Euskaltel, S.A. and subsidiaries

Consolidated Annual Accounts

31 December 2019

Consolidated Directors' Report

2019

(With Auditor's Report Thereon)

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

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

KPMG Auditores, S.L.
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48009 Bilbao

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

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

To the shareholders of Euskaltel, S.A.:

REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

We have audited the consolidated annual accounts of Euskaltel, S.A. (the Parent Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position at 31 December 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the notes thereto, for the year ended at that date.

In our opinion, the accompanying consolidated annual accounts present, in all material respects, a true and fair view of the consolidated equity and financial position of the Group at 31 December 2019, and of its consolidated financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other applicable provisions in the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with prevailing standards regulating the audit of accounts in Spain. Our responsibilities under these standards are further described in the *Auditor's Responsibility for the audit of the consolidated annual accounts section of our report*.

We are independent of the Group in accordance with the ethical requirements, including independence requirements, that are applicable to our audit of the consolidated annual accounts in Spain, as required by standards regulating the audit of accounts in Spain. In this regard, we have not rendered services other than the audit of accounts and no situations or circumstances have arisen that have compromised the necessary independence, in accordance with the aforementioned regulatory standards.

We believe that the audit evidence we have obtained is sufficient and appropriate for providing a basis for our opinion.

Key audit matters

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

Intangible Asset Measurement - Goodwill
See Notes 3.2 and 5 to the annual accounts

Key audit matter

The Group has recognised significant amounts of goodwill from the acquisitions of R Cable y Telecomunicaciones Galicia, S.A. and Telecable de Asturias S.A. (merged with effect 1 January 2019) which were carried out in 2015 and 2017. Irrespective of whether there is any indication of impairment, the applicable financial reporting regulatory framework requires that the Group identify the Cash Generating Units (CGUs) to which the goodwill should be assigned and verify the recoverable value thereof at least annually, in order to assess by comparison with the carrying value, if it is necessary to record an impairment adjustment.

The Group determines the recoverable amount of each Cash Generating Unit (CGU) based on its value in use and, therefore, its calculation is estimated by discounting future cash flows, which requires value judgements by the Directors when establishing certain key assumptions.

Due to the high degree of uncertainty associated with the judgement used by the Directors and the significance of the carrying amount of the goodwill, this is one of the main areas of focus of our audit.

How the matter was dealt with in our audit

Our audit procedures have entailed assessing the design and implementation of the key controls relating to the registration process of goodwill measurement, and those established for preparing and controlling Group budgets, assessing the reasonableness of the budgets and their historical rate of attainment, by comparing actual data with the initial forecasts.

We have also performed detailed tests including, inter alia, the following:

a) We have assessed whether the methodology used by the Group for the impairment analysis and, in particular, whether the application of value in use as the calculation method for the recoverable amount is appropriate in the specific circumstances of the corresponding CGU;

b) We have tested that the cash flow estimates used to determine the value in use are consistent with the business plan approved by Management for the period it covers;

c) We have assessed the reasonableness of the key assumptions used in the value in use calculation, including the increase in sales, the discounting rate, the long-term growth rate, EBITDA/Revenue margin and CAPEX/Revenue ratio, calculated using the budgets approved by Management. During this procedure, we have used our appraisal experts to assess the suitability of the discounting rate and the long term growth rate used; and

d) We have performed arithmetical verifications of the calculations done to determine the recoverable value and compared this with the carrying value of the corresponding CGU in order to determine whether it is necessary to record an impairment adjustment and, if applicable, to verify its proper recognition.

Lastly, we have assessed the suitability and sufficiency of the information reported in the Group's consolidated annual accounts regarding the value impairment verification, in accordance with the applicable financial reporting regulatory framework and, in particular, we have ensured that the information regarding the sensitivity analysis of recoverable value, in the event of reasonably possible changes in key assumptions included, has been carried out based on sufficiently ample changes in assumptions, rather than with minimal changes in such assumptions.

Estimation of supplier volume discount - Supplies
See Note 12.2 to the annual accounts

Key audit matter

The supply cost of Group companies is reduced by means of certain volume discounts, the application of which is subject to the fulfilment of a specific accumulated volume of consumption during the agreed period, which is usually more than one year.

In these circumstances, the appropriate recognition of supply costs requires the Group to be able to reliably estimate the degree of fulfilment of the conditions giving discount entitlements, and this requires judgement on the part of the Directors.

Due to the uncertainty associated with these estimates, the effect of applying amendments to contracts agreed during the

How the matter was dealt with in our audit

Our audit procedures have comprised, inter alia:

a) assessing the design and implementation of the key controls relating to the supplies and discounts process,

b) reading and gaining an understanding of the volume discount agreements held with suppliers, including the amendments agreed during the year,

c) checking the consistency of the volume discount calculation based on the terms agreed in the contract, and

d) assessing whether the forecast accumulated consumptions for the years for which a minimum volume requirement has

Estimation of supplier volume discount - Supplies See Note 12.2 to the annual accounts	
Key audit matter	*How the matter was dealt with in our audit*
year and the significant effect that these discounts have on the recognition of the supply costs for the year, this has been considered a key audit matter.	been signed are fair and consistent with the business plan approved by Management. In this regard, we have reviewed the historical rate of attainment of these forecasts, comparing actual consumption volumes with the initial forecasts.

Revenue recognition See Notes 3.13 and 12.1 to the annual accounts	
Key audit matter	*How the matter was dealt with in our audit*
Revenue recognition is considered a key audit matter given its significance in terms of the annual accounts as a whole, and because the registration and accounts closing process for revenue from the rendering of services is a highly automated process involving a large number of individual transactions.	Our main audit procedures included, inter alia, assessing the design and implementation, in collaboration with our IT specialists, of the controls in place in the Group companies regarding the process of recording revenue from the rendering of services. We have also assessed the design and implementation and tested the effectiveness of the general controls for access to and modification of programmes, as well as automatic controls carried out on invoicing systems and other back-up systems classified as critical for the purposes of our audit. We have also performed detailed tests including, inter alia, the following: a) Reconciliation of data from the invoicing and collection systems with the accounting records. b) Review of corrected invoices and subsequent payments.

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Other information: Consolidated directors' report

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

Our audit opinion on the consolidated annual accounts does not cover the consolidated directors' report. Our responsibility regarding the information set forth in the consolidated directors' report is defined in the regulatory standards governing the auditing of annual accounts, which establishes two different levels of responsibility:

a) A specific level which applies to the status of non-financial consolidated information, as well as certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of the Spanish Audit Act 22/2015. This is limited to verifying that the said information is furnished in the directors' report, or that reference is given, if applicable, to the separate report drawn up on the non-financial information in compliance with the prevailing standards, and otherwise to reporting on this.

b) A general level applicable to the rest of the information included in the consolidated directors' report, which consists of assessing and reporting on the consistency of this information with the consolidated annual accounts, based on the knowledge of the Group obtained during the course of the annual account audit and excluding information other than that obtained as evidence during the course thereof, and also of assessing and reporting on whether the content and presentation of this part of the consolidated directors' report complies with the applicable standards. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

On the basis of the work undertaken, as described previously, we have verified that the information outlined in section a) above is furnished in the consolidated directors' report and that the rest of the information in the consolidated directors' report is consistent with the consolidated annual accounts for 2019 and the content and presentation complies with the standards applicable thereto.

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

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

In preparing these consolidated annual accounts, the directors of the Parent company are responsible for assessing the Group's capacity to continue as a going concern, disclosing, where applicable, the matters relating to the business continuity and accounting on a going concern basis unless these directors intend to liquidate the Group or cease trading, or there is no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance that the consolidated annual accounts as a whole are free from material misstatement, due to fraud or error, and issue an audit report containing our opinion thereon.

Reasonable assurance is a high level of assurance but not a guarantee that an audit conducted in accordance with the standards regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with standards regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, we design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Parent company.

- We conclude on the appropriateness of the Parent company directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- We obtain evidence that is sufficient and appropriate in relation to the financial information on the entities or business activities within the group to provide a basis for our auditor's opinion on the consolidated annual accounts. We are responsible for managing, supervising and performing the Group audit. We are solely responsible for the auditor's opinion expressed.

