KPMG

Euskaltel, S.A.

Condensed Consolidated Interim Financial Statements

30 June 2020

Consolidated Interim Directors' Report

2020

(With Limited Review Report Thereon)

(Free 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

Limited Review Report on the Condensed Consolidated Interim Financial Statements

To the Shareholders of

Euskaltel, S.A. at the request of the Audit and Control Committee

REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Introduction

We have conducted a limited review of the accompanying condensed consolidated interim financial statements (the "interim financial statements") of Euskaltel, S.A. (the "Company") and subsidiaries (the "Group"), which comprise the statement of financial position at 30 June 2020 and the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes thereto, all of which are consolidated and condensed, corresponding to the six-month then ended. The Company's directors are responsible for preparing the interim financial statements in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union and covering the preparation of condensed interim financial information, pursuant to article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on the interim financial statements based on our limited review.

Scope of the review

We have carried out our limited review in accordance with International Standard on Review Engagements (ISRE) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements comprises posing questions, primarily to personnel responsible for financial and accounting matters, and applying analytical procedures and other review procedures. The scope of a limited review is substantially less than that of an audit performed in accordance with prevailing auditing standards in Spain and, therefore, we are unable to provide assurance that all significant matters that would have been identified in an audit have come to our attention. Consequently, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

As a result of our limited review, which under no circumstances may be understood to be an audit, we did not become aware of any matters that would lead us to conclude that the accompanying interim financial statements for the six-month period ended 30 June 2020 were not prepared, in all significant aspects, in accordance with International Accounting Standard (IAS) 34, as adopted by the European Union, pursuant to article 12 of Royal Decree 1362/2007 on the preparation of condensed interim financial statements.

Emphasis of matter

We cite the accompanying note 2.1, which indicates that the accompanying interim financial statements do not include all the information that would be required in complete consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and that accordingly the accompanying interim financial statements should be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2019. This matter does not modify our conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The accompanying consolidated interim Directors' Report for the six-month period ended 30 June 2020 sets out the explanations that the Company's directors consider relevant in respect of the significant events occurred during the period and their impact on the interim financial statements presented, of which it does not form part, as well as the information required in accordance with article 15 of Royal Decree 1362/2007. We have verified that the accounting information set out in the aforementioned Directors' Report is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2020. Our work is limited to the verification of the consolidated interim Directors' Report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Euskaltel, S.A. and subsidiaries.

Other matters

This report was prepared at the request of the Audit and Control Committee in connection with the disclosure of the half-yearly information required by Article 119 of Royal Decree-Law 4/2015 of 23 October approving the consolidated text of the Spanish Securities Market Law, implemented through Royal Decree 1362/2007 of 19 October.

KPMG Auditores, S.L.

Cosme Carral López-Tapia

23 July 2020

Condensed Consolidated Interim Financial Statements for the six-month period ended 30 June 2020

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

EUSKALTEL, S.A. AND SUBSIDIARIES

Condensed Consolidated Statement of Financial Position at 30 June 2020 and 31 December 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	30.06.2020	31.12.2019
NON-CURRENT ASSETS		2,725,280	2,749,034
Goodwill		1,024,923	1,024,923
Intangible assets	5	293,506	299,311
Right of use assets	6	65,221	66,210
Property, plant and equipment	6	1,207,710	1,222,599
Financial assets	7	6,868	8,939
Deferred tax assets		127,052	127,052
CURRENT ASSETS		205,986	168,246
Inventories		4,814	4,213
Trade and other receivables	7	68,862	58,242
Current tax assets		1,459	1,459
Other current assets		8,389	6,085
Cash and cash equivalents	7	122,462	98,247
TOTAL ASSETS		2,931,266	2,917,280

EQUITY AND LIABILITIES	Notes	30.06.2020	31.12.2019
EQUITY			
Capital and reserves	8	987,634	982,029
Capital		535,936	535,936
Share premium		355,165	355,165
Retained earnings		97,447	117,410
(Own shares)		(1,350)	(1,472)
Interim dividend paid during the year		-	(25,010)
Other equity instruments	9	436	-
Other comprehensive income		(64)	(64)
Equity attributable to equity holders of the Parent		987,570	981,965
NON-CURRENT LIABILITIES		1,577,560	1,533,929
Deferred tax		8,857	9,021
Non-current debt	10	1,416,275	1,368,981
Derivatives		511	804
Other financial liabilities	10	73,996	74,863
Deferred tax liabilities		77,921	80,260
CURRENT LIABILITIES		366,136	401,386
Current debt	10	149,375	195,290
Trade and other payables	10	153,038	144,043
Current tax liabilities		10,585	2,727
Provisions		1,509	1,524
Other current liabilities	10	51,629	57,802
TOTAL EQUITY AND LIABILITIES		2,931,266	2,917,280

Derio, 23 July 2020

EUSKALTEL, S.A. AND SUBSIDIARIES

Condensed Consolidated Income Statement for the six-month periods ended 30 June 2020 and 30 June 2019

(expressed in thousands of euros)

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

	Notes	30.06.2020	30.06.2019
Revenue	4	334,668	334,565
Work performed by the entity and capitalised	4	8,477	8,025
Supplies	11	(84,269)	(85,187)
Other operating income	4	280	136
Personnel expenses	11	(20,082)	(30,037)
Other operating expenses	11	(72,942)	(77,527)
Amortisation and depreciation	5 & 6	(95,424)	(96,192)
RESULTS FROM OPERATING ACTIVITIES		70,708	53,783
Finance income		361	258
Finance cost		(27,102)	(24,959)
NET FINANCE COST	11	(26,741)	(24,701)
PROFIT BEFORE INCOME TAX		43,967	29,082
Income tax	12	(8,412)	(6,181)
PROFIT FOR THE YEAR		35,555	22,901
Profit for the year attributable to equity holders of the Parent .		35,555	22,901
Profit for the year attributable to non-controlling interests		-	-
Earnings per share (euros)		0.20	0.13

