

2020 ANNUAL ACTIVITIES REPORT OF EUSKALTEL, S.A.'s AUDIT AND CONTROL COMMITTEE

1. Introduction

Euskaltel, S.A.'s Audit and Control Committee is an informative and consultative body, without executive powers, which is authorised to inform, advise and propose certain actions relating to issues that fall within the area of its competency, as follows: (i) internal and external auditing, (ii) information and risk management systems (iii) compliance with good governance.

This scope of application applies both to the parent company and the subsidiaries comprising the Euskaltel Group.

The main task of the Audit and Control Committee is to assist, inform and prepare proposals to the Board of Directors on matters assigned thereto at any given time, both by virtue of the Company's Articles of Association and the Regulations of the Board of Directors and those of the Audit and Control Committee, respectively.

Euskaltel's Board of Directors established the Group's permanent Audit and Control Committee on 19 March 2013, i.e. prior to the entry into force of Act 31/2014 of 3 December, which amends the Spanish Companies Act in order to improve Corporate Governance and makes such committees obligatory for all listed companies.

In accordance with Articles 4.6 and 26.1 of the Company's Board of Directors Regulations, the Board will perform annual assessments, using the external and internal means it deems necessary in each case, of the performance of its committees based on the reports they issue. Furthermore, Article 18.2 of the Audit and Control Committee Regulations establishes that, as part of its reporting obligations to the General Meeting of Shareholders, the Audit and Control Committee shall draw up a report on its activities, submitting this to the shareholders, subject to approval by the Board of Directors.

This 2020 Annual Activities Report of the Euskaltel Audit and Control Committee has been prepared as part of the aforementioned assessment process and is intended for the perusal of the Company's shareholders.

2. Regulatory framework

The main standards regulating the activities and functions of the Audit and Control Committee are as follows:

- Article 529 (14) of the consolidated text of the Spanish Companies Act, approved by Royal Legislative Decree 1/2010 of 2 July.
- Law 22/2015 of 20 July on Statutory Audits.
- 2015 Code of Good Governance for listed companies, revised in June 2020.
- Articles 63 and 64 of the Articles of Association of Euskaltel, S.A.
- Article 18 of the Regulations of Euskaltel, S.A.'s Board of Directors.

- The Regulations of Euskaltel, S.A.'s Audit and Control Committee.
- The Euskaltel Group's Code of Ethics.
- The Technical Guide to Audit Committees of Public Interest Entities published by the CNMV on 27 June 2017.

3. Main functions and competencies

The main functions performed by the Audit and Control Committee, both with respect to Euskaltel itself and the subsidiaries comprising the Group, are as follows:

- a) To inform the Board of Directors on issues raised by shareholders in matters within their remit.
- b) To oversee the effectiveness of the Company and the Group's internal control and that of its financial and non-financial risk management systems, including those pertaining to operational, technological, legal, social, environmental, political, tax, reputational and corruption-related issues.
- c) To analyse with the external auditors any potentially significant weaknesses in the internal control system detected during the course of the audit.
- d) To supervise the process of drawing up and reporting regulated financial and non-financial information.
- e) To propose to the Board of Directors, for submission to the General Shareholders' Meeting, the appointment, 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.
- f) To supervise the Company's internal auditing activity.
- g) 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 to 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.
- h) 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. This report shall issue an opinion, in any event, on the services rendered in addition to those 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 in accordance with the regulatory standards of the audit.

- i) To inform the Board of Directors beforehand on all matters set forth in the law, the Articles of Association and the Board of Directors Regulations and, in particular, on (i) the financial and non-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 corporate modifications planned by the Company and, particularly, the exchange ratio of the proposal.

