

ANNUAL ACTIVITIES REPORT OF THE AUDIT AND CONTROL COMMITTEE OF THE EUSKALTEL GROUP FOR FINANCIAL YEAR 2018

1. Introduction

The Audit and Control Committee of Euskaltel, S.A. (hereinafter, Euskaltel or the Euskaltel Group) 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) information technology and risk management systems, and (iii) compliance and good governance.

This scope of application is exercised with respect to both the parent Company as well as 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 both 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 Corporate Enterprises Act for the Improvement of Corporate Governance, which is obligatory for listed companies.

Pursuant to Articles 4.6 and 26.1 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 18.2 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. It is within this context of self-evaluation and submission to the shareholders at the General Meeting of Shareholders that it has prepared this Annual Activities Report of the Audit and Control Committee of Euskaltel for financial year 2018.

2. Regulatory framework

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

- Section 529 *quarterdecies* of the consolidated text of the Corporate Enterprises 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.,
- The Code of Ethics of the Euskaltel Group, and
- The Technical Guide on Audit Committees of Public Interest Entities, published by the CNMV on 27 June 2017.

3. 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 their 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 was 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 make a pronouncement regarding the provision of the additional services referred to in the preceding section, considered individually and as a whole, other than the legal audit, and in relation to 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

- Monitor the preparation and the integrity of the financial information on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles.
- 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 regarding 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 take 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 that they become aware of 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 of the terms of engagement thereof.
- Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- 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 reports a change of auditor to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) as a significant event, accompanied by a statement of any disagreements with the outgoing auditor and the reasons for the same; (ii) that the Company and the auditor comply with applicable legal provisions regarding the provision of non-audit services and, in general, to the other rules established to ensure the independence of the auditor, and (iii) that it investigate the circumstances giving rise to any resignation of the external auditor.
- Encourage the assumption by the auditor of the consolidated group to take 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 level determinations 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, it must report to the Board of Directors, prior to the latter making the corresponding decisions, on:

- The financial information that the Group must periodically make public due to its status as listed company. It must ensure that the half-yearly financial reports and the interim management statements are drawn up using the same accounting standards as that 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 equity 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 applicable law.
- 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 actions on corporate social responsibility and sustainability matters, endeavouring to ensure that they are focused on the creation of value, and report thereon to the Board of Directors.
- Monitor the corporate social responsibility strategy and policies and evaluate the level of compliance therewith.
- Know, promote, guide and supervise the Company’s actions on corporate social responsibility 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.

4. 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.

The standard for appointing members of the Audit and Control Committee of Euskaltel, and particularly the Chair thereof, 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 the industry to which the Group belongs.

At 31 December 2018, the Audit and Control Committee is composed the following seven external directors (four independent and three proprietary):

Name	Committee position	Information regarding their function 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
Corporación Financiera Alba, S.A., represented by Mr Javier Fernández Alonso	Member	Proprietary	27/02/2018	01/06/2018
Mr Robert W. Samuelson	Member	Proprietary	26/06/2017	26/06/2017
Mr José Ángel Corres Abasolo	Member	Independent	08/03/2013	27/06/2016
Ms Elisabetta Castiglioni	Member	Independent	27/06/2016	27/06/2016
Mr Miguel Ángel Lujua Murga	Member	Independent	27/06/2016	27/06/2016

On 1 June 2018 the shareholders at the General Meeting of Shareholders ratified the interim appointment (co-option) and election of Corporación Financiera Alba, S.A., represented by Mr Javier Fernández Alonso, as a proprietary director, who had already held his positions as Proprietary Director of this same entity as an individual and was a member of the Audit and Control Committee, since 2015.

As announced at said General Meeting of Shareholders on 1 June 2018, Mr Francisco Javier Allende Arias, General Secretary and Secretary of the Board of Directors, who also acted as Secretary of the Audit and Control Committee, mutually agreed with the company to cease in his duties as at 30 June 2018, after years of dedication and express commitment to the enterprise since its beginning, which merited public and express recognition at said General Meeting.

