EUSKALTEL, S.A. (UNIPERSONAL)

(incorporated in Spain in accordance with the Spanish Companies Act ("Ley de Sociedades de Capital")

Commercial Paper Programme EUSKALTEL 2022
Maximum outstanding balance of €200,000,000

INFORMATION MEMORANDUM (*DOCUMENTO BASE INFORMATIVO*) ON THE ADMISSION (*INCORPORACIÓN*) TO TRADING OF COMMERCIAL PAPER NOTES (*PAGARÉS*) ON THE ALTERNATIVE FIXED-INCOME MARKET ("MARF")

EUSKALTEL, S.A. (Unipersonal), a sole-shareholder public limited company (*sociedad anónima unipersonal*) incorporated under the laws of Spain with registered office at Parque Tecnológico Edificio 809, 48160 Derio (Bizkaia), Spain, registered in the Commercial Registry of Bizkaia in volume 3,271, page 212, sheet BI-14727, with Tax Identification Number A-48766695 and Legal Identifier Code (LEI) number 95980020140005777497, will request the admission (*incorporación*) to trading of commercial paper notes (the "**Commercial Paper**", the "**Commercial Paper Notes**" or the "**Notes**") that will be issued in accordance with the provisions set out in this Information Memorandum (the "**Information Memorandum**") on the Alternative Fixed-Income Market (*Mercado Alternativo de Renta Fija*) ("**MARF**"). Except where the context otherwise requires or where otherwise indicated, all references to "**Euskaltel**", "**Euskaltel Group**", "**Group**", the "**Company**" or the "**Issuer**" refer to Euskaltel, S.A. (Unipersonal) and its consolidated subsidiaries, except where the context otherwise requires, particularly when referring to the "**Masmovil Group**" as group of companies which parent company is Lorca JVco Limited and to which the Company is a subsidiary as at the date of this Information Memorandum.

The Alternative Fixed-Income Market ("**MARF**") is a multilateral trading facility ("**MTF**") in accordance with the terms of Royal Decree-Law 21/2017, of December 29, on urgent measures for adapting Spanish law to the regulations of the European Union in relation to securities markets. This Information Memorandum for the admission to trading of the Commercial Paper Notes is the one required in Circular 2/2018, of December 4, issued by MARF, on admission (*incorporación*) and removal (*exclusion*) of securities on the Alternative Fixed-Income Market (the "**Circular 2/2018**").

Application will be made for the Commercial Paper Notes to be listed on the MARF under this Information Memorandum. The Commercial Paper will be represented by book entries and their accounting record will correspond to the *Sociedad de Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.* ("**IBERCLEAR**") which, together with its participating entities, will be responsible for its accounting records (*registro contable*) of the Commercial Paper Notes.

An investment in the Commercial Paper involves certain risks.
Read section 1 of the Information Memorandum on Risk Factors.

MARF has not carried out any kind of verification or check with regard to this Information Memorandum (Documento Base Informativo), nor on the content of the rest of the documentation and information provided by the Issuer in compliance with the requirements set forth under Circular 2/2018.

The Commercial Paper Notes issued under the Programme will only be addressed to (i) qualified investors as defined in Regulation (EU) 2017/1129 of the European Parliament and of the Council, of June 14, 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the "Prospectus Regulation"); including (ii) eligible counterparties, as defined in Directive 2014/65/EU of the European Parliament and of the Council of May 15, 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (the "MiFID II") and article 207 of the restated text of the Securities Market Act approved by Royal Legislative Decree 4/2015, of October 23 (Texto refundido de la Ley del Mercado de Valores aprobado por Real Decreto Legislativo 4/2015, de 23 de octubre) (the "Securities Market Act"); and (iii) professional clients, as defined in the Prospectus Regulation, MiFID II and article 205 of the Securities Market, or any provision which may replace or supplement it in the future.

No action has been taken in any jurisdiction to permit a public offering of the Commercial Paper Notes or permit the possession or distribution of the Information Memorandum (Documento Base Informativo) or any other offer material where a specific action is required for said purpose. This Information Memorandum (Documento Base Informativo) must not be distributed, directly or indirectly, in any jurisdiction in which such distribution represents a public offering of securities. This Information Memorandum (Documento Base Informativo) is not a public offering for the sale of securities nor a request for a public offering to purchase securities, and no offering of securities shall be made in any jurisdiction in which such offering or sale would be considered in breach of the applicable legislation. In particular, this Information Memorandum (Documento Base Informativo) does not represent a prospectus approved and registered with the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores) (the "CNMV") and the subscription of the Commercial Paper issued under the programme does not represent a public offering pursuant to the provisions set out in Article 34 of the Securities Market Act, which excludes the obligation to approve, register and publish a prospectus with the CNMV.

LEAD ARRANGER (*ENTIDAD DIRECTORA*)
BANCA MARCH, S.A.

DEALERS (*ENTIDADES COLABORADORAS EN LA COLOCACIÓN*)
BANCA MARCH, S.A., BANCO SANTANDER, S.A., BANCO DE SABADELL, S.A.,
BRED BANQUE POPULAIRE, S.A., NORBOLSA, S.V., S.A. y PKF ATTEST CAPITAL MARKETS, A.V., S.A.

PAYING AGENT
BANCA MARCH, S.A

REGISTERED ADVISOR
BANCA MARCH, S.A.

The date of this Information Memorandum (*Documento Base Informativo*) is March 10, 2022

IMPORTANT NOTICE

Any potential investor should not base its investment decision on information other than (i) the information contained in this Information Memorandum and (ii) the public information of the company available on the websites of the Company (https://www.euskaltel.com) and the Commercial Registry of Bizkaia. Neither the Lead Arranger nor any of the Dealers takes any responsibility for the contents of this Information Memorandum or of any public information. The Dealers have entered into several collaboration agreements with the Issuer to place the Commercial Paper but neither the Dealers nor any other entity has accepted any undertaking to underwrite the Commercial Paper Notes. This is without prejudice to the Dealers being able to acquire part of the Commercial Paper Notes in their own name.

There is no guarantee that the price of the Commercial Paper Notes in the MARF will be maintained. There is no assurance that the Commercial Paper Notes will be widely distributed and actively traded on the market because at this time there is no active trading market. Nor is it possible to ensure the development or liquidity of the trading markets for the Commercial Paper Notes.

FORWARD-LOOKING STATEMENTS

This Information Memorandum may include statements that are, or may be deemed to be, forward-looking statements. These forward-looking statements include, but are not limited to, statements other than statements of historical facts contained in this Information Memorandum, including, but without limitation, those regarding Euskaltel Group's future financial condition, results of operations and business, Euskaltel Group's products, acquisitions, dispositions and finance strategies, Euskaltel Group's capital expenditure priorities, regulatory or technological developments in the market, subscriber growth and retention rates, potential synergies and cost savings, competitive and economic factors, the maturity of Euskaltel Group's markets, anticipated cost increases, liquidity and credit risk. In some cases, you can identify these statements by terminology such as "aim," "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "guidance," "intend," "may," "plan," "potential," "predict," "project," "should," and "will" and similar words used in this Information Memorandum.

By their nature, forward-looking statements are subject to numerous assumptions, risks and uncertainties. Many of these assumptions, risks and uncertainties are beyond Euskaltel Group's control. Accordingly, actual results may differ materially from those expressed or implied by the forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding Euskaltel Group's present and future business strategies and the environment in which the companies of the Euskaltel Group operate. The Issuer cautions readers not to place undue reliance on the statements, which speak only as of the date of this Information Memorandum, and the Issuer expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in the Issuer's expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

Where, in any forward-looking statement, the Issuer expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. Risks and uncertainties that could cause actual results to vary materially from those anticipated in the forward-looking statements included in this Information Memorandum include those described under "*Risk Factors*" below.

The following are some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- the impact of the COVID-19 pandemic on Euskaltel Group's business and its effect on Euskaltel Group's customers' behaviour;
- the severe disruptions in Spain and the global economy caused by the spread of the COVID-19 pandemic and the impact on Euskaltel Group's and larger Masmovil Group's liquidity and access to capital;
- the high level of competition in the markets in which the companies of the Euskaltel Group operate;

- changes in the economic or political environment in Spain;
- the risks associated with operating a capital-intensive business;
- the ability of the Euskaltel Group and of the larger Masmovil Group to secure spectrum;
- Euskaltel Group's ability to successfully integrate into the larger Masmovil Group following the completion of the tender offer for the shares in Euskaltel in August 2021 and the risks associated with this integration;
- Euskaltel Group's ability to successfully complete acquisitions and the risks associated with those acquisitions;
- the possibility of competition authorities delaying or preventing acquisitions;
- Euskaltel Group's reliance on demand for fixed, mobile and broadband products, as well as bundled and premium offerings;
- the increasing operating costs and inflation risks in the telecommunications industry;
- Euskaltel Group's reliance on network sharing agreements and third-parties for the maintenance of Euskaltel Group's infrastructure;
- Euskaltel Group's ability to maintain existing network infrastructure or install new network infrastructure;
- Euskaltel Group's dependence on Euskaltel Group's relationship with certain key partners and providers of hardware and software;
- failures in Euskaltel Group's IT and network infrastructure systems;
- Euskaltel Group's ability to keep pace with technological changes and evolving industry standards;
- failure to provide access to mobile phone financing;
- the risk of potential liability for the content hosted on Euskaltel Group's infrastructure;
- Euskaltel Group's participation in unfavourable contracts;
- the risks of natural disasters, fire, power outages and other catastrophic events;
- Euskaltel Group's ability to attract and retain key personnel;
- Euskaltel Group's ability to comply with applicable data protection laws and policies;
- Euskaltel Group's ability to maintain Euskaltel Group's distribution and customer care channels;
- the possible health risks of antenna sites and the use of mobile telephones;
- the extent to which Euskaltel Group's business operations are protected by intellectual property rights;
- Euskaltel Group's potential lack of valid licenses for, or rights to use, parts of Euskaltel Group's network;
- Euskaltel Group's compliance with third-party intellectual property rights;
- the impact of legal proceedings on Euskaltel Group's business;
- the level of governmental regulation and supervision applicable to Euskaltel Group's business;
- the impact of changes to tax legislation on Euskaltel Group's business;
- other factors related to Euskaltel Group's indebtedness and financial information, the Commercial Paper

Notes and Euskaltel Group's structure described in more detail under "*Risk Factors*."

The telecommunications industry is changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this Information Memorandum are subject to a significant degree of risk.

The Issuer does not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Information Memorandum.

The Issuer discloses important factors that could cause Euskaltel Group's actual results to differ materially from Euskaltel Group's expectations in this Information Memorandum. These cautionary statements qualify all forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer. When this Information Memorandum indicates that an event, condition or circumstance could or would have an adverse effect on the Euskaltel Group, it must be deemed to include effects upon the business, financial and other conditions, and results of operations of the Issuer and its subsidiaries, and therefore, upon the Issuer's ability to make payments under the Commercial Paper Notes.

This list of factors that may affect future performance and the accuracy of forward-looking statements is illustrative, but by no means exhaustive, and should be read in conjunction with other factors that are included in this Information Memorandum. See "*Risk Factors*" at section 1 below and "*Description of Euskaltel Group's Business*" at section 2.4. below for a more complete discussion of the factors that could affect Euskaltel Group's future performance and the markets in which the different companies of the Euskaltel Group operate. All forward-looking statements should be evaluated in light of their inherent uncertainty.

Euskaltel and the subsidiaries of the Euskaltel Group operate in a competitive and rapidly changing environment. New risks, uncertainties and other factors may emerge that may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on forward-looking statements as a prediction of actual results. Except as required by law or the rules and regulations of any exchange on which Euskaltel Group's securities are listed, the Issuer expressly disclaim any obligation or undertakings to release publicly any updates or revisions to any forward-looking statements contained in this Information Memorandum to reflect any change in Euskaltel Group's expectations or any change in events, conditions or circumstances on which any forward-looking statement contained in this Information Memorandum is based.

ALTERNATIVE PERFORMANCE MEASURES

The financial data included or incorporated by reference in this Information Memorandum, in addition to the financial measures established by IFRS-EU, contains certain alternative performance measures ("**APMs**") (as defined in the ESMA Guidelines on Alternative Performance Measures (the "**ESMA Guidelines**")) that include, among others, EBITDA, which are presented for purposes of providing investors with a better understanding of the Issuer's financial performance, cash flows or financial position as they are used by the Issuer when managing its business.

Such measures have not been prepared in accordance with IFRS-EU, have been extracted or derived from the accounting records or other management systems of the Group, have not been audited and should not be considered as a substitute for those required by IFRS-EU.

PRODUCT GOVERNANCE RULES UNDER MIFID II. THE TARGET MARKET WILL ONLY BE ELIGIBLE COUNTERPARTIES AND PROFESSIONAL CLIENTS.

Exclusively for the purposes of the approval of the Commercial Paper Notes as financial instruments or "product" (process to be carried out by each manufacturer, following the assessment of the target market for the Commercial Paper), it has been concluded that: (i) the target market for the Commercial Paper is "**eligible counterparties**" and "**professional clients**" only, as each of these terms is defined in Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directives 2002/92/EC and

2011/61/EC (as amended from time to time, "**MiFID II**"), and (ii) all channels of distribution of the Commercial Paper to eligible counterparties and professional clients are appropriate.

Any person who, after the initial placement of the Commercial Paper, offers, sells, places, recommends or otherwise makes available the Commercial Paper (for these purposes, a "**distributor**") shall consider the manufacturer's target market assessment. However, any distributor subject to MiFID II is responsible for carrying out its own target market assessment in respect of the Commercial Paper (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

PROHIBITION ON SELLING TO RETAIL INVESTORS

The Commercial Paper is not intended to be offered, sold or made available in any other way, nor should it be offered, sold or made available, to retail investors in the European Economic Area (the "**EEA**").

For these purposes, "**retail investor**" means a person who meets either or both of the following definitions:

(i) "retail client" within the meaning of section (11) of article 4(1) of MiFID II, and "**client**" having the meaning of Directive 2002/92/EC, provided that the relevant person cannot be classed as a professional client based on the definition contained in section (10) of article 4(1) of MiFID II; or

(ii) "retail client" according to the implementing legislation of MIFID II in any Member State of the EEA (in particular, in Spain, according to the definition of article 204 of the Securities Market Act and its implementing legislation).

Accordingly, no key information document required by Regulation (EU) No. 1286/2014 of the European Parliament and the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (as amended from time to time, the "**PRIIPs Regulation**"), has been prepared for the purposes of offering or selling the Commercial Paper or otherwise making the Commercial Paper available to retail clients in the EEA and therefore such activities may be unlawful pursuant to the provisions of the PRIIPs Regulation.

In the United Kingdom, this document and the Commercial Paper would only be distributed to, and are intended for, and any investment and investment activity in the Commercial Paper referred to in this document is available only to, and will be subscribed to only by, "**qualified investors**", as defined in section 86(7) of the Financial Services and Markets Act 2000 (i) who are persons with professional experience in matters relating to investments falling within the definition of "investment professionals" in section 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"); or (ii) who are high net worth entities within section 49(2)(a) to (d) of the Order (together, all such persons shall be described as "**relevant persons**"). Persons who are not relevant persons should not take any action on the basis of this communication document and should not act on or rely on it.

The Commercial Paper have not been, nor will be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or under the securities laws of any state or other jurisdiction in the United States of America. The Commercial Paper may not be offered, sold, exercised or otherwise transferred in the United States of America except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable securities laws of any state or other jurisdiction of the United States of America. There is no intention to register any Commercial Paper in the United States or to make an offer of any securities in the United States.

INDEX

BASE INFORMATION MEMORANDUM
(*DOCUMENTO BASE INFORMATIVO*)
ON THE ADMISSION TO TRADING OF COMMERCIAL PAPER (*PAGARÉS*)

1. RISK FACTORS

An investment in the Commercial Paper Notes involves risks. Before purchasing the Commercial Paper Notes, you should consider investing in these Notes involves substantial risks. Investors should carefully consider the risks and uncertainties described below, together with the other information contained in the Information Memorandum, before making any investment decision with respect of the Notes. The risks described below may not be the only risks the Issuer and the Euskaltel Group face. Only those risks that the Company as Issuer currently considers to be material are described and there may be additional risks that the Issuer does not currently consider to be material or of which the Issuer is not currently aware. Any of the following risks and uncertainties could have a material adverse effect on the Group's business, prospects, results of operations and financial condition. Each of the risks highlighted below could adversely affect the trading or the trading price of the Commercial Paper Notes or the rights of investors under the Notes and, as a result, investors could lose some or all of their investment. Prospective investors should read the entire Information Memorandum, including its Schedules.

The order in which risks are presented is not necessarily an indication of the likelihood of the risks actually materializing, of the potential significance of the risks or of the scope of any potential harm to the Issuer's business, prospects, results of operations and financial condition.

1.1. Risks relating to the Euskaltel Group's Business and Industry

The integration of Euskaltel within the Masmovil Group may prove unsuccessful or strain or divert resources either of the Euskaltel Group or of the larger Masmovil Group.

On August 10, 2021, the telecommunication group of companies which parent company is Lorca JVco Limited, which previously acquired all the shares in Masmovil Ibercom, S.A. ("**Masmovil**") acquired a controlling shareholding in Euskaltel following the public takeover bid launched by Masmovil (through its subsidiary Kaixo Telecom, S.A.U.) on March 28, 2021 (the "**Acquisition by MM Group**" or the "**Acquisition**"), which implied at that time the amalgamation of businesses between the fourth and fifth telecommunications operators in Spain, at a time when Euskaltel had launched an expansion plan that was aimed at increasing its presence in the Spanish market and outside of the natural markets in which Euskaltel Group operates (mainly Basque Country, Galicia and Asturias), including the use of Virgin trademark across Spain.

The difficulties in successfully integrating Euskaltel into the Masmovil Group and achieve the expected goals and synergies could be significant, and the Euskaltel Group may fail to retain key customers and management personnel of the Euskaltel Group because of its integration into a wider group such as the Masmovil Group.

In addition, with the acquisition of the Euskaltel Group by Masmovil and its integration into the Masmovil Group's overall business network, the companies of both groups may experience cannibalization of service offerings in the regions where these companies (now integrated under the same Masmovil Group) operate, in particular with regard to the Euskaltel Group's expansion into the Spanish market with the Virgin telco platform, which may lead to the Euskaltel Group's business to compete to a certain degree with other operators that are members of the Masmovil Group (e.g. Yoigo, Pepephone, Llamaya and Lycamobile) in the markets in which the Euskaltel Group operate. As part of Masmovil's and its shareholders' strategy in relation to the Euskaltel Acquisition, certain significant cost savings are expected to be achieved through the migration of the Euskaltel Group's mobile base onto Masmovil's own network and the deployment of additional mobile sites, as well as the HFC decommissioning by migrating the Euskaltel Group's HFC footprint onto Masmovil's own FTTH footprint.

