pay TV, the offering was improved with better content, improved functionalities with the launch of Replay and Rebobina, a better user interface, the consolidation of Everywhere TV, and an increase in video library content and the launch of the 4K service. Pay TV products grew from 270,333 in 2016 to 393,356, a 45.5% increase mainly due to the contribution of 118,038 customers by Telecable.

Broadband products reached 488,708, representing 23.8% growth, of which Telecable contributed 99,363.

As a result of all of the above, the Product/Customer ratio in 2017 remained stable at 3.5 products per customer.

At the same time, the ARPU of our fixed-line customers has continued to grow, increasing by Euros 1.55 (up 2.7%) during the year to Euros 59.99 in 2017.

One of the ways of increasing this ARPU has been customer campaigns to maximise value, gearing sales efforts to customers who have purchased the most services, with tactical price increases based on the “much more for more” mindset, monetising our customers’ increasing demand for speed and data volume, and facilitating upgrading.

#### Business Market:

The Soho segment has responded positively to our strategy of maximising 3P and 4P offerings. The number of business customers grew compared with last year to 101,378 customers, mainly driven by the entry of Telecable and its 15,402 customers.

The number of products contracted by those companies grew by 17.6% to 353,641 products, of which 58,093 originated from Telecable.

Soho dynamics are very similar to those of the residential market in terms of ARPU.

The increased ARPU was driven by higher bundling, reaching a ratio of 3.5 products per customer in 2017, compared to 3.4 in 2016, and Telecable's contribution to the Group's average ARPU by offering football in the HORECA segment.

It is interesting to note the balance between the net growth in RGUs per customer and ARPU. Achieving high sales volumes in both customer acquisition (Welcome promo/Entry mix) as well as in the customer portfolio (SVAs/Mobile/Speed upgrades), without sacrificing the ARPU, is symptomatic of healthy business dynamics.

In the SME and Large Account segments, the separation between communications and information technologies is becoming increasingly more vague, with companies seeking integrated solutions including communications, but also security and cloud services. Similarly, corporate globalisation makes it necessary to avail of solutions to reach any point with these services in the Basque Country, Asturias, Galicia and the rest of the world, calling for the necessary agreements at international level to cater for this demand.

In 2017 all of the large companies that form part of our Top 20 have maintained their trust in Euskaltel Group as their technological partner. The 12 companies in the Top 20 whose contracts expired in 2017 decided to continue as customers and most of them reinforced their commitment by expanding their contracted services. The renewal of the contract with the regional government of Galicia for a further 2 years is particularly relevant.

Notable advances were made in 2017 with respect to the development of our strategy for this market segment:

- (1) Reinforcement of the sales team and development of its capacity to accompany our customers through the digital transformation process.

- (2) Application of FTTH NEBA as an access solution instead of indirect ADSL in both the Basque Country and other areas, launching our own PAIs in the regions in which our primary customers carry out their activities.
- (3) Start of an alliance plan that is intended to extend our capacity beyond telecommunications, notably including the strategic agreement signed in the summer of 2017 with Microsoft, which will allow us to offer our customers new productivity solutions using Office 365 and new hybrid cloud services at the international level supported by Azure and Microsoft's worldwide data centres.
- (4) Expansion of a private cloud from Galicia to the Basque Country, which merges our fiber-optic network with our local data centre, reinforces value for our customers by offering alternative support from Group data centres in Asturias, Galicia and the Basque Country.
- (5) Start of work with some of our large customers on digital transformation projects (IoT, Big Data and RPA), thus leveraging the value of the knowledge, platforms and alliances developed by the Euskaltel Group to create their own digital transformation projects.

The small and medium-sized (SME) company segment underwent a transition in 2017. In the SME segment the growth strategy is supported by 3 lines of work: increasing the market share in the territory, increasing the total number of customers by recruiting indirect access customers (both in the region and in other areas) and developing the ARPU through the sale of new services. At the end of 2017 we had made the following progress and we will further develop this area to support revenue from this segment throughout 2018:

- (1) Creation of new specific bundles for SMEs in the Basque Country. A value proposal reinforced by all inclusive bundles included under a pay-per-use model without any equipment investment by the customer.
- (2) Development of the same HFC offer also using FTTH NEBA, to thus take on the SME indirect access market. This is already available in Galicia and the Basque Country.
- (3) A new offer is in the development process, including a value proposal supported by the Telco bundle, consisting of services such as: Productivity, Security, Professional Wi-Fi and Cloud. Those SVAs will allow new development vectors to be opened in the customer portfolio to contribute to the increase of revenue. Furthermore, we have reinforced our broadband options with the launch of new speeds and Internet access methods.

#### Customer relations

Throughout 2017 we have continued to focus on getting to know our customers better and generating value propositions adapted to their particular needs and situations. We have separated customer acquisition work from the task of getting to know our customers.

We work on loyalty right from the moment a customer is acquired. From there, proactive and reactive steps are taken to retain customers and adapt their situation to their new realities, and products are adjusted to strike the best balance between performance and price.

Throughout the year, we have consolidated the Customer Experience initiative, aimed at generating an emotional link with customers through interactions with the Company in order to consolidate their loyalty and boost their willingness to buy. In this project we have:

- Done market research about preferences in a communications service
- Identified the key moments in which customers interact with us
- Created teams based on each moment in the customer relation process
- Identified the reasons for dissatisfaction at each point in time
- Launched actions to remove the reasons for this dissatisfaction

Within this Customer Experience project, the approach to the digital experience is key. During 2017 the number of residential customers choosing the Internet as their means of communication has been increasing consistently, with the resulting decline in the use of phone support platforms and sales points visits. Activity on these platforms is optimised thanks to self-management (Web and IVR) and the drop in repeat queries, and customer satisfaction ratings are in excess of 9/10.

Moreover, progress in the Online First initiative has been steady all throughout the year.

## **8.- Marketing activity**

The Euskatel Group continued to offer the best services through its three main businesses in 2017, with the objective of maintaining the loyalty of its customer base.

In addition to quality, one of the Group's objectives is to build an emotional link with customers and to create a personal connection by offering those services that they really need to make their daily lives easier. This has all taken place in an environment in which one of the main competitors has fully consolidated as a fiber optic operator in our regions, with the roll-out, to a large extent, of our footprint, moving from our fibre-based technological efforts to actively listening to customers in order to offer solutions that go beyond connectivity.

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

- Reinforce our primary products (broadband, mobile, television, etc.): "Much for more".
- Our services are closely associated with innovation, transmitting an image of strength to the market through our status as a contemporary operator (modern and technological).
- New bundles for specific customer segments (students, millennials and couples), reinforcing our packs in the segments where we are most relevant (families with small children, seniors, single-parent households).

During 2017 we also unified the sales offers made by Euskatel and R, such that a large part of product development and bundling has gone hand in hand in both regions.



To sum up the above, the most significant points of action within the marketing activity undertaken in the three geographical areas in which the Company operates are as follows:

**A) Improvements to core products:**

**Internet**

- In February, Euskatel improved the speed of several types of Internet access. Product improvements consist of increases of between 20% and 40% in broadband speed, together with the gradual implementation of advanced Wi-Fi equipment at medium and high speeds.
- In July a new uniform Internet portfolio was launched for Euskatel and R, marketing 3 types: 50Mbps, 200Mbps and 350Mbps.
- In December R improved the lowest kind from 50Mbps to 60Mbps.

**Mobile phones**

- In July new mobile rates were implemented, notably including the increase in GBs, strengthening the market trend towards progressively higher patterns of mobile data consumption. Legacy rates were improved and new rates were introduced into the market.
- There was a decided shift in mobile rates, which resulted in improvements and we now have the broadest portfolio, and the highest rate on the market with unlimited calls and 50GB of data.
- Since the middle of the third quarter and during the entire fourth quarter mobile growth in Asturias was affected by the migration of the host mobile network from Vodafone to Movistar and the introduction of 4G services.
- Roaming: since June all of our mobile rates allow customers to access their service within the Eurozone without any additional rate increases. We thus eliminated a competitive barrier that we had with respect to our primary mobile rivals, which had for some time offered other rates through agreements with international operators.

**TV**

- DECO 4K “The decoder your TV was waiting for”

Since July 2017 the TV service has offered a new Android TV decoder with various functionalities, such as 4K quality, the option of installing over 3,000 apps and games, chromecast, replay and recordings. The 4K decoder represents our TV's natural development, continuously incorporating innovative functionalities and services over the last few years so that all users can enjoy the television's new uses. Furthermore, based on this equipment we will be able to generate an ecosystem with third parties such as Netflix, which will be incorporated into our services in 2018.



- The “*Te lo Perdiste*” functionality

In March we included a new interactive functionality “*Te lo Perdiste*” (You missed it), which allows our customers to access and watch a broad catalogue of already broadcast content (films, series, documentaries, news, etc.) for a large majority of channels, thereby building an on-demand television service that is highly valued by customers.

#### Wi-Fi

- “Because life is happening out there”

Euskaltel continues to work towards providing the best Wi-Fi service outside the home. Accordingly, in addition to the 446,000 Wi-Fi access points that allow for free Internet access on the streets of the Basque Country, Galicia and Asturias, we have developed a new solution for the demand for more gigabytes during holiday periods.

- In June we launched a free service called “Wi-Fi Vacaciones”, targeted at our convergent broadband, mobile and TV service customers so that they can enjoy to additional gigabyte credits per year for free Internet access and which can be used whenever the customer wants, either on any customer smart phone or through a MIFI device.

### B) Bundling and convergence

#### Students

In September we launched a service to respond to the demand from young customers that study away from home and need to make intense use of high-quality networks, both for academic and recreational reasons. One of the advantages of the offer for students is that they can temporarily disconnect the service for free.

#### New convergent offer

- In July 2017 the convergent offer was renewed and the most notable element is the flexibility for each of the segments, the improvement in mobile data rates and our commitment to allow all customers access to 4P bundles.

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

- the percentage of households with speeds of over 50 Megas increased from 74% to 85%
- the percentage of postpaid mobile lines with 4G technology has increased from 39% to 74%. The increase in mobile penetration exceeds 9%.
- The penetration rate in 2017 of the various contract packages increased by more than 10 points with respect to 4P and the number of mobile lines per customer also increased by 6%.

### C) New services

- Tres Ollos and Euskaltel Life - "Always at home wherever you are". Using a simple app, customers can control everything going on at home, or in the homes of older family members, from their mobile phone. The service allows homes to be connected and controlled via the mobile app (sensors for doors, movement, smoke, damp, intelligent power outlets, security cameras, etc.) By using this service customers receive notifications of everything that happens at home and remote interaction with the system is possible.
- Dual ring: Free service that allows calls to land and mobile lines to be integrated such that both devices ring simultaneously.

## 9.- Operations Activity (Network and Technology)

The most significant milestones in this area of activity in 2017 have been:

- Network integration project: During the year some integration projects were executed: 4K services, on-demand, voicemail service, etc., and agreements were reached with various suppliers regarding the implementation of the mobile network and core IP. The network was also deployed in new areas within our regions providing direct access.

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

### 1. TV PLATFORM

- Launch of a new android 4K decoder for cable TV services and IPTV by Euskatel and R.
- Integration of a second alternative android 4K decoder for the Group.
- Implementation of the on-demand TV back and a common orchestrator.
- In the Basque Country 20 nodes were expanded for EQAM-VoD due to both the increase in the number of customers using the service and the increase in the number of simultaneous sessions during the past year.
- The market trend is to promote on-demand services and OTT (Netflix, etc.) to facilitate access to audiovisual content from any device (mobile, tablet, computer, TV, etc.), from any location and at any time, as well as HD quality content and 4K.

### 2. MOBILE NETWORK

- On the Euskaltel mobile network 50 LTE base stations have been deployed (eNodeB), using the 2.6 GHz bandwidths assigned, achieving a progressive increase in traffic captured by the network.
- A direct connection has been established with R for mobile services, providing significant savings when connecting internal traffic between Euskatel and R.
- R's host was changed under a new agreement with Orange and the existing service with Vodafone was disconnected on 1 April.
- Telecable's host was changed under a new agreement with Telefónica and the existing service with Vodafone was disconnected on 1 April.
- Orange service coverage improvement projects were executed in Galicia and the Basque Country.
- We have completed the expansion and change in the architecture of the GGSNs in the Basque Country.

- We completed the integration agreement regarding the mobile cores for Euskaltel and R using a single technology.

### 3. LANDLINE VOICE NETWORK

- The Centrex, SIPTrunk, IP connection and IN ZAPI platform services were migrated to IMS.
- The migration of V5s to IMS was defined and validated.
- The VoLTE service concept (Voice over LTE) on the IMA platform was analyzed and tested.

### 4. DOCSIS NETWORK

- The expansion of the Docsis network's capacity in the Basque Country and Galicia in 2017 was to enable the extensions needed due to the increased speed of cable products and the growing customer base. All of the hardware currently installed in the Basque Country is compatible with Docsis 3.1.
- The migration of the CMTS floor in Galicia to Eurodocsis has been completed.
- The process of selecting a Docsis 3.1 core supplier for the Euskaltel Group has started.

### 5. IP/MPLS CORE NETWORK

- The project to migrate the core IP in Galicia to a new platform was executed and the cores in Galicia and the Basque Country have been expanded to support the increase in traffic.

### 6. WI-FI NETWORK

- Continuation of the project to deploy Wi-Fi access points (APs) in Galicia. 50 new points activated. Accumulated total in Galicia: 100 APs.
- In the Basque Country, 8 APs were eliminated and 59 created, resulting in a total of 322 APs.
- The Group continues to increase Wi-Fi coverage as a tool for offloading traffic from the host and increasing customer loyalty.
- An analysis has been performed on services such as Wi-Fi Calling or Voice over Wi-Fi, allowing voice traffic to be offloaded, thereby reducing the costs incurred with the mobile host operator.

### 7. RADIO NETWORK

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

### 8. FTTH GPON NETWORK

- Technical execution of the mutual agreement with Orange. Joint definition and official approval of the technical solution with Orange.
- Definition and official approval of services (Internet, data, voice and TV) over company FTTH for residential and business customers.

## 9. DATA CENTRE

- Start of the project to install the new virtual data centre in the Basque Country offering convergent services (computing, storage, backup, SDN).
- Implementation of hybrid cloud services under the agreement and integration with Azure's public cloud services.
- Network development is moving towards the virtualization of the network itself (SDN) and core platforms (NFV), as well as towards automation and customer self-governance (orchestration) of the cloud services offered.

## 10. SECURITY PLATFORMS AND SERVICES

- Awarding of the SOC (Security Operations Centre) project for the Galicia and Basque Country network.
- Performing of security audits on the ISP&DC data network and implementing the SIEM platform for collecting logs to support the SOC service.

## 11. CUSTOMER TERMINAL APPROVAL

- Official approval of integrated and ordinary ONTs, advanced and neutral routers.
- Unified official approval for the group of mobile devices, eliminating the external supplier.
- Selection of a second supplier of modem 3.0 cable for the Euskatel Group.

## 12. FIXED NETWORK DEPLOYMENT

### Industrial parks

#### **Galicia - 81 Industrial parks - Government**

Project to deploy FTTH-GPON, subsidised by the regional government of Galicia, to a total of 81 industrial parks to be executed between 2016-2018. The project must be completed in October 2018. In 2017 work at 35 industrial parks was completed, giving an overall total of 52 to date, representing 64% completion.

#### **Basque Country - 216 Industrial parks - SPRI**

Programme subsidised by the Basque Government to install NGA networks in industrial parks, grouped into 52 batches in the Basque Country between 2017-2018 (May). In 2017 the network was deployed at 41 industrial complexes, covering 25 different groupings. 4 groups have been completely finished.

### Residential

#### **Minetur 40FTTH project**

Project to deploy FTTH-GPON with grants from the Ministry for NGA networks. This represents a deployment in 173 core areas which will be executed in 2017-2018. In 2017 4 population centres were covered.

#### **Project 51 K**

Launch of the deployment of 5500 UIs within the K Minetur FTTH . Project to be executed in 2017-2018 with grants from the ministry. In 2017 the UIs for 3 population centres were built.

### 13. OTHER PROJECTS

#### **Connected schools**

In 2017 a project was implemented to provide a 1GB symmetrical service to 10 locations.

#### **Marea project**

Project to help Facebook with their DPC redundancy connection and the undersea cable that makes landfall on the coast of Bizkaia. New infrastructure has been completed (more than 2 km of civil works, use of an ETS tunnel and reuse of pre-existing channels).

### 14. SECURITY

Creation of the role of CISO (Chief Information Security Officer). Person responsible for cybersecurity within the Euskaltel Group in three main areas:

1. The network and data centre (which support the services we offer customers as a comprehensive telecommunications operator).
2. Systems (which support internal processes and customer and stakeholder relationships).
3. The specific security services provided to Euskaltel Group customers.

Launch of the SIEM platform to collect logs as part of the Group's SOC service (Security Operation Center).

## 10.- R&D&i activity

The Group's innovation activities in 2017 were carried out in a unified manner, and therefore there are no differences between the activities carried out by Euskaltel, R and Telecable. The 3 units share a single pool of initiatives and projects, consisting of the following:

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

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

This area comprises 2 main groups of projects.

- *Support for innovative entrepreneurship.*

The Startups Euskaltel and Startups R project means that more than 40 startups have been able to present their products and services to the Group. Alliances have been created with over 10 business accelerators to continue to broaden the project's footprint in 2018.

- *Creation of an open innovation framework*

Similarly, a creativity environment has been fostered within the Group, facilitating the communication of internal challenges to all company professionals and encouraging proposals to improve each area of work. An integration environment has been defined for the work carried out with international Startups, well-financed high-tech companies that have differentiating products that the Group wishes to integrate in a simple manner, thereby creating a pathway for the entry of suppliers as alternatives to traditional vendors.

#### Innovation in user interfaces

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

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

#### TV innovation

The most relevant innovation project here is the introduction of 4K technology through the new TV decoder launched in 2017. This new decoder allows customers to combine the Internet and advanced TV options, install apps, programme and access recordings on the cloud, use peripheral devices and control the television using a mobile device. This platform will be incorporated into the Telecable network in 2018.

#### IoT (Internet Of Things) - residential and business

In 2017 a platform to enable a large range of services based on the Internet of Things concept has been launched on the residential market. The new product includes several important sensors: door, camera, environment, thermostat, smoke, vehicle monitoring and mobile device. Moreover, this platform will be the foundation for introducing many new, innovative services for families, such as safety and Wi-Fi in vehicles.

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

#### Business services: Industry 4.0

In 2017 the new Industry 4.0 platform was launched into the market. It allows a new range of products associated with telecommunications using the application of sensors in industrial environments. Thanks to this platform, small and medium-sized companies may start to store their data securely, progressively developing analytical services that will allow them to improve their business processes.

In addition, new data centre products have been launched that increase our capacity to manage the hybrid cloud. New concepts and technologies have been developed in this area to combine our access power with the enhanced capacities of the cloud, concealing the complexity from the customer and enabling us to manage, operate and service complex networks on different supplier infrastructures or on "different clouds".

## 11.- Human Resources Activity

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

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

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

In 2017 we launched the Leadership Programme 2019, which identifies the competencies that a Euskaltel Group leader must have.

Our aim is for leaders to take on a new transformative leadership style and we have therefore designed a training map to encourage this style, which will be rolled-out throughout 2018.

We will also continue to recruit new talent, especially among young people, who continue to be a determining factor for the Group and we also intend to drive engagement through the employer brand that was designed this year and in which all employees participated through a contest.

Our Company's primary asset is its employees, and the talent they bring to the Company.

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

During 2017 a total of 25,596 hours' training was given, corresponding to 283 training initiatives.

We maintain our collaboration with different education institutions, universities, occupational training centres, etc., taking interns on practical work experience schemes, mainly telecommunications engineering students and trainee web development and multi-platform specialists. During 2017, we accepted 48 students for work practice.

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

We have defined the organisational values of the Euskaltel Group with 100% participation of the Group's employees, and we are encouraging socialisation practices that enable employees to become familiar with and gain knowledge about these values, skills, and expected behaviours so as to fulfil their role within the organization.

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

We have launched a project to encourage collaboration between employees and teams by strengthening the use of digital collaborative tools. We ended 2017 with a design for this plan and it will be implemented in 2018.

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

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

### **4.- Integration of persons with functional diversity**

Euskaltel complies with Spanish Law 13/1982 of 7 April (Integration of Persons with Disabilities), through the creation of direct employment and the creation of jobs in special work centres that work with people with functional diversity. Specifically, in 2017 we have contracted out reception, mail room and telephone-answering services to two Special Work Centres, representing over Euros 501.000/year, and we have employed one person directly through a temp agency.

We continue to develop the Family plan (Plan Familia) and the Emergence plan (Plan Aflora) among Euskaltel staff. The first of these is an economic aid scheme for employees with disabled family members to participate in workplace integration programmes and leisure activities. The Aflora plan is designed to bring to the fore unrecognised disabilities in people already employed by Euskaltel and during 2017 two people were identified to have an unrecognised disability.

### **5.- Working environment**

In November a working environment survey was carried out throughout the Group, using the method designed by the business analysis company Ikerfel.

## **12.- Organisation and quality activity**

### Organisation

Throughout 2017 there were relevant changes in the organisational structure.

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

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

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

The new structure increases the focus on the corporate segment in all markets and, accordingly, a new Corporate Business Marketing Department was created to generate new services and products that provide added value, bundles for SMEs and establish alliances to expand the portfolio of products and services for this segment.

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

During 2017 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.
- An Organisational Job Position Manual: a key project was developed during the year based on the identification of all of the positions within the organisation and the primary tasks associated with each one. This resulted in the first Organisational Job Position Manual at the Euskaltel Group after the merger with R and Telecable.

At the end of 2017 over 90% of the positions at the organisation have clearly defined functions and competencies.

#### Quality, Environment, Health and Well-being

During 2017, Euskaltel has committed to continuing on the path to excellence and, taking as reference the Advanced Management Model, it has developed the following activities through its Quality, Environment, Health and Well-being area: Below is a breakdown by policy:

##### Quality

We have worked on the integration and deployment of a Quality policy at the Group's three companies and the certification of the quality management system in accordance with the standard ISO9001:2015 at Euskaltel by a recognized outside party (AENOR) and by Lloyds Register at Telecable.

In 2017 an Annual Quality Plan was drawn up and executed, covering all the actions needed to maintain the quality management system. It also reviewed the Quality Control Policy and the commitment to efficiency and ongoing improvement to attain quality customer services, in order to control and improve any organisational elements influencing customer satisfaction and the attainment of the Company's desired results.

##### Environmental issues

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

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

- Renewal of Euskaltel's Environmental Management System certification in accordance with ISO 14001:2015, by a certified third party (AENOR) as renewed annually since 1999.
- Expansion of the Environmental Management System, as per ISO 14001:2015 by a certified third party (AENOR) to R and Telecable.
- Certification of Telecable's Energy Management System in accordance with ISO 50001: 2011 by a certified third party (AENOR).
- Validation of the EMAS Environmental Impact Declaration by a certified third party (AENOR), as validated since 2004. Based on this, Euskaltel's inclusion in the EU Eco-Management and Audit Scheme (EMAS) has been renewed.
- Registration on the Carbon Footprint Registry of the Ministry of Agriculture, Food and the Environment.
- Calculation process to determine the Ecological Footprint of the Organisation, a pioneering process in the corporate field, carried out in the framework of our membership of the Basque Ecodesign Center

and our collaboration with Ihobe and its external communication at the Basque Ecodesign Meeting held in Bilbao in September 2017 (<http://bem2017.basqueecodesigncenter.net/>).

- The three group companies have joined the initiative #Por el Clima (<https://porelclima.es/>) and through this commitment the group companies have committed to reducing their polluting actions that cause climate change and to form part of the #PorElClima Community, which is a pioneering initiative between individuals, companies, organisations and government agencies with a common objective: to be protagonists in the fight against climate change in accordance with the guidelines established by the Paris Agreement.

#### Health and Well-being

In 2017 advances continued to be made with respect to the Healthy Company Programme, particularly regarding aspects relating to nutrition.

