KPMG

Euskaltel, S.A.

Condensed Consolidated Interim Financial Statements

30 June 2019

Consolidated Interim Directors' Report

2019

(With Limited Review Report Thereon)

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

KPMG Auditores, S.L.
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Planta 17
48009 Bilbao

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

Limited Review Report on the Condensed Consolidated Interim Financial Statements

To the Shareholders of

Euskaltel, S.A. at the request of the Audit and Control Committee

REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Introduction

We have conducted a limited review of the accompanying condensed consolidated interim financial statements (the "interim financial statements") of Euskaltel, S.A. (the "Company") and subsidiaries (the "Group"), which comprise the statement of financial position at 30 June 2019 and the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes thereto, all of which are consolidated and condensed, corresponding to the six-month period ended 30 June 2019. The Company's directors are responsible for preparing the interim financial statements in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union and covering the preparation of condensed interim financial information, pursuant to article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on the interim financial statements based on our limited review.

Scope of the review

We have carried out our limited review in accordance with International Standard on Review Engagements (ISRE) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements comprises posing questions, primarily to personnel responsible for financial and accounting matters, and applying analytical procedures and other review procedures. The scope of a limited review is substantially less than that of an audit performed in accordance with prevailing auditing standards in Spain and, therefore, we are unable to provide assurance that all significant matters that would have been identified in an audit have come to our attention. Consequently, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

As a result of our limited review, which under no circumstances may be understood to be an audit, we did not become aware of any matters that would lead us to conclude that the accompanying interim financial statements for the six-month period ended 30 June 2019 were not prepared, in all significant respects, in accordance with International Accounting Standard (IAS) 34, as adopted by the European Union, pursuant to article 12 of Royal Decree 1362/2007 on the preparation of condensed interim financial statements.

Emphasis of matter

We cite the accompanying note 2, which indicates that the accompanying interim financial statements do not include all the information that would be required in complete consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and that accordingly the accompanying interim financial statements should be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2018. This matter does not modify our conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The accompanying consolidated interim Directors' Report for the six-month period ended 30 June 2019 sets out the explanations that the Company's directors consider relevant in respect of the significant events occurred during the period and their impact on the interim financial statements presented, of which it does not form part, as well as the information required in accordance with article 15 of Royal Decree 1362/2007. We have verified that the accounting information set out in the aforementioned Directors' Report is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2019. Our work is limited to the verification of the consolidated interim Directors' Report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Euskaltel, S.A. and subsidiaries.

Other matters

This report was prepared at the request of the Audit and Control Committee in connection with the disclosure of the interim financial report required under article 119 of the consolidated text of the Spanish Securities Market Law, implemented through Royal Decree 1362/2007 of 19 October.

KPMG Auditores, S.L.

[Signed on the original in Spanish]

Cosme Carral López-Tapia

26 July 2019

Condensed Consolidated Interim Financial Statements for the six-month period ended 30 June 2019

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

EUSKALTEL, S.A. AND SUBSIDIARIES

Condensed Consolidated Statement of Financial Position at 30 June 2019 and 31 December 2018

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

ASSETS	Notes	30.06.2019	31.12.2018
NON-CURRENT ASSETS		2,765,057	2,721,017
Goodwill		1,024,923	1,024,923
Intangible assets	5	304,599	310,789
Property, plant and equipment	6	1,302,749	1,252,447
Financial assets	7	9,002	7,773
Deferred tax assets		123,784	125,085
CURRENT ASSETS		149,546	177,671
Inventories		6,435	5,979
Trade and other receivables	7	52,043	51,132
Current tax assets		380	867
Other current assets		10,075	12,337
Cash and cash equivalents	7	80,613	107,356
TOTAL ASSETS		2,914,603	2,898,688

EQUITY AND LIABILITIES	Notes		
EQUITY			
Capital and reserves	8	967,857	974,886
Capital		535,936	535,936
Share premium		355,165	355,165
Retained earnings		78,169	110,461
(Own shares)		(1,349)	(1,602)
Interim dividend paid during the year		-	(25,010)
Other comprehensive income		(64)	(64)
Equity attributable to equity holders of the Parent		967,857	974,886
NON-CURRENT LIABILITIES		1,554,741	1,562,189
Prepayments for non-current assets		7,315	2,330
Non-current payables	9	1,388,495	1,447,317
Derivative financial instruments	9	1,092	1,330
Other financial liabilities	9	79,197	24,150
Deferred tax liabilities		78,642	87,062
CURRENT LIABILITIES		392,005	361,613
Current payables	9	185,459	154,113
Trade and other payables	9	128,127	150,077
Current tax liabilities		10,839	1,128
Provisions		1,531	1,677
Other current liabilities	8 & 9	66,049	54,618
TOTAL EQUITY AND LIABILITIES		2,914,603	2,898,688

Derio, 24 July 2019

EUSKALTEL, S.A. AND SUBSIDIARIES

Condensed Consolidated Income Statement for the six-month periods ended 30 June 2019 and 30 June 2018

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

	Notes	30.06.2019	30.06.2018
Revenue	4	334,565	340,311
Work performed by the entity and capitalised	4	8,025	8,357
Supplies	10	(85,187)	(79,350)
Other operating income	4	136	607
Personnel expense	10	(22,341)	(22,719)
Other operating expenses	10	(80,176)	(85,011)
Amortisation and depreciation	5 & 6	(101,239)	(99,453)
RESULTS FROM OPERATING ACTIVITIES		53,783	62,742
Finance income		258	96
Finance cost		(24,959)	(24,309)
NET FINANCE COST	10	(24,701)	(24,213)
PROFIT BEFORE INCOME TAX		29,082	38,529
Income tax	11	(6,181)	(9,718)
PROFIT FOR THE YEAR		22,901	28,811
Profit for the year attributable to equity holders of the Parent		22,901	28,846
Profit for the year attributable to non-controlling interests		-	(35)
		22,901	28,811
Earnings/(loss) per share (euros)		0.13	0.16

Derio, 24 July 2019

EUSKALTEL, S.A. AND SUBSIDIARIES

Condensed Consolidated Statement of Comprehensive Income for the six-month periods ended 30 June 2019 and 30 June 2018