There can, however, be no assurance that the Masmovil Group will be successful in implementing the integration of the Euskaltel Group. More specifically, Masmovil Group may be required to invest more than the amount budgeted by their shareholders and managers in order to implement their investment plans in respect of the Euskaltel Group and the Masmovil Group and, therefore, Euskaltel and its subsidiaries may not realize the anticipated levels of EBITDA-based increase or cost efficiencies from such investments. The Acquisition may also disrupt Euskaltel Group's relationships with current and new employees, customers and suppliers. In addition, the attention of Euskaltel Group's managers and of the senior officers of the larger Masmovil Group may be distracted from existing operations by the integration of Euskaltel into Masmovil's business and the associated complexities. In addition, Masmovil's directors and senior officers may not have sufficient expertise, resources or time to build the necessary support infrastructure to achieve the strategies related to the Euskaltel Group's business in the desired timeframe or at all. The measures the Euskaltel Group and the larger Masmovil Group implement to respond to the challenges presented by the COVID-19 pandemic or any other unforeseen circumstances could also require to adjust, postpone or abandon certain of cost synergies and other integration initiatives in respect of the Acquisition. If Masmovil is unsuccessful in implementing its strategic or financial objectives, including in relation to the Acquisition, or if Masmovil is required to spend more than the budget anticipated to achieve those objectives, the Euskaltel Group's business, operating results, financial condition and prospects could be materially adversely affected. Furthermore, if Masmovil fails to integrate Euskaltel and its subsidiaries, there could be a material adverse effect on the Issuer's business, financial condition and results of operations.

In the third quarter of 2021, Masmovil Group's FTTH footprint increased to 26.8 million of building units ("**BUs**"), growing 1.3 million in respect of the third quarter of 2020. The Masmovil Group's network is based on the co-invest agreements signed with Orange, Vodafone and Telefónica and also on its own deployments. The usage rights contracts and the acquisition of Euskaltel enabled the Masmovil Group to expand its own/usage rights, specifically FTTH/Cable footprint reaching 19.3 million of BUs as of the third quarter of 2021, and additionally 7.6M of BUs are accessible through bitstream agreements with third parties.

Additionally, at the time of this Information Memorandum, migration of Euskaltel Group's mobile lines to Masmovil Group's national roaming contracts and own network is mostly completed in mayor regions.

The impact of the COVID-19 pandemic on Euskaltel Group's business is uncertain and its effect on the Spanish economy and customers' behaviour constitutes a threat to the Euskaltel Group's business, operating results, financial condition and prospects.

Since the outbreak of the COVID-19 pandemic in March 2020, governments of many countries, including Spain, have taken preventative measures to try to contain its spread. These measures have included mandatory closure of businesses, social distancing requirements and travel restrictions, which have severely diminished the level of economic activity around the world and in Spain and have caused significant volatility in financial markets and triggered a period of global economic slowdown, the extent and duration of which are currently uncertain.

Two years after the outbreak of COVID-19 pandemic, this situation continues to significantly affect the global economy, due to the interruption or slowdown of supply chains and the significant increase in economic uncertainty, evidenced by an increase in asset price volatility, exchange rates and a decrease of long-term interest rates.

As of the date of this Information Memorandum, though the COVID-19 vaccine rollout has progressively become widespread, specially in advanced economies and in many middle-income countries, some countries have recently been forced to reintroduce strict lockdown measures to battle the rapid spread of the new variants of the virus (such as the so-called "Omicron"). Hence, there is still high uncertainty in relation to how the pandemic will evolve. This uncertainty includes the possible appearance of new outbreaks due to new virus' variants, and also it is unknown the different measures that can be taken by the authorities in order to control them and their level of effectiveness. Therefore, there is a high degree of complexity to carry out a detailed assessment or quantification of the possible impacts that COVID-19 will have on the Issuer, its subsidiaries and the other companies that currently are part of the Masmovil Group.

As regards the main regions where the Issuer and its wholly-owned subsidiary R Cable y Telecable Telecomunicaciones, S.A.U. ("**R Cable y Telecable**") operate (mainly, the Basque Country, Galicia and Asturias), the Basque economy followed a similar pattern as the broader Spanish economy, with a GDP decrease of 9.5% in 2020 but followed by an increase of 5.5% in 2021 (source: *Euskal Estatistika Erakundea – Instituto Vasco de Estadística*). Moreover, unemployment in the Basque Country was 11.4% in the fourth quarter of 2020, while decreasing to 9.9% in the fourth quarter of 2021 (source: *Euskal Estatistika Erakundea – Instituto Vasco de Estadística*). The economy also followed a similar negative pattern in Galicia with a GDP decrease of 8.9% in 2020 followed by an increase of 5.2% (two decimals higher than the average in Spain) in 2021, and unemployment rate in the fourth quarter of 2020 peaking at 11.7% and only decreasing to 11.0% in the fourth quarter of 2021 (sources: *Instituto Galego de Estatística and Autoridad Independiente de Responsabilidad Fiscal*). Economic slowdown due to further waves of COVID-19 may result in additional or more drastic preventive measures being imposed, which in turn may result in further declines in consumer disposable income and spending, as well as consumer confidence and increases in customer payment defaults and bad debt in respect of both Euskaltel Group's business and retail customers, which may adversely impact the Issuer's business, operating results, financial condition and prospects.

On March 15, 2020, the Spanish government ordered the closure of all commercial and retail businesses in Spain and, in compliance with this directive, all Euskaltel Group's shops and public retail outlets through which the companies of the Euskaltel Group sell hardware and services were closed, impacting Euskaltel Group's sales of hardware and in-store top-ups. Although Euskaltel, Telecable and R Cable stores have progressively reopened and most of these measures have been lifted at both a local and national level, pursuant to Royal Decree 926/2020 of October 25, the regions of Spain have been granted powers by the Spanish government to impose similar restrictions, which have been implemented since October 2020, resulting in non-essential establishments being closed in many regions, from time to time, as well as movement restrictions, which have had an impact in the general financial condition of the companies and workforce in Spain.

In addition, both the Spanish government and the authorities in the different regions (*comunidades autónomas*) where the Euskaltel Group and the larger Masmovil Group operate have prescribed detailed guidelines to maintain social distancing and to increase sanitation and hygiene in shops and outlets and other mitigating measures in order to prevent the spread of COVID 19, which may impact Euskaltel Group's ability to carry out business and operations at normal capacity. These and similar measures may also delay the completion of Euskaltel Group's capital or infrastructure construction projects and other operations and maintenance activities, which could result in a material adverse effect on the Issuer's business, financial condition, results of operations and prospects. See "*—The continuity of services strongly depends on the proper functioning of IT and network infrastructure and any failure of this infrastructure could have a material adverse effect on the Group's business*." Furthermore, the Spanish government temporarily imposed COVID-19-related restrictions prohibiting mobile and fixed number portability and preventing telecommunications operators from cutting off their services to customers who default on their bills. The negative impact of these measures on Euskaltel Group's business was partially offset by a correlated decrease in churn rates, as some of the customers were tied to services of the Euskaltel Group's relevant company for the duration of the restrictions. As of April 1, 2020, the Spanish government lifted the restriction on mobile number portability and as of May 26, 2020, the Spanish government lifted the restriction on fixed number portability. As of June 21, 2020, upon the termination of the state of alarm in Spain, the prohibition for telecommunications operators to cut off their services to customers who default on their bills was also lifted.

While the management of the Issuer believes operations of the Euskaltel Group are currently in compliance with applicable guidance, if customers perceive that implementation of these measures to be inadequate or ineffective, the Euskaltel Group may experience lower than expected activity at the franchise stores and outlets or suffer damage to the reputation of the companies that form part of the Euskaltel Group, which could have a significant adverse effect on Euskaltel Group's business. In addition, customers' ability or desire to visit physical premises may remain weak for a significant length of time. This will affect sales of hardware such as handsets, tablets and other accessories and other in-store purchases such as top-ups, and will also impede the Euskaltel Group's ability to capture new customers, in particular in the prepaid segment. Furthermore, the self-isolation measures imposed by the Spanish government in order to combat COVID-19 have resulted in a considerable increase in internet traffic and a correlated decrease in mobile services usage, as customers rely on Voice Over Internet Protocol ("**VoIP**") and "over-the-top" telecommunications services provided via the internet (such as television and video streaming) that are provided separately from the end user's internet service ("**OTT services**") as a substitute for traditional voice and messaging services while gatherings are prohibited and residents are advised to stay at home. Lastly, the severe national and international travel restrictions implemented in order to contain the COVID-19 pandemic spread have also contributed to reducing the level of economic activity in Spain, including tourism (a significant contributor to the Spanish economy), which could negatively impact Euskaltel Group's retail sales, including revenue from roaming services that have decreased as a consequence of travel restrictions, as well as consumer confidence, investment by business and the Spanish economy more broadly, which could in turn adversely affect Euskaltel Group's sales to both residential and business customers across channels.

The Euskaltel Group cannot predict if and when customer spending and domestic travel will return to pre-COVID-19 levels, and any of these factors may adversely affect Euskaltel Group's ability to conduct business on the same terms as the companies of the Euskaltel Group's did prior to the COVID-19 pandemic.

Since Euskaltel's founding in 1995, Euskaltel Group has grown rapidly, particularly in the northern regions where the companies of the Euskaltel Group (namely, Euskaltel and R Cable y Telecable) operate, and have become one of the largest telecommunications services providers in Spain, integrated in the larger Masmovil Group since August 2021 upon completion of the Acquisition, and the Euskaltel Group continues to pursue a growth strategy to improve business, financial condition and results of operations within the larger Masmovil Group. The impact of the COVID-19 pandemic, including higher unemployment rates, decreased customer confidence and decreased consumer spending, could result in failure to achieve Euskaltel Group's and larger Masmovil Group's historical growth rates. The full impact of the pandemic on telecommunication business remains uncertain and will ultimately depend on a number of factors that cannot be accurately predicted at this time, including, but not limited to, the duration (including the extent of any resurgence in the future) and severity of the COVID-19 pandemic, the timing of and manner in which containment efforts are reduced or lifted, the timing and ability of vaccination and other treatments to combat COVID-19, the duration and magnitude of its impact on unemployment rates and consumer discretionary spending, the length of time it takes for demand and pricing to return to pre-COVID-19 levels and for normal economic and operating conditions to resume, which are all beyond the Issuer's knowledge and control.

Moreover, there are no comparable recent events that provide the Euskaltel Group with guidance. For these reasons, Euskaltel Group's managers cannot reasonably estimate the ultimate impact of COVID-19 on Euskaltel Group's business with any certainty nor can provide any assurance that COVID-19 will not have a material adverse effect on Euskaltel Group's business, financial condition, results of operations and prospects.

To the extent COVID-19 adversely affects Euskaltel Group's business, financial condition and results of operations, it may also have the effect of heightening other risks described in this "*Risk Factors*" section, including those relating to significant levels of debt borrowed or guaranteed by the companies of the Euskaltel Group, the ability to generate sufficient cash flows to fund Euskaltel Group's debt obligations, and Euskaltel Group's ability to comply with the covenants contained in the agreements that govern Euskaltel Group's indebtedness.

The spread of the COVID-19 pandemic has caused severe disruptions in the Spanish and the global economy and could potentially create widespread business continuity issues of unknown magnitude and duration, which may impact Euskaltel Group's liquidity and access to capital.

The COVID-19 pandemic has caused, and is likely to continue to cause, severe economic, market and other disruptions worldwide. Euskaltel Group's management cannot assure that conditions in the bank lending, capital and other financial markets will not continue to deteriorate as a result of the pandemic, or that Euskaltel Group's access to capital and other sources of funding will not become constrained, which could adversely affect the availability and terms of future borrowings, renewals or refinancing. Euskaltel Group's may be required to raise additional capital in the future and Euskaltel Group's access and cost of financing will depend on, among others, global economic conditions, conditions in the global financing markets, the availability of sufficient amounts, Euskaltel Group's prospects and credit ratings given to the Issuer and/or to any parent company of the larger Masmovil Group (e.g. Lorca JVco or Lorca Telecom Bidco).

In addition, the terms of future debt agreements could include more restrictive covenants or require incremental collateral, which may restrict Euskaltel Group's business operations or make such debt unavailable due to covenant restrictions then in effect. There is no guarantee that debt financings will be available in the future to fund Euskaltel Group's obligations, or that they will be available on terms consistent with Euskaltel Group's expectations.

The Issuer depends upon Euskaltel Group's operations and cash inflows from the shareholders and companies that form part of the Euskaltel Group to generate strong cash flows to support Euskaltel Group's operating activities, supply capital to finance Euskaltel Group's operations and growth, make capital expenditure and manage Euskaltel Group's debt levels. The continuing economic disruption caused by the COVID-19 pandemic, and the resulting restrictions and preventive measures, could adversely affect Euskaltel Group's ability to generate sufficient cash flows from operations or shareholders' contributions and could adversely affect Euskaltel Group's ability to make payments of future interest and other payments with respect to Euskaltel Group's indebtedness and other obligations, including payments on the Commercial Paper Notes and to fund capital expenditure, which could negatively impact the quality of Euskaltel Group's service, competitiveness and customer satisfaction, which could in turn have a negative impact on Euskaltel Group's revenue, operating profit and cash flows. In addition, since Euskaltel Group's has fixed costs which the relevant company of the Euskaltel Group cannot significantly or rapidly decrease when demand for Euskaltel Group's products or services decreases, such as personnel costs and costs related to Euskaltel Group's infrastructure any resulting decline in Euskaltel Group's revenue, particularly in the event of a future resurgence of the COVID-19 pandemic, may have a material adverse effect on the net cash flows, margins and profits of the companies of the Euskaltel Group and, therefore, on the Issuer's.

The Euskaltel Group and the larger Masmovil Group face significant competition in each of the business segments in which Euskaltel Group operates and competitive pressures and shifting customer preferences could have a material adverse impact on Euskaltel Group's business.

The Spanish telecommunications markets in general and Basque, Galician and Asturian telecommunications markets in particular are highly competitive and may become more competitive in the future, facing significant competition from both market incumbents and new competitors in the telecommunication industry, which has resulted in generally declining average revenue per user ("**ARPU**") across the telecommunication industry.

In Spain, the telecommunications sector is dominated by legacy operators. Telefónica, S.A. and its affiliates ("**Telefónica**") in particular hold a dominant market share in certain regions. The Spanish National Commission of Markets and Competition (the "**CNMC**") has favoured the growth of alternative operators, but legacy operators may seek to leverage their market position to compete with the companies of the Euskaltel Group in new territories or service areas.

For Euskaltel Group's fixed line and mobile services, competitors include, but are not limited to, Telefónica, Orange Espagne, S.A. (including its affiliates, "**Orange Spain**") and Vodafone España, S.A.U. (including its affiliates, "**Vodafone Spain**").

In addition, Euskaltel Group's mobile services face competition from providers of VoIP and mobile virtual network operators ("**MVNOs**"). For Euskaltel Group's wholesale services, key competitors include, but are not limited to, wholesale providers of voice, data and fibre services.

The companies of the Euskaltel Group and of the larger Masmovil Group may also face increased competition in any of these business segments as a result of new market entrants. Competition from such companies, as well as from new entrants and new technologies, could create downward pressure on prices across all the business lines, which could result in a further decrease in ARPU, a loss of customers or revenue generation units and a decrease in revenue and profitability. In addition, technological developments are increasing cross-competition in certain markets, such as that between mobile and fixed-line telephony.

In some instances, Euskaltel Group's competitors may have easier access to financing, more comprehensive product ranges, lower financial leverage, greater financial, technical, marketing and personnel resources, larger subscriber bases, wider geographical coverage for their fixed or mobile networks, greater brand name recognition and experience or longer established relationships with regulatory authorities, suppliers and customers. Some of Euskaltel Group's competitors may have fewer regulatory burdens with which they are required to comply because, among other reasons, they use different technologies to provide their services or are not subject to obligations applicable to operators with significant market power.

Traditional telecommunications operators, owing to their falling market share in recent years, may develop an expansion policy with their main or second-tier brands based on large price discounts that generally affect all operators in the market. Certain of Euskaltel Group's main competitors have greater financial capacity than the Euskaltel Group or the larger Masmovil Group. This could be used to undercut competing businesses or to invest in infrastructure or other assets that would enable traditional competitors to become more competitive in the market. The launch of such value-conscious telecommunications services has triggered generally declining ARPU across the industry and has resulted in a shift to converged services, where margins are higher.

As a consequence of the telecommunications and mobile markets reaching saturation in certain of the most populated regions in Spain, including those where the Euskaltel Group operates, there are a limited number of new subscribers entering the market in these regions. In order to increase Euskaltel Group's subscriber base and market share in those regions, the companies of the Euskaltel Group are dependent on attracting competitors' existing subscribers, which intensifies the competitive pressures that the Euskaltel Group is subject to. The Issuer cannot guarantee that Euskaltel Group's and larger Masmovil Group's historical positive portability numbers and leading position in customer satisfaction rankings will continue in the future, in particular as the Spanish government imposed temporary COVID-19-related restrictions that prohibited fixed and mobile number portability and that may be re-imposed depending on the evolution of the COVID-19 pandemic. In addition, as a consequence of the pandemic, since the first half of 2020 the level of competition has increased as many of Euskaltel Group's competitors have launched new promotions and offers in an attempt to tackle worsening economic conditions and declining consumer spending, such as Vodafone's "back to school" 50% discount program, including unlimited data and minutes options, 600 Mbps fibre optic network access and TV packages, and Orange Spain's football package promotion. Such initiatives adversely affected ARPU, including as a result of Euskaltel Group's customer retention campaigns in response to such strong market competitive intensity.

There has been a trend towards consolidation and convergent offerings among telecommunications operators in the Spanish and broader European market. Euskaltel Group's competitors could gain competitive advantages over the Euskaltel Group through mergers, joint ventures and alliances among franchises, wireless or private cable operators, satellite providers, local exchange carriers and other telecommunications service providers in Spain that could give them increased access to financing, resources, efficiencies of scale or the ability to provide multiple services in direct competition with the companies of the Euskaltel Group. Public-private joint ventures may also increase competition.