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional report for the Parent company's audit committee

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

Contract term

The ordinary general shareholders' meeting held on 1 April 2019 appointed us as Group auditors for a 1-year term commencing on 1 January 2019.
Prior to this, we were appointed by agreement of the ordinary general shareholders' meeting for a one-year period and we have been auditing the annual accounts on a continuous basis since 31 December 2015.
KPMG Auditores, S.L.
On the Spanish Official Register of Auditors ("ROAC") with No. S0702

Cosme Carral López-Tapia
On the Spanish Official Register of Auditors ("ROAC") with No. 18,961

26 February 2020

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

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

EUSKALTEL, S.A. AND SUBSIDIARIES

Consolidated Statements of Financial Position at 31 December 2019 and 2018

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

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

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

Derio, 25 February 2020

EUSKALTEL, S.A. SUBSIDIARIES

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

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

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

Derio, 25 February 2020

EUSKALTEL, S.A. SUBSIDIARIES

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

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

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

Derio, 25 February 2020

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EUSKALTEL, S.A. AND SUBSIDIARIES

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

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

	Registered capital	*Share premium*	*Retained earnings*	*Own shares*	*Other comprehensive income*	*Interim dividend*	*Subtotal*	*Non-controlling interests*	*Total*
Balance at 31 December 2017	535,936	355,165	96,815	(1,887)	(64)	(22,688)	963,277	365	963,642
First-time application adjustments - IFRS 9 (note 2.3)	-	-	976	-	-	-	976	-	976
First-time application adjustments - IFRS 15 (note 2.3)	-	-	(607)	-	-	-	(607)	-	(607)
Adjusted balance at 1 January 2018	535,936	355,165	97,184	(1,887)	(64)	(22,688)	963,646	365	964,011
Other comprehensive income	-	-	62,821	-	-	-	62,821	(35)	62,786
Disposal of subsidiaries	-	-	-	-	-	-	-	(330)	(330)
Transactions with shareholders									
Own shares	-	-	(47)	285	-	-	238	-	238
Dividends paid from 2017 profit	-	-	(49,584)	-	-	22,688	(26,896)	-	(26,896)
Dividends	-	-	-	-	-	(25,010)	(25,010)	-	(25,010)
Other movement	-	-	87	-	-	-	87	-	87
Balance at 31 December 2018	535,936	355,165	110,461	(1,602)	(64)	(25,010)	974,886	-	974,886
Other comprehensive income	-	-	62,018	-	-	-	62,018	-	62,018
Transactions with shareholders									
Own shares	-	-	260	130	-	-	390	-	390
Dividends paid from 2018 profit	-	-	(55,329)	-	-	25,010	(30,319)	-	(30,319)
Dividends	-	-	-	-	-	(25,010)	(25,010)	-	(25,010)
Balance at 31 December 2019	535,936	355,165	117,410	(1,472)	(64)	(25,010)	981,965	-	981,965

Derio, 25 February 2020

EUSKALTEL, S.A. SUBSIDIARIES

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

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

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

Derio, 25 February 2020

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EUSKALTEL, S.A. SUBSIDIARIES

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

(Expressed in thousands of Euros)

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

Derio, 25 February 2020

EUSKALTEL, S.A. SUBSIDIARIES

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

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

NOTE 1.- General information

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

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

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

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

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

On 21 June 2018, the Board of Directors of Telecable de Asturias, S.A., Telecable Capital Holding, S.A. and Parselaya, S.A. approved the merger of Telecable de Asturias, S.A. by the absorption of Telecable Capital Holding, S.A. and Parselaya, S.A.

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

In 2018, Cinfo, Contenidos Informativos Personalizados, S.L. was excluded from the consolidation scope due to the sale of this company.

The companies that, along with Euskaltel, S.A., comprise the Euskaltel Group, and the percentage ownership of the Parent in each (direct and/or indirect) at 31 December 2019 are as follows: R Cable y Telecable Telecomunicaciones, S.A.U. (100%) and EKT Cable y Telecomunicaciones, S.L.U. (100%).

NOTE 2.- Basis of presentation

2.1. True and fair view

The accompanying consolidated annual accounts have been prepared on the basis of the accounting records of Euskaltel, S.A. and of the consolidated entities. The consolidated annual accounts for 2019 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other applicable provisions in the financial reporting framework, to give a true and fair view of the consolidated equity and consolidated financial position of Euskaltel, S.A. and subsidiaries (the Group) at 31 December 2019, and the consolidated results of operations and changes in consolidated equity and cash flows of the Group for the year then ended.

The Company applied International Financial Reporting Standards as adopted by the European Union (IFRS-EU) for the first time when preparing its financial statements for 2012 in the context of the stock flotation mentioned in the previous note.

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

2.2. Comparative information

The consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto for 2019 include comparative figures for the prior year.

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

2.3. Adoption of International Financial Reporting Standards (IFRS)

Standards applied from 1 January 2019 onwards

IFRS 16 – Leases

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

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

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

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

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

The Euskaltel Group estimates the lease term, based on the period of that term that cannot be cancelled and the periods covered by the renewal options available to the Euskaltel Group and which are considered to be reasonably certain.

Assumptions are used to calculate the discount rate, which depends primarily on the incremental financing rate for the estimated terms and which represents the interest rate that a lessee would have to pay for borrowing for a similar term, and with a similar guarantee, the funds needed to obtain an asset of similar value to the right-of-use asset in a similar economic environment. The discount rate used in the first-time application of IFRS 16 is between 1.35% and 6.17%, based on the remaining lease terms.

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

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

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

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

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

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

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

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

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

Standards applied from 1 January 2018 onwards

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 - Revenue from Contracts with Customers establishes the criteria for recognising revenue from contracts with customers. This standard replaces IAS 18 - Revenue and IAS 11 - Construction Contracts.

The new standard requires revenue to be recognised in the amount expected to be received from the customer when control over the goods or services is transferred to the customer. The transfer of control may take place at a moment in time or over time. When the same contract includes more than one compliance obligation for the customer, revenue will be recognised based on the sale price regardless of the various compliance obligations.

The Euskaltel Group chose the transition option established in the Standard, which means applying IFRS 15 retroactively and the cumulative effect of the initial application is recognised on the date of initial application at 1 January 2018, without restating the information presented in 2017 under the aforementioned previous standards and taking advantage of the approach that allows the standard to be applied only to contracts that are not completed by 1 January 2018. The application of this standard led to a reduction of Euros 607 thousand (net of the tax effect) in reserves at 1 January 2018 due to income from sales of equipment. The effect on the consolidated income statement at 31 December 2018 was not significant.

IFRS 9 – Financial Instruments

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

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

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

- **Impairment of financial assets**

The impairment model in IFRS 9 is based on a dual measurement approach, under which there will be an impairment provision based on the expected losses in the next 12 months or based on the expected losses throughout the asset's life. The second approach is adopted in favour of the first one when there is a significant deterioration in the credit quality.

For trade receivables, the Group applies the accounting policy of expected losses, calculated, on the basis of the estimated percentage of unrecoverable receivables in recent years over historical sales figures.

To determine if a financial asset has suffered a significant deterioration in its credit risk since its initial recognition, or to estimate the expected loan losses throughout the life of the asset, the Group considers all reasonable and verifiable information that is relevant and available without incurring in additional efforts or disproportionate expenses. This includes both quantitative and qualitative information, based on the experience of the Group or other entities on historical loan losses, and observable market information on the credit risk of the specific financial instrument or similar financial instruments.

The Group applied the simplified approach under IFRS 9, which requires that losses expected over the life of the item are recognised from the initial recognition of the account receivable.

With regard to the new financial asset impairment calculation model based on the model of expected loan losses over the life of the asset, the Group implemented this new method at 1 January 2018 and its impact led to a reduction in reserves of Euros 1.9 million, net of the tax effect.

- **Refinancing of financial liabilities:**

The Group performed financial operations which, in accordance with IAS39, had not given rise to significant variations in the debt instrument and, therefore, the carrying value of the liability was adjusted based on commissions, amortising these over the remaining term of the modified liability, modifying the effective internal rate of return to be applied to the liability. In accordance with IFRS 9, modifications of financial liabilities should determine the value of the cash flows of the new financial liability by calculating the effective internal rate of return of the old financial liability, recording the difference between this new carrying value and the original amount in the consolidated income statement. In this respect, the annual refinancing operations carried out by the Parent company since 2015 (the date on which the syndicated financing commenced) resulted on 1 January 2018 in a Euros 2.9 million increase in reserves, net of the tax effect.

The table below contains a summary of the impact of adopting IFRS 15 and IFRS 9 on the consolidated statement of financial position at 31 December 2018 for each of the headings affected. The impact of adoption on the consolidated income statement and the statement of cash flows at 31 December 2018 was not significant.

