



# Auditor's Report on Euskaltel, S.A.

**(Together with the annual accounts and directors' report of  
Euskaltel, S.A. for the year ended 31 December 2020)**

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



KPMG Auditores, S.L.  
Torre Iberdrola  
Plaza Euskadi, 5  
Planta 17  
48009 Bilbao

## **Independent Auditor's Report on the Annual Accounts**

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

To the Shareholders of Euskaltel, S.A.:

### **REPORT ON THE ANNUAL ACCOUNTS**

#### **Opinion**

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We have audited the annual accounts of Euskaltel, S.A. (the "Company"), which comprise the balance sheet at 31 December 2020, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

#### **Basis for Opinion**

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We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Annual Accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the annual accounts pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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



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## Key Audit Matters

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

### Estimation of supplier volume discount – Supplies

See note 13.2 to the annual accounts

Key audit matter	How the matter was addressed in our audit
<p>The Company's cost of supplies is reduced by certain volume discounts, the application of which is subject to the degree of fulfilment of a certain accumulated volume of consumption within an agreed period, which is usually more than one year.</p> <p>Under these circumstances, the appropriate recognition of the cost of supplies requires the Company to make reliable estimates as to the degree to which the conditions giving entitlement to the discount will be met. These estimates require a high level of judgement by the Directors.</p> <p>Due to the uncertainty associated with these estimates and the relevant effect that these discounts have on the recognition of the cost of supplies for the year, this has been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"><li>a) evaluating the design and implementation of key controls related to the supplies and discounts process;</li><li>b) reading and understanding the volume discount contracts with suppliers;</li><li>c) assessing the consistency of the volume discounts recorded on the basis of the agreed-upon terms and conditions in the contract; and</li><li>d) assessing whether the forecast accumulated consumptions for the years for which a minimum volume has been established in the contract in order to avail of the discount are reasonable and consistent with the business plan approved by the Directors. In this regard, we reviewed the historical level of achievement of the forecasts, comparing actual volumes of consumption with the initial forecasts.</li></ul>

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Recoverable amount of non-current investments in Group companies and associates See notes 4.5 and 8 to the annual accounts	
Key audit matter	How the matter was addressed in our audit
<p>The recoverable amount of non-current investments in Group companies and associates is calculated, in the case of companies showing indications of impairment, by applying valuation techniques which often require the exercising of judgement by the Directors and the use of assumptions and estimates. Due to the uncertainty associated with these estimates, this has been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>- assessing the design and implementation of key controls related to the process of estimating the recoverable amount of investments in Group companies and associates;</li> <li>- assessing the methodology and assumptions used to estimate the recoverable amount using the value in use method based on discounted cash flows, with the involvement of our valuation specialists to evaluate the adequacy of the discount rates used and the long-term growth rates;</li> <li>- comparing the cash flow forecasts estimated in prior years with the actual cash flows obtained;</li> <li>- assessing the sensitivity of certain assumptions to changes that are considered reasonable; and</li> <li>- contrasting the information contained in the model used to calculate the recoverable amount with the business plan approved by the Directors.</li> </ul> <p>We also assessed whether the disclosures in the annual accounts meet the requirements of the financial reporting framework applicable to the Company.</p>



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Revenue recognition	
See notes 4.10 and 13.1 to the annual accounts	
Key audit matter	How the matter was addressed in our audit
Revenue recognition is considered a key audit matter given its significance in relation to the annual accounts as a whole, and because the recognition of revenue from services rendered is a highly automated process involving a large number of individual transactions.	<p>Our main audit procedures included evaluating the design and implementation, with the help of our information systems specialists, of the Company's controls over the recognition of revenue from services rendered.</p> <p>We also assessed the design and implementation and tested the effectiveness of the general controls over program access and modification and automated component controls over invoicing systems and other support systems classified as critical for the purposes of our audit.</p> <p>We also performed tests of detail, including the following:</p> <ul style="list-style-type: none"> <li>a) Reconciliation of data from the invoicing and collection systems with the accounting records.</li> <li>b) Review of corrective invoices and subsequent payments.</li> </ul>

## Other Information: Directors' Report

Other information solely comprises the 2020 Directors' Report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility regarding the information contained in the directors' report is defined in the legislation regulating the audit of accounts, as follows:

- a) Determine, solely, whether the non-financial information statement and certain information included in the Annual Corporate Governance Report, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.
- b) Assess and report on the consistency of the rest of the information included in the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned annual accounts. Also, assess and report on whether the content and presentation of this part of the directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the



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information contained in the directors' report is consistent with that disclosed in the annual accounts for 2020, and that the content and presentation of the report are in accordance with applicable legislation.

### **Directors' and Audit Committee's Responsibilities for the Annual Accounts**\_\_\_\_\_

The Directors are responsible for the preparation of the accompanying annual accounts in such a way that they give a true and fair view of the equity, financial position and financial performance of the Company in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the preparation and presentation of the annual accounts.

### **Auditor's Responsibilities for the Audit of the Annual Accounts**\_\_\_\_\_

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation 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 economic decisions of users taken on the basis of these annual accounts.



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As part of an audit in accordance with prevailing legislation 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 annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.
- 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 entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the audit committee of Euskaltel, S.A. 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 our audit.

We also provide the entity's audit committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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



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

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Additional Report to the Audit Committee**

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The opinion expressed in this report is consistent with our additional report to the Company's audit committee dated 25 February 2021.

### **Contract Period**

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We were appointed as auditor by the shareholders at the ordinary general meeting on 2 June 2020 for a period of one year, starting from 1 January 2020.

Previously, we had been appointed for a period of one year, by consensus of the shareholders at their general meeting, and have been auditing the annual accounts since the year ended 31 December 2013.

KPMG Auditores, S.L.

On the Spanish Official Register of Auditors ("ROAC") with No. S0702

*(Signed on original in Spanish)*

Cosme Carral López-Tapia

On the Spanish Official Register of Auditors ("ROAC") with No. 18,961

25 February 2021



**Annual Accounts  
and Directors' Report  
for the year  
ended 31 December 2020**

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

# EUSKALTEL, S.A.

## Balance Sheet at 31 December 2020

(Expressed in thousands of Euros)

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

ASSETS	Notes	31.12.2020	31.12.2019
<b>NON-CURRENT ASSETS</b>		<b>2,679,421</b>	<b>2,627,136</b>
Intangible assets	6	87,979	62,842
Property, plant and equipment	7	652,139	642,817
Land and buildings		87,570	91,870
Technical installations and other items		564,569	550,947
Non-current investments in Group companies and associates	8 & 9	1,806,026	1,789,487
Non-current investments	9	6,790	4,937
Deferred tax assets	12	126,487	127,053
<b>CURRENT ASSETS</b>		<b>79,609</b>	<b>86,038</b>
Inventories		2,310	1,759
Trade and other receivables	9	61,124	41,777
Current investments	9	360	115
Prepayments for current assets		1,654	767
Cash and cash equivalents	9	14,161	41,620
<b>TOTAL ASSETS</b>		<b>2,759,030</b>	<b>2,713,174</b>
<b>EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>31.12.2020</b>	<b>31.12.2019</b>
<b>EQUITY</b>		<b>1,039,404</b>	<b>1,050,912</b>
Capital and reserves	10	1,038,049	1,049,606
Capital		535,936	535,936
Share premium		355,165	355,165
Reserves		129,698	124,726
(Own shares and equity holdings)		(1,531)	(1,472)
Profit/(loss) for the year		40,936	60,261
(Interim dividend)		(25,010)	(25,010)
Other equity instruments		2,855	-
Valuation adjustments		(64)	(64)
Available-for-sale financial assets		(64)	(64)
Grants, donations and bequests received		1,419	1,370
<b>NON-CURRENT LIABILITIES</b>		<b>1,420,677</b>	<b>1,372,878</b>
Non-current debt	11	1,420,229	1,372,421
Deferred tax liabilities		448	457
<b>CURRENT LIABILITIES</b>		<b>298,949</b>	<b>289,384</b>
Current provisions		700	700
Current debt	11	204,511	238,443
Trade and other payables	11 & 12	93,738	50,241
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,759,030</b>	<b>2,713,174</b>

## EUSKALTEL, S.A.

### Income Statement for the year ended 31 December 2020

(Expressed in thousands of Euros)

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

	Notes	2020	2019
Revenues	13.1	368,130	346,304
Work performed by the entity and capitalised	6, 7 & 13.1	10,202	8,223
Supplies	13.2	(124,176)	(96,566)
Other operating income	13.1	36	17
Personnel expenses	13.3	(25,441)	(34,601)
Other operating expenses	13.4	(71,239)	(68,797)
Amortisation and depreciation	6 & 7	(80,532)	(74,727)
Non-financial capital grants		77	77
Impairment and gains/(losses) on disposal of fixed assets	6 & 7	(4,885)	(5,046)
Other profit/(loss)	13.5	(4,734)	(3,513)
<b>RESULTS FROM OPERATING ACTIVITIES</b>		<b>67,438</b>	<b>71,371</b>
Finance income		35,203	42,201
Finance cost		(55,071)	(45,999)
Change in fair value of financial instruments		602	526
Exchange gains/(losses)		259	(286)
Impairment and gains/(losses) on disposal of financial instruments		-	9
<b>NET FINANCE INCOME/COST</b>	13.6	<b>(19,007)</b>	<b>(3,549)</b>
<b>PROFIT BEFORE INCOME TAX</b>		<b>48,431</b>	<b>67,822</b>
Income tax	12	(7,495)	(7,561)
<b>PROFIT FOR THE YEAR</b>	10	<b>40,936</b>	<b>60,261</b>

Derio, 25 February 2021

## EUSKALTEL, S.A.

### Statement of Changes in Equity for the year ended 31 December 2020

(Expressed in thousands of Euros)

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

#### A) Statement of Recognised Income and Expense for the year ended 31 December 2020

	<u>2020</u>	<u>2019</u>
a) Profit/(loss) for the year	<u>40,936</u>	<u>60,261</u>
Income and expense recognised directly in equity		
Grants, donations and bequests	142	1,904
Tax effect	<u>(34)</u>	<u>(457)</u>
Total income and expense recognised directly in equity	<u>108</u>	<u>1,447</u>
Amounts transferred to the income statement		
Grants, donations and bequests	(77)	(77)
Tax effect	<u>18</u>	<u>-</u>
Total amounts transferred to the income statement	<u>(59)</u>	<u>(77)</u>
<b>TOTAL RECOGNISED INCOME AND EXPENSE</b>	<b><u><u>40,985</u></u></b>	<b><u><u>61,631</u></u></b>

Derio, 25 February 2021



## EUSKALTEL, S.A.

### Statement of Changes in Equity for the year ended 31 December 2020

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

#### B) Statement of Total Changes in Equity for the year ended 31 December 2020 (Expressed in thousands of Euros)

	Registered capital	Share premium	Reserves and prior years' profit	Own shares	Profit/(loss) for the year	Interim dividend	Valuation adjustments	Other equity instruments	Grants, donations and bequests	Total
Closing balance, 2018	535,936	355,165	87,706	(1,602)	92,089	(25,010)	(64)	-	-	1,044,220
Total recognised income and expense	-	-	-	-	60,261	-	-	-	1,370	61,631
Transactions with shareholders										
Own shares	-	-	260	130	-	-	-	-	-	390
Dividends	-	-	-	-	-	(25,010)	-	-	-	(25,010)
Distribution of profit	-	-	36,760	-	(92,089)	25,010	-	-	-	(30,319)
Closing balance, 2019	535,936	355,165	124,726	(1,472)	60,261	(25,010)	(64)	-	1,370	1,050,912
Total recognised income and expense	-	-	-	-	40,936	-	-	-	49	40,985
Transactions with shareholders										
Own shares	-	-	37	(59)	-	-	-	-	-	(22)
Dividends	-	-	-	-	-	(25,010)	-	-	-	(25,010)
Distribution of profit	-	-	4,935	-	(60,261)	25,010	-	-	-	(30,316)
Issue of share-based payments (note 10.5)	-	-	-	-	-	-	-	-	-	2,855
Closing balance, 2020	535,936	355,165	129,698	(1,531)	40,936	(25,010)	(64)	2,855	1,419	1,039,404

Derio, 25 February 2021

## EUSKALTEL, S.A.

### Statement of Cash Flows for the year ended 31 December 2020

(Expressed in thousands of Euros)

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

	<u>2020</u>	<u>2019</u>
<b>Profit/(loss) for the year before tax</b>	<b><u>48,431</u></b>	<b><u>67,822</u></b>
<b>Adjustments for</b>	<b><u>141,422</u></b>	<b><u>97,595</u></b>
Amortisation and depreciation	80,532	74,727
Impairment allowances	1,091	2,427
Allocation of grants	(77)	(77)
Impairment and gains/(losses) on disposals of fixed assets	4,885	5,046
Impairment and gains/(losses) on disposals of financial instruments	-	(9)
Finance income	(35,203)	(42,201)
Finance cost	55,071	45,999
Exchange gains/(losses)	(259)	286
Change in fair value of financial instruments	(602)	(526)
Other income and expense	35,984	11,923
<b>Changes in operating assets and liabilities</b>	<b><u>10,670</u></b>	<b><u>(22,943)</u></b>
Inventories	(551)	466
Trade and other receivables	(20,434)	(18,881)
Other current assets	(887)	134
Trade and other payables	29,265	2,593
Other current liabilities	3,277	(7,255)
<b>Other cash flows from /(used in) operating activities</b>	<b><u>(53,754)</u></b>	<b><u>26,947</u></b>
Interest paid	(44,474)	(45,786)
Dividends received	-	43,903
Interest received	607	29,777
Income tax paid	(9,887)	(947)
<b>Cash flows from/(used in) operating activities</b>	<b><u><u>146,769</u></u></b>	<b><u><u>169,421</u></u></b>

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Derio, 25 February 2021

## EUSKALTEL, S.A.

### Statement of Cash Flows for the year ended 31 December 2020

(Expressed in thousands of Euros)

	<u>2020</u>	<u>2019</u>
<b>Payments for investments</b>	<b>(124,308)</b>	<b>(83,557)</b>
Intangible assets	(49,261)	(31,210)
Property, plant and equipment	(72,949)	(50,305)
Other financial assets	(2,098)	(2,042)
<b>Proceeds from sale of investments</b>	<b>4,686</b>	<b>4,738</b>
Property, plant and equipment	2,334	1,411
Group companies and associates	2,352	3,300
Other financial assets	-	27
<b>Cash flows from/(used in) investing activities</b>	<b>(119,622)</b>	<b>(78,819)</b>
<b>Proceeds from and payment for equity instruments</b>	<b>(22)</b>	<b>390</b>
Disposal of own equity instruments	(22)	390
<b>Proceeds from and payment for financial liability instruments</b>	<b>743</b>	<b>(48,782)</b>
Issue of:	131,743	131,918
Bonds and other marketable securities	131,600	131,000
Grants	143	918
Repayment of:	(131,000)	(180,700)
Loans and borrowings	-	(110,000)
Bonds and other marketable securities	(131,000)	(70,700)
<b>Dividends and interest on other equity instruments paid</b>	<b>(55,327)</b>	<b>(55,329)</b>
Dividends	(55,327)	(55,329)
<b>Cash flows from/(used in) financing activities</b>	<b>(54,606)</b>	<b>(103,721)</b>
Cash and cash equivalents at beginning of the year	41,620	54,739
Cash and cash equivalents at year end	14,161	41,620
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(27,459)</b>	<b>(13,119)</b>

Derio, 25 February 2021

## **EUSKALTEL, S.A.**

### **NOTES TO THE ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020**

(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 science and 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 100% of the shares of R Cable y Telecomunicaciones Galicia, S.A. (hereinafter R. Cable) (see note 8), 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. changed its name to R Cable y Telecable Telecomunicaciones, S.A.U.

Medbuying Technologies Group, S.L. ("Medbuying") was incorporated on 7 March 2019, with the Company holding a 10% share therein. The corporate purpose of this company is to centralise purchases of mobile terminals, routers and other telecommunications accessories.

Following on from its strategy to expand into neighbouring regions (Navarre, La Rioja, and Cataluña), in May 2020 the Euskaltel Group launched its national expansion plan via the Virgin telco brand.

Under prevailing legislation, the Company is the parent of a group of companies, and is obliged to present consolidated annual accounts, which were prepared on 25 February 2021 and show consolidated profit of Euros 79,366 thousand and consolidated equity of Euros 1,009,249 thousand (Euros 62,018 and Euros 981,965 thousand in 2019).

## **NOTE 2.- Basis of presentation**

### **2.1. True and fair view**

The accompanying annual accounts have been prepared based on the accounting records of Euskaltel, S.A. and in accordance with prevailing legislation and the Spanish General Chart of Accounts, to give a true and fair view of the equity and financial position at 31 December 2020 and results of operations, changes in equity, and cash flows for the year then ended.

The directors of the Company consider that the annual accounts for 2020, authorised for issue on 25 February 2021, will be approved with no changes by the shareholders at their annual general meeting.

### **2.2. Comparative information**

The balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto for 2020 include comparative figures for the prior year as approved by the shareholders of the Company at the general meeting held on 2 June 2020.

### **2.3. Critical issues regarding the valuation and estimation of uncertainties**

Preparation of the annual accounts 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) Recoverability of tax credits**

Deferred tax assets are recognised for all available deductible temporary differences and deductions to the extent that it is probable that the Company will obtain sufficient taxable income against which they 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 existence of taxable temporary differences.

#### **b) Volume discounts from suppliers**

The Company'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 supply expenses under these circumstances requires that the Company be able to reliably estimate the degree of compliance with the conditions entitling it to the discount.

c) Recoverable value of investments in Group companies

The Company tests investments in Group companies that present indications of impairment. The recoverable value is determined through discounted future cash flow estimates, which require the application of judgments by Directors when establishing certain key assumptions.

All previous estimates have been updated taking into account the variables included in Euskaltel's Group Business Plan.

d) Estimates made in relation to share-based payments

In order to calculate the amount to be recognised as equity instruments for the share-based payment plans offered to certain employees, the Company estimates the fair values of the liabilities when assigned and, at each reporting close, the degree of fulfilment (%) of the targets set and number of people entitled to receive the payments (note 10.5).

e) Useful life of cable network assets

As explained in note 7, the Euskaltel Group will be deploying a fibre optic FTTH network, which requires re-estimating the useful life of part of the current network assets that will have to be derecognised when this deployment is brought into operation. The technical team responsible for this deployment estimates the time it will take to deploy this new fibre network.

## **2.4. Presentation currency**

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

## **2.5. Grouping of items**

To facilitate understanding, certain items in the balance sheet, income statement, statement of changes in equity and statement of cash flows have been aggregated, details of which are included in the relevant notes to the annual accounts.

### NOTE 3.- Distribution of profit

The distribution of profits for the year ended 31 December 2019, approved by the shareholders at their annual general meeting held on 2 June 2020, was 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
	<u>478,054,645.83</u>

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

The proposed distribution of reserves and profit for the year ended 31 December 2020 is as follows:

Basis of application	Euros
Voluntary reserves	61.574.328,79
Share premium	355.164.632,28
Profit for the year	40.935.669,33
	<u>457.674.630,50</u>

Distribution	Euros
Legal reserve	4.093.566,93
Dividends	
Interim dividend	25.010.350,40
Additional dividend	30.369.711,20
Share premium	355.164.632,38
Voluntary reserves	43.036.369,59
	<u>457.674.630,50</u>

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.

On 15 December 2020, the Board of Directors agreed to pay an interim dividend against 2020 results for a gross amount of Euros 0.140 per share outstanding with dividend rights. This interim dividend, which was paid on 12 February 2021, amounted to a gross outlay of Euros 25 million (see notes 11 and 19).

These amounts did not exceed the results obtained since the end of the year by the Company, 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 2020 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 01.01.2020 to 30.09.2020 (*)	39,171
Mandatory reserves	(3,917)
Distributable profit	35,254
Proposed interim dividend (maximum amount)	(25,010)
<u>Cash situation</u>	
Funds available for distribution:	186,877
Cash and cash equivalents	7,627
Loans available	179,250
Proposed interim dividend (maximum amount)	(25,010)
Excess liquidity	161,867

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

## NOTE 4.- Accounting principles

### 4.1. Intangible assets

Intangible assets are recognised at acquisition cost or production cost. 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) 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.

#### b) 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.

#### c) Brands

If an intangible asset includes a contingent component, it is accounted for at the best estimate of the present value of the contingent payment, except when these payments are conditional upon a future event that increases the economic benefits or returns the asset will generate (such as variables regarding sales or the result for the year) in which case the considerations will be expensed as they arise.

On 12 January 2020, the Company signed a contract with Virgin Enterprises Limited under which the latter assigned the right of use of its brand to the Euskaltel Group. The majority of the corresponding consideration comprises sales-related variable payments. The expense recognised during the year for this assignment of the right of use was not material.

#### d) 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 over the period in which Euskaltel expects to generate revenue through the commercial relationship with the customer, provided the customer does not discontinue the contract, in which case the amount pending amortisation is taken to profit and loss.



e) Impairment

The Company evaluates and determines impairment losses and reversals of impairment losses on intangible assets based on the criteria described in note 4.3.

#### 4.2. 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 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
Cablings	18-40
Network equipment	10-18
Customer equipment	2-15
Other installations, equipment and furniture	6-7
Other intangible assets	5-8

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

The Company reviews residual values, useful lives and depreciation methods at each year-end. Changes to initially established policies are accounted for as a change in accounting estimates. During 2020, the Company re-estimated the residual life of certain elements of the HFC network that it will begin to replace sooner than initially planned (see note 7), reducing this residual life to 24 months at 31 December 2020.

Based on the expected use of the Company's assets, their residual value is not estimated to be significant at the 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 4.3. 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 income statement.

Finance costs that are directly attributable to the acquisition or construction of assets which will not be available for use for over a year 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.

#### **4.3. Impairment losses on non-financial assets**

The Company 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.

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 reduce the carrying amount of the assets allocated to the unit on a pro-rata basis depending on 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 Company assesses whether there is any indication that an impairment loss recognised in prior periods may no longer be applicable 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 losses are recognised in the income statement.

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

A reversal of an impairment loss for a CGU is allocated to the non-current assets of each unit, pro-rata with the carrying amounts of those assets. The carrying amount 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 income statement.

#### **4.4. 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 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.

#### **4.5. Financial assets**

##### **a) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

These financial assets are initially carried at fair value, including directly attributable transaction costs, and subsequently measured at amortised cost, recognising accrued interest at the effective interest rate. Nevertheless, trade receivables falling due in less than one year are carried at their nominal amount on both initial recognition and subsequent measurement, provided that the effect of not discounting the cash flows is immaterial.

The impairment loss is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows. Impairment losses are recognised and reversed in profit or loss. Balances receivable are derecognised when they are no longer expected to be recovered.

b) Investments in Group companies

Investments in Group companies and associates are initially recognised at cost, which is equivalent to the fair value of the consideration given, including, in the case of investments in associates, transaction costs incurred. After initial recognition, they are measured at cost less any accumulated impairment.

The contingent consideration that is part of the acquisition cost in a business combination is classified based on the underlying contractual conditions as a financial asset or liability, equity instrument or provision. If any subsequent changes in the fair value of a financial asset or liability do not relate to an adjustment to the measurement period, they are recognised in the income statement.

If there is objective evidence that the carrying amount is not recoverable, the amount of the impairment loss is measured as the difference between the carrying amount and the recoverable amount, the latter of which is understood as the higher of the fair value less costs to sell and the present value of estimated future cash flows from the investment. Impairment losses and, where applicable, reversions are recognised and reversed in profit or loss.

During 2019 the subsidiaries R Cable and Telecable merged through the absorption of Telecable by R Cable, which increased the value of the investment in R Cable by the amount at which the interest in Telecable was measured, in accordance with accounting and measurement standard 21. Since the merger is between subsidiaries wholly owned by the same company, it was treated as though, in substance, the Company was making a non-monetary contribution of its interest in Telecable to R Cable.

c) Derecognition of financial assets

A financial asset is derecognised from the balance sheet when all the risks and rewards of ownership are substantially transferred.

#### **4.6. 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.

#### **4.7. Own shares**

The acquisition of equity instruments of the Company 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 Company 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.

#### **4.8. Financial liabilities**

Financial liabilities are initially recognised at fair value, adjusted for directly attributable transaction costs, and subsequently carried at amortised cost using the effective interest method. Nevertheless, trade payables falling

due in less than one year without a contractual interest rate are carried at their face value on both initial recognition and subsequent measurement, provided the effect of not discounting flows is not significant.

A financial liability, or part of a financial liability, is derecognised when the Company has complied with the attached obligation. Any difference between the carrying amount of the financial liability and the consideration given is taken to profit and loss.

Debt instrument exchanges between the Company 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 Company 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, costs or commissions adjust the carrying value of the liability and are amortised over the remaining life of the modified liability using the amortised cost method. In the latter case, a new effective interest rate is set on the date of modification, equalising the present value of the cash flows payable, according to the new conditions, with the carrying value of the financial liability at that date.

#### **4.9. Hedge accounting**

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 or less any transaction costs directly attributable to the issue of the financial instruments. Nonetheless, transaction costs are subsequently recognised in profit and loss, inasmuch as they do not form part of the changes in the effective value of the hedge.

The Company 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 as income and expense in equity. 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 in Change in fair value of financial instruments.

#### **4.10. Revenue recognition**

Revenue from the sale of goods and rendering of services is measured at the fair value of the consideration received or receivable. Prompt payment discounts, volume rebates and any other discounts, as well as interest included in the receivables nominal amount, are recognised as a reduction in the consideration.

The main revenues generated by the Company are those related to individual or combined offerings of telephone, Pay TV, broadband and mobile telephone services.

In the case of combined offerings, the need to individually treat the different components of the bundle is analysed in order to allocate the revenue to each component.

Landline and prepaid mobile telephone revenue is recognised when the services are provided.

Revenue from fixed rates with predetermined talk times is recognised on a straight-line basis over the contractual period.

Regular charges for network use (telephone, internet and Pay TV services) are recognised in the income statement over the contractual period.

For amounts collected in advance in respect of prepaid mobile telephone services, the unused amount is recognised as a liability until it has been consumed or the contractual obligations cancelled.

Revenue from leased equipment and other services is recognised in the income statement when the service is rendered.

Revenue from the sale of equipment to customers is recognised when the risks and rewards of ownership have been transferred, which normally takes place when the asset is delivered.

#### **4.11. Leases**

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.

#### **4.12. Foreign currency transactions**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign currency gains and losses resulting from the settlement of transactions and translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

#### **4.13. Related party transactions**

Transactions between related parties are initially recognised at fair value. Transactions are subsequently measured in accordance with applicable accounting standards.

#### **4.14. Income tax**

The income tax expense/(income) is the amount that, for this concept, accrues in the year and that includes both the current tax expense (income) and deferred tax.

Both current and deferred tax expense/(income) are recorded in the income statement. The tax effect related to items that are recorded directly in equity is however recognised in equity.

Current tax assets and liabilities will be measured at the amounts expected to be paid or recovered from the tax authorities, in accordance with current or approved regulations pending publication at the reporting date.

Deferred taxes are calculated, according to the liability method, based on the temporary differences between the tax base of an asset or liability and its carrying amount.

However, if the deferred taxes arise from the initial recognition of an asset or a 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 not recognised. Deferred tax is calculated by applying regulations and the tax rates approved or about to be approved at the balance sheet date and expected to apply when the corresponding deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which to offset temporary differences.

#### **4.15. Dismissal payments**

Dismissal payments are recorded as personnel expenses 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.

#### 4.16. 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.

#### 4.17. Share-based payment transactions

Where settlement options exist and it is the Company that determines the payment method, if there is no present obligation to settle a payment arrangement with employees in cash, the plan is accounted for as if it were to be settled through equity instruments.

Equity-settled payments to employees are recognised as follows:

- If the equity instruments granted vest immediately on the grant date, the services received are recognised in full, with a corresponding increase in equity;
- If the equity instruments granted do not vest until the employees complete a specified period of service, those services are accounted for during the vesting period, with a corresponding increase in equity.

The Group determines the fair value of the instruments granted to employees at the grant date.

Market conditions and other non-vesting conditions are taken into account when measuring the fair value of the instrument. The remaining vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for services received is based on the number of equity instruments that eventually vest. Consequently, the Group recognises the amount for the services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and revises that estimate if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates.

Once the services received and the corresponding increase in equity have been recognised, no additional adjustments are made to equity after the vesting date, although any necessary reclassifications in equity may be made.

#### Accounting standards applicable from 1 January 2021

On 30 January 2021, Royal Decree 1/2021 of 12 January was published, amending the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 of 16 November, the Spanish General Chart of Accounts for Small and Medium Businesses approved by Royal Decree 1515/2007 of 16 November; the Standards for Preparing Consolidated Annual Accounts approved by Royal Decree 1159/2010 of 17 September; and the Standards for Adapting the Spanish General Chart of Accounts to not-for-profit entities approved by Royal Decree 1491/2011 of 24 October. Likewise, on 13 February 2021, the Resolution of 10 February 2021 of the Spanish Institute of Accounting and Auditing was published, setting out the standards for the registration, measurement and preparation of annual accounts regarding the recognition of income from the delivery of goods and the rendering of services.

The changes to the regulations are effective for years beginning on or after 1 January 2021 and they focus on the criteria for the recognition, measurement and disclosure of income from the delivery of goods and services, financial instruments, hedge accounting, measurement of inventories of raw materials traded by intermediaries and the definition of fair value.

The individual annual accounts referring to the first year beginning on or after 1 January 2021 shall include comparative information, even though there is no obligation to restate the information from the previous year.

Comparative information will only be restated if all the criteria approved by the Royal Decree can be applied without causing retrospective bias, without prejudice to the exceptions set out in the transitional provisions.

Generally speaking the standards are applied retroactively, although with alternative practical solutions. Hedge accounting is however applied prospectively, the criteria for the classification of financial instruments can be applied prospectively and the criteria for income from sales and services rendered can be applied prospectively to contracts commencing on or after 1 January 2021.

The Company's Directors are assessing the applicable transition options and the accounting impact of these amendments. At the date of preparing these individual annual accounts, these changes are not expected to significantly affect the Company's annual accounts.

## NOTE 5.- Financial risk management

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

The Company 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 Company, 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 Company 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 Company 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 Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. The Company'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 Company adjusts the maturities of its debts to its capacity to generate cash flows to settle them.

To do this, the Company 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 Company'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 Company operates.

c) Market risk, currency risk and interest rate risk

Market risk is the risk that changes in prices could affect the Company'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 Company's scope of operations barely exposes it to currency risks, which may arise from occasional purchases in foreign currency of insignificant amounts.

Interest rate risks arises on variable-rate loans from financial institutions and related parties, which expose the Company 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 amount of the financial instrument at 31 December 2020 and the impact on results are not significant.

The Company regularly revises its interest rate hedging policy. Under this policy, the need to contract interest rate hedges is assessed.

The Company also closely monitors the performance of interest rates in the financial market

For the year ended 31 December 2020, had interest rates risen by 100 basis points, with other variables remaining constant, profit (after tax) would have fallen by Euros 6,249 thousand (Euros 7,293 thousand for the year ended 31 December 2019).



## NOTE 6.- Intangible assets

Details of intangible assets and movement are as follows:

	31.12.19	Additions	Disposals	Transfers	31.12.20
<b>Cost</b>					
Industrial property	625	27	-	2,334	2,986
Computer software	107,553	19,474	-	(11)	127,016
Licences	2,674	-	-	-	2,674
Other intangible assets	47,648	29,759	(7,946)	(2,323)	67,138
	<u>158,500</u>	<u>49,260</u>	<u>(7,946)</u>	<u>-</u>	<u>199,814</u>
<b>Accumulated amortisation</b>					
Industrial property	(853)	(225)	-	-	(1,078)
Computer software	(78,262)	(9,152)	-	-	(87,414)
Licences	(1,094)	(117)	-	-	(1,211)
Other intangible assets	(15,449)	(9,139)	2,456	-	(22,132)
	<u>(95,658)</u>	<u>(18,633)</u>	<u>2,456</u>	<u>-</u>	<u>(111,835)</u>
<b>Carrying amount</b>	<u>62,842</u>	<u>30,627</u>	<u>(5,490)</u>	<u>-</u>	<u>87,979</u>
	31.12.18	Additions	Disposals	Transfers	31.12.19
<b>Cost</b>					
Industrial property	640	(15)	-	-	625
Computer software	94,174	13,379	-	-	107,553
Licences	2,674	-	-	-	2,674
Other intangible assets	37,805	17,846	(8,003)	-	47,648
	<u>135,293</u>	<u>31,210</u>	<u>(8,003)</u>	<u>-</u>	<u>158,500</u>
<b>Accumulated amortisation</b>					
Industrial property	(625)	(228)	-	-	(853)
Computer software	(69,929)	(8,333)	-	-	(78,262)
Licences	(977)	(117)	-	-	(1,094)
Other intangible assets	(11,498)	(6,781)	2,830	-	(15,449)
	<u>(83,029)</u>	<u>(15,459)</u>	<u>2,830</u>	<u>-</u>	<u>(95,658)</u>
<b>Carrying amount</b>	<u>52,264</u>	<u>15,751</u>	<u>(5,173)</u>	<u>-</u>	<u>62,842</u>

The cost of fully amortised intangible assets in use at 31 December 2020 totals Euros 73,242 thousand (Euros 64,594 thousand at 31 December 2019).

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

At 31 December 2020 Company personnel expenses totalling Euros 4,978 thousand (Euros 2,524 thousand at 31 December 2019) have been capitalised as intangible assets.

## NOTE 7.- Property, plant and equipment

Details of property, plant and equipment and movement in 2020 are as follows:

	31.12.19	Additions	Disposals	Transfers	31.12.20
<b>Cost</b>					
Land and buildings	135,678	-	-	403	136,081
Civil engineering	271,524	-	-	2,685	274,209
Cabling	295,918	-	-	4,781	300,699
Network equipment	410,099	-	(3,413)	21,346	428,032
Customer equipment	340,742	-	(59)	26,930	367,613
Other installations, equipment and furniture	169,991	301	-	8,671	178,963
Under construction	7,476	72,648	-	(65,020)	15,104
Other property, plant and equipment	25,481	-	-	204	25,685
	<u>1,656,909</u>	<u>72,949</u>	<u>(3,472)</u>	<u>-</u>	<u>1,726,386</u>
<b>Accumulated depreciation</b>					
Land and buildings	(43,808)	(4,703)	-	-	(48,511)
Civil engineering	(85,607)	(5,608)	-	-	(91,215)
Cabling	(175,594)	(7,183)	-	-	(182,777)
Network equipment	(321,842)	(14,902)	1,709	-	(335,035)
Customer equipment	(242,277)	(18,668)	35	-	(260,910)
Other installations, equipment and furniture	(124,515)	(10,026)	-	-	(134,541)
Other property, plant and equipment	(20,449)	(809)	-	-	(21,258)
	<u>(1,014,092)</u>	<u>(61,899)</u>	<u>1,744</u>	<u>-</u>	<u>(1,074,247)</u>
<b>Carrying amount</b>	<u>642,817</u>	<u>11,050</u>	<u>(1,728)</u>	<u>-</u>	<u>652,139</u>

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

	31.12.18	Additions	Disposals	Transfers	31.12.19
<b>Cost</b>					
Land and buildings	135,364	-	-	314	135,678
Civil engineering	267,213	-	-	4,311	271,524
Cabling	289,356	-	-	6,562	295,918
Network equipment	399,710	-	(2,473)	12,862	410,099
Customer equipment	318,695	-	-	22,047	340,742
Other installations, equipment and furniture	161,668	43	-	8,280	169,991
Under construction	10,336	50,262	-	(53,122)	7,476
Other property, plant and equipment	25,394	-	-	87	25,481
	<u>1,607,736</u>	<u>50,305</u>	<u>(2,473)</u>	<u>1,341</u>	<u>1,656,909</u>
<b>Accumulated depreciation</b>					
Land and buildings	(39,112)	(4,696)	-	-	(43,808)
Civil engineering	(80,061)	(5,546)	-	-	(85,607)
Cabling	(169,087)	(6,507)	-	-	(175,594)
Network equipment	(308,168)	(14,864)	1,190	-	(321,842)
Customer equipment	(225,778)	(16,499)	-	-	(242,277)
Other installations, equipment and furniture	(114,325)	(10,190)	-	-	(124,515)
Other property, plant and equipment	(19,483)	(966)	-	-	(20,449)
	<u>(956,014)</u>	<u>(59,268)</u>	<u>1,190</u>	<u>-</u>	<u>(1,014,092)</u>
<b>Carrying amount</b>	<u>651,722</u>	<u>(8,963)</u>	<u>(1,283)</u>	<u>1,341</u>	<u>642,817</u>

Additions to property, plant and equipment include Euros 8,387 thousand relating to net changes in customer equipment stored at the Group's warehouses which has not yet been installed in customers' homes or premises.

During the year ended 31 December 2020 internal expenses amounting to Euros 5,224 thousand (Euros 5,699 thousand in 2019) have been capitalised.

The cost of fully depreciated property, plant and equipment in use at 31 December 2020 is Euros 605,937 thousand (Euros 528,745 thousand at 31 December 2019).

At 31 December 2020 and 31 December 2019, sufficient insurance policies have been taken out to cover the risks to which property, plant and equipment are exposed.

At 31 December 2020, the Company's telecommunications network is pledged to secure compliance with the Company's financing obligations (see note 11).

In November 2020, the company's directors agreed the roll-out of the FTTH fibre optic network. As a result, the company re-estimated the residual useful lives of certain cable network elements that will no longer be used. The estimated residual life of these elements (24 months) is based on in-house analysis by the technical department in charge of the roll-out. The key assumption made to arrive at this estimate is the expected time needed to undertake this roll-out. The company has prospectively applied this new useful life from the date the directors voluntarily decided to carry out this roll-out, resulting in a Euros 2,6 million increase in the depreciation charge on the consolidated income statement for 2020. Reasonable changes to the key assumption would not result in a material change in the depreciation charge for the year.

## NOTE 8.- Investments in Group companies and associates

Details of investments in Group companies and associates are as follows:

	31.12.20	31.12.19
<b>Equity instruments</b>		
RCable y Telecable Telecomunicaciones, S.A.U.	1,116,872	1,116,872
EKT Cable y Telecomunicaciones, S.L.U.	3	3
	<u>1,116,875</u>	<u>1,116,875</u>
	(note 9)	(note 9)
	31.12.20	31.12.19
<b>Loans to Group companies</b>		
RCable y Telecable Telecomunicaciones, S.A.U.	689,151	672,612
	<u>689,151</u>	<u>672,612</u>
	(note 9)	(note 9)

On 27 November 2015, the Company acquired 100% of the company R Cable y Telecomunicaciones Galicia, S.A. for Euros 894,819 thousand.

On 26 July 2017 the Company acquired 100% of the shares in Parselaya, S.L., which indirectly wholly owned Telecable de Asturias, S.A. and the loans maintained by the former shareholder with Parselaya, S.L. (note 9), in the amount of Euros 181,724 thousand. The cost totalled Euros 403,777 thousand and consisted of the following items:

- A cash payment of Euros 174,777 thousand;
- Issue of 26,800,000 shares whose fair value at the business combination date was Euros 227,961 thousand.
- Contingent price based on a percentage of net tax credits (understood to be the difference between existing tax credits less deferred liabilities arising as a result of the application of accelerated depreciation to fixed assets) recorded by the acquired companies. The price will be paid based on compliance with certain conditions. The fair value of this payment was estimated at Euros 1,039 thousand, which was paid during 2019. This contingent price was re-estimated in 2020 and the new price recognised in profit or loss for Euros 8,654 thousand (see notes 4.5.b. and 11.1.).

During 2018 the companies Parselaya, S.L. and Telecable Capital Holding, S.A. were merged by reverse takeover by Telecable de Asturias, S.A.U. Moreover, R Cable took over Telecable in 2019. As a result, in 2019 the Company recorded the corresponding disposal of the investment in Telecable for Euros 222,053 and an addition in the investment of the merged company R Cable y Telecable for the same amount.

Details of R Cable and Telecable's financial information at 31 December 2020 are as follows:

	<u>R Cable</u>
Capital	40,144
Share premium	26,698
Reserves and prior years' losses	168,266
Profit/(loss) for the year	8,354
Grants	<u>27,693</u>
	<u>271,155</u>
Results from operating activities	<u>27,665</u>
Goodwill amortisation	(43,348)
Results from operating activities	27,665
EBITDA	172,409
Profit before income tax	(7,379)
Income tax	15,733
Profit for the year	<u>8,354</u>

Results from operating activities of R Cable y Telecable includes goodwill amortisation expenses of Euros 43,348 thousand.

In 2020 the company received no dividends from R Cable (Euros 5,442 thousand in 2019).

At 31 December 2020, the investments in Grupo R Cable and Telecable were pledged to secure compliance with the Company's financing obligations (see note 11).

Similarly, the Company incorporated EKT Cable y Telecomunicaciones, S.L. in 2016 with paid-up capital of Euros 3 thousand.

Similarly, the Company also has an interest in an associate, which is a 20% direct stake in Hamaika Telebista, domiciled in Bilbao, whose business drives the creation of local television channels that broadcast their programmes in Basque.

None of the subsidiaries of the Company are listed on the stock exchange.

#### Impairment

The Company assesses the existence of impairment indicators every year and, where detected, performs a recoverability analysis. During 2020, since the subsidiary R Cable y Telecable has generated pre-tax losses of Euros 7,379 thousand, a recoverability analysis has been performed thereon in accordance with the Business Plan 2020-2025, updated for 20201 based on the approved 2021 budget. The main assumptions are growth through the expansion of the R and Telecable brands in León and Cantabria, the continued achievement of efficiencies, maintaining an EBITDA margin over income of between 48% and 52%, a CAPEX to income ratio of between 17% and 20%, as well as financial variables including a discount rate (6.15%) and a growth rate from the fifth year of 1.24%. Based on the analysis carried out, no evidence of impairment has been detected.

Furthermore, Management has performed a sensitivity analysis on the key assumptions, finding that reasonable changes in each one do not indicate any impairment.

## NOTE 9.- Financial assets

### 9.1. Classification by category

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

	Loans and receivables		Investments in Group companies		Available-for-sale financial assets		Total	
	31.12.20	31.12.19	31.12.20	31.12.19	31.12.20	31.12.19	31.12.20	31.12.19
<b>Non-current</b>								
Equity instruments (note 8)	-	-	1,116,875	1,116,875	1,016	1,016	1,117,891	1,117,891
Loans extended								
Group companies and associates (note 15.2)	689,151	672,612	-	-	-	-	689,151	672,612
Third parties	5,517	3,649	-	-	-	-	5,517	3,649
Other non-current assets	257	272	-	-	-	-	257	272
	<u>694,925</u>	<u>676,533</u>	<u>1,116,875</u>	<u>1,116,875</u>	<u>1,016</u>	<u>1,016</u>	<u>1,812,816</u>	<u>1,794,424</u>
<b>Current</b>								
Trade receivables	61,100	41,777	-	-	-	-	61,100	41,777
Investments	360	115	-	-	-	-	360	115
Cash and cash equivalents	14,161	41,620	-	-	-	-	14,161	41,620
	<u>75,621</u>	<u>83,512</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,621</u>	<u>83,512</u>

Loans to Group companies include the following:

- Loan extended to R Cable on 27 November 2015, which was later modified on 10 November 2016, as well as a credit account on 26 July 2017 and accrued interest payable since June 2016 for Euros 226,160 thousand. This credit account earns annual interest of 5% (payable annually) and repayments will be made in a single sum upon maturity on 27 November 2022.
- Credit acquired in 2017 during the acquisition of the stake in Parselaya, S.L (merged with Telecable de Asturias, S.A. at 1 January 2018) (note 8), which was renegotiated and turned into a credit account with a Euros 255 million limit and credit granted to Telecable de Asturias, S.A. (merged with R Cable at 1 January 2019) for a maximum of Euros 400 million. These credits earn interest at an annual rate of 5%, payable annually, and repayment is payable in a single sum on 26 July 2024. The balance of this account at 31 December 2019 amounts to Euros 462,991 thousand.

The impairment analysis of these loans is analysed in conjunction with the impairment analysis of investments explained in note 8.

The subsidiaries' credits and bank accounts have been pledged to secure repayment of financing extended (see note 12).

Estimated income pending invoicing at the end of the year amounts to Euros 7,073 thousand (Euros 7,633 thousand at 31 December 2019).

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

## 9.2. Impairment

The Company calculates the provision for impairment of trade and other receivables using information available on the recovery of balances.

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

<b>Past due</b>	<b>31.12.20</b>	<b>31.12.19</b>
From 0 to 30 days	5,462	7,174
From 31 to 90 days	3,847	3,665
From 91 to 180 days	3,411	3,091
From 181 to 365 days	2,859	466
More than 365 days	6,610	2,655
	<b>22,189</b>	<b>17,051</b>
<b>Not past due</b>		
Invoiced	27,119	15,442
Pending invoice	11,765	9,284
	<b>38,884</b>	<b>24,726</b>
	<b>61,073</b>	<b>41,777</b>

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

	<b>31.12.20</b>	<b>31.12.19</b>
Gross balance	69,189	51,552
Impairment	(8,116)	(9,775)
	<b>61,073</b>	<b>41,777</b>

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

	<b>2020</b>	<b>2019</b>
Opening balance	9,775	9,056
Charge (note 13.4)	1,091	2,427
Write-offs	(2,750)	(1,708)
Closing balance	<b>8,116</b>	<b>9,775</b>

## NOTE 10.- Equity

### 10.1. Capital

At 31 December 2020, 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 2020 are as follows:

	<u>Number of shares</u>	<u>% ownership</u>
Zegona Limited	38,087,190	21.32%
Kutxabank, S.A.	35,514,698	19.88%
Corporación Financiera Alba	19,650,990	11.00%
Other	85,392,482	47.80%
	<u>178,645,360</u>	<u>100.00%</u>

## 10.2. Share premium

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

## 10.3. Reserves and prior years' profit

Details of this caption are as follows:

	<u>31.12.20</u>	<u>31.12.19</u>
Reserves		
Legal reserve	68,124	62,097
Voluntary reserves	61,574	62,629
	<u>129,698</u>	<u>124,726</u>

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.

## 10.4. Own shares

At 31 December 2020 the Company has 173,596 shares in its own share portfolio that were acquired at an average weighted cost of Euros 8.82 per share (170,366 own shares were acquired at an average weighted cost of Euros 8.64 each at 31 December 2019).

## 10.5. Other equity instruments

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 Chair of the Board of Directors, the CEO and the Secretary. The general shareholders' meeting held on 2 June 2020 approved this Plan.

The plan's main features are:

- Description: The plan offers beneficiaries an extraordinary variable incentive payable, in part or in full, in Euskaltel shares, which will enable beneficiaries to share in up to 4% of the total value created for shareholders linked to the appreciation of Euskaltel stock between 5 June 2019 and 31 December 2022. In order for the incentive to vest in full, certain Group operating variables must also be achieved. The extent to which these variables are achieved will determine the accrual of up to 15% of the total incentive amount.
- Term: The Plan shall be valid for three years following its approval by the Board on 27 January 2020 and it shall end on 31 December 2022 (the "Accrual Date").



- The specific incentive amount is distributed among beneficiaries using the proportions calculated by the Board, based on the recommendations of the Remuneration Committee.
- Incentive accrual: For the Incentive to accrue, the beneficiary must have an ongoing employment or business relationship with the Company on the Plan's accrual date, i.e. the 31 December 2022.
- The number of shares receivable by each beneficiary will be calculated by dividing the percentage of the total incentive allocated to each beneficiary by the share's reference value on the accrual date.
- The Plan sets out change of control clauses, considered as the acquisition of a stake greater than 30%, common to incentive plans of a similar nature, which may determine the early accrual, in whole or in part, of the Plan.

The main data and assumptions used by Management to calculate the plan's fair value are as follows:

- Grant dates: two different grant dates have been determined, based on the date on which the beneficiaries have reached a shared understanding of the terms and conditions of the agreement.
  - o June 2020 (date on which the Plan is approved by the shareholders' meeting).
  - o November 2020 (date on which certain beneficiaries have accepted the plan's terms and conditions).
- The fair value of the options granted has been calculated using the Monte Carlo measurement model, with the main model inputs being the grant date, the spot price of the shares at 2 June 2020 and 10 November 2020, the standard deviation of the expected return on the share price of 31.78%, the option's life and the annual risk-free interest rate of -0.31% in order to measure the plan as of June and -0.52% to measure the plan as of November. The estimated volatility in the standard deviation of the expected share price return is based on statistical analyses of daily share prices over the last two years.
- No rotation of beneficiaries (remaining in employment until the "accrual date").
- No change of control in the Company that gives rise to early vesting.
- The operational variables set by the directors are fully achieved.

In accordance with the measurement standard described in note 4.17, the Company has recorded an equity instrument of Euros 2,855 thousand with a charge to Personnel expenses in the income statement (see note 13.3).

## NOTE 11.- Financial liabilities

### 11.1. Classification by category

Details of financial liabilities classified by category are as follows:

	Debts and payables		Liabilities held for trading	
	31.12.20	31.12.19	31.12.20	31.12.19
<b>Non-current</b>				
<b>Related parties</b>				
Non-current loans received (note 15.2)	153,251	146,501	-	-
<b>Unrelated parties</b>				
Loans received	1,266,738	1,225,082	-	-
Hedging derivatives	-	-	202	804
Other financial liabilities	38	34	-	-
	<u>1,420,027</u>	<u>1,371,617</u>	<u>202</u>	<u>804</u>
<b>Current</b>				
<b>Related parties</b>				
Other financial liabilities (note 15.2.)	8,654	-	-	-
Current loans received (note 15.2)	-	6,750	-	-
	<u>8,654</u>	<u>6,750</u>		
<b>Unrelated parties</b>				
Bonds and other marketable securities	131,600	131,000	-	-
Loans received	6,803	46,516	-	-
Dividend payable	25,010	25,010	-	-
Suppliers	84,882	31,924	-	-
Asset purchase payables	32,493	29,417	-	-
Salaries payable	5,231	8,947	-	-
	<u>294,673</u>	<u>279,564</u>	<u>-</u>	<u>-</u>

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 2020, Euros 150 million has been drawn down from the credit facility (Euros 150 million at 31 December 2019).

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 2020 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 2020:

- The A-2 tranche amounting to Euros 215,000 thousand has been replaced with a new B-5 tranche for the same amount, a single repayment at 31 December 2023 (until this change, the tranche had partial repayments) and interest at 2.5%.

This amendment has 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%.

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

Tranche	Nominal amount outstanding		Initial nominal amount	Interest	Maturity
	31.12.20	31.12.19			
B-1	235,000	235,000	235,000	2.75%	27.11.24
A-2	-	215,000	300,000	2.00%	31.12.23
B-4	835,000	835,000	835,000	2.75%	27.11.24
B-5	215,000	-	215,000	2.50%	31.12.23
Credit facility	150,000	150,000	300,000	2.25%	31.12.23
	1,435,000	1,435,000			
Current portion	-	45,000			
Non-current portion	1,435,000	1,390,000			

All tranches are repayable in a single sum as they fall due.

Details of the repayments of non-current loans with financial institutions, including interest, are as follows:

1 year	2 years	3 years	4 years	Total
39,732	47,006	422,918	1,117,925	1,627,582

The Company 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 Company 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.

Thus, the Company holds undrawn current credit facilities totalling Euros 28.25 million.

During 2017 the Parent 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 2020, Euskaltel issued promissory notes for a nominal value of Euros 131,600 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 2021 and accrue interest at an average annual rate of 0.27%.

Other financial liabilities with related parties (current) includes the liability recognised in 2020, deriving from a new estimate of the contingent considerations payable to Zegona Limited, S.A. (note 10.1) stipulated in the contract to purchase the subsidiary Telecable de Asturias, S.A.U. This contract included a clause requiring the Company to pay an amount equivalent to 35% of certain tax credits. In 2019, the Company paid Euros 981 thousand for this item, aligned to the liability previously generated as the estimated fair value of this debt. The liability for 35% of certain unrecognised tax credits was also not recognised as it was not considered likely. A binding consultation was submitted to the Spanish Tax Authorities (DGT) regarding this. Although a response to this consultation has still not been received, in 2020 the sole director of the subsidiary RCable y Telecable Telecomunicaciones S.A.U (a company resulting from the merger of RCable Telecomunicaciones Galicia S.A.U. and Telecable de Asturias S.A.U. in 2019) has re-analysed this matter with its tax advisors, concluding that these assets are recoverable and therefore a deferred tax asset of approximately Euros 25 million has been recognised. Consequently, the Company has recognised a liability of Euros 8,654 thousand, considering that the circumstances exist for its recognition. This liability has been taken to finance costs (note 13.5).

The fair values of debt 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.

