

ANNUAL ACTIVITIES REPORT OF THE AUDIT AND CONTROL COMMITTEE OF THE EUSKALTEL GROUP FOR FINANCIAL YEAR 2017

1. Introduction

The Audit and Control Committee of Euskaltel, S.A. (hereinafter, Euskaltel, the Euskaltel Group or the Company) is an informational and consultative body without executive duties, the purview of which includes information, advisory and proposal-making powers, as follows:

- (i). internal and external audit,
- (ii). risk reporting and management systems, and
- (iii). compliance and good governance.

This scope of application is exercised with respect to both the parent Company and the subsidiaries making up the Euskaltel Group.

The main task of the Audit and Control Committee is to assist, inform and make proposals to the Board of Directors on the matters from time to time assigned thereto by the Bylaws of the Company and by the Regulations of the Board of Directors and the Regulations of the Audit and Control Committee.

The Audit and Control Committee was permanently created by Euskaltel's Board of Directors on 19 March 2013, i.e. prior to the entry into force of Law 31/2014 of 3 December amending the Companies Act for the Improvement of Corporate Governance, which makes the creation of said committee obligatory at listed companies.

Pursuant to articles 4.6 and 26 of the Regulations of the Board of Directors of the Company, using the external and internal means it deems appropriate in each case, it shall engage in an annual evaluation of the operation of its committees in view of the report that they submit thereto. Furthermore, article 18 of the Regulations of the Audit and Control Committee provides that the duties of the Audit and Control Committee to report to the shareholders at the General Shareholders' Meeting include the preparation of an annual report on its activities, which it shall make available to the shareholders after the approval thereof by the Board of Directors.

This Annual Activities Report of the Audit and Control Committee of Euskaltel for financial year 2017 has been prepared as part of said process of evaluation and to be made available to the Company's shareholders, after the approval thereof by the Board of Directors, upon the call to the Ordinary General Shareholders' Meeting.

2. Regulatory framework

The main rules governing the activities and duties of the Audit and Control Committee are as follows:

- Section 529 *quaterdecies* of the consolidated text of the Companies Act, approved by Royal Legislative Decree 1/2010 of 2 July.
- Law 22/2015 of 20 July on Auditing of Accounts,
- Good Governance Code of Listed Companies 2015,
- Articles 63 and 64 of the Bylaws of Euskaltel, S.A.,
- Article 18 of the Regulations of the Board of Directors of Euskaltel, S.A.,
- The Regulations of the Audit and Control Committee of Euskaltel, S.A., and
- The Code of Ethics of the Euskaltel Group.

In addition, on 27 June 2017, the CNMV published the Technical Guide on Audit Committees at Public Interest Entities, which provides a number of principles and good practices for Audit Committees.

Main duties and powers of the Audit and Control Committee of the Euskaltel Group

The Audit and Control Committee of the Euskaltel Group primarily performs the following duties with respect to Euskaltel, S.A. itself as well as the subsidiaries making up the Group:

- a) Report to the shareholders at the General Shareholders' Meeting on the issues raised by the shareholders that are within its purview.
- b) Monitor the effectiveness of the internal control of the Company and of its Group as well as the systems for managing risks, including tax risks.
- c) Analyse with the external auditors any possible significant weaknesses in the internal control system detected when the audit is performed.
- d) Supervise the process of preparing and presenting regulated financial information.
- e) Propose to the Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment, re-election or replacement of the external auditor in accordance with applicable legal provisions, as well as the terms of engagement thereof, and regularly collect information therefrom on the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties.
- f) Supervise the internal audit activity of the Company.
- g) Establish appropriate relations with the external auditors to receive information on those issues that might risk the independence thereof, for examination by the Committee, and any others

related to the audit process, as well as such other communications as are provided for in the laws on auditing and in auditing rules.