31 December 2018 *Thousands of Euros*	**Amount before adoption of IFRS 15 & 9**	**Adjustments IFRS 15**	**Adjustments IFRS 9**	**Amount in consolidated statement of financial position**
Assets				
Non-current assets				
Deferred tax assets	124,085	339	661	125,085
Total non-current assets	**2,720,017**	**339**	**661**	**2,721,017**
Current assets				
Assets under contract with customers	-	520	-	520
Trade and other receivables	53,183	-	(2,571)	50,612
Total current assets	**179,722**	**520**	**(2,571)**	**177,671**
Total assets	**2,899,739**	**859**	**(1,910)**	**2,898,688**
Equity and liabilities				
Equity				
Retained earnings	109,973	(482)	970	110,461
Total equity	**974,398**	**(482)**	**970**	**974,886**
Non-current liabilities				
Bank borrowings	1,451,220	-	(3,903)	1,447,317
Deferred tax liabilities	85,876	163	1,023	87,062
Total non-current liabilities	**1,564,906**	**163**	**(2,880)**	**1,562,189**
Current liabilities				
Liabilities under contract with customers	-	1,178	-	1,178
Total current liabilities	**360,435**	**1,178**	**-**	**361,613**
Total equity and liabilities	**2,899,739**	**859**	**(1,910)**	**2,898,688**

IFRIC 23 - Uncertainty over income tax treatments

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

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

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

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

Standards and interpretations not yet in force at 31 December 2019

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

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

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

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

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

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

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

2.4. Critical issues regarding the valuation and estimation of uncertainties

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

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

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

a) <u>Capitalisation of tax credits</u>

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

b) Impairment of goodwill

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

c) Volume discounts from suppliers

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

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

2.5. Presentation currency

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

NOTE 3.- Accounting principles

3.1. Subsidiaries

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

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

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

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

3.2. Intangible assets

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

a) Goodwill

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

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

b) Computer software

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

Computer software maintenance costs are charged as expenses when incurred.

c) Licences

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

d) Brands

The brands were recognized in the acquisitions of R Cable and Telecable at their fair value at those dates. They are not amortised as they are considered assets with indefinite useful lives and the Group therefore performs impairment tests individually or jointly with goodwill at least once a year and provided there are indications of impairment.

e) Other intangible assets

Other intangible assets include the incremental and specific costs related to the amounts paid for each contract entered into, and are amortised in a systematic manner that is consistent with the transfer to the customer of the goods or services to which the asset relates, provided that the customer does not discontinue the contract, in which case the amount pending amortisation is taken to profit and loss.

The Group updates amortisation to reflect any significant changes in the expected transfer schedule of the goods and services relating to the asset to the client. Such changes are recognised as a change in the accounting estimate.

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

f) Impairment

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

3.3. Property, plant and equipment

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

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

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

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

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

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

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

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

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

When the carrying amount of an asset is higher than its estimated recoverable amount, its value is immediately reduced to its recoverable amount in accordance with the criteria in note 3.4. Impairment losses, or reversals of impairment losses if the circumstances in which they were recognised no longer exist, are recognised as an expense or income, respectively, in the consolidated income statement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.5. Impairment losses on non-financial assets

The Group evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. Nonetheless, the Group tests assets with indefinite useful lives for impairment at least annually, irrespective of whether there is any indication of impairment.

Recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

Impairment losses for CGU's are allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata with their carrying amounts. The carrying amount of each asset may not be reduced below the highest of its fair value less costs of disposal, its value in use and zero.

At the end of each reporting period the Group assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Impairment losses are only reversed if there has been a change in the estimates used to calculate the recoverable amount of the asset. Impairment of goodwill is not reversible.

Impairment losses are recognised in the consolidated income statement.

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

A reversal of an impairment loss for a CGU is allocated to the non-current assets of each unit, except goodwill, pro rata with the carrying amounts of those assets. The carrying amount of an asset may not be increased above the lower of its recoverable amount and the carrying amount that would have been disclosed, net of amortisation or depreciation, had no impairment loss been recognised.

After an impairment loss or reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods based on its new carrying amount.

However, if the specific circumstances of the assets indicate an irreversible loss, this is recognised directly in losses on the disposal of fixed assets in the consolidated income statement.

3.6. Inventories

Inventories are initially measured at the lower of cost (whether cost of acquisition or production) and net realisable value, and any related impairment losses or reversals are recognised in the consolidated income statement.

Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

3.7. Financial instruments

a) Recognition and classification of financial instruments

For measurement purposes, the Group classifies financial instruments into financial assets and financial liabilities at fair value through profit or loss, separating those initially designated from those held for trading, or measured necessarily at fair value through profit and loss, financial assets and liabilities measured at amortised cost and financial assets at fair value through other comprehensive income, separating equity instruments initially designated from other financial assets. Financial assets other than those at fair value through profit and loss and equity instruments at fair value through other comprehensive income are classified based on the business model and the nature of the contractual cash flows. Financial liabilities are measured at amortised cost, except those designated at fair value through profit and loss and those held for trading.

A financial asset or liability is classified as held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- It is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or
- It is an obligation to deliver financial assets obtained on loans no longer held.

The Group classifies a financial asset at amortised cost if held within the framework of a business model whose purpose is to hold financial assets in order to obtain contractual cash flows and the contractual conditions of the financial asset give rise, on the specified dates, to cash flows constituting solely payments of principal plus interest on the outstanding principal (SPPI).

The Group classifies a financial asset at fair value through other comprehensive income if held within the framework of a business model whose purpose is to obtain contractual cash flows and sell financial assets and the contractual conditions of the financial asset give rise, on the specified dates, to cash flows constituting SPPI.

The business model is determined by the Group's key personnel at a level that reflects the way in which the groups of financial assets are jointly managed to serve the specific business purpose. The Group's business model represents the manner in which it manages its financial assets to generate cash flows.

Financial assets and liabilities for contingent consideration arising in a business combination are classified as financial assets and liabilities measured at fair value through profit or loss.

b) Financial assets and liabilities at amortised cost

Financial assets and liabilities at amortised cost are initially recognised at fair value, plus or less transaction costs, and subsequently measured at amortised cost using the effective interest method.

c) Impairment

The Group recognises impairments on expected credit losses of financial assets measured at amortised cost and assets under contract.

At the end of each reporting period, the Group measures an impairment equivalent to the credit losses expected in the next twelve months for financial assets whose credit risk has not increased significantly since the initial date of recognition, or when the credit risk of a financial asset is deemed to have already increased significantly.

Notwithstanding the above, the Group recognises the expected credit loss over the life of the instrument for trade debtors or assets under contract.

d) Derecognition and modifications of financial liabilities

The Group derecognises all or part of a financial liability when it either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.

Debt instrument exchanges between the Group and the counterparty or substantial modifications in liabilities initially recorded, are recognised as a settlement of the original financial liability and the new financial liability is accounted for, as long as the instruments have substantially different conditions.

The Group deems that the conditions are substantially different if the present value of the cash flows discounted under the new conditions -including any commission paid, less any commission received, and using the original effective interest rate- differs by at least 10% from the present value of the discounted cash flows still remaining from the original financial liability.

If the exchange is recognised as a settlement of the original financial liability, costs or commissions are recognised as profit or loss in the income statement. Otherwise, modified cash flows are discounted at the original effective interest rate, recognising any difference with the previous carrying value in profit and loss. Similarly, costs or commissions adjust the carrying value of the financial liability and are amortised over the remaining life of the modified liability using the amortised cost method.

3.8. Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions and other short-term, highly liquid investments with original maturity of less than three months.

The Group classifies cash flows corresponding to interest earned and interest paid as an operating activity, and dividends paid out as a financing activity.

3.9. Parent own shares

The acquisition of equity instruments of the Parent by the Group is recognised separately at cost of acquisition as a reduction in equity, regardless of the reason for the purchase. No gain or loss is recognised on transactions involving own equity instruments.

The subsequent redemption of the Parent shares entails a capital reduction equivalent to the par value of the shares. Any positive or negative difference between the purchase price and the par value of the shares is debited or credited to reserves.

Transaction costs related to own equity instruments are accounted for as a reduction in equity, net of any tax effect.

3.10. Hedge accounting

Derivative financial instruments are initially recognised using the criteria set out above for financial assets and liabilities. Derivative financial instruments which do not qualify for hedge accounting are classified and measured as financial assets or liabilities at fair value through profit or loss. Derivative financial instruments which qualify for hedge accounting are initially measured at fair value, plus any transaction costs that are directly attributable to the acquisition.

The Group recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in other comprehensive income. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised with a charge or credit to the finance cost or income accounts.

3.11. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

3.12. Employee benefits

a) Termination benefits

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

b) Short-term employee benefits

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

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

3.13. Revenue from contracts with customers

Revenue from contracts with customers is recognised in the amount expected to be received from the customer when control over the goods or services is transferred to the customer. The transfer of control may take place at a moment in time or over time. When the same contract includes more than one compliance obligation for the customer, revenue is recognised based on the sale price regardless of the various compliance obligations.

The Group has determined its main compliance obligation as the rendering of telecommunications services consisting of mobile and fixed telephony, television and Internet services to its customers. The telecommunications service consists of a number of different services that are substantially the same and have the same pattern of transfer to the customer. Revenue is recognised over the length of time those services are rendered. Euskaltel also offers equipment that constitutes a separate compliance obligation and recognises the revenue upon delivery, which is the time at which control over the equipment is transferred to the customer.

The Group determines the independent sale price based on the observable sale price of a good or service when sold separately in similar circumstances to similar clients. In those cases in which the sum of the independent sale prices of the goods or services contracted exceeds the agreed consideration, unless the Group has observable evidence that the whole discount corresponds to one or more of the contract execution obligations, but not all of them, the discount is allocated proportionally over the contract's execution obligations.

A contract's financial component is not considered significant when the period between the time the goods or the services promised to the customer are transferred and the time at which the customer pays for those goods or services is one year or less.

