

ANNUAL ACTIVITIES REPORT OF THE AUDIT AND CONTROL COMMITTEE OF EUSKALTEL, S.A. FOR FINANCIAL YEAR 2019

1. Introduction

The Audit and Control Committee of Euskaltel, S.A. is an informational and consultative body without executive duties, the purview of which includes information, advisory and proposal-making powers, as follows: (i) internal and external audit, (ii) information technology and risk management systems, and (iii) compliance and good governance.

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

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

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

Pursuant to Articles 4.6 and 26.1 of the Regulations of the Board of Directors of the Company, using the external and internal means it deems appropriate in each case, it shall engage in an annual evaluation of the operation of its committees in view of the report that they submit thereto. Furthermore, Article 18.2 of the Regulations of the Audit and Control Committee provides that the duties of the Audit and Control Committee to report to the shareholders at the General Meeting of Shareholders include the preparation of an annual report on its activities, which it shall make available to the shareholders after the approval thereof by the Board of Directors.

This Annual Activities Report of the Appointments and Remuneration Committee of Euskaltel for financial year 2019 has been prepared as part of said process of evaluation and to be made available to the Company's shareholders.

2. Regulatory framework

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

- Section 529 *quarterdecies* of the consolidated text of the Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010 of 2 July.
- Law 22/2015 of 20 July on Auditing of Accounts,
- Good Governance Code of Listed Companies 2015.
- Articles 63 and 64 of the Bylaws of Euskaltel, S.A.

- Article 18 of the Regulations of the Board of Directors of Euskaltel, S.A.
- The Regulations of the Audit and Control Committee of Euskaltel, S.A.
- The Code of Ethics of the Euskaltel Group.
- The Technical Guide on Audit Committees of Public Interest Entities, published by the CNMV on 27 June 2017.

3. Principal duties and powers

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

- a) Report to the shareholders at the General Meeting of Shareholders on the issues raised by the shareholders that are within their purview.
- b) Monitor the effectiveness of the internal control of the Company and of its Group as well as the systems for managing risks, including tax risks.
- c) Analyse with the external auditors any possible significant weaknesses in the internal control system detected when the audit was performed.
- d) Supervise the process of preparing and presenting regulated financial information.
- e) Propose to the Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment, re-election or replacement of the external auditor in accordance with applicable legal provisions, as well as the terms of engagement thereof, and regularly collect information therefrom on the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties.
- f) Supervise the internal audit activity of the Company.
- g) Establish appropriate relations with the external auditors to receive information on those issues that might risk the independence thereof, for examination by the Committee, and any others related to the audit process, as well as such other communications as are provided for in the laws on auditing and in auditing rules.
- h) Issue, on an annual basis and prior to the issuance of the audit report, a report setting forth an opinion on the independence of the external auditors. This report must in all cases make a pronouncement regarding the provision of the additional services referred to in the preceding section, considered individually and as a whole, other than the legal audit, and in relation to the rules on independence according to the legal provisions governing auditing.
- i) Provide an advance report to the Board of Directors on all of the matters provided by law, the Bylaws and the Regulations of the Board of Directors, and particularly regarding (i) the financial information that the Company must periodically publish; (ii) the creation or acquisition of interests in special purpose entities or entities domiciled in territories or countries considered to be tax havens; (iii) related-party transactions; and (iv) the financial terms and accounting impact of structural and corporate changes that the Company plans to carry out, and especially the exchange ratio for the proposed transaction.

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

Relating to internal control and reporting systems

- Monitor the preparation and the integrity of the financial information on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles.
- Analyse the annual accounts following the close of each financial year, examining the draft opinion of the external auditors, discussing with them the content of the annual accounts and the audit report, and submitting recommendations to the Board of Directors regarding the formulation of the annual accounts.
- Periodically review the internal control and risk management systems, such that the principal risks are properly identified, managed and reported.
- Endeavour to ensure the independence and efficacy of the Internal Audit function; propose the selection, appointment, re-election and termination of the head of the Internal Audit department; propose the department's budget; receive periodic reports on its activities; and verify that senior management take account of the conclusions and recommendations of its reports.
- Establish and supervise a mechanism allowing employees to report confidentially, and anonymously if deemed appropriate, potentially significant irregularities that they become aware of at the Company, especially those of a financial and accounting nature.