- h) Issue, on an annual basis and prior to the issuance of the audit report, a report setting forth an opinion on the independence of the external auditors. This report must in all cases pass upon the provision of the additional services referred to in the preceding section, considered individually and as a whole, other than the legal audit, and upon the rules on independence according to the legal provisions governing auditing.
- i) Provide an advance report to the Board of Directors on all of the matters provided by law, the Bylaws and the Regulations of the Board of Directors, and particularly regarding (i) the financial information that the Company must periodically publish; (ii) the creation or acquisition of interests in special purpose entities or entities domiciled in territories or countries considered to be tax havens; (iii) related-party transactions; and (iv) the financial terms and accounting impact of structural and corporate changes that the Company plans to carry out, and especially the exchange ratio for the proposed transaction.

The Audit and Control Committee is also assigned the following specific duties:

Relating to internal control and reporting systems

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

Relating to the external auditor

- Submit to the Board proposals for selection, appointment, re-election and replacement of the external auditor, as well as the terms of engagement thereof.

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

Relating to the risk policy and risk management

- Identify the various types of risk facing the Company, including contingent liabilities and other off-balance sheet risks.
- Identify the risk levels that the Company deems acceptable.
- Identify the measures planned to mitigate the impact of identified risks in the event that they materialise.
- Identify the information and internal control systems that will be used to monitor and manage the aforementioned risks, including contingent liabilities and off-balance sheet risks.

Relating to obligations specific to listed companies

Report to the Board of Directors, prior to the latter making the corresponding decisions, on:

- The financial information that the Company must periodically make public due to its status as a listed company. The Audit and Control Committee must ensure that the half-yearly financial reports and the interim management statements are drawn up using the same accounting standards as those used for the annual accounts and, to that end, consider the appropriateness of a limited review of the half-yearly financial reports by the external auditor.
- The creation or acquisition of interests in special purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to their complexity, might diminish the transparency of the group.

- Related-party transactions as defined by the law applicable thereto from time to time in effect.
- The financial terms and accounting impact of structural and corporate changes that the Company plans to carry out, and especially the exchange ratio for the proposed transaction.

Relating to corporate governance obligations

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

3. Composition of the Audit and Control Committee

Pursuant to article 64 of the Bylaws, the Audit and Control Committee is created on a permanent basis and is made up of a minimum of three and a maximum of seven external Directors appointed by the Company's Board of Directors, a majority of whom must be independent Directors.

To appoint the members of the Audit and Control Committee of Euskaltel, and particularly the Chair thereof, the standard takes into account their knowledge and experience in accounting, auditing or risk management and that, as a group, they have the pertinent technical knowledge relating to the industry to which the Group belongs.

At 31 December 2017, the Audit and Control Committee is composed of the following seven external (four independent and three proprietary) directors:

Name	Position on Committee	Information regarding the duties thereof as director		
		Classification	Date of first appointment	Date of last appointment
Mr Iñaki Alzaga Etxeita	Chair	Independent	31/03/2015	31/03/2015
Kartera 1, S.L. represented by Ms Alicia Vivanco González	Member	Proprietary	27/06/2016	27/06/2016
Mr Javier Fernández Alonso	Member	Proprietary	30/09/2015	12/11/2015
Mr Robert W. Samuelson	Member	Proprietary	26/06/2017	27/06/2016
Mr José Ángel Corres Abasolo	Member	Proprietary	08/03/2013	27/06/2016
Ms Elisabetta Castiglioni	Member	Proprietary	27/06/2016	27/06/2016
Mr Miguel Ángel Lujua Murga	Member	Proprietary	27/06/2016	27/06/2016

Mr Iñaki Alzaga Etxeita has been a member and has held the position of Chair of the Audit and Control Committee since 1 June 2015, and was appointed taking into account his knowledge and experience in Accounting, Auditing and Risk Management. He was with the Company from 1998 to 2005, holding positions as Advanced Business Manager, Manager of Business Development and member of the Management Committee. His previous positions include a professional career at a prestigious international auditing and professional services firm.