In 2017 the Occupational Health and Security Management System certification was renewed for Euskaltel in accordance with OHSAS 18001:2007 specifications by a recognised and accredited outside party (AENOR). Steps were also taken to ensure that R's activities are in a position to be certified in accordance with those specifications.

#### 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 2017, the Information Security Management System has continued to be consolidated, with its certification, since 2012, according to the Standard UNE 27001:2014 for Information Data Security Management Systems (ISMS) across the three Group companies.

#### 2017 highlights:

- Establishment of a risk management system for Information Security that enables risks to be ascertained and analysed, identifying threats, vulnerabilities and impacts on activity, preventing, eliminating or reducing risks by establishing appropriate controls (for this purpose we use the tools provided in the ISO 27002 standard).
- Support to identify and establish security measures that help reduce risks identified.
- Integration of information security management into the rest of the management systems implemented at the Euskaltel Group.
- Guaranteed identification and compliance of prevailing legislation in this field.
- Adding value to the Euskaltel Group's offer through confidence in data protection, enhancing the corporate image and giving external visibility to the Management System with the ISO 27001 certification.

### **13.- Economic-financial activity and key business indicators**

#### Key performance indicators (KPIs)

The following tables show some of our operating and financial KPIs for the year. The most relevant growth factor in 2017 has been the addition of Telecable into the Euskaltel Group at the end of July 2017.

## Residential

KPI	31.12.16	31.12.17
Homes passed	1,707,558	2,166,001
Residential subs	546,040	660,946
<i>o/w fixed services</i>	469,662	575,354
<i>o/w mobile only subs</i>	76,378	85,592
1P (%)	21.7%	19.5%
2P (%)	12.5%	12.5%
3P (%)	26.4%	26.3%
4P (%)	39.4%	41.7%
Total RGUs	1,891,653	2,324,640
RGUs / sub	3.5	3.5
Global ARPU fixed customers (€/month)	58.44	59.99

KPI	31.12.16	31.12.17
Fixed voice RGU's	462,827	527,908
<i>as % fixed customers</i>	98.5%	91.8%
BB RGU's	394,810	488,708
<i>as % fixed customers</i>	84.1%	84.9%
TV RGU's	270,333	393,356
<i>as % fixed customers</i>	57.6%	68.4%
Postpaid lines	763,683	914,668
Postpaid customers	438,953	529,459
<i>as % fixed customers (mobile only excluded)</i>	77.2%	77.1%
<i>Mobile lines / customer</i>	1.7	1.7

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

In mobile communications, growth is underpinned by the strong performance and improvements in mobile telephony, the possibility of financing purchases of mobile devices and the launch of the 4G service, which have all contributed to the strong performance in this area. This is also seen in residential postpaid mobile contract customers, with an increase in products from 763,683 in 2016 to 914,668 in 2018, 143,446 of which come from Telecable.

Broadband has also grown from 394,810 products in 2016 to 488,708 in 2017, 99,363 of which come from Telecable.

In addition, the higher percentage of mobile customers has held steady at 77.1%. 0.1 b.p, less than the previous year, although the main reason is Telecable's lower penetration, which stands at 64.6%.

ARPU has grown by Euros 1.55 (+2.7%) in 2017. Sales policies vis-à-vis mobile telephones, higher-added value services (upgrading) and additional services to existing customers (up-selling) have contributed to this growth. The number of customers with three or four products contracted rose from 65.8% in 2016 to 68.0% in 2017.

## Business

KPI	31.12.16	31.12.17
Subs	89,322	101,378
1P (%)	29.7%	26.7%
2P (%)	16.4%	14.7%
3P (%)	39.7%	39.3%
4P (%)	14.2%	19.4%
Total RGUs	300,713	353,641
RGUs / sub	3.4	3.5
Global ARPU fixed customers (€/month)	65.20	67.04

The Group's commercial strategy in the business market is in line with that of the residential segment. The rise in number of customers, product mix offered and the upgrading and upselling policies have kept indicators on the upswing, with the number of customers and the number of products contracted rising (customers with 3 and 4 products contracted went up from 53.9% of customers in 2016 to 58.7% in 2017), with ARPU increasing 1.84% compared to 2016.

## Financial data

	31.12.16	31.12.17
Total revenues	572.9	622.2
<i>Y-o-y change</i>	68.3%	8.6%
o/w Residential	373.1	416.5
<i>Y-o-y change</i>	73.0%	11.6%
o/w Business	166.6	170.5
<i>Y-o-y change</i>	67.7%	2.4%
o/w Wholesale and other	33.2	35.2
<i>Y-o-y change</i>	30.6%	6.0%
Adjusted EBITDA	280.6	306.9
<i>Y-o-y change</i>	68.0%	9.4%
<i>Margin</i>	49.0%	49.3%
Capital expenditures	(95.9)	(108.8)
<i>Y-o-y change</i>	80.5%	13.4%
<i>% total revenues</i>	-16.7%	-17.5%
Adjusted operating cash flow:	184.7	198.1
<i>Y-o-y change</i>	62.3%	7.3%
<i>% adjusted EBITDA</i>	65.8%	64.6%
Profit/(loss) for the year	62.1	49.6
Earnings per share	0.41	0.30
Cash flow per share	1.22	1.22

Residential revenues rose by 11.6% compared to the prior year. This is the result of including Euskaltel and R's revenues for the whole of 2017 and the 5 months of revenues for Telecable.

Revenue from the business market amounted to Euros 170.5 million, up 2.4% on the prior year. This situation is

primarily due to the contribution by Telecable over the final 5 months of 2017, offsetting the slight decline in revenue recorded by Euskaltel and R compared with last year.

Wholesale and other revenue grew by 6.0% to Euros 35.2 million, essentially as a result of the contribution made by Telecable during the final 5 months of the year.

Adjusted EBITDA, which does not include the effect of costs related to the integration process of the companies, amounted to Euros 306.9 million in 2017, an increase of 9.4% on 2016. Euros 25.3 million of this increase come from the inclusion of Telecable and the remaining amount from efficiencies achieved in the Euskaltel Group where the sales margin stands at 49.3%.

Investments stood at Euros 108.8 million in the period, up Euros 12.9 million on the previous year. This rise is due to the incorporation of Telecable's investments (Euros 10.2 million) and to the continuation in 2017 of relevant projects in the Euskaltel Group. This increase was underpinned by the plan to wire 51,000 homes and industrial parks, the repositioning of broadband speeds, the Wi-Fi Klean project and the deployment of the proprietary 4G network since the end of 2015. These projects involve technological, customer-oriented innovations allowing users to enjoy the best services and enabling the Group to increase the commercial offering and revenues in the coming years.

Operating cash flow, defined as the difference between EBITDA and investments, resulted in a conversion rate of over 64.6%, maintaining our leading position in comparison with similar sector companies in Europe. Cash flow per share was Euros 1.22.

The improvement in EBITDA mentioned above, the inclusion of 5 months of Telecable's results, the effect of extraordinary expenses due to the acquisition of Telecable and other non-recurring expenses have led profit after taxes to be Euros 42.9 million in 2017, reflected in the profit per share of Euros 0.30.

## **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 3.1 million (Euros 2.88 million in 2016), equivalent to 0.50% of turnover (0.51% in 2016). Aged, non-impaired receivables past due by more than 90 days at 31 December 2017 amount to Euros 9.9 million (Euros 3.25 million at the end of 2016).

### 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 2017 the consolidated Group had a non-current revolving credit facility of Euros 300 million, with Euros 280 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 2017, cash and cash equivalents amounted to Euros 58.65 million (Euros 157.29 million at the end of 2016).

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

### Market risk

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

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

Interest rate risks arise 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 2017, had interest rates risen by 100 basis points, with other variables remaining constant, consolidated profit (after tax) would have fallen by Euros 7.2 million (Euros 6.5 million for the year ended 31 December 2016).

## **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.

#### Regulation of wholesale access markets

In 2017 decisions were taken by the government that may have an impact on the Group.

- NEBA Local Price regulation

The Spanish National Market and Competition Commission (hereinafter the CNMC) approved the new wholesale fiber optic offer on 10 January, which contains the technical conditions for the new wholesale fiber-optic network access service offered by Telefónica, NEBA Local. This wholesale service is one of the obligations that the CNMC imposed on Telefónica after approving the regulation for broadband wholesale markets.

The broadband wholesale market regulation, which was approved in November 2016, allows access by other operators to Telefónica's fiber-optic network, among other things, where there is insufficient competition with respect to this type of network.

The new regulation required Telefónica to provide wholesale virtual access to its fiber-optic network (NEBA Local) in those areas declared to be non-competitive. It covers all of Telefónica's FTTH accesses, except those located in 66 Spanish municipalities that the CNMC declared to be competitive. In all other areas (35% of the population, the 66 municipalities), the CNMC considered that there was a sufficient level of competition since they have a minimum of three operators that simultaneously deploy new generation networks (NGA).

As a result, the new virtual access service (NEBA Local) will ensure that alternative operators can offer fiber-optic based services to users through Telefónica's network and connections with the base centres maintained by the operator in the areas declared to be non-competitive. It is the fiber-optic equivalent to the desegregation of the copper line network, on which competition in the ADSL market has been based.

- Retails and wholesale fixed-line market regulation (markets 1 and 2)

On 17 January 2017 the CNMC approved the definitive measure to regulate the retail and wholesale fixed-line access markets (markets 1 and 2 of the 2007 European Commission Recommendation). The measure covers regulating the conditions of access to the fixed-line phone network for end users (market 1) and also, at wholesale level, for operators other than Telefónica (market 2).

After analyzing the competition conditions in those markets, the CNMC decided to maintain the wholesale regulations to which Telefónica is subject to encourage competition in landline service markets, particularly offering Telephone Line Wholesale Access services (AMLT) with a cost-based price orientation.

Regulation of the isolated operator pre-selection service is eliminated (i.e. without AMLT).

In the case of the retail access market (market 1), whose most significant obligations (regulation of membership and connection prices) were withdrawn in 2012, the CNMC decided to eliminate the few obligations that remained.

- MVNO wholesale mobile market regulation

The Resolution that approved the definition and analysis of the wholesale access and mobile network origination market was published in the Official State Journal (BOE) on 12 April 2017.

This Resolution eliminates the obligations currently applicable to Telefónica Móviles de España, S.A.U., Vodafone España, S.A.U. and Orange Espagne, S.A.U. with respect to the rendering of wholesale access and mobile origination services six months after the date the Resolution was published.

After October 2017 the obligations established for those operators disappear, fundamentally that relating to the application of reasonable prices.

- Voice call termination in mobile networks market

On 16 November 2017 the CNMC approved the project regarding the review of the voice call termination in individual mobile networks market (Market 2/2014) which will allow the cost of mobile termination to be reduced by more than 40% to Euros 0.64 per minute in January 2020. This draft measure is pending approval by the European Commission and the Ministry for Energy, Tourism and the Digital Agenda and the Ministry for Economy, Industry and Competitiveness, who will have one month to make their observations. The definitive resolution was announced on 18 January 2018. The new price is expected to become effective from February 2018 onwards.

#### European Data Protection Regulations

On 14 April 2016 the European Parliament approved a set of Data Protection Regulations to come into effect from 25 May 2018. The Organic Data Protection Law is being pushed through parliament so that Spanish legislation can be adapted to the regulations.

These regulations establish obligations for companies that will require organisational, technical, economic and human resources efforts to implement. It may also make the rendering of services difficult due to its intensive data usage.

The Group has a Data Protection Manager, which is a compulsory position in accordance with the aforementioned regulations.

#### Cost of the universal service for 2014 and 2015

On 3 October 2017 the CNMC reached a decision regarding the case file on the financing of the net cost of universal communication services incurred by Telefónica de España, S.A.U. (hereinafter Telefónica) and by Telefónica Telecomunicaciones Públicas, S.A.U. (hereinafter TTP) in 2014.

After the entry into force of Law 9/2014 (11 May 2014) those operators whose gross annual operating revenue exceeded Euros 100 million were required to contribute to the FNSU. R, Telecable and Euskaltel first made contributions in 2014.

In September and October 2017 the CNMC opened a case file relating to the calculation of the net cost of the universal service presented by Telefónica de España, S.A.U. and Telefónica Telecomunicaciones Públicas, S.A.U. for 2015.

#### Main operator

On 31 October 2017 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 2016, 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

In May 2017 the European Commission reviewed the Digital Single Market (DSM) proposals, within which a proposal to review the telecommunications regulatory framework was published. The main issues proposed for revision are:

- Promoting regulation of NGA networks,
- Improving use of radio frequencies,
- Modifying universal service content and funding under general budgets, Redefining electronic communication services (internet and personal communications with/without use of numeration) and applying standards to new online agents offering equivalent services to traditional operators, and
- Numbering.

This regulation may have implications for the Group's activity in these areas. However, the process of negotiating the telecommunications bundle will be long, as it must go through the European Council and the Parliament and will then have to be transposed into national policy.

Also within the framework of the DSM, on 30 June 2017 Regulation 2017/1128/EU of the European Parliament and of the Council of 14 June 2017, relating to the trans-frontier portability of on-line content services within the internal market was published.

Furthermore, the European Commission has presented a 5G plan of action with a timeline target of 2020.

#### Access to content

- Resolution authorising Telefónica/DTS concentration.

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

The Euskaltel Group companies filed appeals in 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.

- Resolution of the oversight of the concentration of Telefónica/DTS.

On 4 May 2017 the CNMC Competition Committee issued a resolution regarding the oversight case VC/0612/14 TELEFONICA/DTS in which TELEFONICA S.A. had to change the financial model in place with respect to the costs to be charged to TELECABLE DE ASTURIAS, S.A.U for the sub-licensing of the PARTIDAZO channel in terms of the 75% weighting for pay television customers only in the case of those who had conditional access decoders at a certain date. This ruling substantially reduces the cost for accessing this content. The Same Resolution gave rise to additional adjustments in the cost of accessing this content for TELECABLE DE ASTURIAS S.A.U., as the CNMC corrected certain costs calculated by TELEFONICA S.A., with the consideration that they were excessive.

- Resolution of the dispute against Mediapro before the CNMC

On 25 July 2017, the CNMC issued a resolution regarding the dispute filed by Telecable against Mediaproducción S.L.U. relating to the costs of accessing the BEIN Sport La liga channel.

This resolution set out a substantial reduction in the costs charged to TELECABLE DE ASTURIAS S.A.U., as it was considered that the number of Telecable pay TV customers, which is the figure used for these purposes, only included those who had conditional access via an encrypted signal at 31 December 2015.

This same criteria was therefore applied by LIGA de FUTBOL when calculating the acquisition cost charged to TELECABLE de ASTURAS S.A.U. for the Liga 123 channel (second division of Spanish football league).

#### 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 (1.5% 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 allegations in this case.

Interim payments were made in July and October for the 2017 amount.

#### New Public Sector Contracts Act

On 9 November 2017 the Official State Journal No. 272 published Law 9/2017 (8 November), on Public Sector Concession Contracts which transposes Directives 2014/23/EU and 2014/24/EU of the European Parliament and of the Council of 26 February 2014 ("PSCA") into Spanish internal legislation.. This law will enter into force on 9 March 2018. This Law maintains the current outline and structure, but introduces a series of changes, notably the following:

- Better price-quality ratio adjudication criteria.
- Measures for encouraging the participation of SMEs.
- Incorporation of social and environmental criteria.
- Simplification of administrative charges.
- Encouragement of the use of electronic means.

#### Private copying levy

Royal Decree-Law 12/2017 (3 July) amended the Intellectual Property Rights Act in order to re-establish a royalty on certain devices used to view protected works.

It stipulates that manufacturers in Spain, when acting as commercial distributors, as well as buyers outside of Spain when distributing or using certain equipment, devices and supporting materials within Spain are liable to the payment of this royalty.

Wholesale and retail distributors that are the successive buyers of the aforementioned equipment, devices and support materials are considered to be jointly and severally liable for the payment of the royalty together with the original suppliers, unless it is effectively proven that payment has been made.

The Group's companies, as non-manufacturing distributors, are jointly and severally liable for the payment falling to the original suppliers.

### Catalan tax

The Constitutional Court issued a judgment on 6 July 2017 declaring Law 15/2014 emanating from the Parliament of Catalonia as unconstitutional, and therefore null and void. This Law was called the Catalan tax and was levied on the supply of content by parties rendering electronic communication services.

The regional government has refunded the amounts that were self-assessed by the companies.

### Definition of regulatory risks

- Copyright Regulation

In the area of televised content, copyright regulations establish a series of payment obligations on account of ownership rights. In some circumstances, negotiating and determining these rights is controversial and may have an impact on the cost of content to be acquired.

- Renegotiating copyrights -management companies

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

- Obligations deriving from information security

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

Spanish law regarding the transposing of Directive 2016/1148, of 6 July 2016, NIS, whose transition phase ends on 9 May 2018, is under discussion.

## 16.- Corporate governance

### a) Corporate Governance Actions

Throughout 2017, Euskaltel has carried out the following corporate governance actions:

- Amendment of the Articles of Association in order to (i) make certain modifications to the Articles relating to the Audit and Control Committee and the Appointments and Remuneration Committee to increase the number of members on each Committee from five to seven; and (ii) introduce a new Article 65.a, governing the Strategy Committee, which is a new body created to report to the Board of Directors.
- Amendment of the Board Regulations, adjusting the wording of Article 18.a to the content of the new Articles of Association regarding the Board Committees that must be created by the Board of Directors.
- Amendment of the Regulations governing the Audit and Control Committee and the Regulations governing the Appointments and Remuneration Committee, adjusting the wording of both Regulations to the new composition of the Committees as provided for in the new text added to the Articles of Association, increasing the number of members from five to seven.
- Creation of the Strategy Committee
- Board of Directors self-assessment process: The process consisted of four different parallel sub-processes, each with a manager and their own schedule:
  - o Self-assessment by the Board and the Board Committees as a whole, through the completion of a Good Corporate Governance Survey by each of the directors.
  - o Evaluation of the Board positions (Chair, CEO and Secretary), through individual meetings between the Chair of the Appointments and Remuneration Committee and each of the directors (executive, proprietary and independent).
  - o Evaluation, on an individual and aggregate basis, of the independent directors through individual meetings between the Chair of the Appointments and Remuneration Committee and each of the directors (executive, proprietary and independent).
  - o Specific self-assessment of the Audit and Control Committee by the members of that Committee through the completion of a specific self-assessment survey based on Technical Guideline 3/2017 of the National Stock Market Commission regarding Audit Committees at Entities of Public Interest.

### b) Changes in the Board of Directors

During 2017, the following changes occurred in the Company's Board of Directors. These changes were formally adopted at Euskaltel's ordinary general shareholders' meeting held, on first call, on 26 June 2017.

- The proprietary Director Mr. Alfonso Basagoiti Zavala left the Board due to the expiration of his term.

- Appointment of Mr. Luis Ramón Arrieta Durana and Mr. Robert Samuelson as new proprietary Directors of the Company.
- Appointment of Mr. Jon James as a new independent director of the Company.

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

As a result of the entry into the shareholder composition of Euskaltel by the UK company Zegona Limited, as a result of Euskaltel's acquisition of Telecable de Asturias, S.A.U. from that company, the following changes have been made in terms of the Board Committees:

- Creation of a Strategy Committee as a new Board Committee in accordance with Article 65.a of the Articles of Association and Article 18 of the Board of Directors Regulations.
- The Board Committees now have seven external directors.
- Each Board Committee has one proprietary director for each shareholder.

The criteria for selecting the members of the Board Committees, fully respecting the rules and recommendations of good corporate governance, were as follows:

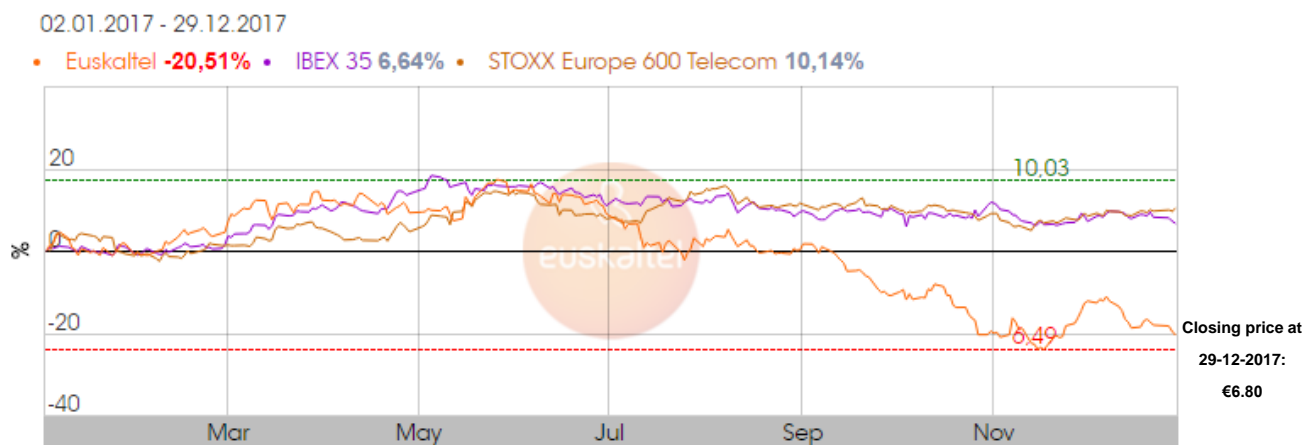
- Committees will be chaired by an independent director.
- Appointments to the Chair of Committees will be based on past experience in the area for which the Committee is responsible.
- A majority of independent directors will sit on each Committee, which means there will be 4 independent directors on each one.
- Each Board Committee will have one proprietary director for each shareholder of reference.
- There will be a Vice-Chair and Coordinating Independent Director on each Committee.
- The Independent Directors will be distributed based on their profile of experience and knowledge.
- Optimisation of gender diversity on each Committee, ensuring that the number of female directors represents, to the extent possible, at least 30% of the total number of members on each Committee, in application of Recommendation 14 of the Code of Good Governance for Listed Companies issued by the CNMV.
- Continuity of the current members of existing Committees.

d) Significant event filings

During 2017, 33 significant events filings were made, reporting the following: quarterly earnings, operations performed under the liquidity contract, the acquisition of Telecable de Asturias, S.A.U., the call to and the results of the ordinary general shareholders' meeting, director appointments and the payment of an interim dividend on account of 2017 profits.

## 17.- Share price evolution

### Share price evolution



Euskaltel shares have decreased in value in 2017 by -20.51%, compared to the IBEX 35 stock market index and the STOXX sector benchmark index Europe 600 Telecom for the same period, +6.64% and +10.14%, respectively.

In terms of six-monthly evolution, in the first half of 2017, the value of shares increased +8.92% whilst in the second half, the value fell by -26.11%.

### Trading volume

<u>Period (2 JAN/29 DEC)</u>	<u>Share volume</u>	<u>Daily average</u>
Standard trading	88,938,839	348,780
Block trading	30,319,725	118,901
	<b>119,258,564</b>	<b>467,681</b>

## 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 26 October 2017, the Company's Board of Directors agreed to pay an interim dividend against 2017 results for a gross amount of 12.7 cents (Euros 0.127) per share outstanding with dividend rights (which amounts to a maximum dividend of Euros 22.7 million). This interim dividend, totalling Euros 22.7 million, was paid to shareholders on 1 February 2018.

In conclusion, we consider that the expectation of improved operations as a result of the merger between Euskaltel, R and Telecable will reinforce our capacity to create value for our shareholders, based on the growth of our revenue, taking advantage of the efficiencies allowed by the new size of our business group, the consistent capacity to generate cash and disciplined and prudent financial management.

## **19.- Acquisition of own shares**

At 31 December 2017 we held 265,331 own shares. During the year a total of 4,489,370 shares were acquired, and 4,386,072 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: Net income + depreciation and amortisation +/- impairment
- Adjusted EBITDA: EBITDA + other results (see note 13.4) (removing the impact of non-recurring expenses).
- Operating cash flow: EBITDA - Investments
- Conversion rate: Operating cash flow / EBITDA
- Adjusted operating cash flow: Adjusted EBITDA - Investments
- Adjusted conversion rate: Adjusted operating cash flow / adjusted EBITDA
- Investments: Additions of intangible assets and property, plant and equipment
- NFD (Net Financial Debt): nominal values payable on bank borrowings and other loans - liquid funds available at financial entities (cash and cash equivalents)

## **21.- Annual Corporate Governance Report**

The 2017 Annual Corporate Governance Report, which forms part of the consolidated directors' report, was approved by the Board of Directors of Euskaltel, S.A. on 27 February 2018 and is available on the Company's website ([www.euskaltel.com](http://www.euskaltel.com)) and that of the Spanish National Securities Market Commission ([www.cnmv.es](http://www.cnmv.es)).