Moreover, the competitive landscape in Spain and in the markets where the Euskaltel Group operates is generally characterized by increasing competition, tiered offerings that include lower priced entry-level products and a focus on bundled offerings, including special promotions and discounts for customers who subscribe for bundled services and, more recently and as a future trend to take into consideration, offerings for access to services under 5G networks. The Euskaltel Group expects additional competitive pressure from a range of players that seek to offer packages of fixed based and mobile voice, internet and video broadcast services, including from new regional broadband services, new brand launches from existing competitors and new market entrants. As a result of the increasing competition in the telecom market, ARPU has declined over time.

The success of Euskaltel Group's business model is based on service quality and the products currently offered in the market as well as on continual renewal and updating of Euskaltel Group's product and service range in accordance with the requirements and changes that arise in a highly competitive market. Any delay or absence in introducing a product or service range that is at least similar to what is being offered by Euskaltel Group's main competitors could lead the companies of the Euskaltel Group's to lose competitive position in the market and, consequently, to a decrease of Euskaltel Group's current market share, which would have a negative impact on Euskaltel Group's revenue, operating profit and cash flows. In addition, maintaining and developing Euskaltel Group's infrastructure and the range and quality of Euskaltel Group's services to remain competitive in the market requires significant capital expenditure on an ongoing basis, which could negatively impact Euskaltel Group's profitability in future periods.

For instance, the Euskaltel Group's license agreement with Virgin Enterprises Limited ("**Virgin**") requires to make at least €115 million of capital and operational expenditure on customer acquisition and marketing in the five years following the launch of the commercial use of the license. The inability of the Masmovil Group in which Euskaltel is now integrated, for any reason, to fund Euskaltel Group's capital expenditure in the future could negatively impact the quality of the service rendered by the companies of the Euskaltel Group, competitiveness and customer satisfaction, which could have a negative impact on the Issuer's revenue, operating profit and cash flows.

The companies of the Euskaltel Group face high levels of competition from resellers and MVNOs, which have been increasing their share of the Spanish mobile telecommunications market in past years, following an international trend towards increasing diversification in the telecommunications markets. This has increased competition and pricing pressure in the markets where the Euskaltel Group operates, primarily in the prepaid market but also increasingly in the post-paid market. If the companies of the Euskaltel Group are unable to compete effectively with resellers and MVNOs, Euskaltel Group's business, financial condition and results of operations may be materially and adversely affected.

The companies of the Euskaltel Group are also facing increasing competition from non-traditional mobile voice and data services based on new mobile VoIP, in particular OTT services such as Facebook Messenger, FaceTime, Google Talk, Skype, Snapchat, Viber and WhatsApp. These OTT services are often free of charge, accessible via smartphones and allow their users to have access to potentially unlimited messaging and voice services over the internet, thus bypassing more expensive traditional voice and messaging services (SMS/MMS) provided by mobile network operators ("**MNOs**") like the companies of the Euskaltel Group, which are only able to charge the internet data usage for such services. With the growing share of smartphone users in the mobile subscriber base, there are an increasing number of customers using OTT services. All MNOs are currently competing with OTT services providers who leverage existing infrastructures and are often not required to implement capital-intensive business models associated with traditional mobile network operators like the companies of the Euskaltel Group. OTT service providers have in recent years become more sophisticated, and technological developments have led to a significant improvement in the quality of service, particularly in speech quality. In addition, players with strong brand capability and financial strength, such as Apple Inc. ("**Apple**"), Google Inc. ("**Google**"), Facebook and Microsoft Corporation, have turned their attention to the provision of OTT services. In the long-term, if non-traditional mobile voice and data services or similar services continue to increase in popularity and if the Euskaltel Group or the larger Masmovil Group, or more generally all the MNOs, are not able to address this competition, this could cause declines in subscriber base and profitability across all of Euskaltel Group's products and services, among other material adverse effects. In addition, the Euskaltel Group may face increasing competition from a large-scale roll-out of public Wi-Fi networks by local governments and utilities, transportation service providers, new and existing Wi-Fi telecommunications operators and others, which particularly benefits OTT services. Enhanced fixed service infrastructure access and mobile services provided by competing operators may be more appealing to customers, and new technologies may enable Euskaltel Group's competitors to offer not only new or technologically superior services, but to also offer existing standard services at lower prices. For example, Digi Mobil, through an aggressive pricing strategy and increasing fibre footprint deployment, has continued to grow its market share for fixed-mobile convergence ("**FMC**") services. The telecommunications services industry has undergone significant technological development over time and these changes continue to affect Euskaltel Group's business. Such changes have had, and will continue to have, a profound impact on consumer expectations and behaviour. Euskaltel Group's products and services are also subject to increasing competition from alternative new technologies or improvements in existing technologies. Either the Euskaltel Group or the larger Masmovil Group where the Issuer is now integrated may not be able to fund the capital expenditures necessary to keep pace with technological developments. In this regard,, please also see the risk factor "*If Euskaltel Group fails to successfully adopt new technologies or services, or to respond to technological developments, Euskaltel Group's business may be adversely affected and Euskaltel Group may not be able to recover the cost of investments that Euskaltel Group's has made*" below.

Any inability or unwillingness to respond effectively to such competitive pressures could have a material adverse impact on the Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

Euskaltel Group's business is concentrated in the northern regions of Spain and may be adversely affected by negative economic, legal or political developments in Spain or any of the regions where the companies of the Euskaltel Group or the larger Masmovil Group operate.

Euskaltel Group's business operates almost entirely in the northern regions (*comunidades autónomas*) of Spain (namely, the Basque Country, Galicia and Asturias) and most of Euskaltel Group's revenue is generated in these regions. Accordingly, Euskaltel Group's results may be adversely impacted by negative economic, legal or political developments in Spain or in any of the aforesaid regions, or by Euskaltel Group managers' failure to anticipate the needs and preferences of consumers in terms of Euskaltel Group's marketing, service portfolio and strategic investments.

Any adverse developments, or even uncertainties, in this regard, including sovereign risk fluctuations, may adversely affect Euskaltel Group's business, financial position, cash flows and results of operations. A deterioration in economic conditions in Spain as a result, for example, of changes in government policy, a further deterioration in global economic conditions as a result of the COVID-19 pandemic (see also the risk factors "*The impact of the COVID-19 pandemic on Euskaltel Group's business is uncertain and its effect on the Spanish economy and customers' behaviour constitutes a threat to the Euskaltel Group's business, operating results, financial condition and prospect*" and "*The spread of the COVID-19 pandemic has caused severe disruptions in the Spanish and the global economy and could potentially create widespread business continuity issues of unknown magnitude and duration, which may impact Euskaltel Group's liquidity and access to capital*" above) or a regional or global recession because of the recent outbreak of war in Ukraine, could reduce or limit the growth of consumers' disposable income. All these factors could have a negative impact on the Euskaltel Group's sales of new services and hardware and lead some customers to default on their telephone, broadband and/or television bills, thus negatively impacting Euskaltel Group's revenue. There is also a risk that financing conditions will tighten for both private and public sectors in Europe, or in Spain in particular, as a result of renewed uncertainty surrounding the sustainability of public finances in certain European countries, recession or other macroeconomic developments, particularly those that may derive from a war in Ukraine and geopolitical tensions between Europe and Russia that could increase the Issuer's cost of financing or limit Euskaltel Group's access (directly or through the larger Masmovil Group) to financing in the future, which could limit the Issuer's ability to improve and expand Euskaltel Group's infrastructure or otherwise implement Euskaltel Group's business plan.

In addition to the COVID-19 pandemic, there are several potential sources of economic uncertainty that could adversely affect the Spanish economy in particular. First, the risk of renewed political disruption in Catalonia could negatively impact the Spanish economy and, therefore, Euskaltel Group's business. The Basque Country is one of the Euskaltel Group's main markets and any resurgence of conflict in that region could also negatively impact its business. Given the demanding maturity schedule of Spanish public debt and the potential for adverse developments in market confidence in Spain's ability to repay such debt, any adverse economic development in Spain could result in an increase in the cost of financing of Spanish public or private debt. Given the high level of parliamentary fragmentation in Spain, there is a risk that new government policies or uncertainty as to the implementation of existing government policies could adversely affect the economy or the confidence of financial markets in Spain's ability to service and repay its sovereign debt, which could result in tightening of financial conditions in Spain. In particular, such political uncertainty could negatively impact the application of the EU recovery fund, aimed at repairing the economic damage suffered by the Member States hardest hit by the COVID-19 pandemic, including Spain. In addition, any protectionist backlash as a result of international trade tensions could have significant implications for the Spanish economy in the form of reduced access to foreign capital and investment.

Acquisitions and other strategic transactions present many risks, including the risk that the Masmovil Group may not be able to integrate newly acquired operations into the Euskaltel Group's business, which may prevent the Euskaltel Group from realizing the strategic and financial goals contemplated at the time of any such transaction and thus adversely affect Euskaltel Group's business.

The Euskaltel Group and the larger Masmovil Group may undertake acquisitions, joint ventures or other synergistic transactions in the future, in addition to pursuing organic growth through increased customer numbers and increased penetration of Euskaltel Group's services and products among the existing customer base.

Any acquisition, disposal or other strategic transaction that the Euskaltel Group and/or the larger Masmovil Group may undertake in the future could result in Euskaltel and its subsidiaries incurring additional debt, first demand guarantees or contingent liabilities, in addition to post-completion liabilities, increased interest expenses and/or amortization expenses related to goodwill and other intangible assets. In particular, any target that the Euskaltel Group may acquire in the future may have liabilities that Euskaltel Group's or the larger Masmovil Group's directors, senior officers and/or advisors failed or were unable to discover in the course of performing due diligence investigations. Euskaltel Group's or the larger Masmovil Group's directors and senior officers may learn of additional information about the target companies that adversely affects the Euskaltel Group, such as unknown or contingent liabilities and issues relating to compliance with applicable laws and regulations. For example, the companies of the Euskaltel Group could become liable for overdue payables to suppliers and employees that are not known at the time of the acquisition, or become subject to tax or pension liabilities in respect of historical periods that Euskaltel Group's or the larger Masmovil Group's directors, senior officers and/or advisors are currently aware of or the amount of which was underestimated. In conducting due diligence, Euskaltel Group's or the larger Masmovil Group's directors, senior officers and/or advisors rely on resources available to them, including public information and information provided by the sellers and third-party advisers. In addition, due diligence usually provides for materiality thresholds, a limited scope and a restricted perimeter. There can be no assurance that the due diligence undertaken by the Euskaltel Group or the larger Masmovil Group reveals or highlights all relevant facts necessary or helpful in evaluating future acquisitions. Furthermore, there can be no assurance as to the adequacy or accuracy of information provided during the due diligence exercise. The due diligence process is inherently subjective. If the due diligence investigation failed to identify material information regarding the target's business, the companies of the Euskaltel Group may later be forced to write down or write off certain assets, significantly modify the business plan or incur impairment or other charges. Similarly, the materialization of certain risks, which may or may not have been identified during due diligence, may lead to a loss of property, loss of value and, potentially, subsequent contractual and statutory liability to various parties.

Any of these events, individually or in the aggregate, could have a material adverse effect on the business of the target entity, or on the financial condition and results of operations of the Euskaltel Group and the Issuer's ability to fulfil the Issuer's obligations under the Commercial Paper Notes. Furthermore, the acquisitions of certain companies may constitute a change of control under agreements entered into by such companies, and may entitle these third-parties to terminate their agreements with the Euskaltel Group or, in some cases, request adjustments and financing arrangements of the terms of the agreements. The Euskaltel Group cannot exclude the possibility that some of these third-parties may exercise their termination, adjustment or other rights, which could have a material adverse effect on Euskaltel Group's business, results of operations and financial position following any such acquisition. In addition, some of the third-parties may use their termination or adjustment rights to renegotiate the terms of the agreements to the detriment of the Euskaltel Group and may benefit from stronger bargaining power, as a result of which the acquired company may only be able to secure replacement contracts on less favourable terms or at all.

In addition, it cannot be guaranteed that the Euskaltel Group or the larger Masmovil Group will have sufficient resources to fund any acquisitions in the future, which would limit Euskaltel Group's growth through bolt-on acquisitions, which is a key element of Masmovil Group's strategy. The Euskaltel Group or any companies of the larger Masmovil Group, as the case may be, may use available cash on hand to finance any such acquisitions. The Euskaltel Group may experience difficulties in integrating the businesses the Euskaltel Group or the larger Masmovil Group acquires into Euskaltel Group's business, incur higher than expected costs or fail to realize all of the anticipated benefits or synergies of such acquisitions, or fail to retain key customers, employees and management personnel of the relevant targets. Acquisition transactions may also disrupt Euskaltel Group's relationships with current and new employees, customers and suppliers. In addition, the attention of Euskaltel Group's managers may be distracted from existing operations by such acquisition processes and the integration of the acquired businesses. Thus, if the Euskaltel Group or, as the case may be, the larger Masmovil Group, consummates any further acquisitions involving the companies of the Euskaltel Group or fail to integrate previous acquisitions, there could be a material adverse effect on the Euskaltel Group's business, financial condition and results of operations. There can be no assurance that the Masmovil Group in which Euskaltel is now integrated will be successful in completing business acquisitions or integrating previously acquired companies. In addition, the Issuer's and its subsidiaries' debt burden may increase if Euskaltel Group borrows or guarantees funds to finance any future transactions, which could have a negative impact on the Issuer's cash flows and the ability to finance Euskaltel Group's overall operations.

Acquisitions or disposals of additional telecommunications companies may require the approval of governmental authorities (either domestically or at the EU level), which can block, impose conditions on, or delay the process that could result in a failure to proceed with announced transactions on a timely basis or at all, thus hampering Euskaltel Group's opportunities for growth. In the event conditions are imposed and the Euskaltel Group fails to meet them in a timely manner, the relevant governmental authority may impose fines and, if in connection with a merger transaction, may require restorative measures, such as mandatory disposition of assets or divestiture of operations, which could have an adverse impact on the Euskaltel Group's business, financial condition and results of operations.

Although Euskaltel Group's or the larger Masmovil Group's directors, senior officers and advisors analyse and conduct due diligence on acquisition targets, their assessments are subject to a number of assumptions concerning profitability, growth, interest rates and company valuations and inquiries may fail to uncover relevant information. There can be no assurance that such assessments or due diligence of and assumptions regarding acquisition targets will prove to be correct, and actual developments may differ significantly from Euskaltel Group's expectations, especially in light of the severe economic uncertainty and unpredictability caused by the COVID-19 pandemic. Moreover, Masmovil Group's plans to acquire additional businesses in the future that may involve the markets where the Euskaltel Group operates are subject to the availability of suitable opportunities. Euskaltel Group's competitors may also follow similar acquisition strategies and may have greater financial resources available for investments or may be willing to accept less favourable terms than the companies of the Euskaltel Group can accept, which may prevent Euskaltel Group from acquiring target businesses to the benefit of Euskaltel Group's competitors. The operating complexity of Euskaltel Group's business and the responsibilities of new management appointed by the Masmovil Group as sole shareholder of Euskaltel have increased significantly as a result of the growth of the Masmovil Group's business through acquisitions, which may place significant strain on managerial and operational resources that are available to Euskaltel as a wholly-owned subsidiary of Masmovil following the Acquisition. Masmovil's directors and senior officers may be unable to allocate sufficient managerial and operational resources to meet Euskaltel Group's needs as Euskaltel Group's business grows, and Euskaltel's current operational and financial systems and managerial controls and procedures within the larger Masmovil Group may become inadequate.

Although the Issuer's management considers the operational and financial systems and managerial controls and procedures that are currently in place to be adequate for Euskaltel Group's business, the effectiveness of these systems, controls and procedures needs to be kept under regular review as Euskaltel Group's business grows and consolidates with that of Masmovil Group's. The companies of the Euskaltel Group will have to maintain close coordination among logistical, technical, accounting, finance, marketing and sales personnel. Management of growth will also require, among others, continued development of financial and management controls and information technology systems. The management at the Issuer or at the larger Masmovil Group may be unable to hire directors and/or officers with the relevant expertise or the hiring process may require significant time and resources, all of which could result in a disruption in the Euskaltel Group's management, growth, operational and financial systems, managerial controls and procedures and, accordingly, have a material adverse impact on the Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

Telecommunication business is capital intensive and capital expenditures may not generate a positive return.

The telecommunication business is capital intensive and requires significant levels of investment. Like other companies in the fixed line, mobile and internet services sector, the Masmovil Group where the Issuer is now integrated must continually invest in order to develop, expand and maintain Euskaltel Group's network infrastructure. Though the Masmovil Group maintains cost-effective national roaming agreements and network sharing agreements with incumbent telecommunications services providers to cover the Euskaltel Group's customers base, the Euskaltel Group's business demands significant capital expenditures to add customers to its networks and improve the scope and quality of service, including expenditures relating to equipment and labour. In particular, the Euskaltel Group and the larger Masmovil Group may incur significant capital expenses for the deployment of new technologies, for the purchase of frequencies and the deployment of network infrastructure for Euskaltel Group's mobile operations and fibre-optic infrastructure and for Euskaltel Group's fixed line operations. The Euskaltel Group and the larger Masmovil Group may also need to make investments to provide business continuity and to meet requirements for information security and disaster recovery, all of which could require significant capital expenditures which could be further increased by applicable regulations requiring increased levels of the technical protection of telecommunications networks.

In addition, costs associated with the licenses and spectrums that the Euskaltel Group and the larger Masmovil Group need to operate existing networks and technologies and those that the Euskaltel Group and the larger Masmovil Group may acquire or develop in the future, as well as costs and rental expenses related to their deployment, could be significant. The amount and timing of future capital requirements may differ materially from current estimates due to various factors, many of which are beyond the Issuer control. See also the risk factor "*Existing services and future network capacity growth may be constrained by the frequency spectrum available to the Euskaltel Group and the larger Masmovil Group.*" below.

Furthermore, new technologies and the use of multiple applications increasing customers' bandwidth requirements could lead to saturation of the networks and require telecommunications operators to make additional investments to increase the capacity of their infrastructures. It cannot be guaranteed that the Euskaltel Group and the larger Masmovil Group will continue to have sufficient resources to maintain the quality of Euskaltel Group's network and other products and services, or to expand Euskaltel Group's network coverage, which are key elements for the Group's strategy and growth over the long-term. Unforeseen investment expenses, an inability to generate sufficient cash flows and/or finance capital expenditure needs by the Euskaltel Group and the larger Masmovil Group at an acceptable cost or an inability to make profitable investments could have a material adverse impact on the Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

The Masmovil Group where the Issuer is now integrated may not generate sufficient cash flow to fund Euskaltel Group's capital expenditures, ongoing operations and debt obligations.