3.14. Leases (applicable up to 31 December 2018)

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

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

Payment commitments in relation to these contracts were as follows:

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

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

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

3.15. Income tax

The income tax expense or tax income is recognised in the consolidated income statement each year, calculated based on the pre-tax profits, adjusted for permanent differences with fiscal criteria. If the profit is associated with an income or expense recognised directly in equity, the tax expense or tax income is also recognised against equity.

Deferred tax assets and unused tax credits in respect of loss carryforwards are only capitalised when:

- their future realisation is considered probable;
- the temporary differences are related to investments in subsidiaries, associates and joint ventures providing the temporary differences will reverse in the foreseeable future and sufficient taxable income is expected to be generated against which the differences can be offset;

The Group recognises deferred tax liabilities in all cases except when:

- they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income;
- they are related to investments in subsidiaries, associates and interests in joint ventures over which the Group is able to control the timing of the reversal of the temporary difference and it is not probable that the temporary difference will reverse in the foreseeable future.

Tax credits in respect of all items, including loss carryforwards, are recognised at the tax rate that is expected to apply to the years when the asset is realised, based on tax rates and tax laws that have been enacted at the reporting date.

The Group reviews the carrying amount of deferred tax assets at the reporting date and reduces this amount to the extent that it is not probable that sufficient taxable profit will be available against which to recover them. Additionally, at year end, the Group reassesses whether the conditions for recognising previously unrecognised deferred tax assets have been met.

The Group only offsets deferred tax assets and liabilities if it has a legally enforceable right, when they relate to income taxes levied by the same taxation authority and on the same taxable entity and when the taxation authority permits the Group to make or receive a single net payment, or to recover the assets and settle the liabilities simultaneously in each future year in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3.16. Environmental issues

Expenses derived from protecting and improving the environment are recognised as an expense in the period in which they are incurred. Property, plant and equipment modified or acquired to minimise the environmental impact of its activity and protect and improve the environment are recognised as an increase in property, plant and equipment.

NOTE 4.- Financial risk management

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

The Group uses financial risk evaluation and mitigation methods suited to its activity and scope of operations, which are sufficient to adequately manage risks.

A summary of the main risks affecting the Group, and the measures in place to mitigate their potential affect, is as follows:

a) Credit risk

Credit risk is the risk of financial loss to which the Group is exposed in the event that a customer or counterparty to a financial instrument fails to discharge a contractual obligation. This risk is concentrated in receivables.

The Group considers customer credit risk to be mitigated by the application of different policies, and the high level of dispersion of receivables. Among the different policies and specific practices are the customer acceptance policy, continual monitoring of customer credit, which reduces the possibility of default on the main receivables, and collection management.

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

b) Liquidity risk

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

The Group adjusts the maturities of its debts to its capacity to generate cash flows to settle them.

To do this, the Group has implemented a five-year financing plan with annual reviews and regular analyses of its financial position, which includes long-term projections, together with daily monitoring of bank balances and transactions.

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

c) Market risk, currency risk and interest rate risk

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

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

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

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

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

NOTE 5.- Intangible assets

Details of intangible assets and movement are as follows:

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

	31.12.2017	Additions	Disposals	Changes in the consolidated group (note 1)	31.12.2018
Cost					
Industrial property	3,369	949	-	(280)	4,038
Computer software	121,177	24,096	-	(1,779)	143,494
Licences	7,668	-	-	-	7,668
Brands	53,874	-	-	-	53,874
Other intangible assets	261,162	31,448	(12,333)	-	280,277
	447,250	56,493	(12,333)	(2,059)	489,351
Accumulated amortisation					
Industrial property	(1,491)	(2,600)	-	53	(4,038)
Computer software	(80,575)	(17,032)	-	1,165	(96,442)
Licences	(1,583)	(341)	-	-	(1,924)
Other intangible assets	(44,616)	(35,634)	4,092		(76,158)
	(128,265)	(55,607)	4,092	1,218	(178,562)
Carrying amount	318,985	886	(8,241)	(841)	310,789

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

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

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

Impairment and Allocation of goodwill and Intangible assets with indefinite useful lives to CGUs

The recoverable amount of the CGUs to which the goodwill was allocated (Euskaltel CGU and RCable CGU, see note 1) has been calculated at its value in use according to cash flow projections determined on the basis of Euskaltel, S.A.'s six-year business plan. The Group's nationwide expansion, the main driver of growth of the new Business Plan, entails significant growth plans even in 2025, which is why the Group has deemed it reasonable to use a projection period of over five years and a stable growth rate from the sixth year onward. Cash flows beyond this period are extrapolated using the growth rates estimated, which do not exceed average long-term growth rates for the sector.

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

- Discount rate after tax: 6.3% (7.8% before tax).
- Increase in sales over the budgeted period as a result of the Group's national expansion.
- Growth rate after the six-year period: 1.9%.
- EBITDA Margin/Non-current revenue in line with the aforementioned business plan.
- CAPEX/Revenue ratio also in line with the aforementioned business plan.

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

NOTE 6.- Property, plant and equipment

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

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

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

	31.12.17	Additions	Disposals	Transfers	Changes in the consolidated group (note 1)	31.12.18
Cost						
Land and buildings	160,180	-	-	1,217	-	161,397
Civil engineering	534,349	76	-	9,234	-	543,659
Cabling	364,708	5,147	-	28,715	-	398,570
Network equipment	589,604	2,288	(4)	26,484	-	618,372
Customer equipment	349,885	6,684	(5,868)	17,364	-	368,065
Other installations, equipment and furniture	209,104	78	(118)	9,221	(34)	218,251
Under construction	30,221	82,255	(13)	(95,097)	-	17,366
Other property, plant and equipment	65,507	489	-	2,942	(103)	68,835
	2,303,558	97,017	(6,003)	80	(137)	2,394,515
Accumulated depreciation						
Land and buildings	(35,968)	(4,820)	-	-	-	(40,788)
Civil engineering	(82,524)	(13,828)	-	-	-	(96,352)
Cabling	(179,131)	(22,207)	-	-	-	(201,338)
Network equipment	(346,993)	(38,328)	4	-	-	(385,317)
Customer equipment	(231,579)	(37,662)	5,297	-	-	(263,944)
Other installations, equipment and furniture	(121,796)	(11,871)	26	-	19	(133,622)
Under construction	(19,255)	(1,531)	-	-	79	(20,707)
	(1,017,246)	(130,247)	5,327	-	98	(1,142,068)
Carrying amount	1,286,312	(33,004)	(676)	80	(39)	1,252,447

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

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

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

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NOTE 7.- Right of use assets

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

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

Other installations mainly includes:

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

NOTE 8.- Financial assets

8.1. Classification by category

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

	Financial assets at amortised cost		**Assets classified at fair value through profit or loss**		**Total**	
	31.12.19	**31.12.18**	**31.12.19**	**31.12.18**	**31.12.19**	**31.12.18**
Non-current						
Equity instruments	-	-	1,100	101	1,100	101
Loans extended	7,235	7,067		-	7,235	7,067
Other non-current assets	604	605		-	604	605
	7,839	7,672	1,100	101	8,939	7,773
Current						
Trade receivables	58,242	51,132	-	-	58,242	51,132
Investments	464	467	-	-	464	467
Cash and cash equivalents	98,247	107,356	-	-	98,247	107,356
	156,953	158,955	-	-	156,953	158,955

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

8.2 Impairment

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

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

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

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

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

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

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

NOTE 9.- Equity

9.1.__Capital

At 31 December 2019, subscribed capital is represented by 178,645,360 shares with a par value of Euros 3 each.

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

Details of shareholders at 31 December 2019 are as follows:

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

9.2.__Capital management

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

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

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

9.3.__Share premium

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

9.4.__Retained earnings

Details of this caption are as follows:

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

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

9.5.__Dividends and interim dividend

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

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

The provisional accounting statement drawn up at 30 September 2019 in accordance with the legal requirements, and which showed that there was enough liquidity to distribute the dividend is as follows:

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

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

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

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

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

The proposed dividend distribution is equivalent to one total unified dividend, including the interim dividend paid, of Euros 0.31 per share outstanding at year end.

9.6. Own shares

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

9.7. Earnings per share

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

Basic earnings per share are calculated as follows:

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

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

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

The Company has no diluted ordinary shares.

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NOTE 10.- Financial liabilities

10.1. Classification by category

Details of financial liabilities classified by category are as follows:

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

As a result of the agreements reached during the stock flotation process, the Company negotiated a new loan comprising two tranches of Euros 235 million each (tranches A-1 and B-1) and a revolving credit facility of Euros 30 million (the limit of this facility was changed in 2017 to Euros 300 million). At 31 December 2019, Euros 150 million has been drawn down from the credit facility (Euros 220 million at 31 December 2018).

For the acquisition of R Cable and Telecomunicaciones Galicia, S.A. (see note 1), the Company amended the initial agreement and borrowed two additional tranches (tranches A-2 and B-2) of Euros 300 million each, and an institutional loan (tranche B-3), underwritten by four financial institutions, also for Euros 300 million.