Derio, 23 July 2020

EUSKALTEL, S.A. AND SUBSIDIARIES

Condensed Consolidated Statement of Comprehensive Income for the six-month periods ended 30 June 2020 and 30 June 2019

(expressed in thousands of euros)

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

	Notes	30.06.2020	30.06.2019
a) Consolidated profit/(loss) for the year		35,555	22,901
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		35,555	22,901
Attributable to equity holders of the Parent		35,555	22,901
Attributable to non-controlling interests		-	-
		35,555	22,901

Derio, 23 July 2020

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EUSKALTEL, S.A. AND SUBSIDIARIES

Condensed Consolidated Statement of Changes in Equity for the six-month periods ended 30 June 2020 and 30 June 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 profit/(loss)	Other equity instruments	Interim dividend	Total
Balance at 31 December 2018	535,936	355,165	110,461	(1,602)	(64)	-	(25,010)	974,886
Other comprehensive income	-	-	22,901	-	-	-	-	22,901
Transactions with shareholders								
Own shares	-	-	187	253	-	-	-	440
Dividends	-	-	(55,380)	-	-	-	25,010	(30,370)
Balance at 30 June 2019	535,936	355,165	78,169	(1,349)	(64)	-	-	967,857
Balance at 31 December 2019	535,936	355,165	117,410	(1,472)	(64)	-	(25,010)	981,965
Other comprehensive income	-	-	35,555	-	-	-	-	35,555
Transactions with shareholders								
Own shares	-	-	(138)	122	-	-	-	(16)
Dividends	-	-	(55,380)	-	-	-	25,010	(30,370)
Issue of share-based payments (note 9)	-	-	-	-	-	436	-	436
Balance at 30 June 2020	535,936	355,165	97,447	(1,350)	(64)	436	-	987,570

Derio, 23 July 2020

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EUSKALTEL, S.A. AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows for the six-month periods ended 30 June 2020 and 30 June 2019

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

	Notes	30.06.2020	30.06.2019
Profit/(loss) for the year before tax		**43,967**	**29,082**
Adjustments for:		**141,570**	**130,489**
Amortisation and depreciation	5 & 6	95,424	96,192
Gains/(losses) on disposals of fixed assets	11.3	4,810	5,047
Valuation adjustments for impairment of business transactions	11.3	2,393	2,339
Allocation of grants		(258)	-
Other income and expense	11.1	12,024	2,216
Incentive plan expense	9	436	-
Finance income	11.4	(69)	(29)
Finance cost	11.4	26,921	24,863
Exchange gains/(losses)	11.4	181	99
Change in fair value of financial instruments	11.4	(292)	(238)
Changes in operating assets and liabilities		**(23,882)**	**(24,632)**
Inventories		(601)	(456)
Trade and other receivables		(13,013)	(5,335)
Other current assets		(164)	1,062
Trade and other payables		(5,401)	(26,472)
Other current liabilities		(4,703)	6,569
Other cash flows from /(used in) operating activities		**(33,282)**	**(32,275)**
Interest paid		(23,374)	(22,883)
Income tax paid		(9,908)	(9,392)
Cash flows from operating activities		**128,373**	**102,664**

Derio, 23 July 2020

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EUSKALTEL, S.A. AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows for the six-month periods ended 30 June 2020 and 30 June 2019

(expressed in thousands of euros)

	Notes	30.06.2020	30.06.2019
Payments for investments		**(75,271)**	**(72,934)**
Intangible assets	5	(28,599)	(27,774)
Property, plant and equipment	6	(46,672)	(45,160)
Cash flows from/(used in) investing activities		**(75,271)**	**(72,934)**
Proceeds from and payment for equity instruments		**(16)**	**440**
Issue of equity instruments		(16)	-
Disposal of own equity instruments		-	440
Proceeds from and payment for financial liability instruments		**(28,871)**	**(56,913)**
Issue of:		71	60,918
Loans and borrowings		-	60,000
Grant payments		71	918
Repayment of:		(3,955)	(92,845)
Loans and borrowings		-	(90,000)
Other debt		(116)	-
Lease liabilities		(3,839)	(2,845)
Dividends and interest paid on other equity instruments		**(24,987)**	**(24,986)**
Dividends	8	(24,987)	(24,986)
Cash flows from/(used in) financing activities		**(28,887)**	**(56,473)**
Cash and cash equivalents at beginning of the year		98,247	107,356
Cash and cash equivalents at year end		122,462	80,613
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**24,215**	**(26,743)**

Derio, 23 July 2020

EUSKALTEL, S.A. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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. (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 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 7 March 2019, Medbuying Technologies Group, S.L. (Medbuying) was incorporated with the Group holding a 10% shareholding. The corporate purpose of this company is to centralise purchases of mobile handsets, routers and other telecommunications accessories. 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.

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 30 June 2020 are as follows: R Cable y Telecable Telecomunicaciones, S.A.U. (100%) and EKT Cable y Telecomunicaciones, S.A.U. (100%).

NOTE 2.- Basis of presentation

2.1. True and fair view

The accompanying condensed consolidated interim financial statements have been prepared on the basis of the accounting records of Euskaltel, S.A. and its subsidiaries. The condensed consolidated interim financial statements for the six-month period ended 30 June 2020 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and, in particular, with IAS 34 Interim Financial Reporting, 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 30 June 2020 and the consolidated results of operations and changes in consolidated equity and cash flows of the Group for the six-month period then ended.