The ability to service Euskaltel Group's debt and to finance capital expenditure needs and operations in progress will depend on the ability to generate cash flows not only by the Euskaltel Group, but also by the larger Masmovil Group where the Issuer is now integrated following the Acquisition. The Issuer cannot provide any assurance that the business of the Euskaltel Group and the larger Masmovil Group will generate sufficient cash flow from operations or that future debt or equity financing will be available to the Euskaltel Group or the larger Masmovil Group in an amount sufficient to enable the Euskaltel Group to pay Euskaltel Group's debt obligations when due, sustain operations or meet Euskaltel Group's other capital requirements. The ability of the Euskaltel Group and the larger Masmovil Group to generate cash flow and to finance Euskaltel Group's capital expenditures, current operations and debt service obligations depends on numerous factors affecting not only the Euskaltel Group, but also the larger Masmovil Group where the Issuer is now integrated following the Acquisition, including:

- future operating performance of the Euskaltel Group and the larger Masmovil Group;
- the demand and price levels for current and projected products and services;
- ability to maintain the level of technical capacity required on Euskaltel Group's networks and the subscriber equipment and other pertinent equipment connected to Euskaltel Group's networks;
- ability to successfully introduce new products and services;
- ability to limit customer churn;
- the general economic conditions and other circumstances affecting consumer spending;
- competition;
- sufficient distributable reserves, in accordance with applicable law; and
- legal, tax and regulatory developments affecting telecommunication business.

Some of these factors are beyond the Issuer's control. If the Euskaltel Group and the larger Masmovil Group are not able to generate sufficient cash flows, the Euskaltel Group's might not be able to repay debt, expand business, respond to competitive challenges or finance cash and capital requirements, including capital expenditures. If the Euskaltel Group is not able to meet its debt service obligations, the Issuer or its subsidiaries might have to sell off assets, attempt to restructure or refinance Masmovil Group's and/or Euskaltel Group's existing debt or seek additional financing in the form of debt or equity. The Euskaltel Group's management may not be able to do so in a satisfactory manner, or at all, which would have a material adverse impact on the Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

The Masmovil Group´s interests or the interests of the Sponsors versus the interests of the holders of the Commercial Paper Notes

Since August 2021, upon completion of the Acquisition by MM Group, Euskaltel ceased to be a listed company in the Spanish stock exchange and become a sole shareholder company (*sociedad unipersonal*) which entire share capital is owned by Kaixo Telecom, S.A.U. ("**Kaixo Telecom**"), which in turn is a wholly-owned subsidiary of Masmovil and, indirectly, of Lorca JVco, the latter being controlled by Lorca Aggregator Limited (see corporate structure at section 2.4. below). Lorca Aggregator Limited is ultimately owned mostly by Cinven, KKR and Providence (the "**Sponsors**", as further identified in section 2.4.4. below). Consequently, the Masmovil Group´s interests where Euskaltel is now integrated or the interests of the Sponsors may differ from the interests of the holders of the Commercial Paper Notes.

Existing services and future network capacity growth may be constrained by the frequency spectrum available to the Euskaltel Group and the larger Masmovil Group.

Mobile network capacity is to a certain extent limited by the amount of frequency spectrum available for its use. Since the Spanish government controls the allocation of frequency spectrum to telecommunications operators in Spain, the capacity of mobile network is limited by the amount of spectrum that the Euskaltel Group or the larger Masmovil Group are able to procure via public auction or private sale. Neither the Euskaltel Group or the larger Masmovil Group where the Issuer is now integrated cannot assure that the companies of these groups will be able to procure more spectrum, renew spectrum upon the expiry of spectrum licenses or otherwise maintain existing spectrum licenses for the use of Euskaltel Group's customer base, including as a result of non-compliance with any commitments pursuant to concession agreements. See also the risk factor "*Any failure to comply with license conditions may jeopardize Euskaltel Group's and Masmovil Group's licenses, which are required to operate Euskaltel Group's business and networks*" under section 1.2 below.

As spectrum auctions are infrequent and the Euskaltel Group may need additional spectrum in the future, the Euskaltel Group or the larger Masmovil Group may participate in future spectrum auctions even though the companies of the Masmovil Group, including Euskaltel and its subsidiaries, might not, at the time of the auction, require additional spectrum capacity. Such participation would require significant capital expenditures in the near term, as acquiring spectrum is expensive, due in part to the fact that spectrum availability is limited and the process for obtaining it is complex. The Masmovil Group currently owns 30 MHz in the 1,800 MHz band, 30 MHz and 5 MHz in the 2,100 MHz band, 80 MHz in the 3.4-3.8 GHz band (the "**3.5 GHz Band**") following the acquisitions of spectrum from Eurona Wireless Telecom (40 MHz) in July 2018 and from Neutra Network Services, S.L.U (40 MHz) covering the whole Spanish territory, together with seven concessions in the radio frequency public domain in the 2.6 GHz for Madrid, Catalonia, Castilla-La-Mancha, Andalusia, Asturias, Galicia and the Basque Country.

The management of the Euskaltel Group and of the larger Masmovil Group believe that current spectrum allocation is sufficient for anticipated customer growth in the near term and provision of 5G services by the companies of the Euskaltel Group. However, the companies of the Euskaltel Group may need additional spectrum to accommodate future customer growth or to further develop 4G and 5G services, and the quality of spectrum available to the Euskaltel Group may affect its competitive position. Neither the Euskaltel Group nor the larger Masmovil Group can assure prospective investors in the Commercial Paper Notes that additional spectrum will be obtained to meet expectations or business needs on a timely basis. The Euskaltel Group's network expansion or upgrade plans may be affected if the Euskaltel Group or the larger Masmovil Group are unable to obtain additional spectrum. This could in turn constrain Euskaltel Group's future network capacity growth and Euskaltel Group's market share, which would in turn materially and adversely affect Euskaltel Group's business and prospects as well as Euskaltel Group's financial condition and results of operations. For further risks related to 5G roll-out, see the risk factor "*The Euskaltel Group and the larger Masmovil Group depend on network sharing agreements to provide commercially viable services across Spain and depend upon other third-parties to access and maintain certain parts of infrastructure*" below.

Euskaltel Group's growth prospects depend on continued demand for fixed line, mobile and broadband products and services and increased demand for bundled and premium offerings.

The use of the internet, television and fixed line telephony and mobile services in certain of the regions in which the companies of the Euskaltel Group operate has increased in recent years. The Euskaltel Group has benefited from this growth and Euskaltel Group's growth and profitability depend, in part, on continued demand for these services in the coming years. The companies of the Group rely in part on the ability of the Euskaltel Group and of the larger Masmovil Group to market mobile, TV and broadband services, as well as a combination of these services through bundled offerings to attract new customers and to migrate existing customers to such services. If demand for such products and services does not increase as expected, this could have a material adverse impact on Euskaltel Group's business, financial condition and results of operations. Conversely, if the use of telecommunication services increases more than expected (as a result of the COVID-19 pandemic or other unexpected event), the increase in traffic would require prompt action on Euskaltel Group's end to expand network's capacity so as to ensure connectivity and be able to successfully meet the increased demand for Euskaltel Group's services. If the companies of the Euskaltel Group are unable to meet such increasing demand, the Euskaltel Group may lose existing or potential customers to competitors. In addition, there is a risk that new technologies may undermine demand for Euskaltel Group's services. For example, new wireless internet services being developed by Amazon, SpaceX or other providers could reduce demand for fixed line broadband and telephony in the future. New providers of mobile data and telephony services may enter the market and may benefit from more effective or lower cost technologies that give them a competitive advantage over the companies of the Euskaltel Group in these markets. Furthermore, the products and services offered by the companies of the Euskaltel Group may be more successful than that anticipated, and Euskaltel Group may be unable to meet the demand for Euskaltel Group's product offerings. For example, if Euskaltel underestimates the popularity of its set-top boxes, some customers could face a significant wait for the product due to the manufacturer's lead times or other delays, which may lead to existing or new customers to seek services and products from competitors. Euskaltel Group is also affected by shifts in consumer preferences, which continue to evolve rapidly to respond to the challenges posed by the COVID-19 pandemic. In particular, the self-isolation measures imposed by the Spanish government in order to combat COVID-19 have resulted in a considerable increase in internet traffic and a correlated decrease in mobile services usage, as customers rely on VoIP and OTT services as a substitute for traditional voice and messaging services while gatherings are prohibited and residents are advised to stay at home. If these consumer trends continue, the growing demand for such services could threaten Euskaltel Group's competitive advantage and have a material adverse impact on Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

Main competitors of the Euskaltel Group offer integrated products over their fixed line and/or cable networks, including fixed mobile services bundles comprising mobile, fixed voice and broadband internet products, as well as "quadruple-play" offerings that combine these three products with television services. Bundled services are expected to become increasingly important and customers that have such services are less likely to switch to a different operator for all or part of the bundled services. The Euskaltel Group and the larger Masmovil Group are the only domestic operators without their own television offering, which may put the companies of the Euskaltel Group at a disadvantage to competitors with such offerings, particularly given the popularity of football broadcasts.

The Euskaltel Group and the larger Masmovil Group depend on network sharing agreements to provide commercially viable services across Spain and depend upon other third-parties to access and maintain certain parts of infrastructure.

The Euskaltel Group and the larger Masmovil Group are dependent on various third-parties in order to provide commercially viable services in certain regions.

For example, among other agreements, the Masmovil Group rely on the agreements signed with Orange Spain since 2015 in connection with national wholesale roaming and shared FTTH network infrastructure; certain agreements executed in 2017, 2018, and 2020 with Telefónica relating to the new broadband ethernet service ("**NEBA**") for both residential and commercial units and FTTH network bitstream wholesale access, as well as a national roaming agreement ("**NRA**") executed between Telefónica and Xfera Móviles, S.A.U. in 2016, as amended in 2019 and 2020; and certain agreements executed in 2018 with Vodafone Spain for sharing FTTH infrastructure and in 2019 for provision of wholesale access services under an MVNO scheme. In June 2021, Masmovil executed a new agreement with Ericsson, expanding the range of 5G technology products and services offered by the Masmovil Group.

All NRAs have a similar structure, involving a minimum committed value in euro in exchange for a bucket of data (in millions of gigabits). Under such agreements, the Masmovil Group and, therefore, the Euskaltel Group as sub-group within the Masmovil Group, rely on third-parties to invest in the maintenance and growth of their networks and to provide a reliable and high-quality service. For example, under the September 2019 Orange Agreement, the Masmovil Group rely on Orange Spain to proceed with the planned roll-out and further development of its national 5G network, which the Masmovil Group intends to utilize to provide high quality 5G services to its customers, including the customers of the Euskaltel Group. Should Orange Spain fail, for any reason, to proceed with such development, or should such development be delayed, this may negatively impact Masmovil Group's ability to implement the business plan for both the Masmovil Group and the Euskaltel Group.

The Masmovil Group and, therefore, Euskaltel and its subsidiaries, have limited or no control over the quality and consistency of the services that are supplied by third-parties, especially as such third-parties' activities may be strained as a result of the COVID-19 pandemic and current economic downturn. Any deterioration in the provision of such services, a failure of any of these parties to perform their obligations under the agreements or Masmovil Group's inability to extend any of the agreements on favourable terms or at all could negatively impact the scale and quality of the services the companies of the Euskaltel Group can provide to its customers, which would negatively affect the Euskaltel Group's business, financial condition and results of operations.

Euskaltel Group's business may be adversely affected by restrictions on the ability to maintain existing network infrastructure or install new network infrastructure.

The coverage of Euskaltel Group's network depends in part on the ability of the Euskaltel Group or the larger Masmovil Group to maintain existing antennas and to build up new antennas for Euskaltel Group's network. Antennas are generally built on land owned by third-parties, the use of which is secured by way of lease agreements. In particular, the Euskaltel Group has entered into various lease arrangements relating to certain locations where its nodes are situated, as it only owns the sites for part of the nodes that deliver its services to the customer base. These agreements have been entered into with various landlords and are crucial for Euskaltel Group's business. There can be no guarantee that these lease agreements will be extended or renegotiated on commercially favourable terms upon the expiration of their respective terms, or that they will be extended at all. If Euskaltel Group is not able to renew current lease agreements for antenna sites and/or to enter into new lease agreements for suitable alternate antenna sites, this could have a negative impact on the coverage of Euskaltel Group's network. Additionally, some of the equipment used in Euskaltel Group's network is installed on customer premises. Disputes with these customers or legal proceedings involving their property may subject this equipment to encumbrances or cause it to be inaccessible, which could adversely affect Euskaltel Group's ability to operate its network. Further, Euskaltel Group's inability to successfully and timely resolve such disputes could negatively affect Euskaltel Group's business, financial condition and results of operations.

Furthermore, certain regulatory approvals, such as new build permits, may be required to operate antenna sites with other frequencies/frequency bands, in particular where the shift is made from a higher frequency band (*e.g.* 2100 MHz) to a lower frequency band (*e.g.* 1800 MHz) and new technologies such as 5G and adaptive antennas. To the extent that Euskaltel Group seeks to operate antenna sites with other frequencies/frequency bands and technologies, failure to obtain such regulatory approvals could have a negative impact on the coverage of Euskaltel Group's network. Current initiatives from certain activist groups against 5G deployment and the construction of more antennas with higher frequency emissions, and the reaction of some politicians and authorities on a regional and communal level may result in more effort and costs and a resulting delay for the roll-out of Euskaltel Group's network. This concerns not only new sites and 5G, but also impacts upgrades on existing sites and former technologies as 3G and 4G. Any such negative impact on the coverage of Euskaltel Group's network could materially and adversely affect Euskaltel Group's business, financial condition and results of operations.

Telecommunication industry is subject to increasing operating costs and inflation risks that may adversely affect Euskaltel Group's earnings.

While the companies of the Euskaltel Group generally attempt to reflect increases in operating costs in customers' subscription rates, there is no assurance that Euskaltel Group will be able to do so due to competitive pressure and other factors. Therefore, operating costs may rise faster than associated revenue, resulting in a material negative impact on Euskaltel Group's cash flow and results of operations. For example, Euskaltel Group's operating costs could increase as a result of higher employee costs at call centres, higher payments to providers of TV services or in the event of the review and increase of the fees paid to Spanish authorities for Masmovil Group's spectrum licenses. The companies of the Euskaltel Group are also affected by inflationary increases that may occur as a result of recovery of economy post COVID-19 in payment obligations under supply contracts or in salaries, wages, benefits and other administrative costs that the relevant company of the Euskaltel Group may not be in a position to pass on to its customers, which in turn could have a material adverse impact on Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

Euskaltel Group and the larger Masmovil Group depend on certain key partners and other third parties for the provision of hardware, software and other providers of outsourced services, who may discontinue their services or products, seek to charge prices that are not competitive or choose not to renew contracts.

The Euskaltel Group and the larger Masmovil Group have important relationships with several suppliers of hardware, software and related services that the Euskaltel Group use to operate its broadband internet, fixed line, mobile and internet services businesses. Any future shortages may involve significant delays in seeking alternative supplies, may constrain Euskaltel Group's ability to meet customer demand and may result in increased customer churn. Further, in the event that hardware or software products or related services are defective, it may be difficult or impossible to enforce recourse claims against suppliers, especially if warranties included in contracts with suppliers have expired or are exceeded by those in the relevant contracts with Euskaltel Group's subscribers in individual cases, or if the suppliers are insolvent, in whole or in part. In addition, there can be no assurances that Euskaltel Group or the larger Masmovil Group will be able to obtain the hardware, software and services that the companies of the Euskaltel Group need for the operation of business in a timely manner, at competitive terms and in adequate amounts.

The Euskaltel Group and the larger Masmovil Group also outsource some support services, including parts of subscriber services, information technology support, technical services and maintenance operations. Should any of these arrangements be terminated by either contract party, this could result in delays or disruptions to Euskaltel Group's operations, thus potentially harming Euskaltel Group's reputation, and could result in Euskaltel Group's incurring additional costs, including if the outsourcing counterparty increases pricing or if the Euskaltel Group and the larger Masmovil Group are required to locate alternative service providers or in-source previously outsourced services.

Further, the Euskaltel Group and the larger Masmovil Group are dependent on certain suppliers with respect to mobile services who the Euskaltel Group and the larger Masmovil Group, as the case may be, may not be able to replace without incurring significant costs, such as the agreements of the Masmovil Group with Ericsson España S.A.U. ("**Ericsson**") for the maintenance of mobile network (and, in particular, the hardware supplier selected to deploy 5G mobile access and core network), with Huawei Technologies España S.L. ("**Huawei**") for the deployment of FTTH network, with ZTE España S.L.U. ("**ZTE**") for the supply and maintenance of equipment, with Italtel Ltd. for the Voice Interconnection Platform and Inetum España, S.A. ("**Inetum**") to outsource certain IT services. In particular, the Euskaltel Group also depends on suppliers such as Nokia, Nagra, Atos, Sagemcom and Technicolor for the provision of essential network and IT services. A cessation or interruption in the supply of the products and/or services may harm the ability to provide mobile services to Euskaltel Group's subscribers. Among other considerations, there can be no assurance that recent controversies in Europe, the recent announcement by the United Kingdom to ban the use of Huawei's equipment in its 5G infrastructure and the developments in the United States regarding the use of Huawei mobile network technology in the development of 5G infrastructure will not result in restrictions on the Masmovil Group's or commercial partners' access to or use of such equipment and, given the limited availability of alternative manufacturers, could limit the supply of the components necessary for development of a 5G network in Spain and, in particular, the regions where the companies of the Euskaltel Group operate. In particular, in the context of 5G network deployment, it is possible that the Masmovil Group and, therefore, Euskaltel and its subsidiaries, could face a lack of supply of 5G chipsets, which could negatively impact Euskaltel Group's expansion plan. In addition, the continued impact of the COVID-19 pandemic may result in supply chain delays and travel restrictions on Euskaltel Group's employees, contractors or suppliers, potentially for an extended period of time, which could negatively impact Euskaltel Group's ability to source equipment or services in a timely and cost-effective manner.