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

	Notes	30.06.2019	30.06.2018
a) Consolidated profit/(loss) for the year		22,901	28,811
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		22,901	28,811
Attributable to equity holders of the Parent		22,901	28,846
Attributable to non-controlling interests		-	(35)
		22,901	28,811

Derio, 24 July 2019

EUSKALTEL, S.A. AND SUBSIDIARIES

Condensed Consolidated Statement of Changes in Equity for the six-month periods ended 30 June 2019 and 30 June 2018

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

	Registered capital	Share premium	Accumulated gains	Own shares	Other comprehensive profit/(loss)	Interim dividend	Subtotal	Non-controlling interests	Total
Balance at 31 December 2017	535,936	355,165	96,815	(1,887)	(64)	(22,688)	963,277	365	963,642
First-time application adjustments - IFRS 9	-	-	976	-	-	-	976	-	976
First-time application adjustments - IFRS 15	-	-	(607)	-	-	-	(607)	-	(607)
Adjusted balance at 1 January 2018	535,936	355,165	97,184	(1,887)	(64)	(22,688)	963,646	365	964,011
Other comprehensive income	-	-	28,846	-	-	-	28,846	(35)	28,811
Transactions with shareholders									
Own shares	-	-	188	251	-	-	439	-	439
Dividends	-	-	(49,663)	-	-	22,688	(26,975)	-	(26,975)
Other movements	-	-	-	-	-	-	-	2	2
Balance at 30 June 2018	535,936	355,165	76,555	(1,636)	(64)	-	965,956	332	966,288
Balance at 31 December 2018	535,936	355,165	110,461	(1,602)	(64)	(25,010)	974,886	-	974,886
Other comprehensive income	-	-	22,901	-	-	-	22,901	-	22,901
Transactions with shareholders									
Own shares	-	-	187	253			440	-	440
Dividends	-	-	(55,380)	-		25,010	(30,370)	-	(30,370)
Balance at 30 June 2019	535,936	355,165	78,169	(1,349)	(64)	-	967,857	-	967,857

Derio, 24 July 2019

EUSKALTEL, S.A. AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flow for the six-month periods ended 30 June 2019 and 30 June 2018

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

		30.06.2019	30.06.2018
Profit for the year before tax		**29,082**	**38,529**
Adjustments for		**130,489**	**111,732**
Amortisation and depreciation	Notes 5 & 6	101,239	99,453
Impairment allowances		2,339	2,501
Other income and expense	Note 10.1	2,216	(14,435)
Finance income	Note 10.4	(29)	(96)
Finance cost	Note 10.4	24,863	24,260
Exchange gains / (losses)	Note 10.4	99	(343)
Change in fair value of financial instruments	Note 10.4	(238)	392
Changes in operating assets and liabilities		**(24,632)**	**(9,190)**
Inventories		(456)	(106)
Trade and other receivables		(5,335)	(6,961)
Other current assets		1,062	(1,263)
Trade and other payables		(26,472)	3,187
Other current liabilities		6,569	(4,047)
Other cash flows from /(used in) operating activities		**(30,941)**	**(17,595)**
Interest paid		(21,549)	(20,090)
Income tax paid		(9,392)	2,495
Cash flows from / (used in) operating activities		**103,998**	**123,476**

Derio, 24 July 2019

EUSKALTEL, S.A. AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flow for the six-month periods ended 30 June 2019 and 30 June 2018

(expressed in thousands of euros)

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

		30.06.2019	30.06.2018
Payments for investments		**(72,934)**	**(67,947)**
Intangible assets	Note 5	(27,774)	(28, 070)
Property, plant and equipment	Note 6	(45,160)	(39,877)
Cash flows from / (used in) investing activities		**(72,934)**	**(67,947)**
Proceeds from and payment for equity instruments		**440**	**439**
Disposal of own equity instruments		440	439
Proceeds from and payment for financial liability instruments		**(58,247)**	**(43,717)**
Issue of:		60,918	61,570
Loans and borrowings		60,000	60,070
Grant payments		918	1,500
Repayment of:		(94,179)	(82,599)
Loans and borrowings	Note 9	(90,000)	(82,599)
Other financial liabilities		(4,179)	-
Dividends and interest on other equity instruments paid		(24,986)	(22,688)
Dividends		(24,986)	(22,688)
Cash flows from / (used in) financing activities		**(57,807)**	**(43,278)**
Cash and cash equivalents at beginning of the year		107,356	58,652
Cash and cash equivalents at year end		80,613	70,903
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(26,743)**	**12,251**

Derio, 24 July 2019

EUSKALTEL, S.A. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

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

NOTE 1.- General information

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

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

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

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

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

On 21 June 2018, the board of directors of Telecable de Asturias, S.A., Telecable Capital Holding, S.A. and Parselaya, S.A. approved the merger of Telecable de Asturias, S.A. by the absorption of Telecable Capital Holding, S.A. and Parselaya, S.A. On 7 March 2019, Medbuying Technologies Group, S.L. (Medbuying) was incorporated with the Group having a 10% shareholding. The corporate purpose of this company is to centralise the purchase of mobile terminals, routers and other telecommunications accessories. On 15 April 2019 the boards of directors of R Cable y Telecomunicaciones Galicia, S.A. and Telecable de Asturias, S.A. approved the merger of these companies; the first of these is the absorbing company. On 17 June 2019, R Cable y Telecomunicaciones Galicia, S.A. changed its name to R Cable y Telecable Telecomunicaciones, S.A.U.

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

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NOTE 2.- Basis of presentation

2.1. True and fair view

The accompanying condensed consolidated interim financial statements have been prepared on the basis of the accounting records of Euskaltel, S.A. and its subsidiaries. The condensed consolidated interim financial statements for the six-month period ended 30 June 2019 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and, in particular, with IAS 34 Interim Financial Reporting, 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 30 June 2019 and the consolidated results of operations and changes in consolidated equity and cash flows of the Group for the six-month period then ended.