In addition, the Audit and Control Committee is also tasked with the following specific functions:

As regards information systems and internal control

- Oversee and assess the preparation and completeness of financial and non-financial information, as well as the systems for controlling and managing financial and non-financial risks relating to the Company and, if applicable, the group (including operational, technological, legal, social, environmental, political and reputational risks, or those related to corruption), reviewing compliance with regulatory requirements, the proper definition of the consolidation scope and the correct application of accounting policies.
- Analyse the annual accounts at the end of each year, examine the draft external auditor's opinion, discuss the contents of the annual accounts and auditor's report with the auditors and present recommendations to the Board of Directors regarding the preparation of the annual accounts. In particular, the Committee will ensure that the annual accounts presented by the Board of Directors to the General Shareholders' Meeting are prepared in accordance with prevailing accounting regulations. And in cases in which the auditor has included a qualification in the audit report, the chair of the Audit and Control Committee should clearly explain to the General Shareholders' Meeting the opinion of the Committee on its content and scope, providing the shareholders, at the time the meeting is announced, with a summary of that opinion, together with the other Board reports and proposals.
- Assure the independence and effectiveness of the Internal Audit function; propose the selection, appointment and removal of the person responsible for the Internal Audit department; propose the department budget; approve the guidance and work plan for internal audit, assuring that the activity is focused mainly on relevant risks (including reputational risks); receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations set out in its reports.
 - Establish and oversee a mechanism that allows employees and other persons related to the Company, such as Directors, Shareholders, suppliers, contractors and subcontractors, to report potentially important irregularities, including financial and accounting, or any other matters, related to the company, that may be observed in the Company or its Group. This mechanism must guarantee confidentiality and, in any event, foresee situations in which communications may be anonymous, respecting the rights of the reporting and reported persons.
- In general, ensure that the internal control policies and systems in place are effectively applied in practice.

As regards the external auditor

- Submit to the Board the proposals for selection, appointment, re-election and substitution of the external auditor, as well as the conditions of their engagement.
- Ensure that the external auditor's remuneration does not compromise quality or independence.
- Ensure that the external auditor attends an annual meeting with the Board of Directors to report on the work carried out and on the Company's accounting situation and risks.
- Regularly receive from the external auditor information on the audit plan and the results of its execution, and verify that senior management takes its recommendations into account.
- Verify the independence of the external auditor and, for these purposes, ensure (i) that the Company notifies the Spanish National Securities Market Commission of the change of auditor and submits an accompanying statement detailing disagreements with the outgoing auditor, should there be any; (ii) that the Company and the auditor respect the prevailing standards on the rendering of non-audit services and, in general, any other regulations established to ensure auditor independence, and (iii) that, in the event of withdrawal of the external auditor, the grounds for this are examined.
- Encourage that the auditor of the consolidated group is appointed to perform the audits of all group companies.

As regards risk policy and management

- Identify the different types of financial and non-financial risks, including operating, technological, legal, social, environmental, political and reputational risks, as well as those related to corruption, to which the Company is exposed; financial or economic risks will include contingent liabilities and other off-balance-sheet risks.
- Determine a control and risk management model based on different levels.
- Identify the measures in place to mitigate the impact of the risks identified, should they materialise.
- Identify the information and internal control systems that will be used to control and manage the said risks, including contingent liabilities or off-balance-sheet risks.

As regards the obligations of listed companies

The Audit and Control Committee must inform the Board of Directors before it adopts the corresponding decisions on:

- The financial and non-financial information to be regularly disclosed by the Group due to its listed status. It must ensure that the six-monthly financial reporting and interim management statements are drawn up with the same accounting criteria as the annual accounts and, for these purposes, consider whether it is advisable to have the external auditor conduct a limited review of the six-monthly financial reports.

- The creation or acquisition of 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.
- Related-party transactions as defined by prevailing legislation.
- The economic conditions and the accounting impact of operations for structural and corporate modifications planned by the Company and, particularly, for the proposal’s exchange ratio.