In accordance with IAS 34, interim financial information is intended to provide an update on the latest complete set of consolidated annual accounts published by the Group. Accordingly, it focuses on new activities, events, and circumstances occurred during the six-month period ended 30 June 2020. Bearing in mind that the condensed consolidated interim financial statements do not contain all information required for the preparation of the annual accounts, in order to have a proper understanding of the information set out herein, these statements should be read in conjunction with the consolidated annual accounts for the year ended 31 December 2019 in accordance with IFRS-EU.

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 consolidated annual accounts of the Group for the year ended 31 December 2019 were approved by the shareholders of the Company at the general meeting held on 2 June 2020.

On 23 July 2020, the directors of the Parent authorised for issue the condensed consolidated interim financial statements for the six-month period ended 30 June 2019.

The information set out in these notes is expressed in thousands of euros, except where otherwise indicated.

2.2. Comparative information

For comparative purposes, the interim financial statements include the figures for the six-month period ended 30 June 2020, except the condensed consolidated statement of financial position, where the figures refer to 31 December 2019 and coincide with the figures included in the 2019 consolidated annual accounts.

2.3. Critical issues regarding the valuation and estimation of uncertainties

Preparation of the condensed consolidated interim financial statements 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.

The primary judgements made by the directors in applying the accounting policies and the main sources of uncertainties are the same as those considered in the preparation of the consolidated annual accounts for 2019, except for the estimates made in relation to share-based payments (see note 9).

It is important to note that the Parent has analysed the possible impacts arising from Covid-19 and concludes that they are not significant with regard the Group's financial data and business activity (see note 14).

NOTE 3.- Accounting principles

With the exception of the details set out below, in preparing the condensed consolidated interim financial statements, the same accounting principles and standards were followed as those set out in the Group's consolidated annual accounts for the year ended 31 December 2019.

3.1. Newly applicable accounting standards

IFRS 2 Share-based payments

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.

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 share-based payments to employees

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.

NOTA 4.- Segment reporting

The activity of the companies comprising the Group primarily includes: the provision of combined broadband, Pay TV, mobile and fixed-line telephone services to mass market customers, including 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 revenue by type of customer at 30 June are as follows:

	30.06.2020	30.06.2019
Mass market customers	269,007	270,025
Business	57,923	57,257
Wholesale and other	16,495	15,444
Total	343,425	342,726
Work performed by the entity and capitalised	(8,477)	(8,025)
Other operating income	(280)	(136)
Revenue	334,668	334,565

Mass market

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

Business

Customers in this category - SMEs and large accounts, including the public sector - also receive fixed-line and mobile telecommunications services. Our sales team is able to offer, among other things, integrated, tailor-made services to financial institutions, large companies, healthcare providers and public entities.

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

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

Wholesale market and others

We offer communication services including line access and voice and data services to other operators in the telecommunications sector who use our infrastructure and installations for providing services to their customers. Part of the revenue 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.

NOTE 5.- Intangible assets

During the six-month period ended 30 June 2020, additions totalled Euros 28,599 thousand (Euros 27,774 thousand at 30 June 2019) primarily related to the capitalisation of costs incurred on winning customer contracts and the capitalisation of internal costs.

Disposals of intangible assets amounting to Euros 4,908 thousand have been recorded and essentially relate to the intangible asset balances associated with interruptions in commercial relationships with customers before the initially expected amortization period had elapsed (see note 11.3).

Amortisation of intangible assets stood at Euros 29,496 thousand in the period (Euros 28,682 thousand at 30 June 2019).

At 30 June 2020, indications of impairment of goodwill have not been identified. Moreover, based on the impairment analysis performed at 31 December 2019, there was a significant difference between value in use and the carrying amount of goodwill and the CGU's other assets which, according to 5% changes in key assumptions, did not give rise to possible impairment. Bearing in mind these factors, the Company did not believe it was necessary to perform an analysis of goodwill impairment at 30 June 2020. Furthermore, given the limited impact of Covid-19 on the industry in which the Company operates (see note 14), the directors do not consider it necessary to reassess the 2020-2025 Business Plan.

NOTE 6.- Property, plant and equipment and right of use assets

Investments in items of property, plant and equipment during the period totalled Euros 46,672 thousand (Euros 45,160 thousand at 30 June 2019) and mainly relate to network deployment. There were no significant disposals during the first half of the year.

Depreciation for the period stood at Euros 61,675 thousand (Euros 63,098 thousand at 30 June 2019).

During the six-month period ended 30 June 2020, there have been no significant additions to right of use assets. Depreciation for the period stood at Euros 4,254 thousand (Euros 4,412 thousand at 30 June 2019).

At 30 June 2020, the estimated value of commitments to acquire items of property, plant and equipment amounted to Euros 27,882 thousand (Euros 22,641 thousand at 30 June 2019).

NOTE 7.- Financial assets

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

	Financial assets at amortised cost		Assets designated at fair value through profit and loss		Total	
	30.06.20	31.12.19	30.06.20	31.12.19	30.06.20	31.12.19
Non-current						
Equity instruments	-	-	1,101	1,100	1,101	1,100
Loans extended	5,167	7,235	-	-	5,167	7,235
Other non-current assets	600	604	-	-	600	604
	5,767	7,839	1,101	1,100	6,868	8,939
Current						
Trade receivables	68,862	58,242	-	-	68,862	58,242
Investments	2,151	464	-	-	2,151	464
Cash and cash equivalents	122,462	98,247	-	-	122,462	98,247
	193,475	156,953	-	-	193,475	156,953

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

NOTE 8.- Equity

At their general meeting held on 2 June 2020, the shareholders resolved to distribute an additional dividend of Euros 30,370 thousand (Euros 0.170 per share), as follows:

Basis of application	
Voluntary reserves	62,629
Share premium	355,165
Profit for the year	60,261
	478,055
Distribution	
Legal reserve	6,026
Interim dividend	25,010
Additional dividend	30,370
Share premium	355,165
Voluntary reserves	61,484
	478,055

The dividend payable totalling Euros 30,370 thousand is recognised in other current liabilities (note 10).