On 27 June 2016, the shareholders at the General Shareholders' Meeting appointed Kartera 1, S.L. as director, represented by Ms Alicia Vivanco González, upon a proposal of the significant shareholder Kutxabank, S.A. and after the resignation of Alicia Vivanco González herself, who had held the position of proprietary director for Kutxabank, S.A. until then and had been the chair of the Audit and Control Committee of Euskaltel, S.A. from the creation thereof until 1 June 2015, on which date she voluntarily relinquished her position in order for the composition of the Committee to conform to Good Corporate Governance practices, such that the chairmanship of the Audit and Control Committee would be held by an independent Director.

Mr José Ángel Corres Abasolo and Ms Elisabetta Castiglioni were appointed as members of the Audit and Control Committee on 24 May 2016 and 26 July 2016, respectively.

The Directors Mr Javier Fernández Alonso, Mr Robert W. Samuelson and Mr Miguel Ángel Lujua Murga were appointed as members of the Audit and Control Committee on 26 June 2017.

The Secretary of the Board of Directors, Mr Francisco Javier Allende Arias, who is also General Secretary of the Euskaltel Group, acts as Secretary of the Audit and Control Committee.

4. Meetings held, reports reviewed and appearances

Article 12 of its Regulations provides that the Audit and Control Committee shall meet two to four times per year for the review of economic/financial and management information that must be sent to third parties, prior to the presentation thereof, and whenever called by its Chair if appropriate for the proper performance of its duties. In all cases, the Chair of the Committee must also call a meeting whenever the Board of Directors or the Chair thereof requests the issuance of a report or the adoption of proposals, or whenever requested by one third of the members of the Committee itself.

The Audit and Control Committee formally met on eight occasions during financial year 2017, in addition to working and training sessions and specific meetings on particular topics, whether in person or by electronic means.

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

The level of attendance at the meetings was as follows:

Number of meetings	8	
Number of possible attendees	41	100.0%
Number of attendees in person	40	97.6%
Proxies given to the Chair	1	2.4%
Other proxies	n/a	n/a
Non-proxy attendance	n/a	n/a

The Chair and the Secretary of the Committee attended all meetings.

The dates of the meetings and the principal documentation reviewed are described below:

Date	Primary documentation reviewed	
22/02/2017	<p>Drafts of Official Financial Information for financial year 2016.</p> <p>Drafts of Official Non-financial Information for financial year 2016.</p> <p>Documentation from External Auditor.</p> <p>Internal Audit documentation. Documentation prepared by the Audit and Control Committee.</p> <p>Other documentation.</p>	<ul style="list-style-type: none"> • Annual Accounts (all companies of the Group and Consolidated Group). • Presentation of results for fourth quarter and full year. • Management Report. • Annual Corporate Governance Report. • Annual Director Remuneration Report. • Presentation of its conclusions regarding financial year 2016, including prior draft Audit Reports. • Letter regarding independence. • Information regarding a specific project. • Report on the independence of the External Auditor. • Description of certain related-party transactions. • Proposed supplementary dividend with a charge to financial year 2016. • Specific document on the issue of notes. • Report on significant holdings in the share capital.
17/03/2017	<p>Documentation prepared by the Audit and Control Committee.</p> <p>Internal Audit documentation.</p> <p>Other documentation.</p>	<ul style="list-style-type: none"> • Activities Report of the Audit and Control Committee for financial year 2016. • Annual Activities Report of Internal Audit for financial year 2016. • Related-party Transactions Report for financial year 2016. • Report on significant holdings in the share capital.
26/04/2017	<p>Drafts of Official Financial Information for financial year 2016.</p> <p>Internal Audit documentation.</p> <p>Documentation prepared by the Audit and Control Committee.</p> <p>Other documentation.</p>	<ul style="list-style-type: none"> • Economic/financial information for the first quarter of financial year 2017. • Progress level for Internal Audit Plan 2017. • Proposed renewal of appointment of External Auditor for certain companies of the Group. • Report on significant holdings in the share capital.
Date	Primary documentation reviewed	