In accordance with IAS 34, interim financial information is intended to provide an update on the latest complete set of consolidated annual accounts published by the Group. Accordingly, it focuses on new activities, events, and circumstances occurred during the six-month period ended 30 June 2019. Bearing in mind that the condensed consolidated interim financial statements do not contain all information required for the preparation of the annual accounts, in order to have a proper understanding of the information set out herein, these statements should be read in conjunction with the consolidated annual accounts for the year ended 31 December 2018 in accordance with IFRS-EU.

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.

IFRS 16 has been applied to these financial statements for the first time. Details of changes to accounting principles are included in note 3.

The consolidated annual accounts of the Group for the year ended 31 December 2018 were approved by the shareholders of the Company at the general meeting held on 1 April 2019.

On 24 July 2019, the directors of the Parent authorised for issue the condensed consolidated interim financial statements for the six-month period ended 30 June 2019.

The information set out in these notes is expressed in thousands of euros, except where otherwise indicated.

2.2. Comparative information

For comparative purposes, the interim financial statements include the figures for the six-month period ended 30 June 2018, except the condensed consolidated statement of financial position, where the figures refer to 31 December 2018 and coincide with the figures included in the 2018 consolidated annual accounts, except where IRFS 16 is applied (note 3.1).

2.3. Critical issues regarding the valuation and estimation of uncertainties

Preparation of the condensed consolidated interim financial statements 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.

The primary judgements made by the directors in applying the accounting policies and the main sources of uncertainty are the same as those considered in the preparation of the consolidated annual accounts for 2018, except for the new judgements and estimates relating to the adoption of IFRS 16, which are described in section 3.1.

NOTE 3.- Accounting principles

With the exception of the details set out below, in preparing the condensed consolidated interim financial statements, the same accounting principles and standards were followed as those set out in the Group's consolidated annual accounts for the year ended 31 December 2018.

The changes to accounting principles described below are expected to be reflected in the Group's consolidated annual accounts at 31 December 2019 also.

3.1. Changes in accounting criteria

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

The table below contains a summary of the impact of adopting IFRS 16 on the condensed consolidated statement of financial position at 1 January 2019.

1 January 2019 *Thousands of Euros*	Amount before adoption of IFRS 16	Adjustments for IFRS 16	Amount Statement of position
Assets			
Rights of use presented in property, plant and equipment	1,252,447	72,471	1,324,918
Non-current assets	2,721,017	72,471	2,793,488
Total assets	2,898,688	72,471	2,971,159
Liabilities			
Other financial liabilities	24,150	62,017	86,167
Non-current liabilities	1,562,189	62,017	1,624,206
Current payables	154,113	10,454	164,567
Non-current liabilities	361,613	10,454	372,067
Total liabilities	2,898,688	72,471	2,971,159

As a result of the initial adoption of IFRS 16, the Group has recognised right of use assets relating to leases previously classified as operating leases for Euros 68,059 thousand and lease liabilities for Euros 68,578 thousand at 30 June 2019.

Similarly, in terms of the accounting treatment of leases under IFRS 16, the Group has recognised a depreciation charge on the right of use assets and a finance cost instead of operating lease expenses. These are included in the condensed consolidated income statement at 30 June 2019 under Other operating expenses. In the six-month period ended 30 June 2019 the group has recorded a depreciation charge of Euros 4,412 thousand and a finance cost on leases of Euros 1,334 thousand.

The impact on the condensed statement of cash flows at 30 June 2019 was not significant.

The Euskaltel Group estimates the lease term, based on the period of that term that cannot be cancelled and the periods covered by the renewal options available to the Euskatel Group and which are considered to be reasonably certain. Assumptions are used to calculate the discount rate, which depends primarily on the incremental financing rate for the estimated terms and which represents the interest rate that a lessee would have to pay for borrowing for a similar term, and with a similar guarantee, the funds needed to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

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

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

Right of use assets

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTA 4.- Segment reporting

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

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

- Mass market
- Business
- Wholesale market and others

Details of revenue by type of customer at 30 June are as follows:

	30.06.2019	30.06.2018
Mass market customers	271,965	276,117
Business		
SMEs	*18,139*	*17,743*
Large accounts	*38,423*	*38,406*
Wholesale and other	14,199	17,009
Total	342,726	**349,275**
Work performed by the entity and capitalised	(8,025)	(8,357)
Other operating income	(136)	(607)
Revenue	334,565	**340,311**

Mass market

The Group offers customers in this category a combination of fixed-line and mobile telecommunication services, as well as other added-value services which it renders through its fibre optic network and a virtual mobile operator agreement. These customers receive combined offers of broadband access, Pay TV and fixed-line and mobile telephone services which are invoiced as a bundle at competitive prices. Similarly, for self-employed workers (Small Office / Home Office - SOHOs) we have a specific commercial package, which includes businesses with less than 10 employees. The services we sell include, inter alia, technical support, online support and electronic mail.

Business

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

- SMEs: We offer a broad array of solutions adapted to businesses with between 10 and 40 employees. Our services include broadband access with speeds of up to 350 Mbps, symmetrical fibre access with speeds of up to 1 Gbps, MPLS access, fixed-line/mobile convergence, IP Switch and advanced IT services.

- Large accounts: Our large accounts include public sector customers and large companies. Large accounts require technically complex solutions that demand tailor-made responses, including fibre access with speeds of up to 1 Gbps, MPLS access, fixed-line/mobile convergence, IP Switch, cloud firewalls and virtual data centres. We offer these types of services through a dedicated sales team that includes engineers who participate in the life cycle of the project (pre-sales, implementation and after sales service).

Wholesale market and others

We offer communication services including line access and voice and data services to other operators in the telecommunications sector who use our infrastructure and installations for providing services to their customers. Part of the revenues generated in the wholesale market come from the Group's main direct competitors, to whom we provide services such as SDH (Synchronous Digital Hierarchy) line access, Ethernet and Dark Fibre technologies, voice services (which allow distributors to complete the termination of calls originating or ending in our territory) and enabling services, which are based on our BSS networks and mobile backhaul network.

NOTE 5.- Intangible assets

During the six-month period ended 30 June 2019, additions totalled Euros 27,774 thousand (Euros 28,070 thousand at 30 June 2018) primarily related to the capitalisation of costs incurred on winning customer contracts and the capitalisation of internal costs. There were no significant disposals during the first half of 2019.