At 30 June 2020, the Company held 176,917 own shares. During the six-month period, a total of 591,245 shares were acquired and 584,694 were sold.

NOTE 9.- Share-based payments

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. For the incentive to be accrued in full, a specific Group operating indicators will need to be met. The extent to which these operating indicators 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 Appointments and Remuneration Committee.

- Incentive accrual: For the Incentive to accrue, the beneficiary must have an ongoing employment or business relationship with the Company at 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 common to incentive plans of a similar nature, which may determine the early accrual, in whole or in part, of the Plan.

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

- Grant date: 2 June 2020 (date on which the Plan is approved by the shareholders' meeting).

- The fair value of the options granted at 30 June 2020 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, the standard deviation of the expected return on the share price of 31.78%, the option's life (2.5 years), and the annual risk-free interest rate of -0.31%. Estimated volatility in the standard deviation of the expected return on the share price is based on statistical analyses of daily share prices over the past 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.
- Full achievement of the operating indicators set by the Directors.

In accordance with the measurement standard described in note 3.1, the Company has recorded an equity instrument of Euros 436 thousand with a charge to Personnel expenses in the income statement (see note 11.2).

NOTE 10.- Financial liabilities

Details of financial liabilities classified by category are as follows:

	Financial liabilities at amortised cost		Liabilities designated at fair value	
	30.06.20	31.12.19	30.06.20	31.12.19
Non-current				
Related parties				
Non-current loans received	153,251	146,501	-	-
Unrelated parties				
Loans received	1,263,024	1,222,480	-	-
Other financial liabilities	15,942	15,285	-	-
Lease liabilities	55,924	57,371	-	-
Derivative financial instruments		-	511	804
	1,488,141	1,441,637	511	804
Current				
Related parties				
Current loans received	-	6,750	-	-
Unrelated parties				
Bonds and other marketable securities	130,880	131,000	-	-
Loans received	6,693	46,516	-	-
Lease liabilities	11,023	10,150	-	-
Dividend payable (note 8)	30,370	25,010	-	-
Suppliers and asset purchase payables	153,038	144,043	-	-
Salaries payable	6,458	11,638	-	-
Other liabilities	779	874	-	-
	339,241	369,231	-	-

The following amendment has taken place in the 6-month period ended 30 June 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 on 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 explained in the consolidated annual accounts at 31 December 2019, 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 active tranches at 30 June are as follows:

Tranche	Nominal amount outstanding 30.06.20	Nominal amount outstanding 31.12.19	Initial nominal amount	Interest	Maturity
B-1	235,000	235,000	235,000	2.75%	27/11/2024
A-2	-	215,000	300,000	2.00%	31/12/2023
B-4	835,000	835,000	835,000	2.75%	27/11/2024
B-5	215,000	-	215,000	2.50%	31/12/2023
Credit facility	150,000	150,000	300,000	2.25%	31/12/2023
	1,435,000	1,435,000			
Current portion	-	45,000			
Non-current portion	1,435,000	1,390,000			

Tranches B-4, B-1 and B-5 are repayable in a single sum as they fall due.

During the 2020 six-month period, Euskaltel has promissory notes pending maturity issued for a nominal value of Euros 130,880 thousand in 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 July and December 2020 and accrue interest at an average annual rate of 0.44%.

At 30 June 2020 and 2019, the consolidated Group has undrawn short-term credit facilities of Euros 49.25 million, in addition to the Euros 150 million of the aforementioned credit facility.

Accrued interest payable at 30 June 2020 and 31 December 2019 stood at Euros 6,693 thousand and Euros 8,281 thousand, respectively.

Interest 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 30 June 2020 amounts to a net consolidated debt of 4.1 times consolidated EBITDA, which does not exceed the parameter established of net consolidated debt of 4.5 times consolidated EBITDA.

Details of the maturity of non-current loans with financial institutions, including interest, are as follows (millions of euros):

1 year	2 years	3 years	4 years	5 years	Total
43,532	50,644	59,737	421,215	1,093,618	1,668,746

For the six-month period ended 30 June 2020, had interest rates risen by 100 basis points, with other variables remaining constant, consolidated profit (after tax) would have fallen by Euros 3.7 million (Euros 3.7 million for the year ended 31 December 2019).

The Company may not distribute extraordinary dividends or redeem own shares in its own share portfolio if the coefficient 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. Similarly, during 2016, a collateral right over the Parent's telecommunications network was lodged.

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 30 June 2020 comes to Euros 17,101 thousand (Euros 17,157 thousand at 31 December 2019). The Group has other non-current borrowings totalling Euros 1,500 thousand (Euros 1,344 thousand at 31 December 2019).

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.

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

NOTE 11.- Income and expenses

11.1. Supplies

Details are as follows:

	30.06.20	30.06.19
Merchandise used		
Purchases	15,666	17,564
Changes in inventories	(601)	(456)
	15,065	17,108
Subcontracted work		
Interconnection expenses	55,309	48,877
Other supplies	13,895	19,202
	69,204	68,079
	84,269	85,187

Interconnection expenses includes discounts for certain services rendered by third parties, for an amount of Euros 21,899 thousand (Euros 18,713 thousand in the comparative period).

Discounts pending offset amounted to Euros 39,721 thousand (Euros 51,744 thousand at 31 December 2019).

Management has prepared a sensitivity analysis for the accrued discount covering +/- 5% changes in expected purchases eligible for discount and there has been no significant change to the estimates made.

The increase in interconnection expenses is due mainly to the increase in calls made by Euskaltel customers to other operators during the Covid-19 confinement (see note 14) and to higher connectivity expenses, both mobile and fixed line.