In addition, on January 12, 2020, Euskaltel entered into a trademark license agreement with Virgin Enterprises Limited ("**Virgin**") pursuant to which the latter assigned the right of use of its brand to the Euskaltel Group, with the majority of the relevant consideration consisting in sales-related variable payments. The Virgin brand has been a key factor of the Euskaltel Group's expansion plan in the Spanish market, particularly before the Acquisition took place. Virgin Enterprises Limited as licensor may terminate this agreement in certain circumstances, including in the event of a material breach of the agreement not remedied within 20 business days, a failure of the Euskaltel to generate certain levels of revenue, a change of control in relation to the Euskaltel in favour of an unsuitable buyer and if the Euskaltel fails to meet certain capital and operational expenditure requirements under the agreement.

Furthermore, either directly or through Medbuying Technologies, S.L. ("**Medbuying**") as central purchasing company, the companies of the Euskaltel Group have relationships with a number of key sourcing partners for mobile network equipment, network roll-out, fixed access and software, handsets, routers and other retail equipment such as Samsung, Huawei, Xaomi, ZTE and Sagecom.

The ability of Masmovil Group and, therefore, of Euskaltel and its subsidiaries, to both maintain and renew existing contracts with key partners and suppliers of products or services or enter into new contractual relationships with these or other suppliers upon the expiration of existing agreements, either on commercially attractive terms, or at all, depends on a range of commercial and operational factors and events which may be beyond the Issuer's control. The occurrence of any of these risks or a significant disruption in the supply of equipment and services from key sourcing partners could create technical problems, damage the reputation of the companies of the Euskaltel Group, result in the loss of customer relationships and have a material adverse impact on Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

Euskaltel Group depend on third-parties to provide premium programming for the pay TV service and conditional access systems.

Neither the Euskaltel Group nor the larger Masmovil Group produce the majority of their television contents and, therefore, Euskaltel Group's ability to compete in the pay TV market depends, in part, on the ability to obtain attractive programming from third-parties at reasonable prices. A relatively small number of third-party companies produce and control access to programming in Spain. If either the Euskaltel Group or the larger Masmovil Group are unable to purchase content at commercially reasonable prices, or at all, Euskaltel Group's ability to retain and grow customer base could be adversely affected.

In addition, on August 10, 2021, the Euskaltel Group entered into a series of agreements with Agile TV for the sale of the Euskaltel Group's pay TV business to Agile TV, pursuant to which the Euskaltel Group will, among others, continue to operate the pay TV business for a transitional period of one year. Any failure to maintain the operation of the Euskaltel Group's pay TV business in this transitional period or comply with obligations under the agreements relating to the sale of the Euskaltel Group's pay TV business could have a negative impact on Euskaltel Group's cash flows and Euskaltel Group's ability to finance its overall operations.

The continuity of Euskaltel Group's services strongly depends on the proper functioning of IT and network infrastructure and any failure of this infrastructure could have a material adverse effect on Euskaltel Group's business.

The reliability and quality (both in terms of service as well as availability) of information systems and networks of Masmovil Group, therefore including those of Euskaltel and its subsidiaries, particularly for mobile and fixed line businesses, are key components of Euskaltel Group's business activities, the continuity of Euskaltel Group's services and the confidence of customers. More specifically, the unavailability or failure of information systems the companies of the Euskaltel Group use, Euskaltel Group's network, the production of "electronic" communications services and television, Euskaltel's and R Cable's websites, and Euskaltel Group's customer service function, could significantly disrupt Euskaltel Group's business.

A flood, fire, other natural disaster, war, act of terrorism, power failure, cyber-attack, computer virus or other catastrophe affecting a portion of Euskaltel Group's or the larger Masmovil Group's network could have a material adverse impact on Euskaltel Group's business and relations with customers. Measures with the aim of remedying such disasters, safety and security measures, or measures for protecting service continuity that Euskaltel Group undertake or may undertake in the future, as well as the effects thereof on the performance of Euskaltel Group's network, could be insufficient to avoid losses. Any disaster or other damage affecting Euskaltel Group's network could result in significant uninsured losses. Euskaltel Group's network may be subject to disruptions and to significant technological problems, and such difficulties could escalate over time. The occurrence of any such event could cause interruptions in service or reduce capacity for customers, either of which could reduce Euskaltel Group's revenue, cause companies of the Euskaltel Group to incur additional expenses or lose customers. The business of the Euskaltel Group depends on certain sophisticated critical systems, including its network operations centre ("**NOC**"), call centre and billing and customer service systems. The hardware supporting those systems is housed in a relatively small number of locations and if damage were to occur to any of these locations (*e.g.*, from a fire or flood) or if those systems develop other problems, there could be a material adverse effect on the business, prospects, financial condition and results of operations of the Euskaltel Group.

Furthermore, Euskaltel Group may experience difficulties in integrating its IT systems with Masmovil Group's following the completion of the Acquisition. In addition, the occurrence of any such event may subject the companies of the Euskaltel Group to penalties and other sanctions imposed by regulators and damages, such as compensation to customers affected by service interruptions or changes. Further, the companies of the Euskaltel Group may incur costs and revenue losses associated with the unauthorized use of Euskaltel Group's networks, including administrative and capital costs associated with the unpaid use of networks as well as with detecting, monitoring and reducing the incidences of fraud. Fraud could also impact interconnection costs, capacity costs, administrative costs and payments to other carriers for unbillable fraudulent roaming charges.

While Euskaltel Group has backup systems, the risk that these systems may not be sufficient to handle a spike in activity cannot be ruled out, which could lead to a slowdown or unavailability of IT systems for a period of time. Moreover, the companies of the Euskaltel Group may incur legal penalties and reputational damages to the extent that any accident or security breach results in a loss of or damage to customers' data or applications or the inappropriate disclosure of confidential information.

Furthermore, the development of the resources used by consumers (for example, videoconferencing, telepresence, and cloud computing for business customers), of the "internet of things," and of new terminals (such as smartphones and tablets) may result in a risk to Euskaltel Group's networks of saturation due to the large volumes of data generated by such resources.

Should all or some of these risks materialize, this could have a material adverse impact on Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes. See also risk factor "*Euskaltel Group's business is subject to risks of natural disasters, fire, power outages and other catastrophic events that can be further intensified due to the developing threat of climate change*" below.

If Euskaltel Group or the larger Masmovil Group fail to successfully adopt new technologies or services, or to respond to technological developments, Euskaltel Group's business may be adversely affected and Euskaltel Group may not be able to recover the cost of investments being made.

Telecommunication business is characterized by rapid technological change and the introduction of new products and services to meet customer demand at competitive prices, and it is difficult to forecast the impact such technological innovations will have on Euskaltel Group's business. If any new or enhanced technologies, products or services that the Euskaltel Group or the larger Masmovil Group introduce fail to achieve broad market acceptance or experience technical difficulties, Euskaltel Group's revenue growth, margins and cash flows may be adversely affected. As a result, companies of the Euskaltel Group may not recover investments that these companies make in order to deploy these technologies and services. Enhanced fixed service infrastructure access and mobile services provided by competing operators may be more appealing to customers, and new technologies may enable competitors to offer not only new or technologically superior services, but to also offer existing standard services at lower prices. Euskaltel Group or the shareholders at the larger Masmovil Group may not be able to fund the capital expenditures necessary to keep pace with technological developments. Euskaltel Group's ability to respond to and keep pace with technological developments may also be strained as a result of the preventive measures taken by the Spanish government in response to the COVID-19 pandemic, which have forced many employees to work remotely for prolonged periods of time, thereby halting the progress of some "on-the-field" projects. It is possible that alternative technologies that are more advanced than those Euskaltel Group currently provide may be developed. The companies of the Euskaltel Group may not obtain the expected benefits of their investments if more advanced technologies are adopted by the market. Technological developments may also shorten product life cycles and facilitate convergence of various segments in the telecommunications industry. Even if Euskaltel Group adopts new technologies in a timely manner, the cost of such technologies may exceed their benefits.

Euskaltel Group must continue to increase and improve the functionality, availability and characteristics of Euskaltel Group's network, particularly by improving its bandwidth capacity and its 4G coverage to meet the growing demand for the services that require very-high-speed telephony and internet services as the telecommunications industry. The management of the Euskaltel Group and of the larger Masmovil Group believe the scope of 4G coverage under the existing NRAs is sufficient, and the management do not expect considerable network capital expenditure on 4G investments. Regarding 5G frequencies, the Masmovil Group has 80 MHz in the 3.5 GHz Band and may bid for further spectrum in the 700 MHz band, though management's decision on this matter will depend on the final conditions of each auction.

In addition, Euskaltel Group and the larger Masmovil Group may not receive the necessary licenses to provide services based on these new technologies in the markets the companies of the Euskaltel Group operate in or may be negatively impacted by unfavourable regulation regarding the usage of these technologies. If the Euskaltel Group and the larger Masmovil Group are unable to effectively anticipate, react to or access technological changes in the telecommunications market or to otherwise compete effectively, the Euskaltel Group could lose subscribers, fail to attract new subscribers or incur substantial costs and investments to maintain Euskaltel Group's subscriber base, all of which could have a material adverse effect on Euskaltel Group's business, financial condition and results of operations.

Euskaltel Group and the larger Masmovil Group may also be required to incur additional marketing and customer service costs in order to retain existing customers and attract them to any upgraded products and services offered by the companies of the Euskaltel Group, as well as to respond to competitors' advertising pressure, and potentially more extensive marketing campaigns, which may adversely affect Euskaltel Group's margins. Any of the above occurrences could have a material adverse impact on Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

Failure to protect image, reputation and brands of the companies of the Euskaltel Group could have a material adverse effect on business.

The brands under which the companies of the Euskaltel Group sell products and services, including Euskaltel, R Cable, Telecable and Virgin telco are well recognized brands in Spain, particularly in the northern regions where Euskaltel Group operates. The Euskaltel Group developed these brands through extensive marketing campaigns, website promotions, customer referrals, and the use of a dedicated sales force and dealer networks.

The success of the different companies comprising the Euskaltel Group depends on the ability to maintain and enhance the image and reputation of these existing brands, products and services and to develop a favourable image and reputation for any new brands, products and services. The image and reputation of Euskaltel Group's brands, products and services may be adversely affected by several factors, including if concerns arise about (i) the quality, reliability and benefit/cost balance of Euskaltel Group or the larger Masmovil Group's products and services, (ii) the quality of customer service and support, or (iii) the ability to deliver the level of service advertised, including in relation to connectivity and network speeds. An event or series of events that threatens the reputation of one or more of Euskaltel Group's brands, or one or more of the products of Euskaltel Group's portfolio could have an adverse effect on the value of such brands or products and subsequent revenue therefrom. Restoring the image and reputation of Euskaltel Group's products and services may be costly and not always possible..

Euskaltel Group's reputation and business could be materially harmed as a result of, and companies of the Group and management could be held liable, including criminally liable, for, data loss, data theft, unauthorized access or successful hacking.

Euskaltel Group's operations depend on the secure and reliable performance of information technology systems as the nature of the business of all companies of the Euskaltel Group involves the receipt and storage of information relating to customers and employees. The techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and are often not recognized until launched against a target. In addition, the hardware, software or applications developed or procured from third-parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Euskaltel Group may be unable to anticipate these techniques or detect these defects, or to implement effective and efficient countermeasures in a timely manner.

Euskaltel Group operates in an environment increasingly prone to cybersecurity risks. Cybersecurity threats may include gaining unauthorized access to Euskaltel Group's systems or inserting computer viruses or malicious software in Euskaltel Group's systems to misappropriate consumer data and other sensitive information, corrupt data or disrupt operations or otherwise use Euskaltel Group's systems and devices to carry out any other illegal activities. Unauthorized access may also be gained through traditional means such as the theft of laptop computers, data devices and mobile phones and intelligence gathering by employees with access. Further, Euskaltel Group's employees or other persons may have unauthorized or authorized access to Euskaltel Group's systems or take actions that affect networks in an inconsistent manner with Euskaltel Group's policies or otherwise adversely affect the ability of the companies of the Euskaltel Group to adequately process internal information. As a result, the companies of the Euskaltel Group need to continue to advance their capacity to identify and detect technical threats and vulnerabilities and improve their ability to react to incidents. This includes the need to strengthen security controls in the supply chain as well as to place increased focus on security measures adopted by Euskaltel Group`s key partners and other third-parties.

In order to prevent, detect or react in a timely and efficient manner to these or similar threats, several levels of security are implemented, such as the deployment and maintenance of top security technologies, a security operations centre monitoring a 24x7 critical vulnerabilities remediation plan, awareness training for all employees and an incident response plan. Despite all these security measures, however, new and sophisticated malware is constantly being developed and it is possible that systems are not updated on time.

If unauthorized third-parties manage to gain access to any of information technology systems used by the companies of the Euskaltel Group, or if such systems are brought down, unauthorized third-parties may be able to misappropriate confidential information, cause interruptions in Euskaltel Group's operations, access services without paying, damage computers or otherwise damage Euskaltel Group's reputation and business.

Multi-factor authentication is deployed for all authorized third-parties and an identity and access management project is taking place to make sure that no unauthorized party gains access to information technology systems used by the companies of the Euskaltel Group. Intentional or unintentional (accidental employee) misuse of authorized access can occur and the companies of the Euskaltel Group and of the larger Masmovil Group have there different countermeasures in place to stop or minimize the exfiltration of confidential data, including data loss prevention, database encryption or privilege access management systems and policies.

While Euskaltel Group and the larger Masmovil Group continue to invest in measures to protect the networks used by the companies of the Euskaltel Group, as well as in procedures to allow these companies to respond properly to potential security breaches, any such unauthorized access to Euskaltel Group's systems could result in a loss of revenue, and in consequences under agreements executed by the companies of the Euskaltel Group with content providers, all of which could have a material adverse effect on Euskaltel Group's business, financial condition and results of operations. Furthermore, as electronic communications services providers, any companies of the Euskaltel Group may be held liable for the loss, release or inappropriate modification or storage conditions of customer or other data which are carried by Euskaltel Group's network or stored on its infrastructure. In such circumstances, the relevant company of the Euskaltel Group and/or directors and senior managers could be held liable or be subject to litigation, penalties (including the payment of damages and interest) or adverse publicity that could have a material adverse impact on the Euskaltel Group's reputation, business, financial condition and results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

The companies of the Euskaltel Group are subject to regulatory requirements with respect to the protection of personal data and data security.

In the ordinary course of Euskaltel Group's business, the companies of the Euskaltel Group and of the larger Masmovil Group collect and process personal data. In the EU, the companies of the Euskaltel Group and of the larger Masmovil Group are subject to stringent regulations relating to the processing, transfer and storage of the personal data of natural persons, including, in particular, the General Data Protection Regulation (the "**GDPR**") and, in Spain, Organic Law 3/2018 on Protection of Personal Data and Guarantee of Digital Rights, which deals with the domestic implications of GDPR in Spain. The GDPR has been directly applicable in all Member States since May 25, 2018, replacing Directive 95/46/EC and current national data protection legislation in Member States, and was implemented in the EEA countries with effect from the same date. The GDPR significantly changes the EU/EEA data protection landscape, including strengthening of individuals' rights, stricter requirements on companies processing personal data and stricter sanctions with substantial administrative fines up to 4% of total worldwide annual turnover for the preceding financial year. The GDPR also offers data subjects the option to let a privacy organization litigate on their behalf, including with respect to the collection of potential damages.

The European Commission has proposed enhanced regulations concerning privacy and electronic communications (the "**e-Privacy Regulation**"), which would entail additional and stricter rules than those established under the GDPR in respect of the use of personal data from electronic communications. The e-Privacy Regulation would establish fines similar to those included in GDPR. These regulations may affect the development of innovative services that would draw on consumer data, potentially creating a competitive disadvantage for undertakings subject to both the GDPR and the e-Privacy Regulation.

Regardless of the measures the companies of the Euskaltel Group and of the larger Masmovil Group adopt to protect the confidentiality and security of data, the risk of possible attacks or breaches of data processing systems remains, which could harm Euskaltel Group's reputation and give rise to penalties, fines and damages. In addition, the Euskaltel Group and the larger Masmovil Group could be compelled to incur additional costs in order to protect against these risks or to mitigate the consequences thereof, which could in turn have a material adverse impact on Euskaltel Group's business, financial position and results of operations. Furthermore, any loss of confidence on the part of Euskaltel Group's customers as a result of such events could lead to a significant decline in sales and have a material adverse impact on Euskaltel Group's business, financial condition, results of operations.

Euskaltel Group's business may be negatively impacted by restrictions on customer access to mobile phone financing.

Like the other operators in the telecommunication industry, Euskaltel Group and the larger Masmovil Group base part of their strategy for attracting and retaining customers on mobile phone financing offered to their subscribers by different financial institutions. Should consumers' access to mobile phone financing be more limited, or become more costly, in the future – for example as a result of adverse financial market conditions in the event of a recession or the COVID-19 pandemic causing lenders to tighten lending standards for consumer financing – consumers may be unable or unwilling to finance the purchase of handsets and other hardware and so may delay their purchase of Euskaltel Group's products or services, negatively impacting sales, growth capacity and the generation of cash to cover Euskaltel Group's financial obligations. See "*—The impact of the COVID-19 pandemic on Euskaltel Group's business is uncertain and its effect on the Spanish economy and customers' behaviour constitutes a threat to the Euskaltel Group's business, operating results, financial condition and prospect*."

In addition, as a result of the recent economic slowdown in Spain and the general tightening of global financial market conditions caused by the COVID-19 pandemic and the outbreak of war in Ukraine, the Euskaltel Group may be restricted in the ability to finance consumer purchases at attractive rates of interest, or at all, through Masmovil's joint venture arrangement with BNP Paribas Group, and the Euskaltel Group may be exposed to costs related to increased rates of default under existing consumer financing.

The companies of the Euskaltel Group may be held liable for the contents hosted on the Euskaltel Group infrastructure.

The networks used by the companies of the Euskaltel Group carry and store large volumes of confidential, personal and business data, through both voice and data traffic. The companies of the Euskaltel Group store increasing quantities and types of customer data in both business and residential segments. Despite Euskaltel Group's best efforts to prevent it, any companies of the Euskaltel Group may be found liable for any loss, transfer, or inappropriate modification of the customer data or general public data stored on Euskaltel Group's servers or transmitted through Euskaltel Group's networks or for any illegal or unlawful use of the internet, any of which could involve many people and have an impact on Euskaltel Group's reputation, or lead to legal claims and liabilities that are difficult to measure in advance.