## 11.2. 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:

	2020	2019
Average supplier payment period (in days)	52.88	46.83
Transactions paid ratio	56.21	47.04
Transactions payable ratio	45.34	46.08
Total payments made (thousands of Euros)	323,233	243,169
Total payments payable (thousands of Euros)	142,766	67,404

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 12.- Taxes

### 12.1. Balances with public entities

At 31 December 2020 and 2019 balances with public entities are as follows:

	<u>2020</u>	<u>2019</u>
Current tax liabilities	84	2,727
Value added tax	473	3,285
Social Security	415	399
Withholdings and payments on account	327	339
Other liabilities	<u>2,277</u>	<u>2,370</u>
	<u><u>3,576</u></u>	<u><u>9,120</u></u>

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

### 12.2. Income tax

A reconciliation of net income and expenses for the year with the taxable income is as follows:

	<u>Profit and loss</u>	
	<u>2020</u>	<u>2019</u>
Income and expenses for the year	<b>40,936</b>	<b>60,261</b>
Income tax	(7,495)	(7,561)
Profit before tax	48,431	67,822
Permanent differences	(1,419)	(6,888)
Temporary differences	<u>(1,404)</u>	<u>(999)</u>
Taxable income	<u><u>45,608</u></u>	<u><u>59,935</u></u>

Permanent differences in 2019 mainly comprised dividends from Group companies (see note 8).

The relationship between the income tax expense and the profit for the year is as follows:

	<u>Profit and loss</u>	
	<u>2020</u>	<u>2019</u>
Income and expenses for the year	48,431	67,822
Tax at 24%	11,623	16,277
Permanent differences	(341)	(1,653)
Prior years' adjustments	(654)	(371)
Deductions for the current year	(3,133)	(3,662)
Prior years' capitalised deductions	<u>-</u>	<u>(3,030)</u>
	<u><u>7,495</u></u>	<u><u>7,561</u></u>

Details of deferred tax assets and liabilities by type of asset and liability are as follows

	31.12.18	Source	Reversal	Other	31.12.19	Source	Reversal	Other	31.12.20
<b>Deferred tax assets</b>									
Provisions	767	510	(750)	239	766	-	(337)	1,552	1,981
	767	510	(750)	239	766	-	(337)	1,552	1,981
<b>Deductions on tax due</b>									
	124,319	6,692	(4,675)	(49)	126,287	3,133	(4,233)	(681)	124,506
	<b>125,086</b>	<b>7,202</b>	<b>(5,425)</b>	<b>190</b>	<b>127,053</b>	<b>3,133</b>	<b>(4,570)</b>	<b>871</b>	<b>126,487</b>

Other corresponds to differences between estimated income tax and income tax declared and capitalisation of prior years' tax credits and tax rate adjustments.

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

The income tax expense is calculated as follows:

	<b>Profit and loss</b>	
	<b>2020</b>	<b>2019</b>
<b>Current tax</b>		
Taxable income at 24%	10,946	14,384
Deductions	(4,233)	(4,675)
Prior years' adjustments and other	216	(181)
	<b>6,929</b>	<b>9,528</b>
<b>Deferred tax</b>		
Source and reversal of temporary differences	337	240
Change in deductions	1,100	(2,017)
Prior years' adjustments	(871)	(190)
	<b>7,495</b>	<b>7,561</b>

At 31 December 2020 and 2019, the Company has no unrecognised tax credits or tax loss carryforwards.

The Company expects to apply tax loss carryforwards and tax credits for deductions amounting to Euros 1,002 thousand in its 2021 income tax return.

Given the significance of the capitalized tax credits, the Company performs an annual recoverability analysis even if there is no indication of impairment. Euskaltel, S.A.'s business plans show that the Company will have sufficient future taxable income against which tax credits capitalised at year end can be utilised in the next 15-20 years.

The key assumptions used by Management for the tax projections are future growth through national expansion, EBITDA/Revenue margin in line with that contemplated in the business plan mentioned above and a growth rate after the five-year period of 1.24%.

## NOTE 13.- Income and expenses

### 13.1. Revenues

The Company's activity primarily includes: the provision of combined broadband, Pay TV, mobile and landline telephone services to residential customers, freelancers ("Small Office / Home Office - SOHOs"), small and medium-sized enterprises (SMEs), large accounts, the public sector and the wholesale market and others.

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

- Mass market

- Business
- Wholesale market and others

Details of revenues are as follows:

	2020	2019
Mass market customers	275,238	260,220
Business	48,654	47,178
Wholesale and other	54,477	47,146
<b>Total</b>	<b>378,369</b>	<b>354,544</b>
Work performed by the entity and capitalised	(10,202)	(8,223)
Other operating income	(37)	(17)
<b>Revenues</b>	<b>368,130</b>	<b>346,304</b>

### Mass market

The Company offers customers in this category a combination of landline 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 landline 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 landline and mobile telecommunication services. Our sales team is able to offer, among other aspects, 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, landline/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, landline/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 Company's main direct competitors, to which 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. We also offer services related to the placement and resale of voice services. Lastly, this caption includes revenue on the services rendered by Euskaltel to group companies.

### 13.2. Supplies

Details are as follows:

	<u>2020</u>	<u>2019</u>
<b>Merchandise used</b>		
Purchases	39,251	36,821
Changes in inventories	(551)	467
	<u>38,700</u>	<u>37,288</u>
<b>Subcontracted work</b>		
Interconnection expenses	66,257	42,754
Other supplies	19,219	16,524
	<u>85,476</u>	<u>59,278</u>
	<u><u>124,176</u></u>	<u><u>96,566</u></u>

The increase in interconnection expenses is due mainly to the increase in calls made by Euskaltel customers to other operators during the Covid-19 lockdown and subsequent restrictions and to higher connectivity expenses, both mobile and landline.

Interconnection expenses includes discounts for certain services rendered by third parties, for an amount of Euros 29,313 thousand (Euros 33,288 thousand in the comparative period). These discounts rely on the fulfilment of a certain minimum cumulative consumption until 30 June 2024.

Discounts pending offset amounted to Euros 18,615 thousand (Euros 7,355 thousand at 31 December 2019).

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

Management has prepared a sensitivity analysis for the discounts covering  $\pm 5\%$  changes in expected purchases eligible for discount and there has been no significant change to the estimates made (impact of less than +/- Euros 200 thousand).

### 13.3. Personnel expenses

Details are as follows:

	<u>2020</u>	<u>2019</u>
Salaries and wages	18,361	19,268
Employee benefits expense (other employee benefits expense)	4,450	4,605
Compensation	335	8,630
Other remuneration (note 10.5)	2,295	2,098
Total	<u><u>25,441</u></u>	<u><u>34,601</u></u>

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

	<u>2020</u>	<u>2019</u>
Executives	26	30
Management	33	31
Other professionals	251	261
	<u><u>310</u></u>	<u><u>322</u></u>



The distribution by gender of the Company's headcount at 31 December 2020 and 2019 is as follows:

	2020			2019		
	Male	Female	Total	Male	Female	Total
Executives	21	5	26	22	4	26
Management	21	14	35	20	11	31
Other professionals	109	142	251	108	145	253
	<b>151</b>	<b>161</b>	<b>312</b>	<b>150</b>	<b>160</b>	<b>310</b>

The average number of Company employees with disabilities of 33% or greater during 2020 was one person (one person in 2019).

At the date these annual accounts were authorised for issue, the board of directors of the Company was comprised of 6 men and 4 women (10 men and 3 women at the end of the prior year).

#### 13.4. Other operating expenses

Details are as follows:

	2020	2019
Advertising	15,263	7,482
Repairs and maintenance	23,283	19,724
Services provided by third parties	19,018	21,278
Other external services and utilities	10,229	11,278
Tax	2,355	6,608
Losses, impairment and changes in provisions for transactions (note 9)	1,091	2,427
	<b>71,239</b>	<b>68,797</b>

The increase in advertising expenses is due to campaigns during the year as a result of the national expansion plan launched in 2020 through the Virgin brand.

#### 13.5. Other profit/(loss)

Details are as follows:

	2020	2019
Contribution to the Euskaltel Foundation	1,202	2,016
Integration costs	-	181
Other	3,532	1,316
	<b>4,734</b>	<b>3,513</b>

Other profit/(loss) in 2020 mainly includes non-recurring expenses arising from the impact of Covid-19.

### 13.6. Net finance income/cost

Details are as follows:

	<u>2020</u>	<u>2019</u>
<b>Finance income</b>		
Third parties	316	62
Dividends	-	5,442
Group companies and associates	<u>34,887</u>	<u>36,697</u>
	35,203	42,201
<b>Finance cost</b>		
Other financial expenses (notes 8 and 11.1.)	(8,654)	-
On third party loans	<u>(46,417)</u>	<u>(45,999)</u>
	(55,071)	(45,999)
<b>Exchange gains/(losses)</b>	259	(286)
<b>Change in fair value of financial instruments</b>	602	526
<b>Impairment and gains/(losses) on disposal of financial instruments</b>	<u>-</u>	<u>9</u>
	<u><u>(19,007)</u></u>	<u><u>(3,549)</u></u>

## Note 14.- Commitments

### 14.1. Sale and purchase commitments

At the reporting date, the Company has purchase commitments for the following items and amounts, all of which are related to its everyday operations and are expected to materialise in the coming year:

	<u>2020</u>	<u>2019</u>
Intangible assets	2,868	2,338
Property, plant and equipment	27,684	11,960
Inventories	<u>9,314</u>	<u>378</u>
	<u><u>39,866</u></u>	<u><u>14,676</u></u>

The increase in commitments is due to the fibre optic network deployment investment explained in note 7 as well as commitments for customer equipment purchases due to the national expansion plan.

### 14.2. Operating lease commitments

The Company mainly rents locations for its node equipment under operating leases. These contracts have a term of between 10 and 30 years, which is considered significantly lower than the economic life of the buildings in which the equipment is located.

Future minimum payments under operating leases are as follows:

	<u>2020</u>	<u>2019</u>
Less than one year	3,718	2,899
One to five years	11,028	9,185
Over five years	<u>11,006</u>	<u>10,265</u>
	<u><u>25,752</u></u>	<u><u>22,349</u></u>

The operating lease expense recognised in the income statement amounts to Euros 4,723 thousand (Euros 4,951 thousand for the same period in 2019).

## NOTE 15.- Related party transactions

### 15.1. Transactions and balances with key personnel

Details of transactions with key Company personnel are as follows:

	2020		2019	
	Board members	Executives	Board members	Executives
Salaries and wages	991	1,391	991	1,535
Other remuneration				
Compensation	-	-	1,708	3,490
Incentive plan	-	-	810	1,288
Incentive plan (share-based)	1,722	777	-	-
Other	1,454	60	990	72
	<b>4,172</b>	<b>2,228</b>	<b>4,499</b>	<b>6,385</b>

Compensation to directors in 2019 includes the amounts relating to the dismissals of the former chairman and the former CEO.

The Company has no pension or life insurance obligations with current or former board members, or with other members of senior management.

Civil liability insurance premiums paid by the Company to cover damages that could arise from actions or omissions in the performing of duties amounted to Euros 67 thousand (Euros 44 thousand in 2019).

### 15.2. Transactions and balances with other related parties

Details of transactions with significant shareholders and Group companies are as follows:

	2020			2019		
	Significant shareholders	Group companies	Total	Significant shareholders	Group companies	Total
Sales	8,816	32,349	41,165	6,785	27,098	33,883
Services rendered	-	(5,770)	(5,770)	(30)	(2,429)	(2,459)
Supplies	(9)	-	(9)	-	-	-
Finance income and dividends	-	34,887	34,887	-	42,139	42,139
Finance cost	(13,651)	-	(13,951)	(5,056)	-	(5,056)
	<b>(4,844)</b>	<b>61,466</b>	<b>56,322</b>	<b>1,699</b>	<b>66,808</b>	<b>68,507</b>

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

	31.12.2020		31.12.2019	
	Current	Non-current	Current	Non-current
<b>Key shareholders</b>				
Other financial liabilities (note 11)	(8,654)	-	-	-
Receivables	812	-	-	-
Credit accounts	3,490	-	41,528	-
Loans received (note 11)	-	(153,251)	(6,750)	(146,501)
<b>Group companies</b>				
Payables	(5,481)	-	(2,795)	-
Receivables	15,123	-	12,972	-
Dividend receivable	-	-	-	-
Loans granted (note 9)	-	689,151	-	672,612
	<u>5,290</u>	<u>535,900</u>	<u>44,955</u>	<u>526,111</u>

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

### 15.3. Conflicts of interest

At the 2020 and 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 16.- Audit fees

The fees corresponding to the services provided by KPMG Auditores, S.L., the auditing company of the Company's annual accounts during the years ended 31 December 2020 and 2019, regardless of when they are invoiced, are as follows:

	2020	2019
Audit services	124	144
Other assurance services	45	45
Other services	5	6
	<u>174</u>	<u>195</u>

Under Other assurance services are services related to limited reviews.

In the year ended 31 December 2020, other firms affiliated with KPMG International invoiced the Company for professional service fees totalling Euros 12 thousand relating to the issue of ISAE 3000 reports on the Non-Financial Information Statement.

## NOTE 17.- Environmental information

To develop its commitment to environmental issues, an environmental strategy has been prepared, which has been included as part of the 2020-2025 Strategic Sustainability Plan in 2020. The Euskaltel Group's commitment to environmental management excellence was the starting point for establishing an Environmental Management System in accordance with ISO 14001.

In accordance with this commitment, Euskaltel decided to voluntarily 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.

The 2020-2025 Strategic Sustainability Plan was defined and launched in 2020. One of its objectives is environmental management and combating climate change. Within the framework of the activities carried out in the environmental field:

- Renewal of the Euskaltel Group's Environmental Management System certification in accordance with ISO 14001, by a certified third party (AENOR) as renewed annually since 1999.
- Renewal of R Cable y Telecable's Energy Management System in accordance with standard ISO 50001 by a reputable and certified third party (AENOR).
- Verification of the EMAS Environmental Statements by a recognised third party (AENOR) for Euskaltel, R Cable 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 Cable and Telecable's footprints.
- Performance of the Life Cycle Analysis of the Euskaltel and R Cable 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 as part of the Basque Ecodesign Center, a pilot project has been launched to define "green" private purchasing criteria on products and services acquired by the group.
- The Shareholders' Meetings held in 2020 and the Euskal Encounter event have been certified as sustainable events under the Erronka Garbia certification by IHOBE.

Energy audits have been carried out as required by Royal Decree 56/2016.

## NOTE 18.- Guarantees

The Company 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 Company 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 Company's financing, pledges on certain assets have been extended (see note 11).

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

## **NOTE 19.- Subsequent events**

On 15 December 2020, the Company's Board of Directors agreed to pay an interim dividend against 2020 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 12 February 2021.



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# Directors' Report for 2020 Euskaltel, S.A.

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

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## 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 and in the rest of Spain with Virgin telco, which launched on the market in May 2020.

2020 has been characterised throughout by the impact of the coronavirus pandemic. As a result of the restrictive measures taken by governments during 2020 to contain the spread of Covid-19 (social distancing, lockdowns, limiting the free movement of people, closing public and private premises, except those covering basic needs and health facilities, closing borders and drastically reducing air, sea, rail and road transport), the global economy has been significantly affected.

The telecommunications sector in particular has seen a rise in traffic as a result of customers' increased communication and entertainment needs, which has led to greater uses of telecommunications services. In addition, the increase in traffic has required action to be taken to expand the network's capacity so as to ensure connectivity and be able to successfully meet the increased demand for services.

During the state of emergency (March-May 2020), restrictions were imposed on portability of telecommunication services in Spain, leading to a reduction in the growth rate of new customer registrations, which was compensated for by fewer customer cancellations, resulting in a stable customer base. Once these limitations ended, the market returned to its usual business dynamic.

## 2.- Business overview

Essentially through its proprietary fibre network and wholesale supplier agreements, Euskaltel provides ICT solutions to cover its customers' full communication cycle with a wide range of technological services from fibre, landline and mobile phones, digital TV and broadband to digital transformation processes, Cloud solutions, IoT (the Internet of Things), Big Data, Artificial Intelligence, technology for Smart Cities and Industry 4.0.

Euskaltel recently signed an agreement with Orange allowing it to access 5G technology as a Mobile Virtual Network Operator from 1 January 2022. This agreement guarantees customers access to the most advanced mobile telecommunications services via a quality 5G network, and secures the necessary capacity to respond to all new mobile data service needs that users might have in the future.

Euskaltel provides its services through the Euskaltel, RACCTel+ and Virgin telco brands.

#### Mass market

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

- Bundles: Euskaltel offers its customers the option to subscribe to a range of services in bundles comprising multiple services (high-speed broadband, Pay TV, landline 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 2020, Euskaltel renders 348,687 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 conmigo" brands), functionalities of VoD and PVR. The company offers access to premium content with the most popular local offering. At 31 December 2020, the company offers Pay TV services to 237,638 mass market customers.
- Mobile phones: At 31 December 2020, Euskaltel has 687,284 postpaid lines.
- Landline phones: Euskaltel offers landline services with unlimited national calls to landlines and a wide range of price plans for landline to mobile calls and landline to international numbers.

#### Business market

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

- SMEs: Euskaltel offers a range of solutions for medium-sized businesses with relatively high tech needs. These services include broadband access with speeds of up to 600 Mbps, symmetrical fibre access with speeds of up to 1 Gbps, MPLS Network, landline/mobile convergence (FMC), IP Switch and advanced IT services. Regarding small enterprises, the degree of standardisation in solutions has increased and the products offered have focused on bundled convergent solutions (mobile, landline and internet), successfully covering the needs of such businesses.
- Large Businesses: Euskaltel'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 up to 1 Gbps, FMC, SIP Trunking and MPLS networks in the communications area, but addressing projects and solutions in many other areas such as Cybersecurity (firewall solutions in the cloud, denial of service, etc.), Cloud services (virtual datacentre, disaster recovery, backups, etc., available remotely at data centres located in our territory), Big Data and Artificial Intelligence, with the creation of a specific area for the implementation of such solutions among customers.

#### Wholesale and Other revenue

- Euskaltel renders communications services to wholesale clients (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. Euskaltel 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 ownership of the Parent in each (direct and/or indirect) at 31 December 2020 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 unique organisational strategy for the regions in which it operates, simple and efficient, with an experienced team pursuing excellence, competitiveness, adapting the structures of Euskaltel and 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:

- An organisation that seeks to achieve best practice in the sector.
- A simple 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 and 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 10 board members (1 executive member, 4 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 Committee.
- Remuneration 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 Committee Regulations and Remuneration 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) Oversee the effectiveness of the company's 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, fiscal, reputational and corruption-related issues.
- (iii) Analyse with the external auditors any potentially significant weaknesses in the internal control system detected during the course of the audit.
- (iv) Supervise the process of drawing up and reporting regulated financial and non-financial information.
- (v) Propose to the Board of Directors, for submission to the General Shareholders' Meeting, the appointment, reappointment 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) Oversee the company's internal audit activity.
- (vii) 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.
- (viii) In any event, the Committee will 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.
- (ix) 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 will contain 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.
- (x) Report, in advance, to the Board of Directors on any matters governed by law, the Bylaws and the Board of Directors Regulations, particularly with regard to: (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 corporative modifications planned by the Company and, particularly, for the exchange ratio of the proposal.

#### Appointments Committee

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

- (i) Assess the necessary competencies, 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) Set a target for gender balance on the Board of Directors and draw up guidelines on how to reach this target.
- (iii) Raise to the Board of Directors the proposed independent director appointments for designation by co-option or for their submission to the General Meeting of Shareholders, as well as proposals for re-election or dismissal of these directors by the General Meeting of Shareholders.
- (iv) Report on the proposed appointment of the remaining board members for designation by co-option or for their submission to the General Meeting of Shareholders, as well as proposals for their re-election or dismissal by the General Meeting of Shareholders.
- (v) Report on the proposed appointment or dismissal of senior management and the basic conditions of their contracts.

- (vi) Examine and organise the succession of the Chair of the Board of Directors 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.

#### Remuneration Committee

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

- (i) 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.
- (ii) Endeavour to ensure the transparency of remuneration and inclusion of information on the directors' remuneration in the Annual Report, Annual Corporate Governance Report and Directors Remuneration Report, submitting to the Board all the information required for this purpose.

## 5.- Shareholder structure

Euskaltel is 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 2020 are as follows:

Shareholder	% capital
Zegona Group	21.32%
Kutxabank Group	19.88%
Corporación Financiera Alba, S.A.	11.00%

## 6.- Macroeconomic and industrial climate

### Macroeconomic environment

2020 has undoubtedly been influenced by the drastic impact of the SARS-CoV-2 coronavirus in health, economic and financial terms, triggering a pandemic that is unprecedented in recent years.

With respect to financial markets, the international economic downturn in March led to a rapid decline and subsequent recovery. The loss of about a third of global equity value was followed -from record market lows and over the next five months- by a recovery of about 50%, which was uneven across sectors and global regions. The impact on securities prices also affected financial instruments such as credit, where the initial decreases were also double-digit and very significant for lower-quality credit.

However, swift action by central banks and governments helped to reduce the tension arising from this situation. This was achieved by means of liquidity injections, purchases of financial assets, fiscal programmes, guarantees and redundancy schemes.

This scenario also accelerated certain global trends related to connectivity, including the fields of remote working and education, logistics and e-commerce.



In the second half of the year, uncertainty over the effectiveness of treatments for the disease, the extent of the second wave and the American elections were among the most relevant financial and economic risks. However, the good news on the effectiveness of the vaccines being developed, which coincided with a Joe Biden victory in the White House, provided visibility for a potential economic improvement and November was very positive for financial markets.

The year ended with global equity markets in positive territory, led by the technology sector and the positive performance of Asian markets, and with a weakening of the US dollar. However, there were major differences from one sector or country to another, to such an extent that some indices ceased to be representative of the market as a whole. For instance, the Ibex35 ended December down -17%, compared to -5% for the Eurostoxx50 or +18% for the S&P500. The differences between sectoral indices, for example, with an industrial bias against other technologies, were significant.

From an economic growth viewpoint, the Covid-19 crisis has led GDP forecasts for 2020 released by the OECD to reflect significantly negative figures for Spain (-11%), the Eurozone (-7.5%) and the USA (-3.7%), unlike China which ended the year with a positive growth rate (+2.3%). The economic recovery forecasts for the next two years are encouraging, however (the Spanish case is an example, with expectations of around +6%).

Finally, with regard to public finances, the major intervention during the crisis has had consequences in terms of public deficit (which will reach 10% according to the Bank of Spain) and debt (public debt over GDP will stand at 120% in 2021).

### Industrial Environment

As a result of the restrictive measures taken by governments during 2020 to contain the spread of Covid-19 (social distancing, lockdowns, limiting the free movement of people, closing public and private premises, except those covering basic needs and health facilities, closing borders and drastically reducing air, sea, rail and road transport), the global economy has been significantly affected.

The telecommunications sector in particular has seen a rise in traffic as a result of our customers' increased communication and entertainment needs, which has led to greater uses of telecommunications services. In addition, the increase in traffic has required action to be taken to expand the network's capacity so as to ensure connectivity and be able to successfully meet the increased demand for services.

During the state of emergency (March-May 2020), restrictions were imposed on portability of telecommunication services in Spain, leading to a reduction in the growth rate of new customer registrations, which was compensated for by fewer customer cancellations, resulting in a stable customer base.

Once the period of restrictions ended the market went back to its usual business dynamics, with a record number (according to official data from the CNMC) of mobile portabilities in October (758 thousand mobile numbers changed operator in October and 5.4 million in 2020 to October, compared to 6.1 million in the same period of the previous year). Regarding fixed broadband, almost 74 thousand lines were added in October, bringing the total to 15.7 million, of which 11.3 million were FTTH fibre optic lines. In the year to October the market grew by more than half a million broadband lines, against just over 300,000 in the same period in the previous year, an acceleration in market growth driven by demand for telecommunications services due to the impact of Covid-19 mentioned above. Meanwhile, pay TV continued its upward trend in year-on-year terms, reaching almost 8 million subscribers.

According to the latest quarterly data published by the regulator, revenue from retail services between January and September this year (Euros 17,256 million) fell by 6.0% compared to the same period in 2019, reflecting the impact of the Covid-19 crisis.

The combined market share of the three main operators (Movistar, Vodafone and Orange) continued to fall in both mobile telephony and broadband, thanks to the growth among other operators in the market.

## **7.-Commercial activity and customer relations**

### Mass market

As mentioned before, activity in 2020 has been influenced by factors arising from the Covid-19 pandemic.

This did not however stop the Group from moving forward with its planned expansion into the rest of Spain via the Virgin telco brand.

At 2020 year end, there are 443,861 mass market customers. Postpaid lines increase from 589,599 at the end of 2019 to 687,284 at December 2020, an increase of 16.6%. Broadband products reach 384,687, representing 20.5% growth.

Pay TV products are up 4.9% from 212,412 at the end of 2019 to 237,638, an 11.9%.

### Business market

The business market has presented income growth for four years running, reaching growth of 3% in 2020.

2020 was undoubtedly a key year in consolidating the foundations of the Group's strategic plan. This strategic plan, launched at the beginning of 2020, has been implemented as planned despite the constraints caused by the emergence of Covid-19, which has had a significant impact on the business sector and therefore on customers in the business market.

In the Business segment, the main organisational changes identified in the previous year continued to be consolidated, involving new approaches in the unification of the commercial model and offerings, and the Unified Operating Model, which have not only enabled the objectives of the business area to be seamlessly aligned but have also shown their suitability and value in the capacity to respond in a swift and coordinated manner to the challenges arising from the situation generated by the pandemic.

Mainly in March, April and May, at the peak of the pandemic, companies required urgent services to give their employees mobility so that they could continue working from home, enabling business continuity in companies and allowing them to prevent their business from being impacted. The quick reaction capacity in the contracting, implementation and deployment of communications services, and the expansion of their capacities in data resources, datacentres and equipment, have been key to providing an adequate response to customers.

As for Large Accounts, in 2020 the strategy of extending the scope of solutions initiated in 2018 continued, on this occasion creating a specific Artificial Intelligence team that includes experienced specialists, tools and solutions aimed at boosting corporate customers' business and increasing the catalogue of services they already have available.

2020 was again a communication-intensive year in the Business area. Among other issues, the impossibility of establishing face-to-face contact as a result of Covid-19 made it necessary to reinforce other communication channels in order to maintain the contact and proximity that the line of communication and Business branding require under the slogan "Be close, go far".

Likewise, in June 2020 the restructuring of the Large Account corporate website for the Euskaltel brand was completed, concluding the work started in 2019.

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

The pandemic in 2020 and the difficulties experienced by certain groups have provided us with the opportunity to lend a helping hand to our customers in government and private companies, providing, for example, free mobile data communications services to children in disadvantaged families, facilitating the continuity of training processes, and to care homes to ensure communication with family members, among other initiatives.

In terms of the SME segment, 2020 has confirmed the income growth trend already evident at the end of 2019.

The product work developed in 2019 has been marketed in 2020 with bundled telecommunication solutions for both the Company's own DOCSIS and FTTH networks and third-party networks through wholesale agreements. This drive was bolstered once again with the launch of new functionalities in the convergent Telco solution (SME Solution).

## **8.- Marketing activity**

In 2020 Euskaltel 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.

During the first stage of the Covid-19 crisis several initiatives were launched to promote connectivity for Euskaltel customers and access to leisure content during lockdown. Until the end of the state of emergency, Euskaltel customers were able to activate bonuses on their mobile phone lines free of charge. This initiative was designed to ensure mobile internet availability particularly for employees in the health sector or groups whose activity was considered essential.

With the opening up of free cinema and children's channels, Euskaltel has collaborated in making the lockdown more bearable for children and adults. Additionally, it provided free access accounts to OTT TV services for all hospitalized patients and their families.

In September we launched a new initiative at Euskaltel for families with reduced resources, consisting of low-price internet access. Through this service, Euskaltel seeks to help the most disadvantaged families and cooperate in reducing the digital divide for children lacking study resources.

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

In May 2020, the Euskaltel Group launched its new Virgin Telco brand, to market a new portfolio of convergent products and services (internet, TV, mobile and landline) nationwide. Internet access starts with very fast 300M symmetrical access (with higher 600M or 1Giga options if customers require more speed); in mobile telephony there is a varied portfolio of rates, which all include unlimited calls and with variable capacity (from 10GB to unlimited gigas); in television, customers can choose between 2 packages of 50 or 90 channels with varied content (series, films, documentaries, sports, music, children's programmes, etc.) and with a 4K decoder that provides customers with the possibility of watching all content on demand; and landline telephony includes calls to landline and mobile phones, which is completely optional for the customer.

This offer stands out on the one hand for having very competitive prices in all services, and on the other in that it is totally flexible and open for customers, who are absolutely free to choose whatever services they wish to sign up for.

In 2020 Euskaltel launched a new convergent offer for Euskaltel consisting of simplifying access to convergent mobile offers, which are much more competitive than existing options in terms of both price and gigabyte capacity. In addition, during summer a new fully modular convergent offer was launched, with a flexible structure that allows customers to receive only internet services, with the option of adding additional mobile, landline and television services.

Thanks to the alliance with Netflix, the world leader in streaming content distribution, Euskaltel has significantly improved the bundling of its services, offering a wider content catalogue.

Similarly, there have been campaigns to renew equipment, looking to offer the best Internet service by providing the best browsing experience, particular using Wi-Fi.

## **9.- R&D&i activity**

The Euskaltel Group's innovation activity in 2020 has been unified, based on the following mainstays:

- Innovation in TV services.
- 5G pilots.

### TV innovation

In terms of product development, in 2020 the focus was on the following areas: launch of Virgin telco, big data to provide information on customer experience and full integration between OTT and operator.

Concerning the launch of Virgin telco, since the service is provided over different networks it has required the development of network integrations to ensure proper service delivery over different technologies. This major technical challenge was successfully met at the beginning of the year, creating one of the most complex grids among Spanish operators.

Specifically in the field of measuring and improving customer experience, the "Euskaltel Tv Analytics" tool has been developed which, based on various technologies, measures different indicators related to customer experience or any service anomaly noted by customers from their viewpoint.

In 2020 the development of major projects commenced that will mark the future of the service: new 4k decoders, new remote control and new applications on mobile devices, PCs and Smart TVs.

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

### 5G pilots

At the end of 2019, the Euskaltel Group took part in the Red.es call for 5G pilots as part of a consortium of companies, and in 2020 it was awarded the programme's support for the Basque Country.

In 2020 the technical work started on the project in which the 5G solution will be piloted for network purposes in a MVNO network sharing model.

Work is also being carried out on different case studies with relevant companies in the Basque industrial sector to validate their applications and business models.

The consortium is made up of several operators, industrial companies and technology centres. In addition, various collaborating entities have been brought in to work on the project.

The case studies are related to the mobility, industry, energy and cybersecurity sectors.

## 10.- 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		Year	
KPI		2019	2020
Total customers		372,035	443,861
Total RGUs		1,401,192	1,577,580
Landline phones		309,806	303,971
Broadband		289,375	348,687
Pay TV		212,412	237,638
Post-paid mobiles		589,599	687,284
RGUs / sub		3.8	3.6

Deployment continues, both in terms of in-house deployment and also access to new households via agreements to share networks with other operators throughout Spain, allowing access to 85% of the market where we were not present through the Virgin Telco brand, which was launched in May 2020.

Despite the Covid-19 crisis, mass market customer numbers and services to this market have increased. Mobile communications, underpinned by strong performance, improvements in mobile telephony, the possibility of financing purchases of mobile devices and national expansion have all contributed to the strong performance in this area.

Broadband has also grown from 289,375 products in 2019 to 348,687 products at 31 December 2020, an increase on 20.5%. In TV we have reached 237,638 services, up 11.9%.

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 data		Year	
		2019	2020
<b>Total revenues</b>		<b>354,544</b>	<b>378,369</b>
Y-o-y change			6.7%
Mercado masivo		260,220	275,238
Y-o-y change			5.8%
Empresas		47,178	48,654
Y-o-y change			3.1%
Mayorista y otros		47,146	54,477
Y-o-y change			15.5%
<b>EBITDA</b>		<b>165,386</b>	<b>160,219</b>
Margen sobre ingresos		46.6%	42.3%
Y-o-y change			-3.1%
<b>Resultado del ejercicio</b>		<b>60,261</b>	<b>40,936</b>
<b>Inversiones</b>		<b>(81,608)</b>	<b>(114,430)</b>
Y-o-y change			40.2%
<b>Cash Flow operativo</b>		<b>83,778</b>	<b>45,789</b>
Y-o-y change			-45.3%

Mass market revenues reflect an upward trend for the period, increasing by 6.7% compared to the prior year.

Revenue from the Business market amounted to Euros 48,654 thousand, up 3.1% on the prior year.

Wholesale and other revenue increased by 15.5% to Euros 54,477 thousand.

Ebitda stands at Euros 160,219 thousand at 31 December 2020, reflecting a small decrease in absolute terms compared to the same period last year. This change is as a result of several factors. The gross margin is impacted by the increase in sales of customer equipment, which is offset by a decrease in other costs despite Virgin telco's solid growth.

At 31 December 2020, investments stood at Euros 114,430 thousand compared to Euros 81,608 thousand at 31 December 2019. This increase is mainly due to the ongoing undertaking of relevant projects by the Euskaltel Group relating to deployment, investments needed to absorb the growth in data traffic experienced by the customer portfolio and also investments made in the network and customer equipment resulting, to a large extent, from the launch of the Virgin Telco project.

Post-tax profit for 2020 is Euros 40,936 thousand compared to Euros 60,261 thousand in 2019.

## 11.- 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. Despite Covid-19, the insolvency rate has not increased.

The impact of bad trade debts on the income statement was Euros 1.1 million (Euros 2.4 million in 2019). Aged, non-impaired receivables past due by more than 90 days at 31 December 2020 amount to Euros 12.9 million (Euros 6.2 million at the end of 2019).

### 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 2020 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 28.25 million.

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

At 31 December 2020, cash and cash equivalents amounted to Euros 14.2 million (Euros 41.6 million at the end of 2019).

We adjust the maturities of our debts to our capacity to generate cash flows to settle them. To do this, we have implemented a five-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 us to currency or price risks, which may arise from occasional purchases in foreign currency of insignificant amounts.

Interest rate risks 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 2020, had interest rates risen by 100 basis points, with other variables remaining constant, profit (after tax) would have fallen by Euros 6.2 million (Euros 7.3 million for the year ended 31 December 2019).

## **12.- 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.

### Measures adopted by the telecommunications industry due to Covid-19

On 15 March 2020, Royal Decree 463/2020 of 14 March, declaring a state of emergency in order to manage the health crisis caused by Covid-19, was published in the Official State Gazette (BOE).

The state of emergency was extended every 2 weeks from the 15 March 2020 until the 21 June 2020.

The telecommunications industry, considered essential, continued to operate, although activities were affected by Royal Decree Law 8/2020, later qualified by Royal Decree Law 20/2020, prohibiting, during the state of emergency, extraordinary sales campaigns, portability operations which required a visit to the customer's or user's home and tariff increases.

Via Resolution of 28 April 2020, the CNMC defined the procedure for returning to the previous state once the exceptional measures adopted during the state of emergency ended. A period of 5 days was set following the end of the state of emergency to return to normal competition and sales dynamics.

On 27 May 2020, Royal Decree-Law 19/2020 of 26 May was published in the Official State Gazette (BOE), adopting additional measures in the agricultural, scientific, economic, employment and social security and tax fields to mitigate the effects of Covid-19. The single repealing provision of this legislation removed, inter alia, the prohibition on portability by fully repealing Article 20 of Royal Decree-Law 8/2020.

As a result, from 28 May 2020, the bans on extraordinary campaigns, the ban on portability and the ban on price increases were abolished.

In addition, article 3 of Royal-Decree Law 19/2020 of 26 May, set out a procedure for paying in instalments and deferring debts in electronic communications services, meaning that electronic communications operators had to grant their subscribers, at their request, payment by instalment and, therefore, the deferral of debts relating to invoices issued for payment from the entry into force of Royal Decree 463/2020 of 14 March, declaring the state of emergency to manage the health crisis caused by Covid-19, and extensions, and up until 30 June 2020, both dates inclusive.

With regard the regulatory measures adopted within the framework of the Covid-19 state of emergency, there are currently no specific measures that regulate the rendering of telecommunications services. The measures for paying in instalments and, subsequently, deferring debt relating to invoices presented for collection until 30 June 2020 are still in force.

### 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 imposes 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.

Proposal for the definition and analysis of markets for local wholesale access provided at a fixed location and central wholesale access provided at a fixed location for mass market products, the designation of operators with significant market power and the imposition of specific obligations (Markets 3a-3b/2014)

On 12 November 2020 the National Markets and Competition Commission agreed to initiate the public disclosure procedure relating to the process for the definition and analysis of markets for local wholesale access provided at a fixed location and central wholesale access provided at a fixed location for mass market products, the designation of operators with significant market power and the imposition of specific obligations (Markets 3a-3b/2014).

The proposal establishes that both markets are susceptible to ex ante regulation as they are not really competitive, considering that Telefónica de España, S.A.U. has significant strength, and it imposes a number of obligations in relation to fully unbundled access to the copper subscriber loop and access to civil infrastructure.

Public consultation on the review of capacity price at IAP in the NEBA service

On 13 November 2020, the National Markets and Competition Commission agreed to initiate the public disclosure procedure for the process for reviewing the capacity price at IAP in the NEBA wholesale service.

Under a Ruling dated 10 January 2019, the CNMC approved the review of the capacity price at IAP in the NEBA wholesale broadband service, setting the prices for 2019 and 2020.

The public consultation initiates the procedure for the review of capacity price at IAP in the NEBA wholesale broadband service.

Public disclosure process on the review of the prices of Telefónica's MARCo offer.

On 4 December 2020, the National Markets and Competition Commission agreed to initiate the public disclosure procedure for the process for reviewing the prices of Telefónica's MARCo offer.

In its file the CNMC proposes changing the prices of the MARCo offer.

Proposal for the definition and analysis of the market for high quality wholesale access provided at a fixed location, the designation of operators with significant market power and the imposition of specific obligations (Market 4/2014)

On 16 December 2020 the National Markets and Competition Commission agreed to initiate the public disclosure procedure relating to the process for the definition and analysis of markets for high quality wholesale access provided at a fixed location, the designation of operators with significant market power and the imposition of specific obligations.

This market comprises two categories of wholesale services used to provide services to business customers (terminal leased lines and business broadband indirect access, in Telefónica's case, included in the ORLA and NEBA business offerings).

The proposal establishes that the market for high quality wholesale access provided at a fixed location in Spain is a market susceptible to ex ante regulation as it is not truly competitive, considering that Telefónica de España, S.A.U. has significant strength, imposing various obligations and revising the prices set in the Leased Line Reference Offer.

#### Cost of the universal service for 2017 and 2018 (calculation of cost)

A CNMC Resolution dated 8 April 2020 approved the net cost of the universal service for electronic communications presented by Telefónica de España, S.A.U. in 2017, amounting to Euros 14.62 million. Subsequently, on 26 November 2020 the CNMC proposed to change the net cost of the universal service incurred by Telefónica de España, S.A.U. in 2017 to Euros 13,834,175.

Concerning the net cost of the universal service for 2018, the CNMC has issued a ruling approving the verification of the statement on the net cost of the universal service made by Telefónica de España for 2018, mentioning the need to change the initial calculation presented by Telefónica.

#### 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. To date, the preliminary draft of the General Telecommunications Law reported by the CNMC on 4 December 2021 has been submitted for public consultation.

#### Main operator

On 22 December 2020 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 landline and mobile telephony markets.

This resolution considers Euskaltel as a main operator of landline telephony in 2019, adding the share of R Cable and Telecable landlines.

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. To date, the new law has not been issued, but there is a preliminary draft of the General Telecommunications Law reported by the CNMC on 4 December 2021.

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.

#### 5G action plan

As part of the 5G action plan approved by the European Commission, on 16 December the conditions governing the auction of 700 MHz frequencies were submitted for consultation in Spain. The tender is scheduled for the first quarter of 2021.

Similarly, on 23 December 2020 the conditions for the auction of 20 MHz that had not yet been awarded in the 3.5 GHz band (3,400-3,600 MHz) were published in the BOE (Official State Gazette). The deadline for submitting tender applications is 28 January 2021 and the auction will start by 24 February 2021.

Both frequency bands have been identified as priority bands for 5G in Europe.

#### Proposed e-privacy Regulation

The European Data Protection Regulation of 14 April 2016 having been implemented and Organic Law 3/2018 of 5 December 2018 on the protection of personal data and guaranteeing of digital rights having been approved, the Regulation on privacy and electronic communications is currently being processed in the European Union which will update current Directive 2002/58. The Regulation will be a directly applicable regulatory instrument. This Regulation seeks to harmonise and secure uniform application in all Member States of the specific regulation on privacy in electronic communications.

The proposal envisages that the privacy obligation will be guaranteed for content and metadata derived from electronic communications and applies not only to telecommunications operators but also to new providers of electronic communications services (WhatsApp, Facebook Messenger, Skype, etc.) and OTT suppliers.

#### Access to TV content

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. To date, no ruling has been given on the aforementioned appeals.

Via the Resolution of 22 October 2019, and as part of the concentration control proceedings, the CNMC imposed a fine of Euros 1.5 million on Telefónica de España, S.A.U. for incorrectly allocating its fixed costs for the "Movistar Partidazo" channel, which is part of its wholesale offer of premium channels, for the 2016/2017 season. The outcome of this allocation was that operators interested in contracting the "Partidazo" channel, faced higher costs, whilst for Telefónica these costs were reduced and the company was subject to positive discrimination.

#### Financing of Corporación de Radio y Televisión Española (CRTVE)

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).

In 2016, 2017, 2018, 2019 and 2020 the Euskaltel Group made the relevant payments applicable for those years.

#### 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 and 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 28 January 2021, Decree 43/2021 of 26 January was published in the Official State Gazette (BOE), implementing previous Royal Decree-Law 12/2018 of 7 September on information systems and network security.

## **13.- Corporate governance**

### **a) Board of directors**

The following changes to the Board of Directors have taken place in 2020:

#### Re-election, resignation and appointment of Board members

- The Ordinary General Shareholders' Meeting held on first call on 2 June 2020 agreed the re-election of Kartera 1, S.L. as proprietary director, represented by Ms Alicia Vivanco González for the statutory period of 4 years, and ratified the appointment by co-optation and election of Mr Xabier Iturbe as external director.

- With effect from 2 June 2020, and prior to the General Shareholders' Meeting being held, the directors Mr Luis Ramón Arrieta Durana (proprietary director assigned by Kutxabank) and Mr Jonathan Glyn James (independent director) notified the Board of Directors of their resignation from their roles as members of the Board.
- The General Shareholders' Meeting held on 2 June 2020 agreed to set the number of Board of Director members at 11.
- Effective 29 September 2020, the tenures of Ms Elisabetta Castiglioni and Mr José Ángel Corres Abasolo and Mr Miguel Angel Lujua Murga came to an end.
- The Extraordinary General Shareholders' Meeting held on first call on 29 September 2020 agreed the appointments as independent directors of Ms Beatriz Mato Otero and Ms Ana García Fau.
- The Extraordinary General Shareholders' Meeting held on 29 September 2020 agreed to set the number of Board of Director members at 10.

#### Appointment of new deputy-secretary of the Board of Directors

- Ms Cristina Sustacha Duñabeitia has replaced Mr Gonzalo Silveiro Regúlez as the new deputy-secretary of the Board of Directors and of the Committees reporting to the Board.

#### b) Committees reporting to the Board of Directors

The Board of Director's meeting held on 2 June 2020 agreed to amend the Articles of Association with the following amendments to the Committees: removal of the Strategy Committee and the separation of the Appointments and Remuneration Committee into two, the Appointments Committee and the Remuneration Committee.

In accordance with the resolution adopted by the Board of Directors on 2 June 2020 and following the end of the tenures of Ms Elisabetta Castiglioni and the directors Mr José Ángel Corres Abasolo and Mr Miguel Angel Lujua Murga and the appointment as independent directors of Ms Beatriz Mato Otero and Ms Ana García Fau, the Board of Directors' Committees are made up as follows:

#### Audit and Control Committee

Ms Ana García Fau (Chair)  
Kartera 1, S.L., represented by Ms Alicia Vivanco González  
Mr Iñaki Alzaga Etxeita

#### Appointments Committee

Mr Iñaki Alzaga Etxeita (Chair)  
Ms Belén Amatriain Corbi  
Mr Eamonn O'Hare

#### Remuneration Committee

Ms Belén Amatriain Corbi (Chair)  
Corporación Financiera Alba, S.A., represented by Mr Javier Fernández Alonso  
Ms Beatriz Mato Otero

#### c) Other relevant information

During 2020, the CNMV was informed of 24 relevant information notifications, the quarterly results, the transactions performed under the liquidity agreement, the call to the Ordinary General Shareholders' Meeting and the Extraordinary General Shareholders' Meeting and the outcomes thereof, the changes made to the Board of Directors and the new composition of the Board's Committees, the payment of an additional dividend charged to 2019 results, the improved wholesale agreements with Orange, the 5G agreement and fibre access agreement with Telefónica and the distribution of an interim dividend in 2020.

## 14.- Share price evolution

### Share price



Euskaltel shares have decreased in value in 2020 by -2.45%, compared to the IBEX 35 stock market index and the STOXX Europe 600 Telecom sector benchmark index for the same period, -16.69% and -9.08%, respectively.

### Trading volume

<u>Period (2 Jan/31 Dec)</u>	<u>Number of shares</u>	<u>Daily average</u>
Standard trading	26,327,550	102,442
Block trading	<u>4,335,738</u>	<u>16,871</u>
	<b><u>30,663,288</u></b>	<b><u>119,313</u></b>

## 15.- Outlook and events after the reporting period

Below we describe the most significant events occurred during the first weeks of 2020 up to the date of preparation of these annual accounts.

On 15 December 2020, the Company's Board of Directors agreed to pay an interim dividend against 2020 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 12 February 2021.

## 16.- Acquisition of own shares

At 31 December 2020 we held 173,596 own shares. During the year a total of 1,275,150 shares were acquired, and 1,271,920 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.

## 17.- 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.

	<u>31.12.19</u>	<u>31.12.20</u>
Results from operating activities	71,371	67,438
Depreciation and amortisation (notes 6 y 7)	74,727	80,532
Impairment and gains/(losses) on disposals of fixed assets	5,046	4,885
Compensation and other remuneration (note 13.3)	10,728	2,630
Other profit/(loss) (note 13.5)	3,514	4,734
	<u><u>165,386</u></u>	<u><u>160,219</u></u>

- Investments: Additions of intangible assets and property, plant and equipment, excluding customer equipment that has still not been installed in customer homes or premises

	<u>31.12.19</u>	<u>31.12.20</u>
Additions of intangible assets (note 6)	31,210	49,260
Additions of property, plant and equipment (note 7)	50,398	72,949
Additions not yet installed (note 7)	-	(7,779)
	<u><u>81,608</u></u>	<u><u>114,430</u></u>

Additions not yet installed have not been considered in Investments calculations in order to align them with other business indicators (mainly customer registrations).

- Operating cash flow: EBITDA - Investments

	<b>31.12.19</b>	<b>31.12.20</b>
EBITDA	165,386	160,219
Investments	(81,608)	(114,430)
	<b>83,778</b>	<b>45,789</b>

- Conversion rate: Operating cash flow / EBITDA

	<b>31.12.19</b>	<b>31.12.20</b>
Operating cash flow	83,778	45,789
EBITDA	165,386	160,219
	<b>50.7%</b>	<b>28.6%</b>

## 18.- Annual Corporate Governance Report

The 2020 Annual Corporate Governance Report, which forms part of the directors' report, was approved by the Board of Directors of Euskaltel, S.A. on 25 February 2021 and is available on the Company's website ([www.euskaltel.com](http://www.euskaltel.com)) and that of the Spanish National Securities Market Commission ([www.cnmv.es](http://www.cnmv.es)).

## 19.- Non-financial information

In compliance with article 49 of the Spanish Code of Commerce, the Euskaltel Group includes the Non-Financial Information Statement for 2020 as part of the Euskaltel Group's Sustainability Report and Non-Financial Information Statement which is available as an Appendix to Euskaltel, S.A.'s consolidated director's report. 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.



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

Derio, 25 February 2021

In compliance with prevailing legislation, the directors of Euskaltel, S.A. have authorised for issue the annual accounts (comprising the balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto) and the directors' report for the period ended 31 December 2020.

Signed:

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**Sr. D. Xabier Iturbe Otaegui**  
(Presidente)

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**Sr. D. José Miguel García Fernández**  
(Consejero Delegado)

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**Kartera 1, S.L. representada por**  
**Sra. Dña. Alicia Vivanco González**  
(Consejera)

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**Sr. D. Eamonn O'Hare**  
(Consejero)

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**Sr. D. Robert W. Samuelson**  
(Consejero)

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**Corporación Financiera Alba, S.A. representada por**  
**Sr. D. Javier Fernández Alonso**  
(Consejero)

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**Sra. Dña. Belén Amatriain Corbi**  
(Consejera)

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**Sr. D. Iñaki Alzaga Etxeita**  
(Consejero)

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**Sra. Dña. Ana García Fau**  
(Consejera)

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**Sra. Dña. Beatriz Mato Otero**  
(Consejera)



# Auditor's Report on Euskaltel, S.A. and subsidiaries

**(Together with the consolidated annual accounts and consolidated directors' report of Euskaltel, S.A. and subsidiaries for the year ended 31 December 2020)**

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



KPMG Auditores, S.L.  
Torre Iberdrola  
Plaza Euskadi, 5  
Planta 17  
48009 Bilbao

## **Independent Auditor's Report on the Consolidated Annual Accounts**

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

To the Shareholders of Euskaltel, S.A.:

### **REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS**

#### **Opinion**

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We have audited the consolidated annual accounts of Euskaltel, S.A. (the "Parent") and subsidiaries (together the "Group"), which comprise the consolidated statement of financial position at 31 December 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2020 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

#### **Basis for Opinion**

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We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities 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 those regarding independence, that are relevant to our audit of the consolidated annual accounts pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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

#### **Key Audit Matters**

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Key audit matters are those matters that, in our professional judgement, were of most significance in the 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.

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

## Measurement of intangible assets – Goodwill

See notes 3.2 and 5 to the annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>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 the existence of indications of impairment, the applicable financial reporting framework requires that the Group identify the Cash Generating Units (CGUs) to which the goodwill should be assigned and verify the recoverable amount thereof at least annually, in order to assess by comparison with the carrying amount if it is necessary to recognise impairment.</p> <p>The Group determines the recoverable amount of each Cash Generating Unit (CGU) based on its value in use and, therefore, its calculation is based on estimated future discounted cash flows, which requires the application of value judgements by the Directors with regard to certain key assumptions.</p> <p>Due to the high level of uncertainty associated with the judgement applied by the Directors and the significance of the carrying amount of goodwill, this has been considered a key audit matter.</p>	<p>As part of our audit procedures, we assessed the design and implementation of the key controls related to the goodwill measurement process, and those established for preparing and controlling the Group's budgets, evaluating the reasonableness of the budgets and their historical degree of fulfilment by comparing actual data with the initial forecasts.</p> <p>We also performed tests of detail, including the following:</p> <ul style="list-style-type: none"> <li>a) We assessed whether the methodology used by the Group for the analysis of impairment 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;</li> <li>b) We verified that the cash flow estimates used to determine value in use are consistent with the business plan approved by the Directors for the period it covers;</li> <li>c) We assessed the reasonableness of the key assumptions used in the calculation of value in use, including discount rate, long-term growth rate and EBITDA calculated using the budgets approved by Directors. During this procedure, we involved our valuation specialists to assess the adequacy of the discount rate used and the long-term growth rate; and</li> <li>d) We performed arithmetical verifications of the calculations made to determine the recoverable amount and compared this with the carrying amount of the corresponding CGU in order to determine whether it is necessary to recognise impairment and, if applicable, to verify its proper recognition.</li> </ul> <p>Lastly, we assessed the suitability and sufficiency of the information disclosed in the Group's consolidated annual accounts with regard to impairment, in accordance with the applicable financial reporting framework and, in particular, we verified that the analysis of the recoverable amount sensitivity to reasonably possible changes in key assumptions was carried out using sufficiently ample changes in assumptions, rather than with minimal changes therein.</p>

## Estimation of supplier volume discount – Supplies

See note 12.2 to the annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The cost of supplies of Group companies is reduced by certain volume discounts, the application of which is subject to the degree of fulfilment of a certain accumulated volume of consumption within an agreed period, which is usually more than one year.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>a) evaluating the design and implementation of key controls related to the supplies and discounts process;</li> </ul>

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

## Estimation of supplier volume discount – Supplies

See note 12.2 to the annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Under these circumstances, the appropriate recognition of the cost of supplies requires the Group to make reliable estimates as to the degree to which the conditions giving entitlement to the discount will be met. These estimates require a high level of judgement by the Directors.</p> <p>Due to the uncertainty associated with these estimates and the relevant effect that these discounts have on the recognition of the cost of supplies for the year, this has been considered a key audit matter.</p>	<p>b) reading and understanding the volume discount contracts with suppliers;</p> <p>c) assessing the consistency of the volume discounts recorded on the basis of the agreed-upon terms and conditions in the contract; and</p> <p>d) assessing whether the forecast accumulated consumptions for the years for which a minimum volume has been established in the contract in order to avail of the discount are reasonable and consistent with the business plan approved by the Directors. In this regard, we reviewed the historical level of achievement of the forecasts, comparing actual volumes of consumption with the initial forecasts.</p>

## Revenue recognition

See notes 3.13 and 12.1 to the annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Revenue recognition is considered a key audit matter given its significance in relation to the annual accounts as a whole, and because the recognition of revenue from services rendered is a highly automated process involving a large number of individual transactions.</p>	<p>Our main audit procedures included evaluating the design and implementation, with the help of our information systems specialists, of the controls implemented by the Group companies over the recognition of revenue from services rendered.</p> <p>We also assessed the design and implementation and tested the effectiveness of the general controls over program access and modification and automated component controls over invoicing systems and other support systems classified as critical for the purposes of our audit.</p> <p>We also performed tests of detail, including the following:</p> <p>a) Reconciliation of data from the invoicing and collection systems with the accounting records.</p> <p>b) Review of corrective invoices and subsequent payments.</p>



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

## **Other Information: Consolidated Directors' Report**

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Other information solely comprises the 2020 consolidated directors' report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility regarding the information contained in the consolidated directors' report is defined in the legislation regulating the audit of accounts, as follows:

- a) Determine, solely, whether the consolidated non-financial information statement and certain information included in the Annual Corporate Governance Report, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.
- b) Assess and report on the consistency of the rest of the information included in the consolidated directors' report with the consolidated annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned consolidated annual accounts. Also, assess and report on whether the content and presentation of this part of the consolidated directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2020, and that the content and presentation of the report are in accordance with applicable legislation.