## **22.- Non-financial information**

Non-financial information is presented as an Appendix to this Management Report, which has been prepared on the basis of internationally recognised standards.

# Leaders in customer service and commitment

Corporate Responsibility  
Report  
2017







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# Letter from the Chairman and the CEO

The acquisition of Telecable in 2017 culminated the great expansion of cable in the north. Euskaltel, R and Telecable are all leaders in their respective markets, and the combination of all three makes us leaders in northern Spain.

# 4

core  
pillars



Diversified  
growth



Operational  
excellence



Unique  
experience



Customer value  
protection

Since the Euskaltel Group went public in 2015, we have faced a number of major challenges. In confronting them, we have successfully fulfilled our commitments to our shareholders. 2017 has been a year of growth and significant progress towards our strategic objectives, strengthening our position as the leading telecommunications group in the north of Spain. We have strengthened our position as the leading telecommunications group in northern Spain.

Thanks to the full integration of R and our acquisition of Telecable, the Euskaltel Group continues to grow and make its business stronger, offering increasingly innovative products and services on a par with the best in the industry. Our increasingly innovative products and services are on a par with the best in the industry.

In 2017, we reached a record high in the number of products purchased by our customers, resulting in strong cash generation. This has enabled us to pay out the announced dividends and maintain our financial leverage within the set targets, with solid performance in terms of cash flow. And we have not lost sight of our priority to create value for all our stakeholders and to promote the development of technology in the Basque Country, Galicia and Asturias.

As regards strategy, we have designed and implemented a new Strategic Plan for 2017–2019 based on four core pillars: operational excellence, promoting a unique experience for our customers, maintaining diversified growth, and protecting customer value. In pursuance of this strategy, in 2017 we strengthened our organisational and corporate governance structure by establishing a new Strategy Committee, increasing the number of members of the Board of Directors from 10 to 12, and creating the new roles of CRO (Chief Risk Officer), CISO (Chief Information Security Officer), Compliance Officer and Data Protection Delegate.

In pursuance of this strategy, in 2017 we strengthened our organisational and corporate governance structure by establishing a new Strategy Committee, increasing the number of members of the Board of Directors from 10 to 12, and creating the new roles of CRO, CISO, Compliance Officer and Data Protection Delegate.

2017 was also the year in which we worked on our new Code of Ethics and Anti-Corruption Policy, both of which were approved in December. These standards strengthen our culture and our way of doing business, bringing us into line with the best practices in the market.



**In just over two years we have completed three major challenges: our IPO, creating the leading telecommunications group in northern Spain, and designing and implementing a consistent policy for shareholder remuneration via dividends.**



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**ALBERTO GARCÍA ERAUZKIN**  
Chairman

# euskaltel



**777,000**

**customers**

residential and business



**Pooling the capabilities of Euskaltel, R and Telecable will significantly increase the Group's growth potential, enabling us to continue leading the digital development of Basque, Galician and Asturian societies.**



**FRANCISCO ARTECHE**  
CEO



In 2017, we passed the mark of 777,000 residential and business customers, while improving user satisfaction and perception of the services we offer. In the coming years, we aim to maintain our leadership in the residential segment, providing a unique experience in services such as TV, wi-fi and Digital Home. In the business segment, we have major clients who have been with us for years because we provide a high quality service and continuously adapt our products to their needs, big data services, the Internet of Things, Cybersecurity, etc.

None of this would have been possible if we didn't have the very best professionals a company can have and the hard work of our people. With the incorporation of Telecable, we share not only a firm commitment to a common goal, but also the values that make us an outstanding team: proximity, honesty, innovation and efficiency. As part of our corporate plans, in 2017 we conducted a work climate survey spanning the three Group companies for the first time. The feedback will help us make the Euskaltel Group the best possible place to work at. We are also strongly committed to job creation in local communities, particularly for young people. Our new TalenTU2019 programme serves this purpose by stimulating young talent recruitment and supporting leadership and professional development.

Also, as part of our commitment to our stakeholders, in 2017 we continued to implement our CSR Plan for 2016–2018, with actions to generate stronger economic, social and environmental value, and to enhance transparency in an increasingly diverse company. The CSR Plan also takes forward our commitment to the United Nations Global Compact, which we are signatories of, and to its Sustainable Development Goals (SDGs). The plan makes a significant contribution to ODS 9 by supporting innovation and to ODS 8 through our efforts to create quality jobs in the regions where we operate. We can therefore conclude that 2017 has been extremely positive in terms of revenue growth, cost optimisation, efficient use of resources, and market share. This



**In less than three years  
our key business figures  
have more than doubled:  
revenues, Ebitda and  
cashflow. This is proof of  
the Group's financial and  
operational robustness  
in a strongly competitive  
industry.**



**FRANCISCO ARTECHE**  
CEO

proves that our successful Group plan is preparing the way for our expansion into other regions.

Our achievements of 2017 would not have been possible without the trust of our shareholders, the loyalty of our customers, and the hard work of our employees. In 2018, we will strive to remain worthy of their trust while contributing to the social and economic development of the markets where we operate. This is the defining trait that sets us apart from other telecommunications operators, and the basis of the Euskaltel Group's success.

**Alberto García Erauzkin**  
Chairman

**Francisco Arteché**  
Chief Executive Officer

# Leaders in northern Spain

Euskaltel is the leading telecommunications group in northern Spain, with a deep-rooted commitment to the Basque Country, Galicia and Asturias.

## Euskaltel Group in 2017

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### CURRENTLY COVERED BY THE GROUP

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**777.000**  
residential and business  
customers

**6.000.000**  
people

The Euskaltel Group's growth in recent years has been linked to our IPO of July 2015, the integration of the Galician operator R in 2016, and later the Asturian operator Telecable in July 2017.

The Euskaltel Group provides services to a market of 6 million people – the population of a country like Denmark – serving over 777.000 residential customers and companies.

The Group employs 705 professionals from the telecommunications industry, with an average age of approximately 44, and we generate more than 4,200 indirect jobs in the Basque Country, Galicia and Asturias.

Our impact on the community enables greater economic, social and technological development in the Basque Country, Galicia and Asturias.




## Main figures



**622.2**  
income M€



**0.36**  
€/share



**+777k**  
customers



**68%**  
of customer  
households purchase  
more than 3 products



**+14M€**  
investment  
in r+d



**705**  
employees



**25,596**  
training hours



**98**  
partnerships  
with community  
organisations

## Gaining scale – integrating R and Telecable in the Euskaltel Group

The Euskaltel Group continues to grow, bringing new companies on board to form a Group with shared values that is diverse but united. In 2017, we made significant progress in the integration of R, particularly in terms of financial reporting, IT systems and arrangements with suppliers. We are also in the process of developing common policies and standardising procedures to enable the integration of Telecable and the functioning of the three operators as a single one.

In 2017, the Group approved its Strategic Plan for 2017-2019, which focuses on increasing customer loyalty and improving customer satisfaction. This plan, which is based on four pillars, will be implemented across the organisation through more than 30 projects. Additionally, the plan strengthens the Group's five key success areas: remaining leaders in the residential market, growing in the corporate market, building a network that is ready for excellence, digitalising the Group, and continuing to expand to new markets and regions.



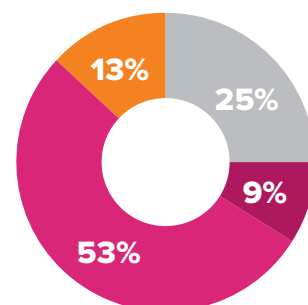
## Synergies – a positive impact on results

The integration plan also identifies numerous synergies, mainly relating to TV platforms, data processing and mobile telephony, which will be implemented over the coming years. The integration of the three operators has strengthened the Group's growth in terms of revenues, total

customers and financial results. Cultural synergies have also been identified in the ability to maintain a common, consistent, properly conveyed corporate culture. The Group communicates its culture to its stakeholders chiefly by upholding values such as honesty and proximity.

**Synergies valued at**

**24,7 M€\***



**We are applying discipline and rigour to the integration, an ambitious and exacting process.**

- Operating costs
- Revenue
- Sales costs
- Capex (investments)

\* Refers to synergies already made without incorporating Telecable.

### VERY POSITIVE BOTTOM LINE

**+9,4%**  
EBITDA

▼  
We are pushing forward with the integration, with good business results and improved EBITDA.

**+8,6%**  
income

▼  
In 2017, EBITDA grew by 9.4% compared with 2016, driven by higher revenue (8.6%) and strong management of direct costs.

**103,5 M€**  
cash flow

▼  
Cash flow generated in 2017, after debt service, stood at Euros 103.5 million, allowing us to distribute dividends to shareholders.

**-3,4 M€**  
capex

▼  
Synergies at EBITDA level are valued at Euros 21.3 million. Along with Capex savings of Euros 3.4 million, this totals Euros 24.7 million, distributed as shown in the chart above.

# Key success factors

The Euskaltel Group has consistent values and culture across the organisation. We are firmly rooted in the regions where we operate and we provide alternatives and convergent solutions which allow us to continue to grow. The results we have achieved would not have been possible without the following combination of key elements:

- Shareholder commitment
- A solid customer base
- Excellent and committed professionals
- Recognised brands with a strong local presence in the Basque Country, Galicia and Asturias.
- The largest proprietary fibre optic network in its market.
- Business models that complement one another.
- Convergent optic fibre and telecommunications services (broadband, mobile and landline telephone, and pay TV).
- Higher growth and cash flow conversion rates compared to similar European companies in the same industry.
- Closer, friendlier customer management and sensitivity to local issues.

## KEYS ASPECTS OF OUR BUSINESS MODEL

In 2017, the Group focused its efforts on the objectives of its Strategic Plan. The following capitals have been key in developing and implementing the Plan.



The Code of Ethics and Ethics Channel have been unified and updated, and new policies have been laid down for the Euskaltel Group, including a Corruption Prevention Policy and a Corporate Tax Policy.

In the area of Corporate Governance in 2017, the positions of Compliance Officer, Data Protection Delegate and Cybersecurity Manager were creat-

ed, to ensure a culture of regulatory compliance, risk reduction, and proper conduct is maintained and promoted throughout the Group. A Strategy Committee was also created, and the number of members of Board of Directors increased from 10 to 12.

The year 2017 was extremely productive in the development of different products and services.

## EUSKALTEL GROUP MILESTONES



The ambitious goals for organic and inorganic growth have been met in record time since the IPO.



The Group has become a multi-regional platform with a strong commitment and deep roots in its main markets, fully prepared to grow and enter new regions.



A clear, comprehensive Strategic Plan focused on generating sustainable value for all stakeholders has been established, which has earned full commitment from the entire organisation.

## A Sustainable Strategy

The Group's expansion strategy for the coming years focuses on two areas, as set out in the Strategic Plan:

- In the natural markets where it already operates, i.e. the Basque Country, Galicia and Asturias, the Group expects to take its fibre network to 80,000 new homes and 6,200 new businesses by further deploying our own FTTH network.
- The expansion to regions and provinces adjoining the Group's markets will begin in 2018 starting with Navarre.

The expansion process will be guided by the core values of the Euskaltel Group, which are based on maintaining strong links with the regions where we operate. This undertaking is reflected in the Group's Corporate Social Responsibility (CSR) Policy as approved in 2016 by the Euskaltel Group's Board of Directors. Aiming to create value for our stakeholders while uphold-

ing our mission and vision, the Group's CSR Policy also reflects our commitment to transparency, excellent management, proper corporate governance, respect for Human Rights, gender equality, equal opportunities, supplier alignment with CSR policies, and responsible contribution to the taxation system.

The CSR Policy provided a framework for the CSR Master Plan (2016–2018), which is consistent with the Sustainable Development Goals and therefore with the United Nations Agenda 2030. In 2017, the Group implemented the different strategy lines contained in the Plan. This has enabled measuring and managing the company's performance in environmental, social and financial terms.

The CSR Master Plan also supports and strengthens the pillars and lines of action set out in the Euskaltel Group's Strategic Plan, which go beyond the production of profit.

### PILLARS AND ACTION LINES OF THE EUSKATEL GROUP'S STRATEGIC PLAN

Report chapter		Organisational & cultural capital ①	Human capital ②	Customer capital ③	Natural capital ④	Relationships capital ⑤	Intellectual capital ⑥
Diversified growth		◆				◆	◆
Operational excellence		◆	◆		◆		◆
Unique experience				◆			◆
Customer value protection				◆			◆

▲  
**Strategy pillars**

# 1

## Pillars of the Euskaltel Group's strategy



Diversified growth



Operational excellence



Unique experience



Customer value protection

# Organisational and Cultural Capital

The Euskaltel Group's Organizational and Cultural Capital is a core pillar supporting the strategy and diversified growth, which focuses on pursuing excellence and competitiveness in a strongly competitive market.

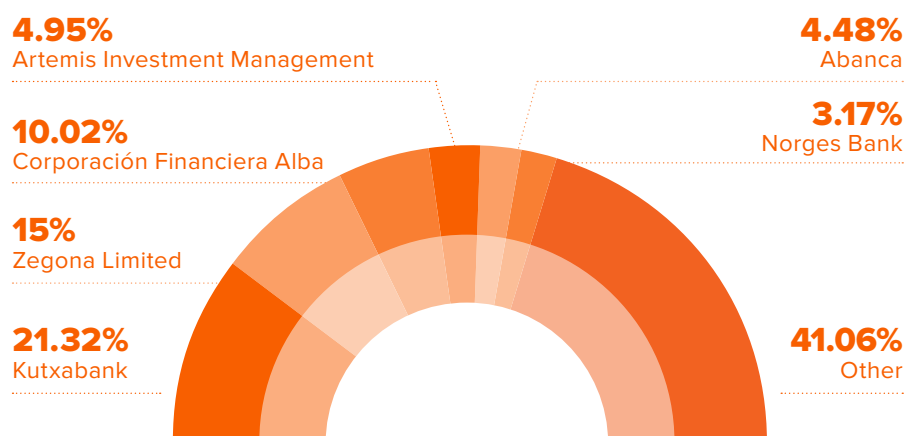
Strengthening our organisational structure promotes operational excellence, contributes to an efficient, streamlined organisation, drives talent development and supports the digitalisation of operations.

# Contributing to build and spread a strong, responsible business culture

We aim to open up new paths to growth and reach new markets, promoting the spread of a responsible business culture and management models in the regions where the Group operates.

## Driving growth

### Shareholders of the Euskaltel Group\*



\*At 21 December 2017 according to the CNMV.



**Make-up of the Board of Directors**

**12**

**Directors**

**2** Executive Directors (Chairman & CEO)

**4** Proprietary Directors

**6** Independent Directors

## A diversified shareholder structure and specialised governing bodies

The Euskaltel Group comprises the parent company Euskaltel, S.A., along with R Cable y Telecomunicaciones Galicia, S.A. (100%), CINFO Contenidos Informativos Personalizados, S.L. (67.20%) and, since July 2017, by Telecable (100%), made up of Parselaya, Telecable Capital Holding, S.A.U. and Telecable de Asturias, S.A.U.

Euskaltel's Board of Directors has 12 members: two executive directors, four proprietary directors and six independent directors. To strengthen its Corporate Governance, the Board of Directors has established three Advisory Committees within it, each with its own internal regulations: Audit and Control

Committee, Appointments and Remuneration Committee, and Strategy Committee. Each one of the three committees has seven members, with a majority of independent directors and chaired by an independent director, as recommended by the Code of Good Governance. The Board of Directors' remuneration is established in accordance with the prevailing Directors' Remuneration Policy, which has been approved by the General Shareholders' Meeting, under the supervision of the Appointments and Remunerations Committee. This remuneration is recorded in the Annual Report on Directors' Compensation, which is published by the Group.

## An organisational structure geared to excellence and competitiveness



### New Strategy Committee

A Strategy Committee has been established as a consultative and informative body devoid of executive powers. Its role will be to inform, advise and put forward proposals within its remit, and its action guidelines are laid down in the Strategy Committee's Regulations.

As part of the process of strengthening our position as a telecommunications group operating in the Basque Country, Galicia and Asturias, the Euskaltel Group has an organisational structure geared to deliver excellence and competitiveness in its three key markets. Euskaltel, R and Telecable are adapting their structures to drive further growth, shore up their customer focus, develop communications solutions for corporate and individual customers, and maximise synergies, thereby boosting the Group's results while preserving the deep-rooted commitments and autonomy of our business units in the Basque Country, Galicia and Asturias.

The following changes were made to the Group's organisational structure in 2017:

#### A stronger Board of Directors

The General Shareholders' Meeting increased the number of members of the Board of Directors to 12 (2 Executive Directors, 4 Proprietary Directors and

6 Independent Directors), 50% of which are independent directors, following the recommendations of the Code of Good Governance (see Euskaltel Group's Annual Corporate Governance Report).

#### Transverse divisions to ensure growth, efficiency, consistency and flexibility

We have established Group-wide divisions to strengthen our growth in the Basque Country, Galicia and Asturias and maximise operational efficiency. These include Corporate Marketing for businesses and homes, which design and implement communication solutions for companies and individuals, launch new products, and build partnerships with other companies in the sphere of IT, as well as the corporate departments of Finance, Networks and Human Resources. These transversal divisions lead the Group's teams in the Basque Country, Galicia and Asturias, to ensure that decision-making processes are efficient, consistent and flexible.

### Corporate Governance

The Euskaltel Group's firm commitment to its stakeholders springs from its people. Accordingly, we have assigned the following responsibilities in order to strengthen the Group's Corporate Governance System:

✓ We have created the role of **Group Compliance Officer**, reporting to the Secretary General and the Board of Directors, whose mission is to reduce compliance risks, including risks relating to external regulations (criminal law, tax

law, etc.) as well as internal rules (Corporate Governance System, Code of Ethics, etc.), and to promote a culture of ethical behaviour and compliance.

✓ We have created the role of **Chief Information Security Officer (CISO)**, reporting to the IT Director, whose mission is to ensure information security and business continuity, coordinate the design and implementation of security measures both in corporate information systems and in the network that supports

the services provided to customers, and align digital security with the Euskaltel Group's business objectives and strategy.

✓ We have created the role of **Data Protection Manager**.

✓ We have assigned risk management functions (Chief Risk Officer, CRO) to the **Director of Strategy and Corporate Development**.



## Corporate policies based on good governance practices

In the area of corporate governance, the Euskaltel Group's Board of Directors approved a Corporate Tax Policy which includes the Group's commitment to promote good tax practices and support community interests, by avoiding tax-related risks and inefficiencies in the implementation of business decisions.

The Euskaltel Group expressly rejects corruption in all its forms, and is firmly committed to preventing, deterring and detecting any instances of bribery and corruption. The Board of Directors has approved the Group's zero-tolerance Anti-Corruption Policy to promote honesty – a value included in the Group's Code of Ethics – over any form of bribery or corruption.

## Other actions to promote transparency and excellence at Euskaltel

Euskaltel has continued to take steps in line with our firm commitment to good corporate governance and compliance with the Code of Good Governance for Listed Companies. In this context of continuous improvement and commitment to good corporate governance, we have taken the following actions:

- The Board of Directors has carried out a **self-assessment process** comprising four separate sub-processes: (i) self-assessment of the Board of Directors and its Committees, in the form of a corporate governance self-assessment questionnaire based on the Code of Good Governance; (ii) assessment of Board members (Chairman, CEO and Secretary) through one-to-one interviews between the Chairman of the Appointments and Remuneration Committee and the individual Directors; (iii) group and individual assessment of independent Directors, through one-to-one interviews between the Chairman of the Board of Directors and the indi-

vidual Directors; and (iv) separate self-assessment of the Audit and Control Committee, through completion by its members of a self-assessment questionnaire based on Technical Guide 3/2017 of the National Securities Market Commission on Audit Committees of Public Interest Entities.

- We analysed the Group's degree of compliance with good governance practices as compared with the Annual Corporate Governance Report issued by the National Securities Market Commission. The results show that we are above the average for listed companies in areas including Corporate Social Responsibility, General Shareholders' Meetings, and organisation, remuneration, responsibility, structure, make-up and functions of the Board of Directors.
- We carried out an **assessment of the Euskaltel Group's corporate governance** covering seven fields (policies, Board of Directors, advisory committees, remuneration, shareholders' rights, ex-



## The Euskaltel Group's firm commitment to its stakeholders springs from its people

ternal auditors and sustainability), in order to examine the Group's current position as compared with international best practices and similar companies.

- We introduced **new technology** to provide a document repository for use by the Board of Directors.

- We organised an information conference for investors and analysts in Bilbao, **Investor Day**, in which we reported on the Group's business performance to date and presented our new Strategic Plan, an exercise in transparency that helps build a trusting relationship with our partners and shareholders.

## Risk management



### Risk management progress in 2018

Further progress is expected in 2018 in the management of relations with suppliers and customers, internal management procedures, corporate privacy culture, system adaptation, and data retention policy standardisation.

In 2017 the Group reviewed its Risk Management Model. In addition to strategic, operational, compliance and information risks, we identified a fifth risk category relating to cybersecurity, given the key role played by IT systems in Euskaltel's operations. The Euskaltel Group has intensified efforts in the field of risk management, creating new roles and assigning new responsibilities to cover all the risk categories identified in the risk management model: CRO, CISO, Compliance Officer and Data Protection Delegate.

### Compliance Officer

In the field of Compliance, we have introduced mechanisms to identify and manage the Euskaltel Group's map of compliance risks, and to standardise procedures and checks aimed at mitigating such risks. Additionally, the Group's new Compliance Unit has defined, with the Board's approval, the roles and responsibilities of Group Directors and employees in relation to criminal compliance, with a view to making all staff aware of their obligations in fostering a culture of ethics and compliance within the organisation. To provide further reinforcement,

the Board of Directors has appointed a Regulatory Compliance Committee – an internal committee whose members are Group executives.

In the area of cybersecurity, the Group has set, as its foremost objective for 2017 and 2018, to make further progress in the integrated **management of information and network security**. This entails drawing up a cybersecurity risk map, improving incident detection and response, updating the Group's security policy, adopting new security measures, and providing internal training, all with the aim of reducing exposure to cybersecurity risks.

The Group has also designed an action plan for 2017 and 2018, to comply with the EU **General Data Protection Regulation** (RGPD) 2016/679 on the Protection of Individuals with regard to the Processing of Personal Data and the Free Movement of such Data, which will become effective in May 2018. Among other measures, this plan includes an analysis of the Group in terms of data protection, employee training, and the appointment of a Data Protection Officer, which have already been carried out in 2017.

## Good Governance and Ethics Management

Good governance practices are inextricably linked to good business management, in so far as they seek to safeguard the company's legitimate interests, ensuring business sustainability and monitoring performance. With this in mind, in its meeting of 19 December 2017, the Board of Directors of the Euskaltel Group approved an update and extension of the Group's Code of Ethics, Rules of Conduct and Ethical Channel, which establish the principles and standards of behaviour that Group employees and persons acting on behalf of the Group must follow in their internal and external relations during their day-to-day work with stakeholders.

The Code of Ethics sets out the corporate values and principles of the companies that form the Euskaltel Group. The corporate values underpinning the Euskaltel Group are **proximity, honesty, innovation and efficiency**. The Group companies must carry these values to the territories where they operate. These values reaffirm the Euskaltel Group's identity markers, determining the ways in which we operate and understand our framework of relationships with internal and external parties. Upholding these values in day-to-day activities means constant work, relentless effort, and observance of applicable legislation

### The corporate values underpinning the Euskaltel Group



Proximity



Honesty



Innovation



Efficiency



### Basic Principles of our Code of Ethics

1. Compliance with the law, internal regulations and contractual relations
2. Responsibility and professionalism grounded on ethical behaviour
3. Compliance with applicable financial regulations
4. Precedence of the Euskaltel Group's interests over personal interests
5. Responsible communications
6. Data privacy and confidentiality
7. Commitment to Human and Labour Rights

and the regulations included in the Euskaltel Group's Corporate Governance System.