The decrease in merchandise used is due essentially to the drop in purchases of handsets and equipment for customers due to Covid-19.

11.2. Personnel expenses

Details are as follows:

	30.06.20	30.06.19
Salaries, wages and other remuneration	16,013	25,136
Employee benefits expense (other employee benefits expense)	4,069	4,901
Total	20,082	30,037

At 30 June 2020, Salaries, wages and other remuneration includes indemnities and other remuneration (incentive plan) amounting to Euros 433 thousand (Euros 7,696 thousand at 30 June 2019).

The average headcount by gender at 30 June 2020 and 2019 is as follows:

	Average number of employees	
	30.06.20	**30.06.19**
Female	263	287
Male	318	404
	581	691

The change in the average headcount from one year to the next is due to terminations carried out in 2019 in order to streamline the Group's structure and the outsourcing of the Group company R Cable y Telecable Telecomunicaciones, S.A.U.'s network maintenance service.

11.3._Other operating expenses

Details are as follows:

	30.06.20	**30.06.19**
Advertising	7,929	7,416
Repairs and maintenance	26,655	28,128
Services provided by third parties	14,604	18,083
Other external services and utilities	5,809	6,930
Tax	6,896	6,770
Losses, impairment and changes in trade provisions	2,393	2,339
Losses on the disposal and derecognition of assets (note 5)	4,810	5,047
Other profit/(loss)	3,846	2,814
	72,942	77,527

Other profit/(loss) at 30 June 2020 includes expenses for contributions made to the Euskaltel Foundation for Euros 1,223 thousand and Euros 2,275 thousand relating to non-recurring expenses arising from the Covid-19 situation. At 30 June 2019, this heading included expenses relating to the integration of Telecable totalling Euros 1,237 thousand and a charge for contributions to the Euskaltel Foundation of Euros 1,025 thousand.

The decrease in services rendered by third parties is due to the cost control measures put in place and the efficiencies achieved during the second half of 2019.

11.4. Net finance income/(cost)

Details are as follows:

	2020	2019
Finance income		
Third parties	69	20
Finance cost		
On third party loans (note 10)	(26,921)	(24,863)
	(26,852)	(24,843)
Exchange gains/(losses)	(181)	(96)
Change in fair value of financial instruments	292	238
	(26,741)	(24,701)

The finance cost includes costs relating to lease liabilities for Euros 1,271 thousand (Euros 1,334 thousand at 30 June 2019).

NOTE 12.- Income tax

Income tax expense is calculated based on the directors' best estimation of the weighted tax rate corresponding to the full year, multiplied by the consolidated pre-tax profit for the half-year period.

The effective tax rate for the six-month period ended 30 June 2020 is estimated to be 19.1% (this rate was 21.3% in the six-month period ended 30 June 2019).

NOTE 13.- Related party transactions

13.1 Transactions and balances with key personnel

Details of transactions with key Company personnel during the six-month periods ended 30 June 2019 and 30 June 2018 are as follows:

	30.06.2020		30.06.2019	
	Board members	Executives	Board members	Executives
Salaries and wages	536	849	503	1,383
Other remuneration	595	463	1,399	1,868
	1,131	**1,312**	1,902	**3,251**

Other remuneration for board members and executives includes indemnities amounting to Euros 574 thousand and Euros 1,176 thousand, respectively, in 2019. The Company has no pension or life insurance obligations with current or former board members, or with other executives.

13.2 Transactions and balances with other related parties

Details of transactions and balances with significant shareholders during the six-month periods ended 30 June 2020 and 30 June 2019 are as follows:

	30.06.2020	30.06.2019
Sales	7,250	7,333
Services rendered	(97)	(114)
Finance cost	(2,544)	(2,576)
	4,609	4,643

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

	30.06.2020		31.12.2019	
	Current	Non-current	Current	Non-current
Receivables	825	-	14	-
Current account / Cash and equivalents	86,317	-	59,558	-
Loans granted (note 10)	-	(153,251)	(6,750)	(146,501)
Payables	(418)	-	(227)	-
	86,724	**(153,251)**	**52,595**	**(146,501)**

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.

NOTE 14.- Other information

On 11 March 2020, the World Health Organization declared the Coronavirus Covid-19 outbreak a pandemic, due to the swift spread of the virus around the world affecting over 150 countries. Most governments took restrictive measures to contain the spread of the virus, including: isolation, confinement, quarantine and restrictions on the free movement of individuals, closing public and private premises other than those selling essential items and health facilities, closing borders and drastically reducing air, sea, rail and land transport. In Spain, the government adopted Royal Decree 463/2020 of 14 March, declaring a state of emergency in order to manage the health crisis caused by Covid-19.

This situation is significantly affecting the global economy, as it interrupts and slows down supply chains and significantly increases economic uncertainty, as shown by greater volatility in the price of assets, exchange rates and a drop in long-term interest rates.

The telecommunications industry has been affected by this situation. There has been some saturation as a result of growing network traffic, however the Group has taken a great deal of action and has expanded its network capacity to continue offering normal services without affecting our customer base.

During the state of emergency, restrictions were imposed on portability 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. This did not stop the Group from moving forward with its planned expansion to the rest of the country through the Virgin Telco brand at the end of May, marketing services once the restrictions imposed during the state of emergency were lifted.

Service suspensions caused by businesses closing during the state of emergency have been continuously monitored, with actions to support and encourage customer loyalty so as to mitigate the impact on revenue.

At the date of preparing the consolidated interim financial statements for the six-month period ended 30 June 2020, the impacts arising from this crisis have therefore been insignificant, both in terms of revenue and also costs and investments, with no increase seen in the insolvency rate.

Given the low impact of Covid-19 on the financial statements at 30 June 2020, it was not considered necessary to reassess the 2020-2025 Business Plan and therefore it was not necessary to amend the Group's main estimates at 30 June 2020.