## **Directors' and Audit Committee's Responsibilities for the Consolidated Annual Accounts**

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The Parent's Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent's Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent'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**

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

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation 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 economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with prevailing legislation 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, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.
- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.
- Conclude on the appropriateness of the Parent's 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, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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.
- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the management, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the Parent 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 our audit.



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

We also provide the Parent's audit committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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

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

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Additional Report to the Audit Committee of the Parent**

The opinion expressed in this report is consistent with our additional report to the Parent's audit committee dated 25 February 2021.

### **Contract Period**

We were appointed as auditor of the Group by the shareholders at the ordinary general meeting on 2 June 2020 for a period of one year, starting from 1 January 2020.

Previously, we had been appointed for a period of one year, by consensus of the shareholders at their ordinary general meeting, and have been auditing the annual accounts since the year ended 31 December 2015.

KPMG Auditores, S.L.

On the Spanish Official Register of Auditors ("ROAC") with No. S0702

*(Signed on original in Spanish)*

Cosme Carral López-Tapia

On the Spanish Official Register of Auditors ("ROAC") with No. 18,961

25 February 2021





**Consolidated Annual Accounts  
and Consolidated Directors' Report  
for the year  
ended 31 December 2020**

(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 2020 and 2019

(Expressed in thousands of Euros)

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

ASSETS	Notes	31.12.2020	31.12.2019
<b>NON-CURRENT ASSETS</b>		<b>2,721,038</b>	<b>2,740,013</b>
Goodwill	5	1,024,923	1,024,923
Intangible assets	5	301,140	299,311
Property, plant and equipment	6	1,198,390	1,213,578
Right of use assets	7	62,668	66,210
Financial assets	8	7,430	8,939
Deferred tax assets	11	126,487	127,052
<b>CURRENT ASSETS</b>		<b>233,779</b>	<b>168,246</b>
Inventories		2,783	4,213
Trade and other receivables	8	90,032	58,242
Current tax assets	11	8,863	1,459
Other current assets		4,735	6,085
Cash and cash equivalents	8	127,366	98,247
<b>TOTAL ASSETS</b>		<b>2,954,817</b>	<b>2,908,259</b>
<b>EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>31.12.2020</b>	<b>31.12.2019</b>
<b>EQUITY</b>			
Capital and reserves	9	1,009,313	982,029
Capital		535,936	535,936
Share premium		355,165	355,165
Retained earnings		141,485	117,410
(Own shares)		(1,531)	(1,472)
Interim dividend paid during the year		(25,010)	(25,010)
Other equity instruments		3,268	-
Other comprehensive income		(64)	(64)
Equity attributable to equity holders of the Parent		1,009,249	981,965
		<b>1,009,249</b>	<b>981,965</b>
<b>NON-CURRENT LIABILITIES</b>		<b>1,543,430</b>	<b>1,524,908</b>
Non-current debt	10	1,420,226	1,368,981
Derivatives	10	202	804
Other financial liabilities	10	68,125	74,863
Deferred tax liabilities	11	54,877	80,260
<b>CURRENT LIABILITIES</b>		<b>402,138</b>	<b>401,386</b>
Current debt	10	149,867	195,290
Trade and other payables	10	193,942	144,043
Current tax liabilities	11	85	2,727
Provisions		1,516	1,524
Other current liabilities	10	56,728	57,802
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,954,817</b>	<b>2,908,259</b>

Derio, 25 February 2021

## EUSKALTEL, S.A. AND SUBSIDIARIES

### Consolidated Income Statements for the years ended 31 December 2020 and 2019

(Expressed in thousands of Euros)

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

	Notes	2020	2019
Revenues	12.1	677,785	668,303
Work performed by the entity and capitalised	5 & 6	19,176	16,763
Supplies	12.2	(181,718)	(163,257)
Other operating income		139	404
Personnel expenses	12.3	(42,107)	(58,713)
Other operating expenses	12.4	(151,183)	(149,608)
Amortisation and depreciation	5.6 & 7	(196,502)	(193,096)
RESULTS FROM OPERATING ACTIVITIES		125,590	120,796
Finance income		1,574	610
Finance cost		(60,460)	(49,888)
NET FINANCE INCOME/COST	12.5	(58,886)	(49,278)
PROFIT BEFORE INCOME TAX		66,704	71,518
Income tax	11	12,662	(9,500)
PROFIT FOR THE YEAR	9	79,366	62,018
Profit for the year attributable to equity holders of the Parent		79,366	62,018
Profit for the year attributable to non-controlling interests		-	-
		79,366	62,018
Earnings per share (euros)		0.44	0.35

Derio, 25 February 2021

## EUSKALTEL, S.A. AND SUBSIDIARIES

### Consolidated Statements of Comprehensive Income for the years ended 31 December 2020 and 2019

(Expressed in thousands of Euros)

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

	<u>2020</u>	<u>2019</u>
a) Consolidated profit/(loss) for the year	<u>79,366</u>	<u>62,018</u>
 TOTAL COMPREHENSIVE INCOME FOR THE YEAR	 <u><u>79,366</u></u>	 <u><u>62,018</u></u>
 Attributable to equity holders of the Parent	 79,366	 62,018
Attributable to non-controlling interests	<u>-</u>	<u>-</u>
	<u><u>79,366</u></u>	<u><u>62,018</u></u>

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Derio, 25 February 2021

## EUSKALTEL, S.A. AND SUBSIDIARIES

### Consolidated Statements of Changes in Equity for the years ended 31 December 2020 and 2019

(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	Other equity instrument s	<i>Total</i>
Balance at 31 December 2018	<u>535,936</u>	<u>355,165</u>	<u>110,461</u>	<u>(1,602)</u>	(64)	(25,010)	-	<u>974,886</u>
Other comprehensive income	-	-	62,018	-	-	-	-	62,018
Transactions with shareholders								
Own shares	-	-	260	130	-	-	-	390
Dividends paid from 2018 profit	-	-	(55,329)	-	-	25,010	-	(30,319)
Dividends	-	-	-	-	-	(25,010)	-	(25,010)
Balance at 31 December 2019	<u>535,936</u>	<u>355,165</u>	<u>117,410</u>	<u>(1,472)</u>	(64)	<u>(25,010)</u>	-	<u>981,965</u>
Other comprehensive income	-	-	79,366	-	-	-	-	79,366
Transactions with shareholders	-	-	-	-	-	-	-	-
Own shares	-	-	37	(59)	-	-	-	(22)
Dividends paid from 2019 profit	-	-	(55,328)	-	-	25,010	-	(30,318)
Dividends	-	-	-	-	-	(25,010)	-	(25,010)
Share-based payments (note 9.7)	-	-	-	-	-	-	3,268	3,268
Balance at 31 December 2020	<u>535,936</u>	<u>355,165</u>	<u>141,485</u>	<u>(1,531)</u>	<u>(64)</u>	<u>(25,010)</u>	<u>3,268</u>	<u>1,009,249</u>

Derio, 25 February 2021

## EUSKALTEL, S.A. AND SUBSIDIARIES

### Consolidated Statements of Cash Flows for the years ended 31 December 2020 and 2019

(Expressed in thousands of Euros)

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

	Note s	2020	2019
Profit for the year before tax		66,704	71,518
Adjustments for		292,553	253,079
Amortisation and depreciation	5, 6 & 7	196,502	193,096
Impairment allowances	8	6,103	5,282
Changes in provisions		(8)	(153)
Allocation of grants		-	(389)
Impairment and gains/(losses) on disposals of fixed assets	12.4	10,672	9,650
Impairment and gains/(losses) on disposals of financial instruments	12.5	-	(9)
Finance income	12.5	(971)	(76)
Finance cost	12.5	60,697	49,513
Exchange gains/(losses)	12.5	(238)	376
Change in fair value of financial instruments	12.5	(602)	(526)
Other income and expense	9.7 & 12.2	20,378	(3,685)
Changes in operating assets and liabilities		(12,763)	(5,870)
Inventories		481	425
Trade and other receivables		(37,873)	(12,392)
Other current assets		1,350	7,318
Trade and other payables		33,007	(2,725)
Other current liabilities		(9,728)	1,504
Other non-current assets and liabilities		-	-
Other cash flows from /(used in) operating activities		(69,257)	(65,426)
Interest paid		(47,069)	(48,740)
Interest received		1,261	76
Income tax paid		(23,449)	(16,762)
Cash flows from/(used in) operating activities		277,237	253,301

Derio, 25 February 2021

## EUSKALTEL, S.A. AND SUBSIDIARIES

### Consolidated Statements of Cash Flows for the years ended 31 December 2020 and 2019

(Expressed in thousands of Euros)

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

	Notes	2020	2019
<b>Payments for investments</b>		<b>(186,699)</b>	<b>(155,326)</b>
Intangible assets	5	(73,682)	(56,871)
Property, plant and equipment	6	(113,017)	(97,388)
Financial assets		-	(1,067)
<b>Proceeds from sale of investments</b>		<b>5,160</b>	<b>2,812</b>
Property, plant and equipment		3,651	2,812
Financial assets		1,509	-
<b>Cash flows from/(used in) investing activities</b>		<b>(181,539)</b>	<b>(152,514)</b>
<b>Proceeds from and payment for equity instruments</b>		<b>(22)</b>	<b>390</b>
Disposal of own equity instruments		(22)	390
<b>Proceeds from and payment for financial liability instruments</b>		<b>(11,230)</b>	<b>(54,957)</b>
Issue of:		131,600	133,156
Bonds and other marketable securities	10	131,600	131,000
Other		-	2,156
Repayment of:		(142,830)	(188,113)
Loans and borrowings		-	(110,000)
Bonds and other marketable securities		(131,000)	(70,700)
Lease liabilities		(8,177)	(7,413)
Other	10	(3,653)	-
<b>Dividends and interest paid on other equity instruments</b>		<b>(55,327)</b>	<b>(55,329)</b>
Dividends		(55,327)	(55,329)
<b>Cash flows from/(used in) financing activities</b>		<b>(66,579)</b>	<b>(109,896)</b>
Cash and cash equivalents at beginning of the year		98,247	107,356
Cash and cash equivalents at year end		127,366	98,247
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>29,119</b>	<b>(9,109)</b>

## **EUSKALTEL, S.A. AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020**

(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.

Following on from its strategy to expand into neighbouring regions (Navarre, La Rioja, León, Cantabria and Cataluña), in May 2020 the Euskaltel Group launched its national expansion plan via the Virgin telco brand.

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 2020 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 2020 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 2020, 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 2020, authorised for issue on 25 February 2021, will be approved with no changes by the shareholders at their annual general meeting.

### 2.2. Comparative information

The consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto for 2020 include comparative figures for the prior year.

#### Changes in accounting criteria

Up until the year ended 31 December 2019, grants relating to assets (or capital) were presented under deferred income in non-current liabilities in the statement of financial position. In order to provide more reliable information regarding net investments in assets, in the year ended 31 December 2020, the Group changed the presentation method, deducting grants from the related assets calculation.

So as to retroactively apply this change, some amounts have been reclassified in these consolidated financial statements to conform to the current year's presentation and to facilitate their comparison. The reclassification was as follows:

#### Consolidated Statement of Financial Position at 31 December 2019

	Thousands of Euros		
	2019	Adjustments	2019 Restated
Property, plant and equipment	1,222,599	(9,021)	1,213,578
Non-current assets	<u>2,749,034</u>	<u>(9,021)</u>	<u>2,740,013</u>
<b>Total assets</b>	<b><u>2,917,280</u></b>	<b><u>(9,021)</u></b>	<b><u>2,908,259</u></b>
Deferred income	9,021	(9,021)	-
Non-current liabilities	<u>1,533,929</u>	<u>(9,021)</u>	<u>1,524,908</u>
<b>Total liabilities</b>	<b><u>2,917,280</u></b>	<b><u>(9,021)</u></b>	<b><u>2,908,259</u></b>

## **2.3. Adoption of International Financial Reporting Standards (IFRS)**

### **First-time application of accounting standards**

At the date of preparing these consolidated annual accounts, the standards, amendments and interpretations issued, applied for the first time in these consolidated annual accounts for the year ended 31 December 2020, are as follows:

- 
- IAS 1 and IAS 8 - Definition of materiality
- IFRS 3 (Amendment) Definition of a business
- Amendments to the references of the IFRS standards for the conceptual framework.
- IBOR reform, Stage 1
- Amendments to IFRS 16 regarding rent concessions arising from Covid-19.

These standards have not led to changes in the accounting policy applied to the Group's consolidated annual accounts.

### **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
- IAS 1 (Amendment) Classification of liabilities as current and non-current
- IFRS 17 Insurance contracts: Replaces IFRS 4. It sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts so that an entity provides relevant and reliable information to enable users of financial information to assess the effect of the contracts on the financial statements.
- IBOR reform, Stage 2.
- IAS 37 (Amendment) Provisions, contingent liabilities and contingent assets: Provisions for onerous contracts.

Given the Group's activities, Management does not expect the effect of first-time application of the new standards, amendments or interpretations on the consolidated annual accounts 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) Capitalisation of tax credits

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).

d) Estimates made in relation to share-based payments

In order to calculate the amount to be recognised as equity instruments for the share-based payment plans offered to certain employees, the Group estimates the fair values of the liabilities when assigned and, at each reporting close, the degree of fulfilment (%) of the targets set and number of people entitled to receive the payments (note 9.7).

e) Useful life of cable network assets

As explained in note 6, the Euskaltel Group will be deploying a fibre optic FTTH network, which requires re-estimating the useful life of part of the current network assets that will have to be derecognised when the new network is brought into operation. The technical team responsible for this deployment estimates the time it will take to deploy this new fibre network.

f) Provisions

The calculation of provisions is subject to high levels of judgement and uncertainty.

## 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. 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 recognised 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.

If the cost of an intangible asset includes a contingent component, the best estimate of the present value of the contingent payment is recorded, except when these payments are conditional upon a future event that increases the economic benefits or returns the asset will generate, such as variables relating to sales or profit/(loss) for the year, in which case the considerations will be expensed as they arise.

On 12 January 2020, the Company signed a contract with Virgin Enterprises Limited under which the latter assigned the right of use of its brand to the Euskaltel Group. The majority of the corresponding consideration comprises sales-related variable payments. The expense recognised during the year for this assignment of the right of use was not material.

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 estimated amortisation period is between 5 and 6 years.

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
Cablings	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 Group reviews residual values, useful lives and depreciation methods at each year-end. Changes to initially established policies are accounted for as a change in accounting estimates. Over the year the Company re-estimated the residual life of certain elements of the HFC network that it will begin to replace sooner than initially planned (see note 6), reducing this residual life to 24 months at 31 December 2020.

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. Leases - Right of use assets**

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. The incremental interest rate was thus used in the initial measurement of the lease liability, 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 Group uses different discount rates depending on the remaining lease terms. The discount rates applied are between 1.35% and 6.17%.

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 is 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.

The Group recognises a change to the lease as a separate lease if it broadens the scope thereof by adding one or more rights of use and the amount of the lease consideration increases due to the broader scope by an amount consistent with the individual price and any adjustment, in order to reflect the specific circumstances of the contract.

If the change does not give rise to a separate lease, on the date of the change, the Group allocates the consideration to the modified contract based on the above indications, reassesses the lease term and remeasures the value of the liability, discounting the revised payments at the revised interest rate. The Group reduces the carrying value of the right-of-use asset to reflect the partial or total completion of the lease in the case of modifications that reduce the scope of the lease and recognises the gain or loss in the income statement. For any other modifications, the Group adjusts the carrying value of the right-of-use asset.

### **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 landline 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. Income tax

The tax expense for the year includes current and deferred tax. 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 taxes are recognised in respect of temporary differences between the tax base of an asset or liability and its carrying amount in the consolidated financial statements.

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.

#### Tax uncertainties

If the Group determines that it is probable that the tax authorities will not accept an uncertain tax treatment or a group of uncertain tax treatments, it considers this uncertainty when calculating taxable income, tax bases, tax loss carryforwards, deductions and tax rates. The Group determines the effect of the uncertainty on the income tax return using the expected amount approach, when the range of possible outcomes is very wide or the most likely outcome approach, when the outcome is binary or is concentrated on one value. If the tax asset or

liability calculated using these criteria exceeds the amount filed in the self-assessments, it is presented as current or non-current in the consolidated statement of financial position based on the expected date of recovery or settlement, taking into account, where appropriate, late interest payment on the liability as it accrues in the income statement. The Group records changes in events and circumstances regarding tax uncertainties as a change in estimate.

### **3.15. 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.

### **3.16. Share-based payment transactions**

The Group recognises the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. It recognises an increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability with a balancing entry in the income statement or assets if the goods or services were acquired in a cash-settled share-based payment transaction.

The Group recognises equity-settled share-based payment transactions, including capital increases through non-monetary contributions, and the corresponding increase in equity at the fair value of the goods or services received, unless that fair value cannot be reliably estimated, in which case the value is determined by reference to the fair value of the equity instruments granted.

Equity instruments granted as consideration for services rendered by Group employees or third parties that supply similar services are measured by reference to the fair value of the equity instruments offered.

Equity-settled payments to employees are recognised as follows:

- If the equity instruments granted vest immediately on the grant date, the services received are recognised in full, with a corresponding increase in equity;
- If the equity instruments granted do not vest until the employees complete a specified period of service, those services are accounted for during the vesting period, with a corresponding increase in equity.

The Group determines the fair value of the instruments granted to employees at the grant date.

Market conditions and other non-vesting conditions are taken into account when measuring the fair value of the instrument. The remaining vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for services received is based on the number of equity instruments that eventually vest. Consequently, the Group recognises the amount for the services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and revises that estimate if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates.

Once the services received and the corresponding increase in equity have been recognised, no additional adjustments are made to equity after the vesting date, although any necessary reclassifications in equity may be made.

If the Group has the choice of cancelling in cash or by issuing equity instruments, the Group only has a present obligation to settle in cash if the decision to settle in equity instruments is of a non-trading nature or there is a past practice or established policy of settling in cash or, generally speaking, they are settled in cash when the employee requests it.

## 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 risks 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 financial instrument amount at 31 December 2020 and the impact on profit/(loss) are not material.

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 2020, had interest rates risen by 100 basis points, with other variables remaining constant, profit (after tax) would have fallen by Euros 6,249 thousand (Euros 7,293 thousand for the year ended 31 December 2019).

## NOTE 5.- Intangible assets

Details of intangible assets and movement are as follows:

	31.12.19	Additions	Disposals	Transfers	31.12.20
<b>Cost</b>					
Industrial property	4,023	27	-	2,334	6,384
Computer software	163,146	27,003	-	(11)	190,138
Licences	7,668	-	-	-	7,668
Brands	53,874	-	-	-	53,874
Other intangible assets	302,336	46,652	(16,175)	(2,323)	330,490
	<u>531,047</u>	<u>73,682</u>	<u>(16,175)</u>	<u>-</u>	<u>588,554</u>
<b>Accumulated amortisation</b>					
Industrial property	(4,023)	(27)	-	-	(4,050)
Computer software	(114,207)	(17,168)	-	-	(131,375)
Licences	(2,312)	(388)	-	-	(2,700)
Other intangible assets	(111,194)	(43,632)	5,537	-	(149,289)
	<u>(231,736)</u>	<u>(61,215)</u>	<u>5,537</u>	<u>-</u>	<u>(287,414)</u>
<b>Carrying amount</b>	<u>299,311</u>	<u>12,467</u>	<u>(10,638)</u>	<u>-</u>	<u>301,140</u>

	31.12.18	Additions	Disposals	31.12.19
<b>Cost</b>				
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
	<u>489,351</u>	<u>56,871</u>	<u>(15,175)</u>	<u>531,047</u>
<b>Accumulated amortisation</b>				
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)
	<u>(178,562)</u>	<u>(58,374)</u>	<u>5,200</u>	<u>(231,736)</u>
<b>Carrying amount</b>	<u>310,789</u>	<u>(1,503)</u>	<u>(9,975)</u>	<u>299,311</u>

The cost of fully amortised intangible assets in use at 31 December 2020 totals Euros 115,588 thousand (Euros 102,491 thousand at 31 December 2019).

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

At 31 December 2020 Group personnel expenses totalling Euros 8,353 thousand (Euros 4,572 thousand at 31 December 2019) have been capitalised as intangible asset.

#### Impairment and allocation of goodwill and intangible assets with indefinite useful lives to CGUs

Goodwill has been assigned jointly to the existing CGUs (Euskaltel and RCable), due to the synergies they generate throughout the whole Group. The recoverable amount of the CGUs has been calculated at its value in use according to cash flow projections determined on the basis of the 2020-2025 Business Plan, updated for 2021 based on the approved 2021 budget, which covers a five-year period. 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: 6.15% (7.72% before tax).
- Increase in sales over the budgeted period as a result of the Group's national expansion.
- Growth rate after the five-year period: 1.24%.
- 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  $\pm 5\%$  in key assumptions, with no impairment whatsoever.



## NOTE 6.- Property, plant and equipment

Details of property, plant and equipment and movement in 2020 are as follows:

	31.12.19	Additions	Disposals	Transfers	31.12.20
<b>Cost</b>					
Land and buildings	161,711	-	-	403	162,114
Civil engineering	560,415	960	-	10,798	572,173
Cabling	419,763	481	(2,198)	33,181	451,227
Network equipment	628,761	-	(3,414)	21,346	646,693
Customer equipment	390,112	-	(59)	26,930	416,983
Other installations, equipment and furniture	228,954	656	-	11,130	240,740
Under construction	10,464	110,920	-	(102,106)	19,278
Other property, plant and equipment	68,922	-	-	204	69,126
	<u>2,469,102</u>	<u>113,017</u>	<u>(5,671)</u>	<u>1,886</u>	<u>2,578,334</u>
<b>Accumulated depreciation</b>					
Land and buildings	(45,484)	(4,704)	-	-	(50,188)
Civil engineering	(109,828)	(13,577)	-	-	(123,405)
Cabling	(250,704)	(59,105)	242	-	(309,567)
Network equipment	(401,033)	(17,032)	1,709	-	(416,356)
Customer equipment	(280,443)	(18,668)	35	-	(299,076)
Other installations, equipment and furniture	(146,359)	(12,511)	-	-	(158,870)
Under construction	(21,673)	(809)	-	-	(22,482)
	<u>(1,255,524)</u>	<u>(126,406)</u>	<u>1,986</u>	<u>-</u>	<u>(1,379,944)</u>
<b>Carrying amount</b>	<u>1,213,578</u>	<u>(13,389)</u>	<u>(3,685)</u>	<u>1,886</u>	<u>1,198,390</u>

Additions to property, plant and equipment include Euros 8,387 thousand relating to net changes in customer equipment stored at the Group's warehouses which has not yet been installed in customers' homes or premises.

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

	31.12.18	Additions	Disposals	Transfers	31.12.19
<b>Cost</b>					
Land and buildings	161,397	-	-	314	161,711
Civil engineering	543,659	3,408	-	13,348	560,415
Cabling	396,240	165	(12,618)	35,976	419,763
Network equipment	618,372	-	(2,473)	12,862	628,761
Customer equipment	368,065	-	-	22,047	390,112
Other installations, equipment and furniture	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
	<u>2,392,185</u>	<u>91,026</u>	<u>(15,121)</u>	<u>1,012</u>	<u>2,469,102</u>
<b>Accumulated depreciation</b>					
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, equipment and furniture	(133,622)	(12,767)	30	-	(146,359)
Under construction	(20,707)	(966)	-	-	(21,673)
	<u>(1,142,068)</u>	<u>(126,000)</u>	<u>12,544</u>	<u>-</u>	<u>(1,255,524)</u>
<b>Carrying amount</b>	<u>1,250,117</u>	<u>(34,974)</u>	<u>(2,577)</u>	<u>1,012</u>	<u>1,213,578</u>

During the year ended 31 December 2020 internal expenses amounting to Euros 10,823 thousand (Euros 12,191 thousand in 2019) have been capitalised.

The cost of fully depreciated property, plant and equipment in use at 31 December 2020 is Euros 679,408 thousand (Euros 573,852 thousand at 31 December 2019).

At 31 December 2020 and 31 December 2019, sufficient insurance policies have been taken out to cover the risks to which property, plant and equipment are exposed.

In November 2020, the Parent company's directors agreed the roll-out of the FTTH fibre optic network. As a result, the Group re-estimated the residual useful lives of certain cable network elements that will no longer be used. The estimated residual life of these elements (24 months) is based on in-house analysis by the technical department in charge of the roll-out. The key assumption made to arrive at this estimate is the expected time needed to undertake this roll-out. The Group has prospectively applied this new useful life from the date the directors voluntarily decided to carry out this roll-out, resulting in a Euros 5 million increase in the depreciation charge on the consolidated income statement for 2020. Reasonable changes to the key assumption would not result in a material change in the depreciation charge for the year.

## NOTE 7.- Right of use assets

Movement in right of use assets during 2020 and 2019 is as follows:

	31.12.19	Additions	Disposals	Adjustments to lease liabilities	31.12.20
<b>Cost</b>					
Land and buildings	8,386	-	(559)	158	7,985
Other installations	63,518	10	(75)	2,610	66,063
Other property, plant and equipment	3,027	3,227	-	(32)	6,222
	<u>74,931</u>	<u>3,237</u>	<u>(634)</u>	<u>2,736</u>	<u>80,270</u>
<b>Accumulated depreciation</b>					
Land and buildings	(1,516)	(1,436)	-	-	(2,952)
Other installations	(6,962)	(6,178)	-	-	(13,140)
Other property, plant and equipment	(243)	(1,267)	-	-	(1,510)
	<u>(8,721)</u>	<u>(8,881)</u>	<u>-</u>	<u>-</u>	<u>(17,602)</u>
<b>Carrying amount</b>	<u>66,210</u>	<u>(5,644)</u>	<u>(634)</u>	<u>2,736</u>	<u>62,668</u>
	1 January 2019	Additions	Disposals	Adjustments to lease liabilities	31.12.19
<b>Cost</b>					
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
	<u>72,471</u>	<u>2,713</u>	<u>(283)</u>	<u>30</u>	<u>74,931</u>
<b>Accumulated depreciation</b>					
Land and buildings	-	(1,516)	-	-	(1,516)
Other installations	-	(6,962)	-	-	(6,962)
Other property, plant and equipment	-	(243)	-	-	(243)
	<u>-</u>	<u>(8,721)</u>	<u>-</u>	<u>-</u>	<u>(8,721)</u>
<b>Carrying amount</b>	<u>72,471</u>	<u>(6,008)</u>	<u>(283)</u>	<u>30</u>	<u>66,210</u>

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	
	31.12.20	31.12.19	31.12.20	31.12.19	31.12.20	31.12.19
<b>Non-current</b>						
Equity instruments	-	-	1,103	1,100	1,103	1,100
Loans extended	5,736	7,235	-	-	5,736	7,235
Other non-current assets	591	604	-	-	591	604
	<u>6,327</u>	<u>7,839</u>	<u>1,103</u>	<u>1,100</u>	<u>7,430</u>	<u>8,939</u>
<b>Current</b>						
Trade receivables	90,116	58,242	-	-	90,116	58,242
Investments	736	464	-	-	736	464
Cash and cash equivalents	127,366	98,247	-	-	127,366	98,247
	<u>218,218</u>	<u>156,953</u>	<u>-</u>	<u>-</u>	<u>218,218</u>	<u>156,953</u>

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:

	31.12.20	31.12.19
<b>Past due</b>		
From 0 to 30 days	7,255	7,945
From 31 to 90 days	5,222	4,582
From 91 to 180 days	3,996	2,774
From 181 to 365 days	3,632	816
More than 365 days	<u>7,927</u>	<u>2,655</u>
	28,032	18,772
<b>Not past due</b>		
Invoiced	38,761	20,210
Pending invoice	<u>23,323</u>	<u>19,260</u>
	62,084	39,470
	<u>90,116</u>	<u>58,242</u>

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

	31.12.20	31.12.19
Gross balance	109,156	75,100
Impairment	<u>(19,040)</u>	<u>(16,858)</u>
	<u>90,116</u>	<u>58,242</u>

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

	<u>31.12.20</u>	<u>31.12.19</u>
Opening balance	16,858	13,284
Charges (note 12.4)	6,103	5,282
Write-offs	<u>(3,921)</u>	<u>(1,708)</u>
Closing balance	<u><u>19,040</u></u>	<u><u>16,858</u></u>

## NOTE 9.- Equity

### 9.1. Capital

At 31 December 2020 and 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 2020 are as follows:

	<u>Number of shares</u>	<u>% ownership</u>
Zegona Limited	38,087,190	21.32%
Kutxabank, S.A.	35,514,698	19.88%
Corporación Financiera Alba	19,650,990	11.00%
Other	<u>85,392,482</u>	<u>47.80%</u>
	<u><u>178,645,360</u></u>	<u><u>100.00%</u></u>

### 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:

	31.12.20	31.12.19
Reserves		
Legal reserve	68,122	62,097
Voluntary reserves	(6,003)	(6,705)
Profit/(loss) for the year	79,366	62,018
	<u>141,485</u>	<u>117,410</u>

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 15 December 2020, the Board of Directors agreed to pay an interim dividend against 2020 results for a gross amount of Euros 0.140 per share outstanding with dividend rights. This decision was notified as other relevant information on 16 December 2020. This interim dividend, which was paid on 12 February 2021, 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 2020 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 01.01.2020 to 30.09.2020 (*)	39,171
Mandatory reserves	(3,917)
Distributable profit	35,254
Proposed interim dividend (maximum amount)	(25,010)
<u>Cash situation</u>	
Funds available for distribution:	186,877
Cash and cash equivalents	7,627
Loans available	179,250
Proposed interim dividend (maximum amount)	(25,010)
Excess liquidity	161,867

(\*) 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 2020 is as follows:

Basis of application	Euros
Voluntary reserves	61,574,328.79
Share premium	355,164,632.28
Profit for the year	40,935,669.33
	<u>457,674,630.50</u>

Distribution	Euros
Legal reserve	4,093,566.93
Dividends	
Interim dividend	25,010,350.40
Additional dividend	30,369,711.20
Share premium	355,164,632.38
Voluntary reserves	43,036,369.59
	<u>457,674,630.50</u>

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 2020 the Company has 173,596 shares in its own share portfolio that were acquired at an average weighted cost of Euros 8.82 per share (170,366 own shares were acquired at an average weighted cost of Euros 8.64 each at 31 December 2019).

## 9.7. Other equity instruments

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 Group, as well as the Chair of the Board of Directors, the CEO and the Secretary. The general shareholders' meeting held on 2 June 2020 approved this Plan.

The plan's main features are:

- Description: The plan offers beneficiaries an extraordinary variable incentive payable, in part or in full, in Euskaltel shares, which will enable beneficiaries to share in up to 4% of the total value created for shareholders linked to the appreciation of Euskaltel stock between 5 June 2019 and 31 December 2022. In order for the incentive to vest in full, certain Group operating variables must also be achieved. The extent to which these variables are achieved will determine the accrual of up to 15% of the total incentive amount.
- Term: The Plan shall be valid for three years following its approval by the Board on 27 January 2020 and it shall end on 31 December 2022 (the "Accrual Date").
- The specific incentive amount is distributed among beneficiaries using the proportions calculated by the Board, based on the recommendations of the Remuneration Committee.
- Incentive accrual: For the Incentive to accrue, the beneficiary must have an ongoing employment or business relationship with the Company on the Plan's accrual date, i.e. the 31 December 2022.
- The number of shares receivable by each beneficiary will be calculated by dividing the percentage of the total incentive allocated to each beneficiary by the share's reference value on the accrual date.

- The Plan sets out change of control clauses, considered as the acquisition of a stake that is greater than 30%, common to incentive plans of a similar nature, which may determine the early accrual, in whole or in part, of the Plan.

The main data and assumptions used by Management to calculate the plan's fair value are as follows:

- Grant dates: two different grant dates have been determined, based on the date on which the beneficiaries have reached a shared understanding of the terms and conditions of the agreement.
  - o June 2020 (date on which the Plan is approved by the shareholders' meeting).
  - o November 2020 (date on which certain beneficiaries have accepted the plan's terms and conditions).
- The fair value of the options granted has been calculated using the Monte Carlo measurement model, with the main model inputs being the grant date, the spot price of the shares at 2 June 2020 and 10 November 2020, the standard deviation of the expected return on the share price of 31.78%, the option's life and the annual risk-free interest rate of -0.31% in order to measure the plan as of June and -0.52% to measure the plan as of November. The estimated volatility in the standard deviation of the expected share price return is based on statistical analyses of daily share prices over the last two years.
- No rotation of beneficiaries (remaining in employment until the "accrual date").
- No change of control in the Company that gives rise to early vesting.
- The operational variables set by the directors are fully achieved.

In accordance with the measurement standard described in note 3.16, the Company has recorded an equity instrument of Euros 3,268 thousand with a charge to Personnel expenses in the income statement (see note 12.3).

## 9.8. Earnings per share

### Basic

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:

	<u>2020</u>	<u>2019</u>
Profit for the year attributable to the Parent	79,366	62,018
Weighted average number of ordinary shares outstanding	178,471,764	178,474,994
Basic earnings per share (Euros)	<u>0.44</u>	<u>0.35</u>



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

	<u>2020</u>	<u>2019</u>
Ordinary shares outstanding at 1 January	178,474,994	178,418,011
Effect of own shares	<u>(3,230)</u>	<u>56,983</u>
	<u><u>178,471,764</u></u>	<u><u>178,474,994</u></u>

### **Diluted**

Diluted earnings per share are calculated by adjusting the profit for the year attributable to equity holders of the Parent and the weighted average number of ordinary shares outstanding for all dilutive effects inherent in potential ordinary shares.

Diluted earnings per share are calculated as follows:

	<u>2020</u>
Diluted profit for the year attributable to the Parent	79,366
Diluted weighted average number of ordinary shares outstanding	178,489,033
Diluted earnings per share (Euros)	<u><u>0.44</u></u>

Profit for the year attributable to equity holders of the Parent corresponds to the diluted profit for the year attributable to equity holders of the Parent.

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

	<u>2020</u>
Weighted average number of ordinary shares outstanding	178,471,764
Effect of shares issued on a contingent basis	17,269
Weighted average number of diluted shares outstanding	<u><u>178,489,033</u></u>

At 31 December 2020, in accordance with note 9.7, an equity instrument is recognised for the long-term incentive plan, which entails the generation of potential ordinary shares. In accordance with IAS 33, the number of shares that would be issued if the plan were closed in 2020 has been calculated, i.e. 17,269 shares.

At 31 December 2019, Euskaltel had not issued financial instruments or other contracts that entitle their holder to receive ordinary Company shares. Consequently, diluted earnings per share coincide with the basic earnings per share.

## 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	
	31.12.20	31.12.19	31.12.20	31.12.19
<b>Non-current</b>				
<b>Related parties</b>				
Non-current loans received (note 14.2)	153,251	146,501	-	-
<b>Unrelated parties</b>				
Loans received	1,266,975	1,222,480	-	-
Other financial liabilities	11,785	15,285	-	-
Lease liabilities	54,285	57,371	-	-
Derivative financial instruments	-	-	202	804
	<u>1,486,296</u>	<u>1,441,637</u>	<u>202</u>	<u>804</u>
<b>Current</b>				
<b>Related parties</b>				
Other liabilities (note 14.2)	8,654	-	-	-
Current loans received (note 14.2)	-	6,750	-	-
<b>Unrelated parties</b>				
Bonds and other marketable securities	131,600	131,000	-	-
Loans received	6,818	46,516	-	-
Lease liabilities	10,398	10,150	-	-
Dividend payable (note 9.5)	25,010	25,010	-	-
Suppliers and asset purchase payables	193,973	144,043	-	-
Salaries payable	6,851	11,638	-	-
Other liabilities	1,039	874	-	-
	<u>384,343</u>	<u>375,981</u>	<u>-</u>	<u>-</u>

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 2020, Euros 150 million has been drawn down from the credit facility (Euros 150 million at 31 December 2019).

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 2020 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 2020:

- The A-2 tranche amounting to Euros 215,000 thousand has been replaced with a new B-5 tranche for the same amount, a single repayment at 31 December 2023 (until this change, the tranche had partial repayments) and interest at 2.5%.

The present value of discounted cash flows under the loan's new terms, including fees, discounting at the original effective interest rate, differs less than 10% from the discounted present value of the cash flows that still remain under the original financial liability, meaning that this amendment has not caused a substantial change to the debt. In accordance therefore with the applicable legislation, an amount of Euros 2,172 thousand was recorded as a finance cost relating to the difference in interest rates, and the original effective interest rate was maintained for accounting purposes.

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

Tranche	Nominal amount outstanding		Initial nominal amount	Interest	Maturity
	31.12.20	31.12.19			
B-1	235,000	235,000	235,000	2.75%	27.11.24
A-2	-	215,000	300,000	2.00%	31.12.23
B-4	835,000	835,000	835,000	2.75%	27.11.24
B-5	215,000	-	215,000	2.50%	31.12.23
Credit facility	150,000	150,000	300,000	2.25%	31.12.23
	1,435,000	1,435,000			
Current portion	-	45,000			
Non-current portion	1,435,000	1,390,000			

All tranches are repayable in a single sum as they fall due.

Details of the repayments of non-current loans with financial institutions, including interest, are as follows:

1 year	2 years	3 years	4 years	Total
39,732	47,006	422,918	1,117,925	1,627,581

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 50.25 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 2020, the Parent Company issued promissory notes for a nominal value of Euros 131,600 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 2021 and accrue interest at an average annual rate of 0.27%.

At 31 December 2020, the Group has other non-current borrowings totalling Euros 2,200 thousand (Euros 1,369 thousand at 31 December 2019).

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 2020 comes to Euros 13,317 thousand (Euros 17,157 thousand at 31 December 2019).

Other liabilities with related parties (current) includes the liability recognised in 2020, deriving from a new estimate of the contingent considerations payable to Zegona Limited, S.A. (note 9.1) stipulated in the contract to purchase the subsidiary Telecable de Asturias, S.A.U. (absorbed by RCable in 2019, see note 1). This contract included a clause requiring the Company to pay an amount equivalent to 35% of certain tax credits. In 2019, the Parent company paid Euros 981 thousand for this item, aligned to the liability previously generated as the estimated fair value of this debt. The liability for 35% of certain unrecognised tax credits was also not recognised as it was not considered likely. A binding consultation was submitted to the Spanish Tax Authorities (DGT) regarding this. Although a response to this consultation has still not been received, in 2020 the Directors re-analysed this matter with their tax advisors, concluding that these assets are recoverable and they have therefore recognised a deferred tax asset for Euros 24,726 thousand (see note 11.2). Consequently, the Company has recognised a liability of Euros 8,654 thousand, considering that the circumstances exist for its recognition. This liability has been taken to finance costs (note 12.5).

The fair values of debt 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.

## 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:

	2020	2019
Average supplier payment period (in days)	52.81	49.89
Transactions paid ratio	54.74	49.80
Transactions payable ratio	48.11	50.18
Total payments made (thousands of Euros)	597,857	500,498
Total payments payable (thousands of Euros)	244,155	162,309

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 2020 and 2019 balances with public entities are as follows:

	<u>2020</u>	<u>2019</u>
Assets		
Current tax assets	8,863	1,459
Liabilities		
Current tax liabilities	85	2,727
Value added tax	1,588	6,098
Social Security	807	739
Withholdings and payments on account	7,119	7,500
Other liabilities	6,586	6,700
	<u>16,185</u>	<u>23,764</u>

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:

	<u>2020</u>	<u>2019</u>
Current expense /(income)		
Present year	12,436	16,729
Adjustments	(56)	(35)
Deferred expense /(income)		
Source and reversal of temporary differences	(8,387)	(7,094)
Changes in taxable income and tax credits	1,315	3,120
Tax credits not recognised in prior years	(17,723)	(3,030)
Prior years' adjustments	(247)	(190)
	<u>(12,662)</u>	<u>9,500</u>

The relationship between the income tax expense and the profit for the year is as follows:

	<u>2020</u>	<u>2019</u>
Income and expenses for the year	66,704	71,518
Tax rate amounts (*)	16,191	17,201
Permanent differences	(441)	(302)
Prior years' adjustments	(303)	(227)
Deductions for the current year	(3,383)	(4,142)
Prior years' capitalised/applied deductions (note 10.1)	(24,726)	(3,030)
	<u>(12,662)</u>	<u>9,500</u>

(\*) In 2020 and 2019, a 24% rate was applied to the Parent company and a 25% rate to the other Group companies.

The 2020 amount included in prior years' capitalised/applied deductions essentially relates to the double taxation deductions that were generated by Telecabal Capital Holding, S.A.U. in 2013 and 2014 and which had been unrecognised up until now, as there had been no confirmation from the tax authorities to the binding consultation made. The Group has still not received a response to this consultation, but based on a new analysis carried out with its tax advisors, the Directors have concluded that these assets are recoverable and they have therefore recognised a deferred tax asset of approximately Euros 25 million.

Details of deferred taxes at 31 December 2020 are as follows:

	<u>31.12.19</u>	<u>Source</u>	<u>Reversal</u>	<u>Other</u>	<u>31.12.20</u>
<b>Deferred tax assets</b>					
Financial liabilities	741	-	(1,075)	-	(334)
Property, plant and equipment	6,748	-	(1,167)	(655)	4,926
Intangible assets	163	-	(145)	-	18
Other	<u>883</u>	<u>232</u>	<u>(341)</u>	<u>1,855</u>	<u>2,629</u>
	8,535	232	(2,728)	1,200	7,239
 Deductions on tax due	 <u>127,633</u>	 <u>28,210</u>	 <u>(11,802)</u>	 <u>(952)</u>	 <u>143,089</u>
	<b>136,168</b>	<b>28,442</b>	<b>(14,530)</b>	<b>248</b>	<b>150,328</b>
 <b>Deferred tax liabilities</b>					
Financial liabilities	(187)	-	43	-	(144)
Property, plant and equipment	(10,005)	-	3,666	(368)	(6,707)
Intangible assets	(58,348)	(542)	5,269	-	(53,621)
Grants	(7,564)	-	142	-	(7,422)
Free depreciation	(13,155)	(1)	1,932	-	(11,224)
Other	<u>(117)</u>	<u>-</u>	<u>517</u>	<u>-</u>	<u>400</u>
	<u>(89,376)</u>	<u>(543)</u>	<u>11,569</u>	<u>(368)</u>	<u>(78,718)</u>
	<b>46,792</b>	<b>27,899</b>	<b>(2,961)</b>	<b>(120)</b>	<b>71,610</b>
 Offsetting of asset balances	 (9,116)				(23,481)
Deferred assets	<u>127,052</u>				<u>126,487</u>
Deferred liabilities	<u>(80,260)</u>				<u>(54,877)</u>

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

	<u>31.12.18</u>	<u>Source</u>	<u>Reversal</u>	<u>Other</u>	<u>31.12.19</u>
<b>Deferred tax assets</b>					
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
	<u>13,032</u>	<u>900</u>	<u>(5,318)</u>	<u>(79)</u>	<u>8,535</u>
Deductions on tax due	<u>127,446</u>	<u>6,692</u>	<u>(6,782)</u>	<u>277</u>	<u>127,633</u>
	<b>140,478</b>	<b>7,592</b>	<b>(12,100)</b>	<b>198</b>	<b>136,168</b>
<b>Deferred tax liabilities</b>					
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)
	<u>(102,455)</u>	<u>(1,237)</u>	<u>12,057</u>	<u>2,257</u>	<u>(89,376)</u>
	<b>38,023</b>	<b>6,355</b>	<b>(43)</b>	<b>2,455</b>	<b>46,792</b>
Offsetting of asset balances	<b>(15,393)</b>				<b>(9,116)</b>
Deferred assets	<u><b>125,085</b></u>				<u><b>127,052</b></u>
Deferred liabilities	<u><b>(87,062)</b></u>				<u><b>(80,260)</b></u>

The deductions mainly arise due to investments in new fixed assets at the parent company and the previously explained double taxation. The application of these deductions is limited to 35% and 50% of gross tax payable, respectively.

Except for an amount of Euros 8,337 thousand, the recovery period for unused deductions exceeds twelve months.

Given the significance of the new fixed assets tax deductions, the Group performs an annual recoverability analysis even if there is no indication of impairment. The Group's business plans show that the parent company will have sufficient future taxable income against which tax credits can be capitalised at year end and that they will be recovered in 15 to 20 years.

The key assumptions used by Management for the tax projections are future growth through national expansion in line with that contemplated in the business plan mentioned above and a growth rate after the five-year period of 1.24%.

## 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 landline 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:

	<u>2020</u>	<u>2,019</u>
Mass market customers	548,228	542,116
Business	114,534	110,876
Wholesale and other	34,338	32,478
<b>Total</b>	<b><u>697,100</u></b>	<b><u>685,470</u></b>
Work performed by the entity and capitalised	(19,176)	(16,763)
Other operating income	(139)	(404)
<b>Revenues</b>	<b><u>677,785</u></b>	<b><u>668,303</u></b>

#### Mass market

The Group offers customers in this category a combination of landline 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 landline 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 landline and mobile telecommunications 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, landline/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, landline/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 comes 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:

	2020	2019
<b>Merchandise used</b>		
Purchases	35,260	33,895
Changes in inventories	481	423
	<u>35,741</u>	<u>34,318</u>
<b>Subcontracted work</b>		
Interconnection expenses	116,795	93,221
Other supplies	29,182	35,718
	<u>145,977</u>	<u>128,939</u>
	<u><b>181,718</b></u>	<u><b>163,257</b></u>

Interconnection expenses includes discounts for certain services rendered by third parties, for an amount of Euros 45,312 thousand (Euros 48,891 thousand in the comparative period). These discounts rely on the fulfilment of a certain minimum cumulative consumption until 30 June 2024.

The amount of the discounts pending offset is Euros 34,614 thousand (Euros 51,744 thousand at 31 December 2019) 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  $\pm 5\%$  of the expected consumption subject to discount, and this analysis has not yielded significant changes.

### 12.3. Personnel expenses

Details are as follows:

	2020	2019
Salaries and wages	30,505	33,945
Employee benefits expense (other employee benefits expense)	8,260	9,168
Compensation	634	12,934
Other remuneration	2,708	2,666
Total	42,107	58,713

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

	2020	2019
Executives	28	34
Management	58	41
Other professionals	496	569
	582	644

The distribution by gender of the Company's headcount at 31 December 2020 and 2019 is as follows:

	2020			2019		
	Male	Female	Total	Male	Female	Total
Executives	23	5	28	24	4	28
Management	38	21	59	33	17	50
Other professionals	259	237	496	266	244	510
	320	263	583	323	265	588

The average number of Group employees with a disability of 33% or greater during 2020 and 2019 was one person.

At the date these annual accounts were authorised for issue, the board of directors of the Company was comprised of 6 men and 4 women (10 men and 3 women at the end of the prior year).

## 12.4. Other operating expenses

Details are as follows:

	<u>2020</u>	<u>2019</u>
Advertising	19,263	11,880
Repairs and maintenance	57,525	54,921
Services provided by third parties	32,683	33,894
Other external services and utilities	12,071	14,636
Tax	6,197	13,952
Losses, impairment and changes in provisions for transactions (note 8.2)	6,103	5,282
Impairment losses and disposals of fixed assets (notes 5 and 6)	10,672	9,650
Other profit/(loss)	<u>6,669</u>	<u>5,393</u>
	<u>151,183</u>	<u>149,608</u>

The increase in advertising expenses is due to campaigns during the year as a result of the national expansion plan launched in 2020 through the Virgin brand.

Losses on the disposal and derecognition of assets basically relate to the intangible assets associated with interruptions in commercial relationships with customers before the initially expected amortization period had elapsed.

Details of other profit/(loss) are as follows:

	<u>2020</u>	<u>2019</u>
Contribution to the Euskaltel Foundation	1,202	2,016
Integration costs	-	347
Other	<u>5,467</u>	<u>3,030</u>
	<u>6,669</u>	<u>5,393</u>

Other profit/(loss) mainly includes non-recurring expenses arising from the impact of Covid-19.

## 12.5. Net finance income/cost

Details are as follows:

	<u>2020</u>	<u>2019</u>
<b>Finance income</b>		
Third parties	971	76
<b>Finance cost</b>		
Other finance costs (notes 10 and 14.2)	(8,654)	-
Lease liability costs	(2,570)	(2,654)
Debt at amortised cost	<u>(49,473)</u>	<u>(46,859)</u>
	(59,726)	(49,437)
Exchange gains/(losses)	238	(376)
Change in fair value of financial instruments	602	526
Impairment and gains/(losses) on disposal of financial instruments	<u>-</u>	<u>9</u>
	<u>(58,886)</u>	<u>(49,278)</u>

## 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:

	<u>2020</u>	<u>2019</u>
Intangible assets	2,868	2,338
Property, plant and equipment	71,196	16,004
Inventories	9,314	378
	<u><b>83,378</b></u>	<u><b>18,720</b></u>

The increase in commitments is due to the fibre optic network deployment investment explained in note 6 as well as commitments for customer equipment and terminal purchases due to the national expansion plan.

## NOTE 14.- Related party transactions

### 14.1. Transactions and balances with key personnel

Details of transactions with key Company personnel are as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Board members</u>	<u>Executives</u>	<u>Board members</u>	<u>Executives</u>
Salaries and wages	996	1,751	991	2,128
Other remuneration				
Compensation	-	-	1,708	4,413
Incentive plan	-	-	810	1,853
Incentive plan (share-based)	1,722	1,061	-	-
Other	1,454	82	990	96
	<u><b>4,172</b></u>	<u><b>2,894</b></u>	<u><b>4,499</b></u>	<u><b>8,490</b></u>

Compensation to directors in 2019 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 67 thousand.

### 14.2. Transactions and balances with other related parties

Details of transactions and balances with other related parties are as follows:

	<u>2020</u>	<u>2019</u>
Sales	14,806	13,379
Services rendered	(165)	(237)
Finance cost	(13,746)	(5,190)
	<u><b>895</b></u>	<u><b>7,952</b></u>

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

	31.12.2020		31.12.2019	
	Current	Non-current	Current	Non-current
Receivables	874	-	14	-
Cash and cash equivalents	59,463	-	59,558	-
Loans received (note 10)		(153,251)	(6,750)	(146,501)
Other financial liabilities (note 10)	(8,654)			
Payables	(188)	-	(227)	
	<b>51,495</b>	<b>(153,251)</b>	<b>52,595</b>	<b>(146,501)</b>

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 2020 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.

## NOTA 15.- Audit fees

The fees corresponding to the services provided by KPMG Auditores, S.L., the auditing company of the Company's annual accounts during the fiscal years ended 31 December 2020 and 2021, regardless of when they are invoiced, are as follows:

	2020	2019
Audit services	199	249
Other assurance services	45	45
Other services	9	10
	<b>253</b>	<b>304</b>

Other assurance services include those relating to limited reviews.