Amortisation of intangible assets stood at Euros 33,910 thousand in the period (Euros 32,501 thousand at 30 June 2018).

NOTE 6.- Property, plant and equipment

Investments in items of property, plant and equipment during the period totalled Euros 45,160 thousand (Euros 39,877 thousand at 30 June 2018) and mainly relate to the deployment of the network. There were no significant disposals during the first half of 2019.

At 30 June 2019, right of use assets (all of these assets fall under technical installations and machinery) amount to Euros 68,059 thousand.

Depreciation for the period stood at Euros 67,329 thousand (Euros 66,952 thousand at 30 June 2018).

At 30 June 2019, the estimated value of commitments to acquire items of property, plant and equipment amounted to Euros 22,641 thousand (Euros 23,673 thousand at 30 June 2018).

NOTE 7.- Financial assets

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

	Financial assets at amortised cost		Assets designated at fair value through profit and loss		Total	
	30.06.19	**31.12.18**	**30.06.19**	**31.12.18**	**30.06.19**	**31.12.18**
Non-current						
Equity instruments	-	-	1,102	101	1,102	101
Loans extended	7,303	7,067	-	-	7,303	7,067
Other non-current assets	597	605	-	-	596	605
	7,900	7,672	1,102	101	9,002	7,773
Current						
Customers	52,043	51,132	-	-	52,043	51,132
Investments	375	467	-	-	375	467
Cash and cash equivalents	80,613	107,356	-	-	80,613	107,356
	133,031	158,955	-	-	133,031	158,955

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

On 8 March 2019, Masmovil Ibercom, S.A. (MASMOVIL), Global Dominion Access, S.A. (Dominion) and Euskaltel signed an agreement to incorporate a newly created company with share capital of Euros 10,000 thousand called Medbuying Technologies Group, S.L. (Medbuying). The purpose of this company is to centralise the purchase of mobile terminals, routers and other telecommunications accessories and Euskaltel will have a 10% shareholding in it.

NOTE 8.- Equity

At their general meeting held on 1 April 2019, the shareholders resolved to distribute a complementary dividend of Euros 30,370 thousand (Euros 0.170 per share), as follows:

Basis of application	
Profit for the year	92,089
Distribution	
Legal reserve	9,209
Voluntary reserves	27,500
Interim dividend	25,010
Complementary dividend	30,370
	92,089

The dividend payable totalling Euros 30,370 thousand is recognised in other current liabilities (note 9).

At 30 June 2019, the Company held 168,102 own shares. During the six-month period, a total of 1,238,381 shares were acquired and 1,297,628 were sold.

NOTE 9.- Financial liabilities

Details of financial liabilities classified by category are as follows:

	Financial liabilities at amortised cost		Liabilities designated at fair value	
	30.06.19	31.12.18	30.06.19	31.12.18
Non-current				
Related parties				
Non-current loans received	156,300	165,267	-	-
Unrelated parties				
Loans received	1,232,195	1,282,050	-	-
Other financial liabilities	18,570	21,789	-	-
Lease liabilities (note 3.1)	58,343	-	-	-
Derivative financial instruments	-	-	1,092	1,330
	1,465,408	1,469,106	1,092	1,330
Current				
Related parties				
Current loans received	22,500	11,250	-	-
Unrelated parties				
Bonds and other marketable securities	130,700	70,700	-	-
Loans received	28,059	72,163	-	-
Lease liabilities	10,235	-	-	-
Dividend payable	30,370	25,010	-	-
Suppliers and asset purchase payables	128,127	150,077	-	-
Salaries payable	10,330	8,244	-	-
Other liabilities	4,200	1,746	-	-
	364,521	339,190	-	-

The following amendments have taken place in the 6-month period ended 30 June 2019:

- Extension of the A-2 tranche maturity date to 31 December 2023, amending the repayment schedule to extend future maturity dates and reducing the interest rate by 0.25%.
- Extension of the revolving facility maturity date to 31 December 2023.
- Add-on of tranche B-1 to tranche B-4.

These amendments have not meant a substantial change in the borrowings.

A summary of the main characteristics of the active tranches at 30 June are as follows:

	Nominal amount outstanding				
Tranche	30.06.19	31.12.18	Initial nominal amount	Interest	Maturity
B-1	-	235,000	235,000	2.75%	30/11/2022
A-2	235,000	255,000	300,000	2.00%	31/12/2023
B-4	1,070,000	835,000	835,000	2.75%	27/11/2024
Credit facility	150,000	220,000	300,000	2.25%	31/12/2023
	1,455,000	1,545,000			
Current portion	42,500	75,000			
Non-current portion	1,412,500	1,470,000			

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

	No. of six-month periods	(1)
Six-monthly maturity		
Period from 31-12-19 to 30-06-20	2	14%
Period from 31-12-20 to 30-06-21	2	16%
Period from 31-12-21 to 30-06-22	2	18%
Period from 31-12-22 to 30-06-23	2	20%
31 December 2023	1	11%

(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.*

During the 2019 six-month period, Euskaltel has promissory notes pending maturity issued for a nominal value of Euros 130,700 thousand in the context of a short-term commercial paper issue implemented in 2017 for an overall limit of Euros 200 million. These promissory notes have maturities falling between July and October 2019 and accrue interest at an average annual rate of 0.25%.

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

At 30 June 2019 and 2018, the consolidated Group has short-term credit facilities of Euros 49.25 million, in addition to the Euros 150 million of the aforementioned credit facility.

Accrued interest payable at 30 June 2019 and 31 December 2018 stood at Euros 8,281 thousand and Euros 8,950 thousand, respectively.

Interest 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. Details of the maturity of non-current loans with financial institutions, including interest, are as follows (millions of euros):

2 years	3 years	4 years	5 years	> 5 years	Total
87	96	178	143	1,085	1,589

For the six-month period ended 30 June 2019, had interest rates risen by 100 basis points, with other variables remaining constant, consolidated profit (after tax) would have fallen by Euros 3.7 million (Euros 4.93 million for the year ended 31 December 2018).