NOTE 15.- Subsequent events

On 2 June 2020, the general shareholders' meeting agreed to distribute an additional dividend for a gross amount of Euros 0.170 per share outstanding with dividend rights. On 6 July 2020, this dividend was paid to shareholders.

In July, an agreement was reached with Telefónica de España, S.A.U. to provide the NEBA wholesale service on fibre (NEBA FTTH) in areas exempt from the wholesale regulation of optical fibre on the Telefónica network. The Agreement, which has a term of five years, can be extended and will enable Euskaltel to increase the areas it offers its fibre broadband services to on a national level.

Directors' Report
for the six-month period
ended 30 June 2020
Euskaltel, S.A. and subsidiaries

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

CONTENTS

1.- Introduction

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

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

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

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

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

In 2019 the boards of directors of R Cable y Telecomunicaciones Galicia, S.A.U. and Telecable de Asturias, S.A.U. 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 name to R Cable y Telecable Telecomunicaciones, S.A.U.

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.

Following its strategy to expand into other neighbouring regions (Navarre, La Rioja, León, Cantabria and Cataluña), and more recently with the launch of the Virgin Telco brand, the Euskaltel Group has undertaken its national expansion strategy to reach 85% of the market in which it was not present and to serve a total of 18.7 million homes.

On 11 March 2020, the World Health Organization declared the Coronavirus Covid-19 outbreak a pandemic, due to the swift spread of the virus around the world affecting over 150 countries. Most governments took restrictive measures to contain the spread of the virus, including: isolation, confinement, quarantine and restrictions on the free movement of individuals, closing public and private premises other than those selling essential items and health facilities, closing borders and drastically reducing air, sea, rail and land transport. In Spain, the government adopted Royal Decree 463/2020 of 14 March, declaring a state of emergency in order to manage the health crisis caused by Covid-19.

This situation is significantly affecting the global economy, as it interrupts and slows down supply chains and significantly increases economic uncertainty, as shown by greater volatility in the price of assets, exchange rates and a drop in long-term interest rates.

The telecommunications industry has been affected by this situation. There has been some saturation as a result of growing network traffic, however the Group has taken a great deal of action and has expanded its network capacity to continue offering normal services, without affecting our customer base.

2.- Commercial activity and customer relations

Mass market

The first half of 2020 has seen continuity in the strategy to incorporate convergent customers with broadband, TV and mobile, an increase in portfolio services and the development of remote sales channels, allowing us to achieve positive net growth despite the Covid-19 crisis and transforming the way we work and our relationship with customers.

The first half of 2020 closes with 681,002 fixed line customers, up 1.7% on December 2019. At the June 2020 reporting date, we have recorded 2,889,293 services, which is 2.0% more than at the prior year's reporting date. The broadband access figure stands at 607,483, with 2.4% growth since December. We have 1,184,088 mobile lines, which is an increase of 1.8% and TV services stand at 496,740 with growth of 5.83%. In terms of fixed-line products, we've closed the quarter with 600,982 services, down 1.0% due to growth in convergent bundles in young households where greater Internet speeds and more mobile data are wanted to the detriment of landlines.

As a result, the Product/Customer ratio at 30 June 2020 stood at 3.69 products per customer, up 0.5% compared to December 2019.

It is important to mention the national launch of the new Virgin Telco brand on 20 May and the 6,461 broadband customers at the six-month reporting date.

In the first half of 2020, there has been consolidated growth in the importance of remote channels (telesales, online and inbound) in the sales mix, reaching 61.4% of total customer registrations for fixed-line services, compared to 36.3% in the first half of 2019. This progress has led us to maintain around 70% of ordinary sales activity during the state of emergency caused by the Covid-19 health crisis.

During the state of emergency, our main face-to-face sales activity stopped, but we have kept 67% of our sales points operating for customer service and essential after-sales telecommunications services, albeit with shorter opening hours and the necessary safety and hygiene measures in place. With the lifting of the state of emergency and a return to normality in terms of number portability at the end of May, we returned to using face-to-face channels and by the second half of June, we had recovered this activity in full.

Business Market

The Business market has performed positively in the first half of 2020 with growth in revenue and net customers in the Large Accounts and SME segments.

This growth in net revenue within the SME segment is the result of the repositioning strategy undertaken in March in terms of both customer value and pricing, and also improved activity with very competitive flexible offerings and the launch of the *Solución Pyme* offer in Galicia and the Basque Country.

Furthermore, we must point out the strength of the actions put in place that have allowed us, despite the impact of Covid-19 on our society, the economy and of course on our customers, to continue talking about growth at the end of this first half of the year, in spite even of the limitation on portability decreed by the Government during the state of emergency.

As for the Large Accounts segment, Covid-19 has meant a demand for additional services that has had to be dealt with urgently in order to enable employees to work remotely and maintain their business activity. This increased demand for services has compensated for the slowdown in decision-making around new business and projects that are beginning to be picked up again.

During the months of Covid-19, the Business area has actively worked with government bodies, hospitals and care homes, providing free access to communications for young people, the sick and the elderly, so as to help offer online learning in some cases and to bring family members and the sick closer together in others.

The Business segment has therefore performed positively in the first half of 2020, increasing to 15,993 customers, up 1.5% with regard the number of customers at 31 December 2019.

As a result of this increase and a solid performance in the large accounts segment as well, total business revenue is up 1.2% with regard the same period last year.

3.- Marketing activity

In the first half of 2020 we have continued to work on getting our customers to add additional services, with the main focus on the sale of financed mobile handsets, as well as additional mobile lines and increased internet and TV speeds.

Throughout the Covid-19 crisis, special attention has been paid to increasing broadband speeds and more complete pay TV bundles, improving the quality of our services and providing added value to our customers during confinement.