As regards environmental, social and corporate governance obligations

- Periodically review the Company’s internal corporate governance regulations and submit to the Board of Directors, for approval or notification of the General Shareholders’ Meeting, the proposed modifications and updates that will contribute to its development and ongoing improvement.
- Promote the Company’s corporate governance strategy, by overseeing compliance with the corporate governance rules and the internal codes of conduct of the Company, and also ensuring that the corporate culture is aligned with its purpose and values.
- Periodically assessing and reviewing the Company’s corporate governance system and environmental and social policy, so as to ensure that it fulfils its mission of promoting the company’s interests and takes into account the legitimate interests of the other stakeholders, as applicable. Overseeing that the practices implemented by the Company as regards environmental and social issues adapt to the strategy and policies set, and reporting to the Board of Directors accordingly or, if applicable, to the Executive Committee.
- Ascertain, promote, guide and oversee the Company’s activities pertaining to corporate reputation and report to the Board of Directors accordingly, or the Executive Committee, if applicable.
- Overseeing the application of the general policy relating to the reporting of economic-financial, non-financial and corporate information, as well as communication with shareholders and investors, proxy advisors and other stakeholders. Moreover, the manner in which the Company communicates with and relates to small- and medium-sized shareholders will also be monitored.
- Overseeing and assessing stakeholder relationship processes.
- Coordinating the non-financial information and diversity reporting process, in accordance with applicable legislation and international benchmark standards.
- Present the Company’s Annual Corporate Governance Report for approval, gathering the reports issued by the Appointments Committee and the Remunerations Committee in relation to the areas of this report that fall under their remit.

4. Committee Members

At 31 December 2020, the Audit and Control Committee is comprised of the following three external Directors (two independent and one proprietary):

		Information on their function as director
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Name	Post on the Committee	Type	Date of first appointment	Date of last appointment
Ms Ana García Fau	Chair	Independent	29/09/2020	29/09/2020
Kartera 1, S.L., represented by Ms Alicia Vivanco González	Proprietary	Director	27/06/2016	02/06/2020
Mr Iñaki Alzaga Etxeita	Independent	Director	31/03/2015	01/04/2019

During 2020 the Board of Directors approved two reductions in the number of members of the Audit and Control Committee, the first on 2 June 2020, from seven to five members, and the second, on 29 September 2020, to three members, which is the number remaining on the Committee at 31 December 2020.

For the purposes of compliance with article 529 (14) of the Spanish Companies Act and article 10 of the Audit and Control Committee Regulations, which state that “the Chair of the Audit Committee will be appointed from among the independent Directors on the Committee, must be replaced every four years, and may be re-elected after one year”, independent Director, Ms. Ana García Fau holds the position of Chairperson of the Audit and Control Committee, replacing Mr. José Angle Corres Abasolo, since 29 September 2020.

The Non-Executive Secretary of the Committee continues to be the Non-Executive Secretary of the Board of Directors, Mr. José Ortiz Martínez.

In addition, on 25 February 2020, a new Non-Executive Deputy Secretary was appointed to the Board of Directors, Ms. Cristina Sustacha Duñabeitia, holding the post of Deputy Secretary of the Committee, replacing Mr. Gonzalo Silveiro Regulez.

The members of the Audit and Control Committee meet the necessary requirements for expertise, competencies and skills with regard accounting and finance issues, internal control and business risk management, as well as IT.

5. Sessions held, reports analysed and appearances

Article 12 of the Audit and Control Committee Regulations established that the Committee shall meet between two and four times per year to review the economic-financial and management information to be sent to third parties prior to presentation, and any time the Chairperson deems it appropriate for the proper fulfilment of its functions.

In any event, the Chair of the Audit and Control Committee must call a session whenever the Board of Directors or its Chair request a report to be issued or proposals adopted, or when a third party requests the Committee to do so.

During 2020, in addition to the working and training sessions, and specific meetings on particular issues, held on-site and online, the Audit and Control Committee has met formally on six occasions.

All formal meetings took place at the headquarters of Euskaltel, S.A., located in building 809 of the Technology Park in Derio (Bizkaia). A total of six meetings were held, with all members of the Committee attending all sessions.

All sessions were held in the presence of the Chair, Secretary and Deputy Secretary of the Committee.

Due to lockdown restrictions caused by the Covid-19 outbreak, in accordance with Royal Decree 463/2020 of 14 March, which declared the state of alarm and personal health risk situation, the majority of the Committee meetings have been held via video conference.