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

Upon availing of the financing arrangements, the Company pledged certain shares in Group companies, loans granted and bank accounts as collateral. Similarly, during 2016, a collateral right over the Parent's telecommunications network was lodged.

Other non-current and current financial liabilities include loans carried at amortised cost granted by different government bodies for network deployment work in certain population centres. The nominal value of the loans at 30 June 2019 comes to Euros 20,231 thousand (Euros 23,667 thousand at 31 December 2018). The Group has other non-current borrowings totalling Euros 451 thousand.

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

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

NOTE 10.- Income and expenses

10.1. Supplies

Details are as follows:

	30.06.19	30.06.18
Merchandise used		
Purchases	17,564	16,927
Changes in inventories	(456)	(129)
	17,108	16,798
Subcontracted work		
Interconnection expenses	48,877	41,701
Other supplies	19,202	20,851
	68,079	62,552
	85,187	79,350

Interconnection expenses includes discounts for certain services rendered by third parties, for an amount of Euros 18,713 thousand (Euros 23,577 thousand in the comparative period).

Discounts pending collection amounted to Euros 45,843 thousand (Euros 48,059 thousand at 31 December 2018).

Management has prepared a sensitivity analysis for the accrued discount covering +/- 5% changes in expected purchases eligible for discount and there has been no significant change to the estimates made.

10.2. Personnel expense

Details are as follows:

	30.06.19	30.06.18
Salaries and wages	17,440	17,713
Employee benefits expense (other employee benefits expense)	4,901	5,006
Total	22,341	22,719

The average headcount by gender at 30 June 2019 and 2018 is as follows:

	Average number of employees	
	30.06.19	30.06.18
Female	287	304
Male	404	437
	691	741

10.3. Other operating expenses

Details are as follows:

	30.06.19	30.06.18
Advertising	7,416	6,052
Repairs and maintenance	28,128	31,999
Services provided by third parties	18,083	18,492
Other external services and utilities	6,930	11,999
Tax	6,770	7,400
Losses, impairment and changes in provisions for business transactions	2,339	2,513
Other profit/(loss)	10,510	6,556
	80,176	85,011

Other profit/(loss) at 30 June 2019 includes indemnities amounting to Euros 6,707 thousand, expenses relating to the integration of Telecable totalling Euros 1,237 thousand, incentive plan expenses amounting to Euros 989 thousand and a charge for contributions to the Euskaltel Foundation of Euros 1,025 thousand. At 30 June 2018 it included indemnities totalling Euros 2,724 thousand, an expense for contributions to the Euskaltel Foundation amounting to Euros 972 thousand and an advisory services expense relating to Telecable's integration totalling Euros 649 thousand.

The decrease in Other external services and utilities is mainly due to the adoption of the new IRFS 16 in the six-month period ended 30 June 2019 (note 3.1).

10.4. Net finance income/(cost)

Details are as follows:

	2019	2018
Finance income		
Third parties	20	96
Finance cost		
On third party loans	(23,529)	(24,260)
On lease liabilities (note 3.1)	(1,334)	-
	(24,843)	(24,164)
Exchange gains / (losses)	(96)	343
Change in fair value of financial instruments	238	(392)
	(24,701)	**(24,213)**

NOTE 11.- Income tax

Income tax expense is calculated based on the directors' best estimate of the weighted tax rate corresponding to the full year, multiplied by the consolidated pre-tax profit for the half-year period.

The effective tax rate for the six-month period ended 30 June 2019 is estimated to be 21.3% (this rate was 25% in the six-month period ended 30 June 2018).

NOTE 12.- Related party transactions

12.1 Transactions and balances with key personnel

Details of transactions with key Company personnel during the six-month periods ended 30 June 2019 and 30 June 2018 are as follows:

	30.06.2019		30.06.2018	
	Board members	Senior management	Board members	Senior management
Salaries and wages	503	1,383	530	1,325
Other remuneration	1,399	1,868	482	2,101
	1,902	**3,251**	**1,012**	**3,426**

Other remuneration includes indemnities amounting to Euros 1,176 thousand (Euros 1,158 thousand in 2018). The Company has no pension or life insurance obligations with current or former board members, or with other members of senior management.

12.2 Transactions and balances with other related parties

Details of transactions and balances with significant shareholders during the six-month periods ended 30 June 2019 and 30 June 2018 are as follows:

	30.06.2019	30.06.2018
Sales	3,396	6,311
Services rendered	(33)	(157)
Finance cost	(2,515)	(2,348)
	848	**3,806**

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

	30.06.2019		31.12.2018	
	Current	Non-current	Current	Non-current
Receivables	870	-	664	-
Current account / Cash and equivalents	30,855	-	36,523	-
Loans granted (note 9)	(22,500)	(156,300)	(11,250)	(165,267)
Payables	(9)	-	(763)	-
	9,216	**(156,300)**	**25,174**	**(165,267)**

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

NOTE 13.- Subsequent events

On 1 April 2019, the General Shareholders' Meeting agreed to pay an interim complementary dividend against 2018 results for a gross amount of Euros 0.170 per share outstanding with dividend rights (which amounts to a maximum dividend of Euros 30.37 million). This interim dividend, totalling Euros 30.37 million, was paid to shareholders on 9 July 2019.

The agreement reached with the Chinese multinational ZTE, a strategic partner in the area of network management and maintenance, materialised in July. This agreement has led to outsourcing work involving the transfer of 39 Euskaltel Group employees from this field of business to the aforementioned multinational.

Directors’, Report
for the six-month period
ended 30 June 2019
EUSKALTEL, S.A. and subsidiaries

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

CONTENTS

1.- Introduction

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

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

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

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

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

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

The Euskaltel Group offers its services to a market of 6 million people (the Basque Country, Galicia and Asturias). Expansion has already begun into other regions (Navarre, Leon, Cantabria and La Rioja) and will lead to services for over one million new households. Furthermore, the agreement reached with RACC will mean that the Euskaltel Group will be able to offer a full portfolio of convergent fixed line and mobile telecommunications products and services to over 900,000 customers via the RACCtel+ brand. The Euskaltel Group is the leading provider of optic fibre services (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, it has the largest proprietary fibre optic network in place on the market, serving more than 785,000 mass market and business customers.