Loyalty campaigns have also been launched to help our customers during confinement by temporarily opening up TV channels, offering access to free data for customers who had to travel and connect to the Internet and allowing access to TV applications for relatives of hospitalised patients.

Similarly, there have been campaigns to renew equipment, looking to offer the best Internet service.

During the first half of the year, work continued on the launch of the Virgin Telco brand, with a focus on brand awareness and the marketing launch in May and June. There are four stages to the brand's communications and launch strategy:

- Official media presentation on 20 May via a virtual press conference in accordance with Covid-19 preventive measures.
- The off- and online "*Hola*" campaign to introduce the arrival of the brand to Spain.
- The off- and online "Reason Why" campaign explaining the reason for the brand's arrival and its value proposal, once again giving customers the power to choose what they do and don't want.
- The "*Se te apareció la Virgin*" campaign, including information about the offer.

Another differentiating feature has been the signing up for products on our website, with a high number of total new registrations completed this way.

4.- Economic-financial activity and key business indicators

Key performance indicators (KPIs)

The following tables show some of our operating and financial KPIs for the first six months of 2020.

Mass market	31.12.2019	30.06.2020
Homes passed - In-house deployment (HFC & FTTH)	2,468,822	2,492,121
Homes passed - Operator agreements	3,310,812	16,174,156
Total customers	770,865	782,171
Fixed-line services	669,317	681,002
Mobile only	101,548	101,169
Total products (RGU)	2,832,680	2,889,293
Fixed network	606,809	600,982
Broadband	593,338	607,483
TV	469,370	496,740
Post-paid mobile	1,163,163	1,184,088
Products / customer	3.67	3.69

SMEs and Large Accounts	31.12.2019	30.06.2020
Customers	15,763	15,993

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, mobile communications have increased, underpinned by strong performance and improvements in the mobile phone services offered, the possibility of financing handset purchases and national expansion, which have all contributed to the strong performance in this area.

Broadband has also grown from 593,338 products in 2019 to 607,483 products at 30 June 2020. In TV we have reached 496,740 services, up 5.8%.

The Business segment has performed positively in the first half of 2020, increasing to 15,993 customers, up 1.5% with regards the number of customers at 31 December 2019.

Financial data	30.06.2019	30.06.2020
Total revenue	**342,726**	**343,425**
Y-o-y change		*0.2%*
Mass market	270,025	269,007
Business	57,257	57,923
Wholesale and others	15,444	16,496
EBITDA	**165,532**	**175,221**
% of total revenue	*48.3%*	*51.0%*
Profit for the period	**22,901**	**35,555**
Investments	**(72,934)**	**(75,271)**
% of total revenue	-21.3%	-21.9%
Operating cash flow	**92,598**	**99,950**
% of total revenue	27.0%	29.1%

Mass market revenue remained stable in the period compared to the same period in the previous year (decrease of 0.4%). Despite the Covid-19 crisis, second quarter revenue increased in comparison with the prior quarter.

Revenue from the Business market amounted to Euros 57.9 million, an increase of 1.2% over the previous year, due essentially to a demand for additional services that had to be dealt with urgently in order to enable employees to work remotely and continue their business activity.

Wholesale and other revenue increased by 6.8% to Euros 16.5 million.

EBITDA stands at Euros 175.2 million at 30 June 2020, reflecting an increase of Euros 9.7 million in absolute terms compared to the same period last year, with an increase in the revenue margin from 48.3% to 51.0% This reflects the cost control and efficiency measures implemented in the second and especially the third quarter of 2019, even offsetting the costs of launching the Virgin Telco brand.

At 30 June 2020 investments stood at Euros 75.3 million, up Euros 2.3 million on the same period in the prior year. 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 to launch the Virgin Telco project. It is also important to note the investments in the Group as a result of Euskaltel's, R's and Telecable's transformation process.

Operating cash flow, defined as the difference between EBITDA and investments, resulted in a revenue ratio of around 29.1%, maintaining our leading position in comparison with other companies in the European industry and improving the ratio with regard the same period last year.

Profit after tax stands at Euros 35.6 million in the first half of 2020. Profit for the period is increased by improved Ebitda, but also by the reduction in extraordinary expenses and other non-recurring costs incurred in 2019 during the process to integrate and simplify the organisational structure carried out in 2019.

5.- 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 the Covid-19 crisis, the expected insolvency rate has not increased. The impact of bad trade debts on the income statement at 30 June 2020 was Euros 2.39 million (Euros 2.34 million in the first half of 2019), equivalent to 0.68% of turnover in the first six months of 2020 (0.70% in the first half of 2019). Aged, non-impaired receivables past due by more than 90 days at 30 June 2020 amount to Euros 9 million (Euros 6.6 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 30 June 2020 the consolidated Group had a non-current revolving credit facility of Euros 300 million, with Euros 150 million drawn down, and current undrawn credit facilities totalling Euros 49.25 million.

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

At 30 June 2020, cash and cash equivalents amounted to Euros 122.5 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.

At 30 June 2020, the repayment method on the Euros 215 million TLA2 has been amended by grouping together the original six-monthly repayments into one single repayment when the tranche matures.

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. This programme was renewed under the same terms on 25 March 2020.

Market risk

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

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

Interest rate risk

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

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

At 30 June 2020, had interest rates risen by 100 basis points, with other variables remaining constant, consolidated profit (after tax) would have fallen by Euros 3.7 million (Euros 3.7 million for the same period in 2019).

6.- 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.

Lastly, the impact of the regulatory measures adopted within the framework of the state of emergency caused by Covid-19 must be considered in this first half of the year.

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 a 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 ban 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 instalments 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.

Replicability test on Telefónica's retail products

On 23 January 2020, the CNMC adopted a Resolution regarding the review of parameters for the economic replicability test on Telefónica's broadband products marketed in the residential segment.