In 2017, the maturity of the long-term credit facility was extended by one year until June 2021 and a new tranche of institutional debt (B4) was contracted amounting to Euros 835 million to repay the outstanding amounts of tranches A1, B2 and B3.

Interest on the financing is pegged to Euribor plus a spread calculated by dividing net consolidated debt by consolidated EBITDA (the coefficient), both of which are defined in the loan clauses. Early repayment of the loans may be demanded if the coefficient exceeds the parameters established. Early repayment of the loan may also be demanded if there is a change in control, understood as the acquisition of more than 50% of shares with voting rights. The coefficient at 31 December 2019 amounts to a net consolidated debt of 4.2 times consolidated EBITDA, which does not exceed the parameter established of net consolidated debt of 4.5 times consolidated EBITDA.

The following changes were made during 2019:

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

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

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

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

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

	No. of six-month periods	**(1)**
Six-monthly maturity		
30-06-20 to 30-12-20	2	15%
30-06-21 to 31-12-21	2	17%
30-06-22 to 31-12-22	2	18%
30-06-23 to 31-12-23	2	22%

(1) *Repayment percentage calculated based on the initial nominal amount of the loans repaid on the last day of each six-month period included in the period.*

Details of the repayments of non-current loans with financial institution, including interest, are as follows (millions of Euros):

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

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

Upon availing of the financing arrangements, the Parent pledged certain shares in Group companies, loans granted and bank accounts as collateral. At the general meeting held on 27 June 2016, the shareholders also approved the lodging of a collateral right over the Parent's telecommunications network.

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

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

During the period September to December 2019, the Parent Company issued promissory notes for a nominal value of Euros 131,000 miles the context of a short-term commercial paper issue implemented in 2017 for an overall limit of Euros 200 million. These promissory notes have maturities between January and December 2020 and accrue interest at an average annual rate of 0.22%.

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

The Group has other non-current borrowings totalling Euros 1,369 thousand.

Other non-current and current financial liabilities include loans carried at amortised cost granted by different government bodies for network deployment work in certain population centres. The nominal value of the loans at 31 December 2019 comes to Euros 17,157 thousand (Euros 23,667 thousand at 31 December 2018).

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

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

10.2. Suppliers

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

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

The average payment period is the time between delivery of the goods or provision of the services by the supplier and payment of the transaction in accordance with the methodology described in article 5 of the Resolution.

NOTE 11.- Taxes

11.1.__Balances with public entities

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

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

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

11.2.__Income tax

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

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

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

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

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

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

The Group could use additional tax credits amounting to approximately Euros 20 million, which have not yet been capitalized since they depend on the favourable resolution by the tax authorities regarding the Group's right thereto.

Details of deferred taxes at 31 December 2019 are as follows:

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

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

	31.12.17	Effect of new IFRS	Source	Reversal	Other	31.12.18
Deferred tax assets						
Financial liabilities	7,816	-	-	(3,875)	47	3,988
Provision for bad debts	-	-	-	-	-	-
Property, plant and equipment	9,118	-	32	(1,522)	94	7,722
Intangible assets	16,724	-	-	(641)	(15,507)	576
Other assets	150	-	505	(144)	235	746
	33,808	-	537	(6,182)	(15,131)	13,032
Deductions on tax due	134,371	-	1,231	(7,973)	(183)	127,446
	168,179	**-**	**1,768**	**(14,155)**	**(15,314)**	**140,478**
Deferred tax liabilities						
Financial liabilities	(289)	-	-	54	-	(235)
Property, plant and equipment	(29,799)	-	-	6,527	9,575	(13,697)
Intangible assets	(75,101)	-	(542)	5,727	6,476	(63,440)
Grants	(9,305)	-	(700)	873	-	(9,132)
Free depreciation	(17,499)	-	(1)	1,873	(130)	(15,757)
Other	-	(155)	(39)	-	-	(194)
	(131,993)	**(155)**	**(1,282)**	**15,054**	**15,921**	**(102,455)**
	36,186	**(155)**	**486**	**899**	**607**	**38,023**
Offsetting of asset balances	**(37,577)**					**(15,393)**
Deferred assets	**130,602**					**125,085**
Deferred liabilities	**(94,416)**					**(87,062)**

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

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

Almost all of the deductions pertain to the Parent Company. Given the significance of the capitalized tax credits, the Company performs an annual recoverability analysis even if there is no indication of impairment. The business plans of Euskaltel, S.A. show that the Company will have sufficient future taxable income against which tax credits capitalised at year end can be utilised. Tax credit carryforwards at 1 January 2014 have a 28-year prescription term.

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

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

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

NOTE 12.- Income and expenses

12.1.__Revenues

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

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

- Mass market
- Business
- Wholesale market and others

Details of revenues by type of customer are as follows:

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

Mass market

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

Business

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

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

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

Wholesale market and others

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

12.2. Supplies

Details are as follows:

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

Interconnection expenses includes discounts for certain services rendered by third parties, for an amount of Euros 48,891 thousand (Euros 41,310 thousand in the comparative period). These discounts rely on the fulfilment of a certain minimum cumulative consumption until 30 June 2024. The contractual changes negotiated during 2019, including the two-year extension, have led to a significant increase in the consumption that may be subject to discount, and have also improved our competitive conditions in the market.

The amount of the discounts pending offset is Euros 51,744 thousand (Euros 48,059 thousand at 31 December 2018) and they are recorded under Trade and other payables in the consolidated balance sheet.

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

Discounts are calculated on the basis of the Group's estimates of future consumption, based on the business plan approved by the Board of Directors of Euskaltel, S.A. Management has prepared a sensitivity analysis for the accrued discount based on changes of ± 5% of the expected consumption subject to discount, and this analysis has not yielded significant changes (impact of less than +/- Euros 200 thousand).

12.3.__Personnel expenses

Details are as follows:

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

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

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

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

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

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

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

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

12.4. Other operating expenses

Details are as follows:

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

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

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

Details of other results are as follows:

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

12.5. Net finance income/(cost)

Details are as follows:

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

Note 13.- Commitments

13.1.__Sale and purchase commitments

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

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

NOTE 14.- Related party transactions

14.1.__Transactions and balances with key personnel

Details of transactions with key Company personnel are as follows:

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

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

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

14.2.__Transactions and balances with other related parties

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

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

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

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

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

14.3.__Conflicts of interest

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

NOTE 15.- Other information

The firm auditing the Group's annual accounts (KPMG Auditores, S.L.) has invoiced the following net fees for professional services during the years ended 31 December 2019 and 2018:

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

Other assurance services include those relating to limited reviews.

NOTE 16.- Environmental information

To develop its commitment to environmental issues, an environmental strategy is prepared and set out in the Environmental Steering Plan. The Euskaltel Group’s commitment to environmental management excellence was the starting point for establishing an Environmental Management System in accordance with ISO 14001:2015.

Accordingly, and with the objective of always being aligned with the Basque Sustainable Development Environmental Strategy (2002-2020), Euskaltel voluntarily decided to join the EMAS III Regulations in 2004. The EMAS III Environmental Statement, which is verified by AENOR and includes our Company’s carbon footprint, is evidence of our commitment to transparency with our stakeholders.

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

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

Reporting actions carried out by the group companies as part of the initiative #Por el Clima. Through this commitment the Group companies have committed to reducing their polluting actions that cause climate change and to form part of the #PorElClima Community, which is a pioneering initiative between individuals, companies, organisations and government agencies with a common objective: to be protagonists in the fight against climate change in accordance with the guidelines established by the Paris Agreement.

NOTE 17.- Guarantees

The Group has to submit certain guarantees as part of its everyday commercial activity, for concession and spectrum tenders derived from legal obligations through its participation in the development of the telecommunications sector, for network deployment licences from public administrations, and to comply with its long-term contractual obligations with service providers.

The Group has extended guarantees to safeguard the working conditions of employees hired by the companies with which the agreements were reached to outsource certain services that in prior years were rendered in-house.

As a result of the Group's financing, pledges on certain assets have been extended (see note 9).

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

NOTE 18.- Subsequent events

On 29 October 2019, the Company's Board of Directors agreed to pay an interim dividend against 2019 results for a gross amount of 14.0 cents (Euros 0.140) per share outstanding with dividend rights (which amounts to a maximum dividend of Euros 25 million). This interim dividend, totalling Euros 25 million, was paid to shareholders on 7 February 2020.

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

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

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

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

CONTENTS

1.- Introduction

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

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

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

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

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

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

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

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

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

2.- Business overview

Mass market

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

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

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

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

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

- Pay TV: A wide selection of digital TV programming, including basic and premium bundles, and also Everywhere TV (sold under the "Edonon", "Tedi" and “TV comigo” brand), functionalities of VoD and PVR. The company offers access to premium content with the most popular local offering. At 31 December 2019, the company offers Pay TV services to 468,333 mass market customers.