Accordingly, in their capacity as an internet and mobile service providers and hosts, the companies of the Masmovil Group could be held liable for claims resulting from the contents hosted on Euskaltel Group's infrastructure (specifically in connection with infringements by the press, invasion of privacy and breach of copyright) and thus face significant defence costs, even if liability for such claims was not established. The existence of such claims could also harm Euskaltel Group's reputation, which could have a material adverse impact on Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

Telecommunication business is subject to risks of natural disasters, fire, power outages and other catastrophic events that can be further intensified due to the developing threat of climate change.

Euskaltel Group's networks and operations may be subject to interruptions by natural disasters, including, but not limited to fire, floods, windstorms, earthquakes and other natural disasters, power outages terrorist acts, equipment and system failures, human errors and intentional wrongdoings, including breaches of Euskaltel Group' network and information technology security, all of which are events beyond Euskaltel Group's control.

As the companies of the Euskaltel Group operate in certain regions in which existing infrastructure and telecommunications equipment (such as cables and mobile towers) may not be able to withstand a major natural disaster and/or in which emergency response time may be significant, prolonged recovery time could be required to resume operations. The effects of environmental disruption or other catastrophic events on Euskaltel Group's network infrastructure and equipment and on the economies of the regions in which the companies of the Euskaltel Group operate may have a material adverse impact on Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

Furthermore, unanticipated problems at Euskaltel Group's facilities, network or system failures or the occurrence of such unanticipated problems at the facilities, networks or systems of third-party local and long-distance networks on which the companies of the Euskaltel Group rely could result in reduced user traffic and revenue, regulatory penalties and/or penal sanctions or damages or require unanticipated capital expenditures. The occurrence of network or system failure could also harm Euskaltel Group's reputation or impair the ability to retain current subscribers or attract new subscribers, which could have a material adverse effect on Euskaltel Group's business, financial condition and results of operations. In addition, Euskaltel Group's business is dependent on certain sophisticated critical systems, including exchanges, switches and other key network elements and billing and customer service systems of the Euskaltel Group and of the larger Masmovil Group. The hardware supporting those systems is housed in a relatively small number of locations and if damage were to occur to any of these locations, or if those systems develop other problems, such events could have a material adverse effect on Euskaltel Group's business, reputation, financial condition and results of operations.

The loss of certain key executives and other personnel, failure to apply the necessary managerial and operational resources to Euskaltel Group's business or failure to sustain a good working relationship with employee representatives, including workers' unions, could harm Euskaltel Group's business.

The companies of the Euskaltel Group depend on the continued contributions of senior management and other key personnel of the Euskaltel Group and of the larger Masmovil Group. There can be no assurance in retaining their services or that the Euskaltel Group and the larger Masmovil Group would be successful in attracting, hiring and training suitable replacements without undue costs or delays.

Competition for qualified managers and personnel in Euskaltel Group's industry is intense and there is limited availability of persons with the requisite knowledge of the telecommunications industry and relevant experience in the regions where the companies of the Euskaltel Group's operate. As a result, the loss of the support of key executives and employees could cause disruptions in Euskaltel Group's business operations, which could materially adversely affect Euskaltel Group's business, financial condition and results of operations. In addition, any failure to apply the necessary managerial and operational resources to Euskaltel Group's business and any weaknesses in operational and financial systems or managerial controls and procedures may impact Euskaltel Group's ability to produce reliable financial statements and may adversely affect Euskaltel Group's business, financial condition and results of operations.

The companies of the Euskaltel Group are exposed to the risk of strikes, work stoppages and other industrial actions. Euskaltel Group cannot exclude that the Acquisition will adversely affect the Euskaltel Group's relationship with its employees. An increase in the number of unionized employees could lead to an increased likelihood of strikes, work stoppages and other industrial actions. In addition, the companies of the Euskaltel Group face the risk of strikes called by employees of key suppliers of materials or services as well as installation providers, which could result in interruptions in the performance of Euskaltel Group's services. Euskaltel Group cannot predict the extent to which future labour disputes or disturbance could disrupt Euskaltel Group's operations, cause reputational or financial harm or make it more difficult to operate Euskaltel Group's business, and could have a material adverse impact on Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

Euskaltel Group depends on third parties to market, sell and provide a significant portion of Euskaltel Group's mobile and fixed line products and services. If Euskaltel Group and the larger Masmovil Group fail to maintain or further develop the distribution and customer care channels, Euskaltel Group's ability to sustain and further grow Euskaltel Group's subscriber base could be materially adversely affected.

Although the Euskaltel Group and the larger Masmovil Group have a broad retail network of exclusive stores, the remainder of Euskaltel Group's mobile products and services are sold primarily through third-party distributors including public retail outlets most of which also distribute or sell products of competitors. The distributors, retailers and sales agencies that the companies of the Euskaltel Group rely upon are not under Euskaltel Group's or the larger Masmovil Group's control and may stop distributing or selling Euskaltel Group's products at any time, for example as a result of financial difficulties including due to the COVID-19 pandemic, or otherwise. Should this occur with particularly important distributors, retailers or agencies, the companies of the Euskaltel Group may face difficulty in finding new distributors, retailers or sales agencies that can generate the same level of revenue. In addition, distributors, retailers and sales agencies that also distribute or sell competing products and services may more actively promote the products and services of competitors than Euskaltel Group's products and services.

In addition, some of the call centres used by the companies of the Euskaltel Group are outsourced to third-parties that serve Euskaltel Group's subscribers and there can be no assurance that such third-parties will always provide Euskaltel Group's customers with the care that the companies of the Euskaltel Group would provide them with. Further, if these contracts were terminated, the Euskaltel Group or the larger Masmovil Group would have to find replacement services elsewhere, and the quality of such replacements could diminish the quality of Euskaltel Group's services to customers.

The Euskaltel Group and the larger Masmovil Group intend to opportunistically develop Euskaltel Group's distribution channels, particularly in the small office/home office ("**SOHO**") and small and mid-size enterprises ("**SME**") segments, which may require significant capital expenditures. If the Euskaltel Group or the larger Masmovil Group fail to maintain or expand the direct and indirect distribution presence, Euskaltel Group's ability to retain or further grow its market share could be adversely affected, which in turn could have a material adverse effect on Euskaltel Group's business, financial condition and results of operations.

Claims of third parties that the companies of the Euskaltel Group infringe their intellectual property could harm Euskaltel Group's financial condition, and defending intellectual property claims may be expensive and could divert valuable company resources.

The Euskaltel Group and the larger Masmovil Group operate in an industry characterized by frequent disputes over intellectual property. As the number of convergent product offerings and overlapping product functions increase, the possibility of intellectual property infringement claims against any companies of the Euskaltel Group may correspondingly increase. Any such claims or lawsuits, whether with or without merit, could be expensive and time consuming to defend, could cause the Euskaltel Group to cease offering Euskaltel Group's licensing services and products that incorporate the challenged intellectual property, or could require the Euskaltel Group or the larger Masmovil Group to develop non-infringing products or services, if feasible, which could divert the attention and resources of technical and management personnel. In addition, the Euskaltel Group cannot assure that the relevant company or companies of the Euskaltel Group would prevail in any litigation related to infringement claims against the Euskaltel Group. A successful claim of infringement against any of the companies of the Euskaltel Group could result in a requirement to pay significant damages, cease the development or sale of certain products and services that incorporate the challenged intellectual property, obtain licenses from the holders of such intellectual property, which may not be available on commercially reasonable terms, or otherwise redesign those products to avoid infringing upon others' intellectual property rights.

Moreover, certain of Euskaltel Group's registered trademarks and trade names, including "Euskaltel" "R Cable" and "Telecable" are considered to be material to Euskaltel Group's business, the infringement of which could harm Euskaltel Group's reputation and lead to decreased subscribers and revenue, which could have a material adverse effect on Euskaltel Group's business, financial condition and results of operations.

1.2. Risks relating to Legislative and Regulatory Matters

Any failure to comply with license conditions may jeopardize Euskaltel Group's and Masmovil Group's licenses, which are required to operate Euskaltel Group's business and networks.

The Masmovil Group where Euskaltel and its subsidiaries are now integrated hold a number of licenses required to operate mobile and other services in Spain, including spectrum access license in the 3500 MHz, 2600 MHZ, 2100 MHz and 1800 MHz bands. These licenses are subject to certain conditions, including the payment of an annual spectrum fee for each license, and are also subject to periodic renewal and review procedures.

Any failure to meet license conditions may jeopardize Euskaltel Group's and Masmovil Group's licenses that are required to operate Euskaltel Group's business and networks. If the companies of either the Euskaltel Group or of the larger Masmovil Group cannot meet license conditions, there can be no assurance that the licenses will not be withdrawn. Furthermore, in the event of failure to pay annual spectrum fees or non-compliance with other license conditions, fines of up to €2 million may be imposed. In addition, the Euskaltel Group or the larger Masmovil Group may not be able to renew all relevant licenses when they expire on commercially favourable terms or at all, which could limit Euskaltel Group's ability to provide mobile or other services in certain regions or for certain periods or at all, and materially adversely affect Euskaltel Group's business, financial condition and results of operations.

The companies of the Euskaltel Group are subject to significant government regulation and supervision, which could require to make additional expenditures or limit Euskaltel Group's revenues and otherwise adversely affect Euskaltel Group's business, and further regulatory changes could also adversely affect Euskaltel Group's business.

The activities of the companies of the Euskaltel Group as fixed line, mobile operators and internet services operators are subject to regulation and supervision by various regulatory bodies, including local, regional and national authorities.

Such regulation and supervision, as well as future changes in laws or regulations or in their interpretation or enforcement that affect the companies of the Euskaltel Group and of the larger Masmovil Group, Euskaltel Group's competitors or telecommunication industry in general, strongly influence how the companies of the Euskaltel Group operate their business. Complying with existing and future laws and regulations may increase Euskaltel Group's operating and administrative expenses, restrict Euskaltel Group's ability or make it more difficult to implement price increases, affect Euskaltel Group's ability to introduce new services, force the companies of the Euskaltel Group to change marketing and other business practices, and/or otherwise limit Euskaltel Group's revenue. In particular, Euskaltel Group's business could be materially and adversely affected by any changes in relevant laws or regulations (or in their interpretation) regarding licensing requirements, access and price regulation, interconnection arrangements or the imposition of universal service obligations, or any change in policy allowing more favourable conditions for other operators or increasing competition. There can be no assurance that the provision of Euskaltel Group's services will not be subject to greater regulation in the future. Furthermore, a failure to comply with the applicable rules and regulations, including those imposing reporting obligations or requiring registration and/or enrolment in lists held by competent authorities, could result in penalties, fines, restrictions on Euskaltel Group's business or loss of required licenses or other adverse consequences.

The regulations applicable to Euskaltel Group's businesses include, among others:

- price regulation for certain of the services the companies of the Euskaltel Group offer, including regulation on exit fees, roaming fees and cancellation charges;
- rules promoting the elimination of surcharges for international roaming within the European Union;
- rules governing the interconnection between different telephone networks and the interconnection rates that can be charged by or to the companies of the Euskaltel Group;
- requirements that, under specified circumstances, a cable system carries certain broadcast stations or obtains consent to carry a broadcast station;
- rules for authorizations, licensing, acquisitions, renewals and transfers of licenses and franchises;
- requirements to provide or contribute to the provision of certain universal services;
- rules and regulations relating to subscriber privacy and data protection;
- rules and regulations relating to Euskaltel Group's networks, including imposed universal access obligations, co-installation and co-location obligations (including submarine cable landing stations), right of way and ownership considerations;
- rules governing the copyright royalties;
- requirements on portability; and
- other requirements covering a variety of operational areas such as equal employment opportunity, emergency alert systems, disability access, technical standards, environmental standards, city planning rules and customer service and consumer protection requirements.

Furthermore, in light of the COVID-19 pandemic, the Spanish government has prescribed detailed guidelines to maintain social distancing and hygiene measures to prevent the spread of COVID-19 in Euskaltel Group's customer and employee premises. If additional or more stringent measures were to be imposed in the future, will increase, the burden on management of such premises and could also lead to findings of material breaches and related enforcement action for failures to comply with such requirements, which could adversely affect Euskaltel Group's operating results and, in turn, adversely affect Euskaltel Group's financial condition and prospects.

Some of the regulations applicable to Euskaltel Group's operations within the EU often derive from EU directives. The various directives require Member States to harmonize their laws on communications and cover such issues as access, user rights, privacy and competition. These directives are reviewed by the EU from time to time and any changes to them could lead to substantial changes in the way in which Euskaltel Group's business in the relevant jurisdictions is regulated and to which the companies of the Euskaltel Group would have to adapt.

In Spain, the *Ministerio de Asuntos Económicos y Transformación Digital* (the "**MAETD**" or the "**Ministry**") (formerly named *Ministerio de Economía y Empresa* ("**MINECO**")) regulates and controls electronic telecommunications networks and services. The main role of the MAETD, through the *Secretaría de Estado de Telecomunicaciones e Infraestructuras Digitales* ("**SETID**") and, in particular, the *Dirección General de Telecomunicaciones y Ordenación de los Servicios de Comunicación Audiovisual* (General Directorate of Telecommunications and Regulation of the Services of Audiovisual Communication), is to establish policies and issue standards regarding electronic telecommunications networks and services, as well as sanction electronic and audiovisual communications operators when necessary. Under the *Ley General de Telecomunicaciones* (the "**LGT**"), the powers of the Ministry include appointing the operators responsible for providing universal service (which is currently Telefónica), verifying that the operators comply with the obligations of public service, approving certain standard agreements with users (such as those agreements subject to public service obligations) and certain powers to protect user rights. The Ministry also manages equipment and device compliance and the public domain radio spectrum.

Presently, the independent supervisory body for electronic communications operators is CNMC, which was created in June 2013. The purpose of the CNMC is to guarantee, preserve and promote the correct functioning, transparency and existence of effective competition in all markets, including the electronic and audiovisual communications markets, for the well-being of consumers and users. In addition to controlling and monitoring certain markets, the CNMC retains powers previously exercised by the *Comisión Nacional de Competencia*, such as the prevention of monopolies and business concentrations and the identification of operators required to contribute to the Spanish "National Fund for the Electronic Communications Universal Service" (*Fondo Nacional del Servicio Universal de Comunicaciones Electrónicas*, abbreviated as "**FNSU**"). The FNSU funds the so-called "universal service" (*servicio universal*), which covers the deployment of telecommunications networks across the entire Spanish territory, including non-profitable areas, the maintenance of telephone boxes, the delivery of telephone directories services for people with disabilities and, since 2012, the delivery of broadband access. Any change to the current regulatory framework or other decision adopted by the CNMC could alter the current market conditions and, therefore, represent a risk for the Euskaltel Group and for all other stakeholders in the national telecommunications market.

In Spain, the CNMC retroactively calculates and approves the net cost of providing this universal service on a yearly basis (for instance, in April 2020 the CNMC approved the net cost of the universal service for 2017), according to a statutory methodology whereby such "net cost" is calculated by deducting benefits, including non-cash benefits (*beneficios no monetarios*) and public subsidies linked to providing the universal service from the investments and costs related to providing this universal service.

Pursuant to the LGT of 2014, operators with revenue that exceeds €100.0 million may be asked to contribute to the financing of the net cost of the universal service through the FNSU managed by the CNMC. In the most recent years for which the CNMC has calculated and approved the net cost of the universal service, Euskaltel has been among the operators that are required to contribute to such net cost. Although the portion of the net cost to be financed by Euskaltel was not material for 2016 (€211,689, which represented 1.3% of the total amount of the FNSU) and the aggregate amount to be funded by all major Spanish operators has decreased over the last years, Euskaltel Group's contribution to the FNSU may increase in the future for the years 2017 onwards if Euskaltel Group's growth in turnover requires the companies of the Euskaltel Group to contribute a greater portion of the total amount to be contributed by all major operators to the FNSU for each relevant year.

Any of the aforementioned regulatory risks could have a material adverse impact on Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

The companies of the Euskaltel Group and of the larger Masmovil Group are subject to anti-trust regulations that may restrict Euskaltel Group's ability to make certain corporate acquisitions or acquire certain assets.

The companies of the Euskaltel Group and of the larger Masmovil Group are subject to antitrust rules and regulations and are, from time to time, subject to review by authorities that monitor monopoly power in any of the markets in which the Euskaltel Group operates. To the extent that the Euskaltel Group or the larger Masmovil Group are deemed by relevant authorities to exhibit significant market power, the companies of the Euskaltel Group can be subject to various regulatory obligations adversely affecting Euskaltel Group's results of operations and profitability. Regulatory authorities may also require the companies of the Euskaltel Group to grant third-parties access to Euskaltel Group's bandwidth, frequency capacity, facilities or services to distribute their own services or resell Euskaltel Group's services to end-customers. No assurance can be given that the Euskaltel Group or the larger Masmovil Group will not be identified as having significant market power in any relevant markets in the future and that Euskaltel Group will not be subject to additional regulatory requirements.

The companies of the Euskaltel Group face risks arising from the outcome of various criminal, civil, administrative and regulatory proceedings.

From time to time, the companies of the Euskaltel Group are party to litigation and other legal or regulatory proceedings, claims or investigations, including by governmental bodies, licensing authorities, customers, suppliers, competitors, former employees, class action plaintiffs and others. From time to time, the companies of the Euskaltel Group may also become involved in litigation matters pending against or related to entities that the Euskaltel Group acquires. Some of the proceedings against the companies of the Euskaltel Group may involve claims for considerable amounts and may require that general management devote time to address the issues raised to the detriment of managing the business. In addition, such proceedings may result in substantial damages or fines and/or may impair Euskaltel Group's reputation, which could have a material adverse effect on Euskaltel Group's business and reputation. The companies of the Euskaltel Group may also be exposed to proceedings with Euskaltel Group's independent distributor partners, as well as other telecommunications operators.

The Euskaltel Group regularly performs a risk assessment in respect of each open claim, litigation and proceeding and, as of June 30, 2021, the Issuer had made a provision in the consolidated financial statements in the amount of €2.8 million based on the estimated level of risk and the expected outcome of the proceedings. However, the Issuer cannot assure that the costs associated to any of the proceedings the Euskaltel Group is involved in will not exceed the amounts reserved for them, and cash or non-cash charges to earnings may result in the event that these matters are unfavourably resolved. The outcome of these proceedings and claims could have a material adverse impact on Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

The Euskaltel Group is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programs.

The companies of the Euskaltel Group are required to comply with the anti-corruption laws and regulations of the jurisdictions where the companies conduct Euskaltel Group's operations, and in certain circumstances, with laws and regulations having extraterritorial effect such as the US Foreign Corrupt Practices Act of 1977 and the United Kingdom Bribery Act of 2010. The anti-corruption laws generally prohibit, among other conduct, providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of Euskaltel Group's business, the companies of the Euskaltel Group may deal with entities, the employees of which are considered government officials.