In the year ended 31 December 2020, other firms affiliated with KPMG International invoiced the Company for professional service fees totalling Euros 12 thousand relating to the issue of ISAE 3000 reports on the Non-Financial Information Statement.

## NOTE 16.- Environmental information

To develop its commitment to environmental issues, an environmental strategy has been prepared, which has been included as part of the 2020-2025 Strategic Sustainability Plan in 2020. The Euskaltel Group's commitment to environmental management excellence was the starting point for establishing an Environmental Management System in accordance with ISO 14001.

In accordance with this commitment, Euskaltel decided to voluntarily 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.

The 2020-2025 Strategic Sustainability Plan was defined and launched in 2020. One of its objectives is environmental management and combating climate change. Within the framework of the activities carried out in the environmental field:

- Renewal of the Euskaltel Group's Environmental Management System certification in accordance with ISO 14001, by a certified third party (AENOR) as renewed annually since 1999.
- Renewal of R Cable y Telecable's Energy Management System in accordance with standard ISO 50001 by a reputable and certified third party (AENOR).
- Verification of the EMAS Environmental Statements by a recognised third party (AENOR) for Euskaltel, R Cable 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 Cable and Telecable's footprints.
- Performance of the Life Cycle Analysis of the Euskaltel and R Cable 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 as part of the Basque Ecodesign Center, a pilot project has been launched to define "green" private purchasing criteria on products and services acquired by the group.
- The Shareholders' Meetings held in 2020 and the Euskal Encounter event have been certified as sustainable events under the Erronka Garbia certification by IHOBE.

Energy audits have been carried out as required by Royal Decree 56/2016.

## **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 government bodies, 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 10).

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 15 December 2020, the Company's Board of Directors agreed to pay an interim dividend against 2020 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 12 February 2021.



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# **Directors' Report for 2020**

## **Euskaltel, S.A. and consolidated companies**

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

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## 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 and in the rest of Spain with Virgin telco, which launched on the market in May 2020.

2020 has been characterised throughout by the impact of the coronavirus pandemic. As a result of the restrictive measures taken by governments during 2020 to contain the spread of Covid-19 (social distancing, lockdowns, limiting the free movement of people, closing public and private premises, except those covering basic needs and health facilities, closing borders and drastically reducing air, sea, rail and road transport), the global economy has been significantly affected.

The telecommunications sector in particular has seen a rise in traffic as a result of customers' increased communication and entertainment needs, boosting consumption of telecommunications services. In addition, the increase in traffic has required action to be taken to expand the network's capacity so as to ensure connectivity and to respond efficiently to the increased demand for services.

During the state of emergency (March-May 2020), restrictions were imposed on portability of telecommunication services in Spain, leading to a reduction in the growth rate of new customer registrations, which was compensated for by fewer customer cancellations, resulting in a stable customer base. Once these limitations ended, the market returned to its usual business dynamic.

## 2.- Business overview

Essentially through its proprietary fibre network and wholesale supplier agreements, the Euskaltel Group provides ICT solutions to cover its customers' full communication cycle with a wide range of technological services from fibre, landline and mobile phones, digital TV and broadband to digital transformation processes, Cloud solutions, IoT (the Internet of Things), Big Data, Artificial Intelligence, technology for Smart Cities and Industry 4.0.

The Euskaltel Group has recently signed an agreement with Orange allowing it to access 5G technology as a Mobile Virtual Network Operator from 1 January 2022. This agreement guarantees customers access to the most advanced mobile telecommunications services via a quality 5G network, and secures the necessary capacity to respond to all new mobile data service needs that users might have in the future.

Via the Euskaltel, R, Telecable, RACCTel+ and Virgin telco brands, the Euskaltel Group provides services to a market of over 20 million homes.

#### Mass market

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, landline 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 2020, the Euskaltel Group renders 650,717 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 2020, the company offers Pay TV services to 494,614 mass market customers.
- Mobile phones: At 31 December 2020, the Euskaltel Group has 1,242,849 postpaid lines.
- Fixed-line phones: The Group offers landline services with unlimited national calls to landlines and a wide range of price plans for landline to mobile calls and landline 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 600 Mbps, symmetrical fibre access with speeds of up to 1 Gbps, MPLS Network, landline/mobile convergence (FMC), IP Switch and advanced IT services. Regarding small enterprises, the degree of standardisation in solutions has increased and the products offered have focused on bundled convergent solutions (mobile, landline and internet), successfully covering the needs of such businesses.
- 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 up to 1 Gbps, FMC, SIP Trunking and MPLS networks in the communications area, but addressing projects and solutions in many other areas such as Cybersecurity (firewall solutions in the cloud, denial of service, etc.), Cloud services (virtual datacentre, disaster recovery, backups, etc., available remotely at data centres located in our territory), Big Data and Artificial Intelligence, with the creation of a specific area for the implementation of such solutions among customers.

At 31 December 2020, Euskaltel provides services to 15,985 customers in this market.

#### Wholesale and Other revenue

- The Euskaltel Group renders communications services to wholesale clients (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 ownership of the Parent in each (direct and/or indirect) at 31 December 2020 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 unique organisational strategy for the regions in which it operates, simple and efficient, with an experienced team pursuing excellence, competitiveness, adapting the structures of Euskaltel and 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:

- An organisation that seeks to achieve best practice in the sector.
- A simple 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 Remuneration 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 and 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 Remuneration 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 10 board members (1 executive member, 4 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 Committee.
- Remuneration 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 Committee Regulations and Remuneration 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 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, fiscal, reputational and corruption-related issues.
- (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 and non-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.
- (viii) 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.
- (ix) 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.

- (x) 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 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 corporative modifications planned by the Company and, particularly, for the exchange ratio of the proposal.

#### Appointments Committee

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

- (i) Assess the necessary competencies, 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) Set a target for gender balance on the Board of Directors and draw up guidelines on how to reach this target.
- (iii) Raise to the Board of Directors the proposed independent director appointments for designation by co-option or for their submission to the General Meeting of Shareholders, as well as proposals for re-election or dismissal of these directors by the General Meeting of Shareholders.
- (iv) Report on the proposed appointment of the remaining board members for designation by co-option or for their submission to the General Meeting of Shareholders, as well as proposals for their re-election or dismissal by the General Meeting of Shareholders.
- (v) Report on the proposed appointment or dismissal of senior management and the basic conditions of their contracts.
- (vi) Examine and organise the succession of the Chair of the Board of Directors 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.

#### Remuneration Committee

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

- (i) 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.
- (ii) Endeavour to ensure the transparency of remuneration and inclusion of information on the directors' remuneration in the Annual Report, Annual Corporate Governance Report and Directors Remuneration Report, submitting to the Board all the information required for this purpose.

## **5.- Shareholder structure**

Euskaltel is 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 2020 are as follows:

Shareholder	% capital
Zegona Group	21.32%
Kutxabank Group	19.88%
Corporación Financiera Alba, S.A.	11.00%

## 6.- Macroeconomic and industrial climate

### Macroeconomic environment

2020 has undoubtedly been influenced by the drastic impact of the SARS-CoV-2 coronavirus in health, economic and financial terms, triggering a pandemic that is unprecedented in recent years.

With respect to financial markets, the international economic downturn in March led to a rapid decline and subsequent recovery. The loss of about a third of global equity value was followed -from record market lows and over the next five months- by a recovery of about 50%, which was uneven across sectors and global regions. The impact on securities prices also affected financial instruments such as credit, where the initial decreases were also double-digit and very significant for lower-quality credit.

However, swift action by central banks and governments helped to reduce the tension arising from this situation. This was achieved by means of liquidity injections, purchases of financial assets, fiscal programmes, guarantees and redundancy schemes.

This scenario also accelerated certain global trends related to connectivity, including the fields of remote working and education, logistics and e-commerce.

In the second half of the year, uncertainty over the effectiveness of treatments for the disease, the extent of the second wave and the American elections were among the most relevant financial and economic risks. However, the good news on the effectiveness of the vaccines being developed, which coincided with a Joe Biden victory in the White House, provided visibility for a potential economic improvement and November was very positive for financial markets.

The year ended with global equity markets in positive territory, led by the technology sector and the positive performance of Asian markets, and with a weakening of the US dollar. However, there were major differences from one sector or country to another, to such an extent that some indices ceased to be representative of the market as a whole. For instance, the Ibex35 ended December down -17%, compared to -5% for the Eurostoxx50 or +18% for the S&P500. The differences between sectoral indices, for example, with an industrial bias against other technologies, were significant.

From an economic growth viewpoint, the Covid-19 crisis has led GDP forecasts for 2020 released by the OECD to reflect significantly negative figures for Spain (-11%), the Eurozone (-7.5%) and the USA (-3.7%), unlike China which ended the year with a positive growth rate (+2.3%). The economic recovery forecasts for the next two years are encouraging, however (the Spanish case is an example, with expectations of around +6%).

Finally, with regard to public finances, the major intervention during the crisis has had consequences in terms of public deficit (which will reach 10% according to the Bank of Spain) and debt (public debt over GDP will stand at 120% in 2021).

## Industrial Environment

As a result of the restrictive measures taken by governments during 2020 to contain the spread of Covid-19 (social distancing, lockdowns, limiting the free movement of people, closing public and private premises, except those covering basic needs and health facilities, closing borders and drastically reducing air, sea, rail and road transport), the global economy has been significantly affected.

In the telecommunications sector in particular traffic has increased as a result of the growth in our customers' communication and entertainment requirements, boosting consumption of telecommunications services. In addition, the increase in traffic has required action to be taken to expand the network's capacity so as to ensure connectivity and to respond efficiently to the increased demand for services.

During the state of emergency (March-May 2020), restrictions were imposed on portability of telecommunication services in Spain, leading to a reduction in the growth rate of new customer registrations, which was compensated for by fewer customer cancellations, resulting in a stable customer base.

Once the period of restrictions ended the market went back to its usual business dynamics, with a record number (according to official data from the CNMC) of mobile portabilities in October (758 thousand mobile numbers changed operator in October and 5.4 million in 2020 to October, compared to 6.1 million in the same period of the previous year). Regarding fixed broadband, almost 74 thousand lines were added in October, bringing the total to 15.7 million, of which 11.3 million were FTTH fibre optic lines. In the year to October the market grew by more than half a million broadband lines, against just over 300,000 in the same period in the previous year, an acceleration in market growth driven by demand for telecommunications services due to the impact of Covid-19 mentioned above. Meanwhile, pay TV continued its upward trend in year-on-year terms, reaching almost 8 million subscribers.

According to the latest quarterly data published by the regulator, revenue from retail services between January and September this year (Euros 17,256 million) fell by 6.0% compared to the same period in 2019, reflecting the impact of the Covid-19 crisis.

The combined market share of the three main operators (Movistar, Vodafone and Orange) continued to fall in both mobile telephony and broadband, thanks to the growth among other operators in the market.

## **7.-Commercial activity and customer relations**

### Mass market

As mentioned before, activity in 2020 has been influenced by factors arising from the Covid-19 pandemic.

This did not however stop the Group from moving forward with its planned expansion into the rest of Spain via the Virgin telco brand.

At 2020 year end, there are 823,323 mass market customers. Postpaid lines increase from 1,163,163 at the end of 2019 to 1,242,849 at December 2020, an increase of 4.2%. Broadband products reach 650,717, representing 9.7% growth.

Pay TV products are up 2% from 484,957 at the end of 2019 to 494,614.

### Business market

The business market presents income growth for four years running, reaching growth of 3.3% in 2020 and customer growth of 1.4%.

2020 was undoubtedly a key year in consolidating the foundations of the Group's strategic plan. This strategic plan, launched at the beginning of 2020, has been implemented as planned despite the constraints caused by the

emergence of Covid-19, which has had a significant impact on the business sector and therefore on customers in the business market.

In the Business segment, the main organisational changes identified in the previous year continued to be consolidated, involving new approaches in the unification of the commercial model and offerings, and the Unified Operating Model, which have not only enabled the objectives of the business area to be seamlessly aligned but have also shown their suitability and value in the capacity to respond in a swift and coordinated manner to the challenges arising from the situation generated by the pandemic.

Mainly in March, April and May, at the peak of the pandemic, companies required urgent services to give their employees mobility so that they could continue working from home, enabling business continuity in companies and allowing them to prevent their business from being impacted. The quick reaction capacity in the contracting, implementation and deployment of communications services, and the expansion of their capacities in data resources, datacentres and equipment, have been key to providing an adequate response to customers.

As for Large Accounts, in 2020 the strategy of extending the scope of solutions initiated in 2018 continued, on this occasion creating a specific Artificial Intelligence team that includes experienced specialists, tools and solutions aimed at boosting corporate customers' business and increasing the catalogue of services they already have available.

2020 was again a communication-intensive year in the Business area. Among other issues, the impossibility of establishing face-to-face contact as a result of Covid-19 made it necessary to reinforce other communication channels in order to maintain the contact and proximity that the line of communication and Business branding require under the slogan "Be close, go far".

Likewise, in June 2020 the restructuring of the Large Account corporate website for the Euskaltel, R and Telecable brands was completed, concluding the work started in 2019.

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

The pandemic in 2020 and the difficulties experienced by certain groups have provided us with the opportunity to lend a helping hand to our customers in government and private companies, providing, for example, free mobile data communications services to children in disadvantaged families, facilitating the continuity of training processes, and to care homes to ensure communication with family members, among other initiatives.

In terms of the SME segment, 2020 has confirmed the income growth trend already evident at the end of 2019.

The product work developed in 2019 has been marketed in 2020 with bundled telecommunication solutions for both the Group's own DOCSIS and FTTH networks and third-party networks through wholesale agreements. This drive was bolstered once again with the launch of new functionalities in the convergent Telco solution (SME Solution) for both the Euskaltel and R markets.

## **8.- Marketing activity**

In 2020 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.

During the first stage of the Covid-19 crisis several initiatives were launched to promote connectivity for Euskaltel Group customers and access to leisure content during lockdown. Until the end of the state of emergency, Euskaltel customers were able to activate bonuses on their mobile phone lines free of charge. This initiative was designed to ensure mobile internet availability particularly for employees in the health sector or groups whose activity was considered essential.

With the opening up of free cinema and children's channels, the Euskaltel Group has collaborated in making the lockdown more bearable for children and adults. Additionally, it provided free access accounts to OTT TV services for all hospitalized patients and their families.

In September we launched a new initiative in Euskaltel, Telecable and R for families with reduced resources, consisting of low-price internet access. Through this service, the Euskaltel Group seeks to help the most disadvantaged families and cooperate in reducing the digital divide for children lacking study resources.

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 May 2020, the Euskaltel Group launched its new Virgin Telco brand, to market a new portfolio of convergent products and services (internet, TV, mobile and landline) nationwide. Internet access starts with very fast 300M symmetrical access (with higher 600M or 1Giga options if customers require more speed); in mobile telephony there is a varied portfolio of rates, which all include unlimited calls and with variable capacity (from 10GB to unlimited gigas); in television, customers can choose between 2 packages of 50 or 90 channels with varied content (series, films, documentaries, sports, music, children's programmes, etc.) and with a 4K decoder that provides customers with the possibility of watching all content on demand; and landline telephony includes calls to landline and mobile phones, which is completely optional for the customer.

This offer stands out on the one hand for having very competitive prices in all services, and on the other in that it is totally flexible and open for customers, who are absolutely free to choose whatever services they wish to sign up for.

In 2020 the Euskaltel Group launched a new convergent offer for Euskaltel, R and Telecable consisting of simplifying access to convergent mobile offers, which are much more competitive than existing options in terms of both price and gigabyte capacity. In addition, during summer a new fully modular convergent offer was launched, with a flexible structure that allows customers to receive only internet services, with the option of adding additional mobile, landline and television services.

Thanks to the alliance with Netflix, the world leader in streaming content distribution, the Euskaltel Group has significantly improved the bundling of its services, offering a wider content catalogue.

Similarly, there have been campaigns to renew equipment, looking to offer the best Internet service by providing the best browsing experience, particular using Wi-Fi.

## **9.- Operations Activity (Network and Technology)**

During 2020 the main actions have focused on higher capacity in all services to guarantee the increase demanded due to the Covid pandemic and lockdown.

The growth in network traffic has led to a considerable change in service demands. The following stand out;

### Fixed broadband:

- Increase in traffic of over 80%.
- Significant change to work patterns due to remote working.
- Exponential increase in number of simultaneous users per household.

### Mobile broadband and voice:

- Lockdown has deviated mobile data traffic to fixed data (Wi-Fi connection at home).

- Immediate increase in voice traffic (has almost doubled since the start of the health crisis).

#### Television

- More than 40% increase in viewing of traditional TV channels.
- The increase in VoD exceeds 35%.

The Group has taken a great deal of action and has expanded its network capacity to continue offering normal services, without affecting customer base operations.

#### TV platform

- Expansion of network capacity in necessary nodes.
- Expansion of capacity and adjustments to settings so as to gain performance.

#### Mobile network

- Interconnection expansion to mobile access (Host).
- Interconnection expansion of operators.
- Expansion of physical resources in call centres, logistics resources, licences and interconnection circuits in the core mobile network.
- Implementation of new capacities and redundancies.

#### Fixed-line voice network

- Increase in interconnection capacity.

#### Docsis network

- Increase in capacity.

#### IP/MPLS core network

- Balancing of internal traffic and with carriers to adjust to internal interconnection capacity.
- Expansion of internal network.

In terms of integrating platforms, projects in the following areas have been carried out:

#### Mobile voice network

- Standardisation of subscriber registration platforms.
- Migration to new mobile data platforms and control thereof.
- Migration to new mobile data control platform (SAPC).

#### Cable modem network

- Standardisation of customer registration platforms.

In terms of technological and product developments:

#### FTTH GPON network

- FTTH products have been developed on our own network and on third-party networks. Network scalability, in particular regarding changes to national network linked to the growth in Virgin Telco customers.
- 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

- Changes to convergent solutions.
- 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 and Wi-Fi mesh).
- Standardisation for the group of mobiles, including adaptation to the new Virgin Telco brand.

#### Fixed network deployment

- Minetad FTTH 2018 project in Galicia: 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.
- Minetad FTTH 2018 project in Asturias: Project to deploy FTTH-GPON with grants from the Ministry for NGA networks. This involves rolling out the project to around 8,000 properties in towns in Asturias.

#### Security

- Renewing the ISO 27.001 certificate for the Euskaltel Group's datacentre, back up and cybersecurity services.
- Performing security audits in accordance with the annual plan.
- Implementing new security measures in corporate systems and in the telecommunications network.

### **10.- R&D&i activity**

The Group's innovation activity in 2020 has been unified, based on the following mainstays:

- Innovation in TV services.
- 5G pilots.

#### TV innovation

In terms of product development, in 2020 the focus was on the following areas: launch of Virgin telco, big data to provide information on customer experience and full integration between OTT and operator.

Concerning the launch of Virgin telco, since the service is provided over different networks it has required the development of network integrations to ensure proper service delivery. This major technical challenge was successfully met at the beginning of the year, creating one of the most complex grids among Spanish operators.

Specifically in the field of measuring and improving customer experience, the "Euskaltel Tv Analytics" tool has been developed which, based on various technologies, measures different indicators related to customer experience or any service anomaly noted by customers from their viewpoint.

In 2020 the development of major projects commenced that will mark the future of the service: new 4k decoders,

new remote control and new applications on mobile devices, PCs and Smart TVs.

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

#### 5G pilots

At the end of 2019, the Euskaltel Group took part in the Red.es call for 5G pilots as part of a consortium of companies, and in 2020 it was awarded the programme's support for the Basque Country.

In 2020 the technical work started on the project in which the 5G solution will be piloted for network purposes in a MVNO network sharing model.

Work is also being carried out on different case studies with relevant companies in the Basque industrial sector to validate their applications and business models.

The consortium is made up of several operators, industrial companies and technology centres. In addition, various collaborating entities have been brought in to work on the project.

The case studies are related to the mobility, industry, energy and cybersecurity sectors.

## **11.- Human Resources Activity**

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

#### Promoting the recruitment of new talent

Programmes are developed to attract, capture and retain talent in the market, incorporating the professional profiles necessary for the development of our business.

The Euskaltel Group has entered into collaboration agreements with the main universities in each territory, enabling it to offer students academic internships and thus help them gain early labour market experience. This collaboration is also extended to various foundations to offer young people scholarships and to accompany them in their first work experience.

In this area, although with a greater virtual presence due to the pandemic, we have continued to take part in forums and to collaborate with universities, professorships and specific actions to promote the technological development of women and STEM (Science, Technology, Engineering, Mathematics) vocations.

#### Promoting equal opportunities

In this area, it should be mentioned that the Equality Plans of Euskaltel S.A., (July 2020) and R Cable y Telecable Telecomunicaciones, S.A.U were signed with the employees' legal representatives in 2020. Following the signing of these plans, the equality committees have been working on the planning and implementation of the agreed measures in accordance with the established schedule.

Particular efforts have been made to raise awareness in the equality area, for which 3 courses were organised: Training for the Equality Committee, Basic Aspects of Equal Opportunities and Raising Awareness on Equality, with several sessions aimed at 100% of the Group's employees.

#### Professional training and development

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

During this financial year a total of 21,383 hours of training have been provided, of which 533 hours were devoted to improving our professionals' skills, 14,035 to technical training and 6,815 to languages. The main novelty this year has been the implementation of online training in both languages and other disciplines, and the launch of our e-learning platform.

Within the Skills area the following training initiative was carried out for the purpose of facilitating adaptation to the situation caused by the pandemic: "Adapted Enterprise, the new normal after Covid-19" focused on the Business area to help customers make the most of the capabilities offered by technology.

In the development of Technical Competencies, in order to strengthen our technological and innovation capacity we have strengthened training in DCV, Public Cloud or in technologies from producers such as VMWare, Microsoft or CISCO, and in architecture and internet protocols such as IPV6. In addition, certifications in Project Management areas such as the PMP Certificate, or in specific technologies such as Microsoft Azure or others such as VMWare or Fortinet, have been obtained and renewed. As a result of another highly current field, Data Science, training has been provided in Power BI, Python, Google Analytics and Fire Base.

A significant number of hours (1,110 hours) focused on the use of Digital Tools in the Office 365 ecosystem have also been taught: One Drive, SharePoint and Teams, to consolidate the digital transformation. This digital training is complemented by subjects such as Strategy and Digital Marketing and Product Development, aimed at acquiring a business vision of the new strategies and trends in digital marketing and thus identify market opportunities and growth levers.

#### Social dialogue and collective agreements.

The corporate reality of Euskaltel SA and R Cable y Telecable Telecomunicaciones SAU has led to the negotiation of a new collective agreement for Euskaltel SA and the negotiation of a single collective agreement applicable to the personnel of R Cable and Telecable.

The collective bargaining has been carried out remotely due to the unusual circumstances prevailing in 2020, in the case of Galicia and Asturias, and has resulted in the conclusion on 15 December of the 2nd Collective Agreement of R Cable and Telecable, which has yet to be published in the BOE (Official State Gazette).

This agreement includes matters such as digital disconnection, regulates occasional teleworking, and brings in a number of measures to encourage a work-life balance.

The collective bargaining committee set up in Euskaltel continues to work towards reaching an agreement.

#### Promoting a digital culture in the Group

The effort made in previous years has been consolidated in 2020 and has been accelerated by the pandemic, leading to the choice of home working due to the exceptional situation. All employees worked from home for more than 6 months during the year, a measure that was taken to protect their health and safety and to guarantee business continuity, as our activity is essential for the community.

The measures taken in previous years, the deployment of portable equipment and smartphones and the widespread use of Office 365 for holding meetings to achieve a collaborative work environment between areas have been essential this year to facilitate home working.

All of these tools have enabled 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. This consolidates the use of the job portal, the time recording tool and the travel approval and expense management tool.

#### 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 2020, reception, mail room, customer and phone service calls have been contracted, amounting to Euros 308,409 a year with Special Recruitment Centres.

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 and during 2020 no employees were identified to have an unrecognised disability.



### Work climate and communication

The working environment is one of the most important factors for Euskaltel Group employees and for this reason a survey was carried out among employees during the year in order to find out what the starting situation is after the organisational change carried out in 2019. Following an initial analysis of the results, a number of actions for improvement have been implemented with the involvement of all professionals, including the development of a communication plan involving specific actions that has been almost fully implemented during the year.

The communication actions implemented include meetings with the CEO to discuss business issues, the daily publication of a press dossier which includes news from the sector and the company accessible to the entire workforce, and the organisation of information made available to users on the corporate information site, as well as the creation of thematic communication channels in Teams aimed at the entire workforce.

## **12.- Organisation and quality activity**

### Organisation

Following the 2019 reorganisation, 2020 has been a year for adjusting and reviewing the organisational structure. 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.

Job architecture has been revised, updating the descriptions of each position, including mission, functions and responsibilities and the skills and knowledge required, an exercise that has been reviewed with the directors of each area.

Positions are evaluated based on the Global Grading system and are assigned a level in the organisation, with a number of predefined roles being allocated to each job. Grading is based on the level of contribution and its criticality within and outside the organisation.

### Quality and Environment

In 2020, the Euskaltel Group has continued its commitment to progress towards excellence and, taking the Advanced Management Model as a reference, 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.

2020 policy deployment has been as follows:

### Quality

During 2020 the Quality policy has been fully rolled out and the certification of the quality management system under the standard ISO9001 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.

Regulatory audits were carried out in 2020 relating to Service Quality and Invoicing Quality for the three brands (Euskaltel, R and Telecable) 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, which has been included as part of the 2020-2025 Strategic Sustainability Plan in 2020. The Euskaltel Group's commitment

to environmental management excellence was the starting point for establishing an Environmental Management System in accordance with ISO 14001.

In accordance with this commitment, Euskaltel decided to voluntarily 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.

The 2020-2025 Strategic Sustainability Plan was defined and launched in 2020. One of its objectives is environmental management and combating climate change. Within the framework of the activities carried out in the environmental field:

- Renewal of the Euskaltel Group's Environmental Management System certification in accordance with ISO 14001, by a certified third party (AENOR) as renewed annually since 1999.
- Renewal of R Cable y Telecable's Energy Management System in accordance with standard ISO 50001 by a reputable and certified third party (AENOR).
- Verification of the EMAS Environmental Statements by a recognised third party (AENOR) for Euskaltel, R Cable 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 Cable and Telecable's footprints.
- Performance of the Life Cycle Analysis of the Euskaltel and R Cable 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 as part of the Basque Ecodesign Center, a pilot project has been launched to define "green" private purchasing criteria on products and services acquired by the group.
- The Shareholders' Meetings held in 2020 and the Euskal Encounter event have been certified as sustainable events under the Erronka Garbia certification by IHOBE.
- Energy audits have been carried out as required by Royal Decree 56/2016 in Euskaltel, R and Telecable.

#### Health and Well-being

This year the health and welfare area has focused its efforts on ensuring the health and safety of employees in the midst of the uncertainty caused by the pandemic and the health crisis it has generated.

Information on Covid-19 has evolved as our knowledge of the virus has increased, which has involved working on the continuous adaptation of security protocols both for personnel and for suppliers, visitors or customers who have access to our facilities. All this work has resulted in the development of an action protocol that has been certified by AENOR and which accredits us as a certified company with anti-Covid 19 protocols.

In 2020 occupational health and safety management was standardised in Galicia and Asturias, and steps have been taken to extend the same model to the Basque Country to ensure a consistent level of prevention and safety in all Group companies.

Also, during 2020, 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 ISO 45001.

#### 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 2020 the Information Security Management System has continued to be consolidated, with its certification, since 2012, according to the Standard UNE 27001 for Information Data Security Management Systems (ISMS) across the Group companies.

2020 highlights:

- Support to identify and establish security measures that help reduce risks identified.
- Using the corporate risk management tool to assess risks linked to information security.
- Integration of information security management into the rest of the management systems implemented at the Euskaltel Group.

#### Other management systems

In March 2020 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 Cloud Storage Services of Telecable.

During 2020 work has been ongoing in the area of Regulatory Compliance in the implementation and certification of an anti-bribery management system based on standard ISO 37001 and a Criminal Compliance Management System in accordance with standard UNE 19601.

### 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		Year	
KPI		2019	2020
Total customers		770,865	823,313
Total RGUs		2,848,267	2,966,849
Landline phones		606,809	578,669
Broadband		593,338	650,717
Pay TV		484,957	494,614
Post-paid mobiles		1,163,163	1,242,849
RGUs / sub		3.69	3.60

Business		Year	
KPI		2019	2020
Customers		15,763	15,985

Deployment continues, both in terms of in-house deployment and also access to new homes via network sharing agreements with other operators throughout Spain, allowing access to 85% of the market where we were not present through the Virgin Telco brand, which was launched in May 2020.

Despite the Covid-19 crisis, mass market customer numbers and services to this market have increased. Mobile communications, underpinned by strong performance, improvements in mobile telephony, the possibility of financing purchases of mobile devices and national expansion have all contributed to the strong performance in this area.

Broadband has also grown from 593,338 products in 2019 to 650,717 products at 31 December 2020, an increase on 9.7%. In TV we have reached 494,614 services, up 2%.

The Business segment has performed positively in 2020, increasing to 15,985 customers, up 1.4% with regards the number of customers at 31 December 2019.

Financial data	Year	
	2019	2020
<b>Total revenues</b>	<b>685,470</b>	<b>697,100</b>
Y-o-y change		1.7%
Mass market	545,835	548,228
Y-o-y change		0.4%
Business	110,040	114,534
Y-o-y change		4.1%
Wholesale and other	29,595	34,338
Y-o-y change		16.0%
<b>EBITDA</b>	<b>344,535</b>	<b>342,774</b>
Revenue margin	50.3%	49.2%
Y-o-y change		-0.5%
<b>Profit/(loss) for the year</b>	<b>62,018</b>	<b>61,216</b>
<b>Investments</b>	<b>(154,259)</b>	<b>(178,312)</b>
Y-o-y change		15.6%
<b>Operating cash flow</b>	<b>190,276</b>	<b>164,462</b>
Y-o-y change		-13.6%

Mass market revenues reflect an upward trend for the period, increasing by 1.7% compared to the prior year.

Revenue from the Business market amounted to Euros 114.534 thousand, up 3.3% on the prior year.

Wholesale and other revenue increased by 5.7% to Euros 34.338 thousand.

EBITDA stands at Euros 342,775 thousand at 31 December 2020, reflecting a small decrease in absolute terms compared to the same period last year. This change is as a result of several factors. The gross margin is impacted by the increase in sales of customer equipment, which is offset by a decrease in other costs despite Virgin telco's solid growth.

At 31 December 2020, investments stood at Euros 178,312 thousand compared to Euros 154,259 thousand at 31 December 2019. This increase is mainly due to the ongoing undertaking of relevant projects by the Euskaltel Group relating to deployment, investments needed to absorb the growth in data traffic experienced by the customer portfolio and also investments made in the network and customer equipment resulting, to a large extent, from the launch of the Virgin Telco project.

Post-tax profit for 2020 is Euros 79,366 thousand compared to 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. Despite Covid-19, the insolvency rate has not increased significantly.

The impact of bad trade debts on the income statement was Euros 6.1 million (Euros 5.3 million in 2019), equivalent to 0.9% of 2020 turnover (0.8% in 2019). Aged, non-impaired receivables past due by more than 90 days at 31 December 2020 amount to Euros 15.6 million (Euros 6.3 million at the end of 2019).

### 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 2020 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 50.25 million.

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

At 31 December 2020, cash and cash equivalents amounted to Euros 127.4 million (Euros 98.2 million at the end of 2019).

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 risks 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 2020, had interest rates risen by 100 basis points, with other variables remaining constant, profit (after tax) would have fallen by Euros 6.2 million (Euros 7.9 million for the year ended 31 December 2019).

## **15.- Legal factors and regulatory framework**

The Euskaltel Group 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.

### Measures adopted by the telecommunications industry due to Covid-19

On 15 March 2020, Royal Decree 463/2020 of 14 March, declaring a state of emergency in order to manage the health crisis caused by Covid-19, was published in the Official State Gazette (BOE).

The state of emergency was extended every 2 weeks from the 15 March 2020 until the 21 June 2020.

The telecommunications industry, considered essential, continued to operate, although activities were affected by Royal Decree Law 8/2020, later qualified by Royal Decree Law 20/2020, prohibiting, during the state of emergency, extraordinary sales campaigns, portability operations which required a visit to the customer's or user's home and tariff increases.

Via Resolution of 28 April 2020, the CNMC defined the procedure for returning to the previous state once the exceptional measures adopted during the state of emergency ended. A period of 5 days was set following the end of the state of emergency to return to normal competition and sales dynamics.

On 27 May 2020, Royal Decree-Law 19/2020 of 26 May was published in the Official State Gazette (BOE), adopting additional measures in the agricultural, scientific, economic, employment and social security and tax fields to mitigate the effects of Covid-19. The single repealing provision of this legislation removed, inter alia, the prohibition on portability by fully repealing Article 20 of Royal Decree-Law 8/2020.

As a result, from 28 May 2020, the bans on extraordinary campaigns, the ban on portability and the ban on price increases were abolished.

In addition, article 3 of Royal-Decree Law 19/2020 of 26 May, set out a procedure for paying in instalments and deferring debts in electronic communications services, meaning that electronic communications operators had to grant their subscribers, at their request, payment by instalment and, therefore, the deferral of debts relating to invoices issued for payment from the entry into force of Royal Decree 463/2020 of 14 March, declaring the state of emergency to manage the health crisis caused by Covid-19, and extensions, and up until 30 June 2020, both dates inclusive.

With regard the regulatory measures adopted within the framework of the Covid-19 state of emergency, there are currently no specific measures that regulate the rendering of telecommunications services. The measures for paying in instalments and, subsequently, deferring debt relating to invoices presented for collection until 30 June 2020 are still in force.

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 imposes 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.

Proposal for the definition and analysis of markets for local wholesale access provided at a fixed location and central wholesale access provided at a fixed location for mass market products, the designation of operators with significant market power and the imposition of specific obligations (Markets 3a-3b/2014)

On 12 November 2020 the National Markets and Competition Commission agreed to initiate the public disclosure procedure relating to the process for the definition and analysis of markets for local wholesale access provided at a fixed location and central wholesale access provided at a fixed location for mass market products, the designation of operators with significant market power and the imposition of specific obligations (Markets 3a-3b/2014).

The proposal establishes that both markets are susceptible to ex ante regulation as they are not really competitive, considering that Telefónica de España, S.A.U. has significant strength, and it imposes a number of obligations in relation to fully unbundled access to the copper subscriber loop and access to civil infrastructure.

Public consultation on the review of capacity price at IAP in the NEBA service

On 13 November 2020, the National Markets and Competition Commission agreed to initiate the public disclosure procedure for the process for reviewing the capacity price at IAP in the NEBA wholesale service. Under a Ruling dated 10 January 2019, the CNMC approved the review of the capacity price at IAP in the NEBA wholesale broadband service, setting the prices for 2019 and 2020. The public consultation initiates the procedure for the review of capacity price at IAP in the NEBA wholesale broadband service.

Public disclosure process on the review of the prices of Telefónica's MARCo offer.

On 4 December 2020, the National Markets and Competition Commission agreed to initiate the public disclosure procedure for the process for reviewing the prices of Telefónica's MARCo offer.

In its file the CNMC proposes changing the prices of the MARCo offer.

Proposal for the definition and analysis of the market for high quality wholesale access provided at a fixed location, the designation of operators with significant market power and the imposition of specific obligations (Market 4/2014)

On 16 December 2020 the National Markets and Competition Commission agreed to initiate the public disclosure procedure relating to the process for the definition and analysis of markets for high quality wholesale access provided at a fixed location, the designation of operators with significant market power and the imposition of specific obligations.

This market comprises two categories of wholesale services used to provide services to business customers (terminal leased lines and business broadband indirect access, in Telefónica's case, included in the ORLA and NEBA business offerings).

The proposal establishes that the market for high quality wholesale access provided at a fixed location in Spain is a market susceptible to ex ante regulation as it is not truly competitive, considering that Telefónica de España, S.A.U. has significant strength, imposing various obligations and revising the prices set in the Leased Line Reference Offer.

Cost of the universal service for 2017 and 2018 (calculation of cost)

A CNMC Resolution dated 8 April 2020 approved the net cost of the universal service for electronic communications presented by Telefónica de España, S.A.U. in 2017, amounting to Euros 14.62 million. Subsequently, on 26 November 2020 the CNMC proposed to change the net cost of the universal service incurred by Telefónica de España, S.A.U. in 2017 to Euros 13,834,175.

Concerning the net cost of the universal service for 2018, the CNMC has issued a ruling approving the verification of the statement on the net cost of the universal service made by Telefónica de España for 2018, mentioning the need to change the initial calculation presented by Telefónica.

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. To date, the preliminary draft of the General Telecommunications Law reported by the CNMC on 4 December 2021 has been submitted for public consultation.

Main operator

On 22 December 2020 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 landline and mobile telephony markets.

This resolution considers Euskaltel as a main operator of landline telephony in 2019, adding the share of R Cable and Telecable landlines.

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. To date, the new law has not been issued, but there is a preliminary draft of the General Telecommunications Law reported by the CNMC on 4 December 2021.

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.

### 5G action plan

As part of the 5G action plan approved by the European Commission, on 16 December the conditions governing the auction of 700 MHz frequencies were submitted for consultation in Spain. The tender is scheduled for the first quarter of 2021.

Similarly, on 23 December 2020 the conditions for the auction of 20 MHz that had not yet been awarded in the 3.5 GHz band (3,400-3,600 MHz) were published in the BOE (Official State Gazette). The deadline for submitting tender applications is 28 January 2021 and the auction will start by 24 February 2021.

Both frequency bands have been identified as priority bands for 5G in Europe.

### Proposed e-privacy Regulation

The European Data Protection Regulation of 14 April 2016 having been implemented and Organic Law 3/2018 of 5 December 2018 on the protection of personal data and guaranteeing of digital rights having been approved, the Regulation on privacy and electronic communications is currently being processed in the European Union which will update current Directive 2002/58. The Regulation will be a directly applicable regulatory instrument. This Regulation seeks to harmonise and secure uniform application in all Member States of the specific regulation on privacy in electronic communications.

The proposal envisages that the privacy obligation will be guaranteed for content and metadata derived from electronic communications and applies not only to telecommunications operators but also to new providers of electronic communications services (WhatsApp, Facebook Messenger, Skype, etc.) and OTT suppliers.

### Access to TV content

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. To date, no ruling has been given on the aforementioned appeals.

Via the Resolution of 22 October 2019, and as part of the concentration control proceedings, the CNMC imposed a fine of Euros 1.5 million on Telefónica de España, S.A.U. for incorrectly allocating its fixed costs for the "Movistar Partidazo" channel, which is part of its wholesale offer of premium channels, for the 2016/2017 season. The outcome of this allocation was that Telecable, together with the other operators interested in contracting the "Partidazo" channel, faced higher costs, whilst for Telefónica these costs were reduced and the company was subject to positive discrimination.

#### Financing of Corporación de Radio y Televisión Española (CRTVE)

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).

In 2017, 2017, 2018, 2019 and 2020 the Euskaltel Group made the relevant payments applicable for those years.

#### 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 and 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 28 January 2021, Decree 43/2021 of 26 January was published in the Official State Gazette (BOE), implementing previous Royal Decree-Law 12/2018 of 7 September on information systems and network security.

## 16.- Corporate governance

### a) Board of directors

The following changes to the Board of Directors have taken place in 2020:

#### Re-election, resignation and appointment of Board members

- The Ordinary General Shareholders' Meeting held on first call on 2 June 2020 agreed the re-election of Kartera 1, S.L. as proprietary director, represented by Ms Alicia Vivanco González for the statutory period of 4 years, and ratified the appointment by co-optation and election of Mr Xabier Iturbe as external director.
- With effect from 2 June 2020, and prior to the General Shareholders' Meeting being held, the directors Mr Luis Ramón Arrieta Durana (proprietary director assigned by Kutxabank) and Mr Jonathan Glyn James (independent director) notified the Board of Directors of their resignation from their roles as members of the Board.
- The General Shareholders' Meeting held on 2 June 2020 agreed to set the number of Board of Director members at 11.
- Effective 29 September 2020, the tenures of Ms Elisabetta Castiglioni and Mr José Ángel Corres Abasolo and Mr Miguel Angel Lujua Murga came to an end.
- The Extraordinary General Shareholders' Meeting held on first call on 29 September 2020 agreed the appointments as independent directors of Ms Beatriz Mato Otero and Ms Ana García Fau.
- The Extraordinary General Shareholders' Meeting held on 29 September 2020 agreed to set the number of Board of Director members at 10.

#### Appointment of new deputy-secretary of the Board of Directors

- Ms Cristina Sustacha Duñabeitia has replaced Mr Gonzalo Silveiro Regúlez as the new deputy-secretary of the Board of Directors and of the Committees reporting to the Board.

### b) Committees reporting to the Board of Directors

The Board of Director's meeting held on 2 June 2020 agreed to amend the Articles of Association with the following amendments to the Committees: removal of the Strategy Committee and the separation of the Appointments and Remuneration Committee into two, the Appointments Committee and the Remuneration Committee.

In accordance with the resolution adopted by the Board of Directors on 2 June 2020 and following the end of the tenures of Ms Elisabetta Castiglioni and the directors Mr José Ángel Corres Abasolo and Mr Miguel Angel Lujua Murga and the appointment as independent directors of Ms Beatriz Mato Otero and Ms Ana García Fau, the Board of Directors' Committees are made up as follows:

#### Audit and Control Committee

Ms Ana García Fau (Chair)

Kartera 1, S.L., represented by Ms Alicia Vivanco González

Mr Iñaki Alzaga Etxeita

### Appointments Committee

Mr Iñaki Alzaga Etxeita (Chair)

Ms Belén Amatriain Corbi

Mr Eamonn O'Hare

### Remuneration Committee

Ms Belén Amatriain Corbi (Chair)

Corporación Financiera Alba, S.A., represented by Mr Javier Fernández Alonso

Ms Beatriz Mato Otero

### c) Other relevant information

During 2020, the CNMV was informed of 24 relevant information notifications, the quarterly results, the transactions performed under the liquidity agreement, the call to the Ordinary General Shareholders' Meeting and the Extraordinary General Shareholders' Meeting and the outcomes thereof, the changes made to the Board of Directors and the new composition of the Board's Committees, the payment of an additional dividend charged to 2019 results, the improved wholesale agreements with Orange, the 5G agreement and fibre access agreement with Telefónica and the distribution of an interim dividend in 2020.

## 17.- Share price evolution

### Share price



Euskaltel shares have decreased in value in 2020 by -2.45%, compared to the IBEX 35 stock market index and the STOXX Europe 600 Telecom sector benchmark index for the same period, -16.69% and -9.08%, respectively.

## Trading volume

<u>Period (2 Jan/31 Dec)</u>	<u>Number of shares</u>	<u>Daily average</u>
Standard trading	26,327,550	102,442
Block trading	<u>4,335,738</u>	<u>16,871</u>
	<b><u>30,663,288</u></b>	<b><u>119,313</u></b>

## 18.- Outlook and events after the reporting period

Below we describe the most significant events occurred during the first weeks of 2020 up to the date of preparation of these annual accounts.

On 15 December 2020, the Company's Board of Directors agreed to pay an interim dividend against 2020 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 12 February 2021.

## 19.- Acquisition of own shares

At 31 December 2020 we held 173,596 own shares. During the year a total of 1,275,150 shares were acquired, and 1,271,920 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 + compensation 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.

	<b>31.12.19</b>	<b>31.12.2020</b>
Results from operating activities	120,796	125,590
Depreciation and amortisation (notes 5 & 6)	193,096	196,502
Losses on the disposal and derecognition of assets (note 12.4)	9,650	10,672
Compensation and other remuneration (note 12.3)	15,600	3,342
Other results (note 12.4)	5,393	6,669
	<b><u>344,535</u></b>	<b><u>342,775</u></b>

- Investments: Additions of intangible assets and property, plant and equipment, excluding customer equipment that has still not been installed in customer homes or premises.

	31.12.19	31.12.2020
Additions of intangible assets (note 5)	56,871	73,682
Additions of property, plant and equipment (note 6)	97,388	113,017
Additions not installed (note 6)	-	(8,387)
	<b>154,259</b>	<b>178,312</b>

Additions not yet installed have not been considered in Investments calculations in order to align them with other business indicators (mainly customer registrations).

- Operating cash flow: EBITDA - Investments

	31.12.19	31.12.2020
EBITDA	344,535	342,775
Investments	(154,259)	(178,312)
	<b>190,276</b>	<b>164,463</b>

- Conversion rate: Operating cash flow / EBITDA

	31.12.19	31.12.2020
Operating cash flow	190,276	164,463
EBITDA	344,535	342,775
	<b>55.2%</b>	<b>48.0%</b>

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

	31.12.19	31.12.2020
Nominal value - Bank borrowings (note 10)	1,435,000	1,435,000
Nominal value - Bonds and other marketable securities (note 10)	131,000	131,600
Nominal value - Other loans with public bodies (note 10)	17,157	13,317
Nominal value - Other loans (note 10)	1,369	2,200
<b>Gross debt</b>	<b>1,584,526</b>	<b>1,582,117</b>
Less cash and cash equivalents (note 8.1)	(98,247)	(127,366)
<b>Net debt</b>	<b>1,486,279</b>	<b>1,454,751</b>

## **21.- Annual Corporate Governance Report**

The 2020 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 2021 and is available on the Company's website ([www.euskaltel.com](http://www.euskaltel.com)) and that of the Spanish National Securities Market Commission ([www.cnmv.es](http://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 2020 as part of the 2020 Sustainability Report and Non-Financial Information Statement, attached 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**

### **2020 Sustainability Report and Non-Financial Information Statement**





Grupo Euskaltel

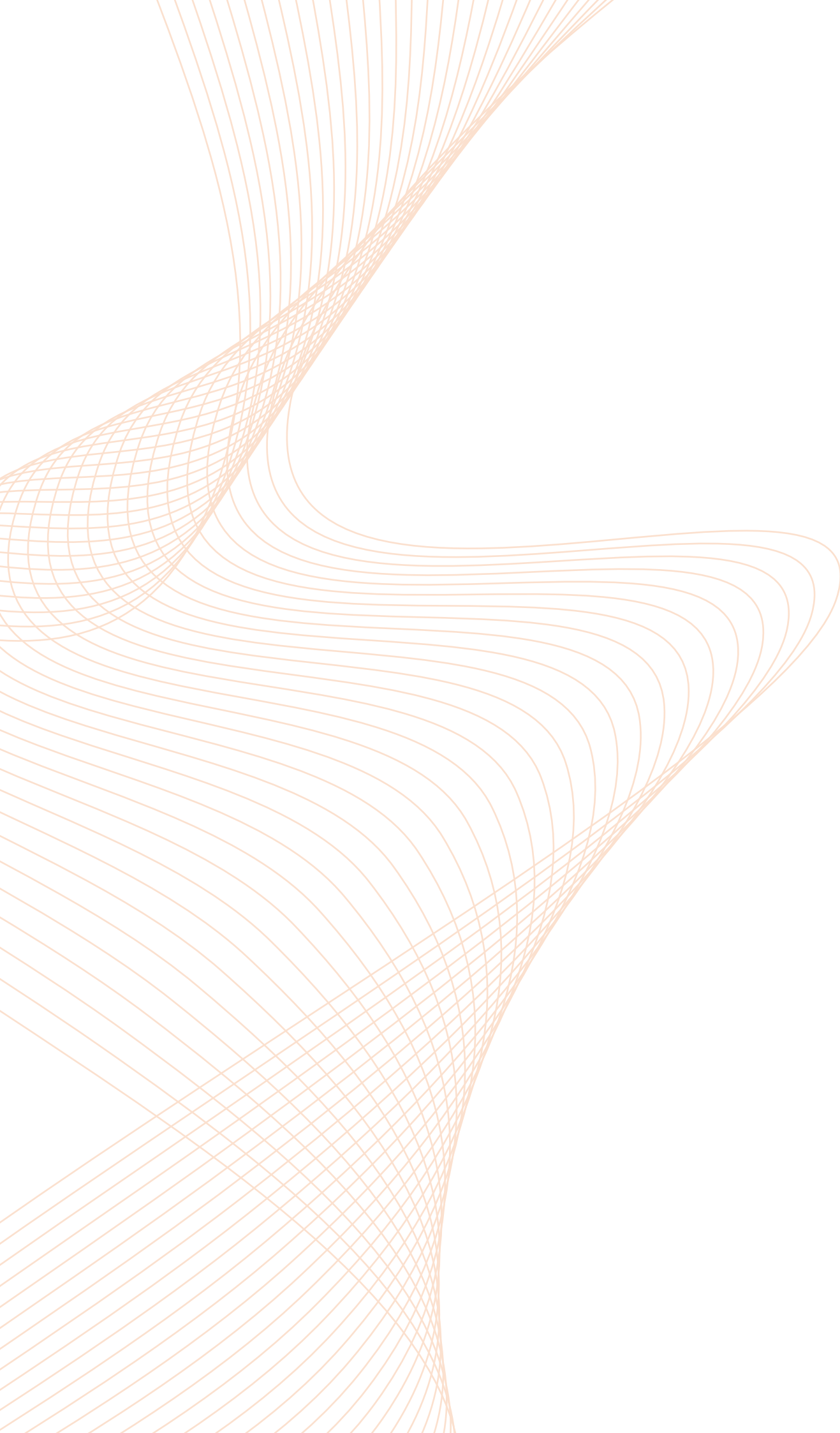
SUSTAINABILITY REPORT AND  
NON-FINANCIAL INFORMATION STATEMENT

2020  
EUSKALTEL GROUP

# **TOWARDS A SUSTAINABLE DIGITAL TRANSFORMATION. TELECOMMUNICATIONS BY AND FOR PEOPLE**

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

FEBRUARY 2021



# SINER- GIA CON

## LETTER FROM THE CHAIRMAN AND CEO EUSKALTEL EUSKALTEL IN FIGURES IN 2020 MAIN MILESTONES OF 2020

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## LETTER FROM THE CHAIRMAN AND CEO

### // ***Committed to a digital and sustainable society***

In the current uncertain and changing pandemic environment, it is impossible for the presentation of this Euskaltel Group Sustainability Report to overlook the most important factor determining our lives and our economic activity, which came into effect on 14 March 2020 when a state of emergency was declared in Spain to manage the crisis caused by COVID-19.

This crisis has overwhelmed our healthcare system and touched everyone's lives to a lesser or greater extent. The pandemic has brought changes in habits in human, labour and social relations and has accelerated the digital transformation of our society. Remote working, video conferences, remote learning, e-commerce, mass digital entertainment and all kinds of cloud services and cybersecurity have become part of our lives in a most extraordinarily rapid and natural way. We are now a digital society.

As a company that is responsible for the social and economic development of the territories and communities in which we operate, we have launched a crisis plan with the primary goal of strengthening and ensuring telecommunications services for families and businesses, as well as providing, by working with other institutions, connectivity for people with fewer resources.

From those initial moments of uncertainty, when being connected became a priority need for both people and businesses, we have guaranteed a quality connection. Since then, more than 800 professionals in the Group and our partners have worked daily to monitor, strengthen and reshape the network to absorb the exceptional increases in traffic that have arisen. Here I want to publicly express our thanks to our teams for the hard work they have put in to allow all of our customers to stay connected with excellent standards.

The digital transformation across every area of society highlights the importance of the work carried out by the companies of the Euskaltel Group to provide the most advanced telecommunications networks in Europe and which are now playing a fundamental role.

Telecommunications has been one of the “essential” sectors that have shouldered a large part of the responsibility to keep the world turning. The role of operators in this complex situation has been based on ensuring the quality of the services that allow businesses to continue to operate and families to remain connected, making social isolation measures more bearable.

*Telecommunications has been one of the “essential” sectors that have shouldered a large part of the responsibility to keep the world turning*

At the Euskaltel Group, we have taken a responsible approach to our role as a leading, responsible and accessible telecommunications operator, as described in the pages of this Sustainability Report and Non-Financial Information Statement.

The clearest example of this is that in 2020, under full lockdown, we completed one of the most important milestones in our history, namely the launch of Virgin Telco, through which we have executed our national expansion strategy to reach 85% of the Spanish market in which we did not have a presence. We now deliver our services to more than 20 million households in Spain, exceeding our forecasts by the end of 2020, becoming the only nationwide operator to be headquartered outside of Madrid. Thanks to Virgin Telco we can now propose a different way of consuming premium telecommunications products, adapting ourselves to the needs of every generation and new digital households.