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

- Fixed-line phones: The Group offers fixed-line services with unlimited national calls to fixed-lines and a wide range of price plans for fixed-line to mobile calls and fixed-line to international numbers.

Business market:

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

- SMEs: The Euskaltel Group offers a range of solutions for medium-sized businesses with relatively high tech needs. These services include broadband access with speeds of up to 500 Mbps, symmetrical fibre access with speeds of up to 1 Gbps, MPLS Network, fixed-line/mobile convergence (FMC), IP Switch and advanced IT services.

- Large Businesses: the Euskaltel Group's large account customer base includes both public entities and large corporations. Large accounts have technically complex requirements and the company designs tailor-made solutions based on each customer’s specific needs. These include symmetrical fibre access with speeds of up to 1 Gbps, FMC, SIP trunking, MLPS networks, cloud firewalls and virtual data centres.

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

Wholesale and Other revenue

- The Euskaltel Group renders communications services to wholesale customers (most of whom are telecommunications companies in direct competition with the Euskaltel Group) including leased lines, data and voice services using Euskaltel’s installations and infrastructures to render services to their customers. The Euskaltel Group renders leased lines services in SDH line access, Ethernet and Dark Fibre technologies, voice services (which allow distributors to complete calls to end users originating or ending in the issuer’s territory) and enabling services which are based on Euskaltel’s BSS network and Mobile Core Network.

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

3.- Corporate structure

The companies that, along with Euskaltel, S.A., comprise the Euskaltel Group and the percentage of ownership of the Parent in each (direct and/or indirect) at 31 December 2019 are as follows: R Cable y Telecable Telecomunicaciones, S.A.U. (100%) and EKT Cable y Telecomunicaciones, S.L.U. (100%).

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

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

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

4.- Board of Directors

The Board of Directors of Euskaltel is authorised to adopt agreements on all matters that are not allocated by law or the statutes to the General Meeting.

Thus, it is central to the Board's mission to approve the Company's strategy and secure the organisation necessary to put it into practice, and to supervise and verify that senior management meets the objectives set and respects the registered activity and corporate interests of the Company.

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

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

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

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

A) In terms of the General Meeting of Shareholders:

a) Calling General Shareholders' Meetings and publishing the corresponding notices.

b) Proposing modifications to the articles of association of the Company to the General Shareholders' Meeting.

c) Proposing to the General Shareholders' Meeting any modifications to the Board Regulations, accompanying the proposal with the corresponding explanatory report.

d) Submitting to the General Shareholders' Meeting a proposal to transform the Company into a holding company by means of "subsidiarisation" or by transferring core activities carried out by the Company to subsidiaries, even if full domain over these is retained.

e) Submitting to the General Shareholders' Meeting proposed acquisitions or disposals of key operating assets, in accordance with the presumption contained in article 160 of the Spanish Companies Act.

f) Proposing to the General Shareholders' Meeting the approval of transactions that would be equivalent to winding up the Company.

g) Raising proposals to the General Shareholders' Meeting regarding the appointment, ratification or re-election of non-independent board members, following a report from the Appointments and Remuneration Committee, or termination of board members.

h) Executing the agreements approved by the General Shareholders' Meeting and carrying out any functions entrusted thereto by same.

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

a) Approving and modifying this Regulation, following a report from the Audit and Control Committee.

b) Defining the structure of general powers to be granted by the Board of Directors or the delegated governing bodies.

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

a) Managing the disclosure of information from the Company to the shareholders, the competent authorities, the markets and the general public in line with criteria of equality, transparency and accuracy.

b) Drawing up the annual accounts, directors' report and proposed distribution of results as well as the consolidated annual accounts and consolidated directors' report, if any, for presentation to the General Shareholders' Meeting.

c) Approving the financial information to be regularly disclosed by the Company due to its status as a public company.

D) In terms of board members and senior management:

a) Appointing and renewing offices within the Board of Directors and the members and internal offices of the Board committees.

b) Appointing board members by co-opting.

c) Appointing and relieving board members, as well giving preliminary approval for contracts to be entered into between the Company and the board members to whom executive powers are attributed, detailing remuneration for said executive functions.

d) Approving remunerations for each board member, based on proposals from the Appointments and Remunerations Committee, in accordance with the remunerations policy approved by the General Shareholders' Meeting.

e) Approving the definition and modification of the Company's organisation chart, appointing an relieving senior management (as set forth in article 2), and setting the compensation or termination benefits applicable in the event of dismissal.

f) Approving the remuneration policy for senior management posts and the basic conditions of their contracts, based on any proposals made by the CEO and following reports from the Appointments and Remunerations Committee.

g) Regulating, analysing and ruling on any conflicts of interest and transactions linking the Company to its shareholders, board members and senior management staff, or persons connected to them.

h) Authorising or waiving obligations deriving from the duty of loyalty, in accordance with prevailing legislation.

E) In terms of other duties:

a) Formulating the dividends policy and the corresponding proposed agreements to the General Shareholders' Meeting on the distribution of results and other forms of remuneration for shareholders, and agreeing on the payment of interim dividends, if any.

b) Acknowledging merger or demerger operations, concentration or global assignment of assets and liabilities affecting any of the Group's key companies.

c) Approving investments, divestments or any type of operation that, due to its significant amount or special characteristics, may be strategic or entail special tax liability, unless its approval corresponds to the General Shareholders' Meeting.

d) Creating or acquiring shareholdings in special purpose entities or entities domiciled in countries or territories considered to be tax havens, as well as any other similar transaction or operation which, owing to its complexity, could undermine the group's transparency.

e) Approving related-party transactions that are defined by prevailing legislation, subject to a report by the Audit and Control Committee.

f) Issuing an opinion on all public takeover bids made on securities issued by the Company.

g) Executing the Company's own portfolio policy within the framework of the authorisation of the General Shareholders Meeting.

h) Drawing up the Company's Annual Corporate Governance Report and the annual sustainability report, as well as the annual report on the directors' remuneration policy.

i) Ruling on proposals submitted by the Chairperson of the Board of Directors, the CEO or, if applicable the general manager or Board of Directors' committees.

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

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

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

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

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

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

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

- Audit and Control Committee
- Appointments and Remunerations Committee
- Strategy Committee

None of these three committees has executive functions but rather act as information and consultation bodies, authorised to inform, advise and make proposals within their scope of action. Their actions are governed by the Company's Articles of Association as well as the Committees' own internal regulations (Audit and Control Committee Regulations, Appointments and Remunerations Committee Regulations and Strategy Committee Regulations).

Their main task is to assist, inform and raise proposals to the Board of Directors on matters assigned to them by the Articles of Association, Board Regulations or their own Regulations.

Audit and Control Committee

This Committee's basic responsibilities fall into the following areas:

(i) internal and external auditing
(ii) information and risk management systems
(iii) compliance and good governance

Without prejudice to the tasks that may be assigned at any time by the Board of Directors and attributed thereto by the applicable standards, the Committee has, at a minimum, the following basic functions:

(i) To inform the Board of Directors on issues raised by shareholders in matters within their remit.

(ii) To supervise the efficiency of the Company's and its Group's internal control, as well as its risk management systems, including tax-related.

(iii) To analyse with the external auditors any potentially significant weaknesses in the internal control system detected during the course of the audit.

(iv) To supervise the process of drawing up and reporting regulated financial information.

(v) To propose to the Board of Directors, for submission to the General Shareholders' Meeting, appointments, re-election or replacement of the external auditors in accordance with applicable standards, as well as the conditions of their contracting, and regularly gather from them information on the audit plan and its execution, in addition to preserving their independence in the performance of their functions.

(vi) To supervise the Company's internal auditing activity.

(vii) To establish an appropriate relationship with the external auditors to receive information on issues that may jeopardise their independence, for examination by the Committee, and any other matters relating with the auditing procedures, as well as other reporting obligations set forth in auditing legislation and standards. In any event, the Committee shall receive from the external auditors annual confirmation of their independence with regard to the Company or any directly or indirectly-related entities, as well as information on additional services of any kind rendered by the audit firm or persons or entities connected thereto, in accordance with auditing legislation.

(viii) To issue an annual report, in advance of the issuance of the auditor's report on the annual accounts, expressing an opinion on the independence of the external auditors and summarising the Committee's activities. This report shall issue an opinion, in any event, on the rendering of the additional services referred to in the previous section, taken individually or as a whole, other than legal auditing and in relation to the regime of independence or the regulatory standards of the audit.

(ix) To report, in advance, to the Board of Directors on any matters governed by law, the Articles of Association and the Board of Directors Regulations, particularly with regard to: (i) the financial information the Company must report periodically; (ii) the creation or acquisition of shareholdings in special purpose entities or entities domiciled in countries or territories considered to be tax havens; (iii) related party transactions and (iv) the economic conditions and economic impact of any structural or corporative modifications planned by the Company and, particularly, for the exchange ratio of the proposal.