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

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

2.-Commercial activity and customer relations

Mass market

During the first half of 2019 we continued our strategy of directing our new and existing customer bases towards convergent bundles with the highest added value. In 2019, we continue to renew the convergent product offering, resulting in improvements, especially in 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 led to our portfolio of high added-value customers increasing at the end of the first half of the year compared to the figure at the end of 2018.

The first half of 2019 ends with 771,855 mass market customers, up 0.2% on December 2018 with the number of services increasing 2.3%.

This growth is chiefly backed up by strong performance in the mobile phone and pay TV segments and by an increase in customers taking up our convergent product offering, demonstrating the consolidation of high added-value customers.

Overall, we have seen an increase in postpaid mobile lines from 1,119,858 at the end of 2018 to 1,154,889 in June 2019.

In the other driving force of convergent growth, Pay TV, the offering was improved with better content, improved functionalities, a better user interface, the consolidation of Replay and Rebobina services and TV Everywhere, and an increase in video library content and the 4K service. Pay TV products are up 3.1% from 446,664 at the end of 2017 to 464,848.

Broadband products reached 586,978, representing 1.8% growth.

As a result, the Product/Customer ratio at 30 June 2019 stood at 3.7 products per customer, up 2.1% compared to December 2018.

Business Market

The Business segment has performed positively in the first half of 2019, increasing to 15,133 customers, up 2.1% with regards the number of customers at 31 December 2018.

This increase in net customers is a result of improvements in the SME segment, due mainly to a higher number of gross registrations compared to the same period in the previous year.

As a result of this increase and a solid performance in the large accounts segment as well, total revenues in the business segment are up 0.7% with regards the same period last year.

Positive developments in the SME segment are a result of marketing new product bundles for small and medium sized companies, which were launched at the end of 2018 with different in-house and third-party access solutions, thereby broadening our accessible market and sales volumes in our local markets, whilst we prepare to take advantage of expansion opportunities in the medium term.

3.- Marketing activity

During the first half of 2019, marketing activity has centred on greater efforts to achieve loyalty among our customer base. These efforts include driving new products and technologies with regards both households and mobile phones. The increase in convergent customers, the penetration of mobile services and greater numbers of customers with 4K TV enables us to achieve better customer loyalty, offering all services through a single provider and guaranteeing the best service quality.

During the first 6 months of 2019 it is important to note the increased penetration of TV and mobile phone services and the higher numbers of customers taking up the convergent product offering. In particular:

- The percentage of households with mobile phone services has increased in the market, positioning us as the second largest convergent operator in Spain (Source: IO).

- The percentage of households with TV has increased in the last six months with the 3 brands performing positively, backed up by launches in the new regions we have expanded into.

- Similarly, at 30 June 2019 the percentage of customers with the latest 4K decoders has increased to 26.7% of customers, a rise of almost 6 points compared to the 2018 reporting date.

- 4G service penetration, which is understood to be the percentage of postpaid mobile lines with 4G technology, has expanded to almost all of the Group's plant with 98% of lines being active.

- In terms of customer distribution by bundle, convergent 4P bundles continue to increase, reflecting 56% compared to the other combinations available. 82.7% of customers use convergent products.

This growth is based on a range of different tariffs, services and actions that enable us to adapt the characteristics of our offering to the needs of our customers. Below is a description of the most important events during the last few months:

- In terms of regional expansion, in 2019 we have taken clear steps to design an attractive offering that goes beyond our local markets. In January 2019 we began marketing our offering in Catalonia alongside the RACCTel+ brand thanks to an agreement signed with RACC. In February we started marketing in Leon under the R brand and in La Rioja under the Euskaltel brand.

- In April, as part of the process to unify departments and teams, the 4K Technicolor decoder was launched at Telecable with carrier billing by Netflix and Amazon. This means that customers are offered the latest advances in terms of functionality, as it is an Android environment with the potential for agile development updates and there is a marked difference with regards image quality. The improved customer experience is consolidated with this equipment, with a use figure of over 80% being reported.

- Over the six-month period, new channels and services have been incorporated into the offer in order to strengthen and unify the content proposal.

- In terms of the Internet, the boom in streaming content and the rise in connected devices mean that our customers increasingly need greater bandwidth to meet their needs. The Euskaltel Group's strategy has always been to improve our customers' connection speed and so during 2019 we have upgraded almost all customer speeds. Under the R brand this upgrade happened in the first quarter of 2019 and under Euskaltel, it happened in the second quarter. Telecable will carry out this upgrade in the fourth quarter of the year. The average Internet connection speed in Spain using a fixed line is 102Mbps, whereas this upgrade means that Euskaltel Group customers currently enjoy average speeds of 246Mbps, leading to more than double the broadband availability. Currently 99% of our plant has household connectivity in excess of 50 Mb, making us market leaders in this regard.

- In recent years, the complexity of household telecommunications solutions for Euskaltel Group customers has multiplied by the number of devices connected to household networks, especially via Wi-Fi, the equipment installed in customers' homes and via simultaneous and multi-device access to multimedia content. This is why the Euskaltel Group has worked to resolve customers' technology problems using the AYUDA and WiFI Home services.

- In December 2018 in Euskaltel and in January 2019 in R, the mobile phone portfolio was improved with new options and increased GB capacity across the main tariffs, enabling us to bring an extremely competitive offer to the market that meets our customers' growing need for mobile data use. This GB improvement has also been applied to installed base tariffs with the majority of customers on unlimited/10GB and unlimited/20GB tariffs (68%), in line with the market's most attractive rates. These service improvements have gone hand in hand with customer price updates also.

- In July, a consistent and simultaneous offer was launched across the three brands in line with the company's roadmap.

4.- Economic-financial activity and key business indicators

Key performance indicators (KPIs)

The following tables show some of our operating and financial KPIs for the first six months of 2019.