The meeting dates and matters addressed are detailed below:

Date	Matters addressed
20/02/2020	<ul style="list-style-type: none"> • Review of the proposal regarding compliance with the 2017-2019 Incentives Plan. • Review of the Anti-Bribery Management System. • Progress report by the external auditor on the audit of the 2019 accounts.
24/02/2020	<ul style="list-style-type: none"> • External Auditor Independence Report. • Renewal of External Auditor Appointment. • 2019 Annual Activities Report of the Audit and Control Committee of Euskaltel, S.A. • Annual Social Corporate Responsibility Report. • 2019 Annual Accounts (all Group companies and the Consolidated Group). • Presentation of income for the fourth quarter and full year 2019. • 2019 Directors' Reports (all Group companies and the Consolidated Group). • 2019 Annual Corporate Governance Report. • Report on the verification of the 2019 Non-Financial Information Statement of the Company and its Consolidated Group. • 2019 Responsible Business Report. • Presentation of the conclusions of the auditors in relation to 2019, including preliminary draft Auditor's Reports. • Letter of independence of the External Auditors. • Specific report by the External Auditor for the Audit and Control Committee. • 2019 Annual Internal Auditing Activities Report. • Explanatory report on the Euskaltel Group's ICFR. • Certification of the 2019 Annual Accounts and reconciliation with the management information. • Analytical Review of Financial Information. • Accounting estimates and critical judgements. • International Financial Reporting Standards. • Report on related-party transactions in 2019. • Proposal for an additional dividend against 2020 results. • Report on significant interests in Share Capital.
21/04/2020	<ul style="list-style-type: none"> • Proposal on compliance with the parameters for calculating the objectives for settling the 2017-2019 Long-Term Incentive Plan. • Interim management statement: information relating to the first quarter of 2020. • Review of Facilities Agreement rates and payment of additional dividend.
22/07/2020	<ul style="list-style-type: none"> • Condensed Consolidated Financial Statements for the first half of 2020. • Interim management statement for the first half of 2020. • ICFR supervision and monitoring. • Review of the proposal for a confidential project, for reporting to the Board of Directors.

	<ul style="list-style-type: none"> • Presentation of the new Internal Audit Director and the Internal Audit Action Plan for the second half of the year. • Regulatory update and expected accounting estimates. • Criminal Risk Prevention Report for first half of 2020. • Proposed Corporate Criminal Risk Prevention Policy. • Proposal to amend the Board of Directors Regulations • Report on significant interests in Share Capital.
26/10/2020	<ul style="list-style-type: none"> • Interim management statement for the third quarter of 2020. • Monitoring of implementation of the system for preparing and presenting annual financial reports in a single electronic format. • Amendment to the Audit and Control Committee Regulations for adaptation to the Code of Good Governance for listed companies issued by the CNMV. • Proposed Strategic Sustainability Plan. • Specific report by Internal Audit area on the intra-group transactions project.
14/12/2020	<ul style="list-style-type: none"> • 2021 Budget. • Monitoring the Internal Audit. 2020 Internal Audit activity and economic closing report, 2021 Internal Audit Plan and Budget and Internal Audit Projects. • Overseeing risk management and control. • Overseeing Compliance and Personal Data Protection. 2020 Closing Activity Report and 2021 Plan. • Proposed Sustainability Policy • Overseeing the status of the project to implement the system for preparing and presenting annual financial reports in a single electronic format. • Adaptation of internal regulations, Board Regulations, Corporate Policies and Ethics Channel to CNMV Code of Good Governance for listed companies, revised in 2020. • Dividend against 2020 results. • Report on significant shareholdings.

Generally speaking, and based on the Finance Department’s report, as of the meeting held on 21 April, the Audit and Control Committee has overseen the impact of Covid, essentially on the business (cancellations, suspensions and late payments), the impact of the limitations imposed by law on telecommunications services during the state of emergency and essential services. The Committee has also overseen the effect of the limitations imposed due to Covid on the Company’s liquidity and debt structure.