Additionally, Euskaltel Group's operations may be subject to economic sanctions programs and other forms of trade restrictions ("**sanctions**") including those administered by the United Nations, the European Union and the United States, covering the US Treasury Department's Office of Foreign Assets Control. As Euskaltel Group provides telecommunications services to clients when they travel to other countries (*i.e.* roaming), the companies of the Euskaltel Group therefore generate income in some sanctioned countries (in particular, Cuba, Crimea and Venezuela). Without this service, Euskaltel Group's clients would not have access to telecommunications services when travelling to such countries. The Euskaltel Group and the larger Masmovil Group have a system that controls and maps the revenue coming from sanctioned countries ensuring compliance with sanction regulations and anti-corruption laws and regulations.

Although the Euskaltel Group and the larger Masmovil Group have internal policies and procedures in place designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures will be sufficient or that Euskaltel Group's employees, directors, officers, partners, agents and service providers will not occasionally take actions in violation of Euskaltel Group's policies and procedures (or otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which Euskaltel and its subsidiaries may ultimately be held responsible. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties and to exclusion from government contracts and could have a material adverse effect on Euskaltel Group's reputation, business and results of operations.

Euskaltel Group may not be able to apply all tax losses and/or tax credits reflected on the consolidated statement of financial position.

For the year ended December 31, 2020, Euskaltel recorded aggregated tax assets of €143.1 million in connection with certain tax losses *(activos por impuesto diferido reconocido por créditos por pérdidas a compensar*) incurred in previous years. Such value has been determined in compliance with the applicable accounting rules. The registration is supported by, among others, Euskaltel Group's estimates of future taxable income. Should Euskaltel Group's future results materially deviate from such estimates, accounting rules will require to register an impairment of such tax assets, which could have a material adverse effect on Euskaltel Group's financial condition, business and results of operations.

The ability to apply the resulting tax losses and/or tax credits is conditional upon sufficient profit being generated in the coming financial years. Euskaltel and its subsidiaries may fail to achieve sufficient profit to realize the full value of the tax assets reflected on the Issuer's consolidated statement of financial position. No corporate tax impact in connection with the impairment of any tax assets recognized in the historic period is expected to take place.

Spanish tax legislation may restrict the deductibility, for Spanish tax purposes, of a portion of the interest on Euskaltel Group's indebtedness, thus reducing the cash flow available to service Euskaltel Group's indebtedness.

Spanish Law 27/2014, of November 27, 2014 on Mainland Corporate Income Tax (the "**Mainland CIT Law**") and Basque Law 11/2013, of 5 December, 2013, on Basque Corporate Income Tax (the "**Basque CIT Law**") contain a general limitation on the deductibility of net financial expenses incurred by a Spanish or Basque, as applicable, Corporate Income Tax ("**CIT**") taxpayer (or by the CIT consolidated group to which such entity belongs) exceeding 30% of its annual operating profit (defined as EBITDA, subject to certain adjustments); with €1 million being deductible in any case for Spanish CIT taxpayers and €3 million being deductible in any case for Basque CIT taxpayers. Deductible interest after the application of these limitations is referred to as the "**Maximum Threshold**."

The apportionment of non-deducted interest in a given fiscal year may be deducted indefinitely in the following fiscal years, subject to the Maximum Threshold in each subsequent fiscal year. If, conversely, the amount of net financial expenses in a given fiscal year is below the Maximum Threshold, the difference between the net financial expenses deducted in that year and the Maximum Threshold may increase such

Maximum Threshold in the immediate subsequent five years.

These rules, and in particular, a potential decrease in the EBITDA obtained in the subsequent fiscal years both at the level of the Mainland and Basque CIT tax groups, could impact the ability of Euskaltel and its subsidiaries to deduct interest paid on indebtedness could increase Euskaltel Group's tax burden and therefore negatively impact Euskaltel Group's business, financial position, results of operation and prospects.

In addition, both Mainland and Basque CIT Laws provide for an additional limitation on the deductibility of certain financial expenses incurred for the acquisition of shareholding in Spanish entities when, among others, such acquired entities will be subject to Spanish or Basque CIT, as applicable, on a consolidated basis, with the acquiring entity during the tax periods beginning within the four years following the acquisition (the "**LBO Rules**"). The deductibility of net interest expenses incurred in connection with the acquisition of Spanish entities, as per the preceding sentence, would be limited up to 30% of the annual operating profit of the acquiring CIT taxpayer (or by the CIT consolidated group to which such acquiring entity belongs) excluding the operating profit of the acquired entity and its subsidiaries. The above limitation will not apply if the debt financing the acquisition does not exceed 30% of the purchase price of the acquired entity or, if higher, the debt financing the acquisition does not exceed 70% of the purchase price of the acquired entity and such debt is reduced, proportionally on an annual basis, during the eight years following the acquisition so that such acquisition debt does not exceed 30% of the purchase price of the acquired entity by the eighth anniversary of the acquisition.

In the case at hand, as a result of the Acquisition, the Issuer's subsidiary R Cable will mandatorily be included in the existing Mainland CIT consolidated group to which Masmovil and other companies of the Masmovil Group belong. Thus, as the debt allocated to the Mainland existing CIT consolidated group financing the Acquisition would be above 70%, the above limitation would apply with respect to the annual operating profit generated by R Cable when included within the CIT group (i.e. such annual operating profit would be excluded as described above). The Masmovil Group expects that the application of this limitation with respect to the annual operating profit generated by R Cable to be minimal and does not expect it to have any adverse consequences.

Likewise, as a result of the Acquisition, the entities of the Euskaltel Group with tax address in the Basque Country (*i.e.*, Euskaltel and EKT Cable y Telecomunicaciones, S.L.U.) will form a new Basque CIT consolidated group with Kaixo Telecom (see corporate structure at section 2.4. below). As Kaixo Telecom obtained debt financing for the acquisition of Euskaltel, LBO Rules could be applicable. However, to the extent the acquisition debt at the level of Kaixo Telecom is below 30%, the above limitations would not apply with respect to the annual operating profit generated by Euskaltel and EKT Cable y Telecomunicaciones, S.L.U. when included within the new Basque CIT group.

The Issuer may be member of a tax consolidated group for Basque CIT purposes and may be exposed to additional tax liabilities.

As Kaixo Telecom acquired the entire share capital of the Euskaltel, Kaixo Telecom and the entities of the Euskaltel Group with tax address in the Basque Country (i.e. Euskaltel and EKT Cable y Telecomunicaciones, S.L.U.) will form a Basque consolidated group as from the fiscal year starting January 1, 2022 (the "**Basque New CIT Group**").

The formation of the Basque New CIT Group required board resolutions at the "controlling entity" and at all the Basque companies in the consolidation perimeter and an election had to be made for the new tax consolidation, which took place in December 2021 with effects as from January 1, 2022.

Likewise, in December 2021 R-Cable joined the existing consolidated group of Masmovil's subsidiaries in mainland (*territorio común*) Spain (the "**Mainland CIT Group**") with effects as from January 1, 2022.

Under the provisions of both Mainland and Basque CIT Laws, all Spanish-resident entities that may be deemed to be "controlled entities" of any given non-Spanish-resident "controlling entity" must be mandatorily included in the CIT group headed by such non-Spanish-resident "controlling entity." A "controlling entity" will be the ultimate legal entity in the corporate chain (which cannot be a look- through entity and must be subject to, and not exempt from, a tax similar to CIT) holding a direct or indirect participation of at least 75% in the share capital, and the majority of the voting rights of, the Spanish-resident "controlled entities." A "controlling entity" must not be resident in a jurisdiction regarded as a tax haven for Spanish tax purposes.

All entities belonging to a CIT group will be taxed on a consolidated basis, and will be jointly and severally liable for the payment of the CIT Group's CIT debts (other than penalties). Any tax audit initiated in respect of a standalone entity member of the CIT Group will interrupt the statute of limitations applicable in respect of the entire group. Furthermore, tax credits, deductions and allowances generated by a member of the CIT Group (which may ultimately reduce the CIT burden of another group member in comparison with the CIT amount that would have been due if such entity was taxed on a standalone basis) will normally give rise to accounts receivable and payable among the entities that are members of the CIT Group. However, the entity primarily liable *vis-à-vis* the Spanish tax authorities for the payment of the CIT due by the CIT Group will be the company appointed as the representative entity of the group. Such representative entity will need to procure that the members of the tax consolidated group settle such accounts receivable and payable in order to be able to fund any payment to the tax authorities.

The "controlling entity" of both the Mainland and Basque CIT groups is Lorca Aggregator Limited ("**Lorca Aggregator**"), an entity incorporated under the laws of Jersey and resident for tax purposes in the United Kingdom, which indirectly holds approximately 88% of the share capital and the voting rights of Lorca Telecom Bidco, S.A.U. (the Spanish parent company of the Masmovil Group where Euskaltel and its subsidiaries are now integrated). Lorca Aggregator is ultimately owned mostly by Cinven, KKR and Providence (the "**Sponsors**", as further identified in section 2.4.4) below). If the "controlling entity," any intermediate holding company, Kaixo Telecom, S.A.U. or Lorca Telecom Bidco, S.A.U. ever hold, directly or indirectly, any other shareholding in a Spanish-resident entity eligible to be a "controlled entity," such Spanish-resident entity will be included in the Mainland and/or Basque CIT Groups (depending on its/their tax residence), mandatorily. Lorca Telecom Bidco, S.A.U. has been appointed as the representative entity of the existing Mainland CIT Group, while Euskaltel has been appointed as the representative of the Basque CIT Group.

Any of these companies may enter into transactions that may potentially give rise to ongoing CIT liabilities for such CIT Groups *vis-à-vis* the Spanish or Basque tax authorities, and which may, to the extent that they fail to reimburse Euskaltel and its subsidiaries for such CIT liabilities, cause a material adverse impact on the business and operations of the Issuer or of the relevant subsidiary of the Euskaltel Group, as the case may be.

It is expected that the Sponsors will procure that any Spanish subsidiary enters into a tax consolidation agreement ("**TCA**"), providing a mechanism to ensure the settlement of any accounts payable and receivable derived, directly or indirectly, from the applicability of the Spanish Mainland/Basque consolidated CIT regime. Prospective investors should note that any other Spanish-resident entity to be directly or indirectly controlled by the "controlling entity," may cause Euskaltel and its subsidiaries to be exposed to additional Spanish CIT liabilities, and that the effects of such additional CIT burden may not be effectively and fully mitigated by the TCA. In particular, prospective investors should note that they will have no rights under the TCA, and there may be no assurance that the TCA provisions are complied with or duly enforced, or that the Sponsors will effectively guarantee their fulfilment.

Changes in tax legislation and other circumstances that affect tax calculations could adversely affect the companies of the Euskaltel Group.

The companies of the Euskaltel Group are subject to taxation and complex tax laws in Spain as a result of the scope of their operations and the corporate and financing structure of the Euskaltel Group and of the larger Masmovil Group. Changes in tax laws or regulations, could adversely affect Euskaltel Group's tax position, including the effective tax rate, tax payments or increase the costs of Euskaltel Group's services to track and collect such taxes, and have a material adverse effect on Euskaltel Group's business, financial condition and results of operations or on Euskaltel Group's ability to service or otherwise make payments under the Commercial Paper Notes and other indebtedness of the companies of the Euskaltel Group. For example, the management of the Euskaltel Group is aware of several initiatives by different authorities directed at telecommunications operators, intending to levy certain municipal taxes for use of the public domain.

In addition, new laws and regulations relating to taxes may be enacted imposing new taxes, or some amendments may be introduced to the existing laws and regulations. As an example, although not expected, the current Basque participation exemption for dividends and capital gains that currently foresees a 100% exemption could be amended to align it with the changes introduced in the Spanish Mainland CIT tax regime, which foresees a 95% limitation on exempt income, resulting in an effective tax rate on dividends and capital gains of 1.25%. Likewise, access to the financial goodwill amortization relief foreseen in the Basque tax regime, which allows Basque tax resident companies to take a tax deduction on the financial goodwill deriving from the acquisition of companies, could also be revoked in line with the Spanish Mainland CIT tax laws. These potential changes to the existing tax laws could have a material adverse effect on Euskaltel Group's tax position.

In addition, the companies of the Euskaltel Group are also subject to taxes imposed by regional authorities.

The nature and timing of any amendments to tax laws and the impact on Euskaltel Group's future tax liabilities cannot be predicted.

Tax disputes, tax audits and adverse decisions rendered by tax authorities may expose the Euskaltel Group to substantial tax liabilities which could materially impact Euskaltel Group's business and reputation.

Spanish and Basque Country tax authorities periodically examine Euskaltel Group's activities. The Euskaltel Group often relies on generally available interpretations of applicable tax laws and regulations, including interpretations made by the relevant tax authorities and courts of law. Although the management of the Euskaltel Group believes that the Euskaltel Group has adequately assessed and accounted for potential tax liabilities, and that Euskaltel Group's tax estimates are reasonable, there cannot be certainty that the relevant tax authorities are in agreement with Euskaltel Group's interpretation of these laws, nor, as the case may be, that such tax authorities or courts will not depart from their prior criteria.

The tax authorities may disagree with the positions the management of the Euskaltel Group has taken or intend to take regarding the tax treatment or characterization of any of Euskaltel Group's transactions. As a result of any future audit, inspection or investigation, the relevant tax authorities could challenge the tax treatment of any of Euskaltel Group's transactions and additional taxes could be identified, which could lead to a substantial increase in Euskaltel Group's tax obligations (including any accrued interest and penalties), either as a result of the relevant tax payment being levied directly on the companies of the Euskaltel Group or as a result of becoming liable for tax as secondary obligor due to a primary obligor's failure to pay. If such tax audits, inspection, investigations or challenges result in decisions that are unfavourable to the Euskaltel Group, the companies of the Euskaltel Group may be required to pay settlement amounts, interests, fees or penalties, which may adversely impact Euskaltel Group's business, financial condition and results of operations, and ultimately impact the Issuer's ability to service or otherwise make payments under the Commercial Paper Notes and other indebtedness.

The Euskaltel Group is and may in the future, become a party to certain performance bonds, guarantees or other off-balance sheet arrangements that may have a current or future effect on Euskaltel Group's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

As of June 30, 2021, Euskaltel Group's off-balance sheet arrangements included €33.2 million of guarantees. These arrangements are a result of certain of Euskaltel Group's licenses, legal proceedings and supplier contracts that require that the companies of the Euskaltel Group post performance bonds or guarantees issued by banks or insurance companies in order to guarantee certain legal and/or contractual obligations. Notably, the companies of the Euskaltel Group post guarantees in connection with the award of certain administrative contracts and for general corporate purposes, including the lease of premises and ongoing litigation. The Euskaltel Group cannot be sure that it will be able to provide these bonds or guarantees in the amounts or durations required or for the benefit of the relevant counterparties. Euskaltel Group's failure to comply with these requests could reduce Euskaltel Group's capacity to conduct business or perform certain contracts. In addition, if the companies of the Euskaltel Group do provide these bonds or guarantees, the relevant counterparties may call upon them under inopportune circumstances or circumstances that the management of the Euskaltel Group believes to be improper, and the Euskaltel Group may not be able to challenge such actions effectively in local courts.

The companies of the Euskaltel Group may also, from time to time and in the course of their business provide other performance bonds and guarantees and enter into derivative and other types of off-balance sheet transactions that could result in income statement charges. Euskaltel Group's reserves for these types of obligations and liabilities may be inadequate, which could cause the Euskaltel Group to take additional charges that could be material to Euskaltel Group's results of operations.

The companies of the Euskaltel Group may incur liabilities that are not covered by insurance.

The companies of the Euskaltel Group, though the accession as insured companies under the insurance policies in place for the whole Masmovil Group, maintain insurance for some, but not all, of the potential risks and liabilities associated with their business.

As a result of market conditions, premiums and deductibles for insurance policies can increase substantially, and in some instances, certain insurance policies may no longer be available, may be available but not economically viable relative to the liability to be insured against or may be available only for reduced amounts of coverage. While the Euskaltel Group maintain insurance in amounts that are deemed appropriate against risks commonly insured against in the industry, there can be no guarantee that all such risks are covered by insurance or that the Euskaltel Group will be able to obtain the levels of cover desired on acceptable terms in the future. In addition, even with such insurance in place, the risk remains that the companies of the Euskaltel Group may incur liabilities to customers and other third-parties which exceed the limits of the insurance cover or are not covered by it at all. In addition, the Euskaltel Group's existing insurance policies do not cover any losses arising from business interruptions due to the COVID-19 pandemic, war, terrorism or other epidemic or pandemic risks. Should such a situation arise, it may have a material adverse impact on Euskaltel Group's business, financial condition and results of operations.

1.3. Risks Relating to Masmovil Group's Indebtedness and Financial Information

Substantial leverage and debt service obligations of the companies of the Masmovil Group, including the Issuer and its subsidiaries, which may increase in the future, could materially adversely affect Euskaltel Group's business, financial position and results of operations and preclude the Issuer from satisfying its obligations under the Commercial Paper Notes.

After completion of the Acquisition, the Masmovil Group where Euskaltel and its subsidiaries are now integrated will be highly leveraged and have significant debt service obligations.

As of June 30, 2021, on a pro forma basis, the Masmovil Group would have had total third-party financial indebtedness outstanding in the amount of €7,449.3 million, including €2,850.0 million in aggregate principal amount of certain senior long-term notes, €3,200.0 million in aggregate principal amount of certain senior long-term facilities ("**TLB**"), €204.6 million under certain shareholder loans and excluding €500.0 million available for drawing under the revolving facility of up to €500.0 million established in 2020 (the "**RCF1**"), €250.0 million available for drawing under the revolving facility of up to €250.0 million established in 2021 (the "**RCF2**") that Euskaltel can use as borrower thereunder, and €49.7 million of unsecured working capital bilateral facilities of Euskaltel which were undrawn as of June 30, 2021. In addition, in connection with the Acquisition, the Masmovil Group has also drawn €500 million under a certain asset bridge facility (the "**Asset Bridge Facility**"), which is expected to be repaid in full from the proceeds of the Netco Asset Disposal (as this term is defined in section 2.9.3. below). Euskaltel and R Cable are joint and several guarantors of part of this financial indebtedness (excluding any acquisition facilities under relevant carve-outs because of applicable financial assistance limitations) as material subsidiaries of the Masmovil Group, and have created different security interests over its material assets to secure such financial indebtedness (namely, pledge over the shares in R Cable and pledges over material bank accounts and intercompany loans where .