Relating to the external auditor

- Submit to the Board proposals for selection, appointment re-election and replacement of the external auditor, as well as of the terms of engagement thereof.
- Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- Ensure that the external auditor holds an annual meeting with the full Board of Directors to report thereto on the work performed and any changes in the accounting and risk situation of the Company.
- Regularly receive from the external auditor information regarding the audit plan and the results of the implementation thereof, and verify that senior management takes into account the recommendations thereof.
- Ensure the independence of the external auditor and, to that end, (i) that the Company reports a change of auditor to the National Securities Market Commission (Comisión Nacional del Mercado de Valores) as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same; (ii) that the Company and the auditor comply with applicable legal provisions regarding the provision of non-audit services and, in general, the other rules established to ensure the independence of the auditors, and (iii) that it investigate the circumstances giving rise to any resignation of the external auditor.

- Encourage the assumption by the auditor of the consolidated group to take responsibility for auditing the companies of the group.

Relating to the risk policy and risk management

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

Relating to obligations specific to listed companies

The Audit and Control Committee must report to the Board of Directors, prior to the latter making the corresponding decisions, on:

- The financial information that the Group must periodically make public due to its status as listed company. It must ensure that the half-yearly financial reports and the interim management statements are drawn up using the same accounting standards as that annual accounts and, to that end, consider the appropriateness of a limited review of the half-yearly financial reports by the external auditor.
- The creation or acquisition of equity interests in special purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to their complexity, might diminish the transparency of the group.
- Related-party transactions as defined by applicable law.
- The financial terms and accounting impact of structural and corporate changes that the Company plans to carry out, and especially the exchange ratio for the proposed transaction.

Relating to corporate governance obligations

- Conduct a periodic review of the Company's internal corporate governance rules, and propose to the Board of Directors, for the approval thereof or for submission to the shareholders at a General Meeting of Shareholders, such amendments and updates as may contribute to the development and ongoing improvement thereof.

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

4. Composition of the Committee

At 31 December 2019, the Audit and Control Committee is composed the following seven External Directors (four Independent and three Proprietary):

Name	Committee position	Information regarding their function as director		
		Class	Date of first appointment	Date of most recent appointment
Mr José Ángel Corres Abasolo	Chair	Independent	08/03/2015	27/06/2016
Mr Robert W. Samuelson	Member	Proprietary	10/07/2019	10/07/2019
Kartera 1, S.L., represented by Ms Alicia Vivanco González	Member	Proprietary	27/06/2016	27/06/2016

Corporación Financiera Alba, S.A., represented by Mr Javier Fernández Alonso	Member	Proprietary	01/06/2018	01/06/2018
Ms Elisabetta Castiglioni	Member	Independent	27/06/2016	27/06/2016
Mr Iñaki Alzaga Etxeita	Member	Independent	31/03/2015	01/04/2019
Mr Jonathan Glyn James	Member	Independent	26/06/2017	26/06/2017

For purposes of compliance with the provisions of section 529 *quaterdecies* of the Corporate Enterprises Act and article 10 of the Regulations of the Audit and Control Committee, which provides that “the Chair of the Audit Committee shall be appointed from among the Independent Directors thereof and must be replaced every four years, but may be re-elected after the passage of one year from the cessation in office thereof”, the Independent Director Mr José Ángel Corres Abasolo holds the position of Chair of the Audit and Control Committee, having replaced Mr Iñaki Alzaga Etxeita on 6 May 2019.