Since then, the Secretary of the Board of Directors, Mr Luis Alba Ferré, acts as Secretary of the Audit and Control Committee. In parallel, there was at the same time the creation of the position of deputy secretary of the Audit and Control Committee, held by Mr Gonzalo Silveiro Regúlez, with the responsibility of replacing the Secretary in cases of vacancy, absence, illness or incapacity,

5. Meetings held, reports reviewed and appearances

Article 12 of its Regulations provides that Audit and Control Committee shall meet two to four times per year for the review of economic/financial information and of management 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 Audit and Control Committee must call a meeting thereof 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 has formally met on five occasions during financial year 2018, 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	5	
Number of possible attendees	35	100.0%
Number of physical attendees	32	91.4%
Proxies given to the Chair	1	2.9%
Other proxies	n/a	n/a
Absences without proxies	2	5.7%

The Chair and the Secretary of the Committee attended all meetings. The dates of the meetings and the principal documentation analysed are described below:

Date	Primary documentation analysed	
26/02/2018	Documentation prepared by the Audit and Control Committee.	<ul style="list-style-type: none"> • Committee Scoresheet. • Scope of consolidation of the group. • Report on the independence of the External Auditor. • Annual Activities Report of the Audit and Control Committee for financial year 2017. • Annual Corporate Social Responsibility Report.
	Drafts of Official Financial Information for 2017.	<ul style="list-style-type: none"> • Annual Accounts (all companies of the Group and Consolidated Group). • Presentation of results for first quarter and full year.
	Drafts of Official Non-Financial Information for 2017.	<ul style="list-style-type: none"> • Management Reports 2017 (all companies of the Group and consolidated Group). • Annual Corporate Governance Report 2017. • Sustainability Report 2017.
	Documentation from External Auditor.	<ul style="list-style-type: none"> • Presentation of its conclusions regarding financial year 2017, including prior draft Audit Reports. • Letter of independence from the External Auditors. • Specific letter from the External Auditor to the Audit and Control Committee.
	Internal Audit documentation.	<ul style="list-style-type: none"> • Annual Activities Report of Internal Audit for financial year 2017.
	Risk Management.	<ul style="list-style-type: none"> • Risks relating to Financial Information and ICFRS: <ul style="list-style-type: none"> o Document explaining the ICFR system of the Euskaltel Group. o Certification of the Annual Accounts for financial year 2017 and reconciliation with management information. o Analytical Reviews of Financial Information. o Accounting estimates and critical opinions. o International Financial Reporting Standards.
	Other documentation.	<ul style="list-style-type: none"> • Description of certain related-party transactions. • Proposed supplemental dividend with a charge to financial year 2017. • Specific document on renewal of the Euro Paper Programme. • Report on significant holdings in the Share Capital.

Date	Primary documentation analysed	
27/04/2018	Documentation prepared by the Audit and Control Committee.	<ul style="list-style-type: none"> • Committee Scoresheet. • Report on renewal of appointment and contracting terms of the External Auditor. • Proposal to Board of Directors on statutory auditor contracting and relations policy. • Procedure for selecting statutory auditor and for contracting non-audit services. • Data Protection Officer Statute.
	Drafts of Official Financial Information for 2017.	<ul style="list-style-type: none"> • Interim management statement for the first quarter of 2018.
	Internal Audit documentation.	<ul style="list-style-type: none"> • Monitoring of Internal Audit Plan 2018.
	Risk Management.	<ul style="list-style-type: none"> • Regulatory Compliance Risks: Monitoring of Compliance Plan 2018. • Data Protection Risks: Monitoring of DPD Plan 2018.
	Other documentation.	<ul style="list-style-type: none"> • Report on scope of consolidation and significant holdings in the Share Capital. • Report on Issue of certain financing instruments.
	Documentation prepared by the Audit and Control Committee.	<ul style="list-style-type: none"> • Evaluation report of the External Auditor for financial year 2017.
24/07/2018	Drafts of Official Financial Information for 2018.	<ul style="list-style-type: none"> • Interim management statement for the first half of 2018.
	Documentation from External Auditor.	<ul style="list-style-type: none"> • Identification of audit risks relating to interim financial information as at 30 June 2018. • Consistency in the application of accounting principles from the interim financial information in relation to the Annual Accounts. • Potential effect of regulatory changes and monitoring of audit disputes.
	Other documentation.	<ul style="list-style-type: none"> • Report on significant holdings in the Share Capital.
31/10/2018	Drafts of Official Financial Information for 2018.	<ul style="list-style-type: none"> • Interim management statement for the third quarter of 2018.
	Documentation from External Auditor.	<ul style="list-style-type: none"> • Planning of External Audit of Accounts.
	Risk Management.	<ul style="list-style-type: none"> • Corporate Risks: Updated Corporate Risk Map.
	Other documentation.	<ul style="list-style-type: none"> • Scope of consolidation and report on minority-owned companies. • Report on significant holdings in the Share Capital. • Report on 2018 interim dividend.
18/12/2018	Internal Audit documentation.	<ul style="list-style-type: none"> • Monitoring of Internal Audit Plan 2018.
	Risk Management.	<ul style="list-style-type: none"> • Risks relating to Financial Information and ICFRS: Document explaining the ICFR system of the Euskaltel Group. • Tax Risks: Tax Risks Map. • Regulatory Compliance Risks: Monitoring of Compliance Plan 2018. • Data Protection Risks: Monitoring of DPD Plan 2018.
	Other documentation.	<ul style="list-style-type: none"> • Internal Regulations for Conduct in the Securities Markets. • Report on minority-owned companies. • Report on significant holdings in the Share Capital.