Our expansion through Virgin Telco outside of our traditional markets (the Basque Country, Galicia and Asturias) is the fundamental pillar of our 2020-2025 Business Plan. We have not deviated from this business plan, despite the complex circumstances caused by COVID-19, because our development is based on a strategic long-term vision. In March, we presented the key points of the plan, which sees the main financial and business indicators growing profitably in the coming years, primarily based on the execution of our expansion plan, through which we will more than double the volume of our current customer base for both fixed-line and mobile services.

This five-year period is also the timeline for the Euskaltel Group Strategic Sustainability Plan 2020-2025, approved this year, which is our roadmap to strengthen our positioning in terms of sustainability. Structured around five pillars, with 22 lines of action and 81 specific actions, it is intended to generate value for our stakeholders taking into account our unwavering commitment to localism, transparency, management excellence, good corporate governance, respect for human rights, gender equality and the responsible payment of taxes.

Once again, we have renewed our membership of the Global Compact, sharing the need to incorporate the ten universal principles related to human rights, work, the environment and anti-corruption. We share the goal for ethical management based on the ten principles to help achieve the Sustainable Development Goals (SDGs) through our actions.

This year, our commitment to sustainability has been realised through our membership of the European Green Recovery Alliance, standing alongside other companies, institutions, NGOs, well-known public and private sector figures, as well as everyday citizens, to support a greener, more prosperous, healthy and sustainable economy and society over time.

*This year, our commitment to sustainability has been realised through our membership of the European Green Recovery Alliance*



Our belief in ethical management has received noteworthy recognition in 2020 after we were included in the FTSE4Good IBEX sustainability stock market index, one of the world's most prestigious sustainability indices, which identifies leading Spanish companies for their CSR practices and is designed to provide investors with information about companies that comply with the best environmental, social and corporate governance (ESG) practices around the world.

We have taken on board the most advanced good corporate governance models and made important progress by incorporating two new independent female directors to our Board of Directors, enhancing the company's governing body in terms of the models and recommendations for an equal and independent membership structure.

In this review of our activities, it is worth noting that this year we celebrated the 25th anniversary of Euskaltel and Telecable. During this period, we have become one of the most important telecommunications groups in Spain, with an integrated and multi-disciplinary organisation. With this experience under our belts, it is no coincidence that we are taking on other projects to strengthen our technological leadership, such as the creation of a specific artificial intelligence unit, BAI Analytics, to accompany and advise businesses on adapting to the new data-driven economy.

In 2021, we are facing technological challenges that we have already started working on, and in which we are making significant headway, such as 5G technology. We are proud to be leading the "5G Euskadi" project, a consortium of 13 companies, which has been selected under the Spanish government's grants programme to develop and implement this new technology. This is the first real 5G pilot project in the Basque Country and stems from a commitment to promote innovation and the industrial transformation of the leading businesses and technology centres in the Basque Country. This experience will position the Basque Country and its business environment among the most advanced regions for developing this technology.

We therefore have enormous challenges ahead. This year, 2021, will continue to be shaped by the health situation, with the vaccine being the most important element in the fight against the virus. Nevertheless, it is clear to us that society will be digital and that the Euskaltel Group will be there to create the necessary conditions so that people can make the most of the opportunities in this new world. As a socially responsible company, we will continue to play our role prioritising management excellence and our dedication for service.

José Miguel García Fernández, CEO  
Xavier Iturbe Otaegi, chairman



# EUSKALTEL

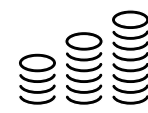
*We are the leading telecommunications company in northern Spain, with a value proposition that comprehensively addresses the communications needs of individuals, institutions and companies across the whole of Spain.*

*With more than 25 years of experience in the market, we are leaders in fibre optics and convergent telecommunications services in the territories in which we operate through our five brands: Euskaltel, R, Telecable, RACCTel+ and Virgin Telco.*



# 2020 IN FIGURES

## ECONOMIC PERFORMANCE



679M€

economic  
value  
generated

461M€

economic  
value  
distributed

218M€

economic  
value  
retained

697M€

revenue

0.44€

earnings  
per  
share

## TEAM



581

employees

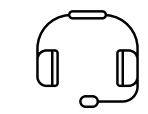
21,383.5

training hours

45.27%

women

## CUSTOMERS



823,313

private  
customers

13,827

SMEs

2,159

large  
companies

7.5

average  
customer  
satisfaction

## SUPPLIERS



347

local  
suppliers<sup>1</sup>

279

national  
suppliers<sup>2</sup>

100%

of suppliers  
assessed  
on  
ESG criteria

## ENVIRONMENT



72.44%

reduction in  
greenhouse  
gas emissions

44.33%

reduction in  
paper  
consumption

22.8%

reduction in  
water  
consumption

## SOCIETY



3,135

social  
contribution

70

collaboration with  
organisations  
through donations  
and sponsorship

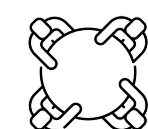
39

memberships of  
associations

120.16M€

contributed to public  
administrations  
through tax and  
contributions

## CORPORATE GOVERNANCE



99.65%

of employees  
trained in the  
Code of Ethics

98.62%

of the team trained  
in the Group's  
anti-corruption  
policy

0

cases of  
corruption  
confirmed



<sup>1</sup> 50.80% of our total suppliers, representing 52.89% of total purchases  
<sup>2</sup> Representing 38.07% of total purchases

# MAIN MILESTONES OF 2020

## February Agreement to use the Virgin brand

We signed an agreement to use the Virgin brand in Spain, helping to accelerate our national expansion plan reaching 85% of the Spanish market in which we were not present and capable of serving more than 20 million households.

## March Agreement for the connectivity of people and businesses

As telecommunications operators, we signed an agreement with the Spanish government in which we voluntarily agreed to a series of commitments linked to our business in order to guarantee the connectivity of people and businesses for the duration of the state of emergency declared by Royal Decree 463/2020 of 14 March.



## May Launch of Virgin Telco



As a result of our agreement with the Virgin Group, we launched Virgin Telco as a brand that offers flexibility, simplicity, quality, proximity and honesty with a competitive range of quality quad-play services.

## June Membership of the Green Recovery Alliance

We joined the European Green Recovery Alliance, which calls on governments, businesses, institutions, NGOs, leading public and private sector figures, as well as private individuals, to focus their efforts on a social recovery and a sustainable economy.



## July 25th Anniversary of Euskaltel

We are celebrating 25 years of Euskaltel, during which time we have grown and evolved within the telecommunications sector, creating value and driving development in the Basque region. This anniversary coincides with the celebration of a quarter of a century of Telecable as an operator of advanced telecommunications in Asturias.

## November Criminal Risk Management Model certified

We obtained Aenor certification for Compliance Management Systems under the UNE 19601 standard for our Criminal Risk and Anti-bribery Management System, which accredits the measures that we have implemented in the company to prevent crimes from being committed in our operations.

## December New focus on our responsible management: Sustainability Policy and Sustainability Strategic Plan 2020-2025

We have created a new Sustainability Policy that formalises our commitment to our stakeholders and to sustainable growth, which we will put into practice in the coming years through the implementation of the Sustainability Strategic Plan 2020-2025.

## March Presentation of the Business Plan 2020-2025

We presented our Business Plan 2020-2025, which will guide our development in the coming years, focused on the execution of our national expansion strategy in order to access new growth opportunities.



## May Anti-bribery Management System certified

We obtained Aenor certification for our Criminal Risk and Anti-bribery Management System under the ISO 37001 standard, which validates our management to prevent, detect and combat the existence of corruption and bribery related practices.

## June Incorporation of Euskaltel into the FTSE4Good IBEX index

We have been included in the FTSE4Good IBEX sustainability stock market index, one of the world's most prestigious sustainability indices, which identifies leading Spanish companies for their CSR practices.



FTSE4Good



## December AENOR certification for Anti-COVID-19 protocols at Euskaltel, R and Telecable offices

This external endorsement verifies that the different safety measures adopted by the company since the start of the health crisis not only abide by the recommendations, but also the requirements that are periodically established by institutions in relation to prevention and hygiene.



# ABOUT US

As a leading company in the telecommunications and digital services sector in northern Spain, we are firmly committed to our stakeholders and to the digital transformation as a route towards sustainable development.

Our Sustainability Report reflects the guidelines and results of the management of the Euskaltel Group, which goes beyond our purely corporate performance and positively impacts our environment.

The information presented here relates to 2020, a year defined by the COVID-19 pandemic that has been a watershed moment both economically and socially around the world. It is a disruptive event that has put us in a new scenario, which radically influences companies' business models and the work that we will carry out under the "new normal", in which we are being called upon to play a leading role.



# 1.1. OUR HISTORY

In 2020 we celebrated Euskaltel's 25th anniversary. A quarter of a century of operations and commitment to the Basque Country, where we have grown and evolved, expanding our range and establishing ourselves in new regions through a process of integrating with new companies and brands, taking our services nationwide.



<b>1995</b>	<input type="checkbox"/>	<i>Incorporation of Euskaltel.</i>
<b>1999</b>	<input type="checkbox"/>	<i>Launch of the mobile service and cable television.</i>
<b>2004</b>	<input type="checkbox"/>	<i>First operator to launch interactive TV.</i>
<b>2005</b>	<input type="checkbox"/>	<i>One of the first companies in the country to obtain OHSAS 18000 certification for occupational health and safety.</i>
<b>2006</b>	<input type="checkbox"/>	<i>First operator to offer all of its services via its own networks (fixed-line and mobile).</i>
<b>2008</b>	<input type="checkbox"/>	<i>Youngest company and the first in the sector to obtain the "Q de Oro" award for management excellence.</i>
<b>2011</b>	<input type="checkbox"/>	<i>For the first time in its history, Euskaltel has its own mobile telephony frequencies after acquiring the 10 MHz block of the 2.6 GHz frequency in the Ministry of Industry's auction.</i>
<b>2014</b>	<input type="checkbox"/>	<i>Euskaltel launches new multi-device television.</i>
<b>2015</b>	<input type="checkbox"/>	<i>Stock market flotation and acquisition of R, the cable operator in Galicia.</i>
<b>2017</b>	<input type="checkbox"/>	<i>Acquisition of Telecable, the operator in Asturias, and creation of the Euskaltel Group.</i>
<b>2018</b>	<input type="checkbox"/>	<i>Alliance between Euskaltel and RACC to create the RACctel+ brand with a presence in Catalonia.</i>
<b>2019</b>	<input type="checkbox"/>	<i>Incorporation into the IBEX Medium Cap index.</i>
<b>2020</b>	<input type="checkbox"/>	<i>Business Plan 2020-2025.</i>
<b>2020</b>	<input type="checkbox"/>	<i>Launch of Virgin Telco.</i>



Through our Euskaltel, R, Telecable, RACCTel+ and Virgin Telco brands, we offer our services to a market of more than 20 million households, exceeding the expectations announced in the Business Plan 2020-2025 (18.4 million households).

We provide ICT solutions to cover the complete communications cycle of our residential and corporate customers with a wide range of technological services that span fibre, fixed-line and mobile telephony, digital TV and broadband, through to digital transformation processes, cloud solutions, IoT (Internet of Things), big data, artificial intelligence, technology for smart cities and Industry 4.0.



In 2020 we signed an agreement with Orange that provides us with access to 5G technology as a virtual mobile operator starting from 1 January 2022. Under this agreement, we can guarantee our customers access to the most advanced mobile telecommunications services via a quality 5G network, and we can ensure the necessary capacity to respond to users' new needs for mobile data services in the future.

In this same area, it is worth highlighting the "5G Euskadi" project, in which we are a coordinating partner and which has been selected under the Spanish government's grants programme to develop and implement this new technology. This initiative, undertaken alongside 13 other companies and technology centres, will allow us to position ourselves as a real 5G technology provider in the residential and corporate segments, and will make the industrial sector in the Basque Country more competitive in the future.

## 1.2. THE BUSINESS

We are the leading convergent telecommunications group in northern Spain, founded and developed around our firm commitment and roots in the territories in which we operate, which are principally the Basque Country, Galicia and Asturias. We carry out our activities in these markets through the operators Euskaltel, R Cable and Telecable, and more recently in the regions of Navarre, La Rioja, León, Cantabria and Catalonia. In May 2020, as a result of our expansion strategy, we launched the Virgin Telco brand to operate in the other parts of Spain where we did not previously have a presence.

Our value chain is made up of a human team consisting of 581 professionals and a chain of 683 suppliers, of which 50.81% come from the Basque

Country, Galicia and Asturias, regions in which we have a larger presence, reflecting our commitment to the economic development of the communities in which we operate.

We have achieved a solid position in the technology and digital market across the whole of Spain thanks to our range of telecommunications products and services. Through our Euskaltel, R, Telecable, RACCTel+ and Virgin Telco brands, we offer our services to a market of more than 20 million households, exceeding the expectations announced in the Business Plan 2020-2025 (18.4 million households). In 2020 we were chosen by more than 823,300 private customers, 13,800 SMEs and 2,100 large companies across the whole of Spain.



Our activities during 2020 have been influenced by the impacts imposed by the COVID-19 pandemic. However, this situation has not prevented us from moving ahead with the expansion plan for the rest of Spain through the Virgin Telco brand, which began operating in the telecommunications market at the end of May with a message based on honesty, proximity, good service and agility and with a policy to create a flexible range of products and services that enables customers to decide exactly what products they wish to contract.

As a result of the restrictive measures taken by governments in 2020 to contain the spread of COVID-19, the global economy has been significantly impacted.

In this scenario, the telecommunications sector has shown itself to be essential to maintain connectivity for people and businesses. In our case, we have successfully met the challenge of keeping our networks operational in order to absorb the increase in traffic generated by our customers' growing communication and entertainment needs.

In addition to this important network-related challenge, the imposition of restrictions on the portability of telecommunications services in Spain during the lockdown (March-May 2020) also impacted operators' activities, resulting in a slowdown in the rate of new customer registrations, which was offset to a similar extent by lower rates of customer departures due to less competitive pressure, resulting in a stable customer base overall.

According to the latest quarterly figures published by the regulator, revenues from retail services between January and September this year fell by 6% to €17.256 bn compared to the same period in 2019, highlighting the impact of the COVID crisis.

The combined market share of the top three operators (Movistar, Vodafone and Orange) continued to fall for mobile telephony and broadband, to the benefit of other operators in the market.

## 1.3. CORPORATE CULTURE

Throughout our history, we have had a corporate philosophy based on strengthening the link between the Group's growth and generating a visible, tangible and measurable contribution in terms of social, economic and environmental value to society and our stakeholders.

We are working to improve communication for people and businesses, and access to information technologies. We are driving the digital transformation of society based on our differentiated range of convergent telecommunication products and services, continuously adapting to emerging needs. Our social commitment makes us a significant player that generates social and economic value in the regions where we are present.



The activities that we carry out are guided by our corporate values of proximity, honesty, innovation and agility. These enable us to reflect a corporate identity based on excellence, productivity and leadership in all our actions.

*Our social commitment makes us a significant player that generates social and economic value in the regions where we are present.*



## 1.4. STRATEGIC POSITIONING: BUSINESS PLAN 2020-2025

We have developed a national expansion plan designed to access new and profitable growth opportunities on which we will base the company's positive growth in customer numbers and profitability.

Our historical presence in the markets of northern Spain account for 15% of the total national tele-communications market. We were therefore unable to serve some 85% of the market, despite having extensive experience in the sector. This clear opportunity, combined with the ease of access to third-party networks through wholesaler agreements, led to the launch of Virgin Telco in 2020, the Group's new national brand that will sit alongside our regional brands (Euskaltel, Telecable, R and RACCTel+), bringing the Group new opportunities for expansion.

**Haz lo  
que te dé la  
Virgin telco  
gana.**



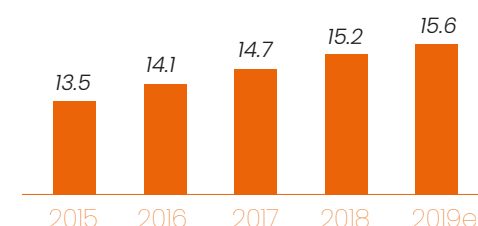
*We have developed a national expansion plan designed to access new and profitable growth opportunities on which we will base the company's positive growth in customer numbers and profitability.*

### **The Spanish broadband and TV market represents an opportunity for growth**

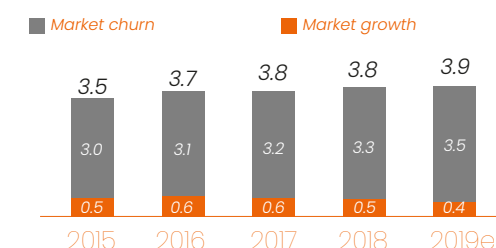
The Spanish market has grown year-on-year for fixed broadband and TV and this trend is expected to continue as broadband and TV penetration in Spain is below the European average.

In parallel to this growth, it is worth noting that around four million customers change operator every year in Spain, which represents a significant growth opportunity for the company at a national level.

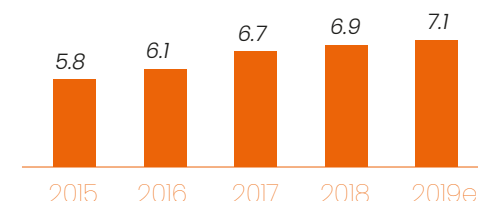
**SPANISH BROADBAND MARKET  
BROADBAND LINES**  
In millions of lines



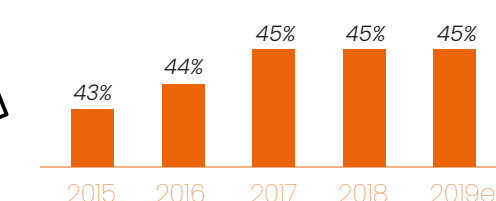
**SPANISH BROADBAND MARKET  
GROWTH OPPORTUNITIES**  
In millions of lines



**SPANISH PAY-TV MARKET  
CUSTOMER EVOLUTION**  
In millions of customers



**SPANISH PAY-TV MARKET  
BROADBAND PENETRATION**  
As a percentage of broadband lines

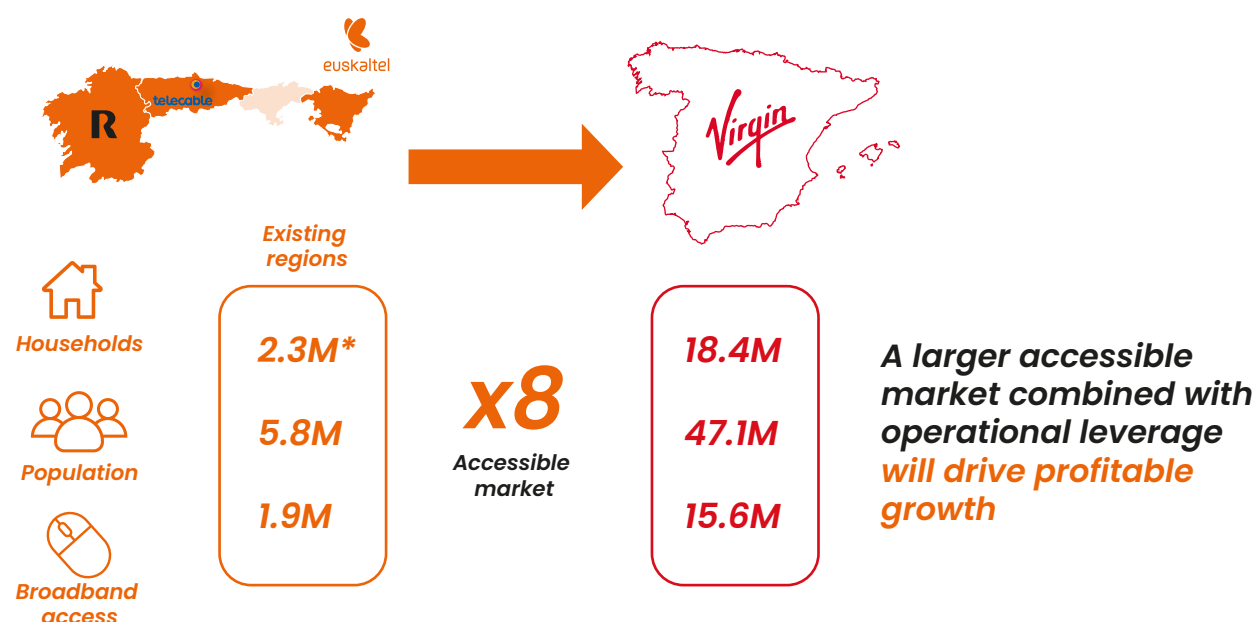


Source: CNMC, company estimates

## Nationwide expansion multiplies the market that is accessible by the company

Our national expansion is being carried out using the Group's existing capabilities and the networks of third-party operators in order to multiply our accessible market eightfold.

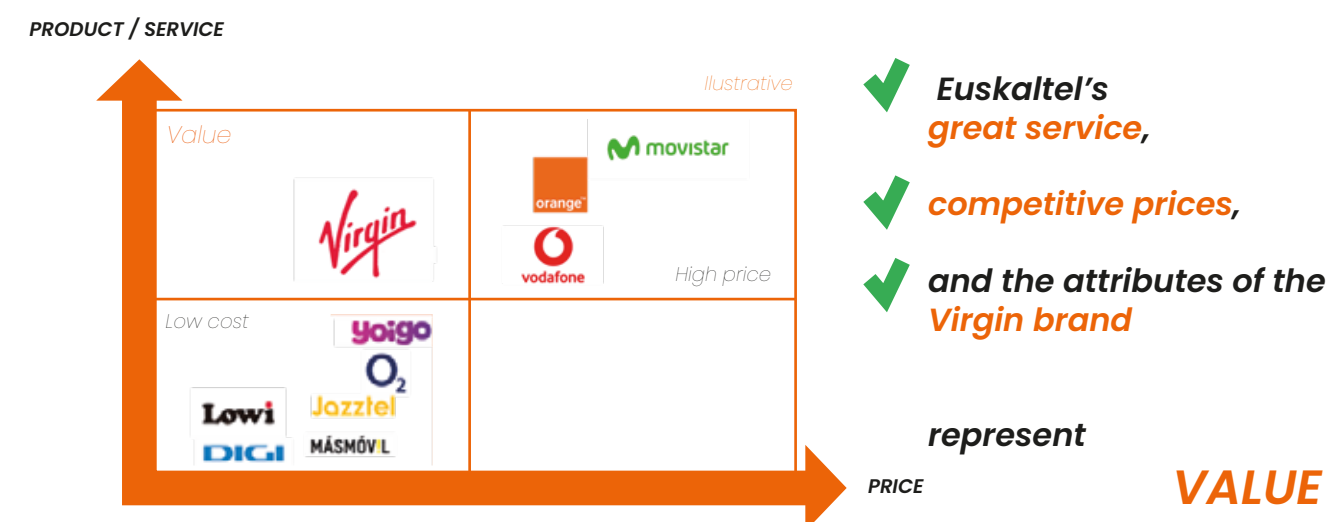
Our main competitive advantages are that we have the platforms, capabilities, wholesaler agreements for access to third-party networks, more than 25 years of experience operating at a high level of quality and service, and a solid brand such as Virgin Telco to offer a high quality service across the whole Spanish market.



Source: CNMC, INE; the existing regions include figures for the Basque Country, Galicia and Asturias  
\* Households with own network

## The Virgin Telco offer from Euskaltel is a proposition with clear value

The strength of the Virgin Telco brand, combined with market knowledge, service quality and the high value of our products, creates a differentiated position that adds value to the customer by combining quality service at a competitive price with clear and flexible offers for high-speed broadband, mobile telecommunications with generous data volumes, and a powerful TV offering.



Source: Internal analysis

# 1.5. OUR RESPONSE TO THE CHALLENGES OF COVID-19

In March 2020, the World Health Organisation declared the COVID-19 Coronavirus outbreak to be a pandemic due to its rapid spread around the world, affecting more than 150 countries. Most governments took restrictive measures to contain the spread, such as social distancing, confinement, restricting people's free movement, closing public and private premises (except those providing staple goods and healthcare), closing borders and drastically reducing air, maritime, railway and land transport.

This reaction significantly affected the global economy by interrupting or slowing down supply chains and significantly increasing economic uncertainty.

The responsibility that comes from our commitments to our stakeholders prompted us to act in the fields in which we operate, taking specific measures to mitigate the negative impacts caused by the COVID-19 pandemic.



## COVID-19 MEASURES

1

### We expanded the services available to our customers and we are working to keep them safe in our stores

- ✓ Free children's channels and film channels
- ✓ Free 30 GB monthly voucher for customers
- ✓ Boosted data capacity for customers with special circumstances
- ✓ TV app accessible to people in hospital
- ✓ Strict health and safety measures in stores

2

### We put the focus on the health and safety of our team

- ✓ Remote working for ≈100% of employees
- ✓ Verification of the Anti-COVID-19 protocol set up for our workforce

3

### We guarantee the continuity of our services

- ✓ We created a Business Continuity Committee
- ✓ Remote working for systems maintenance providers, maintaining efficiency and timeliness
- ✓ Critical activities identified and controlled

4

### We publicly commit ourselves to connectivity and a sustainable recovery

- ✓ We signed the Green Recovery Alliance manifesto
- ✓ We signed a commitment with the leading national telecoms operators

5

### We collaborate with public and social institutions to reduce the impact of the pandemic in society

- ✓ Allocation of free lines to retirement homes
- ✓ We collaborate with social initiatives to eliminate connectivity barriers
- ✓ We opened up virtual training platforms for client companies
- ✓ We rebroadcast religious services using artificial intelligence solutions



# OUR COMMITMENT TO SUSTAINABILITY

We believe that sustainability is inherent in business activities. Accordingly, based on our responsibility to create and share value with our shareholders, we are fundamentally committed to localism, management excellence, good corporate governance, transparency, respect for human rights, equality between people, the alignment of suppliers with our environmental, sustainability and governance (ESG) policies, and the responsible payment of taxes.

# 2

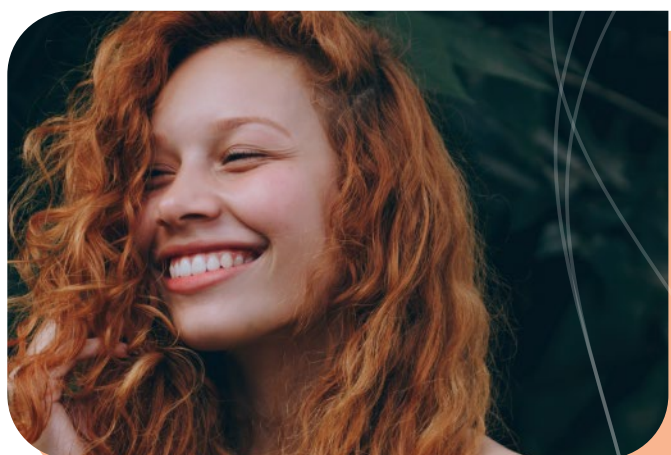


## 2.1. RESPONSIBLE MANAGEMENT MODEL

We plan our operations with the aim of excellence in the company's different processes, thereby working to achieve the main goal of our business, namely customer satisfaction. We know that to achieve this objective, it is important to maintain open and amicable relationships with all of our stakeholders and to manage our activities from an economic, social and environmental perspective, which are the tenets of our sustainability strategy.

We are therefore developing and implementing the Euskaltel Group Responsible Management Model across the organisation based on the identification of potential impacts and risks to sustainability that arise in our activities, while developing and applying a series of commitments, policies, management procedures and mitigation measures designed to influence the identified impacts.

*We plan our operations with the aim of excellence in the company's different processes, thereby working to achieve the main goal of our business, namely customer satisfaction.*



Our Responsible Management Model is based on implementing sustainable practices across all our activities, promoting their application throughout our value chain, from our partners through to our customers. We take into account the recommendations issued by the external sustainability initiatives that we join, in developing every aspect of our business strategy.



*Our Responsible Management Model is based on implementing sustainable practices across all our activities, promoting their application throughout our value chain, from our partners through to our customers.*



We also collaborate in local actions to promote a sustainable transformation:



Public-private partnership agreement 2016-2020 (Euskaltel) to **manage the Basque Ecodesign Center**, launched in 2012 and promoted by IHOBE (the Basque government's environmental management company).



IZAITE, the Association of Basque Companies for Sustainability, a non-profit association made up of companies that are committed to **sustainable development and corporate social responsibility**.



Framework collaboration agreement between the Alboan Foundation and the Euskaltel Group for the **"Conflict-free technology"** initiative.



Club Asturiano de Calidad, an association seeks to raise awareness, train and promote change in organisations to **improve their management in areas such as quality, the environment and social responsibility**.

*We have been part of the prestigious global FTSE4Good IBEX sustainability index, which independently recognises the company's responsibility and is a leading tool in the market for investors seeking companies that have a positive impact on society.*

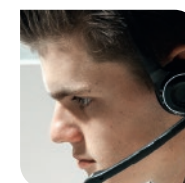
Since June 2020, we have been part of the prestigious global FTSE4Good IBEX sustainability index, which independently recognises the company's responsibility and is a leading tool in the market for investors seeking companies that have a positive impact on society. This valuable recognition endorses our efforts to incorporate the best governance and sustainability practices into our management.



## INTEGRATED MANAGEMENT SYSTEM

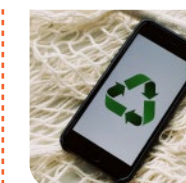
The Euskaltel Group bases its organisation on an integrated management system, having successfully implemented its systems under ISO quality, environment, information security, occupational health and compliance standards and the National Safety Scheme, as well as systems required by law, such as billing quality and service quality.

Implementing and certifying the management systems in our companies ensures compliance with continuous improvement criteria and the established legislation, and ensures the effectiveness and improvements of the management mechanisms that we apply in the different areas of the Group's organisation.



### Quality Management Model

- ☐ Service Quality
- ☐ Billing Quality
- ☐ Information Security



### Environmental Management Model

- ☐ Materials, Waste and Water Management
- ☐ Energy Management
- ☐ Climate Change Management



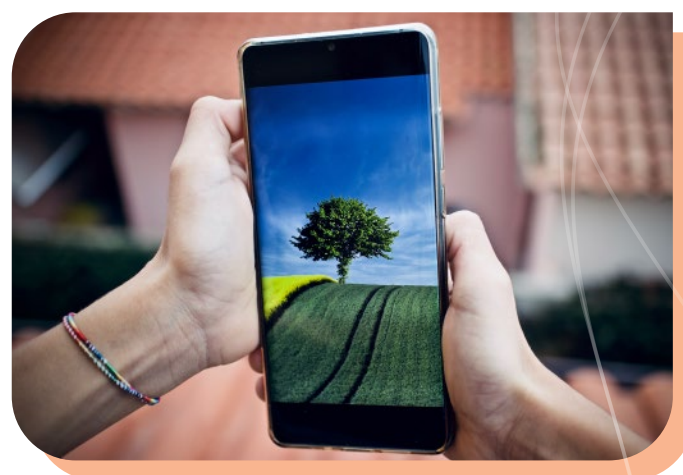
### Employee Health and Safety Management Model

- ☐ Healthy company

## 2.2. SUSTAINABILITY STRATEGIC PLAN 2020-2025

We take on board the principles and recommendations defined in the initiatives that we participate in to promote global sustainability (United Nations' Global Compact and Agenda 2030, "CEO por la Diversidad" Commitment, the Green Recovery Alliance...), applying them to our internal operations through the Euskaltel Group's Sustainability Policy that we approved in 2020 to establish a reference framework to support the management of social and environmental impacts, while also promoting transparency, ethical conduct and dialogue with stakeholders.

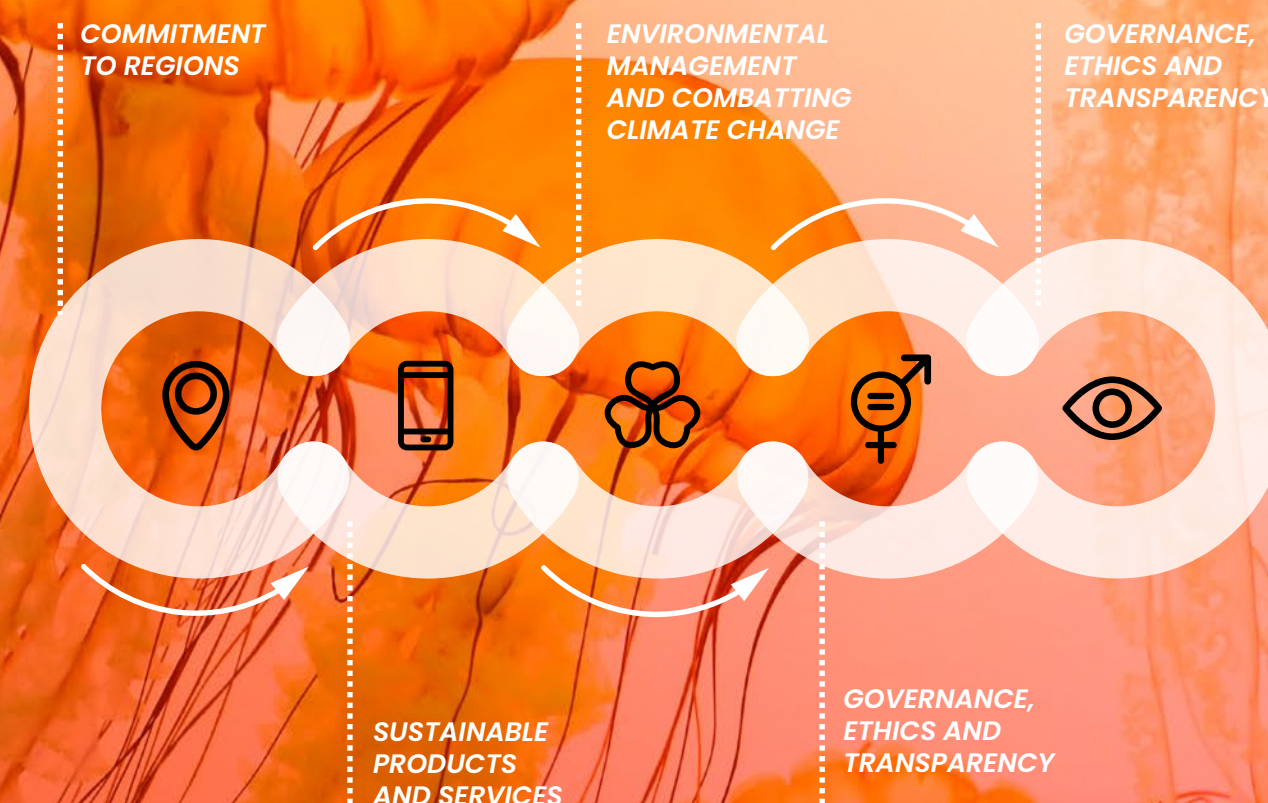
*Euskaltel Group's Sustainability Policy that we approved in 2020 to establish a reference framework to support the management of social and environmental impacts, while also promoting transparency, ethical conduct and dialogue with stakeholders.*



We have created the Euskaltel Group Sustainability Strategic Plan 2020-2025 to put this set of responsibilities into practice, which is our roadmap to strengthen the Group's position in relation to sustainability and support the Business Plan 2020-2025. This new strategic framework defines and gives structure to the development of new solutions to be implemented in our operations in response to the challenges facing society, reducing the risks inherent in the company's business and strengthening our role as an agent for change.

The Euskaltel Group's Sustainability Strategic Plan 2020-2025 is structured around five strategic pillars, with 22 lines of action and 81 specific actions.

### STRATEGIC SUSTAINABILITY PLAN 2020-2025





## 2.3. SUSTAINABLE DEVELOPMENT GOALS

As signatories to the United Nations' Global Compact, our actions seek to identify specific aspects to which we can make a significant contribution through our operations.

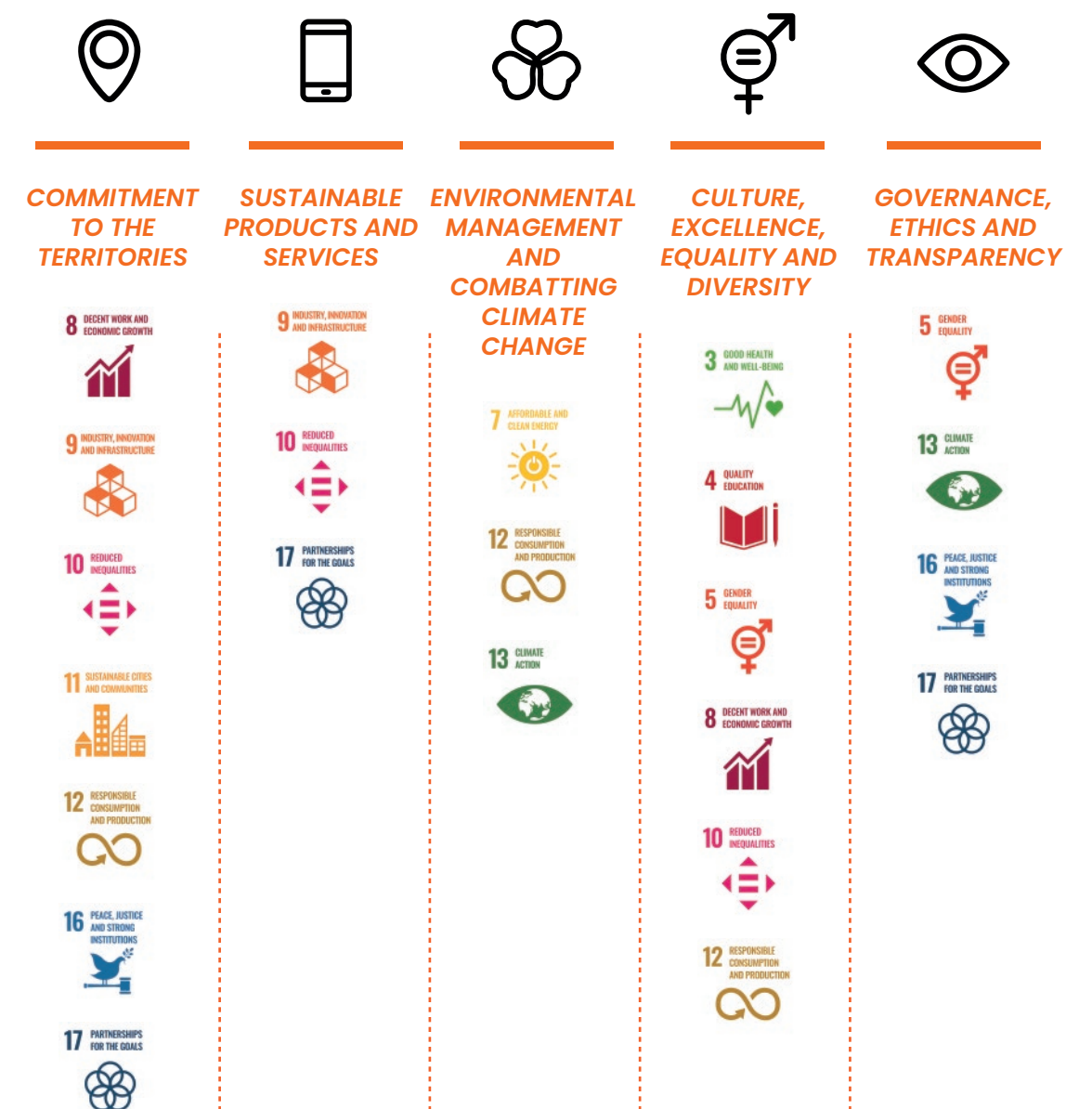
The goals and actions of the Sustainability Strategic Plan 2020-2025 and their application through the different management models enables us to contribute to various Sustainable Development Goals (SDGs), which in turn serve as a reference when designing and implementing policies and actions to deal with common challenges that all economic agents are facing.

*The goals and actions of the Sustainability Strategic Plan 2020-2025 and their application through the different management models enables us to contribute to various Sustainable Development Goals*



Consequently, each of the five pillars of our sustainability strategy contains objectives and specific actions that positively impact a certain set of SDGs:

### STRATEGY SUSTAINABILITY PLAN 2020-2025 **ALIGNED WITH THE SDGs**



## 2.4. OUR STAKEHOLDERS

As leaders in the telecommunications sector over a large part of Spain, and guided by our priority to address the needs of our stakeholders, we strive to maintain constant dialogue with all of our partners, based on the importance of forging trustworthy and respectful relations with all of them.

In the Euskaltel Group, we manage our stakeholders according to the potential positive and negative impacts that our activities could have on each of them, and this is reflected in our Sustainability Policy and Code of Ethics.

We have specific channels for dialogue with each group, through which we have free-flowing and two-directional communication at all times. We strengthen, move closer, diversify and innovate in our contact channels and methods with all stakeholders in order to enhance our relations with them and to progress towards our strategic objectives and our commitment to the digital transformation.

### STAKEHOLDER

WHY ARE THEY IMPORTANT TO THE EUSKALTEL GROUP?

COMMUNICATION CHANNELS

### CUSTOMERS

Our lifeblood. Communications by and for people and companies. We work to provide them with access to technology through a close and trustworthy relationship.

Social networks and the Internet. Customer support by telephone, online or in person. Customer surveys.

### PEOPLE

The people that make up our teams are the drivers that move our company and enable us to achieve our mission.

Direct contact, in person and virtual meetings, working committees, corporate intranet, internal collaborative channels and email.

### SUPPLIERS

Allies on our mission to provide communication and technology to our customers. They help us to maintain a sustainable value chain. Stability, trust and fairness are cornerstones in the commercial relationships with our suppliers.

Regular meetings with business and purchasing managers. Email.

### SOCIETY

We help to build a more prosperous community, generating opportunities for access and connectivity that take into account users' expectations and needs.

Social networks and the internet.

### SHAREHOLDERS

They help us to achieve the growth and economic stability that we need to fulfil our commitments. Relationship based on good corporate governance and transparency.

A set of channels for reporting, communication and contact via the CNMV, the investor relations department, the corporate website, and the General Shareholders' Meeting.

### ADMINISTRATION

Regulatory bodies and public administrations, from local through to international, are important allies to our business.

We communicate with public administrations through in-person meetings, attendance at forums, institutional sponsorships and membership of sector associations.

## MATERIALITY

The identification and monitoring of the most important issues, both for the Group and our stakeholders, is a fundamental task for taking corporate governance decisions, designing strategic plans and defining content in corporate reporting processes.

The circumstances caused by the COVID-19 pandemic and the situation that has arisen, have driven us to review our materiality analyses to update our previous analyses with the aim of understanding the impact that the socio-health crisis has had on the different areas of our business.

From the analysis carried out, the following list of material sustainability aspects has been obtained for the Euskaltel Group:

## GRAPHIC MATERIAL ASPECTS 2020



### 1. COMMITMENT TO REGIONS

- 1.1. Responsible network rollout
- 1.2. Local development and commitment to the environment
- 1.3. Responsible management of the supply chain



### 2. SUSTAINABLE PRODUCTS AND SERVICES

- 2.1. Accessibility
- 2.2. Brand identity and responsible marketing
- 2.3. Sustainable and inclusive products
- 2.4. Customer satisfaction and support and multi-channel approach
- 2.5. Digital transformation and innovation



### 3. ENVIRONMENTAL MANAGEMENT AND COMBATING CLIMATE CHANGE

- 3.1. Responsible resource consumption
- 3.2. Combating climate change and biodiversity
- 3.3. Circular economy



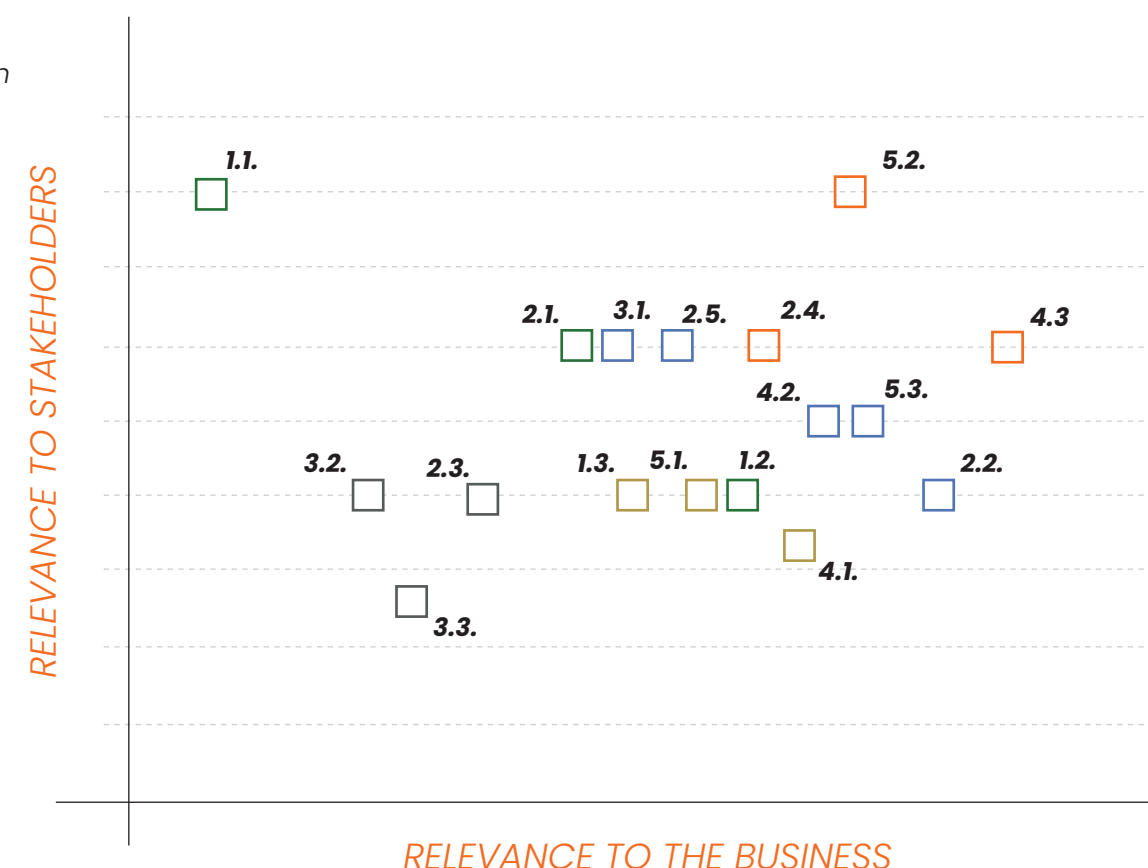
### 4. CULTURE, EXCELLENCE, EQUALITY AND DIVERSITY

- 4.1. Employee experience
- 4.2. Diversity and equality
- 4.3. Health and well-being



### 5. GOVERNANCE, ETHICS AND TRANSPARENCY

- 5.1. Human rights
- 5.2. Confidentiality, data protection and cyber-security
- 5.3. Good governance, ethics and transparency





# COMMITMENT TO REGIONS

One of the hallmarks that identifies and motivates us in our actions is our commitment to the development of the regions in which we operate. We therefore get involved in society in a proactive way, developing numerous programs and initiatives in the territories where we are based. The common denominator for all these actions is our contribution to social, economic and technological progress.

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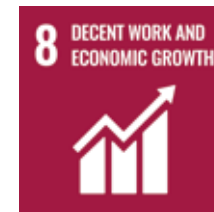


# 3



The economic value that we generate year-on-year enables us to support progress in the local communities where we operate by creating direct and indirect jobs, while maintaining a committed supply chain that is aligned with our values. The responsibility to our environment that we have also leads us to collaborate in charitable, cultural and other initiatives carried out in our communities, and to establish alliances with public institutions to tackle society's common problems.

We have therefore incorporated specific actions into our Sustainability Strategic Plan 2020-2025 to improve our purchasing certification and traceability procedures, as well as to measure our social contribution and to continue responding to the consequences of the pandemic, providing support to our customers and society in general. These actions will define our conduct in society in the coming years.



- ☐ We support activities that encourage entrepreneurship and digitalisation among young people through the Euskaltel Foundation.



- ☐ We support initiatives that promote equal opportunities and social integration through sport and culture.



- ☐ 52.9% local suppliers
- ☐ Supplier certification model based on quality, occupational safety, environmental management and information security criteria.



- ☐ We participate in numerous associations that work to promote business cooperation and encourage technological innovation and quality.



- ☐ More than €6.4 million invested in rolling out new fibre networks, especially in rural areas.
- ☐ We are collaborating with public institutions and NGOs to ensure connectivity for the most vulnerable groups during the COVID-19 pandemic.



- ☐ We sponsor sports and cultural events and organisations in our home territories.



- ☐ We collaborate with the WATS Teams initiative for a violence-free sporting environment.
- ☐ We require our suppliers to accept and observe our internal regulations (Code of Ethics, Anti-corruption Policy, etc).





## 3.1. CONTRIBUTION TO THE TECHNOLOGICAL DEVELOPMENT OF THE REGIONS

In 2020, we successfully carried out important actions to continue to strengthen the technological support for our products and services, and improve access to a quality network in our regions.

It is worth highlighting in this area our investment to roll out new fibre networks, which in 2020 exceeded €6.4 million, providing access to our network to more than 33,000 new households. Some 69% of this investment was in rural areas, providing fibre access to new zones in 75 rural populations in Galicia and Asturias and to new municipalities such as Cariño, Antas de Ulla, Noia, Cambados, Padrón or Carballo in Galicia, among others, and Somiedo, Sobrescobio and Teverga in Asturias.

We have also invested €3 million in infrastructure for the launch of Virgin Telco, and a further €2.2 million in improvements to our networks in response to increased traffic primarily driven by COVID-19.



*It is worth highlighting  
in this area our  
investment to roll out  
new fibre networks,  
which in 2020 exceeded  
€6.4 million*





## 3.2. RESPONSIBLE SUPPLY CHAIN MANAGEMENT

Our supply chain, in which the largest procurement volume is from purchasing services, technology and network operations, is characterised by its local ties and its local and national proximity.

Of the 683 suppliers that we use, 347 are from the Basque Country, Galicia or Asturias, and account for 52.89% of total purchases. Furthermore, an additional 279 suppliers come from elsewhere in Spain, representing 38.07% of the total volume of purchases. Lastly, some 57 international suppliers complete our supply chain, of which only 16 are outside of the European Union.



SUPPLY CHAIN DISTRIBUTION IN 2020	% PURCHASES	Nº OF SUPPLIERS
LOCAL SUPPLIERS FROM THE BASQUE COUNTRY, GALICIA AND ASTURIAS.	52.89%	347
OTHER NATIONAL SUPPLIERS	38.07%	279
INTERNATIONAL	9.04%	57

To ensure the traceability and control of the entire supply chain, we use the Supplier Certification and Evaluation Model to monitor purchases and procurement, which enables us to detect incidents and areas for improvement in our supplier operations and management. This model, which is part of our Integrated Management System, contains quality criteria based on the ISO 9001 standard, environmental management criteria based on the ISO 14001 standard, occupational safety criteria according to the ISO 45001 standard, and information security criteria according to the ISO 27001 standard.

During the supplier certification process, we evaluate aspects related to their quality and solvency, which enables us to develop a procurement process that offers full guarantees and is based on equitable and honest selection principles. This model requires us to periodically evaluate suppliers according to their capacity to supply products according to the requirements defined in our orders. This supplier management is fundamental for continuously improving the relationship with our suppliers and to improve the impact of the supply chain on the services that we provide to our customers.

In 2020, we selected a sample of 110 suppliers based on the result of the previous year's evaluations, the purchase volume during the 2019 fiscal year and the importance/criticality of the supply in the value chain of our companies. The user areas of these suppliers issued assessments of 86% of the selected sample, identifying areas for improvement and requesting their transfer to 18 of the suppliers and the cessation of commercial activity with one of them. As a result, we conclude that there is a high level of satisfaction with 61% of the positive evaluations.

Likewise, all suppliers receive the Code of Ethics, the Conduct Instructions and the Anti-corruption Policy for the Group, to inform them about all of the requirements that they must fulfil to become part of our supply chain, engaging them in our commitments in terms of ethics and due diligence. This shared responsibility is formalised in the Internal Regulations Awareness and Acceptance document of the Euskaltel Group, through which we request their express acceptance of our Code of Ethics, the Conduct Instructions, the Anti-corruption Policy, and the Commitment to Equality, which we send to them during the contracting process. In 2020, we worked with 59 new suppliers who have accepted the Group's Code of Ethics and Internal Regulations.

Furthermore, in the case of contracts with specific impacts, such as construction work and its environmental impacts, clauses or requirements are inserted that are tied to signing the contract. In 2020, three new suppliers were evaluated on environmental criteria.

The supplier certification process enables us to confirm that there are no negative environmental or social impacts in our supply chain.

### 3.3. CREATION OF ECONOMIC VALUE

Since the start of our business, all Group companies share a commitment to encourage the development of the communities in which they operate and promote growth in these communities by creating wealth and wellbeing among all those that participate in our activities.