Appointments and Remunerations Committee

Without prejudice to the tasks that may be assigned at any time by the Board of Directors, the Appointments and Remunerations Committee has the following basic functions:

(i) To assess the necessary responsibilities, knowledge and experience in the Board of Directors. For these purposes, it shall define the functions and skills necessary in candidates for vacancies and assess the time and dedication needed to effectively perform their tasks.

(ii) To set a target for gender balance on the Board of Directors and draw up guidelines on how to reach this target.

(iii) To raise to the Board of Directors the proposed independent director appointments for designation by co-option or for their submission to the General Shareholders' Meeting, as well as proposals for re-election or dismissal of these directors by the General Shareholders' Meeting.

(iv) To inform the proposed appointment of the remaining board members for designation by co-option or for their submission to the General Shareholders' Meeting, as well as proposals for their re-election or dismissal by the General Shareholders' Meeting.

(v) To inform the proposed appointment or dismissal of senior management and the basic conditions of their contracts.

(vi) To examine and organise the succession of the chair of the board and the Company's CEO and, if applicable, propose candidates for the Board of Directors in order that succession be conducted in an orderly, planned fashion.

To propose to the Board of Directors the remunerations policy for directors and general management or senior management posts reporting directly to the Board, executive committee members or board members, as well as the individual remuneration and other contractual conditions of executive directors, ensuring their compliance.

Strategy Committee

Notwithstanding any other tasks that may be assigned at any given moment by the Board of Directors and the duties and authority that lie with the Audit and Control Committee and the Appointments and Remunerations Committee, the Strategy Committee will fulfil the following basic duties:

(i) Assess and propose to the Board of Directors strategic company business diversification strategies based on the business sector, foreseeable development, the applicable legislative framework and the Company's resources, capacities and potential for development and growth.

(ii) Provide the Board of Directors with the opportunity to make new investments, preparing investment alternatives in assets that represent a long-term increase in the value of the Company.

(iii) Analyse and propose recommendations or improvements to the strategic plans provided to the Board of Directors in light of the Company's competitive position.

(iv) Prepare and provide the Board of Directors with an annual report containing proposals, evaluations, studies and work performed by the Strategy Committee with respect to the aforementioned areas.

5.- Shareholder structure

Euskaltel has been listed on the Madrid, Barcelona, Bilbao and Valencia stock markets since 2015 and its current share capital is represented by 178,645,360 shares with a par value of Euros 3 each, forming a single share category. Share capital is subscribed and fully paid.

The main shareholders of Euskaltel at 31 December 2019 are as follows:

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

6.- Macroeconomic and industrial climate

<u>Macroeconomic environment</u>

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

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

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

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

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

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

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

<u>Industrial Environment</u>

The main trends that impacted the market are the following:

- Increased revenue: industry revenue in Spain increased by 0.4% (1.5% retail revenue) during the first half of 2019 compared with the same period last year (source: CNMC), which means a significant decrease in growth compared to the prior year, due to revenue consolidation per user of customers with contracts for convergent offerings, as a result of:
    - Gradual rise in tariffs of the main operators (data).
    - Increase in input speed of convergent fibre optic offers (from 50Mbps to 100Mbps).
    - Increase in mobile data use (expected to multiply by 6 between 2007 and 2021).
    - Increased penetration of broadband.
    - Increase in number of customers with convergent product bundles combining pay TV with four telecommunications services (fixed and mobile telephony, fixed and mobile broadband) (+2.1% increase in TV market).
- Increase in new competitors: Influx of new players in the sector, generally in a value-for-money price range, as well growth of MasMóvil and the launch of Euskaltel nationwide. Unprecedented portability, especially in mobile lines.
- Significant investing efforts made by operators: the fibre optic network deployed in Spain is the largest in Europe with over 33.3 million access points, covering 75% of the population. The figure for broadband lines catered for with fibre technology to the home (FFTH) has now exceeded the number of lines serviced using other technologies (9.77M vs 5.36M at September 2019). Furthermore, this infrastructure is becoming increasingly more accessible to operators due to the numerous strategic joint investment and shared infrastructure agreements between operators in recent years.

7.-Commercial activity and customer relations

Mass market

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

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

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

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

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

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

Business Market

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

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

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

The main advantages in the Business area are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8.- Marketing activity

New 2019 offer: More for more

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

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

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

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

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

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

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

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

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

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

<u>New sales tools</u>

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

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

<u>Campaigns:</u>

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

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

<u>Services</u>

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

9.- Operations Activity (Network and Technology)

During 2019, network integration has continued to be one of the main activities, particularly the unification of mobile cores in Galicia and the Basque Country, IP voice services, IP core and its DWDM links, etc.

Furthermore, the Group's commitment to improving the user experience of its customers has called for a significant number of projects both entailing the improvement of platform services, as well as end customer equipment. In order to manage and act proactively on improving the user experience, a system has been developed for gathering customer data and subsequently analysing this (Big Data + analytics).

Special efforts have also been made to expand both in our local territories (Galicia, Asturias and the Basque Country), supporting the rolling out of the FTTH own network, and in other regions, such as Navarre, Cantabria, Catalonia, León and La Rioja, based on third-party networks.

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

TV platform

- Functional evolution of our android 4K decoder for cable TV services and IPTV by Euskatel and R.
- Integration of a second alternative android 4K decoder for the Group.

Mobile network

- Development and improvement of mobile phone services in Asturias, particularly the roaming service.
- Orange service coverage improvement projects were executed in Galicia, the Basque Country and Navarre.
- We've continued to integrate mobile platforms (HLRs, EPG, SMSC/MMSC, OTA) in the platform's unification roadmap.

Fixed-line voice network

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

Docsis network

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

IP/MPLS core network

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

WI-FI network

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

Radio network

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

FTTH GPON network

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

Datacentre

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

Customer terminal standardisation

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

Fixed network deployment

- Minetur 40FTTH project: Completion of project to deploy FTTH-GPON with grants from the Ministry for NGA networks. This represents a deployment in 173 core areas which will be executed in 2017-2019.
- Minetad FTTH 2018 project: Start of project to deploy FTTH-GPON with grants from the Ministry for NGA networks. This involves rolling out the project to around 32,000 properties in towns in Galicia.

Security

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

10.- R&D&i activity

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

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

Innovation in user interfaces.

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

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

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

TV innovation

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

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

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

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

Business services: Industry 4.0

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

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

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

5G pilots

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

11.- Human Resources Activity

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

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

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

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

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

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

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

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

Promoting the recruitment of new talent

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

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

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

Promoting equal opportunities and encouraging female talent

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

Promoting leadership

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

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

Promoting educational cooperation

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

Promoting a digital culture in the Group

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

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

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

Integrating people with functional diversity

Euskaltel complies with Spanish Law 13/1982 of 7 April (Integration of Persons with Disabilities), through the creation of direct employment and the creation of jobs in special work centres that work with people with functional diversity. Specifically, in 2019 we have contracted out reception, mail room and telephone-answering services to Special Work Centres, representing over Euros 366 thousand a year, and we have employed one person directly through a temp agency.

We continue to develop the Family plan (Plan Familia) and the Emergence plan (Plan Aflora) among Euskaltel staff. The first of these is an economic aid scheme for employees with disabled family members to participate in workplace integration programmes and leisure activities. The Aflora plan is designed to bring to the fore unrecognised disabilities in people already employed by Euskaltel. During 2019 no employees were identified to have an unrecognised disability.

Working environment

Our working environment is one of the most relevant factors for the employees of the Euskaltel Group. We promote initiatives that foster a good working environment, such as flexible working hours, internal mobility and job rotation, as well as informing employees about internal vacancies.

12.- Organisation and quality activity

Organisation

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

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

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

During 2019 the organisational area has focused its activities on:

- Organisational Development: harmonising, updating and regularly publishing the Company's organisation chart, as a core tool for adapting systems and people management, based on the Company's organisational structure.
- Organisational Job Manual: the Group has an Organisational Job Manual that is updated as changes arise. The manual includes the main roles and responsibilities associated with the key positions in the Group.

Quality, Environment, Health and Well-being

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

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

2019 policy deployment has been as follows:

Quality

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

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

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

Environmental issues

To develop its commitment to environmental issues, an environmental strategy has been prepared and set out in the Environmental Steering Plan. The Euskaltel Group's commitment to environmental management excellence was the starting point for establishing an Environmental Management System in accordance with ISO 14001:2015.

Accordingly, and with the objective of always being aligned with the Basque Sustainable Development Environmental Strategy (2002-2020), Euskaltel voluntarily decided to join the EMAS III Regulations in 2004. The EMAS III Environmental Statement, which is verified by AENOR and includes our Company's carbon footprint, is evidence of our commitment to transparency with our stakeholders.