KPIs	**31/12/2018**	**30/06/2019**
Homes passed_owned (HFC & FTTH)	2,317,385	2,355,173
Accessible homes_wholesale	39,938	598,061
Mass market subs	770,143	771,855
Total services (RGUs)	2,764,099	2,827,928
Fixed Voice	620,857	621,213
Broadband	576,720	586,978
TV	446,664	464,848
Post-paid mobile	1,119,858	1,154,889
Services (RGUs) per subscriber	3.6	3.7

SMEs and Large Accounts

	31/12/2018	**30/06/2019**
Customers	14,827	15,133

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

In mobile communications, growth is underpinned by strong performance and improvements in mobile telephony and the possibility of financing purchases of mobile devices, which have all contributed to the strong performance in this area. This positive performance has also been seen in mass market postpaid mobile contract customers, with an increase in products from 1,119,858 in 2018 to 1,154,889 at 30 June 2019.

Broadband has also grown from 576,720 products in 2018 to 586,978 at 30 June 2018.

The Business segment has performed positively in the first half of 2019, increasing to 15,133 customers, up 2.1% with regards the number of customers at 31 December 2018.

Financial Statements

	30/06/2018	30/06/2019
Total revenue	**349,275**	**342,726**
Y-o-y change		*-1.9%*
o/w Mass market revenue	276,117	271,965
Y-o-y change		*-1.5%*
o/w B2B revenue	56,149	56,562
Y-o-y change		*0.7%*
o/w Wholesale and Other revenue	17,009	14,199
Y-o-y change		*-16.5%*
EBITDA	**168,751**	**165,532**
% of total revenue	*48.3%*	*48.3%*
NET PROFIT	**28,811**	**22,901**
Capex	**-67,946**	**-72,934**
% of total revenue	*-19.5%*	*-21.3%*
Operating Cash Flow	**100,805**	**92,598**
% of total revenue	*28.9%*	*27.0%*

Mass market revenues reflect a decrease for the period, dropping 1.5% compared to the prior year. This is the result of huge commercial pressure, particularly with regards prices, seen in the second half of 2018, although a pattern of growth has once again been seen in Q2 2019.

Revenue from the business market amounted to Euros 56.6 million, up 0.7% on the prior year driven by the SME market.

Wholesale and other revenue decreased by 16.5% to Euros 14.2 million, essentially as a result of Cinfo leaving the consolidation scope in July 2018 and the impact of IFRS 15 in the first half of 2018.

EBITDA stands at Euros 165.5 million at 30 June 2019, reflecting a decrease in absolute terms compared to the same period last year with the sales margin holding firm at 48.3% Performance in the second quarter of 2019 shows a change in trend thanks to the increase in mass market sales as a result of the success of our expansion plan and the positive impact of some of the cost control measures implemented in the second quarter.

At 30 June 2019 investments stood at Euros 72.9 million, up Euros 5 million on the same period in the prior year. This rise is mainly due to the continuation of relevant projects in the Euskaltel Group. The plan to wire 51,000 homes and industrial parks, the repositioning of broadband speeds, the WiFi Kalean project and the agreements reached with Orange to expand into Navarre. 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. It is also important to note the investments in the Group as a result of the process of integrating Euskaltel, R and Telecable.

Operating cash flow, defined as the difference between EBITDA and investments, resulted in a revenue ratio of around 27%, maintaining our leading position in comparison with companies in the European industry.

The process to integrate and simplify the organisational structure has resulted in higher extraordinary and other non-recurring expenses. Despite this, profit after tax stands at Euros 22.9 million in the first half of 2019.

5.- 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 at 30 June 2019 was Euros 2.34 million (Euros 2.51 million in the first half of 2018), equivalent to 0.70% of turnover in the first six months of 2019 (0.74% in the first half of 2018). Aged, non-impaired receivables past due by more than 90 days at 30 June 2018 amount to Euros 4.5 million (Euros 8 million at the end of 2018).

Liquidity risk

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

At 30 June 2019 the consolidated Group had a non-current revolving credit facility of Euros 300 million, with Euros 150 million drawn down, and current undrawn credit facilities totalling Euros 49.25 million.

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

At 30 June 2019, cash and cash equivalents amounted to Euros 80.6 million (Euros 107.6 million at the end of 2018).

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

Market risk

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

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

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

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

In March 2017, Euskaltel formally implemented an issue of short-term commercial paper (EuroCommercial Paper Programme -ECP-, "the Programme"), which was registered with the Irish Stock Exchange. The overall maximum limit of the Programme totals Euros 200 million and serves as an alternative to bank financing to cover working capital requirements. This programme was renewed under the same terms on 25 March 2019.

At 30 June 2019, had interest rates risen by 100 basis points, with other variables remaining constant, consolidated profit (after tax) would have fallen by Euros 3.7 million (Euros 4.9 million for the same period in 2018).

6.- Legal factors and regulatory framework

The EUSKALTEL Group performs its main activity —telecommunications— in a market characterised by a strong regulatory hold, which means that it needs to take this into account in all of its decision making; i.e. the decisions likely to be adopted by the various public administrations comprising the Spanish institutional structure (the state administration, autonomous communities, regional authorities, city councils), which are not always uniform and consistent with each other and can at times be unpredictable.

Cost of the universal service for 2015 and 2016

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

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

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

Main operator

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

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

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

Revised European telecommunications regulatory framework

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

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

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

The main issues proposed for revision are:

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

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

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

On 13 June 2019, the CNMC adopted a resolution to notify the European Commission and other bodies of the draft measure to regulate the fixed termination market, stipulating a glide path for wholesale fixed voice termination prices.

This proposal is based on the obligation on all operators to offer symmetrical prices, applying the LRIC ascending cost model based on efficient operators.

The prices included in the draft measure for the proposed glide path are as follows:

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

These prices will be current until they are amended by the European Commission, if applicable, under the terms set out in the electronic communications code. A single maximum termination rate will be set for voice calls using fixed networks and mobile phones in the European Union.
If the European Commission does not file any comments within one month, the prices shall be applied from the date on which the resolution is published in the BOE (official Spanish State gazette).