Having earned the trust of our stakeholders (customers, employees, suppliers and partners, government institutions, shareholders and investors, and society at large), the Euskaltel Group undertakes to convey these values and treat all stakeholders with diligence and integrity in corporate relations.

To ensure that the regulatory framework within which the Euskaltel Group operates is duly monitored, the Regulatory Compliance Committee (an internal committee whose members are Group executives), and ultimately the Corporate

Defence Committee, monitors and oversees compliance with the Code of Ethics and the rules of the Corporate Governance System, resolving any communications, incidents and/or queries regarding the interpretation of regulations, and implementing measures for effective compliance.

The Group's Ethical Channel, which helps identify potentially unethical behaviour, provides information, answers queries and reports activities potentially constituting an infringement of the Code of Ethics, while guaranteeing confidentiality in all matters it deals with. The previously mentioned Regulatory Compliance Committee helps deal with the information received through the Ethical Channel.

## CSR management

As a guiding reference among value-driven, socially responsible, community-integrated companies committed to social welfare and development, the Euskaltel Group has a CSR Plan in place that covers material aspects of interest to our main stakeholders, aspects examined by the main sustainability indexes, and good practices in the industry, among other matters.

The model used to monitor the CSR Plan is implemented through the CSR Process team, comprising representatives from the departments with responsibilities in areas pertaining to CSR.

The Euskaltel Group is firmly committed to upholding ethics and transparency in its relations with

its stakeholders, issuing accurate and complete information that reflects the Company's sustainable commitment, a cornerstone of its business strategy, activities and its corporate reputation. To this end, we have established a model of relationships and communication with key groups, as well as a reporting and monitoring model for our CSR Plan. This Corporate Responsibility Report is an essential instrument in the communication of the Group's performance and progress in the area of CSR.

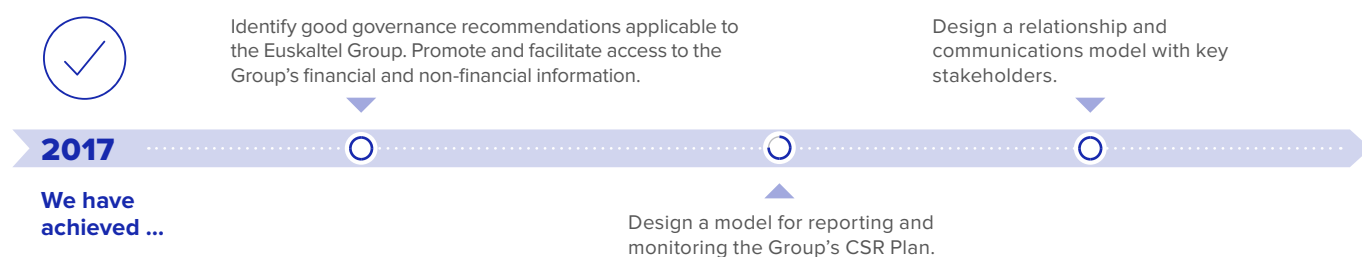
### Contribution to Sustainable Development Goals (SDGs)

Aware of the huge economic, social and environmental challenges facing humanity, the

### The CSR Plan covers the following areas



### Commitments fulfilled in 2017



#### Degree of fulfilment of our commitments

○ Completed    ○ Advanced    ○ Under way    ○ Beginning implementation

Euskaltel Group contributes to attaining the UN's Sustainable Development Goals (SDGs) by means of its business activities and projects undertaken in the different territories where it operates.

SDGs provide businesses with an opportunity to develop and implement solutions and technologies which enable addressing the chief global sustainable development challenges.

In recent years, we have gained profound insight into SDGs, which has been incorporated into our corporate culture and passed on to our employees through internal campaigns. In 2017 we established the Group's priority SDGs following an assessment of their positive impact on the local communities.

These are clearly identified as SDG 8, Decent Work and Economic Growth, and SDG 9, Industry, Innovation and Infrastructure. Both these objectives are fully aligned with the Group's activities, our keys to success, our business strategy and our corporate values. The Group also contributes to the rest of the SDGs through programmes developed in partnership with other companies and institutions.

The Group's senior management has also been instrumental in supporting these activities and integrating the SDGs into our overall strategy.

For the next financial year, the Euskaltel Group pledges to set itself concrete targets measurable with specific indicators, to fully align the company's objectives with the SDGs.

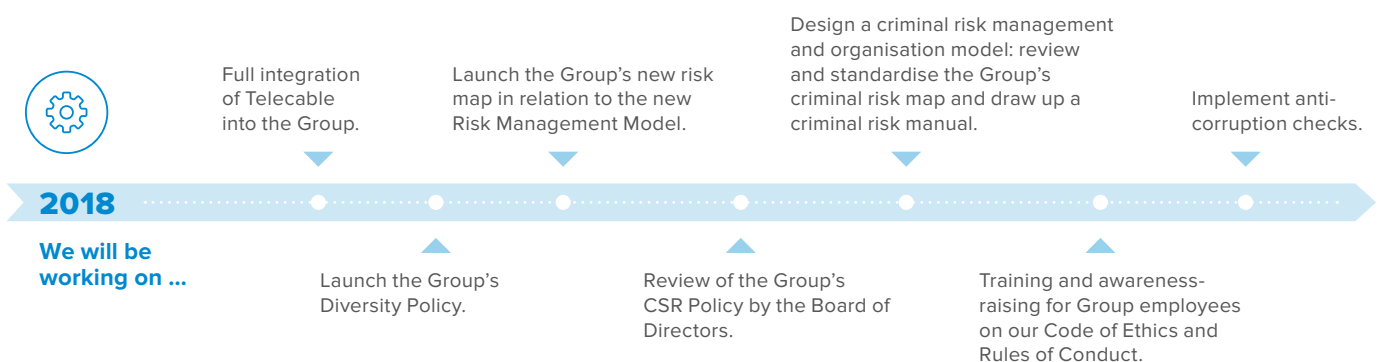
This will enable us to identify future business opportunities, enhance the value of corporate sustainability, strengthen our ties with our stakeholders, keep abreast of policy development, stabilise companies and markets, and use a common language with a shared purpose.



## The Euskaltel Group has a firm commitment to our stakeholders based on ethics and transparency

In 2018, we will continue to promote our commitment to the economic, environmental and social development of our communities, sharing the corporate values and culture that make us a unique telecommunications operator, generating value for our shareholders and communicating the impact and performance achieved.

### Commitments for 2018



# 2

## Pillars of the Euskaltel Group strategy



Diversified growth



Operational excellence



Unique experience



Customer value protection



## Human capital

The Group's Human Capital is a strategic pillar for operational excellence. A streamlined structure, building efficient processes, digitalised operations, and talent management, are all crucial for meeting the objectives of our Strategic Plan for 2017–2019.

# Contributing to local employment

We aim to support personal and professional growth in a good working environment, so that our human capital is qualified and motivated.

In 2017, the Euskaltel Group made outstanding progress in the policies, programmes and projects that are undertaken for the benefit of our employees. We have identified the most salient aspects needing improvement in terms of skills, professional development and well-being. These are all areas which the division of Human Resources works to enhance.

The people who make up the Euskaltel Group are part of a team that is increasingly diverse, efficient and streamlined, while preserving the local, deep-rooted focus that identifies our three businesses in the Basque Country, Galicia and Asturias. The Company's employees are a core value in the fulfilment of the Stra-

tegic Plan launched in 2017, which promotes operational excellence with the aim of becoming the best option for customers. The operational excellence pillar is materialised through three lines of action: an efficient, streamlined process structure, digitalised operations, and talent management.

Based on the Euskaltel Group's defining culture, which has an impact on the local communities, Human Resources has developed and implemented programmes to create value in the communities through training and promoting digital skills, supporting leadership, favouring work-life balance and flexibility, encouraging talent and fostering local employment.

## A streamlined, efficient process management structure

The integration of R and Telecable into Euskaltel is enabling the Group to increase its workforce and to support local development more vigorously. This requires the Company's structure to be consistent in its culture and to follow the same values and objectives.

### **The Euskaltel Group and local employment**

The Euskaltel Group's employees are 42% women and 58% men, with an average age of 44. They make up a team of 705 people with stable jobs. Of total staff, 97,3% enjoy the security of a

permanent employment contract. The stability and continuity of our team of outstanding professionals is an absolute priority for our human resources policy. We therefore offer employees flexible employment conditions that enable a balance between work and life.

We are also proud to have generated more than 4,200 indirect jobs in the Basque Country, Galicia and Asturias, through suppliers and strategic value-creating partnerships with other companies in the industry.



# 705

**total staff**



**97.3%**  
staff with a  
permanent  
contract



**15 years**  
average length  
of service



**6%**  
employee  
turnover

**42%**  
women



**58%**  
men

The Group's current structure is based on the establishment of corporate divisions that deal with matters affecting the entire Company. Nevertheless, the business divisions of the three different brands (Euskaltel, R and Teleca-ble) still exist and maintain their identity, focusing on direct contact with the local community, their needs and expectations.

This structure aims to create increasingly efficient processes, exploiting synergies between the three brands while preserving their individual identities.

On 13 October 2017, the Group signed an agreement relating to R's First Collective Bargaining Agreement for implementation of the Group's people policy, with the agreement of the employee's legal representatives.

### Corporate values

A study of the Euskaltel Group and the values that underpin its corporate culture and leadership model was carried out in 2017. These values embody the spirits of the three converging brands, which share personal links with their

customers and the capacity to motivate people and teams.

The Group's values are linked to a number of corporate guidelines which employees of all categories must follow. These guidelines require employees to ensure their relationships with all stakeholders are marked by honesty and proximity. Innovation and efficiency are also values that we strongly identify with.

Upholding these values in day-to-day activities entails constant work, simple habits, relentless effort, and observance of applicable legislation and the regulations included in the Euskaltel Group's Corporate Governance System (policies, manuals and internal protocols which the Group is voluntarily subject to).

### Active listening

With the aim of listening to our employees' voices and stimulating two-way discussion, the Group carried out a company climate survey this year of all employees. The questionnaire had a high response rate (around 80%). The areas evaluated included employee satisfaction with daily planning, managers' leadership, training, working atmosphere, team work, openness to change, digitalisation, internally-provided information, and pride of belonging.

Based on the feedback received, the Group will continue to promote and strengthen various initiatives contributing to make the Euskaltel Group a better place to work.

### Euskaltel Group values



Proximity



Honesty



Innovation



Efficiency

# Diversity and equality

In 2017, the Euskaltel Group continued to conduct programmes to promote equal opportunities and diversity in the workforce, across all categories within the Company.

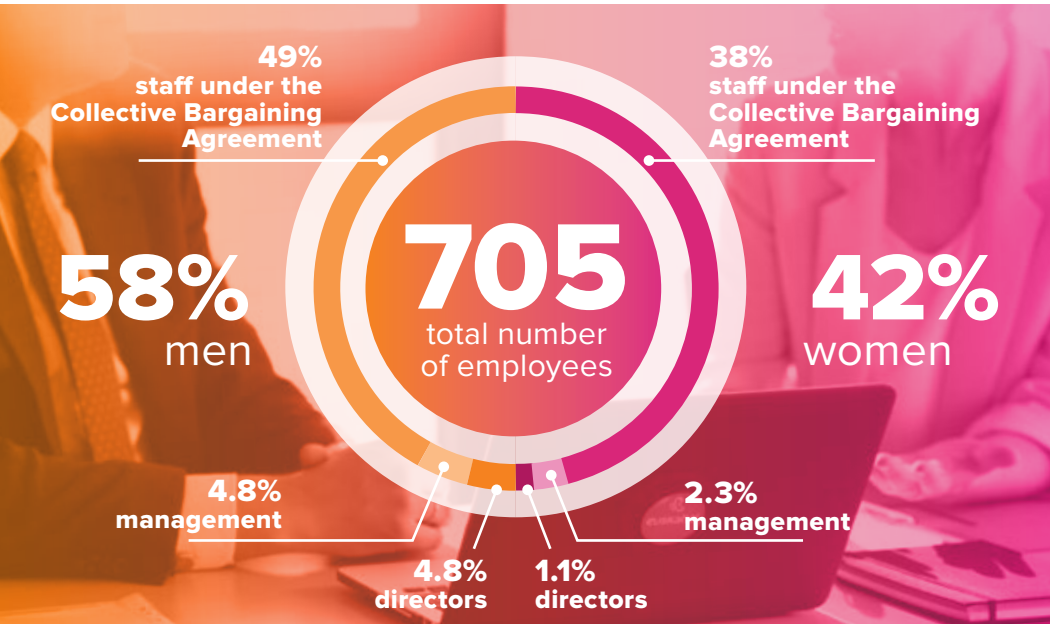
Our workforce is 50% women and 50% men. They all work in an environment that is firmly committed to equality and which supports initiatives for a flexible work-life balance for both men and women. We also started working in 2017 on the Group's Equality Plan, which will lay down the main steps to be taken to foster and protect an inclusive, respectful and diverse work environment.

The Group manages its human resources in due respect of human rights, equal opportunities,

freedom of association and the right to collective bargaining. We reject any form of discrimination, striving within our area of influence to eliminate all forms of forced and compulsory labour, especially child labour.

Therefore, in 2017 Euskaltel's, R's and Telecable's Codes of Ethics were merged into the Euskaltel Group's Code of Ethics, which includes commitments relating to support and respect for the protection of fundamental human rights, particularly equitable selection and recruitment of new employees; occupational health, safety and risk prevention; ensuring respectful treatment and non-discrimination prevails in our work environment; favouring a work-life balance; equal opportunities, and a harassment-free workplace.

## Employees by position and gender





# Digitalisation and digital transformation in operations

The Group is fully aware that digital transformation brings people to the fore, making talent management a competitive advantage. We firmly believe that successful digitalisation can only be achieved if the entire workforce become involved and share the same vision. A number of initiatives were taken in 2017 aimed at driving cultural change towards digitalisation. These actions covered processes, interaction, information and, above all, people.

## Digital revolution

The digital revolution has changed the way we work and our relationships with stakeholders, making them closer, more interactive, more instantaneous and more efficient. Becoming a

smart, fully digitalised operator, as seen both from the inside and from the outside, requires involving the entire Group's workforce and transforming our business models.

2017 has been crucial in driving a new digital culture in the Euskaltel Group, supporting the necessary training and leading employees to learn about and embrace new market trends.

The keys to the Euskaltel Group's success in the industry will be the sound organisation of our workforce, adopting a standard corporate culture across the Group, training our employees, encouraging cooperation, utilising digital technology and embracing cultural change.

**The digitalisation process will lay the groundwork for numerous programmes, connected with our strategic goals, aimed at leading cultural change**



### Keys to cultural change

- ✓ Training qualified professionals able to lead and promote change.
- ✓ Promoting a corporate culture that identifies the Group
- ✓ Working towards an efficient, flexible organisation which can adapt to change and is fully business-oriented.
- ✓ Digitalising processes, roles and functions, to operate more efficiently.

# Talent management and support

The Euskaltel Group's Strategic Plan focuses on talent management as a key instrument to design and implement a unique, attractive business. This has produced programmes such as TalenTU and leadership programs.

We also have partnerships with universities and schools in the Basque Country, Galicia and Asturias, to help young people develop their digital talent with a view to finding employment.

## Professional development

The Euskaltel Group's Strategic Plan views employees' professional development within the Company as key to strengthening our leadership position in northern Spain.

TalenTU2019, a programme launched in 2017, strongly stresses the need to recognise employees' talent individually, providing clear prospects for growth and enhancing their motivation. The programme encompasses several projects relating to leadership, career paths and attracting young talent.

The Euskaltel Group provides training plans for all employees, and invests in skills-enhancement activities to drive their professional development. Training programmes are adapted to individual profiles, and focus on the aspects that are most relevant for each category.

In 2017, 25,596 hours of training were delivered, as well as other periodic communications and training activities. We worked to

improve technical qualifications across the Group, providing joint training by pooling resources, know-how and best practices from all three businesses. We also streamlined processes that are essential for employees' professional development, and identified key people in the Company with a high potential for being included in specific training programmes focusing on operational excellence.

### Professional development plans

We updated the Group's assessment model to include individual yearly goals. Special importance was given to pinpointing the required qualities for the different employee categories, according to their position within the organisational structure and the division in which they work (corporate or business).

Thus, a half-yearly assessment is already in place, and self-assessment will also be introduced. Goals and skills in the areas of leadership and digital culture will be set in 2018.



**25,596**  
training  
hours



**36.3**  
average  
annual  
training  
hours per  
professional

## Leadership



### Leadership skills

1. Personal consistency
2. The ability to motivate teams and individuals and to enhance their competencies
3. Executive capability
4. Strategic vision
5. Capacity to drive change

The Group's transformation requires a leadership that can act consistently with corporate values and provide example and motivation to the rest of the organisation.

TalenTU therefore includes Leader 2019, a project geared to promoting a Leadership Model in which career paths are designed to enhance the leadership skills of individuals with the best potential within the Group in top and middle management.

Leaders have a key role to play in the Strategic Plan's success and in the birth of a new corporate group. Five skills have been identified that Euskaltel Group leaders are required to have: personal consistency, the ability to motivate teams and individuals and to enhance their competencies, executive capability, strategic vision, and the capacity to drive change.

On December 2017, the Group's new Leadership Development Plan and Model was presented in the Basque Country, Galicia and Asturias, to the employees with managerial responsibilities within the organisation.

This establishes seven priority actions designed to develop the five leadership skills listed above. These priorities focus on stimulating learning and discussion through initiatives including a Leader-Coach Skills programme, a Leadership for Innovation programme and an Internal Mentoring programme.

The Group is convinced that improving leadership skills is an opportunity for enrichment, both for individual employees and for the Company as a whole.

## Young Talent

48

students that did internships at the Euskaltel Group

Identifying and supporting talented young local people in the Basque Country, Galicia and Asturias is essential for the Euskaltel Group. In partnership with universities in northern Spain, we help young people develop their digital and technology skills with joint projects that provide education and work experience through internships and training initiatives. We also hold talks on career choices and on the use of new technologies.

The Group has educational partnership agreements with universities in the Basque Country,

Galicia and Asturias, and with a number of technology-focused vocational training schools. In addition with improving their skills, these partnerships help young people find employment. During 2017, 48 interns worked with the Group, primarily telecommunications engineering students and students from web and multi-platform design higher learning schools.

In addition, these partnerships allow students to visit the Company as part of our ongoing contact with universities and other educational institutions.

# Occupational health, safety and well-being

The Euskaltel Group operates in a way that helps its employees grow personally and professionally in a healthy work environment. We aim to have a qualified, motivated human capital.

In line with this approach, we have adopted the WHO's (World Health Organisation) Healthy Company model, based on the Group's occupational safety and prevention policies. We devoted significant efforts in 2017 to putting this model into practice through processes promoting health in the workplace, as this has a positive effect on employees' well-being and, ultimately, on society at large.

The Healthy Company model is being implemented in the Euskaltel Group and its three main businesses, which in 2017 adopted the Luxembourg Declaration for the exchange of good practices in health promotion.

We also introduced a number of new initiatives, such as providing discounts in dental care services for all Group employees and their direct family members.

As a starting point for the Healthy Company model, Euskaltel, S.A. maintains its occupational health and safety management system, cer-

tified under the international standard OHSAS 18001. This system encompasses all activities carried out at our centres and in all phases of the business. The objective is to conduct all activities in line with the occupational health and safety criteria established, thereby avoiding or mitigating risks and fostering a stable and safe workplace. Our occupational health, safety

**We devoted significant efforts in 2017 to putting this model into practice through processes promoting health in the workplace**

and well-being culture is shored up by preventative training designed for each work post, offered as from the day employees first join the Group. In addition, as part of the annual occupational health and safety programme, all Group centres are regularly inspected to ensure that working conditions are healthy and safe.

## Healthy Company

The first step in the process of implementing a Healthy Company model and contributing to improve employees' health is to provide the facilities with the most necessary means for disease prevention and detection.

In 2017, R and Euskaltel improved the health-care resources available to staff in their of-

fices, including blood-pressure meters and thermometers. Telecable installed defibrillator devices in its office buildings, as an example of good OHS practices. All three companies offer employees the option to include tumour markers in their periodic medical examinations, and Euskaltel and Telecable also offer flu vaccines to all their staff.

## WORKPLACE ACCIDENTS



(1) Work days lost for every one thousand hours worked.

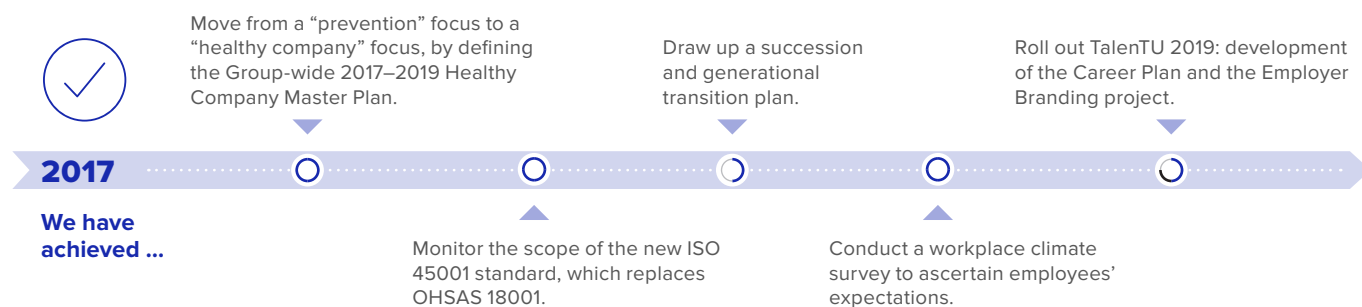
(2) Accidents involving sick leave for every one million hours worked.

## ABSENTEEISM<sup>3</sup>



(3) Absenteeism rates are calculated as the percentage of work hours lost due to common illness relative to total work hours.

## Commitments fulfilled in 2017



### Degree of fulfilment of our commitments

○ Completed    ○ Advanced    ○ Under way    ○ Beginning implementation

**The Euskaltel Group operates in a way that helps its employees grow personally and professionally in a healthy work environment. We aim to have qualified, motivated, healthy human capital.**



## Commitments for 2018



Develop Professional Career Plans.

Develop and publish the Euskaltel Group's Equality Plan.

Achieve OHS system certification for R and Telecable.

**2018**

We will be working on ...

Develop our Leadership Programme.

Develop a mobility framework for the Group's professionals.

Implement the Healthy Company model in all Group companies.



# 3

Pillars of the Euskaltel Group's strategy



Diversified growth



Operational excellence



Unique experience



Customer value protection

## Customer Capital

Customer Capital impacts on the unique experience and the customer value protection pillars.

# Active listening for better customer experience

We aim to offer the very best communication solutions to encourage responsible consumption while continuing to meet our customers' expectations.

One of the key levers of Euskaltel's Strategic Plan is to continue providing a unique customer experience, while working to improve user experience and enhance product customisation, so that our products and services are in line with new needs.

Our Customer Experience programme, which started in 2016, continued in 2017. This is particularly significant given that the market environment remains highly competitive. We have examined the programme's results with a view to addressing the concerns detected in the regions where the Group operates. The Euskaltel Group is still leader in the optical fibre market

in northern Spain following the incorporation of Telecable, enjoying a large client base that includes both local and international businesses and institutions. In 2017 we also broadened our TV services in the Basque Country, Galicia and Asturias. In 2017, the Group reached record highs in mobile telephony, broadband and pay-TV penetration.

This helps to build the unique experience that we want our customers to enjoy, while preserving the local roots of our three businesses and promoting value-generating partnerships. All to make our services the very best.



## 6M

The Euskaltel Group serves a market of six million people

## Customer experience and brand

The Group is an industry leader in the north of Spain. Euskaltel, R and Telecable are leaders in the Basque Country, Galicia and Asturias, respectively, thanks to a solid customer base and business models that complement one another. We are a licensed 4G mobile operator in the

Basque Country and Galicia, and we own the largest fibre optic network in our market.