<p>29/11/2017</p>	<p>External Audit.</p> <p>Enterprise Risk Management (ERM). Management of risks relating to Regulatory Compliance: Compliance Officer. Management of Cyber-risks.</p> <p>Management of risks relating to Financial Information: ICFRS. Internal Audit documentation.</p> <p>Other documentation.</p>	<ul style="list-style-type: none"> • Report on services hired during the year. • Update of Risk Management Model. • Update of Code of Ethics, Anti-corruption Policy and Ethics Channel of the new Group. • Action Plan 2018. • Action Plan 2018. • Report on scope of consolidation and minority-held companies. • Monitoring of Internal Audit Plan for financial year 2017 and management of the Ethics Channel. • Information regarding specific projects. • Proposed Scoresheet for the Audit and Control Committee based on the CNMV's Technical Guide. • Closing of refinancing. • Report on significant holdings in the share capital.
<p>19/12/2017</p>	<p>Documentation from External Auditor.</p> <p>Enterprise Risk Management (ERM). Management of risks relating to Financial Information: ICFRS.</p> <p>Data Protection Officer (DPO).</p> <p>Internal Audit documentation.</p> <p>Other documentation.</p>	<ul style="list-style-type: none"> • Planning and External Audit Plan. • Proposed update of enterprise risk map. • Information regarding the Internal Control Over Financial Reporting (ICFR) System. • Effect of certain International Accounting Standards. • Presentation and activities regarding personal data protection. • Internal Audit Plan 2018: budget and Action Plan. • Report on significant holdings in the share capital. • Specific information on certain minority-held companies. • Information on regulatory changes with respect to Official Non-financial and Diversity-related Information.

Both officers of the Group and advisors and external experts attended these meetings, based on the issues addressed thereat. They include the following:

- Group CFO,

- Group Internal Audit Director,
- Group Institutional Relations Director (in charge of Corporate Social Responsibility),
- Strategy and Corporate Development Director (in charge of coordination of risk management),
- Compliance Officer of the Group,
- Data Protection Officer (DPO) of the Group,
- External Auditors (KPMG) of the Group,
- Legal Counsel to the Board (Uría & Menéndez).

Members of the Board of Directors, including the Chair of the Board of Directors and the CEO (both of them being executive Directors), also attended some of the meetings as invitees.

5. Principal issues covered

The principal issues covered and, if appropriate, favourably reported on by the Audit and Control Committee during financial year 2017 were the following, structured in accordance with the CNMV's Technical Guide for Audit Committees:

a. Supervision of financial and non-financial information

Understanding of the internal control over financial reporting system (ICFRS) and evaluation of the effectiveness thereof

- Regular monitoring of issues relating to the ICFRS.
- Internal Audit Report on the general evaluation of the ICFRS designed by the group.

Review, analysis and comments on the financial statements and other non-financial information

- Favourable report regarding the formulation of the Annual Accounts for financial year 2016 (consolidated and individual of the companies of the Group) for formulation by the Board of Directors and, if applicable, the Sole Directors.
- Favourable report on the Management Report for financial year 2016 (consolidated and individual of the companies of the Group) for formulation by the Board of Directors and, if applicable, the Sole Directors.
- Favourable reports on the various interim (quarterly) management statements during financial year 2017.
- Favourable report on the Annual Corporate Governance Report (ACGR) for financial year 2016.
- Comparative analysis by internal audit of the Group's ACGR in relation to the CNMV's statistics regarding Public Interest Entities.
- Favourable report on the Corporate Social Responsibility Report for financial year 2016.
- Analysis and validation of the scope of consolidation.
- Monitoring of related-party transactions.
- Favourable report on various mergers, sales and corporate restructurings within the scope of consolidation.
- Analysis of the impacts on the group's financial information of certain changes in the International Financial Reporting Standards.
- Analysis with the external auditor of the main judgements and estimates included in the group's financial information.
- Analysis and evaluation of the adjustments identified by the external auditor.