INDICATOR	2019	2020
<b>ECONOMIC VALUE GENERATED</b>	<b>669 Million €</b>	<b>679 Million €</b>
Revenue	668,303 Thousand €	677,785 Thousand €
Other operating income	404 Thousand €	139 Thousand €
Financial income	610 Thousand €	1,574 Thousand €
<b>ECONOMIC VALUE DISTRIBUTED</b>	<b>471 Million €</b>	<b>461 Million €</b>
Procurement	33,895 Thousand €	35,260 Thousand €
Work carried out for other companies	128,939 Thousand €	145,977 Thousand €
Wages and salaries	58,713 Thousand €	42,107 Thousand €
Other Operating Expenses	120,724 Thousand €	128,211 Thousand €
Financial expenses	49,888 Thousand €	60,460 Thousand €
Dividendos	55,329 Thousand €	55,327 Thousand €
Corporate income taxes and duties	23,452 Thousand €	-6,465 Thousand €
<b>ECONOMIC VALUE RETAINED</b>	<b>198 Million €</b>	<b>218 Million €</b>
<b>REVENUE</b>	<b>686 Million €</b>	<b>697 Million €</b>
<b>EARNINGS PER SHARE</b>	<b>0.35 €</b>	<b>0.44 €</b>
<b>PROFITS BEFORE TAX (PBT)</b>	<b>71,518 Thousand €</b>	<b>66,704 Thousand €</b>
<b>NET PROFIT</b>	<b>62,018 Thousand €</b>	<b>79,366 Thousand €</b>
<b>PUBLIC SUBSIDIES RECEIVED</b>	<b>929 Thousand €</b>	<b>154 Thousand €</b>



Maintaining solvent and stable growth also means progressively increasing our contribution to the public purse by paying taxes, levies and contributions.

INDICATOR	2019	2020
TAX ON PROFITS PAIDIVA E IGIC	16.755.926 €	23.449.336 €
VAT AND IGIC	58.375.535 €	59.960.964 €
TASAS E IAE	31.388.703 €	22.773.439 €
LEVIES AND IAE	16.044.861 €	13.972.895 €

## 3.4. SOCIAL DEVELOPMENT

**3.135**  
thousands of euros

Invested in collaborative and associative actions with local organisations through sponsorship and patronage in 2020

*The initiatives that we collaborate with seek to recognise the importance of technological development and the promotion of equal opportunities and social integration by means of educational, cultural, charitable and sporting events and activities.*

The collaborations, sponsorships and alliances that we enter into, offer an indispensable lever to develop our strategy, seeking to become closer and be more committed to the local communities in which we operate. Our goal therefore lies in reassessing the bond between people and companies, encouraging the creation of a more personal relationship in which we support the development of the communities in which we carry out our activities.

The initiatives that we collaborate with seek to recognise the importance of technological development and the promotion of equal opportunities and social integration by means of educational, cultural, charitable and sporting events and activities.

Some €3.135 million was invested in collaborative and associative actions with local organisations through sponsorship and patronage in 2020. Despite the exceptional situation this year, which in general prevented the organisation of mass events, we have maintained our commitment to collaborate with those actions and activities that have been able to take place by adapting their format to the safety restrictions at any given time.



### INVESTMENT IN SOCIAL COLLABORATION AND ASSOCIATION ACTIONS IN 2020

DONATIONS AND SPONSORSHIPS OF FOUNDATIONS AND NON-PROFIT ASSOCIATIONS	1,751 thousands of €
OTHER SPONSORSHIPS	1,242 thousands of €
CONTRIBUTION THROUGH PARTICIPATION IN ASSOCIATIONS	142 thousands of €
<b>TOTAL SOCIAL CONTRIBUTION</b>	<b>3,135 thousands of €</b>



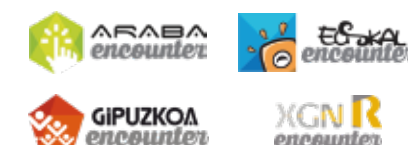
## EUSKALTEL FOUNDATION

The Euskaltel Foundation is a private non-profit organisation that was set up to help create and encourage better relations between people and companies by promoting the use and creation of information and communication technologies (ICT) and the development of local communities.

Through the Euskaltel Foundation we connect to society and we realise our commitment to promoting technology and science among young people.

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### ENCOUNTERS NETWORK



The central focus of the Euskaltel Foundation's activities in 2020 was the "Encounters" network, which needed to be adapted due to COVID-19. The wide range of issues that we have examined in these technological "Encounters" include artificial intelligence, big data, cyber-security, Internet of Things (IOT), innovation, start-ups, the environment, industry 4.0, diversity, robotics, drones, ethical hacking, and other issues that address the educational needs identified in our society.

These events allowed new content to be generated that has been used in the Basque Country (Euskal Encounter 28, Araba Encounter 07 and Gipuzkoa Encounter 14) and in Galicia (XGN R Encounter 20) to create new initiatives and projects such as GameguneTV and Gamegune Online, as well as to organise various conferences and workshops for different segments of society.



## SUPPORT FOR EDUCATION AND DIGITALISATION

### FIRST LEGO LEAGUE



This was the first international robotics tournament held in the Basque Country organised by the Innobasque, the Basque agency for innovation, with the collaboration of the Euskaltel Foundation. Through this tournament, we want to offer a different perspective of the scientific and technological world, motivating young people to discover the enjoyment of creativity and innovation.

### UNI ENCOUNTER



Conferences related to new technologies organised by the Uni Eibar-Ermua secondary school (Gipuzkoa). The 16th Uni Encounter took place in February encompassing different educational and technical activities such as talks given by influential people in the field of information technology, practical workshops and online gaming competitions.

### HETEL



As a strategic ally of Hetel (the Association of vocational education schools in the Basque Country), the Euskaltel Foundation is committed to vocational education and the promotion of scientific careers among young people using teamwork, problem solving and collaboration between different schools.

### KAIXO MUNDUA.EUS – TECHNOLOGY SCHOOLS



The Euskaltel Foundation participates in the KaixoMundua.eus initiative of the PuntuEUS Foundation to promote the creation of websites and digital training for young people aged between 12 and 18.

### SAREAN.EUS – ONLINE MAGAZINE



Digital magazine promoted by the PuntuEUS Foundation, with which we collaborate, which serves as a meeting point for the digital world. Leading experts and collaborators work on a broad range of topics related to the digital environment in order to inform, entertain and promote technology culture in the Basque Country and establish its own points of reference.

## ENTREPRENEURSHIP

### BIND 4.0.



This is a meeting point for innovative start-ups and large companies to drive the digital transformation of industry and accelerate the consolidation of innovative initiatives through real projects with important customers.

### VIDEOGAME ENTREPRENEURSHIP



Support for creating new careers for young people interested in the videogame industry, through participation in the organisation of the F2P Campus Vitoria-Gasteiz, together with the Basque government, the provincial government of Álava and Vitoria-Gasteiz city council for videogame development training.



## SPONSORSHIP OF CULTURAL ACTIVITIES

We support culture by contributing to important cultural institutions such as the Guggenheim Museum, the Kursaal, the Artium and the Pobo Galego Museum; and the organisation of concerts, music and film festivals, such as the Zinema Express Film Festival, Resurrection Fest Online, the Gijón Film Festival, the Gaztea Errepidean concert or the Ópera de Oviedo Foundation.

We take special interest in those initiatives that, in addition to promoting art and culture, also address social concerns. One such example is Zinegoak, the international LGBTQ+ film and theatre festival held in Bilbao, which seeks to raise awareness and normalise sexual diversity through culture.

We collaborate with events, initiatives and activities related to research, dissemination and the recognition of innovative and technological knowledge, such as Expofarma Digital or GaliciaTIC.

Furthermore, as part of our commitment to our regions, we support actions that promote their cultural and linguistic identity. We therefore collaborate with the Ikastolas Federation to organise the Fiestas del Euskara that promote the use of the Basque language, and we sponsor the Go!azen TV series aimed at young people on the Basque ETB-1 television channel. We have also provided steadfast support for Durangoko Azoka, the Basque book and record fair, which in 2020 was held in a virtual format due to the pandemic. In Galicia we supported the prominent cultural event, Xacobeo 21, which will be one of the pillars for reactivating the wider economy in Galicia.





## SPORTS SPONSORSHIP

Another side of our commitment to society takes the form of numerous sponsorship actions aimed at supporting local sport in the communities where we have the greatest presence. We sponsor the Euskaltel-Euskadi cycling team, a traditional collaboration with the Euskadi Foundation that we have brought back in 2020 despite the difficult conditions caused by the pandemic, which has led to the postponement or suspension of numerous races scheduled for the year. We also support major sporting clubs such as Club Básquet Coruña, Real Sociedad, Athletic Club de Bilbao, Sporting de Gijón, Club de Bilbao Basquet, Club Atlético de Osasuna and Baintet Comunicación. Through the Bizkaia Bizkaialde Foundation, we help Basque sports clubs that need help to remain viable to access the highest competitive levels.

We recognise the indisputable role that sport plays in promoting educational values, integration and social development. We collaborate with initiatives that promote messages of respect, tolerance and friendship, such as WATS Team, an initiative that works to eradicate violence in the sporting arena. Moreover, in line with our corporate values and the belief that equal opportunities should be extended to every area of our lives, we dedicate a large part of our sporting sponsorship to strengthening women's sports, working with the clubs Real Sociedad Femenino, SD Eibar Femenino, Telecable Hockey Club and Athletic de Bilbao Femenino to raise awareness of equality in the world of sport.

Similarly, we promote the social integration of people with disabilities supporting football clubs such as the Osasuna Foundation, Bilbao University, Hernani Rugby, Celta Integra and Deportivo Genuino, which integrate people with disabilities in the world of sport. We therefore try to do our part to overcome two important challenges for the progress of our society, namely the inclusion and integration of everyone.



## SOLIDARITY ACTIONS

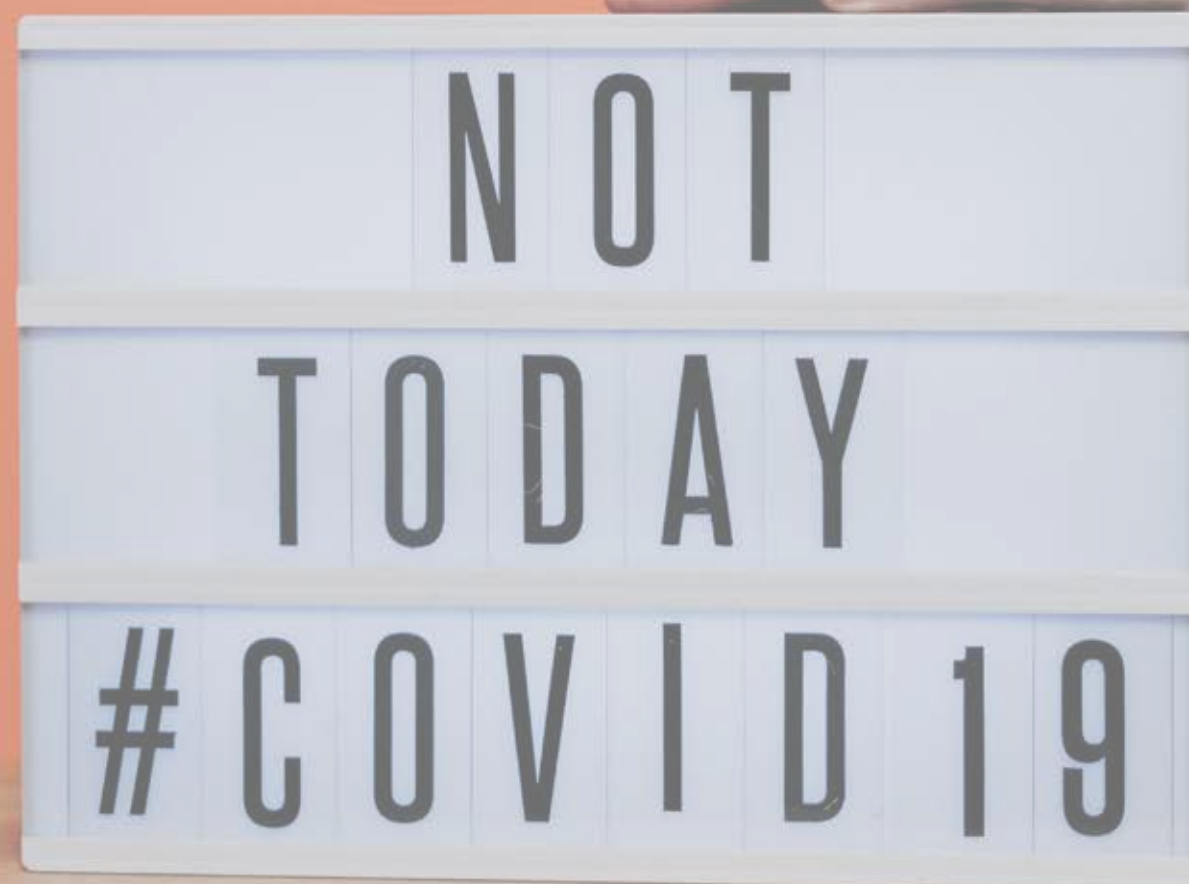
Our contribution as a company to the world of social responsibility also includes our participation and collaboration in solidarity initiatives. In 2020 we would highlight our alliance with the Association of Mos Employers (AEMOS) to launch a project for women who have been victims of violence to provide them with computers and internet connections, giving them free data cards and plans from R, with the intention of supporting the training, monitoring, tutoring and job-seeking support that AEMOS carries out with 31 gender violence victims in the district of Vigo, under the umbrella of the INSERE ACTIVA 4 job placement program financed by the Department of Equality of the regional government of Galicia.

We also collaborated with the Cespa Foundation (which operates in Asturias supporting the social reintegration of people at risk of exclusion); the concert organised by the José Cardín Foundation (Asturias), which donated the funds raised from ticket sales for the concert to charitable causes; and with COCEMFE, the Spanish Confederation of People with Physical and Genetic Disabilities, to promote the inclusion of people with disabilities in every area of society.



## COVID actions

*In line with our social commitment, during the pandemic we carried out actions to support the existing and future functioning of organisations that, in turn, contribute to promoting well-being and ensuring connectivity between people.*



We collaborate with public institutions and social organisations that focus on supporting connectivity and technology (routers, sim cards, data vouchers, tablets, mobiles...) for the most underprivileged groups, students without access to online resources and people in hospital:

- During the first stage of the COVID-19 crisis, we launched various initiatives to promote connectivity for the Group's customers and access to entertainment content during the lockdown. For example, until the end of the state of emergency period, Euskaltel customers were able to **freely activate 15 GB worth of vouchers on their mobile lines**. This initiative was designed to ensure mobile internet availability, especially for **employees in the healthcare sector or in groups with frontline jobs**.
- Free telephone lines for the 65 retirement homes in Gipuzkoa as part of the provincial government's "Abrazos Virtuales" initiative, so that they could communicate with their families.
- Access to online television platforms for all people in hospital, regardless of whether they were customers or not. In the first 15 days, more than 1,000 people activated this free service.
- Special collaborations with public institutions and local organisations:
  - Provision of two hundred 50 GB Sim cards to the Basque government for all special-needs students.
  - Provision of 500 Sim cards to the government of Navarre in response to its call to help combat the educational digital divide and provide access to education to students in Navarre during the lockdown, as well as for hospitals and people experiencing exclusion.
  - Donation of readers, headphones and mobile chargers to the Bilbao Fire Brigade in order to make people's hospital stays more bearable.
  - Contribution of modems and tablets to SD Eibar Fundazioa as part of a joint action with the Red Cross and Eibar Town Council, to be handed over to 59 underprivileged families in the municipality so that their children could continue their studies online.
  - Agreement with the Bishopric of Bilbao to install artificial intelligence systems to broadcast religious services live on the Bishopric's website during Easter week, as COVID-19 had prevented the public from attending these services.
- **Collaboration with the "Rastreador de Voluntarios" initiative**, to put people that needed support during lockdown in contact with volunteers that could help with their needs.
- Strengthening of residential customer service and corporate technical support platforms to respond to employees' remote working needs.



## ALLIANCES WITH ASSOCIATIONS

We are members of organisations and associations that establish alliances in the economic, business, social and environmental fields, and that share our goal of progressing towards a digital transformation.

Contributing to the technological development of our region, which means supporting businesses with our resources and our experience as a telecommunications company, is one of the basic pillars of our management approach. This has been our approach throughout our history, working and actively collaborating with different business organisations and associations, mainly in the Basque Country, Galicia and Asturias. In 2020 we belonged to 39 associations. These alliances have been maintained and strengthened, even when we have been overtaken by the circumstances caused by the pandemic.

*Supporting businesses with our resources and our experience as a telecommunications company, is one of the basic pillars of our management approach*

## MAIN ASSOCIATIONS TO WHICH THE EUSKALTEL GROUP BELONGS

### Associations that **promote innovation**:

- GAIA. Basque Association of Knowledge and Applied Technology Industries
- Asociación Cluster TIC Galicia
- Basque Ecodesign Center
- Asociación Cluster TIC Asturias
- Fundación CITIC
- Cluster Audiovisual Galego
- INNOBASQUE. Basque Innovation Agency
- Goierri Valley

### Associations for **management excellence**:

- Euskalit. Basque Foundation for Quality
- IZAITE. Association of Basque Companies for Sustainability
- Club Asturiano de Calidad Instituto Vasco de Competitividad
- Spanish network of the United Nations Global Compact
- ASCOM. Spanish Compliance Association
- APD. Association for Management Progress

### **Employers' associations**:

- Círculo de Empresarios Vascos
- Círculo de Empresarios de Galicia
- Federación Asturiana de Empresarios
- CEBEK. Business Confederation of Bizkaia
- ADEGI. Association of Businesses of Gipuzkoa
- SEA Empresas Alavesas



# SUSTAINABLE PRODUCTS AND SERVICES

At the Euskaltel Group we work to stay at the cutting-edge of telecommunications and to continue being the preferred telecommunications company in a highly competitive sector. We therefore strive to meet the communication needs of our customers and to adapt our portfolio of products and services to the ever-changing demands of the market.

As part of our Sustainability Strategic Plan 2020-2025 we intend to strengthen and enhance the sustainable attributes of our products, focusing on the universal accessibility and digital inclusion of our services, customising them as much as possible in order to encompass every group, with a vision of diversity and scalability. We also include actions to innovate our products and improve our support and security for our customers.





☐ **We develop and provide advanced technology services that are adapted to the new communication needs of people and businesses.**

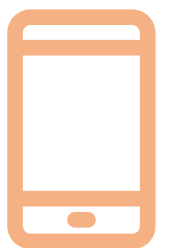
☐ **We helped our customers to overcome mobility restrictions during the initial phase of the pandemic, improving the services contracted and offering free products.**



☐ **We continue to invest in expanding and modernising our networks, and have already invested more than €3 billion.**



☐ **We launched product and service offers at affordable prices, adapted to specific needs: *the July offer and our Internet Commitment.***





## 4.1. WE ADAPT OUR OFFER TO THE CUSTOMER'S NEEDS

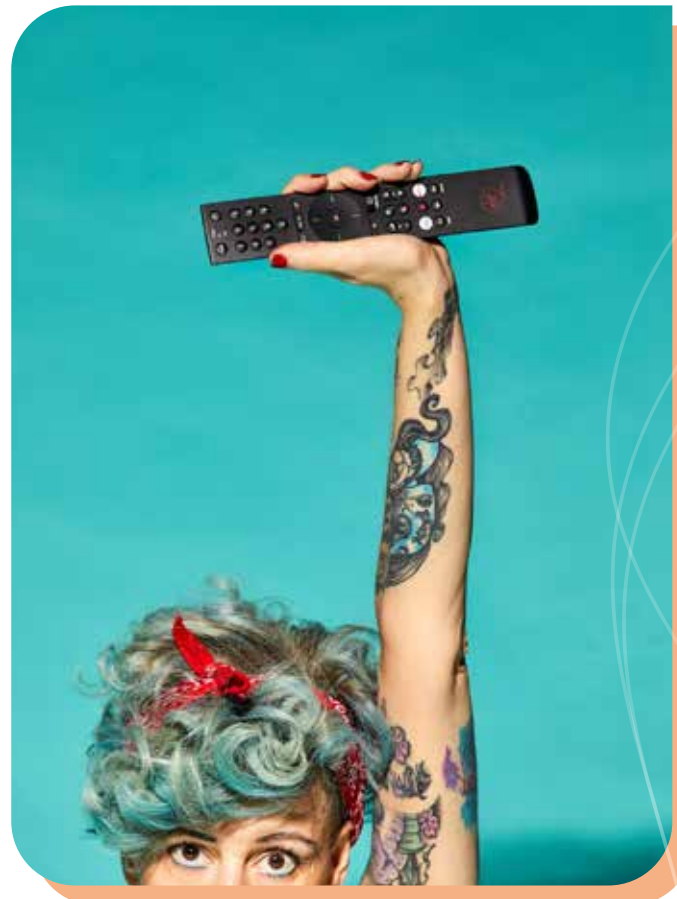
We offer our customers all types of technology and communications solutions and the best service experience. This offer is supported by our robust and cutting-edge infrastructure, our portfolio of innovative and multifunctional products, and our accessible and reliable service channels.

Our solid value proposition, which is present in all of our brands, generates high levels of customer satisfaction.





**823,313**  
private  
customers

**2.159**  
large  
companies

**13,827**  
SMEs



### GENERAL SATISFACTION INDEX

 euskaltel	<b>7.3</b>
 R	<b>7.2</b>
 telecable	<b>7.5</b>
 Virgin telco	<b>8.1</b>

*Offering the  
highest quality  
telecommunications  
under the best market  
conditions, adapting our  
offer to our private and  
corporate customers'  
needs*

In 2020, we continued to make progress towards our goal of offering the highest quality telecommunications under the best market conditions, adapting our offer to our private and corporate customers' needs, expanding and improving our competitiveness and service quality.



## WE MEET COMPANIES' TECHNOLOGICAL NEEDS

Given companies' new requirements in the social and economic environment imposed on us by the current health recommendations and that have led to new ways of connecting people and businesses, technological tools have been shown to be fundamental to ensuring business continuity, the coordination of teams and protecting people. In this scenario, we are constantly working to develop and provide new products and advanced services in response to the current situation.

### Virtual occupational training platform



In April 2020, we launched a training platform across all of our brands so that our companies can continue to implement professional development plans for their employees. This proved to be especially useful during the lockdown period over several months of this year. This tool was the result of an agreement with the Basque company Fit Learning and was designed to maintain our training actions within our companies, while also effectively facilitating remote working:

- Euskaltel Learning
- #formaciónR
- #FormaciónTelecable

The response from client companies has been extremely positive, as reflected in the high scores from users that participated in an initial free program consisting of five exceptional and useful content blocks in this health crisis scenario: "The best advice for remote working", "Motivational tools", "Teams", "Effective management of virtual meetings" and "Cyber-security".







*In June we hired a group of professionals for our corporate customer area that specialise in the use and development of artificial intelligence tools and solutions, which is enabling us to offer direct artificial intelligence services designed to enhance our corporate customers' businesses and expand the catalogue of services that they already enjoy. Thanks to this initiative, we are focusing on meeting one of the primary needs in business organisations: access to machine learning solutions and artificial intelligence that until now were only available to major international firms. The incorporation of new tools at an affordable price allows smaller companies to obtain greater efficiency in their existing processes and business development, and consequently to improve their competitiveness.*



## Mileva

*In November we launched the Mileva platform as a convergent solution for the digital strategy of our corporate customers, and as the basis for rapidly developing digital solutions and services in which any type of device can be treated as a sensor, with algorithms capable of identifying patterns, predicting future behaviours or learning from examples. We are developing strategies that enable businesses to complete their existing relational databases so that they can exploit this data in a broader, more effective and profound way. This modernisation process facilitates the evolution of new analytical capabilities, enabling the input from multiple sources and data variables at high speed and in real time, while also having the processing capacity and the necessary tools to effectively exploit all of the existing data.*



## Solución Pymes (SMEs)

*Since February, our corporate customers have had access to "Solución Pymes", our convergence solution for a cloud-based switchboard that allows small and medium-sized companies to access a range of pay-per-use communications that encompass mobile telephony with unlimited calls, VOIP and extensible internet access for other services and which can be adapted to the needs of each business.*



## Corporate Mobile Tariff

*A flexible tariff specifically designed for companies, which can adapt the tariff, minutes and data package to the consumption profile of each user.*





NEW PRODUCTS FOR PRIVATE CUSTOMERS

The offers this year have been designed around how to respond to the changing needs of our customers. The pandemic has lengthened the amount of time we are at home and has changed our leisure and working habits. Consequently, this year on-demand TV has become particularly important and the need to have good data connections in our first homes (and in our second homes) has led the offer from our operators, adapting it to these new needs in our society.

The aim of our new products and services and commercial proposals is to provide a strong product, with a value offer for all our customers, a goal that represents one of the strategic pillars of the company, with the commitment to offer the best quality telecommunications at the most competitive prices in the market.

*The offers this year have been designed around how to respond to the changing needs of our customers*



Launch of Virgin Telco

We launched Virgin Telco in May 2020 as a new telecommunications services brand in Spain. Its differentiating value lies in its offer of quad-play services of premium quality fixed-line and mobile telephony, internet and television with a flexible format based on the consumer's needs. With Virgin Telco we are moving away from unnecessary bundling, empowering customers with the ability to decide how to configure their bundle of services, contracting only what they want and need.



## Competitive offers adapted to the customer

In January and July we launched convergent offers with the goal of offering lower prices to the customer and improved data usage options. These offers, which are also adapted in terms of prices and conditions for the customer base, allow us to deliver more attractive and competitive prices in the market.

Furthermore, in June we launched the Second Homes promotion for people that need an internet connection in their second home.



## Internet Compromiso

In December, we began selling Mesh Wifi equipment across all of our brands, marking a significant qualitative jump in the customers' browsing and internet connection experience. These devices enable a single and faster Wi-Fi network to be created, with greater stability against service interruptions and with 100% coverage in customers' homes thanks to Mesh technology.



## Netflix



In October we launched the new Netflix Fan service in Virgin Telco, consisting of bundling the Netflix OTT service together with fibre. Customers that contract Netflix Fan receive an extra 10 GB free on one of their mobile lines in addition to being able to watch all Netflix content.

By teaming up with Netflix, a global leader in the distribution of streaming content, we can significantly improve the bundling of our services, offering a much more extensive content catalogue.

## Mesh Wifi

This is the product that we have designed to respond to the connection needs demanded by families in which students have to continue their studies online, as well as staying in close contact with their families, even in situations of isolation caused by COVID-19. It is specifically designed for customers on lower incomes or at risk of exclusion in order to reach all groups of society and thereby help to eliminate the existing digital and social divide.





## COVID actions

We have rapidly and effectively launched a series of measures to keep our customers' communications services 100% operational, while also ensuring people's security and helping to slow the spread of the virus.

- **Technical Support.** Since the start of the exceptional measures put in place on 14 March, 800 people from the technical and network area have been working to constantly reshape the network and absorb the exceptional volumes of traffic, equivalent to up to 40% in fixed broadband and 50% in mobile voice communications. We also carried out geographical redundancy measures for the centres from which the services are managed, diversification of technical resources and operational plans for diverting activity to provide services remotely or from other locations.
- **Quality and user experience.** Maintenance and permanent surveillance of the network to guarantee telecommunications quality and a good user experience.
- **Investment in one of the most advanced networks in Europe.** We continue to invest in constructing a quality network, having invested more than €3.0 billion to date. This is illustrated by our important work to provide the Basque Country, Galicia and Asturias with one of the most advanced telecommunications networks in Europe, which has proved to be essential and played a fundamental role during this health crisis. This powerful network has enabled us to scale up our services at any given time.



### ■ Free products and services for customers:

- **Access to children's channels and film channels from our TV offering for all users, regardless of the bundle they may have contracted.**
- **Addition of a special educational series in the History channel into the on-demand video service, aimed at students.**
- **A free 30 GB of mobile data for people that are unable to use the fixed-line network.**
- Incorporation of new channels into the pay-TV offer (such as the Surf Channel) for all users.
- Strengthening our entertainment offer with 100 new free film titles into our on-demand video catalogue.
- Teams: Campaign that we launched in July with Microsoft, providing all corporate customers with free access to Teams Trial for a period of six months in order to meet their needs in their search for tools that support remote working and remote collaboration during the COVID-19 lockdown period.

- **Corporate customer service:** We have strengthened and scaled up the network to guarantee that companies have service continuity following the increase in remote working. We have also enabled VPN accesses, cloud solutions, etc. for our customers in record time.

## 4.2. CUSTOMER SERVICE

We have a customer support system that allows us to understand and deal with the different needs and concerns of both private and corporate customers. The channels through which we receive and respond to their communications include telephone lines, the internet, an app, email, a forum, social networks (Twitter, Facebook, LinkedIn, Instagram) and the in-person service in our stores.

We record, analyse, solve and respond to all interactions with our customers, applying the relevant processes according to the nature of each communication, whether these relate to customer complaints, formalities requested by customers, management of terminals, faults, service provision, or billing and collections.

We try to resolve all complaints during the first interaction with the customer and we always try to engage with the customer directly via telephone. Using service quality audits, we control the correct resolution and communication with the customer regarding the agreed solutions, which combined with the appropriate follow-up and classification of all incidents, enables us to improve our customer interactions.

Every quarter, we publish details about complaints, their evolution and resolution times on the websites of our operators, publishing service quality indicators as established in the Service Quality Order (IET/1090/2014), in accordance with the guidelines set by the Secretariat of State of Telecommunications and Digital Infrastructure.

### COMPLAINTS REPORTS



## 4.3. SERVICE QUALITY, PRIVACY AND INFORMATION SECURITY

To offer our customers the highest quality service, we have a Quality Management System and Policy that are certified under the ISO 9001 standard (implemented in Group companies), which form part of our Integrated Management System.

Furthermore, R Cable and Telecable Telecomunicaciones have additional certifications that verify their efficient performance in managing their services and ensure the efficiency and continuity of their activities:

- ISO 20000-1 Management System for the Information Technology Service
- ISO 18295 Customer Contact Centre Services
- ISO 22301 Business Continuity Management System

At the start of 2020, we defined a new Business Continuity Policy for the whole of the Euskaltel Group, marking the starting point to roll out the Business Continuity System certified in R Cable and Telecable across all Group activities and companies.

We have an Information Security Management System and Policy certified in accordance with the ISO 27001 standard for each of the companies in the Group, as a tool for managing the information security risk inherent in our business.



This Information Security Management System is the reference framework to define, manage, administer and implement the necessary risk management mechanisms and procedures to achieve the appropriate level of protection for the critical nature of the company's physical and information assets.

Furthermore, we have a privacy policy for customers, a privacy policy for web and app users (which includes a policy for marketing to non-customers), and a Data Protection Risk Management System implemented in each Group company. We can therefore ensure maximum control of the personal information and data provided by our customers, and we are compliant with the General Data Protection Regulation.

With regards to the security of our customers and companies in general, we publish specific articles with security recommendations, we participate in events to raise awareness, and we share best practices in relation to cyber-security. We are responsible for putting into the market equipment manufactured by third parties, assuring ourselves that the equipment that we both purchase and sell complies with prevailing legislation, especially in relation to electromagnetic fields. In 2020, there were no incidents of non-compliance related to health and safety impacts from products and services.



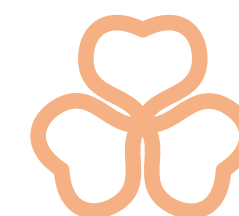
# ENVIRONMENTAL MANAGEMENT AND COMBATTING CLIMATE CHANGE

Environmental management and combating climate change are fundamental pillars in our Sustainability Strategic Plan 2020-2025, acting as levers for the transformation towards a responsible business model. Our goal is to align the business model with our commitments and environmental goals, making carbon neutrality and emissions reductions a priority to responsibly manage the environmental impacts inherent in our business.

This strategy is backed by our Environmental Management System (part of the Integrated Management System), which includes the Environmental Policy and our SDG commitment, focusing our attention in the sphere of environmental management on the use of less polluting energies and efficient and responsible resource use.

To achieve these goals, our environmental strategy is divided into three key action lines:

- Combating climate change and efficient resource use
- Circularity and management of electronic waste
- Promotion of environmental certifications and initiatives



## COVID actions

We have added the "Green Recovery Alliance" to our environmental-related commitments, which seeks to recover from the European Union's health and economic crisis by making sustainability a fundamental priority in the implementation of measures and policies by governments that are aligned with sustainability criteria.



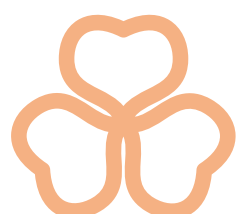
- ☐ At the end of 2020, 100% of our electricity came from **guaranteed renewable sources**.
- ☐ We carry out energy audits **at our facilities**.
- ☐ Energy Management System certified by AENOR in accordance with the **ISO 50001:2018 standard**.



- ☐ We measure our carbon footprint as an organisation and we have applied to register in the **Register of carbon footprints, offsets and absorption projects of the Ministry for Ecological Transition**.
- ☐ We have reduced our GHG emissions **as a result of measures to purchase renewable energy. In 2020 these fell by 72.44% compared to 2019**.
- ☐ Every year we take part in the Climate Change Survey by the Carbon Disclosure Project (CDP).



- ☐ **Environmental Management System certified by AENOR in accordance with the ISO 14001:2015 standard.**
- ☐ **Environmental declarations in accordance with the EMAS regulation.**
- ☐ **We reduce our water consumption, cutting it by 22.80% in 2020 compared to 2019.**



## 5.1. EXCELLENCE IN ENVIRONMENTAL MANAGEMENT DRIVEN BY OUR ROOTS

Our commitment to environmental management excellence is put into practice through our Environmental Management System (based on the ISO 14001 standard and the EMAS Regulation) that is used in all Group companies, and the Energy Management System and Policy (developed according to the ISO 50001 standard) that have been implemented in R Cable and Telecable.

These instruments act as a universal mechanism across the entire value chain, underpinning the rollout of our sustainability strategy horizontally through production and service provision processes, and vertically through the organisational structure.

We have certifications that accredit the suitability of our environmental management against recognised international standards:

- ISO 14001 on environmental management in Group companies
- ISO 50001 on energy management in R Cable and Telecable Telecomunicaciones.

In addition, every year we file our environmental declarations with the administration, validated by AENOR under the EMAS Regulation, maintaining our participation in the EU's Eco-Management and Audit Scheme (EMAS).

### ENVIRONMENTAL DECLARATIONS AND CERTIFICATIONS



### WE EVALUATE OUR ENVIRONMENTAL IMPACT

Every year we carry out an assessment of the environmental aspects associated with our activities according to the criticality of the associated environmental impacts, taking into account both direct and indirect aspects, as well as normal, abnormal and emergency conditions.

We focus our efforts on minimizing and controlling the significant environmental aspects, which we take into account when defining our environmental objectives. The most significant environmental aspects for the Group resulting from the evaluation carried out for 2020 are the generation of waste and energy consumption.

In addition, each Group company analyses the services provided to customers based on a life cycle approach, including the impact of their services in their use by customers.

As the Group does not own any land in biodiversity-rich habitats, in 2020 we have not recorded any impacts on biodiversity in protected areas, heritage sites or biosphere reserves. Consequently, we do not have a negative impact on areas that contain habitats for endangered species.

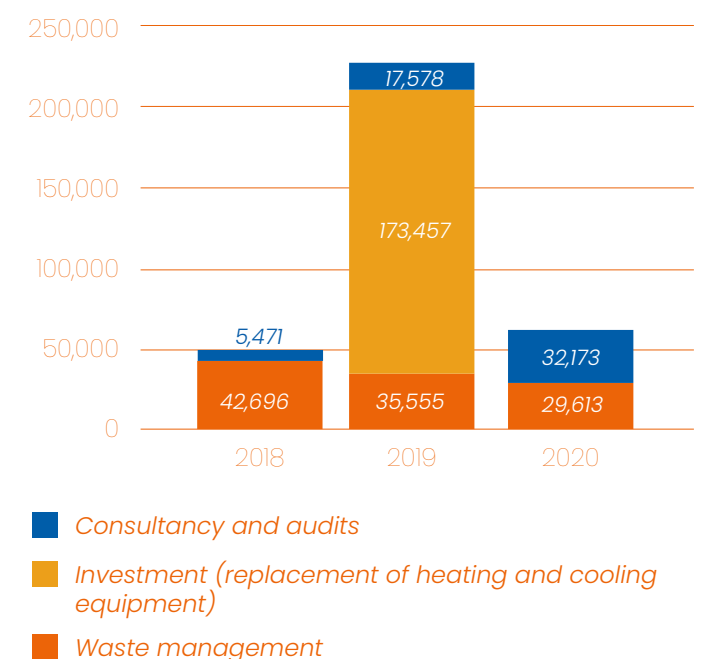
### TOTAL SPENDING ON ENVIRONMENTAL MANAGEMENT

2018	48,167€
2019	226,590€
2020	61,786€

The application of the precautionary principle from an environmental perspective is based on maintaining and reviewing our environmental management systems (EMAS, ISO 14001, ISO 50001), which are externally certified by AENOR and annually renewing these certificates. Furthermore, as part of our civil liability policy, we have coverage for accidental contamination.

We invest a significant amount to consolidate our environmental management. In 2020, we allocated a total of €61,786 to a range of services and improvements in this area.

### ENVIRONMENTAL MANAGEMENT SPENDING (€)





## 5.2. RESPONSIBLE CONSUMPTION OF NATURAL RESOURCES

The efficient use and consumption of natural resources (electricity, water and fuel) plays an important role in our environmental commitment. We therefore use our environmental and energy management system to systematise the work of measuring and evaluating the activities we carry out and to identify opportunities for improvement.

Como otra evidencia del compromiso del Grupo con el consumo responsable, tanto las Juntas de Accionistas, como el evento Euskal Encounter (promovido en colaboración con la Fundación Euskaltel) se realizan bajo la certificación "Erronka Garbia" para eventos sostenibles, intentando limitar al máximo el consumo de recursos en la realización de estos eventos.

*The efficient use and consumption of natural resources plays an important role in our environmental commitment.*



# ENERGY CONSUMPTION

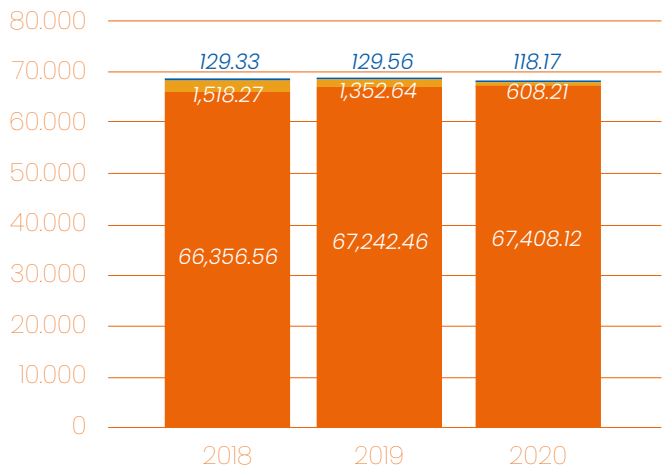
In 2020, energy audits were carried out on Euskaltel Group facilities to optimise energy consumption and costs and to improve energy management. These audits were performed according to the methodology established in the UNE-EN 16247 standard, applying the scopes defined in RD 56/2016 and the 2012/27/EU Directive on efficiency.

The works carried out have allowed us to analyse the way in which our facilities consume energy, detect inefficiencies, construct an energy assessment, calculate indicators and develop a series of energy-saving measures, establishing priority criteria for putting these into action based on potential savings, profitability and the company's strategic interests.

The technology on which the expansion of the Virgin Telco brand is based also involves a reduction in the impact per customer (in climate change terms), estimated to be 85% lower per customer, year and Gbps.

In 2020, the total energy consumed by the Group was 68,134.50 Mwh, a reduction of 0.86% over 2019. Our energy intensity was also reduced, from 22.77 kwh/product in 2019 to 21.36 kwh/product in 2020.

## TOTAL ENERGY CONSUMPTION (Mwh)



■ Natural gas  
 ■ Diesel  
 ■ Electricity

### TOTAL ANNUAL ENERGY CONSUMPTION:

2018	68,004.15 Mwh
2019	68,724.66 Mwh
2020	68,134.50 Mwh

### ELECTRICITY CONSUMPTION

2018	66,356.56 Mwh
2019	67,242.46 Mwh
2020	67,408.12 Mwh

Reducing the impact of our electricity consumption is one of the most important aspects of our environmental strategy. We have an Energy Management System to improve the efficiency of our energy consumption and reduce our carbon footprint, through which we define an annual Energy Efficiency Plan that includes the measures established to reduce our electricity and fuel consumption. The Group's electricity consumption in 2020 was 67,408,12 Mwh, some 0.25% higher than the previous year, but for a volume of services that increased by 5.7%.

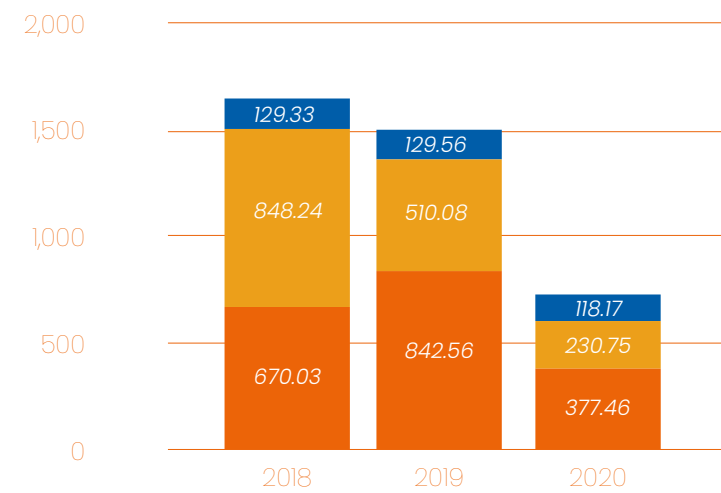




We use fuel (diesel) to operate generators, we use vehicles for employees to travel on company work, and natural gas for heating in Asturias. In these cases, we apply measures to generate savings and rationalise their use in order to optimise journeys using the smallest possible number of vehicles while promoting the use of collaborative tools to facilitate communication and collaboration between employees in different locations.

In 2020, our total fuel consumption was 726.38 Mwh (608.21 Mwh in diesel and 118.17 Mwh in natural gas), some 50.99% less than in 2019. This reduction is a direct result of the suspension of journeys with company vehicles and a significant reduction in journeys in private cars carrying out company work, especially in Galicia and Asturias, due to the measures that were taken to protect people's health and safety against COVID-19.

**TOTAL FUEL CONSUMPTION (Mwh)**



**50.99%**  
reduction in fuel consumption

- Natural gas
- External diesel
- Internal diesel<sup>1</sup>

**TOTAL ANNUAL FUEL CONSUMPTION:**

2018	1,647.59 Mwh
2019	1,482.20 Mwh
2020	726.38 Mwh

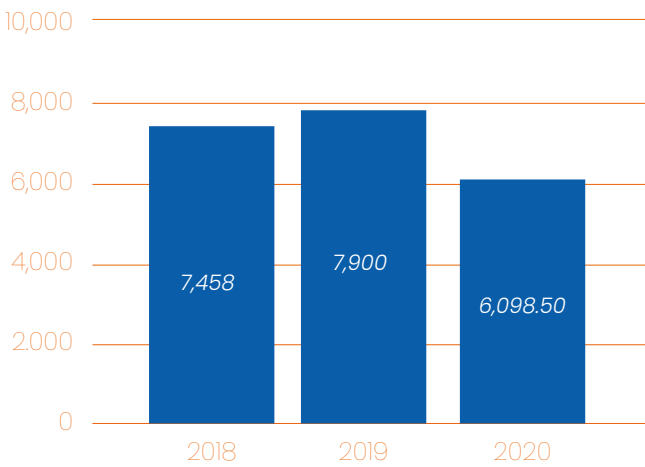
**WATER CONSUMPTION**

In the area of water consumption, our supply comes from various municipal networks where the different companies of the Euskaltel Group are located and is primarily used by company employees, as well as other secondary uses such as garden irrigation, cleaning buildings and for use in cooling equipment in telecommunications networks. We have installed aerators in taps to reduce our water consumption.

In 2020, the Group's water consumption fell by 22.80%, from 7,900 m3 in 2019 to 6,098.50 m3 last year.

**22.80%**  
reduction in water consumption

**WATER CONSUMPTION (m³)**



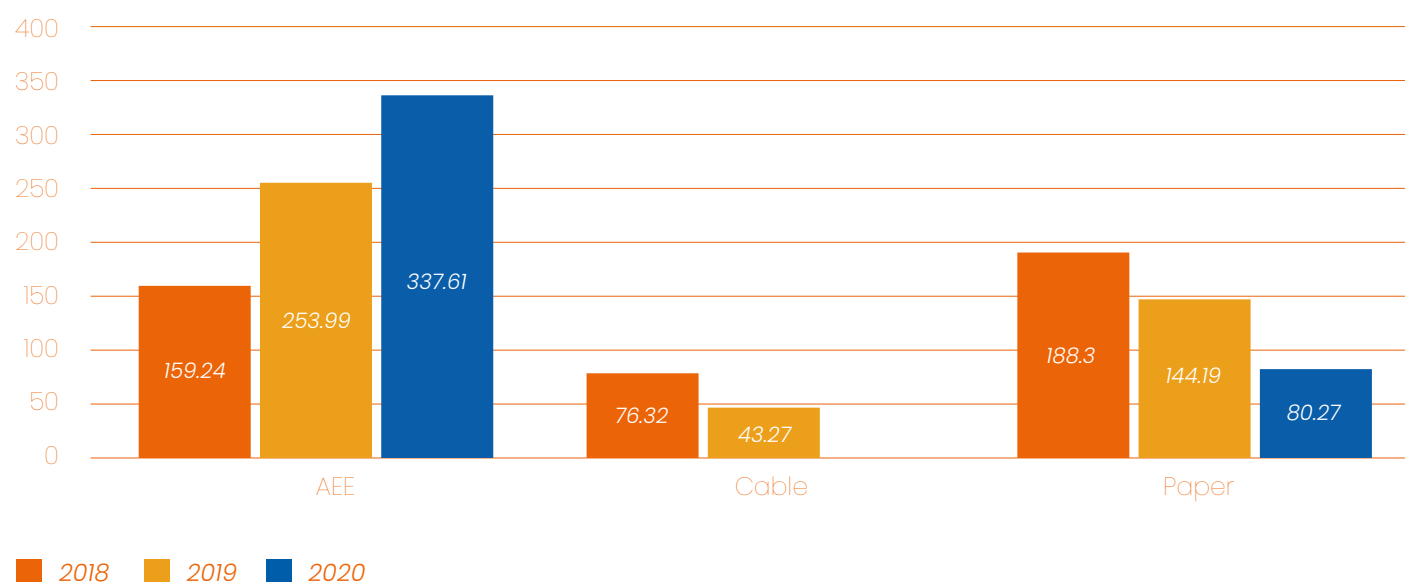
<sup>1</sup>The figure for internal diesel consumption in 2019 has been corrected due to an error in the transcription of the previously published figure.



## CONSUMPTION OF MATERIALS

The most significant items in our consumption of materials are electrical and electronic apparatus, which includes decoders, cable modems and routers. In 2020, the consumption of this equipment was 337.61 tons (an increase of 32.92% compared to 2019) due to the change of equipment by customers (mass migrations of customers to new generation equipment) and the equipment needed to launch Virgin Telco. However, since 2019, we have reduced the consumption of cable as this has been incorporated into contracts with our installation providers.

### CONSUMPTION OF MATERIALS (Tn)



**89.4%**  
online billing

**44.33%**  
reduction in paper consumption

Another item with significant consumption is paper, primarily used in communications with customers. In 2020 we started monitoring the paper consumed by customer billing as well as for payment forms and service suspension letters. Overall, we have significantly reduced our paper consumption by 44.33% as a result of the actions taken to encourage electronic billing among our customers. Consequently, in 2020, some 89.4% of bills issued were electronic, 8.4% more than in 2019 (when we issued 81% of bills in this format).

## 5.3. COMBATTING CLIMATE CHANGE

We have a formal commitment, reflected in our Sustainability Strategic Plan 2020-2025, to the environment and efficient resource use. We have therefore defined a roadmap to reduce our impact, which focuses on implementing measures to achieve two main goals: to responsibly manage the environmental impacts of our operations, and adapt our business model towards carbon neutrality and emissions reductions.

We have identified electricity consumption as one of the Group's significant environmental aspects. This, combined with cooling gas emissions and fuel consumption, have an impact on atmospheric pollution.

We therefore calculate the carbon footprint, measuring the direct and indirect emissions of our activities in order to establish annual CO2 emissions reduction plans, and produce calculations and reports on the greenhouse gas emissions controlled by the organisation.

We have also applied to the Spanish Ministry for the Ecological Transition (MITECO) to be registered in the Register of carbon footprints, offsets and absorption projects. This annual emissions calculation is verified by a third-party and analysed to find ways of reducing these emissions.

Furthermore, as a result of Euskaltel's participation in the initiative by the Basque government and IHOBE (the Basque Ecodesign Center that promotes eco-design among other issues), we are carrying out projects to analyse and improve the carbon footprint of our most popular products and services. The Euskaltel Group also calculates and manages the organisation's environmental footprint.

We have taken part in the Climate Change Survey of the Carbon Disclosure Project (CDP) every year since 2016. Through the activities described in this survey, in 2020 our rating was upgraded to "B" in relation to managing our environmental and climate impact, improving on our rating obtained in 2019 (B-).

*We have taken part in the Climate Change Survey of the Carbon Disclosure Project (CDP). Through the activities described in this survey, in 2020 our rating was upgraded.*



CARBON FOOTPRINT  
AND OTHER EMISSIONS

We calculate direct emissions (Scope 1), meaning those emissions generated and controlled by the Group; indirect emissions (Scope 2), which come from the generation of electricity consumed by the organisation; as well as external indirect emissions associated with our employees' transport (Scope 3).

We also monitor emissions of cooling gases, produced by leaks in air conditioning systems on which we carry out maintenance work. In accordance with prevailing legislation, we have a plan to replace fluorinated gases, so that when gases need to be recharged, only authorised gases are used in this equipment when applicable.

In the case of combustion emissions, SO2 and NOx emissions from fuel consumption are produced by generators and company vehicles in different companies.

In 2020, the Group's total greenhouse gas emissions were 4,606.22 TnCO2eq, a reduction of 72.44% compared to 2019 when they totalled 16,713.20 TnCO2eq. This significant reduction is mainly the result of the purchase of 100% renewable electricity that we have gradually introduced across Group companies, preventing the indirect emissions associated with electricity consumption.



GROUP **GHG EMISSIONS** IN 2020

GHG EMISSIONS <sup>1</sup>		2018	2019 <sup>2</sup>	2020
DIRECT GHG EMISSIONS (SCOPE 1)	CO <sub>2</sub>	192.49 Tn. CO <sub>2</sub> eq.	254.38 Tn. CO <sub>2</sub> eq.	127.52 on. CO <sub>2</sub> eq.
	CH <sub>4</sub>	0.02 Tn. CO <sub>2</sub> eq.	0.02 Tn. CO <sub>2</sub> eq.	0.01 Tn. CO <sub>2</sub> eq.
	N <sub>2</sub> O	0.15 Tn. CO <sub>2</sub> eq.	0.19 Tn. CO <sub>2</sub> eq.	0.08 Tn. CO <sub>2</sub> eq.
	HFC	1,078.56 Tn. CO <sub>2</sub> eq.	558.93 Tn. CO <sub>2</sub> eq.	930.37 Tn. CO <sub>2</sub> eq.
	PFC	0.00 Tn. CO <sub>2</sub> eq.	0.00 Tn. CO <sub>2</sub> eq.	0.00 Tn. CO <sub>2</sub> eq.
	SF <sub>6</sub>	0.00 Tn. CO <sub>2</sub> eq.	0.00 Tn. CO <sub>2</sub> eq.	0.00 Tn. CO <sub>2</sub> eq.
	Total	1,271.22 Tn. CO <sub>2</sub> eq.	813.517 Tn. CO <sub>2</sub> eq.	1,057.99 Tn. CO <sub>2</sub> eq.
INDIRECT GHG EMISSIONS (SCOPE 2) <sup>3</sup>	CO <sub>2</sub>	21,560.80 Tn. CO <sub>2</sub> eq.	15,580.81 Tn. CO <sub>2</sub> eq.	3,438.81 Tn. CO <sub>2</sub> eq.
GHG EMISSIONS INTENSITY (2)	CO <sub>2</sub>	7.76 Tn. CO <sub>2</sub> e./prod	5.16 Tn. CO <sub>2</sub> e./prod	1.08 Tn. CO <sub>2</sub> e./prod
OTHER INDIRECT EMISSIONS (SCOPE 3)	CO <sub>2</sub>	331.40 Tn. CO <sub>2</sub> eq.	318.87 Tn. CO <sub>2</sub> eq.	109.42 Tn. CO <sub>2</sub> eq.
TOTAL EMISSIONS (SCOPES 1+2+3)	CO <sub>2</sub>	23,163.42 Tn. CO <sub>2</sub> eq.	16,713.20 Tn. CO <sub>2</sub> eq.	4,606.22 Tn. CO <sub>2</sub> eq.