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

- Renewal of the Euskaltel Group's Environmental Management System certification in accordance with ISO 14001:2015, by a certified third party (AENOR) as renewed annually since 1999.
- Renewal of Telecable's Energy Management System in accordance with standard ISO 50001: 2011 by a certified third party (AENOR).
- Verification of the EMAS Environmental Statements by a recognised third party (AENOR) for Euskaltel, R and Telecable, having updated the corresponding registrations in the Environmental Management Audit System (EMAS).
- Registration on the Carbon Footprint Registry of the Ministry for Ecological Transition of Euskaltel, R and Telecable's footprints.
- Performance of the Life Cycle Analysis of the Euskaltel Virtual Data Centre, in order to measure the environmental impact of the Virtual Data Centre throughout its life cycle, from procurement of raw materials to their end of life. This project has been developed within the framework of our membership of the Basque Ecodesign Center and in collaboration with Ihobe.
- Also within the framework of the Basque Ecodesign Center, an analysis of the positioning of Euskaltel with respect to the most recent green procurement criteria proposed by the European Commission for services rendered through Data Processing Centres applied to the Euskaltel Virtual Data Centre, in order to analyse, by means of an environmental surveillance exercise, the current status of Euskaltel and identify opportunities for improvement in its positioning.
- During the first half of 2019, in collaboration with the Basque Ecodesign Center, an analysis has been carried out on the actions necessary to improve the report made for the Carbon Disclosure Project on Climate Change.
- The General Shareholders' Meeting and the Euskal Encounter event have been certified as sustainable events under the Erronka Garbia certification by IHOBE.
- Reporting actions carried out by the group companies as part of the initiative #Por el Clima. Through this commitment the Group companies have committed to reducing their polluting actions that cause climate change and to form part of the #PorElClima Community, which is a pioneering initiative between individuals, companies, organisations and government agencies with a common objective: to be protagonists in the fight against climate change in accordance with the guidelines established by the Paris Agreement.

Health and Well-being

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

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

Information security

Information is, nowadays, one of the main assets of any company and, as such, it must be protected and the risks that can jeopardise this asset must be properly managed. With this approach, in 2019 the Information Security Management System has continued to be consolidated, with its certification, since 2012, according to the Standard UNE 27001:2014 for Information Data Security Management Systems (ISMS) across Group companies.

2019 highlights:

- Expanding the scope of the risk management system for Information Security to new services and locations, enabling risks to be ascertained and analysed, identifying threats, vulnerabilities and impacts on activity and preventing, eliminating or reducing risks by establishing appropriate controls (for this purpose we use the tools provided in the ISO 27002 standard).
- Support to identify and establish security measures that help reduce risks identified.
- Compliance certification with the National Security Framework, in the intermediate category for the Euskaltel Group, by a recognised and accredited third party, having moved from the basic level to the intermediate level this year.
- Integration of information security management into the rest of the management systems implemented at the Euskaltel Group.

Other management systems

In January 2019 external follow-up audits of the following ISO standards were carried out:
- ISO 18295 Management Systems for Customer Contact Centres: Requirements for customer care services rendered by the Customised Support Centre, and
- ISO 22301 Business Continuity Systems for Telecable's Cloud Storage Services.

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

13.- Economic-financial activity and key business indicators

Key performance indicators (KPIs)

The following tables show some of our operating and financial KPIs for the year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14.- Financial risks

Our activities are exposed to credit risk, liquidity risk, and market risk, the latter of which includes currency and interest rate risk.

We use financial risk evaluation and mitigation methods suited to our activity and scope of operations, which are sufficient to adequately manage risks.

A summary of the main financial risks affecting us, and the measures in place to mitigate their potential affect, is as follows:

Credit risk

Credit risk is the risk of financial loss to which we are exposed in the event that a customer or counterparty to a financial instrument fails to discharge a contractual obligation. This risk is mainly concentrated in receivables.

The probability of customer credit risk materialising is mitigated by the application of different policies, and the high level of dispersion of receivables. Among the different policies and specific practices are the customer acceptance policy, continual monitoring of customer credit, which reduces the possibility of default on the main receivables, and collection management.

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

Liquidity risk

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

At 31 December 2019 we had a non-current revolving credit facility of Euros 300 million, with Euros 150 million drawn down, and current undrawn credit facilities totalling Euros 49.25 million.

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

At 31 December 2019, cash and cash equivalents amounted to Euros 98.2 million (Euros 107.3 million at the end of 2018).

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

Market risk

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

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

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

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

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

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

15.- Legal factors and regulatory framework

Euskaltel operates in a sector subject to regulation of retail and wholesale services, universal services, privacy, tariffing and network neutrality.

The rendering of services is exposed to decisions or measures that may be adopted by the Administration, as well as economic sanctions for breaches in the rendering of services.

Cost of the universal service for 2016

On 21 November 2019 the Spanish National Market and Competition Commission (CNMC) adopted the Resolution which determines the operators liable to contribute to the National Universal Service Fund for electronic communications (FNSU) in 2016. The regulation on funding the universal service cost incurred by Telefónica de España, S.A.U. states that operators whose gross annual operating revenue exceeds Euros 100 million are required to contribute to the FNSU.

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

Universal service elements and designation of the mandatory operator

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

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

Main operator

On 13 November 2019, published in the national state gazette (BOE) on 14 December 2019, the CNMC passed a Resolution establishing and making public the list of operators who, for the purposes of article 34 of Royal Decree- 6/2000 of 23 June, are considered to be the main operators in the national fixed-line and mobile telephony markets.

This resolution considers Euskaltel as a main operator of fixed-line telephony in 2018, adding the share of R Cable and Telecable fixed lines.

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

Revised European telecommunications regulatory framework

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

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

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

The main issues proposed for revision are:
- Promoting regulation of NGA networks,
- Improving use of radio frequencies,
- Modifying universal service content.
- Redefining electronic communication services (internet and personal communications with/without use of numeration) and applying standards to new online agents offering communication services without the use of numeration.
- Allocating numeration

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

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

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

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

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

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

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

5G action plan

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

Regulation of roaming on public mobile communication networks

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

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

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

European Data Protection Regulation and the new Data Protection Act

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

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

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

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

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

<u>Access to TV content</u>

Resolution authorising Telefónica/DTS concentration

Based on the resolution authorising the concentration of Telefónica/DTS on 22 April 2015, Telefónica maintains its obligation to offer Premium channels in wholesale format. In principle, access to this is guaranteed for the 5-year period up to 2020 as a result of the conditions imposed in the resolution authorising concentration. After this period, the Spanish National Market and Competition Commission (CNMC) must assess if a relevant modification has occurred in the structure or regulation of the markets considered, justifying the maintenance, adaptation or removal of the corresponding conditions for an additional period of up to a maximum of three (3) years.

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

<u>Financing of Corporación de Radio y Televisión Española (CRTVE)</u>

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

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

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

<u>Definition of regulatory risks</u>

- Copyright Regulation Copyrights - management companies

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

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

- Obligations deriving from information security

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

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

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

16.- Corporate governance

a) Board of Directors

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

<u>Re-election, resignation and appointment of Board members</u>

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

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

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

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

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

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

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

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

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

Appointment of a new CEO

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

Appointment of non-executive chairman

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

Appointment of new secretary of the Board of Directors

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

b) Committees reporting to the Board of Directors

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

Audit and Control Committee

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

Appointments and Remunerations Committee

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

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

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

c) Significant events

In 2019, 30 significant events have been filed in order to report quarterly results, the transactions carried out under the liquidity contract, the renewal of the promissory note issuance programme, the calling of the Ordinary General Shareholders' Meeting and the Extraordinary General Shareholders' Meeting and the results thereof, the changes to the Board of Directors and the new composition of the Committees reporting to the Board of Directors, the appointment of the new CEO and new Secretary of the Board of Directors, the payment of the complementary dividend against 2018 results, the payment of an interim dividend against 2019 results, as well as the improved wholesale agreements signed with Orange.

17.- Share price evolution

Share price

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

Trading volume

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

18.- Outlook and events after the reporting period

Below we describe the most significant events occurred during the first weeks of 2018 up to the date of preparation of these annual accounts.

On 29 October 2019, the Company's Board of Directors agreed to pay an interim dividend against 2019 results for a gross amount of 0.14 cents (Euros 0.140) per share outstanding with dividend rights (which amounts to a maximum dividend of Euros 25 million). This interim dividend, totalling Euros 25 million, was paid to shareholders on 7 February 2020.

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

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

19.- Acquisition of own shares

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

The acquisition of own shares is part of the liquidity contract that Euskaltel has signed with Norbolsa, Sociedad de Valores, S.A. (Norbolsa) to manage its own share portfolio.

Under this contract, Norbolsa will trade Euskaltel shares on the Spanish securities markets with a view to achieving the following:

a) Favour liquidity in transactions.

b) Share price stability.

20.- Definition of alternative performance measures

An explanation of the alternative performance measures used in this Directors' Report is as follows:

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

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

- Impact of IFRS 16 on EBITDA

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

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

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

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

- Operating cash flow: EBITDA - Investments

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

- Conversion rate: Operating cash flow / EBITDA

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

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

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

21.- Annual Corporate Governance Report

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

22.- Non-financial information

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

Appendix

Responsible Company Report 2019 - Non-financial information statement