Furthermore, on 27 November 2019 Mr José Ortiz Martínez was appointed Non-Director Secretary of the Audit and Control Committee, replacing Mr Luis Alba Ferré.

The Non-Director Deputy Secretary of the Committee continues to be the Non-Director Deputy Secretary of the Board of Directors, Mr Gonzalo Silveiro Regulez.

5. Meetings held, reports reviewed and appearances

Article 12 of its Regulations provides that Audit and Control Committee shall meet two to four times per year for the review of economic/financial information and of management that must be sent to third parties, prior to the presentation thereof, and whenever called by its Chair if appropriate for the proper performance of its duties.

In all cases, the Chair of the Audit and Control Committee must call a meeting thereof whenever the Board of Directors or the Chair thereof requests the issuance of a report or the adoption of proposals, or whenever requested by one third of the members of the Committee itself.

The Audit and Control Committee has formally met on five occasions during financial year 2019, in addition to working and training sessions and specific meetings on particular topics, whether in person or by electronic means.

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

The level of attendance was as follows:

Number of meetings	5	
Number of possible attendees	35	100.00%
Number of physical attendees	33	94.29%
Proxies given to the Chair	0	0.00%
Justified absences without proxies	1	2.86%
Other proxies	1	2.86%

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

The dates of the meetings and the matters dealt with are described below:

Date	Matters
26/02/2019	<ul style="list-style-type: none"> • Committee Scoresheet. • Scope of consolidation of the Group. • Report on the independence of the External Auditor. • Renewal of the position of External Auditor. • Annual Activities Report of the Audit and Control Committee for financial year 2018. • Annual Corporate Social Responsibility Report. • Annual Accounts for financial year 2018 (all companies of the Group and Consolidated Group). • Presentation of results for first quarter and full year 2018. • Management Reports 2018 (all companies of the Group and consolidated Group). • Annual Corporate Governance Report 2018. • Assurance Report on the Statement of Non-Financial Information of the Company and of its Consolidated Group. • Responsible Company Report for financial year 2018. • Presentation of the conclusions of the auditors regarding financial year 2018, including the prior drafts of the Audit Report, • Letter of independence from the External Auditors. • Specific report from the External Auditor to the Audit and Control Committee. • Annual Activities Report of Internal Audit for financial year 2018. • Document explaining the ICFR system of the Euskaltel Group. • Certification of the Annual Accounts for financial year 2018 and reconciliation with management information. • Analytical Reviews of Financial Information. • Accounting estimates and critical opinions. • International Financial Reporting Standards. • Related-Party Transactions Report for financial year 2018. • Proposed supplemental dividend with a charge to financial year 2018. • Report on significant holdings in the Share Capital.
06/05/2019	<ul style="list-style-type: none"> • Appointment of Chair of the Audit and Control Committee. • Committee Scoresheet. • Evaluation of External Auditor. • Evaluation of Internal Auditor. • Internal Audit Plan 2019. • Supervision of risk management and control. • Conflict of Interest Policy. • Internal Regulations for Conduct in the Securities Markets. • Interim management statement: information for the first quarter of 2019. • Report on significant holdings in the Share Capital.

23/07/2019	<ul style="list-style-type: none"> • Committee Scoresheet • Update of Orientation Programme. • Condensed Interim Financial Statements for the first half of 2019. • Interim management statement for the first half of 2019. • Supervision and monitoring of the ICFR system. • Internal Audit Plan 2019. • Specific Internal Audit reports on the process for selecting the External Auditor and on the Interim Financial Statements. • Adjustment of the Group's Code of Ethics and Ethics Channel. • Proposed new composition of the Board Committees. • Related-Party Transactions. • Report on significant holdings in the Share Capital.
29/10/2019	<ul style="list-style-type: none"> • Committee Scoresheet. • Planning of External Audit. • Interim management statement for the third quarter of 2019. • Dividend with a charge to financial year 2019. • Update of Internal Audit Plan 2019. • Specific Internal Audit reports regarding the level of effectiveness of the ICFR system and regarding the level of compliance with a particular contract. • Report on significant holdings in the Share Capital.
16/12/2019	<ul style="list-style-type: none"> • Budget 2020. • Business Plan 2020-2025. • Committee Scoresheet. • Supervision of Internal Audit. • Supervision of risk management and control. • ICFRS. • Criminal Compliance and Anti-Bribery System. • Report on significant holdings in the Share Capital.