Within the 5G action plan approved by the European Commission with a target timeline of 2020, the first frequency bands 3.5-3.8 GHz have been tendered and adjudicated. Furthermore, R&D&I pilots and actions have been convened for 5G applications as an essential technology in the digital transformation of the economy. Within the framework of these actions, the Government has approved Royal Decree 391/2019 of 21 June, approving the National Technical Plan for Digital Terrestrial TV and regulating certain aspects regarding the release of the second digital dividend.

Regulation of roaming on public mobile communication networks.

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

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

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

European Data Protection Regulation and the new Data Protection Act

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

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

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

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

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

Access to TV content

Resolution authorising Telefónica/DTS concentration.

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

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

Financing of Corporación de Radio y Televisión Española (CRTVE)

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

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

In addition, in 2017, 2018 and 2019 the Euskaltel Group made the relevant payments applicable for those years.

Definition of regulatory risks

- Copyright Regulation. Copyrights - management companies

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

  At the date of this report, fees chargeable by management companies for public broadcasting rights and content reproduction rights are being renegotiated.

- Obligations deriving from information security

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

  In order to transpose the Directive, Royal Decree-Law 12/2018 of 7 September on the security of networks and information systems was approved. This regulation sets out certain obligations for digital service providers, including cloud computing services by the Group's companies.

7.- Corporate governance

Board of Directors

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

The Board of Directors' meeting held on 6 May 2019 agreed:

- To accept the resignation presented on that date by Mr. Robert W. Samuelson from his position as member of the Board of Directors and member of the different board committees.

- To appoint, by co-optation, Mr. José Miguel García Fernández to the Board of Directors to replace Mr Robert W. Samuelson, as proprietary director of Zegona Communications PLC following a favourable report by the Appointments and Remunerations Committee.

- To appoint Mr. José Miguel García Fernández as a new member of the Audit and Control Committee, the Appointments and Remunerations Committee and the Strategy Committee.

- To re-elect Ms. Belén Amatriain Corbi as a member of the Appointments and Remunerations Committee and a member of the Strategy Committee for a period of four years.

- To re-elect Mr. Iñaki Alzaga Etxeita as a member of the Audit and Control Committee and a member of the Strategy Committee for a period of four years.

- To appoint the independent director, Mr. José Ángel Corres Abasolo, as the new Chairman of the Audit and Control Committee to replace Mr. Iñaki Alzaga Etxeita, for a period of four years.

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

The Board of Directors' meeting held on 5 June 2019 agreed:

- To accept the resignation presented on that date by Mr. Francisco Arteche Fernández-Miranda from his position as member of the Board of Directors.

- To appoint, by co-optation, Mr. Eamonn O'Hare as a new board member and proprietary director of Zegona Communications, PLC, following a favourable report by the Appointments and Remunerations Committee.

- To appoint Mr. Eamonn O'Hare as a new member of the Audit and Control Committee, the Appointments and Remunerations Committee and the Strategy Committee.

Appointment of CEO

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

As a result of this appointment, Mr. García Fernández is no longer a member of the different board committees.

8.- Events after the reporting period

On 1 April 2019, the Company's Board of Directors agreed to pay an interim dividend against 2018 results for a gross amount of Euros 0.170 per share outstanding with dividend rights (which amounts to a maximum dividend of Euros 30.37 million). This interim dividend, totalling Euros 30.37 million, was paid to shareholders on 9 July 2019.

The agreement reached with the Chinese multinational ZTE, a strategic partner in the area of network management and maintenance, materialised in July. This agreement has led to outsourcing work involving the transfer of 39 Euskaltel Group employees from this field of business to the aforementioned multinational.

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

	30.06.2018	30.06.2019
Results from operating activities	62,742	53,783
Amortisation and depreciation	99,453	101,239
Other profit/(loss) (note 10.3)	6,556	10,510
	168,751	**165,532**

- Impact of IFRS 16 on EBITDA

	30.06.2018 (*)	30.06.2019
EBITDA	168,751	165,532
IFRS 16	5,227	-
Adjusted EBITDA (*)	**173,978**	**165,532**
(*) Considering the same impact of IFRS 16 in the prior period for comparison purposes.		

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

	30.06.2018	30.06.2019
Additions of intangible assets (note 5)	28,070	27,774
Additions of property, plant and equipment (note 6)	39,877	45,160
	67,947	**72,934**

- Operating cash flow: EBITDA - Investments

	30.06.2018	30.06.2019
Operating cash flow	100,804	92,598
EBITDA	168,751	165,532
	59.7%	**55.9%**

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

	31.12.2018	30.06.2019
Nominal value - Bank borrowings (note 9)	1,545,000	1,455,000
Nominal value - Bonds and other marketable securities (note 9)	70,700	130,700
Nominal value - Other borrowings with Government bodies (note 9)	23,667	20,231
Nominal value - Other borrowings (note 9)	48	451
Net debt	1,639,415	1,606,382
Less cash and cash equivalents (note 7)	(107,356)	(80,613)
Net financial debt	**1,532,059**	**1,525,769**

Derio, 24 July 2019

In compliance with prevailing legislation, the directors of Euskaltel, S.A. have authorised for issue the condensed consolidated interim financial statements (comprising the condensed consolidated statement of financial position, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the notes thereto) and the consolidated interim Directors' Report for the six-month period ended 30 June 2019.

The directors declare that they have signed each of the above-mentioned documents in their own hand, and in witness thereof sign below.

Signed:

Mr. Alberto García Erauzkin **(Chairman)**	**Mr. José Miguel García Fernández** **(Chief Executive Officer)**
Mr. José Ángel Corres Abasolo **(Vice Chairman)**	**Kartera 1, S.L., represented by** **Ms. Alicia Vivanco González** **(Board member)**
Mr. Luis Ramón Arrieta Durana **(Board member)**	**Mr. Eamonn O'Hare** **(Board member)**
Corporación Financiera Alba, S.A., represented by **Mr. Javier Fernández Alonso** **(Board member)**	**Ms. Belén Amatriain Corbi** **(Board member)**
Mr. Iñaki Alzaga Etxeita **(Board member)**	**Ms. Elisabetta Castiglioni** **(Board member)**
Mr. Miguel Ángel Lujua Murga **(Board member)**	**Mr. Jonathan Glyn James** **(Board member)**
Mr. Robert Samuelson **(Board member)**	