The main issues addressed during 2020 and, where applicable, favourably reported by the Audit and Control Committee, are set forth below, structured in line with the CNMV Technical Guide for Audit Committees:

a. Overseeing financial and non-financial information

Understanding of the system of internal control over financial reporting (ICFR) and assessment of its effectiveness

- Regular monitoring of issues pertaining to the ICFR system.

Review, analysis and discussion of the statements of financial and other non-financial information

- Favourable report on the preparation of the 2019 Annual Accounts.
- Favourable report on the 2019 Directors' Report.
- Favourable report on the 2019 Non-Financial Information Statement.
- Favourable reports on the different interim management statements issued during 2020.
- Favourable report on the 2019 Annual Corporate Governance Report.
- Favourable report on the 2019 Responsible Business Report.
- Analysis and validation of the scope of consolidation and the corporate transactions affecting it.
- Monitoring of related-party transactions.
- Analysis of the impacts on the Group's financial reporting of certain changes in International Financial Reporting Standards.
- Analysis of the main judgements and estimates used in financial reporting.
- Analysis and assessment of adjustments identified by the External Auditor.

Monitoring of the Ethics Channel (as a system allowing for irregularities to be reported to the Audit and Control Committee, including those of financial and accounting significance)

- Regular monitoring of the Ethics Channel's activity during the year.
- Updating, improving and adapting the Ethics Channel.

b. Overseeing risk management and control

Risk management and control function adapted to the organisational structure of the Group

- Overview of internal control and risk management.
- Overseeing and managing specific risks: Financial Reporting, Compliance, Data Protection, Cyber Risks and Tax Risks.

c. Overseeing the internal audit

Regular analysis of the Internal Audit function and approval of its annual plan

- Assessment and approval of the Annual Internal Audit Plan, including resources and budget.

Monitoring of the Internal Audit Plan

- Regular attendance of Head of Internal Audit at the Audit and Control Committee sessions and periodical meetings with the Chair of the Audit Committee.
- Regular monitoring of the progress reports on the Annual Internal Audit Plan.
- Regular monitoring and driving implementation of Internal Audit recommendations.
- Planning of the external audit function assessment, which is expected to take place in February 2021.

d. Statutory auditor

Selection process and appointment proposal

- Assessment of services rendered by the Statutory Auditor during 2019.
- Proposed renewal of External Auditors in the case of Euskaltel, S.A. (Individual Company and consolidated Group).
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Statutory auditor independence

- Report on the independence of the Group's External Auditor for 2019.
- Overseeing and approving the non-audit services commissioned from the Statutory Auditor.
- Overseeing the remuneration of the External Auditor for services other than statutory auditing.

Communication with the statutory auditor

- Meeting on the conclusions of the External Audit work for 2019.
- Analysis of the requirements implemented during the year for the audit reports, particularly key audit issues and the approach adopted by the Auditor and clarification of the Auditor's responsibilities and those of the Directors and Audit Committee.
- Analysis of the conclusions of the additional report for the Audit Committee.
- Meetings on the planning and monitoring of the External Audit work for 2020.
- Acknowledgement of the materiality applied by the External Auditors for the purposes of their work.

- Discussion with the External Auditor on the accounting principles applied by the Group, key estimates and judgements and internal control recommendations.
- Meetings between the Committee Chair and the External Auditor.

e. Other responsibilities

- Report on related-party transactions with Directors and key shareholders during 2019.
- Regular monitoring of significant interests in Share Capital.
- Approval of the 2019 Annual Activities Report of the Audit and Control Committee.
- Favourable report on the distribution of a dividend on account of 2020 income.
- Favourable report for the amendment of the Board of Director Regulations and Corporate Policies.
- Favourable report on the Strategic Sustainability Plan and the Sustainability Policy.
- Approval of the amendment to the Audit and Control Committee Regulations for adaptation to the Code of Good Governance.
- Accounting and tax report on corporate transactions.

f. Assessment and monitoring of Audit and Control Committee activity

- Assessment by the Audit and Control Committee as part of the self-assessment of the Board of Directors.
- Planning of training activities for the Audit and Control Committee in 2021.