Monitoring of the Ethics Channel (system allowing for reporting to the Audit and Control Committee of improprieties, including those having financial or accounting significance).

- Regular monitoring of the activity of the Ethics Channel during the financial year.
- Update, improvement and adjustment of the previously defined Ethics Channel to the changes in the Group.
- Launch of new training plan regarding the Ethics Channel for the new structure of the group.

b. Supervision of risk management and control

Control and risk management function adjusted to the organisational structure of the group

- Analysis of updated Enterprise Risk Map.
- Update and expansion of Risk Management Model, including additional resources and specific responsibilities.

Comprehensive overview of the group's internal control and risk management

- Structuring of the Group's risks and attendance by the managers of each of the types of defined risks at meetings of the Audit and Control Committee, with a special emphasis on emerging risks (specifically, cyber-risks).

c. Supervision of internal audit

Regular analysis of the internal audit function and approval of its annual plan

- Evaluation and adjustment to the group's new structure of lines of internal audit activity for the 2017-2019 period.
- Evaluation and approval of the Annual Internal Audit Plan for financial year 2018, including resources and budget for activities.

Monitoring of Internal Audit Plan

- Regular attendance of the director of internal audit at meetings of the Audit and Control Committee and regular meetings with the Chair of the Audit Committee.
- Regular monitoring of progress on the annual internal audit plan. Approval of any changes due to changes in risks or results of analyses performed.
- Regular monitoring and push for implementation of the recommendations of internal audit.
- Approval of annual internal audit activities plan for financial year 2016.

d. Statutory auditor

Process of selection and proposed appointment

- Proposed renewal of external auditors in the case of Euskaltel, S.A. (individual).

Independence of statutory auditor

- Report on the independence of the Group's External Auditor for financial year 2016.
- Monitoring and approval of non-audit services provided by the statutory auditor.
- Monitoring of statutory auditor's remuneration for non-audit services.

Communication with statutory auditor

- Meeting on conclusions from work of External Audit for financial year 2016.
- Meetings on planning and monitoring of the work of External Audit for financial year 2017.
- Acknowledgement of materiality applied by external auditor to perform its work.
- Discussion with external auditor regarding accounting principles applied within the group, significant estimates and judgements, and recommendations on internal control.

e. Other responsibilities

- Favourable report on the Group Tax Policy.
- Report regarding related-party transactions with Directors and Significant Shareholders during financial year 2016.
- Periodic monitoring of significant holdings in the share capital.
- Approval of the Activities Report for financial year 2016.
- Favourable report on update and expansion to the group of the Code of Ethics, Ethics Channel and Anti-corruption Policy (not only relating to financial information).
- Acknowledgement of certain changes in the policy on representational powers of the Group and the deployment thereof to the organisation.
- Favourable report on the distribution of a dividend from the results for financial year 2017.
- Monitoring of certain transactions with a significant effect on the financial results of the Group and of interest rate hedging.
- Analysis of the defined duties and action plan for the Data Protection Officer (DPO) of the Group.
- Favourable report on the financial statement for the payment of dividends with a charge to financial year 2017.

f. Evaluation and monitoring of the activities of the Audit and Control Committee

- Specific report from internal audit regarding the application of the CNMV's Technical Guide for Audit Committees.
- Self-evaluation by the Audit and Control Committee itself, as part of the self-evaluation of the Board of Directors, based on the aspects set out in the aforementioned Technical Guide. No "significant changes in the internal organisation or in the procedures of the Audit and Control Committee itself" were deemed necessary as a result of this self-evaluation.
- Establishment of goals to implement certain aspects of the above-mentioned Technical Guide, including a welcome programme for new members of the Audit and Control Committee (already defined as at the date of this document) and a procedure for selection and proposed appointment of statutory auditor.
- Definition of a Scoresheet to monitor the activities and requirements of the Audit and Control Committee.

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