The Euskaltel Group believes listening makes a real difference and leads to the expectations and needs of our customers being met.



**+777K**  
residential and business  
customers



**68%**  
of customer  
households purchase  
more than 3 products

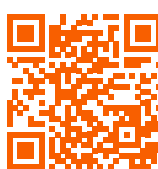
Most of R's and Euskaltel's customers have been with their operator for more than five years. These remain the most popular operators among families with children and young people. Customer loyalty is a major asset for the Group, which is why we make significant efforts to keep our oldest customers by measuring their level of satisfaction. Our services are also used by government institutions. The Euskaltel Group is currently working to estab-

lish mechanisms and procedures to comply with the requirements of the new Spanish public procurement law (Ley de Contratos del Sector Público), which will come into force on 9 March 2018. The Group ensures proper customer management through certifications for business continuity (ISO 22301 at Telecable), services (ISO 20000-1), customer service (UNE-EN 15838), information security (ISO 27001), and product quality (ISO 9001).

**Service  
quality  
indexes**



[https://www.euskaltel.com/CanalOnline/microsites/calidad\\_servicio/index.jsp?idioma=esp](https://www.euskaltel.com/CanalOnline/microsites/calidad_servicio/index.jsp?idioma=esp)



<https://web.telecable.es/calidad-servicio>



[https://legal.mundo-r.com/legal/es/calidad\\_de\\_servicio](https://legal.mundo-r.com/legal/es/calidad_de_servicio)

## Unique customer experience

The Euskaltel Group offers a unique experience by actively listening to our customers and focusing on their needs and concerns. Customer

satisfaction is key to brand loyalty. We therefore offer more than just a service. We provide an experience that creates a bond between the

### Lines of action of our Customer Experience programme

#### Improving and slimming down customer experience

To provide a standard functional experience that meets the customer's initial expectations. This is based on more than 800,000 online surveys that pinpoint each stage of the client's "journey", helping to identify the causes of dissatisfaction in order to establish pain points and action plans to improve the customer's experience.

#### Designing a new customer experience

To create an emotional bond. This involves redesigning user interaction across all channels to establish a different kind of relationship, which will be consistent with the values of the Euskaltel group.



customer and the brand, so that the customer identifies with the corporate values that the Euskaltel Group upholds.

In addition, the brand's recommendation level will be monitored by measuring NPS (Net Promoter Score) through 1200 annual surveys of panellists in the Basque Country and Galicia, to determine the Euskaltel Group's brands' relative position compared with their competitors in their respective markets. Measuring and monitoring customer satisfaction and NPS helps the Euskaltel Group to learn about the results

obtained in a circular continuous improvement process. This process is key for improving end customers' experience, creating closer ties with our markets and determining which reputational risks can directly impact the Company at different levels.

NPS is an extremely powerful tool for product launches, campaigns, service improvement, and day-to-day operations. It helps adapt processes and guide efforts towards the Company's strategic objectives, by integrating feedback into the decision-making process.

## Customer Experience programme

One of the main pillars of the Euskaltel Group's strategy is to provide the best customer experience and remain leaders in the residential market. The Customer Experience programme plays a key role in this respect. It is part of the Group's DNA and the chief source of information on consumer needs.

The Customer Experience programme is based on the corporate values of honesty, proximity, innovation and efficiency, and aims to eliminate customer dissatisfaction and move towards a new digital design. To this end, 77 professionals are currently working in 20 task groups to identify the top ten key moments in the Euskaltel Group's relationship with the consumer, with a view to improving user experience.

All feedback obtained through customer satisfaction surveys, the reasons for rotation, brand image studies and the observation of daily experiences in dealing with the customer, are used as input in an action plan specifically designed to provide the best service every time.

The Customer Experience study constitutes an ongoing learning process on market trends and the Group's reaction to them, aimed at achieving a degree of customer satisfaction that will contribute to our competitive value. Telecable will join this programme in 2018.



## Cybersecurity

In 2017, the market saw a significant increase in attacks targeting system vulnerabilities, with ransomware (Wannacry, NotPetya, etc.) playing a particularly prominent role. These vulnerabilities also affected communication systems, such as the wi-fi encryption system and other communication systems, via denial of service (DDOS) attacks. The annual increase in the number of vulnerabilities for Spain was above 26%, according to CCN-CERT data.



### Cybersecurity goals for 2018

For 2018, the Euskaltel Group has set itself the goal of improving the integration of IT and network security management, completing our Cyber Risks Map as part of the Group's risk management system, and our Security and Continuity Plan for the services and assets that require protection. We will also carry out projects to improve incident detection and response, security policy integration among the Group companies, implementation of new security mechanisms, and staff training and awareness, all with a view to reducing the Group's exposure to cyber risks.

### Chief Information Security Officer

The Euskaltel Group has security mechanisms in place to deal with this type of threat, and the impact suffered has been very limited. However, given the potentially damaging consequences of cybersecurity attacks and the increase in potential risks, the Euskaltel Group created a Cybersecurity division (Chief Information Security Officer/ CISO) in 2017, reporting to the IT Director (CTO) and from time to time to the Audit and Control Committee also.).

This division will safeguard information security and business continuity, and identify the Group's current and potential cyber risks in a preventive, systematic and effective manner. It will also coordinate the design and implementation of security measures, both for IT systems (which support processes) and for the network (which supports the services provided to customers), to ensure digital security is in line with the Group's strategic and business objectives.

## Business Intelligence

The Euskaltel Group made significant progress in the past year thanks to new Big Data infrastructures. In addition to the work carried out within the Company, new startups have provided further insight thanks to the Group's involvement in BIND 4.0, the initiative of the Basque Government and the SPRI, the autonomous government of Galicia and ANTEGA and the principality of Asturias and IDEPA.

### Big Data

The Euskaltel Group has completed the deployment of a Big Data infrastructure that will allow us to better adapt our products and services to our customers' needs. We will also be able to offer these products in a more segmented manner, focusing on specific customer profiles. Information obtained through Big Data is also used to diagnose and prevent network and customer

terminal problems, and to make preventive improvements in our TV service. In 2017, the Group implemented a Network Quality Indicator (QPI), which monitors the Network and acts on disconnections and occupancy levels by proactively removing noise, balancing carriers, and rebooting cable modems whose status is not correct.

Business Intelligence also enables the Euskaltel Group to carry out on-the-spot commercial actions based on data obtained online, and to identify high availability times in which to contact customers. Knowing our customers and how they behave is also important for the purpose of identifying risks of termination and taking proactive action to secure customer loyalty. All this helps to improve user satisfaction and to build a close and trusting relationship with our customers.

# Customising our services to offer every customer a unique experience



In 2017, the Euskaltel Group continued to offer the best services across its three main businesses, with the aim of building customer loyalty through campaigns that offer clear value to users. One of the Group's objectives, in addition to delivering a quality service, is to build an emotional, personal bond with our customers by offering services that they actually need and which can make their daily life easier. We also made network enhancements throughout the year to improve customer experience, and provided instructions via email to resolve potential network and/or TV decoder issues.

The products and services developed by the Group are the result of continuous improvement facilitated by our close relationship with our customers based on increasingly efficient customisation and our users' increased ability to make decisions.

## Partnership with Netflix

In November, the Euskaltel Group signed an agreement with Netflix to allow Euskaltel, R and Telecable customers direct access, starting in 2018, to the most successful series, films and documentaries through Deco 4K. Euskaltel, R and Telecable top Netflix's monthly quali-

ty ranking of Spanish providers that stream their contents during prime time. The Euskaltel Group is the first operator in Spain. To make this easier, the customer's remote control has a dedicated Netflix button.

## DECO 4K

Since July 2017, the Euskaltel Group has offered the market a new decoder with a number of distinctive features, including 4K image quality, access to more than 3,000 apps and games, Chromecast, replay and recording functionalities. This new decoder offers customers features and services that enable them to enjoy the new possibilities that TV has to offer.

## Wifi Kalean, Wifisfera and Wificientes

The Euskaltel Group has 436,00 wi-fi hotspots scattered across the regions it operates in, offering customers free internet use without using their data allowance. With 1 wi-fi hotspot for every 3 inhabitants, this establishes the Euskaltel Group's wi-fi network as the largest in Spain. Telecable's wi-fi service, Wifisfera, enables internet customers to use more than 119,000 web hotspots located in public spaces free of charge. R's Wificientes allows customers in Galicia to automatically connect to more than



**77.1%**  
Mobile



**84.7%**  
Broadband



**67.7%**  
TV

**Our penetration  
ratio reached  
maximum levels  
in 2017**

137,000 hotspots from their mobile phones, without using up their data allowance.

#### Te lo Perdiste (You missed it)

A service that allows customers to watch content that has been broadcast in the past seven days whenever they wish to on their TV.

#### Company Campaign

Active listening with different business clients has meant that, through a Company's co-operation and differential value, cutting edge technology and the services that customers really request are provided.

#### Tres Ollos and Euskaltel Life

A través de una sencilla app, los clientes de Us-  
ing a simple app on a mobile device, R custom-  
ers can control everything going on at home

or in the homes of elderly people in their care. Euskaltel Life will be launched in 2018.

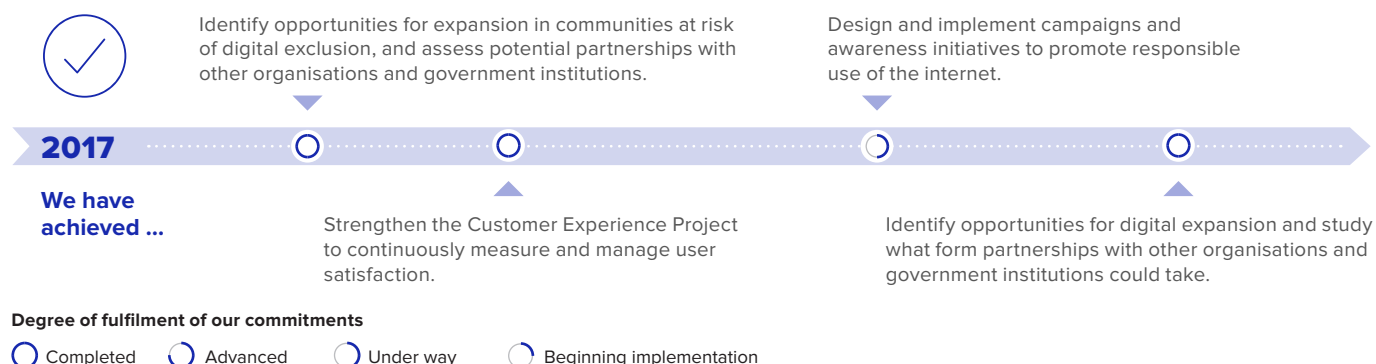
#### Wifi Vacaciones (Holiday Wi-fi)

Customers enjoyed their summer with a month of free wi-fi on their mobile phones during the period when demand is at its highest.

#### Exclusive broadband and TV for university students living in shared houses

In September, we launched a service in response to demand from students living away from home who need to make intensive use of high-performance networks, both for academic and leisure purposes. One salient feature of this offer is the possibility to disable the service temporarily free of charge.

## Commitments fulfilled in 2017





With all these initiatives, the Group aims to boost its competitive advantages of proximity, honesty, trustworthiness, service and simplicity.

Commitments for 2018



Implement the Customer Experience programme in Telecable.

Expand to new regions in northern Spain.

2018

We will be working on ...

Make further progress in the management of integral security, so that it covers information, network and equipment security.



# 4

## Pillars of the Euskaltel Group's strategy



Diversified growth



Operational excellence



Unique experience



Customer value protection

# Natural Capital

The Euskaltel Group's Natural Capital contributes to our Strategic Plan for 2017–2019 delivering the best operational experience with the least environmental impact.

# Contributing to the fight against climate change

We strive to apply excellence in our handling of all environmental aspects, making sure the environment is respected at every stage of our business value chain.

Environmental management represents a major challenge for the Company. At the same time, synergies between our three markets produce numerous opportunities to help provide a quality service that is also efficient friendly with the environment.

Our commitment to excellence in environmental management was the starting point for establishing an Environmental Management System in accordance with ISO 14001.

This system was also introduced in R and Telecable in 2017. In keeping with this dynamic, Euskaltel voluntarily adopted the EMAS III Regulation (European regulation governing an eco-management and audit scheme) in 2004.

Evidence of our commitment to transparency towards stakeholders in this regard includes our EMAS III Environmental Statement, includes the Company's Carbon Footprint.



**Visit EMAS III certificate**

[https://www.euskaltel.com/webektest/GaleriaCorporativo/Documentos/nosotros/responsabilidad\\_social/2017/2016-declaracion-ambiental.pdf](https://www.euskaltel.com/webektest/GaleriaCorporativo/Documentos/nosotros/responsabilidad_social/2017/2016-declaracion-ambiental.pdf)

## Environmental strategy

In keeping with the Euskaltel Group's commitment to the environment, our strategy in this area is reflected in our Environmental Master Plan for 2017–2019. The plan's four core pillars focus on excellence in environmental management, environmental performance communications (i.e. Green Communications), Green Products, and the fight against climate change.

The Euskaltel Group's 2017–2019 Environment Master Plan is fully consistent with the Basque Environmental Strategy for Sustainable Development 2002–2020, the Basque Autonomous Community's Environmental Framework Programme, and the Basque Country's Climate Change Strategy, Klima 2050, all of which are initiatives of the Autonomous Regional Government of the Basque Country.

In 2017, the Group made progress in the implementation of the 2017–2019 Environmental

Master Plan, locking in its commitment to sustainability and the comprehensive management of environmental risks at Group level.

### **Excellence in environmental management**

The objective of this pillar of the 2017–2019 Environment Master Plan is to formulate policies that can successfully reduce the environmental impact of the Group's operations by encouraging good environmental practices. Environmental management includes analysing products' environmental impact when they are first introduced, and their environmental footprint.

The Euskaltel Group's Integrated Management System Policy, which was updated in 2017, reflects our commitment to continuously improve products, services and work methods, as well as the management system itself, to improve performance in all areas.



**-53%**  
**WEEE\*** generation

\*Waste electrical and electronic equipment

**-3%**  
**materials**  
**consumption**

**-1%**  
**energy intensity\*\***

\*\*kwh/product



Visit all our Management System's certificates under ISO Quality Management and Environmental Management standards

www.  
euskaltel.com/  
CanalOnline/  
nosotros/rse/  
sistema-gestion

From the beginning, Euskaltel's Management System gained certifications under the ISO 9001 Quality Management and ISO 14001 Environmental Management standards, becoming the first telecommunications operator in Spain certified for both these international standards. In 2017, we worked to extend these certifications to our offices in Galicia and Asturias.

#### Green Communication

We prepare the EMAS environmental statement, which is verified and published on the

corporate website, and the organisation's carbon footprint has also been registered with the Ministry of Agriculture, Fisheries, Food and the Environment, as part of our commitment to communicate environmental performance.

We have enriched our management practices with Advanced Management concepts including Total Quality, Management Excellence, and Innovation. This approach is at the heart of the Group's current commitment to raise our competitiveness in a global market where we face major competitors.

## Our General Shareholders' Meeting – an environmentally sustainable event



Visit the Environmental Statement of the GSM 2017, which includes the Erronka Garbia certificate granted by Ihobe

www.ihobe.eus/  
documentos/  
erronkagarbia/  
dae/7\_DAE\_  
Diploma\_  
Euskaltel.pdf

As part of our permanent pursuit of environmental excellence, the Euskaltel Group's General Shareholders' Meeting of 2017 integrated environmental aspects into its design and organisation for the first time. This earned us the Erronka Garbia certificate granted by Ihobe. This seal aims to raise awareness among event organisers and attendees of the negative impacts that mass events entail, so that they may be adapted and held with the minimum possible impact on the environment.

Euskaltel's General Shareholders' Meeting was an example of environmental care, as required by the Group's Corporate Social Responsibility Master Plan for 2016–2018 in one of its key sections.



Choosing an environment-friendly venue and avoiding the use of short-lived structures are two examples of the measures taken at the Euskaltel Group's 2017 General Shareholders Meeting.



## Corporate Environmental Footprint project

Euskaltel calculates the organisation's environmental footprint as part of its partnership with the Basque Ecodesign Center. In 2017, the company worked towards integrating the Corporate Environmental Footprint into the Environmental Management System. This process, a pioneering initiative in Europe, gives companies a measure of their environmental performance, based on several different criteria and from a full life-cycle perspective. This measure helps companies improve their environmental management and can implicitly lead to savings opportunities while boosting the response to information requests by investors, sales, comparative assessment and proactive responses to future legal requirements.

### Green Product

Improving the Euskaltel Group's products in environmental terms by analysing their lifecycle and trying to minimise their impact

is the third milestone included in the Group's Environmental Master Plan. To this end, we carry out technological surveillance actions aimed at incorporating best industry practices. We also analyse products and equipment for energy efficiency.

Additionally, the Group's Comprehensive Management System sets the groundwork for minimising the impact of its activities on the environment in which we operate, and for improving our processes. This is reflected in the roll-out of the 4G (LTE) network under way since 2015, on the basis of criteria that ensure responsible network deployment, in strict compliance with electromagnetic field regulations, to the point that 100% of the company's base stations have emissions levels below the statutory limits. Within this framework, the Group has also entered into site-sharing agreements to minimise visual and energy impacts and to reduce waste generation.

## Circular economy

The circular economy is a key line of action included in the Master Plan, which sets the objective of establishing a policy and strategy in this area by 2019. For some years now, the Group has placed special emphasis on introducing measures to reduce the impact caused by the generation of electrical and electronic equipment waste, which is a consequence of permanent innovation and faster obsolescence.

The percentage of refurbished customer devices (decoders, cable modems and routers) in 2017 compared with the the total number of devices placed on the market was 55%, which represents a reduction in the impact of natural resources consumption.

Euskaltel and R provide used mobile phone drop-off points at their stores and offices, free of charge. The campaign aims to inform, raise awareness and collect used mobile telephones from Basque Country and Galicia customers, which are then sold and reused, thereby generating economic resources to

fund international cooperation projects in the Democratic Republic of the Congo, through the Jesuit Refugee Service.

### The fight against climate change

The fight against climate change is one of the lines of action included in the Group's CSR Plan for 2017–2019, which is put into practice through a number of initiatives.

In line with the Basque Country Climate Change Strategy to 2050, the Group has been involved in preparing and piloting a methodology for organisations to adapt to climate change, coordinated by Ihobe, the Basque Country government's environmental management company.

The Euskaltel Group has established a series of measures to reduce energy consumption, which are included in our Plan for the Reduction of CO<sub>2</sub> emissions. This commitment has been broadened by calculating the organisation's carbon footprint and preparing the 2017

Greenhouse Gas Emissions Report, which quantifies both direct and indirect emissions (Scope 1 and 2). In accordance with Royal Decree 56/2016 on energy efficiency, in 2016 the Group submitted to mandatory energy audits at its facilities. The results of the audits, carried out by an independent third party, were

reported to the relevant energy efficiency authorities. In 2017, the 2017 Energy Efficiency Plan was approved for the Group companies. Additionally, the Group companies commenced implementing the ISO 50001 Energy Efficiency Standard, for which our company in Asturias has gained Aenor certification.

## Contributing to the fight against Climate Change



Visit our certificate (page 89 of the report Learning from the leaders. CDP Europe Natural Capital Report 2017)

[www.cdp.net/en/reports/archive](http://www.cdp.net/en/reports/archive)

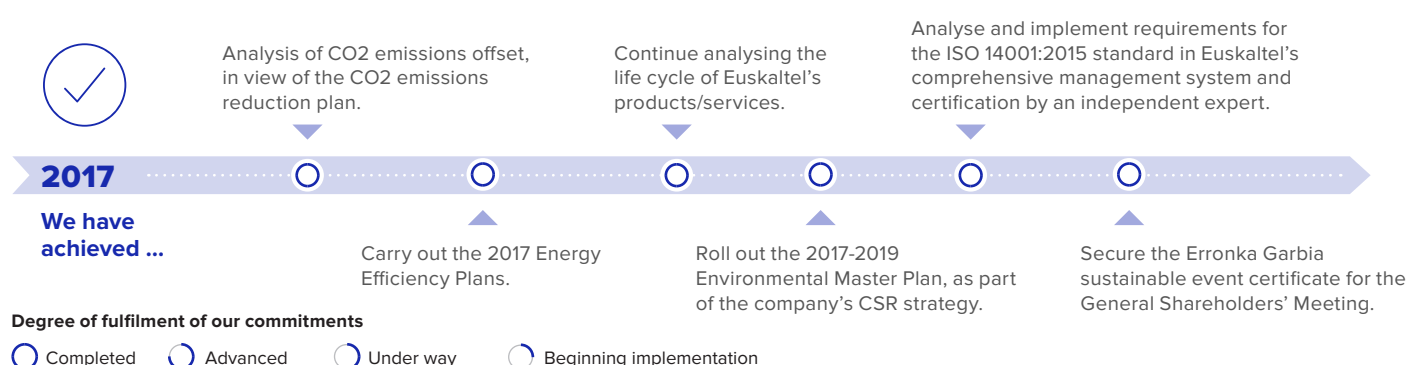
The Euskaltel Group companies have joined the #PorElClima community initiative to combat climate change. The Group has made a public commitment to take action to reduce the pollution causing global climate change, and to take part in a pioneering initiative by people, companies, organisations and government institutions, with a common goal: to lead action against Climate Change in accordance with the guidelines set out in the Paris Agreement. The Group also took part for the second time in the Carbon Disclosure Project (CDP), which classified our environmental performance as level C.

### Efficient management of resources and impacts

The Group evaluates each and every environmental aspect based on the severity of the associated impact, identifying the most significant issues and focusing efforts on minimising and controlling them.

Improvement targets are also established. The most relevant environmental aspects in 2017 were electricity consumption, GHG (Greenhouse Effect Gases) emissions, and the generation of malfunctioning lead battery waste.

## Commitments fulfilled in 2017



## ENVIRONMENTAL FOOTPRINT TABLE\*

The trends in and results of the Euskaltel Group's environmental performance in terms of materials, energy and natural resources use, as well as the main wastes generated, are set out below.

\*The figures for 2017 include Telecable.

### GHG emissions (t. CO<sub>2</sub> eq.)

	2015	2016	2017
Direct (Scope 1)	825.37	915.83	1,184.85
Indirect (Scope 2)	13,190.62	9,479.44	10,940.47
Other indirect emissions (Scope 3)	259.32	259.60	320.40



**-3,4%**  
GHG  
emissions  
intensity

### Materials and water consumption

Use of water and materials most relevant to the organisation

	2015	2016	2017
Paper (t)	178.76	141.11	155.78
Cable (t)	176.12	79.50	73.31
Equipment (t)	304.96	200.90	180.92
Water consumption (m <sup>3</sup> )	6,539	6,039	8,138



**-10%**  
de consumo  
de equipos

### Overall energy consumption

Use of electricity and use of diesel, both internally (gen-sets and company vehicles) and externally (employee vehicles)

	2015	2016	2017
Electricity (Mwh)	55,996.22	57,133.77	65,939.54
Diesel (Internal) (Mwh) **	647.08	563.41	531.11
Diesel (External) (Mwh) **	777.20	641.96	842.17
Energy intensity (kwh /product)*	25.10	24.46	24.12



**-1%**  
energy  
intensity

\*Energy intensity is calculated by dividing overall energy consumption by the number of products placed on the market

\*\*Diesel consumption in MWh is arrived at by using the conversion formula published in Guide GRI 3.1 (1 ton of diesel = 43.44 Gjoules)

### Waste generation

	2015	2016	2017
<b>Non-hazardous waste</b>			
Paper and cardboard (t)	37.29	28.93	22.73
WEEE (t)	62.43	59.74	28.21
<b>Hazardous waste</b>			
Lead acid batteries (t)	40.05	39.33	59.69
Fluorescents (t)	0.72	0.60	1.06



**-53%**  
WEEE  
generation

### Commitments for 2018



Continue rolling out the 2017–2019 Environmental Master Plan, as part of the Group-wide CSR strategy, based on the Group's comprehensive management system policy.

Design and implement the 2018 Energy Efficiency Plans.

Secure the Erronka Garbia sustainable event certificate for new events.