OTHER GROUP **ATMOSPHERIC EMISSIONS** IN 2020

OTHER ATMOSPHERIC EMISSIONS	2018	2019	2020 <sup>4</sup>
SO <sub>2</sub>	0.0009 Tn.	0.0014 Tn.	0.0006 Tn.
NO <sub>x</sub>	0.7215 Tn.	1.1802 Tn.	0.7039 Tn.
SOLID PARTICLES	0.0612 Tn.	0.0790 Tn.	0.0371 Tn.
	0.78 Tn.	1.2606 Tn.	0.7415 Tn.

<sup>1</sup> A proprietary tool is used to calculate GHG emissions. To calculate the HCFC, HFC and SF6 emissions in equivalent CO2 tonnes, the Global Warming Potential (GWP) figures published in European Regulation (EC) n° 517/2014 are used.  
<sup>2</sup> The GHG emissions for 2019 have been recalculated using the emissions factors provided by MITECO for 2019.  
<sup>3</sup> The indirect emissions figure for 2020 has been recalculated using the MITECO electricity mix for 2019.  
<sup>4</sup> In 2020, SO2, NOx and PM emissions are calculated using data included in the European Environment Agency's 'EMEP/EEA air pollutant emission inventory guidebook 2020'.

## ENERGY EFFICIENCY AND EMISSIONS OFFSETTING

To minimize the impact of energy consumption, we have defined an Energy Management System based on the ISO 50001 standard that enables us to continuously improve our energy performance, having certified the Energy Management System for the data-processing centres in Asturias. As part of this system, every year we define an energy efficiency plan that sets out the actions to be developed during the year to improve the Group's performance in this area.

In 2020, we carried out energy audits of the facilities of Group companies to identify energy-saving measures that will allow us to improve their energy efficiency. We also launched a process to change our energy suppliers to prevent the greenhouse gas emissions associated with electricity consumption, signing agreements with our suppliers to purchase renewable energy in the long term so that by the end of 2020 all of the electricity we consumed came from guaranteed sources.

To illustrate the impact of this change, a comparison analysis of the life-cycle of the virtual data centre (VDC) in the Basque country has been carried out based on renewable energy purchases. It estimates a 44% reduction in the environmental impact of the VDC service per unit in the climate change category (ReCipe Midpoint), when comparing its electricity consumption based on traditional sources and against a renewable mix.

Furthermore, to offset our environmental impact, we collaborated with the Lurguia Fundazioa Foundation to plant 500 trees and shrubs as part of the forestry restoration project in the Urdaibai biosphere reserve. Our contribution led to an estimated 10,000m<sup>2</sup> of land being planted with trees.



## 5.4. CIRCULAR ECONOMY AND WASTE MANAGEMENT

Our commitment to responsibly manage the resources that we use to carry out our business includes a firm commitment to the circular economy, prioritising reuse over recycling or elimination in the management of our equipment, wherever possible.

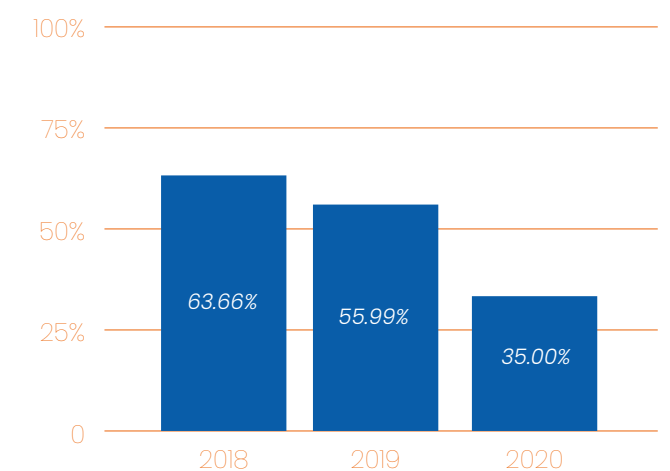
In 2020, we reused 35% of our equipment, 37.49% less than in 2019 due to the migration of customers to equipment with new technologies and due to the launch of Virgin Telco (which requires the use of specific equipment) with a small customer base and therefore a low rate of returns/departures and faults. Both circumstances reduced the rotation of equipment and increased the consumption of electronic and electrical apparatus.

The percentage of products sold for which the packaging materials were recovered at the end of their useful life in 2020 was 0.49% (71.68% less than in 2019, when the figure was 1.73%).

In those cases when reuse is not possible, materials are recycled and sent to an authorised manager, achieving a significant reduction in the generated waste at the end of the process and the lowest possible environmental impact.

This desire to maximize the reuse of materials stems from our responsibility to reduce our environmental impact. We have identified waste generation as one of the most significant environmental aspects that we need to manage, because we handle waste that is classified as hazardous, such as lead acid batteries, and mainly waste electrical and electronic equipment (WEEE). Therefore, in addition to adopting specific measures to reduce the consumption of materials and consequently the amount of waste generated, we dedicate the necessary resources to ensure that this waste is treated in accordance with prevailing environmental legislation.

### % PRODUCTS REUSED





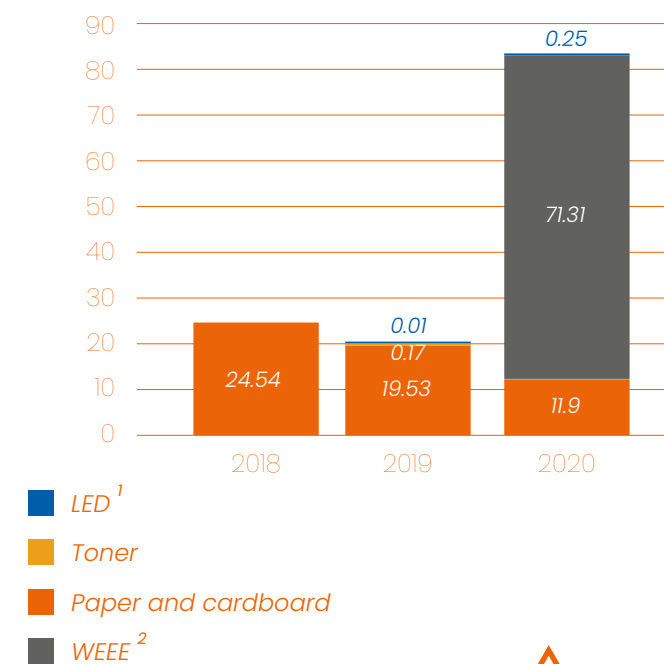


In 2020, a study was carried out on the classification of waste electrical and electronic equipment (WEEE) with the Purchasing area and equipment manufacturers. As a result, the classification of WEEE has been changed and can now be managed as non-hazardous waste.

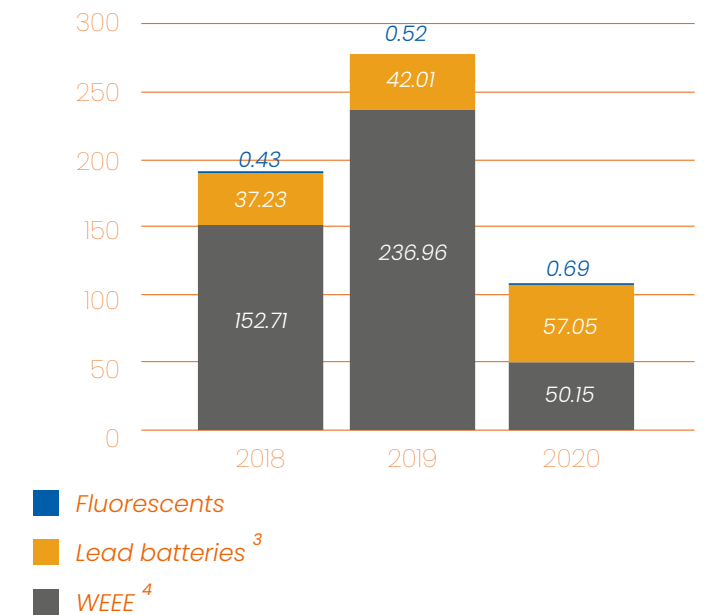
All hazardous waste, including lead batteries, are sent to authorised waste managers primarily in the Basque Country, Galicia and Asturias.

We continue to record and manage waste devices and IT equipment as hazardous waste. In 2020 we reduced the generation of hazardous waste by 61.4%, from a total of 279.49 tons in 2019 to 107.88 tons in 2020.

### NON-HAZARDOUS WASTE (Tn)



### HAZARDOUS WASTE (Tn)



#### TOTAL HAZARDOUS WASTE

2018	24.54 Mwh
2019	19.70 Mwh
2020	83.46 Mwh

#### TOTAL HAZARDOUS WASTE

2018	190.37 Mwh
2019	279.49 Mwh
2020	107.88 Mwh

<sup>1</sup> The figure from the 2019 report was 0.52. This lumped together the figure for fluorescents (a hazardous waste) and LEDs (non-hazardous waste). In 2020 they have begun to be treated differently and the criteria have been applied to 2019.

<sup>2</sup> From 2020, following changes in legislation, we now treat WEEE as non-hazardous waste.

<sup>3</sup> The figure from the 2019 report was 41.93. A total of 0.074 tons delivered as scrap to the producer in Asturias was not included.

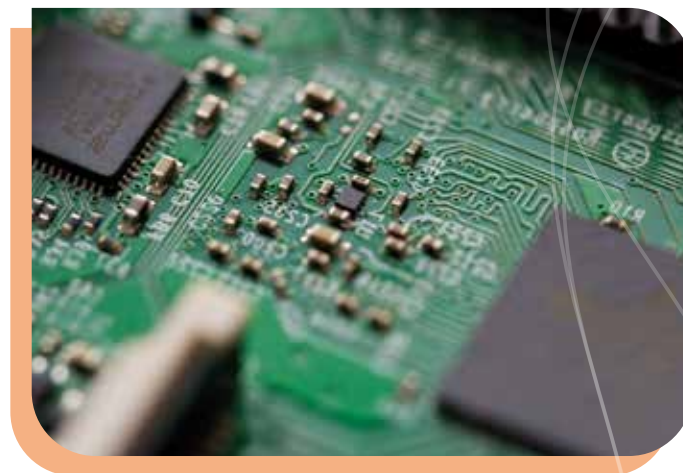
<sup>4</sup> The figure from the 2019 report was 237.07. In the EMAS verification, the weight of two IBCs had been included as waste.

## WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT

In our sector, the nature of our services demands innovation and new generation equipment that we install for our customers, which means that electrical and electronic equipment becomes a growing source of waste.

We take measures to reduce the impact of the generation of Waste Electrical and Electronic Equipment (WEEE), using initiatives that prioritise equipment reuse over recycling, such as reconditioning customers' equipment that exceeds the established requirements, and recycling the remainder by sending it to authorised WEEE managers.

Customer equipment, such as decoders, cable modems or routers, that exceed the established requirements are therefore recovered and reconditioned, which reduces the impact of the consumption of these materials. In those cases when reuse is not possible, they are recycled and sent to an authorised manager, achieving a significant reduction in the generated waste at the end of the process and the lowest possible environmental impact.



## LEAD ACID BATTERY WASTE

We use lead batteries to ensure the continuity of the power supply both in the network and in corporate buildings. These batteries become hazardous waste at the end of their useful life. The current battery replacement policy is based on replacing them during corrective maintenance work due to faults or loss of capacity which could compromise service availability at the facilities where they are located. Under this policy, it is normal that the distribution of this waste is uneven between years, with peaks occurring in the quantity of this waste as the stock of batteries ages.

## CELLULOSIC WASTE

Cellulosic waste from paper and cardboard is generated by office activities. This waste is sent to specialist companies that transport it to plants to be crushed and subsequently sent to an authorized manager. Paper is destroyed as it may contain confidential information.

## WASTE FROM WORKS AND INSTALLATIONS

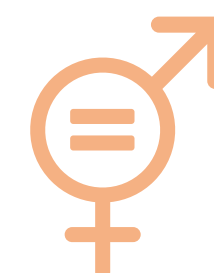
Prior to contracting third parties to work on projects, we work to raise awareness and inform them of our commitment to the circular economy and to reduce and responsibly manage waste, carrying out inspections of works contractors.



# CULTURE, EXCELLENCE, EQUALITY AND DIVERSITY

Our approach to people management is based on defining corporate policies developed around the conditions established in the collective bargaining agreements that apply in the companies that make up the Group. Accordingly, we design and implement internal management mechanisms that help to create an equitable and safe working environment and good working conditions for our team, in addition to ensuring compliance with employment legislation.

In our determination to promote a working environment that prioritize talent, diversity and respect, and in which all our professionals feel their needs and aspirations are taken seriously, through our new sustainability strategy we have proposed measures that help to improve the organisational conditions, with a commitment to continuous improvement, beginning with communication actions that generate trust and transparency in the management of people (opinion survey, action plan and communication plan).



# 6

Over the last two years, our integrated organisation needed to be reviewed in order to become more efficient, to provide better customer service and to achieve our goal of national expansion. We have therefore reviewed the organisational structure, updating job definitions, and the roles and organisational levels, following the internationally recognised Global Grading System (GGS) from Willis Watson Towers that uses a range of factors to assign each job and each person a position and a role within the company. Such factors include functional knowledge, business knowledge, leadership, problem resolution, impact on the business and interpersonal skills.

This model is helping us to enhance our existing performance assessment model and is the basis for analysing the compensation received by our team under the same model. Accordingly, to improve our non-financial information reporting, in this report we are presenting our employee figures for 2020 according to the results of this update, which is detailed in section 8.2 of the Appendices.



- ☐ **Occupational Health and Safety Management System *certified by AENOR in accordance with the ISO 45001:2018 standard.***
- ☐ **We established the Anti-COVID-19 protocol, *certified by AENOR, in our Euskaltel, R Cable and Telecable offices.***
- ☐ **KRT Saludable 4.0 Project**



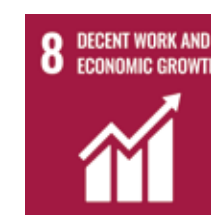
- ☐ **45.27% women on the team.**
- ☐ **New equality plans.**
- ☐ **Social collaborations to *promote gender equality.***



- ☐ **Aflora and Familia plans.**
- ☐ **Subcontracting services to Special Employment Centres.**
- ☐ **Social collaborations to *integrate people with different abilities.***



- ☐ **Collaborations with universities, forums and technology conferences to *disseminate our innovation and technological knowledge.***
- ☐ **21,384.5 hours of training given to our team to *develop personal skills, languages and technical capabilities.***



- ☐ **99.69% of our team has a *permanent, full-time contract.***
- ☐ **Ties with universities and internship programmes to *promote the employability of young people.***



- ☐ **We inform our team about our actions in relation to sustainability and *we share knowledge and recommendations about contributing to sustainable development.***

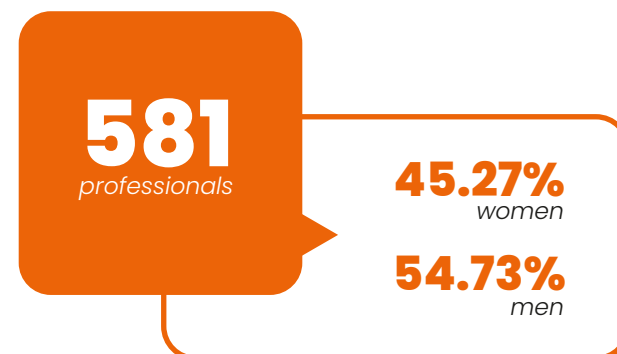


## 6.1. OUR TEAM

The generation and maintenance of employment in the Group's home territories (the Basque Country, Asturias and Galicia) is one of the fundamental pillars in our contribution to the socio-economic development of these communities, both in terms of direct and indirect employment through our supplier network.

At the end of 2020 we had a human team consisting of 581 professionals, with a gender balance, specifically 45.27% women and 54.73% men, with diversity in terms of age and professional specialisations.

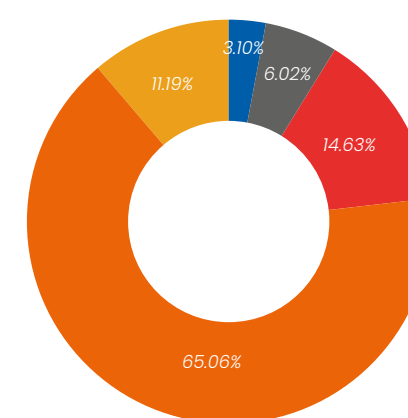
It is worth noting that the Group's management team consists of the Management Committee and the extended Management Committee and 100% of this team comes from Spain.



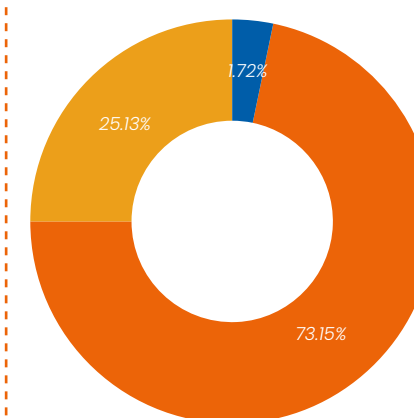
The following shows the distribution of our staff and the variations that occurred during 2020 (excluding the President and CEO).

This year the staff has been distributed following the GGS methodology that allows us to define the different roles existing in the company.

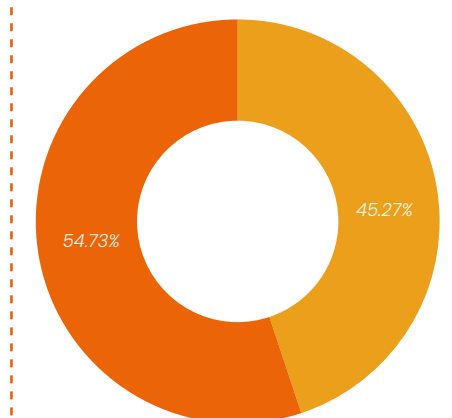
### OUR TEAM IN 2020



- Directors
- Support staff
- Technical staff
- Management
- Middle management



- <= 30 years
- > 30 and <= 50
- > 51 years



- Men
- Women





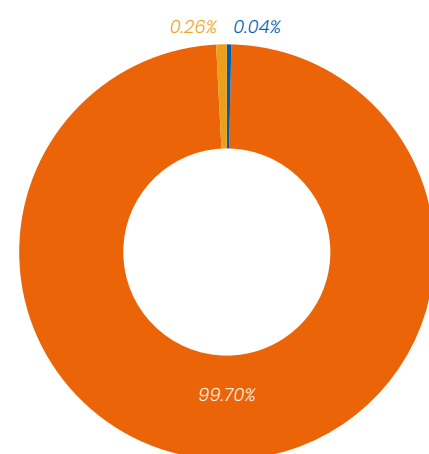
## 6.2. EMPLOYEE EXPERIENCE

### QUALITY EMPLOYMENT

We are committed to providing quality employment and 99.70% of our workforce has permanent contracts – virtually our entire workforce contracted under this format and in full-time employment.

Furthermore, in 2020 we had 27 new joiners and reduced the employee turnover rate to 5.16% (8.65% less than in 2019), with a turnover rate due to voluntary departures of 3.10%.

### DISTRIBUCIÓN DE LA CONTRATACIÓN



■ Average full-time temporary contracts

■ Average part-time temporary contracts

■ Average full-time permanent contracts

### FLEXIBLE AND VARIABLE SALARY

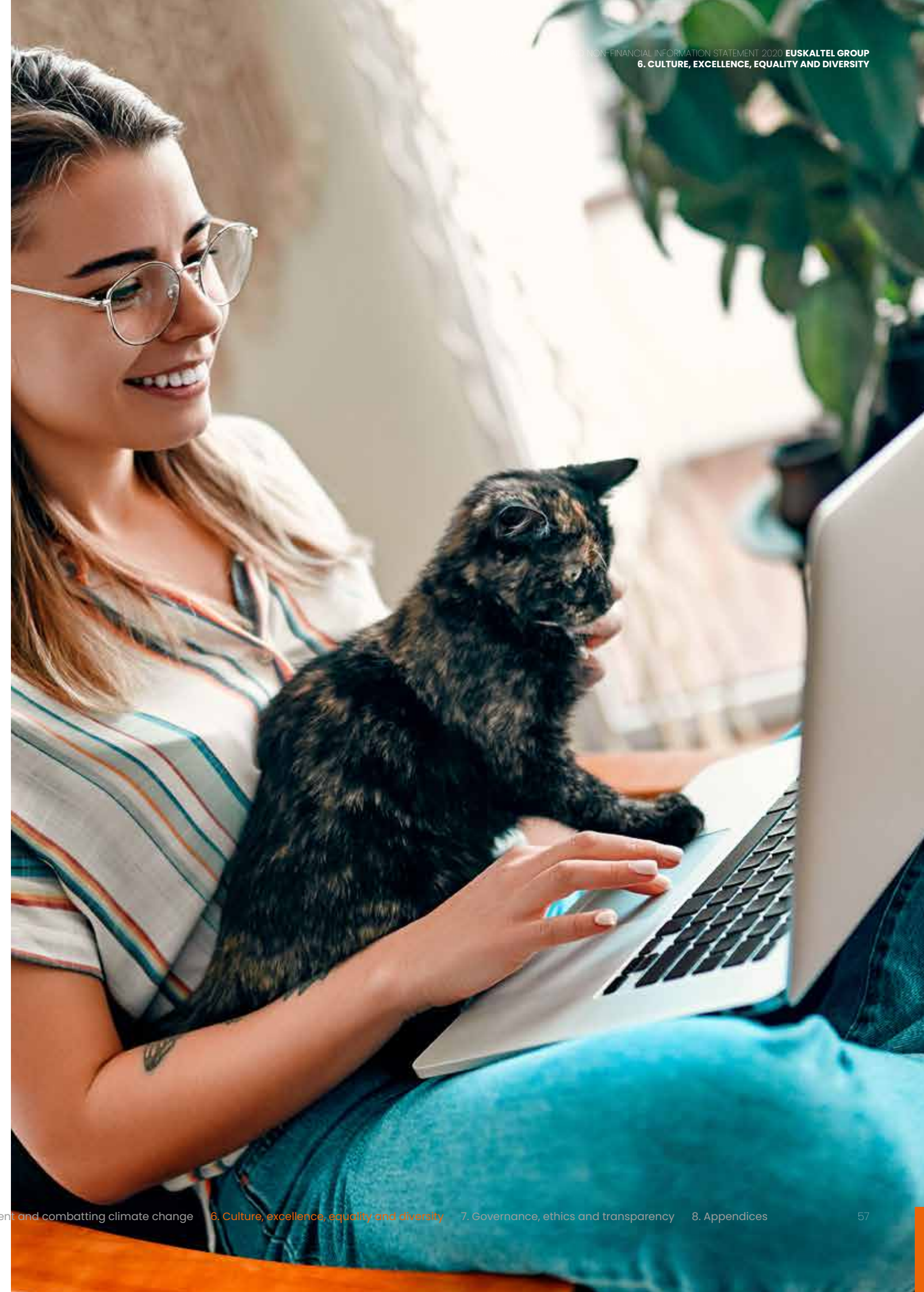
The management of remuneration at the Euskaltel Group is based on criteria of objectivity, external competitiveness and internal quality. The collective bargaining agreements of our companies specify the financial conditions that apply to the people covered by them.

All of our companies have a flexible remuneration package, consisting of different elements according to the tax structure in each region. Our professionals can choose between different products that best suit their needs or interests.

Furthermore, a variable salary percentage is set for every person at the Euskaltel Group that is received annually based on their performance appraisal for which a series of quantitative targets are set that help guide the organisation towards achieving its common goals.

We take all individual remuneration review decisions objectively, so that compensation is fair according to the level of responsibility and the contribution to the company's objectives.

In order to prevent any type of remuneration inequality based on gender, every year we carry out a salary analysis based on the Willis Towers methodology, which allows us to identify potential cases of inequality between men and women that hold identical positions. In section 8.2 of the appendices, we present the average remuneration of the people in the Euskaltel Group in 2020 and the analysis of the wage gap carried out for this period.





## TRAINING

Up-to-date knowledge is a constant requirement in our company, not only due to the evolution of technology but also due to the period of integration and transformation that we are going through, which requires our professionals to be ready to lead and take on new challenges.

The situation generated by the pandemic has forced us to significantly reorganise the training plans of our team, in terms of the orientation of programs and in the way that they are imparted, increasing the number of training sessions given virtually.

This is illustrated by the implementation of an online format for language courses and the launch of our new online training platform at the end of 2020, which strengthens this training format in the company, making training available to more professionals, and allowing time spent on training to be managed more flexibly.

Planning our annual training begins with identifying the needs of each area, which enables us to prepare the Annual Training Plan with the participation of all of the company's employees.

Within the personal skills block, we would highlight one particular training action to help adapt to the situation caused by the pandemic, entitled "Adapted Company, the new normal following COVID-19", aimed at the corporate customer area to help customers make the most of the capabilities offered by technology.

To develop our technical skills, in order to reinforce our technological and innovative capabilities, we have strengthened our training in VDCs, the public cloud and technologies from manufacturers such as VMWare, Microsoft or CISCO; as well as in internet architecture and protocols such as IPV6. This has been in addition to obtaining and renewing certificates in project management fields, such as the PMP certificate, or in specific technologies such as Microsoft Azure or others such as VMWare or Fortinet. Another field at the forefront is data science, which has led us to train ourselves in Power BI, Python, Google Analytics and Fire Fase.

In addition to the various training activities, we provide our teams with information about actions carried out by the Group in relation to environmental management, social commitment and ethical conduct, engaging them in our commitment to sustainable development using the usual communication channels (email, our intranet working area called SharePoint, Microsoft Teams). We therefore share information and practical recommendations about how to contribute, for example, to combating climate change and responsibly consuming natural resources.

**21,383.5**  
**TRAINING**  
**HOURS**

**533h** hours of personal skills  
**14,035.5h** hours of technical skills  
**6,815h** hours in languages



**3.3** out of **4**  
 Average satisfaction  
 of the team regarding  
 training received



## PROFESSIONAL DEVELOPMENT

The implementation of the GGS will enable us to build and realise a performance model for our Employee representatives play a fundamental role within our team of professionals as spokespeople for their collective needs. The company has regular social dialogue, which this year has been reflected by the number of extraordinary meetings held with the health and safety committees of the three regions to manage the extraordinary measures taken in response to COVID-19, as well as by the collective bargaining meetings held during 2020. The following have been signed as a result of these negotiations: people.

We currently have a target-based appraisal model. The process begins by setting the targets and defining two appraisal periods, one intermediate in order to monitor the status of the targets, and a final appraisal that completes the annual evaluation cycle. Every person in the company is given a performance appraisal.

Under this new model, every person is assigned a position on a scale according to the GGS and a role based on the level of responsibility that they have in the company. Specific responsibilities are assigned to each role.

When an employee takes on a new role, new responsibilities shall be assigned to that person, who must work towards consolidating them.



## PARTICIPATION AND SOCIAL DIALOGUE

Following the organisational changes carried out in 2019 that primarily sought to unify the organization, it was deemed important to ask our employees about their level of satisfaction. Accordingly, all of the Group's people were invited to participate in the satisfaction survey in February.

Subsequently, in addition to presenting the results to the Executive Committee and to employees' legal representatives, the results were discussed with employees, segmented into small mixed groups to encourage them to share their opinions about day-to-day issues in their work and to supplement the conclusions of the survey with contributions from people from the company's different areas and regions.

The conclusions obtained from the results of the satisfaction survey and from the team meetings provided us with valuable information, which was essential to prepare an action plan that during 2020 and 2021 is helping us to focus on internal corporate and operational communications to consolidate the organization and develop leadership, to achieve the ultimate objective of generating and strengthening a sense of pride in belonging to the Group.

Employee representatives play a fundamental role within our team of professionals as spokespeople for their collective needs. The company has regular social dialogue, which this year has been reflected by the number of extraordinary meetings held with the health and safety committees of the three regions to manage the extraordinary measures taken in response to COVID-19, as well as by the collective bargaining meetings held during 2020. The following have been signed as a result of these negotiations:

- Equality Plan for R Cable and Telecable, approved in April
- Equality Plan for Euskaltel, approved in July
- Collective bargaining agreement for R Cable and Telecable, signed in December.

The signing of the 2nd Collective Bargaining Agreement with R Cable and Telecable integrates the employment conditions for the centres in Asturias and Galicia, which to date were governed by two different agreements, namely the Sector Collective Agreement for Fibre Optic Concession Companies, with its improvements, and the 1st Collective Agreement with R Cable Galicia.

The 2nd Collective Bargaining Agreement for Euskaltel S.A. continues to apply to the Euskaltel workforce. Nevertheless, the collective bargaining committee set up in 2020 continues to work towards agreeing a new legal document.

Some 85.37% of the people in our team are covered by the Group's collective bargaining agreements, excluding managers and directors.



## WORKING HOURS AND WORK-LIFE BALANCE

As a company we believe that flexibility is a key element for managing and organising our working hours, always respecting the prevailing legislation and the applicable collective bargaining agreements that govern the working days specified in the working day calendar each year.

Flexible working hours allow each person to adapt their timetable to their work-life balance needs and this is available to 100% of the workforce. The collective bargaining agreement signed for the centres in Galicia and Asturias also include flexibility in terms of the workplace location, allowing employees to work remotely for five days during a week with a maximum five days per month. Nevertheless, the socio-health circumstances caused by the COVID-19 pandemic have led to remote working becoming commonplace, reinforcing the need for the Euskaltel Group to work on a digital disconnection policy during 2021, for which the main aspects were already included in the collective bargaining agreement signed in December. We will therefore take a closer look at training and raising awareness among our professionals regarding the reasonable use of digital media and the prevention of digital fatigue.

The applicable legislation in each territory places particular emphasis on maternity-related leave. It is therefore worth highlighting the postnatal maternity leave that allows women to return to work, with a six-hour day, without a reduction in salary during their child's first year, the option to accumulate breastfeeding days, or leave for family care.

In 2020, 22 people in our team benefited from parental leave (12 men and 10 women), one more person than in 2019.

All of our companies apply the measures established in each of the collective-bargaining agreements in relation to holidays, general leave, time off, leaves of absence and maternity and paternity leave.





## ATTRACTING TALENT

We develop programs to attract, sign and retain talent from the market, hiring the professionals that we need to develop our business.

We have agreements with the leading universities in each of our territories that enable us to offer academic internships to their students and support them when looking for work. This collaboration also extends to various foundations to offer young people collaboration grants and to accompany them during their first working experiences.

We have continued our collaborations in this area with forums, universities, university chairs and specific actions to promote technology-related development among women and STEM professions, although this has been achieved through a greater online presence due to the pandemic.



### JEPE 2020 of the Faculty of Engineering of the Basque Country

*We participated with the Faculty of Engineering of the Basque Country, presenting to students the activities that we carry out and the opportunities for work. These conferences provide students with the chance to speak to company representatives and to submit their CVs, establishing initial contact in their search for employment.*

### Chair at the University of Oviedo

*The Telecable Chair for Video and New Generation Networks seeks to promote and strengthen the relationship between the University of Oviedo and our Telecable brand through an innovation campus with activities linked to R&D+i projects, training and the exchange of knowledge between the company and the University, as well as student internships.*

### 2nd edition of CyberSec@GAL

*First cyber-security forum in Galicia, with a roundtable session with technology specialists from Galicia. We are promoting this forum through the R Chair with the Universities of Vigo and A Coruña. This second edition will examine the risks of remote working.*

### 20th Edition of the Employment Technology Forum at the University of Vigo

*This is a joint project between the three engineering colleges of the University of Vigo in which we participate to hire young telecommunications and IT engineers, as well as those with degrees in maths and physics.*

### Chair at the Universities of A Coruña and Vigo

*Collaboration aimed at promoting cultural, scientific and technological development regarding IT security and to seek practical applications in Galician society.*

### 3rd Cyber-security Forum in Galicia

*We are collaborating closely with the Cyber-Security Forum in Galicia, which at its edition in 2020 featured a talk by the Chief Information Security Officer of the Euskaltel Group.*

## Technology Conferences 2020

*Collaboration at a new edition of the Technology Conferences, in which we share the latest developments, trends and possibilities offered by the latest technology with our corporate customers.*

## Galicia TIC

*We are participating in a themed seminar that will examine the need for businesses to adapt to the new digital reality.*

## Collaborations to employ students and recent graduates

*Universidad de A Coruña Foundation, Universidad de Oviedo Foundation, Venancio Salcines Foundation, Novia Salcedo Foundation, IFFE Business School, NETT Digital School, University of the Basque Country and University of Deusto, University of Vigo, University Masters in Telecommunications Engineering at UPV.*

## Masters in Innovation and Strategy at the University of A Coruña and Masters in Cyber-security 4.0 at UPV

*We are collaborating and participating as speakers and by financing internships to promote the development of Masters students.*

Our **TalenTU** program is specifically designed for young people. With one year of professional development, this program offers the possibility of professional and salary growth. In 2020 we incorporated just one person through this program due to the effects of the pandemic. However, the normal figure for the TalenTU program is far higher.

In line with the needs of the market and the company, we also hire for more senior profiles by publishing job offers, using social networks, or hiring specialist consultants for more specific cases.

In all cases, when we hire a new person, they begin an on-boarding process that facilitates their integration into the company, which includes a presentation about the company, the handover of documentation and the provision of training in matters such as the GDPR, occupational health and safety, quality, cyber-security or the Code of Ethics.



## 6.3. MANAGEMENT OF DIVERSITY AND EQUAL OPPORTUNITIES

Our strategic objectives include the development of labour relations based on equal opportunities, non-discrimination and respect for diversity.

We formalize this commitment in our Equal Opportunities Policy, approved by the Group's Board of Directors in order to establish the basic principles for creating a favourable working environment that facilitates the work-life balance of our employees, and effective equality between men and women in particular.

As a result of this commitment, the equality plans for Euskaltel, R Cable and Telecable were signed in 2020, negotiated with employees under the framework of the Equality Committee, and which represent our operating guidelines to ensure a lack of direct or indirect discrimination in procedures, tools and actions relating to the company's different management processes. We have therefore established the following general objectives, which are largely shared by both plans:

- Implement the commitment to equality involving our stakeholders by means of specific actions and tangible elements.
- Apply criteria of merit, ability and suitability for the job in our recruitment, selection and hiring processes, ensuring equal treatment and opportunities, in turn encouraging a balanced representation of both genders across all areas of our business.
- Incorporate the gender perspective into the process of continuous training, including specific actions for raising awareness and training in relation to equality between men and women.
- Implement promotion and internal mobility processes that are based on criteria of merit, ability and suitability for the job.
- Guarantee the transparency of the company's remuneration system and its appropriateness with regards to the principles of equality.

*The equality plans for Euskaltel, R Cable and Telecable were signed in 2020, negotiated with employees under the framework of the Equality Committee, and which represent our operating guidelines to ensure a lack of direct or indirect discrimination in procedures, tools and actions relating to the company's different management processes.*

- Adopt a model for organizing working times and work-life balance with joint responsibility that reflects peoples' needs, without prejudice to their professional development and the service provided.
- Implement actions with a gender perspective that have an impact on society, primarily seeking to counteract stereotypes and prejudices.
- Expressly formalize our rejection of any kind of violence against women and our firm commitment to protect and support any victim of gender violence that may be employed by the company.
- Ensure a healthy working environment that is free from sexual harassment or harassment on gender grounds.







In line with the last two objectives, we have prepared a protocol against gender violence and harassment on gender grounds, which will be implemented during 2021.

Furthermore, the new equality plans include annual statistics, broken down by gender, of all work-life balance measures, to monitor these better and improve decision-making.

In accordance with the objective to raise awareness around equality, as established in the Equality Plans, three courses have been organised with various sessions for all Group employees.

It is worth noting that our work to promote equality between men and women, and respect for diversity, extends to the social commitment that we have with the communities in which we are present. The best example of this is our contribution to sporting and cultural initiatives that raise the profile of women's sport (Telecable Hockey Club, Real Sociedad Femenino, SD Eibar Femenino and Athletic Club de Bilbao Femenino) and gender diversity (Zinegoak Film Festival).

**1,169h**  
equality training

- Awareness around equality
- Training for the Equality Committee
- Basic aspects of equal opportunities





## INTEGRATION OF DIVERSE ABILITIES

We have created the Familia Plan and the Aflora Plan for our team, as part of our commitment to the social and occupational integration of groups with functional and intellectual disabilities.

The Aflora Plan is designed to deal with any previously unrecognised disabilities in people already employed by Euskaltel, although no such cases occurred during 2020.

The Family Plan consists of financial support for employees who are responsible for people with disabilities, to participate in workplace integration programmes and leisure activities.

Our commitment to integrating people with disabilities is not limited to the internal management of the company. We get involved in initiatives that seek to promote diversity and equality in companies, such as “CEO por la Diversidad”. This determination to promote the social inclusion of all people also applies to our external collaborations, whether for people with physical, cognitive or sensory disabilities, by supporting sports teams for people with functional diversity such as R.C. Deportivo Genuine, Celta Integra, Deportivo Genuine, the Osasuna Foundation, the University of Bilbao or Hernani Rugby, for example.

We subcontract reception, mail room and customer call-answering services to special work centres, generating stable employment by renewing our corporate contracts with these centres. We therefore contribute to the creation of jobs for people with disabilities, suitable for their abilities, in response to Legislative Royal Decree 1/2013 of 29 November. In terms of direct hires, in 2020, one person with disabilities formed part of the Euskaltel Group.

Furthermore, to ensure the accessibility of people with physical limitations to our facilities, Euskaltel buildings have the necessary adaptations to make them safe and convenient.

*We have created the Familia Plan for our team, as part of our commitment to the social and occupational integration of groups with functional and intellectual disabilities.*



## 6.4. WELLBEING AND HEALTH OF OUR TEAM

To manage the well-being and health of our people, we have implemented a certified Occupational Health and Safety Management System and Policy as part of our Integrated Management System, which enables us to provide the most effective control and prevention measures to ensure the safety, health and well-being (physical, mental and social) of the people in our team.

In 2020, the certification of the Occupational Health and Safety Management System was successfully migrated to the new ISO 45001 standard. In addition to complying with prevailing legislation, this certification is a guarantee of the effectiveness and continuous improvement of our preventive management system for all of the people that we come into contact with, whether employees, customers or suppliers.

In 2020, we have standardized the management of occupational health and safety in Galicia and Asturias, taking steps to extend the same model to the Basque Country so that the level of prevention and safety is the same across all Group companies.

We have three health and safety committees, in Asturias, Galicia and the Basque Country, dedicated to managing and monitoring initiatives carried out in this field, through which we have coordinated and maintained constant and open dialogue to deal with the new requirements and needs arising from the COVID-19 crisis.

Our professionals in the occupational health and safety area have worked to design and implement a specific protocol (the Euskaltel Group Anti-Covid 19 Protocol) with measures to prevent infections in the working environment, which has been certified by AENOR.

As part of the COVID operating protocol, we provide an antibody test once the public health services register the infection after COVID-19 has been contracted, to ensure that people no longer actively have the virus before re-entering the workplace.

As a result of our management in this area, we have recorded only one occupational accident without leave and no cases of occupational illnesses.

In 2020, we recorded a total of 21,076.30 hours of absenteeism, equivalent to 2.11% of the total hours worked, which refers to the recovery period from common illnesses.





## A HEALTHY COMPANY

Since 2019, we have been developing the KRT Salu-dable 4.0 project that promotes preventive health actions to enable our team to better understand their state of health, helping to detect illnesses early and encourage healthy habits. The following notable initiatives were carried out in 2020:

- Cardio-protection of all work centres not located in urban areas.
- Medical check-ups that include a wide range of tests offered to the workforce every year, including cancer screening, free of charge.
- Flu vaccination campaign.

## COVID CERTIFICATE



## COVID actions

One of the most important lines of action in the context of the pandemic has been the actions taken to ensure the health of our employees. **At a basic level, 100% of the workforce and 90% of the customer service groups can carry out their functions working remotely, which was already in place prior to the state of emergency**, while 70% of sales positions were kept active as they were essential services, according to Royal Decree Law 10/2020 of 29 March, operating on a reduced timetable and with all required safety measures.

In this scenario, we are constantly issuing messages about the responsible use of telecommunications to prevent periods of congestion in certain services, with the aim of improving the experience rather than generating concerns around service outages.

- **Reinforce the use of landlines for voice calls, for those confined at home.**
- **Use the home Wi-Fi network to access the internet.**
- **Use collaborative tools** (Skype, Teams, WhatsApp, etc) for voice calls.
- **Avoid sending large files and send links instead.**
- **Download large files at off-peak times** (when there are low levels of traffic).
- **Use audio-conferencing instead of video-conferencing.**

Furthermore, to maintain and guarantee a favourable working environment and conditions for our employees, we have developed different tools that focus on the health of our remote working employees. This includes the implementation of a consultation account specifically dedicated to COVID-19 related matters, and a specific Share-Point for health and well-being, thereby ensuring a constant flow of information that is permanently accessible regarding a wide range of issues that are particularly relevant to remote working, such as guidelines on ergonomics and postural health, recommendations to promote mental health, advice on healthy eating or suggestions about keeping physically active.

Likewise, through the Group's Anti-Covid-19 Protocol, preventive measures and hygiene recommendations have been established in work centres and at customer locations to ensure the health and safety at all Group work centres and for the Group's customers that do not have their own protocol, as well as for all residential customers.

# GOVERNANCE, ETHICS AND TRANSPARENCY

Transparency, ethics and responsible management are the values that guide our corporate governance in performing the control and management functions of the Group's activities and in our shareholder relations.

As part of our Strategic Plan 2020-2025, we seek to promote a culture of integrity and responsibility across all territories, in all operations and among every person that forms part of the Group, developing an ethical, transparent and trustworthy business model.

We are therefore working to develop and update our corporate policies in ESG matters, applying the recommendations of the CNMV on good governance and strengthening corporate governance. A good example of our progress is the Sustainability Policy recently approved by the Board of Directors.

We are therefore strengthening our commitment to diligence and transparency in reporting non-financial information and accountability, consolidating our position as a responsible company for our stakeholders.







- Appointment of two new female directors, **bringing women's representation on our Board of Directors to 40%.**



- Accountability in financial and non-financial matters.
- Criminal Compliance and Anti-bribery Model **certified by AENOR in accordance with the UNE 19601 and ISO 37001 standards.**
- Training in our **Code of Ethics and Anti-corruption Policy.**
- **New Sustainability Policy.**



- We have joined the **Green Recovery Alliance that supports an economic recovery focused on combatting climate change.**



- Strategic Sustainability Plan 2020-2025.
- We have joined the **FTSE4Good IBEX index.**

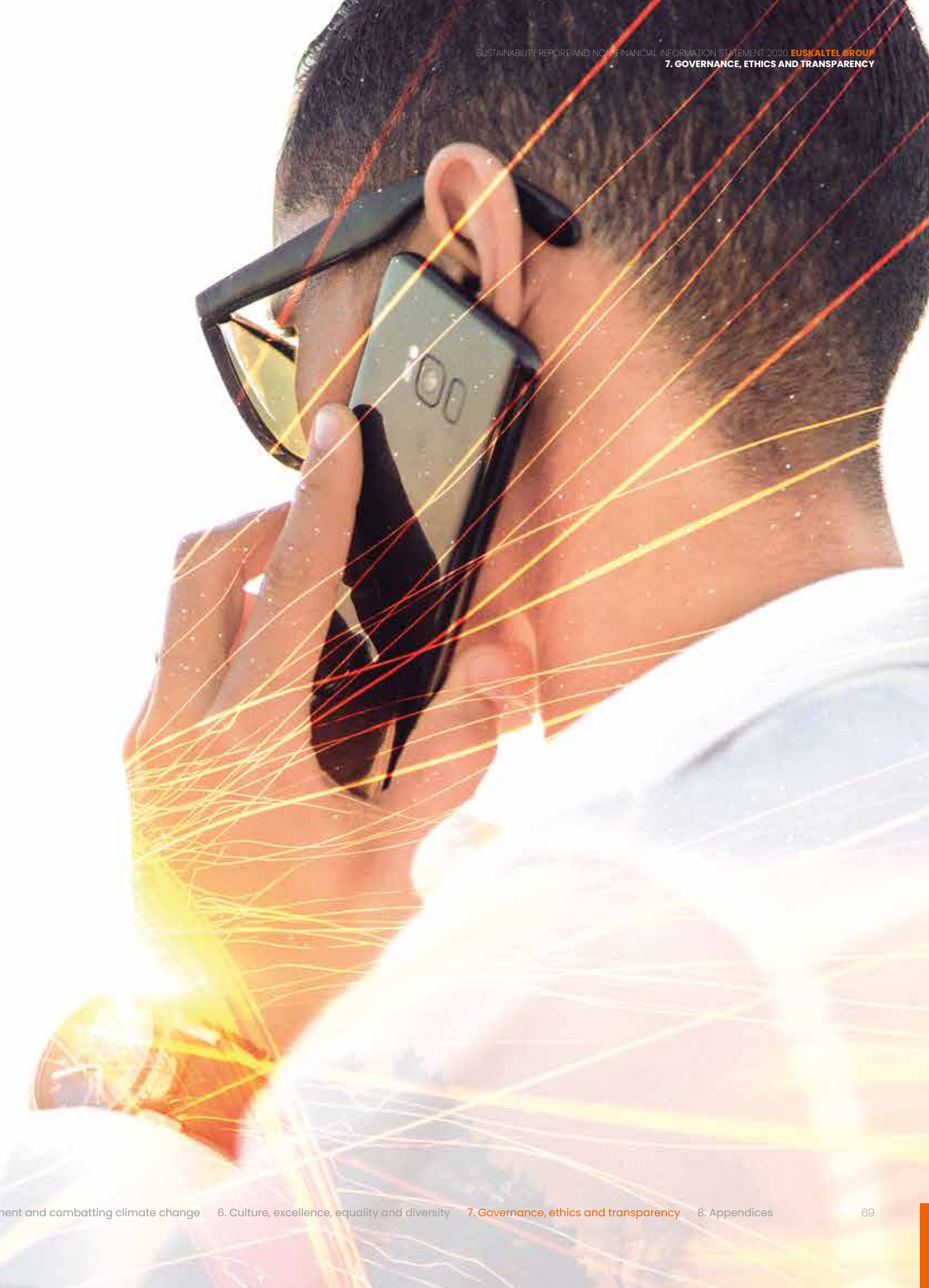




## 7.1. TRANSPARENT MANAGEMENT WITH OUR STAKEHOLDERS

One of the most important milestones in developing our commitment to responsible management and transparent communication with our stakeholders, was the publication of our first Sustainability Report in 2006, as an exercise in accountability and self-evaluation for our stakeholders in order to continuously improve our business. Since then, we have continued this work to compile and publish our performance and contribution to sustainable development in our annual reports, exercising our responsibility for transparency with all interested parties.

Similarly, in order to prioritise transparency in our stakeholder relations, we continue to publish on our corporate websites the policies that govern the different organisational spheres of the Group and the certifications that accredit our management systems.





## 7.2. CORPORATE GOVERNANCE MODEL

We base the Corporate Governance Model of the Euskaltel Group on our commitment to the best corporate governance, business ethics and corporate responsibility practices in every area of the company.

At the top level, the Corporate Governance System is primarily based on the company's bylaws, corporate policies and the regulations of the company's governing bodies.

We have a Code of Ethics and Conduct Instructions, and have implemented a criminal prevention system, a Criminal Risk Management System and an Anti-bribery Management System, certified by AENOR under the UNE 19601 and ISO 37001 standards respectively. We also have a Corporate Compliance Policy and a Corporate Anti-corruption Policy, as well as a Tax policy and the Corporate Conflicts of Interest Policy.

With regards to the Board of Directors, our highest governance body, it is governed by the Board of Directors Regulations, as well as the Director Selection Policy, the Director Remuneration Policy and the Auditor Contracting and Relations Policy.

Furthermore, to ensure that market abuse rules are upheld and to guarantee equal treatment of shareholders in an identical situation, we have a Policy on Communication and Contact with Shareholders, Institutional Investors and Proxy Advisors.

### BOARD OF DIRECTORS

The Board of Directors of the Euskaltel Group has the broadest powers and authority to administer and represent the company. It approves the corporate strategy and the organisation structure needed to implement it. It also oversees and controls the senior management so that it achieves the objectives set and respects the corporate purpose and interests of the Group.

The Board of Directors consists of ten directors (four women and six men), of which one is an executive director (CEO), four are nominee directors, four are independent and one is external (non-executive chairman), as well as the Secretary and Vice-secretary to the Board.

In September 2020, the Extraordinary General Shareholders' Meeting of the Euskaltel Group appointed Ms. Beatriz Mato Otero and Ms. Ana García Fau as independent directors. These new appointments mean that the structure of the Board of Directors better adheres to the rules on good corporate governance by having a more balanced composition (40% women) thanks to the appointment of these two new female directors, the independent directors, and the reduction in the number of Board members to ten.

*The structure of the Board of Directors better adheres to the rules on good corporate governance by having a more balanced composition (40% women) thanks to the appointment of these two new female directors, the independent directors, and the reduction in the number of Board members to ten.*



All of the members of the Board of Directors are external directors, with the exception of the CEO, Mr José Miguel García Fernández, who is an executive.

MEMBERS OF THE BOARD OF DIRECTORS

MEMBERS	POSITION	CATEGORY	DATE FIRST APPOINTED
D. Xabier Iturbe Otaegi	Non-executive Chairman	External	29-10-2019
D. José Miguel García Fernández	CEO	Executive	10-07-2019
D. Eamonn O'Hare	Director	Nominee	10-07-2019
D. Robert Samuelson	Director	Nominee	10-07-2019
Kartera I, S.L, representada por Dña. Alicia Vivanco González	Director	Nominee	27-06-2016
Corporación Financiera Alba, S.A, representada por D. Javier Fernández Alonso	Director	Nominee	01-06-2018
Dña. Belén Amatriain Corbi	Director	Independent	31-03-2015
D. Iñaki Alzaga Etxeita	Director	Independent	31-03-2015
Dña. Beatriz Mato Otero	Director	Independent	29-09-2020
Dña. Ana García Fau	Director	Independent	29-09-2020
D. José Ortiz Martínez	Non-executive Secretary		27-11-2019
Dña. Cristina Sustacha Duñabeitia	Non-executive Deputy-secretary		25-02-2020

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

ORGANISATION OF THE BOARD OF DIRECTORS

The functioning and organization of the Group's Board of Directors is governed by the Board of Directors Regulations, which contain the operating principles of the Board, the basic rules around its organization and functioning, and the rules of conduct for its members, in order to provide the highest level of transparency, efficiency, dedication and control in their duties to administer, supervise and represent the company's interests.

The responsibilities assumed by the Board of Directors include approval of the policies and general strategies of the Group, and in particular, the strategic or business plan, the investment and financing policy; definition of the Group's corporate structure; the sustainability policy; the risk management and control policy, including tax risk, as well as regularly monitoring the internal reporting and control systems; the dividend policy, the treasury stock policy, and their limits in particular.

Likewise, the Board of Directors Regulations define the obligation to annually assess the functioning of the Board and the quality of its work, the functioning of its committees, and the performance and contribution of each director.

In parallel, the functioning of the Board is supported by specific committees with particular responsibilities according to the operating scope for which they are created, which are described further on, and in line with the following policies applicable to the Board:

- **DIRECTOR SELECTION POLICY:** Intended to encourage an appropriate composition of the Board of Directors, guaranteeing in a public, specific and verifiable manner that proposals for appointing or re-electing members are based on a prior analysis of the Board of Directors' needs. It establishes criteria that encourage diversity of knowledge, experience and genders in its composition, seeking to achieve an appropriate balance, as well as meritocracy among the most qualified candidates.
- **DIRECTOR REMUNERATION POLICY:** approved by the General Shareholders' Meeting and overseen by the Remuneration committee, it establishes a remuneration system for directors that is intended to promote the long-term profitability and sustainability of the Group, and incorporates the necessary precautions to prevent excessive risk-taking and reward for poor results.
- **AUDITOR CONTRACTING AND RELATIONS POLICY:** This establishes the general principles of the relationship between the Board of Directors and the Group in general, with the accounts auditor.

## COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has created three committees: the Audit and Control Committee, the Appointments Committee and the Remuneration Committee. None of these committees hold executive functions but act as information and consultation bodies, with powers to report, advise and make proposals within their scope of action. They are governed by the company's bylaws and their own internal regulations.