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

- Group CFO,
- Group Internal Audit and Compliance Director,
- Director of Corporate Communications and External Relations of the Group,
- Group Institutional Relations Director (in charge of Corporate Social Responsibility),
- Group 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,
- Tax advisor of the Board (Cuatrecasas).

Members of the Board of Directors, including the Chair of the Board of Directors and the CEO (both executive Directors), have likewise attended as invitees.

6. **Principal issues covered**

The principal issues covered and, if appropriate, been favourably reported on by the Audit and Control Committee during financial year 2018 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 and implementation of a corporate tool.

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 2017 (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 2017 (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 2018.
- Favourable report on the Annual Corporate Governance Report (ACGR) for financial year 2017.
- Favourable report on the Corporate Social Responsibility Report for financial year 2017.
- Analysis and validation of the scope of consolidation and of the corporate transactions that affect it.
- Monitoring of related-party transactions.
- Analysis of the impacts on the group's financial information of certain changes in the International Financial Reporting Standards.
- Analysis of the main lawsuits 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 of a financial or accounting nature).

- Regular monitoring of the activity of the Ethics Channel during the financial year.
- Update, improvement and adjustment of previously defined Ethics Channel to the changes of the Group, expanding the scope to third parties related to the Group.

b. Supervision of risk management and control

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

- Analysis and update of the Corporate Risk Map.

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

- Risk Management Model, including additional resources and specific responsibilities.
- Management of specific risks: Financial Information, Compliance, Data Protection, Cyber-risks and Tax Risks.
- Approval of Data Protection Officer Statute.
- Update of Tax Risks Map.

c. Supervision of internal audit

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

- Evaluation and approval of the Annual Internal Audit Plan for financial year 2019, 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 in 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 2017.

d. Statutory auditor

Process of selection and proposed appointment

- Evaluation of services provided by the Statutory Auditor during financial year 2017.
- Proposed renewal of external auditors in the case of Euskaltel, S.A. (individual company and consolidated Group).
- Proposal to Board of Directors on Statutory Auditor Contracting and Relations Policy.
- Preparation of procedure for selecting statutory auditor and for contracting non-audit services.

Independence of statutory auditor

- Report on the independence of the Group's External Auditor for financial year 2017.
- 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 2017.
- Analysis of requirements implemented during the financial year for audit reports, especially key audit issues and focus applied by the auditor and clarification of the responsibilities of the auditor and of the Directors and the Audit Committee.
- Analysis of conclusions from the Additional Report for the Audit Committee (2018 regulatory requirement).
- Meetings on planning and monitoring of the work of External Audit for financial year 2018.
- 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**

- Report regarding related-party transactions with Directors and Significant Shareholders during financial year 2017.
- Periodic monitoring of significant holdings in the Share Capital.
- Approval of the Activities Report for financial year 2017.
- Favourable report on the distribution of a dividend from the results for financial year 2018.
- Favourable report on renewal of the Euro-Commercial Paper Programme filed with the Irish Stock Exchange for the issue of corporate notes.

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

- Self-evaluation by the Audit and Control Committee for financial year 2017 as part of the self-evaluation of the Board of Directors.
- Decision on hiring an independent expert for the evaluation of financial year 2018.

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