**2018**

**We will be  
working on ...**

Carry out actions to offset or reduce CO<sub>2</sub> emissions.

Continue analysing the life cycle of Euskaltel Group products/services.

Prepare the EMAS III Statement for the whole Group.

# 5

Pillars of the Euskaltel Group's strategy



Diversified growth



Operational excellence



Unique experience



Customer value protection

## Relationships Capital

Institutional relationships, sponsorship, public relations and the various activities organised by the Euskaltel Konekta Foundation create links to the community which contribute to diversified growth, in particular the identification of new avenues for growth, strengthening of the brand, and liaison with the local communities.



# Contributing to value creation in our territories

We contribute to the socio-economic development of the local communities by planning social engagement activities. We believe in technology as a way of uniting people, in the value of each and every conversation, and in coming together despite distance. Technology made by and for people: that is the motto which inspires and guides us.

For yet another year, the Euskaltel Group has expanded its corporate and business activity by studying new possibilities for customer experiences, with the aim of adding value to our services and creating emotional links with the various stakeholders with whom the three companies interact on a daily basis. This is the fundamental purpose of Euskaltel, R and Telecable: proximity and value creation as the distinguishing features that set us apart from our competitors.

For this reason, relationships play a key role in the Group's business model, and partnerships with local businesses and institutions are formed to promote the development of both Company and community, paying careful attention to the concerns of the communities in which the Euskaltel Group is present. In terms of our institutional activity, the Group aims to work responsibly and in close collaboration with our various

stakeholders: shareholders, customers, the community, suppliers and their employees.

This philosophy is intended to position the Company as a driving force in the economies of the regions in which we operate, generate local business opportunities, influence employment, lead corporate participation in civil society, promote trust and pride in belonging, and boost social commitment and digital positioning in Basque, Galician and Asturian societies, while enhancing competitiveness and collaboration between the public and private spheres.

The Euskaltel Group is highly active in the socio-economic context, projecting corporate values in the home market as one of the most obvious ways to build our brand and retain customers, who see that the brand they have chosen is reputable and committed to the region.

## Drivers of the local economy

The Group believes that Corporate Social Responsibility must contribute to and be geared towards value creation for all stakeholders, maintaining the commitments and values deployed in its mission, and taking into account its firm commitment to local communities, transparency, excellence in management, Good Corporate Governance, respect for Human Rights, gender equality and equal opportunities, compliance with Corporate Social Responsibility policies among suppliers, and responsible contributions to tax. The Group aims to meet its

fiscal obligations and to contribute to creating sustainable communities by enhancing trust in the local area.

### Responsible payment of taxes

Our ties with local communities and our commitment to support the local economy are key distinguishing values of the Euskaltel Group. We promote social and economic development by contributing to job creation and strengthening public funds, with the ultimate aim of making society intrinsically richer.

# 737

local suppliers



**98**  
partnerships with  
community organisations



**+516k**  
beneficiaries

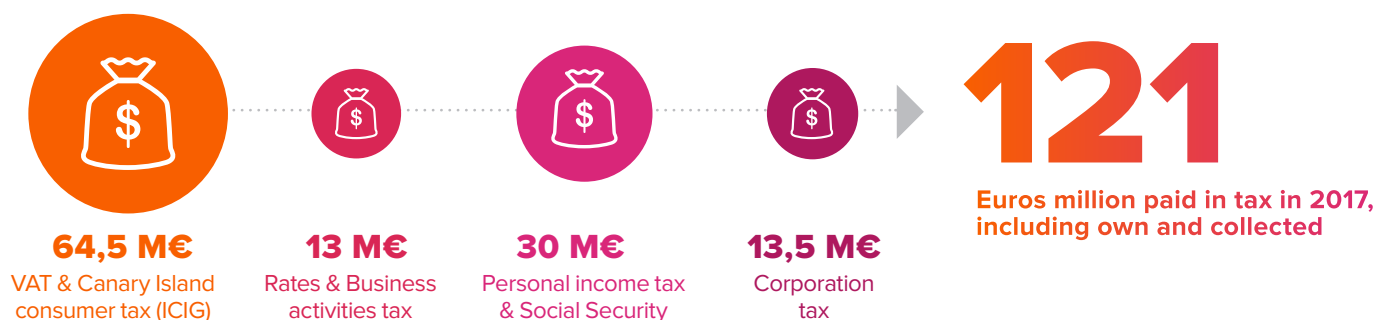
## Value creation

By collaborating with public institutions and supporting the local economy, growing alongside customers and the community, the Group

helps to create social and economic value through salaries, taxes paid and economic boosts in the places in which we operate.

	2015	2016	2017*
Net revenues (INCN)	334,375	561,426	609,275
Other operating revenue	431	360	524
Financial revenue	192	37	228
<b>Economic value generated (thousands of euros)</b>	<b>335 M€</b>	<b>562 M€</b>	<b>610 M€</b>
	2015	2016	2017
Purchases	15,168	26,245	22,946
Work undertaken by other companies	55,255	103,520	109,463
Wages and salaries	28,593	38,365	42,452
Other operating expenses	83,697	122,149	151,438
Financial expenses	50,042	47,891	49,109
Dividends	207,033	0	54,665
Corporation tax and other taxes	7,975	22,215	29,170
<b>Economic value distributed (thousands of euros)</b>	<b>448 M€</b>	<b>360 M€</b>	<b>459 M€</b>
<b>Economic value retained (thousands of euros)</b>	<b>-113</b>	<b>202</b>	<b>151</b>

## TAXES PAID IN 2017



\*Financial data for 2017 include Euskaltel, R and CINFO. Telecable is consolidated from the date of its integration.

## Support for local suppliers

The Euskaltel Group bases its relationships with suppliers on mutual trust and advantage, operating ethically to ensure the proper progress of commercial exchanges and the protection of mutual interests to minimise risks to sustainability.

In the telecommunications sector, operational efficiency and customer experience depend largely on suppliers' facilities and service provision. In view of this, the Group maintains close relationships with the main suppliers which distribute and provide the service. The highest purchase volume is related to customer and network operations services, as well as technology purchases, which represent 37% and 35% of the annual purchase volume respectively.

The Euskaltel Group has taken particular care to transfer the Company's corporate values and culture to its 1,347 suppliers, involving them in the strategy and growth for the last year. Similarly, the Group considers it especially important for suppliers to share the Euskaltel Group Corporate Social Responsibility Policy, as well as the Group's Code of Ethics. Both documents include key principles such as occupational health and safety, service quality, respect for the environment and safety of both employees and others affected by the Company's activities.

With the aim of enhancing supplier capacity and increasing their involvement in the development of the business, the Euskaltel Group offers training and undertakes regular reviews to identify areas for improvement.

In 2017, progress was also made in identifying synergies in the value chain, improving the

efficiency and quality of the distribution and service. Moreover, the Euskaltel Group collaborated with four special work centres with a purchase volume of €519,000. The aim here is to promote the inclusion of people with disabilities in the labour market by employing them to provide customer service, office assistance and support for printing and handling invoices.

Meanwhile, the Group has contributed to local economic development by contracting the services of 797 Basque, Galician and Asturian suppliers, 40% of which saw a purchase volume exceeding €10,000. The high volume of services purchased means that purchases in the areas in which the Group operates carry significant weight, at 49%.

The remaining purchases are made in other countries, due to the complexity of the sector. Nonetheless, in a year of change, growth and synergies, particular attention was paid to upholding long-standing agreements and supporting the local economy, maintaining strategic alliances in the Basque Country, such as our partnership with ZTE Managed Services Southern Europe, which represented 15% of the total purchase volume. No other supplier exceeded 4%, in order to ensure the viability and sustainability of responsible business.

The management system features a certification tool, under which 100% of suppliers (and their employees) rendering services at the Group's facilities are duly accredited. With regard to the selection of suppliers, the Euskaltel Group gives priority to those which have implemented an environmental management system when assigning contracts.



### Group objectives

The Euskaltel Group aims to contribute to local development by placing its trust in local suppliers which are strategic to the Group, adding value and providing them with opportunities for growth.



# Social commitment

## Social initiatives

In 2017, the Euskaltel Group collaborated with 48 community organisations using technology to support various local groups. Additionally, many of the social initiatives launched are boosted by agreements with educational institutions and with centres organising family activities more generally.

The knowledge that the Euskaltel Group has a large number of families among its customer base has led to collaborations with organisations such as AFAE-Euskadi Family Action, Hirukide-Federation of Large Families of Euskadi, Gure Señeak-Association for Improving the Lives of Children with Rare Diseases, Bakuva, Save The Children, Urgatzi, Bizipoza, Adecco Foundation, ASPANOVAS and a long list of organisations which tackle different spheres of family life.

Other events organised for families include Denon Eskola, or Basque Public School Day, the festivals held in Basque schools in Bizkaia, Álava and Gipuzkoa, activities for boys and girls with the football and basketball teams,

surfing and mountain-based activities, and fun runs, among others. The Group also sponsors the Universitario Bilbao, Hernani and Gaztedi inclusive rugby teams, and participated in the Euskaltel Charity Marathon which raised funds for research into brain strokes.

In addition, December saw the launch of the Aitona-Amonak campaign, in which Euskaltel acts as a messenger conveying gratitude for the important role played by grandparents in the community. A certificate which grandchildren can present to their grandparents at Christmas was created for the campaign.

Meanwhile, R collaborates with the Red Cross, the Food Bank and various museums which promote rural sustainability in Galicia, as well as the Galician Centre of Contemporary Art. At Telecable, charity markets are held for employees to contribute to the Food Bank, free services are offered throughout the year to support Project Man, and the money raised from the Christmas raffle goes to ADANSI and UMA.

### Developing youth talent

The Euskaltel Group visits educational centres and welcomes Masters students in Telecommunications to its facilities to allow them to learn about the work undertaken by the company and encourage their scientific ambitions. Through this type of initiative, the Group aims to supplement the theoretical knowledge taught in academic centres and to provide students with more practical insight. Meanwhile, the Group holds guidance talks for sixth form students who would like to learn more about the Company and its work before choosing the subject they wish to study at university.

\*Visits from university students in Engineering and Computer Sciences, students on vocational training courses and sixth form students.



## Sponsorships

The Euskaltel Group engages in sponsorship to create emotional ties which position and strengthen the brand among a wider audience. The Group's communication activity in this area is intended to create a friendly brand image, positioning the brand in lively environments where the public can enjoy and learn from new experiences.

Family activities continue to be a main feature of the Group's sponsorship, as well as of events organised by the Group itself. Various activities have been organised, such as the Euskaltel Kirol Eguna held in Bilbao and San Sebastián, with the aim of bringing together thousands of people and families to promote sport, launching campaigns to raise awareness of the benefits of sporting activity and including people with disabilities.

Through active listening, activities can be developed to suit the interests of the community, in line with company policy, to create bonds and pride in belonging, by favouring local suppliers for all contracting opportunities. The Group was also the technology sponsor for Gipuzkoa Basketball Club when it returned to the top league.

Once again, Euskaltel renewed its commitment this year to schools to sponsor the four Basque language festivals held in the Basque Country and Navarre for the twentieth consecutive year. As well as facilitating the communication for these events, Euskaltel promoted a competition which involved various skills tests and encouraged teamwork.

In addition, various Customer Experience campaigns were launched in the Basque Country, Galicia and Asturias through customer loyalty activities. In 2017, Euskaltel invited 200,000 customers to 'The Comedy Central Nights', pro-

viding new cultural and leisure experiences to its customer base. In the ten events held to date, the partnership between Euskaltel and Comedy Central has had a very positive outcome. In 2017 over 24,000 Euskaltel customers had the opportunity to enjoy a night of comedy with live performances by comedians from Comedy Central, the only 100% comedy channel in Euskaltel's TV programming.

**All of the activities sponsored make a visible contribution to Basque, Galician and Asturian society.**

Meanwhile, R invited more than 4,500 customers to shows and activities promoting Galician culture, leisure and entrepreneurship. Customers were able to enjoy initiatives such as breakfasts, technology days, film premières, basketball matches, riding tests and robotics workshops, among others.

Finally, Telecable brought football matches to a large number of customers who had not purchased this service. In addition, the company and Wuaki invited 300 customers to previews of the science fiction series *Beyond*, with the aim of promoting the TV platform which had recently become part of Telecable. An agreement with Yelmo Cinemas in Asturias allowed more than 3,000 customers to enjoy a discount on tickets from Monday to Sunday throughout November and December, and 100 customers attended the Gijón Film Festival, which is sponsored by the Group.

## Institutional activity

Institutional activity represents a tool for active listening and engagement with the Euskaltel Group's stakeholders. This activity involves monitoring the expectations of the various stakeholders and the extent to which these are met. It also serves to manage institutional relationships with

the public authorities and commercial relationships, as well as the objectives and needs deriving from these relationships. Various indicators relating to relationships with stakeholders are assessed, and action is taken on the basis of a holistic overview of these relationships.

# Euskaltel Konekta Foundation



## About the Euskaltel Konekta Foundation

The Euskaltel Foundation is a private, non-profit organisation which helps to create and boost connections between people, companies and initiatives, in the context of the use of Information and Communications Technology (ICT), based on four strategic directions: projects to promote new technologies, entrepreneurship and digital incubators, social technology and positioning of the Euskaltel Konekta brand.

### Projects to Promote New Technologies

**Encounters Network.** In 2017, the 25th edition of the Euskal Encounter was held. This is the longest-standing, largest computing party in Spain. It forms part of the calendar of Encounters organised by the Euskaltel Konekta Foundation, which also includes Gipuzkoa Encounter and Araba Encounter. All of these events have beaten attendance records thanks to the 'Opengunes' or areas open to the public, which allow the use of new technologies to be disseminated and democratised through workshops and seminars. The Encounters feature numerous technological innovations, along with appearances from IT enthusiasts and professionals, and aim to allow information exchange and group activities focusing on computing.

2017 saw the expansion of the Encounters, with the XGNR Encounter held in Galicia. This is a computing event which has been held in Silleda, Galicia for the last 17 years and which R helped to organise for the first time this year. The Silleda showground in Pontevedra welcomed 1,200 attendees, including both participants and visitors interested in new technology.

**Gamegune.** Gamegune is the most prestigious Hearthstone tournament in Spain, which was held for the seventeenth time in 2017. Aimed at online video games professionals and enthusiasts, it meets the aim of the Euskaltel Konekta Foundation to promote new technologies.

**E-Games – Gamegune Opens.** The Euskaltel Konekta Foundation has created a new online video games platform to support the new Gamegune Opens initiative. The Gamegune Opens are a series of tournaments and leagues of various video games which are held throughout the year, and which are

open to anybody who wishes to participate. This platform allows online leagues and tournaments to be organised locally throughout the year.

**First Lego League.** The Euskaltel Konekta Foundation helped with the organisation of the First Lego League, an international robotics competition in which more than 500 participants aged 6 to 16 resolve a real challenge related to science, technology and innovation in the various activities which form part of the 'Opengune'. Euskaltel participated in this open space with a talk by psychologist Edurne Donlo on the proper use of mobile phones by underage children. This year, the company participated in the panel discussion on STEAM (Science, Technology, Engineering, Arts and Maths) education alongside the Basque Government, Lauaxeta school and Azti Tecnalia. We have also taken part in the First Lego League in Galicia.

**Women in Progress.** The Women and Technology Days were held for the second consecutive year with support from the Euskaltel Konekta Foundation, in an attempt to encourage female students attending the event to study science. To this end, a large number of talks and workshops were organised over a three day period. The 2017 edition was held at the Artium Museum in Vitoria-Gasteiz on 18th, 19th and 22nd March.

**Innova.** In April, the fifth Innova days were held at the Euskalduna Palace to tackle topics such as innovation, digital business and creativity. With the motto 'Learning to Build', Asier Gezuraga, manager of Euskaltel's online channel, gave a very interesting and innovative talk on Lean Thinking to a packed hall.

### Entrepreneurship and digital incubators

**Bind 4.0.** In 2017, the Foundation participated in the public-private acceleration programme intended to boost development of the best start-ups in Indus-

## Commitments fulfilled in 2017



Identify and share good corporate social responsibility practices among suppliers.

Expand relationships and increase the number of agreements with educational and technological centres.

2017

We have achieved ...

Evaluate ESG criteria when selecting suppliers for the Group.

Ascertain the impact of sponsorship and social commitment activities.

Degree of fulfilment of our commitments

☒ Completed
 ☐ Advanced
 ☐ Under way
 ☐ Beginning implementation

try 4.0, facilitating projects with leading industrial companies and providing a complete support programme. In turn, BIND 4.0 represents an excellent opportunity for industrial companies, as it speeds up identification and contact with the best global talent, allows access to cutting-edge technology and promotes the development of Industry 4.0 projects and solutions.

**KBI.** The Foundation sponsors KBI Digital, an advanced digital economy incubator which is the product of an agreement between Bilbao City Council and the Bizkaia Regional Government. The purpose of this incubator is to promote entrepreneurial projects from both start-ups and established companies within the digital economy sector. KBI Digital aims to be a reference point for the creation and implementation of digital initiatives, as well as for the launch of start-ups for new applications and the development of companies in the ICT sector.

**Global Innovation Day (Innobasque).** Global Innovation Day, promoted by Innobasque (Basque Innovation Agency), is an open, dynamic and participatory space which brings together thousands of people every year. It provides an easy way of creating connections, exchanging knowledge and experiencing innovation first-hand. The Euskaltel Group participated with a stand explaining the latest progress made by the company in the area of Big Data. It also participated in Innobasque Steam, a pioneering initiative to raise awareness and disseminate information among people working in informal education to encourage them to include STEAM education in their activities.

**Bilbao Berrikuntza Garage - Innovation Lab Bilbao.** Innovation Lab Bilbao (InnolabBilbao) is an open space for innovation where technology and business come together to seek new technological solutions

for the corporate challenges of the day. The main aim of the initiative is to promote and encourage encounters between professionals, associations and other organisations from all corporate and economic areas. It is for this reason that the Euskaltel Group decided to participate.

### Social Technology

**HETEL.** Euskaltel is a strategic partner for HETEL (Basque Association of Vocational Training Centres) due to its support for vocational training and for the promotion of scientific careers among young people. Since 2009, HETEL has operated the SHARE collaborative project in which around 60 Telecommunications and Computing Systems students participate. The students work in groups to develop the installation of various application servers in each centre, simulating a company with different departments.

**Intelligent Families.** Euskaltel has developed a project in collaboration with the NGO AFAE (Euskadi Family Action) which works in the areas of conflict resolution, prevention of psychosocial risks and promotion of health, and includes three family training sessions to equip members of its working groups to seek optimal progress in their personal, family and professional lives.

### Positioning of the Euskaltel Konekta Brand

**Music Festivals.** With a view to promoting the Euskaltel Konekta brand, the Foundation attended the three music festivals organised by Last Tour in the Basque Country. BBK Live, a pop and rock festival held each July in Bilbao, is one of the largest festivals in the country. Kutxa Kultur is a new festival hosted in San Sebastián, while Azkena Rock features underground rock bands along with well-known headliners. Various stands were also set up to provide wi-fi to everyone who attended the festivals.



### Objectives of the Euskaltel Konekta Foundation

The main aims of the Euskaltel Konekta Foundation are to enhance young people's relationships with ICT by supporting activities related to new technologies, to maintain a presence in the community by promoting knowledge and responsible use of ICT, to be a benchmark company in the ICT sector in the Basque Country, Galicia and Asturias, by participating in all initiatives and events linked to this area, and to act as a window onto the world by promoting successful ICT initiatives launched in the regions in which it operates globally.

## Commitments for 2018



Undertake a satisfaction survey among analysts with the Investor Relations department.

Strengthen agreements with local universities.

Review and implement the new 2018-20 CSR Master Plan.

**2018**

**We will be working on ...**

Standardise relationship-building activity between the three companies, Euskaltel, R and Telecable.

Review civil society links in terms of corporate management.

Strengthen the Euskaltel Konekta Foundation's activity in the Group.

# 6

Pillars of the Euskaltel Group's strategy



Diversified growth



Operational excellence



Unique experience



Customer value protection

## Intellectual Capital

Intellectual capital has a cross-cutting impact on the 2017-2022 Strategic Plan through the four pillars. Furthermore, innovation is one of the key, corporate values in the Group's business model.

# Contributing to digitalisation and digital transformation

As the Euskaltel Group operates in the telecommunications industry, ongoing innovation and the most up-to-date technology are key to being efficient and providing the sector's newest services.

An essential part of the Euskaltel Group's long-term strategy is to be at the forefront of innovation, so as to stand out from the competition. Our constantly evolving business is based on new technologies, customers are increasingly demanding and the market is full of technology choices. As market leader, the Group's strategy is to drive and broaden the range of products and services available, providing customers with the market's latest TV, broadband and mobility options.

The Group aims to improve consumers' daily lives and offer them the most effective services and products they need, continuously updating all systems and getting ahead of the

competition to identify trends as a result of actively listening to stakeholders and the Customer Experience. In 2017, the Group's innovation-based work focused on improving operational excellence, developing new business lines and product innovation in areas such as IoT, TV, WiFi and mobility. In this field we have also been monitoring legislation and technology issues regarding 5G so that we can expand our knowledge and develop this technology over the next few years.

The Corporate Innovation Unit studies and analyses industry trends, new technologies and the Group's viability to drive new products and services at the right time.

## Digital innovation

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### **Innovation investment**

The Euskaltel Group is aware of its lead status in the Basque Country, Galicia and Asturias within the technology field and its work to support innovation, foster a digital culture and drive digitalisation in the business environment and daily life is particularly relevant.

In 2017, the Group invested over Euros 14 million in R&D&I, pushing forward various programmes that help companies to digitalise and encour-

age technology startups. This action also has an impact on local economic development.

Furthermore, the Euskaltel Group supports sustainable innovation, bearing in mind the ability of new technologies to help communities' with their social and environmental issues. Research is also encouraged, as it is the basis for the creation of new devices and services that integrate all the possibilities digital transformation has to offer.



### Key projects

In 2017, the Group launched various products that were essentially linked to improving network capacity and to launching new Cloud and the Internet of Things (IoT) services.

During the year, the Euskaltel Group launched the first 4K Android-based TV decoder, bringing together the Internet and the latest TV technology. 4K technology is currently the highest resolution

The future is making way for an ecosystem of professionals and companies who are experts in content-loaded TV applications, with the Euskaltel Group as the driving force behind innovative proposals in this field.

The Group also promoted the company's strategic StartUps Euskaltel and StartUps R programme, which welcomes entrepreneurs and innovative proposals and aims to connect their projects with the manufacturing sector, turning their ideas into actual business plans.

It is mainly targeted at technology start-ups in the Group's strategic areas: the Internet of Things, artificial intelligence, cybersecurity, new network and communications technologies, WiFi, 5G, and new content and apps relating to the 4K decoder. Thanks to this project, over 40 companies in the Basque Country and Galicia joined the first start-ups programme and they will be helped with free telecommunications services, equipment, training, workshops, networking and visibility.

Furthermore, Euskaltel also offers the companies the whole range of opportunities provided by technology so as to increase their competitiveness and maximise the technological and innovative ecosystem's potential. At conferences organised by the Group in partnership with leading companies in the industry, the discussion centres on a practical approach to the



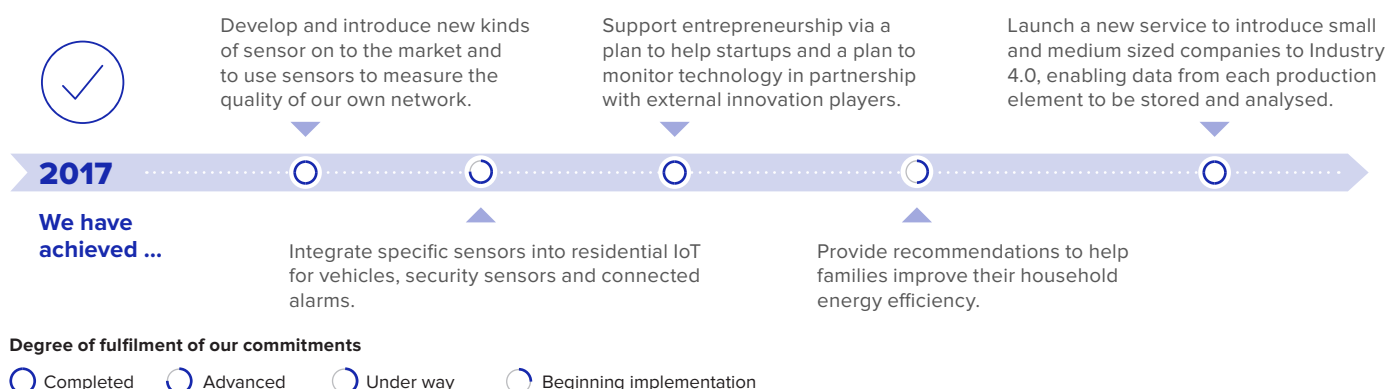
**Innovation is the way we fulfill our commitment to customer care, responding to their needs and surprising them with our products**

**FRANCISCO ARTECHE**  
CEO



and four times better than high definition (HD). Customers in the Euskaltel Group's respective markets can use Android applications on the TV. This launch is the start of new business opportunities for app developers.