The principal issues covered and, if appropriate, favourably reported on by the Audit and Control Committee during financial year 2019 were the following, structured in accordance with the CNMV's Technical Guide for Audit Committees:

a. Supervision of financial and non-financial information

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

- Regular monitoring of issues relating to the ICFRS and implementation of a corporate tool.

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

- Favourable report regarding the formulation of the Annual Accounts for financial year 2018.

- Favourable report on the Management Report for financial year 2018.

- Favourable report on the Statement of Non-Financial Information.

- Favourable reports on the various interim management statements during financial year 2019.
- Favourable report on the Annual Corporate Governance Report for financial year 2018. - -
- Favourable report on the Responsible Company Report for financial year 2018.
- Analysis and validation of the scope of consolidation and of the corporate transactions that affect it.
- Monitoring of related-party transactions.
- Analysis of the impacts on the group's financial information of certain changes in the International Financial Reporting Standards.
- Analysis of the main lawsuits and estimates included in the group's financial information.
- Analysis and evaluation of the adjustments identified by the External Auditor.

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

- Regular monitoring of the activity of the Ethics Channel during the financial year.
- Update, improvement and adjustment of the Ethics Channel.

b. Supervision of risk management and control

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

- Comprehensive overview of the group's internal control and risk management
- Supervision and management of specific risks: Financial Information, Compliance, Data Protection, Cyber Risks and Tax Risks.

c. Supervision of internal audit

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

- Evaluation and approval of the Annual Internal Audit Plan, including resources and budget for activities.

Monitoring of Internal Audit Plan

- Regular attendance of the Director of Internal Audit at meetings of the Audit and Control Committee and regular meetings with the Chair of the Audit Committee.
- Regular monitoring of progress in the Annual Internal Audit Plan.

- Regular monitoring and push for implementation of the recommendations of Internal Audit.

d. Statutory auditor

Process of selection and proposed appointment

- Evaluation of services provided by the Statutory Auditor during financial year 2018.
- Proposed renewal of External Auditors in the case of Euskaltel, S.A. (individual company and consolidated Group).

Independence of statutory auditor

- Report on the independence of the Group's External Auditor for financial year 2018.
- Monitoring and approval of non-audit services provided by the Statutory Auditor.
- Monitoring of External Auditor's remuneration for non-audit services.

Communication with statutory auditor

- Meeting on conclusions from work of External Audit for financial year 2018.
- Analysis of requirements implemented during the financial year for audit reports, especially key audit issues and focus applied by the Auditor and clarification of the responsibilities of the Auditor and of the Directors and the Audit Committee.
- Analysis of conclusions from the Additional Report for the Audit Committee.
- Meetings on planning and monitoring of the work of External Audit for financial year 2019.
- Acknowledgement of materiality applied by External Auditor to perform its work.
- Discussion with External Auditor regarding accounting principles applied within the Group, significant estimates and judgements, and recommendations on internal control.

e. Other responsibilities

- Report regarding related-party transactions with Directors and significant shareholders during financial year 2018.
- Periodic monitoring of significant holdings in the Share Capital.
- Approval of the Annual Activities Report of the Audit and Control Committee for financial year 2018.

- Favourable report on the distribution of a dividend from the results for financial year 2019.

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

- Evaluation by the Audit and Control Committee itself as part of the self-evaluation of the Board of Directors.