This second review updated the list of flagship products (Fusión-type products, bundled with mobile and pay TV services) and their replicability has been assessed according to the updated parameters.

The resolution states that current local NEBA and NEBA fibre prices meet the replicability test criteria, so there is no room for action by the CNMC with regard these prices.

Local NEBA and NEBA fibre prices are set freely by Telefónica, with the only condition being that they must pass the replicability test.

Telefónica is also free to set the prices of its retail broadband products, although it must notify the CNMC of these prices a month before they are actually marketed. This notification is needed so that the CNMC can continuously analyse the replicability of flagship products.

Cost of the universal service for 2016 (net financing cost) and 2027 (calculation of cost)

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

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

Likewise, 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.

Universal service elements and designation of the mandatory operator

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

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

Main operator

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

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

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

Revised European telecommunications regulatory framework

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

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

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

The main issues proposed for revision are:

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

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

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

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

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

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

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

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

5G action plan

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

Regulation of roaming on public mobile communication networks

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

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

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

European Data Protection Regulation and the new Data Protection Act

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

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

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

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

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

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.

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.

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

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

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

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

<u>Definition of regulatory risks</u>

- Copyright Regulation Copyrights - management companies

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

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

- Obligations deriving from information security

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

7.- Corporate governance

a) Board of Directors

The following changes to the Board of Directors have taken place during the first half of 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.

Appointment of new deputy-secretary of the Board of Directors

- Ms Cristina Sustacha Duñabeitia has replaced Mr Gonzalo Silveiro Regulez 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 Directors' 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, the Board of Directors' Committees are now comprised as follows:

Audit and Control Committee

Mr José Ángel Corres Abasolo (Chair)
Kartera 1, S.L., represented by Ms Alicia Vivanco González
Mr Iñaki Alzaga Etxeita
Ms Elisabetta Castiglioni
Mr Robert Samuelson

Appointments Committee

Mr Iñaki Alzaga Etxeita (Chair)
Ms Belén Amatriaín Corbi
Mr Eamonn O´Hare

The independent director, Mr Iñaki Alzaga Etxeita, was appointed as the Chairman of the Appointments Committee for a period of four years.

Remuneration Committee

Mr Miguel Ángel Lujua Murga (Chair)
Corporación Financiera Alba, S.A., represented by Mr Javier Fernández Alonso
Mr José Ángel Corres Abasolo

c) Other relevant information

During the first half of 2020, the CNMV was informed of 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, as well as the improved wholesale agreements with Orange and the fibre access agreement with Telefónica.

8.- Events after the reporting period

On 2 June 2020, the General Shareholders' Meeting agreed to distribute an additional dividend for a gross amount of Euros 0.170 per share outstanding with dividend rights. On 6 July 2020, this dividend was paid to shareholders.

In July, an agreement was reached with Telefónica de España, S.A.U. to provide the NEBA wholesale service on fibre (NEBA FTTH) in areas exempt from the wholesale regulation of optical fibre on the Telefónica network. The Agreement, which has a term of five years, can be extended and will enable Euskaltel to increase the areas it offers its fibre broadband services to on a national level.

9.- 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 results. Other results, when these are included, extraordinary expenses or expenses of an exceptional nature that are not recurrent, as well as integration costs are excluded.

	30.06.2019	30.06.2020
Results from operating activities	53,783	70,708
Depreciation and amortisation (notes 5 & 6)	96,192	95,424
Losses on the disposal and derecognition of assets (note 11.3)	5,047	4,810
Indemnities & Other remuneration (note 11.2)	7,696	433
Other profit/(loss) (note 11.3)	2,814	3,846
	165,532	**175,221**

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

	30.06.2019	30.06.2020
Additions of intangible assets (note 5)	27,774	28,599
Additions of property, plant and equipment (note 6)	45,160	46,672
	72,934	**75,271**

- Operating cash flow: EBITDA - Investments

	30.06.2019	30.06.2020
EBITDA	165,532	175,221
Investments	(72,934)	(75,271)
	92,598	**99,950**

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

	31.12.2019	30.06.2020
Nominal value - Bank borrowings (note 10)	1,435,000	1,435,000
Nominal value - Bonds and other marketable securities (note 10)	131,000	130,880
Nominal value - Other borrowings with public entities (note 10)	17,157	17,101
Nominal value - Other borrowings (note 10)	1,369	1,500
Gross debt	1,584,526	1,584,481
Less cash and cash equivalents (Note 7)	(98,247)	(122,462)
Net financial debt	**1,486,279**	**1,462,019**

Derio, 23 July 2020

In compliance with prevailing legislation, the directors of Euskaltel, S.A. have authorised for issue the Condensed Consolidated Interim Financial Statements (comprising the condensed consolidated statement of financial position, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the notes thereto) and the Consolidated Interim Directors' Report for the six-month period ended 30 June 2020.

The directors declare that they have signed each of the above-mentioned documents in their own hand, and in witness thereof sign below.

Signed:

Mr. Xabier Iturbe Otaegui **(Chairman)**	**Mr. José Miguel García Fernández** **(Chief Executive Officer)**
Mr. José Ángel Corres Abasolo **(Vice Chairman)**	**Mr. Eamonn O'Hare** **(Board member)**
Mr. Robert W. Samuelson **(Board member)**	**Kartera 1, S.L., represented by** **Ms. Alicia Vivanco González** **(Board member)**
Corporación Financiera Alba, S.A., represented by **Mr. Javier Fernández Alonso** **(Board member)**	**Ms. Belén Amatriain Corbi** **(Board member)**
Mr. Iñaki Alzaga Etxeita **(Board member)**	**Ms. Elisabetta Castiglioni** **(Board member)**
Mr. Miguel Ángel Lujua Murga **(Board member)**	