## Commitments fulfilled in 2017





**14 M**  
investment  
in r+d

transformation process, using information and communication technologies.



**40**  
supported  
StartUps

Another key initiative to help foster innovation in the Basque Country is Euskaltel's support for research activities at the Orkestra-Instituto Vasco de Competitividad, the competitiveness institute at Deusto University. The Group has renewed its commitment for the next four years and will help develop the chair of digital economy, recently created at the institute. The Orkestra manifesto on the Basque Country's 10 main challenges for the future identifies the digital economy as a key element in developing competitiveness in the Basque Country and, within this context, Euskaltel is the leader in innovation and driving technological development in the region.

The Euskaltel Konekta Foundation has lent its support and encouragement to numerous innovation-related programmes, such as Bind 4.0 and Innolab. The first involves a public-private accelerator programme aimed at driving the development of the best Industry 4.0 start-ups, fostering projects with the leading industrial companies and taking part in a comprehensive support programme. In 2017, we took part as the driving company in a project to design a predictive model to improve Euskaltel customer loyalty based on the latest analytical tools using big data.

Bilbao's innovation laboratory (InnolabBilbao) is an innovative space where technology and business come together to find new technological solutions to everyday business challenges. It is promoted by the Centro de Innovación de Bilbao association, which was founded by Fundación BBK, Corporación Mondragón, Deustotech, IBM



## The Group's Startups Plan fulfils our commitment to development and digital transformation in Basque, Galician and Asturian society

**FRANCISCO ARTECHE**  
CEO



and Euskaltel. Iberdrola and Bilbao city council also form part of the initiative through Bilbao Ekintza. The main objective is to promote and foster the coming together of professionals, associations and other bodies from all business and economic backgrounds.

## Commitments for 2018



Develop and implement the IoT in the residential and SME categories.

Develop technology to aid digital transformation projects for companies.

Develop new TV services that broaden the capacity of the new 4K decoder.

**2018**

We will be working on ...

Introduce artificial intelligence-based user interfaces.

Introduce new, improved WiFi systems.



# 7

## Other information

# About this report

This report is prepared on the basis of the Euskaltel Group's financial and non-financial reporting system and the initiatives undertaken in the three regions: the Basque Country, Galicia and Asturias.

## Scope and profile

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The Euskaltel Group has produced the Corporate Responsibility Report in line with the Global Reporting Initiative (GRI) guide, following the principles and content set out in the most recent edition of the guide. This is an international benchmark standard for the creation of sustainability reports, which covers all of the most relevant aspects for shareholders, customers, employees, suppliers and the community, including exhaustive information on ESG (Environmental, Social and Governance) aspects.

In order to comply with the GRI guidelines, the Company carried out a materiality analysis to ensure the report would focus on the social, environmental and economic issues that are most relevant for our businesses, and which influence the decisions of our stakeholders. Moreover, as signatories to the United Nations Global Compact, this report provides information on our progress towards the implementation of the Principles established by this initiative. This report focuses particularly on those aspects identified as relevant in the materiality analysis under-

taken. The preparation and results of this analysis are explained in the following pages.

The information disclosed in this report follows the baseline for assessing future performance of the Euskaltel Group established in the previous Corporate Responsibility Report. The Group is also currently working to extend the scope of the reporting system to include all indicators from the three integrated companies in coming years. All data reported, with the exception of financial indicators, include Telecable from 1 January 2017. CINFO data are consolidated for financial indicators only.

The contents of this report are linked to more extensive information published on the Euskaltel Group website, in the EMAS Environmental Declaration, in the Annual Corporate Governance Report and in the 2017 Consolidated Annual Accounts, and form part of the Management Report, conforming to the same approval, deposition and publication criteria as the former in compliance with Royal Decree-Law 18/2017 of 24 November 2017. The report also observes the CNMV Good Governance Code.

\* The materiality analysis identifies those issues that are relevant to the company using internal and external variables relating to the company itself.

## Materiality analysis

In 2017, the Euskaltel Group carried out a materiality analysis based on the GRI Standards. Firstly, an external analysis was completed which took into account the main trends in the sector, an exhaustive study of press coverage of the Euskaltel Group using the Factiva tool, the content published on the websites of the Group and its competitors, the information required by proxy advisers, the strategic directions of the PEERs in terms of CSR and the information requested by the main analysts relating to Sustainability, basing the study primarily on the Dow Jones Sustainability Index (DJSI), the FTSE4GOOD and the CDP. In addition, the external analysis was informed by the main needs and concerns of the Euskaltel Group's stakeholders, which were detected through the different communication channels open to employees, customers, the community, shareholders, suppliers and institutions. An internal analysis was also carried out on the basis of the Euskaltel Group's strategy

and policies, information on future challenges and strategic partnerships, and documentation on initiatives implemented in the area of Sustainability. These analyses led to the identification of 80 relevant themes relating to Corporate Social Responsibility, which were grouped into 36 sections for the Euskaltel Group, and which were assessed by the Internal Audit, Communication, Finance, Compliance, Environment, Marketing, Institutional Relations, Strategy, Human Resources, Legal, Purchasing, Innovation and Investor Relations departments. The assessment consisted of evaluating the importance of each of these aspects for the departments concerned, considering their impact on company operations and reputation. As a result, 18 priority sections were identified using the internal and external analysis, and these are presented in the following matrix according to their individual importance. These material themes represent the main focus of the report.

### MATERIALITY MATRIX



## Stakeholder engagement

The Group's Corporate Social Responsibility Policy, approved by the Board of Directors on 24 May 2016, sets out the obligations and guidelines to be followed by each operator. Likewise, the Corporate Responsibility Master Plan is based on the expectations identified when consulting stakeholders through different surveys and studies.

The Euskaltel Group's corporate values of friendliness and honesty shape not only the behaviour of our own employees but also the Group's relationships with all stakeholders. Moreover, one of the Group's differentiating factors is value creation at a local level, building a climate of trust among all players in each of the regions where the Group operates. As established in the Code of Ethics, the Euskaltel Group is committed to maintaining ethical standards and transparency in its relationships with stakeholders, acting responsibly and working closely with them to adapt to their needs and concerns.

The Group has also developed a Communications Plan which covers all stakeholders and is based on the Euskaltel Group's mission and objectives, as well as the aforementioned corporate values. The Group's communications are defined by close relationships with our market and with opinion leaders. These relationships are based on transparency and proximity, just like those which Euskaltel, R and Telecable maintain with their stakeholders in the Basque Country, Galicia and Asturias respectively. This model for communication and liaison with stakeholders has generated unprecedented reputation capital and corporate image, achieving an exceptional level of identification with the Company's target market, which differentiates it from the competition significantly.

To create friendly, honest working relationships, the Euskaltel Group uses various platforms and promotes direct, two-way dialogue allowing customers, shareholders, employees and the community to express their needs and suggest improvements. In 2017, the stakeholders in each of the Group's main areas were reviewed, with the aim of identifying all operators who directly interact with the Company. The aim of this exercise was to update and target the actions implemented, as well as to provide formal channels which are better suited to the target audience.

During 2017, we updated the operation of the Group's Ethical Channel mechanism. This channel provides a tool for employees of the Group, customers, suppliers and third parties to report alleged events or actions which they consider to infringe the Code of Ethics and Code of Conduct, any regulations included in the Euskaltel Group's Corporate Governance System, or the relevant external legislation or regulations, in a secure, confidential manner.

**Euskaltel Group's Code of Ethics is committed to maintaining ethical standards and transparency in its relationships with stakeholders, acting responsibly and working closely with them to adapt to their needs and concerns.**

One of the main programmes developed by the Euskaltel Group for communication with customers is Customer Experience, a tool which has allowed for greater insight into customer needs and development of products and services which are particularly useful in their daily lives. Moreover, active listening has been especially important in identifying the concerns of employees who have been able to express their opinions on the Company's operation and the future challenges it faces through a satisfaction survey.

Meanwhile, 2017 was a particularly relevant year for shareholders. The Investor Relations department stepped up its activity with road shows and interactions with analysts, and distribution lists were created to provide them with up-to-date information on the Group's ongoing growth. One of








the most important events of the year was Investor Day, which was held in November with a view to publicly sharing the Company's foremost achievements and the strategy we will follow in the coming years. As usual, the Group has continued to build trust in the community via sponsorship, development of local culture and digitalisation through the activities of the Euskaltel Konekta Foundation. Moreover, constant interaction with the local authorities enhances Company knowledge of the region and its main needs. Similarly, we maintain a smooth, direct relationship with the Group's suppliers

through the Purchasing department, whose role is key in detecting concerns throughout the supply chain.

Finally, the Management Team's open door policy facilitates the exchange of information and submission of queries. In 2017, the main concerns reported to the Board and to the Management Team were related to the Group's expansion. In general, a growing interest in digitalisation and in the quality of the service provided was detected via the various channels.

## The Euskaltel Group's key stakeholders and channels for dialogue

### Stakeholders

		Communication tool	Main expectations identified
 Community	Social organisations, universities and education centres, research centres, economic operators, local community, opinion former and consumer associations and the press	<ul style="list-style-type: none"> <li>■ Social media</li> <li>■ Media relations</li> <li>■ Collaboration with universities and other institutions</li> </ul>	Local employability, commitment to local associations and institutions, social initiatives and cultural promotion.
 Customers	Company, residential, institutions and public sector	<ul style="list-style-type: none"> <li>■ Euskaltel and R websites</li> <li>■ Mobile applications</li> <li>■ Complaints</li> <li>■ Customer experience</li> </ul>	Friendly customer service, transparency of prices, digital inclusion, service quality, investment in R+D+I, digital health and data protection, among others.
 Employees	Employees covered and not covered by the Collective Labour Agreement, employees' representatives, trainees and employment agencies	<ul style="list-style-type: none"> <li>■ Intranet</li> <li>■ Satisfaction survey</li> <li>■ Internal communication channels</li> </ul>	Quality of working life, health and well-being, equal opportunities, commitment to employees, training and development.
 Suppliers & partners	Distributors, installers and contractors, strategic suppliers, operators, suppliers of infrastructure	<ul style="list-style-type: none"> <li>■ Company survey</li> </ul>	Local purchasing, transparency and equal opportunities.
 Public administrations	Councils, city councils, governments, supervisors, regulators, development agencies and industry agencies	<ul style="list-style-type: none"> <li>■ Community survey</li> </ul>	Transparency, regulatory compliance, environmental management and people management.
 Shareholders & investors	Board, shareholders, analysts / investors, funders and press coverage relating to shareholders	<ul style="list-style-type: none"> <li>■ General Shareholders' Meeting</li> <li>■ Investor Relations Office</li> </ul>	Ratings, risk management and financial results
 ALL		<ul style="list-style-type: none"> <li>■ Ethical Channel</li> </ul>	Working closely and transparently with all stakeholders in compliance with legislation and all applicable regulations.

Frequency    ■ Ongoing    ■ Every two years    ■ Annual

# AENOR

## VERIFICATION OF SUSTAINABILITY REPORT

VMS-2018/0003

AENOR has verified the Report by the organization

### GRUPO EUSKALTEL

TITLE: 2017 CORPORATE RESPONSIBILITY REPORT

In accordance with: GRI Standards

GRI option applied: Exhaustive

Verification Process: To grant this Verification Document, AENOR has verified that the report complies with GRI requirements and has checked the data and information contained in the report.

Issue date: 2018-02-23



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# GRI Standards table

Standards	Description	Notes/direct reference (page )	Scope	SDG	Global Compact
<b>GRI 101 Foundation</b>					
101	Guiding principles	Other information (page 57)	Group		
<b>GRI 102 General contents</b>					
<b>Organisation profile</b>					
102-1	Name of organisation	Euskaltel, S.A	Group		
102-2	Activities, brands, products, and services	Euskaltel Group in 2017 (page 6) Customer Capital (page 34 and 35)	Group		
102-3	Location of the head office	Back cover	Group		
102-4	Location of operations	Euskaltel Group in 2017 (page 6)	Group		
102-5	Owners and legal form	Euskaltel, S.A. Organisational and Cultural Capital (page 13)	Group		
102-6	Markets served	Euskaltel Group in 2017 (page 6) Customer Capital (page 31)	Group		
102-7	Size of the organisation	Euskaltel Group in 2017 (page 6 y7) Human Capital (page 21 and 22)	Group		
102-8	About our employees and other workers	Human Capital (page 21 y22) See Annex 102-8 (page 74)	Group	8	Principle 6
102-9	Supply chain	Relationships Capital (page 47) During 2017, all Euskaltel Group suppliers were located in the European Union, except 22 companies, as follows: Australia (1), China (2), Colombia (1), Israel (1), Suiza (3), Taiwán (2), EEUU (12). (See Appendix. Page 75)	Group		
102-10	Significant changes in the organisation and its supply chain	Letter from the Chairman and the CEO (page 2) Euskaltel Group in 2017 (page 6) Organisational and Cultural Capital (page 14) Relationships Capital (page 47)	Group		
102-11	Precautionary principle or approach	Organisational and Cultural Capital (page 16) Section E of the Euskaltel Group's 2017 Annual Corporate Governance Report	Group		
102-12	External initiatives	Letter from the Chairman and the CEO (page 5) Natural Capital (page 42) Relationships Capital (page 48 and 49)	Group	17	
102-13	Membership of associations	Relationships Capital (page 48 and 49) Other information (page 57)	Group	17	
<b>Strategy</b>					
102-14	Declaration of the executive body	Letter from the Chairman and the CEO (page 2-5)	Group		
102-15	Key impacts, risks and opportunities	Organisational and Cultural Capital (page 16)	Group		

Standards	Description	Notes/direct reference (page )	Scope	SDG	Global Compact
<b>Ethics and Integrity</b>					
102-16	Values, principles, standards and rules of behaviour	Organisational and Cultural Capital (page 17) Human Capital (page 22)	Group	16	Principle 6
102-17	Mechanisms for consulting and resolving ethical questions	Until 2017, R and Euskaltel published their Codes of Ethics and Conduct on their respective intranets. These covered the organisation's ethical principles and improper employee conduct. Telecable employees formally accepted an anti-bribery and anti-corruption policy originally established by their former partner Zegona. In December 2017, the Board of Directors approved the Code of Ethics, Anti-Corruption Policy and the Ethical Channel, which includes the ethical principles of the organisation and improper employee conduct. Applicable to all companies in the Euskaltel Group, these were formally and officially communicated to all Group staff by the Group Chairman. In the near future, the Ethical Channel will be available for queries and complaints relating to rule infringement, not only to Euskaltel Group employees, but also to any third party through the websites of the Group companies. Until such time as the Ethical Channel is operational, complaints and/or suggestions may be sent by post as established in the Euskaltel Group's Ethical Channel.	Group	16	Principle 6
<b>Governance</b>					
102-18	Governance structure	Organisational and Cultural Capital (page 14)	Group		
102-19	Decision making	Euskaltel Group in 2017 (page 11) Other information (page 57)	Group		
102-20	Level of executive responsibility linked to financial, environmental and social issues	Euskaltel Group in 2017 (page 11) Organisational and Cultural Capital (page 18)	Group		
102-21	Discussion of financial, environmental and social issues with stakeholders	Other information (page 60)	Group	16	
102-22	Members of the executive body and its committees	Organisational and Cultural Capital (page 13 and 17) Human Capital (page 24)	Group	5 16	
102-23	Chair of the executive body	Organisational and Cultural Capital (page 13 and 14) Section C.1.3 of the Euskaltel Group's 2016 Annual Corporate Governance Report	Group	16	
102-24	Appointment and selection of the members of the executive body	Organisational and Cultural Capital (page 14 y15)	Group	5 16	
102-25	Conflicts of interest	Section D.6 of the Euskaltel Group's 2017 Annual Corporate Governance Report	Group	16	



Standards	Description	Notes/direct reference (page )	Scope	SDG	Global Compact
<b>Governance</b>					
102-26	Executive body involvement in establishing Group mission, values and strategy	Letter from the Chairman and the CEO (page 5) Euskaltel Group in 2017 (page 9 and 10) Section E of the Euskaltel Group's 2017 Annual Corporate Governance Report.	Group		
102-27	Group reporting to the executive body	Each year, the Board of Directors is informed of the Group's financial, social and environmental performance. The Group's CSR Policy, which was approved in 2016, was implemented in 2017 and continues to be formulated.	Group	4	
102-28	Evaluation of the executive body's performance	Organisational and Cultural Capital (page 15)	Group		
102-29	Identification and management of financial, environmental and social impacts	Section E of the Euskaltel Group's 2017 Annual Corporate Governance Report.	Group	16	
102-30	Effectiveness of risk management processes	Section E of the Euskaltel Group's 2017 Annual Corporate Governance Report.	Group		
102-31	Review of financial, environmental and social issues	Organisational and Cultural Capital (page 18 and 19 )	Group		
102-32	Executive body involvement in sustainability accountability	The Board of Directors is entrusted with reviewing and approving this 2017 Corporate Responsibility Report, after third-party assurance.	Group		
102-33	Communication of critical considerations	The CEO is entrusted with informing the Board of Directors of all aspects regarding the company's performance.	Group		
102-34	Number and nature of critical considerations communicated to the executive body	In 2017 the Board was informed of issues related with the preparation of the Group's annual financial statements and proposed distribution of profits, periodic public information disclosed, budgets and objectives, authorised representation. Remuneration of the Board of Directors and senior management, approval of the different annual reports, call to the General Shareholders' Meeting, preparation of proposed resolutions and the corresponding directors' reports thereon, new corporate policies, R's integration process, acquisition of Telecable, and the new 2016-2018 CSR Plan, among other matters.	Group		
102-35	Remuneration policies	Section A.1. Euskaltel, S.A.'s Annual Report on Remunerations for 2017	Group		
102-36	Process for determining remuneration	Section A.2. Euskaltel, S.A.'s Annual Report on Remunerations for 2017	Group		
102-37	Stakeholder involvement in remuneration	Organisational and Cultural Capital (page 13)	Group	16	
102-38	Annual remuneration ratio	Remuneration ratio stands at 49%.	Group		
102-39	Rate of increment of the annual remuneration ratio	The median percentage increase in annual total compensation was 2.0% at Group level.	Group		

Standards	Description	Notes/direct reference (page )	Scope	SDG	Global Compact
<b>Stakeholder involvement</b>					
102-40	List of stakeholders	Other information (page 60)	Group		
102-41	Collective bargaining	Human Capital (page 23)	Group	8	Principle 1 and 3
102-42	Stakeholder identification and selection	Other information (page 60)	Group		
102-43	Stakeholder involvement approach	Customer Capital (page 33) Other information (page 59 and 60) See Appendix (page 74)	Group		
102-44	Main issues and considerations discussed	Other information (page 58)	Group		
<b>Accountability</b>					
102-45	Companies included in the consolidated financial statements	Organisational and Cultural Capital (page 13) Euskaltel has interests in the following companies to facilitate the achievement of its business objectives: Hamaika Telebista Hedatzeko Taldea and Safelayer Secure Communications.	Group		
102-46	Delineation of report contents and topics covered	Other information (page 58)	Group		
102-47	List of material topics	Other information (page 58)	Group		
102-48	Restatements of information	Other information (page 57)	Group		
102-49	Changes to accountability	Other information (page 57)	Group		
102-50	Report preparation period	Financial year 2017	Group		
102-51	Date of previous report	Financial year 2016	Euskaltel and R		
102-52	Accountability cycle	Annual	Group		
102-53	Point of contact for issues connected with the report	Back cover (page 76)	Group		
102-54	Statements on the level of compliance with GRI standards	External assurance report (page 61)	Group		
102-55	GRI contents list	GRI Standards table (page 62-75)	Group		
102-56	External review	External assurance report (page 61)	Group		
<b>GRI 103 Management approach</b>					
103-1	Explanation of the material issue and its borders		Group		
103-2	Management approach and components	Management approach indicated in the different sections of this table.	Group	1 8 16	Principle 6
103-3	Evaluation of the management approach		Group		

Standards	Description	Notes/direct reference (page )	Scope	SDG	Global Compact
<b>GRI 201 Financial performance</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapters 0, 1, 2 and 5.</i>					
201-1	Evaluation of the management approach	Relationships Capital (page 46)	Group	2 5 7 8 9	
201-2	Financial implications and other risks and opportunities of climate change	Due to the nature of its activities, the Euskaltel Group has a very low environmental impact on its surroundings. This influences the scope of the environmental objectives it sets and allows the Group to ensure that any potential risk for the company's activities is being properly managed. As the primary measure of its climate change impact, the Euskaltel Group calculates its carbon footprint on a yearly basis and prepares greenhouse gas emissions reports in accordance with the methodology established by Ilobe, the Basque Country government's environmental management company. Both direct and indirect emissions are quantified in these reports. Additionally, Euskaltel publicly reports risks and opportunities in its CDP report, which is available at <a href="https://www.cdp.net/es/climate">https://www.cdp.net/es/climate</a>	Group	13	Principle 7 and 8
201-3	Obligations arising from social benefit schemes and other pension schemes	The Euskaltel Group pays a monthly contribution to the Social Security for all its employees. This amount, based on their individual salaries, is paid into the Public System of Benefits. The Group also offers a voluntary private contribution scheme with tax benefits for employees who wish to make an individual contribution. Additionally, all Euskaltel Group employees enjoy a number of social benefits, which may either be services and products sold by the Group, or health and wellness services.	Group	8	
201-4	Financial assistance from government institutions	Subsidies collected in 2017 amounted to Euros 64K. In 2016, they amounted to Euros 248K, and in 2015 to Euros 367K.	Group		
<b>GRI 202 Market presence</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapters 0 and 1.</i>					
202-1	Ratio of basic entry-level wage by gender to local minimum wage	The ratio of entry-level wage to local minimum wage for the Group in 2017 was 1.36 for women and 1.58 for men.	Group	1 5 8	Principle 1 and 6
202-2	Percentage of senior managers coming from the local community	The Management Committee comprises the CEO and the heads of the Decision Centres. These areas receive reports from the Function Departments, the majority of which relate to the local community. The Group's executive team comprises the Chairman, the CEO, the heads of the Decision Centres and the heads of the Function Departments. The Euskaltel Group believes that the "open door" policy espoused by its executive team, which bears ultimate responsibility for people management within the organisation, is the best way of channelling the suggestions employees may have regarding the Group's performance in the Basque Country, Galicia and Asturias.	Group	8	Principle 6
<b>GRI 203 Indirect economic impacts</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapters 0, 3 and 5.</i>					
203-1	Investment in infrastructure and support services	Customer Capital (page 34, 35 and 36)	Group	1 2 3 4 5 6 8 10 11 12 13 14 15	
203-2	Significant indirect economic impacts	Euskaltel bases its aspirations as a comprehensive telecommunications operator with a guaranteed future on the deployment of its own high-performance network and capillarity to provide a wide range of added-value services.	Group	1 2 3 4 5 6 8 10 11 12 13 14 15	