Their main task is to assist, inform and formulate proposals to the Board of Directors on the matters that may be assigned to them at any given time, and they comprise between three and seven external directors (nominee or independent).



### AUDIT AND CONTROL COMMITTEE:

*This committee is assigned functions relating to supervising the effectiveness of the Group's internal controls, as well as its risk management systems and the preparation and presentation of financial and non-financial information, among others. It is governed by the Audit and Control Committee Regulations.*



### APPOINTMENTS COMMITTEE

*This is the body responsible for defining the functions and skill sets required by the Board of Directors; to establish the goal for balanced gender representation on the Board; and to draw up guidelines about how to achieve this objective, as well as to submit proposals to the board to appoint independent directors, to be put to the General Shareholders' Meeting, among other responsibilities. Its functioning is governed by the Appointments Committee Regulations.*



### REMUNERATION COMMITTEE

*Its primary responsibilities are focused on proposing to the Board of Directors the remuneration policy for directors and senior managers, as well as the individual remuneration and other contractual conditions of executive directors. Similarly, it is responsible for ensuring remuneration transparency and the inclusion of information about directors' remuneration in the annual report, in the Annual Corporate Governance Report and in the Annual Directors Remuneration Report. Its functioning is governed by the Remuneration Committee Regulations. Every year, we publish the Directors Remuneration Report for the Euskaltel Group, which includes information about the average remuneration of directors, as well as information about the composition and determination of this compensation.*

DIRECTOR REMUNERATION REPORT: <https://www.euskaltel.com/CanalOnline/inversores/gobierno-corporativo>

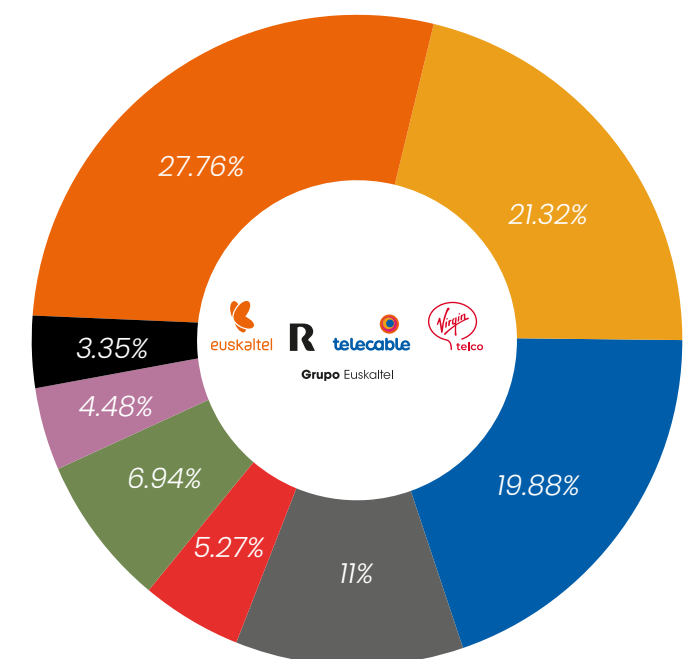
## 7.3. SHAREHOLDER MANAGEMENT MODEL

The model is structured at a global level around the Shareholder and Investor Communication and Contact Policy and is supplemented by the General Shareholders' Meeting Regulations and the Internal Code of Conduct in Stock Markets, which together make up the model for shareholder relations.

The key pillars of the Shareholder and Investor Communication and Contact Policy approved by the Board of Directors are complete respect for the laws against market abuse; and the equal treatment of shareholders that are in identical situations.

### SHAREHOLDER STRUCTURE

The Euskaltel Group had the following shareholder structure as at 31 December 2020.





## 7.4. COMPLIANCE AND RISK MANAGEMENT MODEL

The compliance model of the Euskaltel Group, which was unified and updated in 2017 to incorporate the Group's companies and to create a single and coordinated compliance model, brings together the compliance models for managing criminal risk, bribery and corruption risk, and non-criminal risk.

### RISK MANAGEMENT AND CONTROL SYSTEM

Risks are identified, prioritized and managed over time, enabling us to avoid any adverse effects and to constantly guarantee the best experience and service for our customers.

The basic principles that must govern the Group's actions to control and manage its risks and the key responsibilities of this management are governed by the Corporate Risk Management and Control Policy.

The scope of the Group's Corporate Risk Management and Control System applies to all companies in the group and encompasses the following types of risk, according to the potential source of the event:

- Strategic risks
- Financial risks
- Regulatory risks
- Sustainability-related risks
- Cyber risks
- Operating or operational risks
- Reputational risks
- Information risks

To maximize functionality and efficiency in managing corporate risks we have unified the models for managing risks related to the GDPR, the System for Internal Control of Financial Reporting, cyber-security, criminal risk and anti-corruption into a single leading international software tool that enables coordinated risk management and better internal management.

We use this tool to identify and evaluate risks, we establish controls to mitigate them, and in short we apply the risk management and control system, providing traceability to the control actions taken and recording the evidence to provide subsequent proof of their existence.



### MANAGEMENT INSTRUMENTS OF THE COMPLIANCE MODEL

The Group's compliance management model includes the following instruments:

- Code of Ethics and the Ethics Channel
- Criminal and Anti-bribery Risk Management Model

These instruments establish the principles and guidelines for conduct that must apply to all Group personnel and those that work on behalf of the Group, in the performance of their daily work both inside and outside of the company. The Ethics Channel allows breaches of internal regulations and external regulations that apply to the Group to be confidentially reported, free from any reprisals, as well as to make compliance-related enquiries and to manage the risks of criminal activities, bribery and corruption in the Group.



## CODE OF ETHICS

The Code of Ethics of the Euskaltel Group establishes the basic values and principles of corporate conduct that we apply to our operations and stakeholders relations.

### CODE OF ETHICS **PRINCIPLES**



This is a key tool in our management, by establishing the conduct guidelines that must be upheld in every area of our business and that are therefore required from every person in the Group, from the Board of Directors to the employees, including our suppliers.

We have also established mechanisms for controlling and monitoring compliance with the Code of Ethics, which combined make up the Due Diligence Model, based on the dissemination, training and monitoring of the conduct of Group personnel, in accordance with the established principles and guidelines.

In 2020, 99.65% of our employees received training on the Code of Ethics and expressly agreed to comply with it.

We also use the Ethics Channel as a reporting and monitoring instrument, to clarify any doubts, deal with enquiries and to receive communications about potential violations. In 2020, a decision was made to review the Group's Ethics Channel to adapt it to Directive 2019/1937. During the year, 55 communications were received and processed by the Ethics Channel, although none of them involved criminal repercussions and all of them were fully resolved.

*In 2020, 99.65% of our employees received training on the Code of Ethics and expressly agreed to comply with it.*

## CRIMINAL AND ANTI-BRIBERY RISK MANAGEMENT MODEL

The Criminal and Anti-bribery Risk Management Model for the Euskaltel Group, established in the Criminal and Anti-bribery Risk Prevention Manual, is one of the main management instruments that we use, together with other elements, to prevent crimes from being committed and to promote a corporate culture based on ethics and regulatory compliance and that opposes bribery and corruption.

In 2020, we provided general training about the Criminal and Anti-bribery Risk Prevention Manual to more than 485 employees in our Group. Furthermore, we provided training about the Anti-corruption Policy (in addition to training on the Code of

Ethics) as part of the compliance communication and training plan. In 2020, 98.62% of our team, a total of 573 people, completed anti-corruption training and expressly accepted the Group's Anti-corruption Policy.

In addition, our Board of Directors has approved the following policies as elements of the implementation and coverage of the provisions included in the Criminal and Anti-bribery Risk Prevention Manual:

### ■ **CORPORATE CRIMINAL COMPLIANCE POLICY:**

Approved in July 2020, it forms part of the general framework of the organisation and management model for criminal risks and is an unequivocal expression of our zero tolerance position towards criminal activity in our operations.

### ■ **CORPORATE ANTI-CORRUPTION POLICY:**

This brings together our specific management of the crimes of bribery and corruption. All of our employees expressly accept and agree to comply with this policy after receiving the respective training about its content.

### ■ **CORPORATE TAX POLICY:**

We have a Corporate Tax Policy through which we expressly agree to promote the application of good tax practices and fulfilment of the corporate purpose, avoiding tax risks and inefficiencies in making business decisions, basing our relations with the tax authorities on the principles of transparency, trust, good faith and loyalty, and in accordance with the tax legislation in the different territories in which we operate.

### ■ **CORPORATE CONFLICT OF INTERESTS POLICY:**

Approved by the Board of Directors, it implements the Group's Code of Ethics with regards to potential conflict of interest situations that could affect directors and Group employees; it defines the conflicts of interest situation, the types of situations and related persons for directors and employees; and it establishes the general and specific principles of conduct.

In 2020, our Criminal and Anti-bribery Risk Management Model obtained AENOR Criminal Risk Management System certification under the UNE 19601 standard, and Anti-bribery Management System certification under the UNE ISO 37001 standard, which certify our management in relation to detecting, preventing and combating conduct related to criminal activity in general, and corruption and bribery in particular.

The Criminal and Anti-bribery Risk Prevention Manual identifies 16 crimes in the Spanish Criminal Code that could arise from actions taken in the course of our business, encompassed under the broad definition of corruption, which includes money-laundering. For each of these risks, we assess the probability of them arising and their impact, and we establish the corresponding controls to prevent them.

In 2020, there were no incidents relating to breaches of the regulations or the good governance established by the Group.



*In 2020, our Criminal and Anti-bribery Risk Management Model obtained AENOR Criminal Risk Management System certification under the UNE 19601 standard, and Anti-bribery Management System certification under the UNE ISO 37001 standard, which certify our management in relation to detecting, preventing and combating conduct related to criminal activity in general, and corruption and bribery in particular.*

## HUMAN RIGHTS

All Euskaltel Group activities, regardless of the location where they take place, comply with, promote and respect the human and labour rights established in national and international legislation, which underpin our operations and rules of conduct, which include:

- The Universal Declaration of Human Rights
- The United Nations' Global Compact
- The United Nations' Agenda 2030 for Sustainable Development and the 17 Sustainable Development Goals
- The OECD Guidelines for Multinational Enterprises
- The Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, and the Social Policy of the International Labour Organisation

The due diligence of the Euskaltel Group in relation to human rights is structured around the following:

- Our Code of Ethics, which contains clauses relating to human rights that must be upheld by all members of the Group.
- Code of Ethics training given to all employees.
- The Ethics Channel, in which all employees can submit enquiries and are required to report actions that may involve human rights offenses. The Ethics Channel is available to all employees on the corporate intranet sites, and to all stakeholders on the corporate websites of the Group's companies.
- Obligation for all suppliers that join our supply chain to accept the contents of the Code of Ethics. The Ethics Channel is also available to them to report potential human rights violations in the sphere of their commercial relationship with the Group.

The Group's Code of Ethics and Ethics Channel cover all potential risks of human rights violations. Likewise, since our business and procurement volume are fundamentally local, national or within the European Union, there is no significant risk of a breach in this sphere within our supply chain.

In 2020, there were no reports of human rights violations made against the Euskaltel Group.



## COVID actions

The Board of Directors and the senior management have taken measures to ensure the correct functioning and development of our business during the most serious months of the health crisis. The main actions carried out were:

- We **created a Continuity Committee** responsible for ensuring the continuity of our operations
- **Our suppliers that are responsible for the maintenance and evolution of our systems continued to perform their roles, operating remotely** while maintaining their usual efficiency and timeliness in resolving any issues.
- **We identified the critical activities for the continuity of our services**, and the managers of those areas were spread over different geographic locations.
- **We signed a commitment with the leading national telecoms operators and the government** to ensure connectivity for people and businesses.
- **Closed door shareholder meetings and virtual meetings** of the Board of Directors.



# APPENDICES

# 8

# 8.1. ABOUT THIS REPORT

## SCOPE OF THE INFORMATION

This sustainability report includes the key results from the activities that the Euskaltel Group carried out in relation to sustainability during 2020, during the period between 1 January and 31 December.

The scope encompasses the information for the Euskaltel Group, which comprises Euskaltel S.A. and its subsidiaries R Cable and Telecable Telecomunicaciones, S.A.U. and EKT Cable y Telecomunicaciones, S.L.U.

In this report we present our relationship with our stakeholders, our management of risk and the analysis of the positive impacts and contributions of our operations in economic, social and environmental matters. This report was prepared based on the financial and non-financial information reporting system that we have implemented in the Euskaltel Group, as well as the initiatives that we have carried out in the territories in which we operate.

We are publishing this report as a continuation of the last report published in 2020 in which we analysed our performance corresponding to 2019.

During this annual reporting period, we highlight the actions and indicators implemented as our contribution to achieving the Sustainable Development Goals (SDGs) and their objectives, through which we also address our corporate commitment to the ten Principles of the United Nations' Global Compact and its Agenda 2030.

## CRITERIA FOR DRAWING UP THE REPORT

We have selected and included content in accordance with the principles and requirements defined by the most up-to-date versions of the GRI Standards, in their comprehensive option, and in line with the CNMV's Recommendations on Good Governance, and in particular those matters required by Law 11/2018 on non-financial and diversity reporting of 28 December.

The information presented expands on and is related to the content published in the Euskaltel Group website, its EMAS Environmental Declarations, the Annual Corporate Governance Report, and the Consolidated Financial Statements for 2020.

This report forms part of the Management Report of the Euskaltel Group and is therefore subject to the same criteria for its approval, filing and publication, in order to comply with the guidelines established in Law 11/2018.



KPMG Asesores, S.L.  
Torre Realia  
Plaça d'Europa, 41,43  
08908 L'Hospitalet de Llobregat  
Barcelona

### **Independent Assurance Report on the Sustainability Report and Non-Financial Information Statement of EUSKALTEL, S.A. and subsidiaries for 2020**

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

To the shareholders of Euskaltel S.A.:

Pursuant to article 49 of the Spanish Code of Commerce, we have provided limited assurance on the Sustainability Report and Non-Financial Information Statement (hereinafter NFIS) for the year ended 31 December 2020, of Euskaltel, S.A. (hereinafter the Parent) and subsidiaries (hereinafter the Group) which forms part of the Group's Consolidated Management Report.

The NFIS includes additional information to that required by prevailing mercantile legislation concerning non-financial information, which has not been the subject of our assurance work. In this respect, our assurance work was limited exclusively to providing assurance on the information contained in table "Contents-Law 11/2018" in the accompanying NFIS.

#### **Directors' responsibility**

The Board of Directors of the Parent Company is responsible for the preparation of the NFIS included in the Group's Management Report. The NFIS has been prepared in accordance with prevailing mercantile legislation and selected Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards), in accordance with each subject area in table "Contents-Law 11/2018" of the aforementioned NFIS.

This responsibility also encompasses the design, implementation and maintenance of internal control deemed necessary to ensure that the NFIS is free from material misstatement, whether due to fraud or error.

The Parent Company's directors are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the NFIS was obtained.

#### **Our independence and quality control**

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including international independence standards) issued by the International Ethics Standards Board for Accountants (IESBA), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

KPMG Asesores S.L., a limited liability Spanish company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. Paseo de la Castellana, 259C - Torre de Cristal - 28046 Madrid

Reg. Mer Madrid, T. 14.972, F. 53, Sec. 8, H. M-249.480, Inscrp. 1.ª N.I.F. B-82498650





Our firm applies International Standard on Quality Control 1 (ISQC1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The engagement team was comprised of professionals specialised in reviews of non-financial information and, specifically, in information on economic, social and environmental performance.

**Our responsibility**

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed.

We conducted our review engagement in accordance with the requirements of the Revised International Standard on Assurance Engagements 3000, “Assurance Engagements other than Audits or Reviews of Historical Financial Information” (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the Performance Guide on assurance engagements on the Non-Financial Information Statement issued by the Spanish Institute of Registered Auditors (ICJCE).

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently, the level of assurance provided is also lower.

Our work consisted of making inquiries of management, as well as of the different units and areas of the Parent that participated in the preparation of the NFIS, in the review of the processes for compiling and validating the information presented in the NFIS and in the application of certain analytical procedures and sample review testing described below:

- Meetings with the Parent’s personnel to gain an understanding of the business model, policies and management approaches applied, the principal risks related to these matters and to obtain the information necessary for the external review.
- Analysis of the scope, relevance and completeness of the content of the NFIS for 2020 based on the materiality analysis performed by the Parent and described in the section “Materiality” considering the content required in prevailing mercantile legislation.
- Analysis of the processes for compiling and validating the data presented in the NFIS for 2020.
- Review of the information relative to the risks, policies and management approaches applied in relation to the material aspects presented in the NFIS for 2020.
- Corroboration, through sample testing, of the information relative to the content of the NFIS for 2020 and whether it has been adequately compiled based on data provided by the information sources.
- Procurement of a representation letter from the Directors and management.

**Conclusion**

Based on the assurance procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the NFIS of Euskatel, S.A. and subsidiaries for the year ended 31 December 2020 has not been prepared, in all material respects, in accordance with the contents



included in prevailing mercantile legislation and with the GRI Standards selected in accordance with each subject area in the table “Contents-Law 11/2018” of the aforementioned NFIS.

**Other issues**

On February 25, 2020, other verifiers issued their independent verification report of the consolidated Non-Financial Information Statement of Euskatel, S.A. and subsidiaries for the 2019 financial year in which they expressed a favourable conclusion.

**Use and distribution**

This report has been prepared in response to the requirement established in prevailing mercantile legislation in Spain, and thus may not be suitable for other purposes and jurisdictions.

KPMG Asesores, S.L.

[Signed on the original in Spanish]

Patricia Reverter Guillot  
25 February 2021

## 8.2. DETAILED QUANTITATIVE INFORMATION ABOUT THE EUSKALTEL GROUP WORKFORCE

The distribution of our human team and the variations that occurred during 2020 (excluding the Chairman and CEO) are given below.

This year the workforce has been distributed according to the GGS methodology, which allows us to define the different roles in the company.

### WORKFORCE DISTRIBUTION

#### WORKFORCE DISTRIBUTION BY GENDER AND AGE IN 2019 AND 2020

AGE	2019			2020		
	W	M	TOTAL	W	M	TOTAL
<= 30 YEARS	8	3	11	5	5	10
> 30 AND <= 50 YEARS	227	235	462	212	213	431
> = 51 YEARS	30	83	113	46	100	140
<b>TOTAL GENERAL</b>	<b>265</b>	<b>321</b>	<b>586</b>	<b>263</b>	<b>318</b>	<b>581</b>

#### WORKFORCE DISTRIBUTION BY GENDER AND PROFESSIONAL CATEGORY IN 2019 AND 2020

PROFESSIONAL CATEGORY 2019	W	M	TOTAL
DIRECTORS	44	22	26
MANAGEMENT	17	33	50
OTHER EMPLOYEES	244	266	510
<b>TOTAL</b>	<b>265</b>	<b>321</b>	<b>586</b>

PROFESSIONAL CATEGORY 2020	W	M	TOTAL
DIRECTORS	2	16	18
MANAGEMENT	14	21	35
MIDDLE MANAGEMENT	35	50	85
TECHNICAL STAFF	158	220	378
SUPPORT STAFF	54	11	65
<b>TOTAL</b>	<b>263</b>	<b>318</b>	<b>581</b>

### ANNUAL AVERAGE CONTRACTS

#### DISTRIBUTION OF ANNUAL AVERAGE CONTRACTS BY GENDER IN 2019 AND 2020

CONTRACT TYPE	GENDER	2019	2020
PERMANENT FULL-TIME	WOMEN	277.08	262.90
	MEN	365.58	314.33
	Total permanent full-time	642.67	577.23
TEMPORARY FULL-TIME	WOMEN	1.25	0.25
	MEN	3.58	-
	Total temporary full-time	4.83	0.25
TEMPORAL PART-TIME	WOMEN	0.92	0.49
	MEN	1	1
	Total temporary part-time	1.92	1.49
<b>AVERAGE TOTAL CONTRACTS</b>		<b>649.42</b>	<b>578.97</b>

### □ DISTRIBUTION OF AVERAGE ANNUAL CONTRACTS BY AGE IN 2019 AND 2020

CONTRACT TYPE <sup>1</sup>	AGE	2019	2020
PERMANENT FULL-TIME	<= 30 YEARS	12.5	7.70
	> 30 AND <= 50 YEARS	502.17	423.51
	> 50 YEARS	127.75	146.02
	Total permanent full-time	642.67	577.23
TEMPORARY FULL-TIME	<= 30 YEARS	4.67	0.25
	> 30 <= 50 YEARS	0.17	-
	Total temporary full-time	4.83	0.25
TEMPORARY PART-TIME	>= 51 YEARS	1.92	1.49
	Total temporary part-time	1.92	1.49
AVERAGE TOTAL CONTRACTS		649.42	578.97

### □ DISTRIBUTION OF AVERAGE ANNUAL CONTRACTS BY PROFESSIONAL CATEGORY IN 2019 AND 2020

PROFESSIONAL CATEGORY 2019	PERMANENT FULL-TIME	TEMPORARY FULL-TIME	TEMPORARY PART-TIME
DIRECTORS	33.08	-	-
MANAGEMENT	57.67	-	-
OTHER PROFESSIONALS	551.92	4.83	1.92
TOTAL	642.67	4.83	1.92

<sup>1</sup> Figures for FTE employees

<sup>2</sup> To calculate this figure, we have taken into account new hires and departures that occurred during the year, including both voluntary and involuntary departures in the latter figure, using the following formula: ((Number of departures + Number of new hires)/2)/Total number of employees.

PROFESSIONAL CATEGORY 2020	PERMANENT FULL-TIME	TEMPORARY FULL-TIME	TEMPORARY PART-TIME
DIRECTORS	15.81	-	-
MANAGEMENT	37.67	-	-
MIDDLE MANAGEMENT	85.50	-	-
TECHNICAL STAFF	373.25	0.25	1.49
SUPPORT STAFF	65	-	-
TOTAL	577.23	0.25	1.49

### VARIATIONS IN PERSONNEL

#### □ STAFF TURNOVER IN 2019 AND 2020

	2019	2020
GENERAL STAFF TURNOVER <sup>2</sup>	13.81%	5.16%

#### □ NEW HIRES 2019 AND 2020

NEW HIRES	2019		2020	
	W	M	W	M
> = 30 YEARS	3	1	1	3
31 – 50 YEARS	4	11	8	13
> = 51 YEARS	1	2	1	1
SUBTOTAL GENDER	8	14	10	17
TOTAL	22		27	

INVOLUNTARY DEPARTURES FROM THE COMPANY BY AGE AND GENDER IN 2019 AND 2020

AGE <sup>1</sup>	2019			2020		
	W	M	TOTAL	W	M	TOTAL
> 30 AND <= 50 YEARS	17	22	39	5	4	9
> = 51 YEARS	6	23	29	3	4	7
TOTAL	23	45	68	8	8	16

INVOLUNTARY DEPARTURES FROM THE COMPANY BY GENDER AND PROFESSIONAL CATEGORY IN 2019 AND 2020

PROFESSIONAL CATEGORY 2019	W	M	TOTAL
DIRECTORS	3	12	15
MANAGEMENT	4	7	11
OTHER EMPLOYEES	16	26	42
TOTAL	23	45	68

PROFESSIONAL CATEGORY 2020	W	M	TOTAL
DIRECTORS	1	2	3
MANAGEMENT	1	4	5
MIDDLE MANAGEMENT	2	1	3
TECHNICAL STAFF	4	1	5
TOTAL	8	8	16

<sup>1</sup> There were no involuntary employee departures under the age of 30.

TRAINING HOURS

TRAINING HOURS BY GENDER, AGE AND PROFESSIONAL CATEGORY

PROFESSIONAL CATEGORY 2019	AGE	TRAINING HOURS		AVERAGE HOURS PER EMPLOYEE	
		W	M	W	M
Directors	31 - 50	239	329	60	25
	> = 51	49	864	25	48
Managers	31 - 50	258	853	16	43
	> = 51	46	450	15	41
Other employees	< = 30	397	311	40	44
	31 - 50	5.946	6.903	35	35
	> = 51	574	1.640	34	32
SUBTOTAL GENDER		7,509	11,350	28	35
TOTAL		18,857		32	

PROFESSIONAL CATEGORY 2020	AGE	TRAINING HOURS		AVERAGE HOURS PER EMPLOYEE	
		W	M	W	M
Directors	31 - 50	34.00	59.00	17.00	6.56
	> = 51	-	145.50	-	20.79
Management	31 - 50	206.50	545.50	22.94	38.96
	> = 51	188.50	111.50	37.70	15.93
Middle management	31 - 50	950.00	1,190.00	31.67	37.19
	> = 51	84.00	430.50	16.80	23.92
Technical staff	< = 30	244.00	246.00	48.80	61.50
	31 - 50	6,489.50	6,222.00	48.79	40.67
	> = 51	641.00	1,954.00	32.05	31.02
Support staff	< = 30	-	18.50	-	18.50
	31 - 50	997.00	133.50	26.24	26.70
	> = 51	423.50	69.50	26.47	13.90
SUBTOTAL GENDER		10,258.00	11,125.50	39.00	34.99
TOTAL		21,383.50		36.99	

## REMUNERATION AND WAGE GAP

Based on the new structure resulting from the application of the Global Grading System (GGS) and in order to provide greater clarity and scope when presenting information about remuneration and the wage gap, the methodology used to calculate this information has been revised. Consequently, the calculation of average remuneration and the wage gap for 2020 has been made taking the following into account:

- New organisational structure.
- Inclusion of groups 17 and 16 with an impact on the business in the Management category.
- Global Grading System (GGS).
- Target salary (fixed and theoretical variable) excluding employee benefits and any long-term incentive plan accrued in previous years but paid in 2020.
- The Chairman and CEO are excluded from the analysis.

The calculation for 2019 has also been made using this methodology to make the information comparable.

### AVERAGE REMUNERATION BY GENDER AND AGE IN 2019 AND 2020

AGE RANGE	2019				2020			
	# M / W	M	W	GAP	# M / W	M	W	GAP
Under 30	3 / 8	27,280	29,110	-7%	5 / 5	32,768	33,212	-1%
30 to 50	235 / 227	52,432	45,171	14%	213 / 212	55,503	45,514	18%
Over 50	83 / 29	78,066	53,721	31%	99 / 46	69,983	51,655	26%

PROFESSIONAL CATEGORY	2019				2020			
	# M / W	M	W	GAP	# M / W	M	W	GAP
Directors	15 / 2	183,474	161,267	12%	16 / 2	178,556	172,250	4%
Management	21 / 8	94,248	88,902	6%	21 / 14	87,087	81,896	6%
Middle management	99 / 53	59,292	55,584	6%	50 / 35	63,673	55,166	13%
Technical staff	169 / 149	45,240	42,020	7%	219 / 158	48,677	43,363	11%
Support staff	17 / 52	37,422	34,691	7%	11 / 54	34,976	35,519	-2%



OCCUPATIONAL HEALTH AND SAFETY INDICATORS

ACCIDENT FIGURES IN 2019 AND 2020

ACCIDENT INDICATORS	2019			2020		
	W	M	TOTAL	W	M	TOTAL
No. accidents without leave <sup>1</sup>	2	1	3	1	–	1
General Frequency Rate	2.10	3.14	462	1.83	–	1
Severity Rate	0	0	0	0	0	0

DAYS AND HOURS OF ABSENTEEISM BY REGION IN 2019 AND 2020

	ABSENTEEISM HOURS 2019		ABSENTEEISM HOURS 2020	
BASQUE COUNTRY	8,318.1		12,673.42	
ASTURIAS	3,582		3,682.60	
GALICIA	5,258.1		4,720.28	
TOTAL	17,158.2		21,076.30	

MEDICAL CHECK-UPS CARRIED OUT BY REGION IN 2020

	CHECK-UPS CARRIED OUT IN 2020		PERCENTAGE OF PEOPLE THAT ATTENDED THE CHECK-UPS	
	M	H	W	M
BASQUE COUNTRY	84	79	52.50%	53.02%
ASTURIAS	23	52	50.00%	70.27%
GALICIA	29	43	50.00%	45.74%
TOTAL	136	174	55.74%	54.89%
TOTALS	310		55.26%	

CUSTOMER SERVICE INDICATORS

FIXED-LINE AND INTERNET COMPLAINTS 2019 AND 2020

	BRAND/ QTR	2019				2020			
		T1	T2	T3	T4	T1	T2	T3	T4
COMPLAINT RESOLUTION TIME	EUSKALTEL	14.92	19.95	15.94	25.71	11.93	11.23	16.03	13.53
	R	13.92	23.13	31.92	33.99	26.04	19.94	21.14	11.24
	TELECABLE	17.22	11.17	20.66	17.05	15.86	13.82	14.79	16.95
COMPLAINT FREQUENCY	EUSKALTEL	2.76	1.88	2.05	3.39	4.14	3.58	3.49	2.82
	R	3.66	4.53	4.62	5.43	5.67	5.25	5.07	4.36
	TELECABLE	2.79	2.48	2.52	3.47	4.86	4.72	7.25	4.29
BILLING COMPLAINTS	EUSKALTEL	0.57	0.42	0.39	0.71	0.93	0.77	0.76	0.66
	R	0.67	0.93	1.1	1.15	1.18	1.3	1.16	1.09
	TELECABLE	0.62	0.55	0.54	0.9	1.34	1.23	1.95	1.15

<sup>1</sup> There were no accidents that required leave during 2019 or 2020.

# 8.3.

## CONTENTS OF GRI STANDARDS AND GLOBAL COMPACT

STANDARD	DESCRIPTION	RESPONSE TO THE INDICATOR / SECTION	GLOBAL COMPACT
GRI 101 BASES			
101	Principles	Page 78	
GRI 102 GENERAL DISCLOSURES			
Organisation's profile			
102-1	Name of the organisation	Pages 10 and 11 Page 78	
102-2	Activities, brands, products and services	Page 05	
102-3	Location of headquarters	Back cover	
102-4	Location of operations	Page 05	
102-5	Ownership and legal form	Page 78	
102-6	Markets served	Page 05	
102-7	Scale of the organisation	Page 05	
102-8	Information on employees and other workers	Page 56	Principle 6
102-9	Supply chain	Page 25	
102-10	Significant changes in the organisation and its supply chain	Page 25	
102-11	Precautionary principle or approach	Page 45	
102-12	External initiatives	Pages 27, 28, 29, 30 and 31	
102-13	Membership of associations	Pages 27, 28, 29, 30 and 31	
Strategy			
102-14	Statement from senior decision-maker	Pages 03, 04 and 05	
102-15	Key impacts, risks and opportunities	Pages 15, 16, 17, 18	
Ethics and integrity			
102-16	Values, principles, standards and norms of behaviour	Pages 08, 09 and 117	Principle 6
102-17	Mechanisms for advice and concerns about ethics	.Pages 73, 74, 75 and 76	Principle 6

STANDARD	DESCRIPTION	RESPONSE TO THE INDICATOR / SECTION	GLOBAL COMPACT
Governance			
102-18	Governance structure	Page 70, 71 and 72	
102-19	Delegating authority	Page 70	
102-20	Executive level responsibility for economic, environmental and social topics	Pages 70, 71 and 72	
102-21	Consulting stakeholders on economic, environmental and social topics	Page 20	Principle 6
102-22	Composition of the highest governance body and its committees	Pages 70, 71 and 72	
102-23	Chair of the highest governance body	Page 71	
102-24	Nominating and selecting the highest governance body	Page 71	
102-25	Conflicts of interest	Page 75	
102-26	Role of highest governance body in setting purpose, values and strategy	Page 70	
102-27	Collective knowledge of highest governance body	Pages 70, 71 and 72	
102-28	Evaluating the highest governance body's performance	Pages 70, 71 and 72	
102-29	Identifying and managing economic, environmental and social impacts	Pages 16 and 17	
102-30	Effectiveness of risk management processes	Page73	
102-31	Review of economic, environmental and social topics	Page 45	
102-32	Highest governance body's role in sustainability reporting	Pages 70, 71 and 72	
102-33	Communicating critical concerns	Page 73	
102-34	Nature and total number of critical concerns	Page 73	
102-35	Remuneration policies	Page 57	
102-36	Process for determining remuneration	Page 71	
102-37	Stakeholders' involvement in remuneration	Page 57	
102-38	Annual total compensation ratio	Pages 57 and 83	
102-39	Percentage increase in annual total compensation ratio	Pages 57 and 83	
Stakeholder engagement			
102-40	List of stakeholder groups	Page 20	
102-41	Collective-bargaining agreements	Pages 59 and 60	Principle 1 and 3

STANDARD	DESCRIPTION	RESPONSE TO THE INDICATOR / SECTION	GLOBAL COMPACT
102-42	Identifying and selecting stakeholders	Page 20	
102-43	Approach to stakeholder engagement	Page 20	
102-44	Key topics and concerns raised	Page 21	
Reporting practices			
102-45	Entities included in the consolidated financial statements	Page 78	
102-46	Defining report content and topic boundaries	Page 78	
102-47	List of material topics	Page 21	
102-48	Restatements of information	Page 78	
102-49	Changes in reporting	Page 78	
102-50	Reporting period	Page 78	
102-51	Date of most recent report	Page 78	
102-52	Reporting cycle	Page 78	
102-53	Contact point for questions regarding the report	Page 78	
102-54	Claims of reporting in accordance with the GRI Standards	Page 78	
102-55	GRI content index	Page 78	
102-56	External assurance	Page 78	
GRI 103 MANAGEMENT APPROACH			
103-1	Explanation of the material topic and its boundary	Page 21	
103-2	The management approach and its components	Pages 16 and 17	Principle 6
103-3	Evaluation of the management approach	Pages 16 and 17	
GRI 201 ECONOMIC PERFORMANCE			
201-1	Direct economic value generated and distributed	Page 26	
201-2	Financial implications and other risks and opportunities due to climate change	Page 26	
201-3	Defined benefit plan obligations and other retirement plans	Page 26	
201-4	Financial assistance received from government	Page 26	
GRI 202 MARKET PRESENCE			
202-1	Ratios of standard entry-level wage by gender compared to local minimum wage	Page 83	

STANDARD	DESCRIPTION	RESPONSE TO THE INDICATOR / SECTION	GLOBAL COMPACT
202-2	Proportion of senior management hired from the local community	Page 56	Principle 6
GRI 203 INDIRECT ECONOMIC IMPACTS			
203-1	Infrastructure investments and services supported	Page 24	
203-2	Significant indirect economic impacts	Page 26	
GRI 204 PROCUREMENT PRACTICES			
204-1	Proportion of spending on local suppliers	Page 25	
GRI 205 ANTI-CORRUPTION			
205-1	Operations assessed for risks related to corruption	Page 75	Principle 10
205-2	Communication and training about anti-corruption policies and procedures	Page 75	Principle 10
205-3	Confirmed incidents of corruption and actions taken	Page 06	Principle 10
GRI 206 ANTI-COMPETITIVE BEHAVIOUR			
206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	In 2020 there were no legal actions related to anti-competitive, anti-trust or monopolistic practices.	
GRI 207 TAX			
207-1	Approach to tax	Page 26	
207-2	Tax governance, control and risk management	Page 26	
207-3	Stakeholder engagement and management of concerns related to tax	Page 26	
207-4	Country-by-country reporting	Page 26	
GRI 301 MATERIALS			
301-1	Materials used by weight or volume	Page 49	
301-2	Recycled input materials used	Page 51	Principle 7 and 8
301-3	Reclaimed products and their packaging materials	Page 51	Principle 7, 8 and 9
GRI 302 ENERGY			
302-1	Energy consumption within the organisation	Page 47	Principle 7 y 8
302-2	Energy consumption outside of the organisation	Page 47	Principle 7 y 8
302-3	Energy intensity	Page 47	Principle 8
302-4	Reduction of energy consumption	Page 47	Principle 7, 8 and 9
302-5	Reduction in energy requirements of products and services	Page 47	Principle 7, 8 and 9
GRI 303 WATER AND EFFLUENTS			
303-1	Interactions with water as a shared resource	Page 48	Principle 7 and 8
303-2	Management of water discharge-related impacts	At the Euskaltel Group we do not discharge industrial waste water and sanitary water is discharged into the municipal sewerage network where our facilities are located.	Principle 7 and 8
303-3	Water withdrawal	Page 48	Principle 8 and 9

STANDARD	DESCRIPTION	RESPONSE TO THE INDICATOR / SECTION	GLOBAL COMPACT
303-4	Water discharge	At the Euskaltel Group we do not discharge industrial waste water and sanitary water is discharged into the municipal sewerage network where our facilities are located.	Principle 8 and 9
303-5	Water consumption	Page 48	Principle 8 and 9
GRI 304 BIODIVERSITY			
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	We do not own land in biodiversity-rich habitats and in 2020 we have not recorded any impacts on biodiversity in protected areas, heritage sites or reserves.	Principle 8
304-2	Significant impacts of activities, products and services on biodiversity		Principle 8
304-3	Habitats protected or restored		Principle 8
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations		Principle 8
GRI 305 EMISSIONS			
305-1	Direct (Scope 1) GHG emissions	Page 50	Principle 7, 8 and 9
305-2	Energy indirect (Scope 2) GHG emissions	Page 50	Principle 7, 8 and 9
305-3	Other indirect (Scope 3) GHG emissions	Page 50	Principle 8
305-4	GHG emissions intensity	Page 50	Principle 8 and 9
305-5	Reduction of GHG emissions	Page 50	Principle 8 and 9
305-6	Emissions of ozone-depleting substances (ODS)	Page 50	Principle 8 and 9
305-7	Nitrogen oxides (NOX), sulphur oxides (SOX) and other significant air emissions	Pae 50	Principle 8 and 9
GRI 306 WASTE			
306-1	Waste generation and related significant impacts	Page 52 and 53	Principle 7 and 8
306-2	Waste by type and treatment method	Page 53	Principle 7 y 8
306-3	Significant spillages	Pages 52 and 53	Principle 8
306-4	Waste that has prevented disposal	Pages 52 and 53	Principle 8
306-5	Waste for disposal	Pages 52 and 53	Principle 8
GRI 307 ENVIRONMENTAL COMPLIANCE			
307-1	Non-compliance with environmental laws and regulations	In 2020, there were no breaches of environmental laws and regulations	Principle 7 y 8
GRI 308 SUPPLIER ENVIRONMENTAL ASSESSMENT			
308-1	New suppliers that were screened using environmental criteria	Page 25	Principle 9

STANDARD	DESCRIPTION	RESPONSE TO THE INDICATOR / SECTION	GLOBAL COMPACT
308-2	Negative environmental impacts in the supply chain and actions taken	Page 25	Principle 9
GRI 401 EMPLOYMENT			
401-1	New employee hires and employee turnover	Pages 57, 80 and 81	Principle 6
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	We offer the same employment conditions to all employees, regardless of their contract type or working hours.	Principle 6
401-3	Parental leave	Page 63	Principle 6
GRI 402 LABOUR/MANAGEMENT RELATIONS			
402-1	Minimum notice periods regarding operational changes	In general, organisational changes are communicated to the employees and areas affected before they become official in the organisation charts published on companies' intranets, with no minimum notice period.	Principle 3
GRI 403 OCCUPATIONAL HEALTH AND SAFETY			
403-1	Occupational health and safety management system	Pages 65 and 66	
403-2	Hazard identification, risk assessment and incident investigation	Pages 65 and 66	
403-3	Occupational health services	Pages 65 and 66	
403-4	Worker participation, consultation and communication on occupational and safety	Pages 65 and 66	
403-5	Worker training on occupational health and safety	Pages 65 and 66	
403-6	Promotion of workers' health	Pages 65 and 66	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Pages 65 and 66	
403-8	Workers covered by an occupational health and safety management system	Pages 65 and 66	
403-9	Work-related injuries	Pages 65, 66 and 84	
403-10	Work-related ill health	Pages 65 and 66	
GRI 404 TRAINING AND EDUCATION			
404-1	Average hours of training per year per employee	Pages 58, 82 and 83	Principle 6
404-2	Programs for upgrading employee skills and transition assistance programs	Page 59	
404-3	Percentage of employees receiving regular performance and career development reviews	Page 59	Principle 6
GRI 405 DIVERSITY AND EQUAL OPPORTUNITIES			
405-1	Diversity of governance bodies and employees	Page 63	Principle 6
405-2	Ratio of basic salary and remuneration of women to men	Page 83	Principle 6
GRI 406 NON-DISCRIMINATION			
406-1	Incidents of discrimination and corrective actions taken	In 2020 there were no incidents of discrimination	Principle 6

STANDARD	DESCRIPTION	RESPONSE TO THE INDICATOR / SECTION	GLOBAL COMPACT
GRI 407 FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING			
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Page 76	Principle 3
GRI 408 CHILD LABOUR			
408-1	Operations and suppliers at significant risk for incidents of child labour	Page 76	Principle 5
GRI 409 FORCED OR COMPULSORY LABOUR			
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	Page 76	Principle 4
GRI 410 SECURITY PRACTICES			
410-1	Security personnel trained in human rights policies or procedures	Page 73	Principle 1 and 2
GRI 411 RIGHTS OF INDIGENOUS PEOPLES			
411-1	Incidents of violations involving rights of indigenous peoples	There are no indigenous peoples within the scope of activity of the Euskaltel Group.	Principle 1
GRI 412 HUMAN RIGHTS ASSESSMENT			
412-1	Operations that have been subject to human rights reviews or impact assessments	The Code of Ethics and Ethics Channel cover all potential risks of human rights violations. For this reason, it has not been considered necessary to carry out an analysis of this matter among employees. Likewise, as most suppliers are governed by Spanish legislation, it has not been considered necessary to carry out human rights assessments in the supply chain.	Principle 1
412-2	Employee training on human rights policies or procedures	Page 76	Principle 1 and 2
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	We do not have any significant investment agreements that include human rights clauses or that have undergone human rights screening.	Principle 1 and 2
GRI 413 LOCAL COMMUNITIES			
413-1	Operations with local community engagement, impact assessments, and development programmes	Pages 27, 28 and 29	Principio 1
413-2	Operations with significant actual and potential negative impacts on local communities	Pages 27, 28 and 29	Principle 1
GRI 414 SUPPLIER SOCIAL ASSESSMENT			
414-1	New suppliers that were screened using social criteria	Page 25	Principle 2
414-2	Negative social impacts in the supply chain and actions taken	Page 25	Principle 2
GRI 415 PUBLIC POLICY			
415-1	Political contributions	We do not make any kinds of contributions, financial or in kind, to political parties or their candidates.	Principle 10
GRI 416 CUSTOMER HEALTH AND SAFETY			
416-1	Evaluación de los impactos en la salud y seguridad de las categorías de productos o servicios	Page 42	

STANDARD	DESCRIPTION	RESPONSE TO THE INDICATOR / SECTION	GLOBAL COMPACT
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	In 2020, there were no incidents of non-compliance related to impacts on health and safety from products and services.	
GRI 417 MARKETING AND LABELLING			
417-1	Requerimientos para la información y el etiquetado de productos y servicios	All products supplied by the Euskaltel Group are certified and comply with the requirements established by different national and international organisations. We comply with the legal requirements on the processing of personal data of the products and services contracted by our customers, in accordance with the GDPR. We also comply with the legal requirements on the labelling of packaging of the equipment that we provide to our customers, in accordance with Law 11/1997 on packaging and packaging waste.	
417-2	Incidents of non-compliance concerning product and service information and labelling	Durante 2020, no han existido incidentes de incumplimiento relacionados con los impactos sobre la salud y la seguridad de los productos y servicios.	
417-3	Incidents of non-compliance concerning marketing communications	In 2020, Telecable was fined for the notification concerning tariff migrations in August 2019. The administration believes that the communication should have been clearer. The fine was €36,000.	
GRI 418 CUSTOMER PRIVACY			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	In 2020, a total of 192 complaints were received from customers, sent directly to the DPO. No definitive sanctions were issued and there is only one infringement proceeding in progress.	
GRI 419 SOCIO-ECONOMIC COMPLIANCE			
419-1	Non-compliance with laws and regulations in the social and economic area	In 2020 a total of nine complaints were received from consumer organisations. The total fines were €19,500.	



8.4.  
CONTENTS  
OF  
LAW 11/2018

CONTENTS LAW 11/2018	REPORT SECTION	GRI
<b>BUSINESS MODEL</b>		
Business model, organisation, structure and business environment	Pages 10 and 11	GRI 102-2 GRI 102-7
Markets in which the company operates	Pages 05 and 10	GRI 102-3 GRI 102-4 GRI 102-6
Organisation's objectives and strategies	Pages 10, 11, 12 and 13	GRI 103 - 2
Main factors and trends affecting the organisation's future development	Page 10	GRI 102-15
<b>GENERAL</b>		
Reporting framework	Page 79	GRI 102-54
Principle of materiality	Page 21	GRI 102-46 GRI 102-47
<b>SUSTAINABILITY MODEL</b>		
Sustainability policies	Page 18	
Sustainability risks	Page 73	GRI 102-30
<b>ENVIRONMENTAL INFORMATION</b>		
Management approach: description and results of the policies related to these issues as well as the main risks related to these issues linked to the group's activities.	Page 45	GRI 102-15 GRI 103-2
<b>General information</b>		
Effects of the company's activities on the environment and on health and safety, evaluation procedures or environment certification	Page 45	GRI 102-15
Precautionary principle	Page 45	GRI 102-11
Resources dedicated to preventing environmental risk	Page 45	GRI 103-2
Provisions and guarantees for environmental risk	Page 45	GRI 103-2
<b>Pollution</b>		
Measures associated with carbon emissions	Page 50	GRI 103-2 GRI 305-7

CONTENTS LAW 11/2018	REPORT SECTION	GRI
Measures associated with light, noise and other pollution	Due to the nature of our activity, there are no impacts in terms of light or noise pollution	GRI 103-2
<b>Circular economy and waste prevention and management</b>		
Measures for prevention, recycling, reuse, other forms of recovery and disposal of wastes	Pages 51, 52 and 53	GRI 301-3 GRI 306-2
Actions to combat food waste	Due to the nature of our activities, food waste is not considered material and no corrective actions were carried out in this area	GRI 103-2
<b>Consumption</b>		
Water: consumption and supply	Page 48	GRI 303-1
Raw materials: consumption and reduction measures	Pages 49 and 51	GRI 301-1 GRI 301-3
Energy: consumption, energy efficiency measures	Page 47	GRI 302-1 GRI 302-3
<b>Climate change</b>		
Greenhouse gas emissions	Page 50	GRI 305-1 GRI 305-2 GRI 305-3
Climate change adaptation measures	Page 49	GRI 103-2
Emissions reduction targets	Pages 50 and 51	GRI 305-5
<b>Biodiversity</b>		
Conservation measures	We do not own any land in areas of high biodiversity value and in 2020, no impacts were recorded with respect to biodiversity on protected areas, heritage sites or reserves.	GRI 304-1 GRI 304-2 GRI 304-3
Impacts on protected areas		
<b>SOCIAL AND PERSONNEL-RELATED INFORMATION</b>		
Management approach: description and results of the policies related to these issues as well as the main risks related to these issues linked to the group's activities.	Pages 54 and 55	GRI 102-15 GRI 103-2
<b>Employment</b>		
Total number and distribution of types of employment contract	Pages 56 and 80	GRI 102-8 GRI 405-1
Total number and distribution of types of employment contract	Pages 57, 80 and 81	GRI 102-8
Number of dismissals by gender, age and professional category	Page 82	GRI 401-1
Average remuneration and evolution by gender, age and professional category or equal value	Page 83	GRI 103-2   GRI 405-2 Average remuneration and evolution by gender, age and professional category or equal value

CONTENTS LAW 11/2018	REPORT SECTION	GRI
Wage gap, remuneration for the same posts or the company's average remuneration	Page 83	GRI 103-2 GRI 405-2 with respect to the remuneration of women versus men by occupational category
Average remuneration of directors and executives	Page 83 Remuneration Report <a href="https://www.euskatel.com/CanalOnline/inversores/gobierno-corporativo">https://www.euskatel.com/CanalOnline/inversores/gobierno-corporativo</a>	GRI 103-2
Right to disconnect policies	Page 60	GRI 103-2
Employees with disabilities	Page 65	GRI 405-1
<b>Organisation of working hours</b>		
Organisation of work	Page 60	GRI 103-2
Absenteeism hours	Page 65 and 84	GRI 103-2
Work-life balance measures	Page 60	GRI 103-2 GRI 401-3
<b>Occupational health and safety</b>		
Occupational health and safety conditions	Pages 65 and 66	GRI 103-2 GRI 403-1 (2018) GRI 403-3 (2018)
Occupational accidents, in particular their frequency and severity, as well as occupational diseases; disaggregated by sex	Page 84	GRI 403-9 (2018)
<b>Labour relations</b>		
Organisation of social dialogue	Page 59	GRI 103-2
Percentage of employees covered by a collective bargaining agreement by country	Page 59	GRI 102-41
Main content of collective bargaining agreements	Pages 59 and 65	GRI 403-4 (2018)
<b>Training and professional development</b>		
Policies implemented in the training area	Page 58	GRI 404-2
Total training hours by professional category	Pages 58, 82 and 83	GRI 404-1 in terms of total hours of training by professional category
<b>Universal accessibility</b>		
Universal accessibility for people with disabilities	Page 65	GRI 103-2
<b>Equal opportunities</b>		
Measures implemented to promote equality, equality plans and non-discrimination policy, and diversity management	Page 63	GRI 103-2

CONTENTS LAW 11/2018	RESPUESTA AL INDICADOR / PÁGINA	GRI
<b>HUMAN RIGHTS</b>		
Management approach: description and results of the policies related to these issues as well as the main risks related to these issues linked to the group's activities.	Page 76	GRI 102-15 GRI 103-2
<b>Application of due diligence procedures</b>		
Due diligence procedures on human rights and, if applicable, mitigation, management and remedies	Page 76	GRI 102-16 GRI 102-17
Reports of cases of human rights violations	Page 76	GRI 103-2
Promotion and fulfilment of ILO conventions related to the freedom of association and collective bargaining	Page 76	GRI 103-2
Elimination of discrimination in the workplace, forced or compulsory labour and child labour	Page 76	GRI 103-2
<b>Combating corruption and bribery</b>		
Management approach: description and results of the policies related to these issues as well as the main risks related to these issues linked to the group's activities.	Page 76	GRI 102-15 GRI 103-2
Measures taken to prevent corruption and bribery	Page 75	GRI 103-2 GRI 102-16 GRI 102-17 GRI 205-2
Anti-money-laundering measures	Page 75	GRI 103-2 GRI 102-16 GRI 102-17
Contributions to foundations and non-profit organisations	Page 27	102-13
<b>SOCIETY</b>		
Management approach: description and results of the policies related to these issues as well as the main risks related to these issues linked to the group's activities.	Pages 22 and 23	GRI 102-15 GRI 103-2
<b>Local communities</b>		
Impact of the company's activities: employment, local development, local populations and the region	Pages 25, 27, 28 and 29	GRI 204-1 GRI 413-1
Dialogue with the local community	Pages 20 and 27	GRI 102-43
Association or sponsorship actions	Pages 27, 28, 29, 30 and 31	GRI 103-2
<b>Supply chain</b>		
Inclusion of social, gender equality and environmental matters in the procurement policy	Page 25	GRI 103-2
Consideration in relations with suppliers and subcontractors of their social and environmental responsibility	Page 25	GRI 102-9 GRI 308-1 GRI 414-2
Supervision systems and audits and their results	Page 25	GRI 102-9
<b>Consumers</b>		
Consumer health and safety measures	Page 42	GRI 103-2
Complaints systems, complaints received and their resolution	Pages 42 and 84	GRI 103-2
<b>Tax</b>		
Profits obtained by country before taxes	Page 26	GRI 103-2
Tax on profits paid	Page 26	GRI 103-2
Public subsidies received	Page 26	GRI 201-4



Derio, 25 February 2021

In compliance with prevailing legislation, the directors of Euskaltel, S.A. have authorised for issue the Consolidated Annual Accounts (comprising the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto) and the Consolidated Directors' Report (which includes the Non-Financial Information Statement) for the period ended 31 December 2020.

Signed:

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**Sr. D. Xabier Iturbe Otaegui**  
(Presidente)

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**Sr. D. José Miguel García Fernández**  
(Consejero Delegado)

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**Kartera 1, S.L. representada por**  
**Sra. Dña. Alicia Vivanco González**  
(Consejera)

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**Sr. D. Eamonn O'Hare**  
(Consejero)

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**Sr. D. Robert W. Samuelson**  
(Consejero)

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**Corporación Financiera Alba, S.A. representada por**  
**Sr. D. Javier Fernández Alonso**  
(Consejero)

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**Sra. Dña. Belén Amatriain Corbi**  
(Consejera)

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**Sr. D. Iñaki Alzaga Etxeita**  
(Consejero)

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**Sra. Dña. Ana García Fau**  
(Consejera)

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**Sra. Dña. Beatriz Mato Otero**  
(Consejera)