Standards	Description	Notes/direct reference (page )	Scope	SDG	Global Compact
<b>GRI 204 Acquisition practices</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 5.</i>					
204-1	Proportion of spending on local suppliers	Relationships Capital (page 47) See Appendix (page 75)	Group	12	
<b>GRI 205 Anti-corruption</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 1.</i>					
205-1	Transactions examined in connection with corruption-related risks	No evaluations were carried out in 2017 in respect of corruption risks.	Group	16	Principle 10
205-2	Communication and training on anti-corruption policies and procedures	Supervision of compliance with the code is entrusted to the Corporate Defence Committee, which bears ultimate responsibility for the effective supervision and monitoring of the regulatory environment affecting the Group's business.  Additionally, in June, the Board of Directors appointed a Compliance Officer for the Euskaltel Group, who will be responsible for reducing any risks of regulatory non-compliance, and to supervise and monitor compliance with all applicable regulations.  In December 2017, the Board of Directors approved an Anti-Corruption Policy included in the Euskaltel Group's Corporate Governance System, to promote compliance with anti-corruption legislation across the Organisation, and uphold honesty – a value included in the Group's Code of Ethics – over any form of bribery or corruption.	Group	16	Principle 10
205-3	Confirmed corruption incidents and actions taken	During 2017, no incidents occurred that involved a severe breach of regulations or of the good governance practices established in the company.	Group	16	Principle 10
<b>GRI 206 Unfair competition practices</b> <i>This issue is immaterial to the Euskaltel Group.</i>					
206-1	Legal actions relating to matters of unfair competition, anti-competitive conduct and monopolistic practices	No official judgements or decisions were issued that affect the company in this regard.	Group	16	
<b>GRI 301 Materials</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 4.</i>					
301-1	Materials used by weight or volume	Natural Capital (page 43)	Group	8 12	
301-2	Recycled materials consumed	<ul style="list-style-type: none"> <li>Purchase of refurbished customer equipment vs. total equipment purchased: 1.95% in 2017.</li> <li>Recycled paper to total paper consumption in all uses: 2.8% in 2017. See Annex 301-2 (page 74)</li> <li>Refurbished customer equipment compared to total equipment placed on the market was 55%. See Annex 301-3 (page 74)</li> </ul>	Group	8 12	Principle 7 and 8
301-3	Reused products and packaging materials	Natural Capital (page 41) See Annex 301-3 (page 74)	Group	8 12	Principle 7, 8 and 9
<b>GRI 302 Energy</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 4.</i>					
302-1	Energy consumption within the organisation	Natural Capital (page 43)	Group	7 8 12 13	Principle 7 and 8
302-2	Energy consumption outside of the organisation	Natural Capital (page 43)	Group	7 8 12 13	Principle 7 and 8
302-3	Energy intensity	Natural Capital (page 43)	Group	7 8 12 13	Principle 8

Standards	Description	Notes/direct reference (page )	Scope	SDG	Global Compact
<b>GRI 302 Energy</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 4.</i>					
302-4	Reduction of energy consumption	<p>Natural Capital (page 43)</p> <p>The Euskaltel Group has defined an energy efficiency plan for 2019, setting out the measures for saving both electricity and fuel. This plan foresees the following actions:</p> <ul style="list-style-type: none"> <li>• Energy efficiency audit, in order to identify energy use actions that could help the Group save energy and be more efficient in that regard</li> <li>• Awareness-raising campaigns in respect of energy savings</li> <li>• Rational use of lighting at central offices, with automatic shut-off features (at data processing centres) and other features (hallways and offices)</li> <li>• Installation of more energy-efficient equipment at data processing centres (servers) and consolidation of existing servers</li> <li>• Rational use of vehicles for work-related travel and travel between the different Euskaltel Group locations</li> <li>• Use of videoconferences for meetings between different Group locations, avoiding long-distance travel.</li> </ul>	Group	7 8 12 13	Principle 7, 8 and 9
302-5	Reductions in energy requirements of products and services	The Group takes the energy requirements of customer equipment into account during the certification phase.	Group	7 8 12 13	Principle 7, 8 and 9
<b>GRI 303 Water</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 4.</i>					
303-1	Water consumption by sources	<p>Natural Capital (page 43)</p> <p>Water used by Euskaltel comes from the Consorcio de Aguas del Gran Bilbao water supply system, while water withdrawn by R comes from the Empresa Municipal de Aguas de la Coruña S.A., Aqualia and Viaqua networks, depending on the location of each work centre. As for the water used by Telecable, this is supplied by the Empresa Municipal de Aguas de Gijón, S.A. for the Gijón Technology Park offices, and by the network operated by FCC Aqualia (a contractor for the Oviedo Water and Sanitation Service) for the Oviedo data processing centre.</p>	Group	6 12	Principle 7 and 8
303-2	Water sources significantly affected by water extraction	During 2017, no water sources were significantly affected by withdrawal of water by the Group.	Group	6 12	Principle 7 and 8
303-3	Water recycled and reused	No water is recycled or reused by the Group.	Group	6 8 12	Principle 8 and 9
<b>GRI 304 Biodiversity</b> <i>This issue is immaterial to the Euskaltel Group.</i>					
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	The Euskaltel Group does not own any land in areas of high biodiversity value. During 2017, 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
304-2	Significant impacts on biodiversity of operations, products and services		Group	6 14 15	Principle 8
304-3	Habitats protected or restored		Group	6 14 15	Principle 8

Standards	Description	Notes/direct reference (page )	Scope	SDG	Global Compact
<b>GRI 304 Biodiversity</b>					
<i>This issue is immaterial to the Euskaltel Group.</i>					
304-4	Species included in the IUCN Red List and in national conservation lists whose habitats are located in areas affected by operations	The Euskaltel Group does not own any land in areas of high biodiversity value. During 2017, 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
<b>GRI 305 Emissions</b>					
<i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 4.</i>					
305-1	Direct GHG emissions (scope 1)	Natural Capital (page 43) The emission sources considered in scope 1 are: use of fuel in generators and by company vehicles during work trips, plus emissions of fluorinated greenhouse gases. See Annex 305-1 (page 74)	Group	3 12 13 14 15	Principle 7, 8 and 9
305-2	Indirect GHG emissions (scope 2)	Natural Capital (page 43) The emission source considered under scope 2 is the use of electricity. See Annex 305-2 (page 74)	Group	3 12 13 14 15	Principle 7, 8 and 9
305-3	Other indirect GHG emissions (scope 3)	Natural Capital (page 43) The emission sources considered in scope 3 are: use of fuel in transport means not owned by the Group but used for company purposes (employee vehicles, planes, trains, taxi, etc.). See Annex 305-3 (page 74)	Group	3 12 13 14 15	Principle 8
305-4	Intensity of GHG emissions	Natural Capital (page 43) Emissions (scopes 1 and 2) are divided by the sum of products sold. See Annex 305-4 (page 74)	Group	12 13 14 15	Principle 8 and 9
305-5	Reduction of GHG emissions	Natural Capital (page 41, 42 and 43)	Group	12 13 15	Principle 8 and 9
305-6	Emissions of ozone-depleting substances	The Euskaltel Group does not produce, import or export ozone-depleting gases. 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 and 9
305-7	NOx, SOx and other significant atmospheric emissions	See Annex 305-7 (page 74)	Group	3 12 13 14 15	Principle 8 and 9
<b>GRI 306 Effluents and waste</b>					
<i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 4.</i>					
306-1	Total water discharge according to quality and destination	The Euskaltel Group does not discharge industrial waste water. Sewage water is discharged to the Consorcio de Aguas del Gran Bilbao water treatment system, in the case of Euskaltel, and to the Empresa Municipal de Aguas de la Coruña S.A., Aqualia and Viaqua networks for R, depending on the location of each work centre. Telecable discharges its sewage water to the network of Empresa Municipal de Aguas de Gijón, S.A. for the Gijón Technology Park offices, and to the network operated by FCC Aqualia (a contractor for the Oviedo Water and Sanitation Service) for the Oviedo data processing centre.	Group	3 6 12 14	Principle 7 and 8
306-2	Waste by type and method of treatment	Natural Capital (page 43)	Group	3 6 12	Principle 7 and 8
306-3	Significant spills	No significant spills were recorded in 2017.	Group	3 6 12 14 15	Principle 8

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Standards	Description	Notes/direct reference (page )	Scope	SDG	Global Compact												
<b>GRI 403 Occupational health and safety</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 2.</i>																	
403-2	Types and rates of accidents at work, occupational illnesses, work days lost and absenteeism, and number of related deaths	Human Capital (page 28) See Annex 403-2 (page 75)	Group	3 8													
403-3	Workers with a high risk or high incidence of work-related illnesses	No professional activities or job positions within the Group have been identified as having a high incidence or high risk of work-related disease.	Group	3 8													
403-4	Health and safety issues addressed in formal agreements with employees' legal representatives	Human Capital (page 27 and 28)	Group	3 8													
<b>GRI 404 Training and education</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 2.</i>																	
404-1	Average training hours per year per employee	Human Capital (page 25) Number of training hours by position and gender, as shown in the table below: <table><tr><td></td><td>Directors</td><td>Managers</td><td>Other professions</td></tr><tr><td>Men</td><td>2,874.5</td><td>2,429.5</td><td>9,324.5</td></tr><tr><td>Women</td><td>777.5</td><td>1,033.5</td><td>9,156.5</td></tr></table>		Directors	Managers	Other professions	Men	2,874.5	2,429.5	9,324.5	Women	777.5	1,033.5	9,156.5	Group	4 5 8	Principle 6
	Directors	Managers	Other professions														
Men	2,874.5	2,429.5	9,324.5														
Women	777.5	1,033.5	9,156.5														
404-2	Programmes to improve employee skills and provide assistance for transition	The Euskaltel Group fosters practical skills in terms of both technical and non-technical abilities. The Group also has an outplacement programme in place, which provides psychological counselling and support for transition, with the aim of finding new opportunities and identifying professional alternatives.	Group	4 8													
404-3	Percentage of employees receiving performance and career development reviews	The percentage of people who are assessed for their performance is 75%, as shown in the table below: <table><tr><td></td><td>2015</td><td>2016</td><td>2017</td></tr><tr><td>Euskaltel</td><td>98.83%</td><td>99.50%</td><td>100%</td></tr><tr><td>R</td><td>96.52%</td><td>95.00%</td><td>100%</td></tr></table> Telecable does not carry out performance assessments		2015	2016	2017	Euskaltel	98.83%	99.50%	100%	R	96.52%	95.00%	100%	Group	4 5	Principle 6
	2015	2016	2017														
Euskaltel	98.83%	99.50%	100%														
R	96.52%	95.00%	100%														
<b>GRI 405 Diversity and equal opportunities</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 2.</i>																	
405-1	Diversity among the workforce and the governing bodies	See Annex 405-1 (page 75)	Group	5 8 10	Principle 6												
405-2	Ratio of women's remuneration with respect to men's	In line with the Group's people management policy, salaries are determined on an individual basis; that is, each person is compensated in line with the responsibility assigned, their performance and their contribution of value to the company. No differences are established in respect of gender, age or other such factors.	Group	5 8 10	Principle 6												
<b>GRI 406 Non-discrimination</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 2.</i>																	
406-1	Incidents of discrimination and corrective actions put in place	No incidents of discrimination occurred in 2017.	Group	5 8 16	Principle 6												
<b>GRI 407 Freedom of association and collective bargaining</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 2.</i>																	
407-1	Operations or suppliers where freedom of association and collective bargaining may be at risk	Human Capital (page 23)	Group	8 16	Principle 3												
<b>GRI 408 Child labour</b> <i>This issue is immaterial to the Euskaltel Group.</i>																	
408-1	Operations and suppliers identified as having significant risk for incidents of child exploitation	Prevailing legislation guarantees this prohibition. Article 6 of the Employment Statute prohibits the employment of under-age children.	Group	8 16	Principle 5												



Standards	Description	Notes/direct reference (page )	Scope	SDG	Global Compact
<b>GRI 409 Forced labour</b> <i>This issue is immaterial to the Euskaltel Group.</i>					
409-1	Operations and suppliers having a significant risk for incidents of forced labour	Prevailing legislation guarantees this prohibition. Employment must be offered freely, and employees must be free to leave their employment whenever they choose. Article 49 of the Employment Statute acknowledges the right of employees to leave their employment voluntarily whenever they choose to do so.	Group	8 16	Principle 4
<b>GRI 410 Security practices</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 2.</i>					
410-1	Security personnel trained in Human Rights policies and/or procedures	Euskaltel Group security personnel do not have dealings with the general public. These employees are duly identified and have received the requisite training in respect of Euskaltel's internal procedures and rules, the systems and equipment used, first aid, and data protection.	Group	16	Principle 1 and 2
<b>GRI 411 Rights of the indigenous population</b> <i>This issue is immaterial to the Euskaltel Group.</i>					
411-1	Total number of cases of violations of indigenous peoples' rights	In 2017, no groups of indigenous peoples were affected by the Group's activity.	Group	11 16	Principle 1
<b>GRI 412 Human Rights assessment</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 1.</i>					
412-1	Operations that have been subject to Human Rights reviews or impact assessments	All Euskaltel Group centres are regularly inspected to ensure that occupational health and safety conditions are optimal.	Group	11 16	Principle 1
412-2	Employee training on Human Rights policies and procedures	In 2017 the staff attended seminars on integrating corporate values into their daily work. A total of 339 employees were trained on matters including respect, approachability and honesty.	Group		Principle 1 and 2
412-3	Significant investment agreements and contracts that include Human Rights clauses and/or have been subject to Human Rights assessments	No significant investment agreements include human rights clauses or undergo human rights screening, except for in respect of regulatory compliance with safety issues.	Group		Principle 1 and 2
<b>GRI 413 Local communities</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 5.</i>					
413-1	Operations involving the local community, impact assessments, and development programmes	Relationships Capital (page 48-51)	Group	11	Principle 1
413-2	Operations having significant current and potential negative impacts on local communities	None of the Euskaltel Group's operations centres have or could have negative impacts on local communities.	Group	1 2 11	Principle 1
<b>GRI 414 Social assessment of suppliers</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 5.</i>					
414-1	New suppliers evaluated under social criteria	Given that suppliers are evaluated in respect of key corporate risks, the Group does not deem it necessary to conduct a further analysis focused on labour practices.	Group	5 8 16	Principle 2
414-2	Negative social impacts on the value chain and actions implemented	The Group does not deem it necessary to conduct a further analysis focused on these aspects.	Group	5 8 16	Principle 2
<b>GRI 415 Public policy</b> <i>This issue is immaterial to the Euskaltel Group.</i>					
415-1	Political contributions	The Euskaltel Group does not make any donations to political parties or their candidates.	Group		Principle 10

Standards	Description	Notes/direct reference (page)	Scope	SDG	Global Compact
<b>GRI 416 Customer health and safety</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapters 1 and 3.</i>					
416-1	Assessment of health and safety impacts of products and services	The Euskaltel Group uses and places on the market equipment manufactured by third parties, ensuring that both the equipment it purchases and those it sells comply with current legislation on electromagnetic fields. With regard to radio emissions, the Euskaltel Group pays particular attention to compliance with current legislation in its deployment of the LTE (4G) network, whose emissions are measured and reported to the relevant official agencies. A customer service telephone line is available to users to receive information about the Group's policy in this regard. Although Euskaltel does not manufacture mobile handsets, all the models it sells are subject to an approval process, and suppliers are required to meet the requirements of European Directive 1999/5/CE (R&TTE), which include a specific absorption rate and EMC electromagnetic compatibility tests.	Group	12	
416-2	Non-compliance incidents relating to health and safety impacts of products and services	No fines or sanctions were received in this respect.	Group	16	
<b>GRI 417 Marketing and labelling</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapter 3.</i>					
417-1	Product and service information and labelling requirements	All products offered by the Euskaltel Group are certified and meet the requirements set by different national and international bodies. The company complies with legal requirements regarding packaging labelling, in accordance with Law 11/1997 on packaging and packaging waste. All labels state that the company complies with prevailing legislation and that it contributes to the future management of waste generated by packaging. The company also cooperates with the integrated management system organisation Ecoembes for this type of waste.	Group	12	
417-2	Non-compliance incidents relating to information and labelling of products and services	No fines or sanctions were received in this respect.	Group	16	
417-3	Non-compliance incidents relating to marketing communications	Penalty proceedings involving a Euros 35,000 fine in connection with the failure to notify price changes in advance, as legally required. Currently suspended. No further non-compliances have been recorded in 2017.	Group	16	
<b>GRI 418 Customer privacy</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapters 1 and 3.</i>					
418-1	Substantial complaints related to breaches of customer privacy and loss of customer data	No duly-grounded complaints of this type were received in 2017.	Group	16	
<b>GRI 419 Socio-economic compliance</b> <i>Issue included in the materiality analysis and in the Euskaltel Group's 2016–2018 CSR Plan. Management and evaluation approach set out in chapters 1 and 3.</i>					
419-1	Non-compliance with laws and regulations in the social and economic area	No penalty proceedings were opened in this connection in 2017. The situation of the penalty proceedings started in 2016 is as follows: <ul style="list-style-type: none"> <li>• Penalty proceedings for price fixing in premium-rate services, involving a EUR 240,000 fine, were previously resolved through payment of the fine. An appeal was filed in 2017, which was deemed inadmissible.</li> </ul> Claims received through customer organisations are disclosed in Appendix (page 74).	Group	16	

# GRI Indicators Appendix

## 102-8 Information on employees

Category	2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Directors	52	9	61	48	9	57	34	8	42
Managers	71	32	103	66	34	100	34	16	50
Other professionals	185	194	379	182	188	370	342	271	613
<b>TOTAL</b>	<b>308</b>	<b>235</b>	<b>543</b>	<b>296</b>	<b>231</b>	<b>527</b>	<b>410</b>	<b>295</b>	<b>705</b>

## 301-2 Recycled input materials used

	2015	2016	2017
Percentage	2.8%	3.3%	2.8%

## 301-3 Reclaimed products and their packaging materials

	2015	2016	2017
Percentage	40.3%	35.5%	43.0%

## 305-1, 2, 3 and 4 Emissions

		2015	2016	2017	Units
Direct GHG emissions (Scope 1)	CO <sub>2</sub> (*)	169.36	147.46	161.00	t. CO <sub>2</sub> eq.
	CH <sub>4</sub> (*)	0.21	0.19	0.17	t. CO <sub>2</sub> eq.
	N <sub>2</sub> O (*)	2.19	1.94	1.60	t. CO <sub>2</sub> eq.
	HFC (*) (**)	652.13	766.24	1022.09	t. CO <sub>2</sub> eq.
	PFC (*) (**)	0.00	0.00	0.00	t. CO <sub>2</sub> eq.
	SF <sub>6</sub> (*) (**)	0.00	0.00	0.00	t. CO <sub>2</sub> eq.
Energy indirect GHG emissions (Scope 2)	CO <sub>2</sub> (*)	13,190.62	9,479.44	10,940.47	t. CO <sub>2</sub> eq.
GHG emissions intensity	CO <sub>2</sub>	6.13	4.49	4.43	kg. CO <sub>2</sub> e./prod.
GHG emissions (Scope 3)	CO <sub>2</sub>	259.32	325.77	320.40	t. CO <sub>2</sub> eq.

(\*) The method and conversions from the Iohbe Stop CO2 tool are used to calculate GHG emissions.

(\*\*) The Global Warming Potential (GWP) data published in European Regulation (EC) no. 517/2014 are used to calculate HCFC, HFC and SF6 emissions in tonnes of CO2 equivalent.

## 305-5 Environmental investment

	2015	2016	2017
Waste management (managers and means)	27,118	23,222	16,933
Consultancy and audits	28,780	14,728	9,881
<b>TOTAL</b>	<b>55,898</b>	<b>37,950</b>	<b>26,814</b>

## 305-7 Other significant air emissions (tonnes)

		2015	2016	2017
Other air emissions	SO <sub>2</sub>	0.0008	0.0008	0.0007
	NOX	0.6968	0.6066	0.5719
	Partículas Sólidas	0.0591	0.0515	0.0485

The "EMEP/EEA air pollutant emission inventory guidebook 2013" by the European Environment Agency is used to calculate SO<sub>2</sub>, NOX and SP emissions.

## Euskaltel Group claims\*

	2015	2016	2017*
<b>Residential</b>	<b>891</b>	<b>874</b>	<b>1,220</b>
IGC + KontsumoBIDE + TC**	842	826	1,111
SESIAD	49	48	109
<b>Business</b>	<b>77</b>	<b>76</b>	<b>122</b>
IGC + KontsumoBIDE + TC**	69	66	101
SESIAD	8	10	21
<b>Overall total</b>	<b>968</b>	<b>950</b>	<b>1,342</b>

\*Telecable data include claims from 1 January 2017

\*\*TC: Includes claims received through the Health and Consumer Affairs Agency, the City Council Office of Consumer Affairs, the Consumers' Union of Spain, the Consumers and Users Organisation, and the Consumer Arbitration Board.

SESIAD: State Secretariat for the Information Society and the Digital Agenda

## A total of 3 people with functional diversity worked at the Euskaltel Group in 2017

### 401.1 New employee hires and employee turnover

	Under 30 years old		Between 31 and 50		Over 50 years old	
	Men	Women	Men	Women	Men	Women
2015	1	0	3	0	0	1
2016	3	0	0	0	2	0
2017	16	8	6	8	1	0

### The external employee turnover index by gender and age

	Under 30 years old		Between 31 and 50		Over 50 years old	
	Men	Women	Men	Women	Men	Women
2015	0	0	5	8	5	0
2016	1	0	7	3	7	0
2017	3	3	16	8	13	2

Men Women

### Euskaltel Group's Suppliers

Company / Location	Suppliers	Local suppliers	% of local suppliers	% Purchase volume
<b>Euskaltel</b> / Basque Country	606	361	59.6%	59.1%
<b>R</b> / Galicia	579	324	56.0%	30.3%
<b>Telecable</b> / Asturias	162	52	32.1%	38.6%
<b>Euskaltel Group</b> / Other regions	550	NA	NA	51.4%

### 403.2 Types of injury and rates of injury, occupational diseases, lost days and absenteeism

	Absenteeism rate Euskaltel		Absenteeism rate R		Absenteeism rate Telecable		Absenteeism rate Grupo total	
	Men	Women	Men	Women	Men	Women	Men	Women
2015	0.72	3.48	0.35	1.32	---	---	0.55	2.86
2016	1.53	3.48	1.08	2.33	---	---	1.32	3.15
2017	1.23	3.43	1.39	2.08	1.99	2.12	1.51	2.86

### Severity and frequency rates

	2015		2016		2017	
	Euskaltel	R	Euskaltel	R	Euskaltel	Telecable
Severity rate	0.19	0.24	0	0	0	0.14
Frequency rate	2.07	0.73	0	0	0	3.01

### 405.1 Composition of governance bodies and breakdown of employees by professional category and gender, age, minority group and other indicators of diversity

		2015			2016			2017		
		Men	Women	Directors	Men	Women	Directors	Men	Women	Directors
>50	Men	21	10	25	25	10	23	46	12	20
	Women	6	0	2	10	0	2	17	0	1
30>50	Men	158	61	27	152	56	25	277	22	14
	Women	182	32	7	173	34	7	244	16	7
≤30	Men	6	0	0	5	0	0	19	0	0
	Women	6	0	0	5	0	0	10	0	0

Men Women Directors

## **EUSKATEL GROUP**

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Derio, 27 February 2018

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 for the period ended 31 December 2017.

The directors declare that they have signed each of the above-mentioned documents in their own hand, and in witness thereof sign below.

Signed:

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**Mr. Alberto García Erauzkin**

**(Chairman)**

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**Mr. Francisco Manuel Arteche Fernández-Miranda**

**(Chief Executive Officer)**

---

**Mr. José Ángel Corres Abasolo**

**(Vice Chairman)**

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**Kartera 1, S.L., represented by**

**Ms. Alicia Vivanco González**

**(Board member)**

---

**Mr. Luis Ramón Arrieta Durana**

**(Board member)**

---

**Mr. Robert Samuelson**

**(Board member)**

---

**Mr. Javier Fernández Alonso**

**(Board member)**

---

**Ms. Belén Amatriain Corbi**

**(Board member)**

---

**Mr. Iñaki Alzaga Etxeita**

**(Board member)**

---

**Ms. Elisabetta Castiglioni**

**(Board member)**

---

**Mr. Miguel Ángel Lujua Murga**

**(Board member)**

---

**Mr. Jon James**

**(Board member)**