Furthermore, the Euskaltel Group and the larger Masmovil Group may incur substantial additional debt in the future. Although the debt documentation of the Masmovil Group, namely, a senior long-term facilities agreement executed by Lorca Holdco Limited (the "**Senior Facilities Agreement**" or the "**SFA**") and the indentures regulating the senior secured long-term notes issued by Lorca Telecom Bondco, S.A.U. (the "**Senior Secured Notes**" or "**SSN**") and the senior long-term notes issued by Kaixo Bondco Telecom, S.A.U. (the "**Senior Notes**" or "**SUN**") contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If new debt is added to the Masmovil Group's existing debt levels, the related risks that Euskaltel Group as part of the larger Masmovil Group face would increase. Increases in Euskaltel Group's or the larger Masmovil Group's total indebtedness could also lead to a downgrade of the ratings assigned to the Masmovil Group, which could negatively affect the trading price of the Commercial Paper Notes. In addition, the SFA and the indentures of the SSN and SUN do not prevent the Masmovil Group and, in particular, the companies of the Euskaltel Group, incurring obligations that do not constitute indebtedness under those agreements. Euskaltel Group current or future leverage could prevent the Issuer and its subsidiaries from generating sufficient cash to pay the principal, interest or any other amounts that become due and payable under the Euskaltel Group's indebtedness, including the Commercial Paper Notes. The terms of the SFA and of the indentures of the SSN and SUN will permit, under certain circumstances, the incurrence of substantial additional indebtedness by Euskaltel and its subsidiaries, and the proceeds from such indebtedness may be used, among others, to finance shareholder dividends reducing Euskaltel Group's liquidity while increasing Euskaltel Group's leverage.

All the shares representing the share capital in Euskaltel and in R Cable are pledged to secure the obligations assumed under the SFA, the Asset Bridge Agreement, the SSN and the SUN, subject to the provisions of a certain intercreditor agreement executed among the creditors of these debt instruments.

Significant leverage of the Euskaltel Group and of the larger Masmovil Group could have important consequences for Euskaltel Group's business and operations including, but not limited to:

- result in the inability to maintain one or more of the financial ratios under debt agreements entered into by companies of the Euskaltel Group, which could trigger the early maturity of part or all Euskaltel Group's debt;
- place the Euskaltel Group and of the larger Masmovil Group at a competitive disadvantage compared to competitors with lower leverage and better access to third-party financing sources;
- increase the costs of current and future loans;
- limit Euskaltel Group's capacity to access new debt and promote necessary investment, or Euskaltel Group's ability to withstand adverse market conditions, including an economic downturn due to the impact of the COVID-19 pandemic; or
- force the companies of the Euskaltel Group to increase their capital stock or to divest specific strategic assets to service Euskaltel Group's debts or comply with the commitments under such debts.

It is important to note that **most of the principal amount of Masmovil Group's financial debt falls due in 2027** as a single payment upon the maturity of the TLB granted under the SFA and the repayment of the principal amount of the SSN, and **in 2029** as regards the repayment date of the €500 million SUN.

The companies of the Euskaltel Group are subject to restrictive covenants that limit Euskaltel Group's operating and financial flexibility.

The SFA and the indentures of the SSN and of the SUN contain covenants which impose significant operating and financial restrictions on the companies of the Masmovil Group that are borrowers, issuers and/or guarantors under these debt instruments, including Euskaltel as borrower under the €250.0 million available under the RCF2 and also Euskaltel and R Cable as joint and several guarantors of the obligations under the different facilities of the SFA and of the long-term notes under the SSN and the SUN (excluding those obligations under facilities or amounts under the long-term notes used to finance the acquisition of shares in either Euskaltel or R Cable). These agreements limit Euskaltel Group's ability to, among others:

- incur or guarantee additional indebtedness and issue certain preferred stock, though the issuance of Commercial Paper Notes under the Programme is permitted;
- make certain restricted payments;
- make certain investments;
- create or permit to exist certain liens;
- merge or consolidate with other entities, or make certain asset sales;
- enter into certain transactions with affiliates; and
- guarantee certain indebtedness.

The covenants to which the Masmovil Group, including Euskaltel and R Cable, are subject under the SFA, the Asset Bridge Facility Agreement and the indentures of the SSN and the SUN could limit Masmovil's and Euskaltel's ability to operate Euskaltel Group's business, to finance future operations and capital needs and to pursue business opportunities and activities that may be in the interest of Euskaltel and its subsidiaries.

In addition, the SFA requires the companies of the Masmovil Group, including Euskaltel and its subsidiaries, to comply with certain affirmative covenants while the TLB, the RCF1 and the RCF2 remain outstanding. Furthermore, under certain circumstances, the SFA requires to comply with a financial ratio while amounts exceeding a certain threshold remain outstanding under the RCF1 and the RCF2. The ability of the Masmovil Group to meet the financial ratio under the RCF1 and the RCF2 may be affected by events beyond Euskaltel's or Masmovil's control, and neither the Euskaltel Group nor the Masmovil Group can assure that such financial ratio will be met. A breach of any of the covenants or restrictions under the SFA could, subject to the applicable cure period, result in an event of default under the SFA. Upon the occurrence of an event of default that is continuing under the SFA, the relevant creditors are entitled to cancel the availability of their commitments and/or elect to declare all amounts outstanding under the SFA, together with accrued interest, immediately due and payable. In addition, certain defaults, events of default and/or acceleration actions under the SFA could lead to an event of default and acceleration under other debt instruments that contain cross default or cross acceleration provisions, including the indentures of the SSN and the SUN. If the relevant creditors, including the creditors under the SFA or the Asset Bridge Facility Agreement, accelerate the payment of those amounts, neither the Euskaltel Group nor the Masmovil Group can assure that Masmovil Group's assets, including those assets of Euskaltel and its subsidiaries, would be sufficient to repay in full those amounts, to satisfy all other liabilities that would be due and payable and to make payments to enable to redeem the Commercial Paper Notes. In addition, if the companies of the Masmovil Group that are borrowers and joint and several guarantors under these debt instruments are unable to repay those amounts, creditors could proceed against any collateral granted to them to secure repayment of those amounts, including enforcement of the share pledges created over the issued share capital of both Euskaltel and R Cable.

The Euskaltel Group and the larger Masmovil Group are exposed to interest rate risks, and shifts in interest rates may adversely affect Masmovil Group's and Euskaltel Group's debt service obligations.

Both the Euskaltel Group and the larger Masmovil Group are exposed to the risk of fluctuations in interest rates, particularly under the SFA and the Asset Bridge Facility Agreement, as borrowings under the TLB, the RCF1, the RCF2 and the Asset Bridge Facility bear interest at a floating rate.

An increase in the interest rates on these debt instruments will reduce the funds available to repay such debt and to finance Euskaltel Group's operations, capital expenditures and future business opportunities. Historically, both the Masmovil Group and the Euskaltel Group have entered into various hedging instruments to manage exposure to movements in interest rates, in particular interest rate swaps and interest rate caps, executed to partially hedge floating rate interest obligations. However, there can be no assurance that such financial hedging instruments will be sufficient to manage exposure to fluctuations in interest rates. Additionally, there can be no guarantee that any hedging strategies will adequately protect the Masmovil Group and the Euskaltel Group from the effects of interest rate fluctuation, or that these hedges will not limit any benefit that might otherwise be received from favourable movements in interest rates. In addition, derivatives transactions in connection with any hedging strategy may result in significant costs and could expose both the Euskaltel Group and the larger Masmovil Group to significant liabilities in the future.

As a consequence of regulatory reforms, the common maturities of U.S. dollar LIBOR will cease to be published as panel bank rates or become unrepresentative after June 30, 2023 (and all other LIBOR settings for all currencies (including 1 week and 2 month U.S. dollar LIBOR) will cease as panel bank rates after December 31, 2021). It is not known if or when regulatory reform may, in the future, cause EURIBOR to cease or be replaced. The U.S. dollar floating rate market is currently expected to transition to use, in place of U.S. dollar LIBOR, replacement rates including a floating rate equal to compounding overnight SOFR (the Secured Overnight Financing Rate published by the Federal Reserve in the US) plus a spread adjustment, as well as alternative rates to compounding overnight SOFR, by not later than the time that the relevant U.S. dollar LIBOR setting is to cease as a panel bank rate. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any of Euskaltel Group's debt (including guarantees of debt incurred by the Masmovil Group) linked to such a benchmark, whether or not under the SFA.

Regulatory requirements under the EU Benchmark Regulation (particularly in relation to EURIBOR) and under the UK Benchmark Regulation (particularly in relation to LIBOR) may: (i) discourage market participants from continuing to administer or contribute to a regulated benchmark (such as EURIBOR or LIBOR); (ii) trigger changes in the rules or methodologies used for the benchmark or (iii) lead to the disappearance of the benchmark. The scheduled cessation of the LIBOR benchmark as a panel bank rate or any proposal to cease the determination or publication of any other benchmark, changes in the manner of administration of any benchmark, or actions by regulators or law enforcement agencies could result in changes to the manner in which the relevant benchmark is determined, which could require an adjustment to the terms and conditions, or result in other consequences, in respect of any debt linked to such benchmark. Any of the above changes or any other consequential changes as a result of international, national or other proposals for reform or other initiatives may result in a sudden or prolonged increase in any affected benchmark, which could have a material adverse effect on the value of and return on any floating rate debt linked to that benchmark and on the ability of Euskaltel and its subsidiaries to service debt that bears interest at floating rates of interest, and therefore have a material adverse impact on the Euskaltel Group's business, financial condition, results of operations, the Issuer's ability to make payments on the Commercial Paper Notes and on the trading price of the Commercial Paper Notes.

Hedging arrangements may expose the Euskaltel Group to credit default risks and potential losses if hedging counterparties fall into bankruptcy.

The companies of the Euskaltel Group may enter into interest rate hedging arrangements to hedge the Euskaltel Group's exposure to fluctuations in interest rates. The companies of the Euskaltel Group may also enter currency hedging arrangements in respect of their indebtedness. Under any such agreements, the relevant companies of the Euskaltel Group would be exposed to credit risks of the counterparties thereto. If one or more of counterparties falls into bankruptcy, claims of the companies of the Euskaltel Group have under the swap agreements or other hedging arrangements may become worthless. In addition, in the event that either the Euskaltel Group or the larger Masmovil Group refinance their debt or otherwise terminate such hedging agreements, the companies of the Euskaltel Group may be required to make termination payments as obligors under such hedging agreements, which would result in a loss.

The Euskaltel Group might be unable to enter into contractual arrangements in relation to the Netco Asset Disposal, or complete it within the time frame or on the terms currently expected, or at all.

The Masmovil Group, including Euskaltel and its subsidiaries, intend to enter into transactions relating to the Netco Asset Disposal (as this term is defined in section 2.9.3. below), pursuant to which it is intended to transfer of up to 1,175 thousand BUs in Euskaltel Group's hybrid fibre-coaxial (HFC) network concentrated in Northern Spain, either to EKT Cable y Telecomunicaciones, S.L.U. or to a newly-incorporated company (any of these, the "**Netco**"), according to a joint venture scheme in which the Masmovil Group expects to hold a minority shareholding.

Based on current expectations, the management of Masmovil Group expects to enter into an agreement with the relevant investors for the transactions relating to Netco Asset Disposal during the first quarter of 2022, and expect to complete the transaction during the second quarter of 2022.

However, as of the date of this Information Memorandum, neither the Masmovil Group nor the Euskaltel Group have entered into any contractual arrangements or commitments in relation to the Netco Asset Disposal.

In the event that the relevant contractual arrangements in relation to the Netco Asset Disposal are eventually entered into, its completion would be subject to a number of closing conditions, including applicable regulatory and antitrust approvals (if any). There is no certainty that the Masmovil Group, including Euskaltel and its relevant subsidiaries, will be able to enter into the relevant contractual arrangements, or once such arrangements are entered into, the Netco Asset Disposal will be completed within the expected time frame, or on the terms that the management of the Masmovil Group currently expect, or at all. The management of the Masmovil Group currently expects to receive approximately €500 million of net proceeds from the Netco Asset Disposal. However, there is no certainty that such proceeds will be eventually received, including as a result of any assumptions proving inaccurate or different from what management expected when calculating such proceeds, or due to reasons which might be outside of the control of both the Masmovil Group and the Euskaltel Group, including the inability to account for unforeseen difficulties in transferring up to 1,175 thousand BUs in Euskaltel Group's hybrid fibre-coaxial (HFC) network.

The preparation of Euskaltel's financial statements involves judgments, estimates and assumptions, and changes in financial accounting standards may cause unexpected revenue fluctuations and affect Euskaltel Group's reported results of operations.

The preparation of Euskaltel's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are considered by Euskaltel's management to be reasonable under the circumstances and at the time. These estimates and assumptions form the basis of judgments about the carrying values of assets and liabilities that are not readily available from other sources. Areas requiring more complex judgments may shift over time based on changes in Euskaltel Group's business mix and industry practice that could affect Euskaltel Group's reported amounts of assets, liabilities, income and expenses.

In addition, management's judgments, estimates and assumptions and the reported amounts of assets, liabilities, income and expenses may be affected by changes in accounting policy. The entities that set accounting standards and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of Euskaltel Group's consolidated financial statements. These changes can materially impact how management records and reports Euskaltel Group's financial condition and results of operations. The management of the Euskaltel Group may not be able to predict or assess the effects of these changes, and Euskaltel's implementation of new accounting rules and interpretations or compliance with changes in existing accounting rules could adversely affect Euskaltel Group's balance sheet or results of operations or cause unanticipated fluctuations in Euskaltel Group's results of operations in future periods.

[rest of the page intentionally left in blank]

1.3. Risks related to the Commercial Paper Notes

There may not be an active trading market for the Commercial Paper Notes and the ability to transfer them is limited, which may adversely affect the value of the Commercial Paper Notes.

There may not be an active trading market for the Commercial Paper Notes and the Issuer cannot predict the extent to which investor interest in the Euskaltel Group will lead to the development of an active trading market or how liquid that trading market might become.

The market price of the Commercial Paper Notes may be influenced by many factors, some of which are beyond the Issuer's control, including but not limited to:

(i) general economic conditions;

(ii) changes in demand, the supply or pricing of the Euskaltel Group's products and services;

(iii) the activities of competitors;

(iv) the Euskaltel Group's quarterly or annual earnings or those of its competitors;

(v) investors' perceptions of the Euskaltel Group within the larger Masmovil Group where Euskaltel and its subsidiaries are now integrated, and the Euskaltel Group's industry;

(vi) the public's reaction to the Euskaltel Group's or the larger Masmovil Group's press releases or other public announcements; and

(vii) future sales of short-term, medium-term or long-term notes.

As a result of these factors, investors may not be able to resell its Commercial Paper Notes at or above the initial offering price. In addition, securities trading markets experience extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of a particular company. These broad market fluctuations and industry factors may materially reduce the market price of the Commercial Paper Notes, regardless of its operating performance. If an active trading market does not develop, investors may have difficulty selling any Commercial Paper Note that they buy.

In this regard, the Issuer has not entered into any liquidity agreement, and, consequently, no institution is obliged to quote sale and purchase prices. Therefore, investors may not find any counterparty for the Commercial Paper Notes. This may entail problems for investors who need to sell the Commercial Paper Notes urgently.

Credit risk

The Commercial Paper Notes are subject to the risk of the Issuer defaulting on their obligations. Although the Commercial Paper Notes are guaranteed by the Issuer's total net worth, credit risk arises from the potential inability of the Issuer to meet the required payments under the Programme and other indebtedness to which the Issuer is liable to pay. The risk is that of the investor and includes loss of principal and interest. The loss may be complete or partial. If the Issuer defaults, investors may not be able to receive interest and principal. The Issuer's solvency could be impaired as a result of an increase in borrowings and/or guarantees that the Issuer is liable as obligor, or due to deterioration in its financial ratios, which would represent a decrease in the Issuer's capacity to meet its debt commitments.

The market price of the Commercial Paper Notes may be volatile

The market price of the Commercial Paper Notes may be subject to significant fluctuations in response to actual or anticipated variations in the Euskaltel Group's operating results, adverse business developments, changes to the regulatory environment in which companies of the Euskaltel Group operate, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Commercial Paper Notes as well as other factors.

In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Commercial Paper Notes without regard to the Euskaltel Group's financial condition, results of operations or cash flows.

Moreover, the Commercial Paper Notes are fixed-income securities and their market price are subject to potential fluctuations, mainly due to the evolution in interest rates. Consequently, the Issuer cannot guarantee that the Commercial Paper Notes will be traded at a market price that is equal to or higher than the subscription price.

The Commercial Paper Notes will not be rated. Risk that the Masmovil's long-term credit rating may vary

Although the Commercial Paper Notes that will be issued under the Programme will not have any short-term rating, it should be noted that the Masmovil Group's entities Lorca Holdco Limited ("**Lorca Holdco**") and Lorca Telecom Bidco, S.A.U. ("**Lorca Bidco**"), which indirectly own 100% of the shares in the Issuer, as per the shareholders' structure chart included in section 2.7.2. below, currently have the following "Probability of Default Rating" ("**PDR**") issued by three of the most reputed international credit rating agencies (the "**Rating Agencies**"):

Rating agency	Rated entity	Rating date	PDR
Fitch	Lorca Holdco	27 September 2021	B+ with a Stable Outlook
Standard & Poor's	Lorca Bidco	28 September 2021	B with a Stable Outlook
Moody's	Lorca Holdco	28 September 2021	B2-PD

Pursuant to the classification followed by these rating agencies, the aforesaid ratings fall within the "speculative grades" (below "investment grade" and above "high risk speculative", and, more particularly, to a questionable credit rating, with uncertain future but with the current capacity to meet the company's payment obligations,

The credit ratings issued by these rating agencies are one way to assess the risk. In the financial markets, the investors ask for a higher yield to the extent the risk is higher, so any investor in the Commercial Paper Notes may take into account Lorca Holdco's or Lorca Bidco's rating because a downgrade may imply a loss in the liquidity of the Commercial Paper Notes being acquired and a loss of their value.

Lorca Holdco's or Lorca Bidco's credit rating may be downgraded due to an increase of its indebtedness or due to the deterioration of their financial ratios, which would imply a worsening of Lorca Holdco's and/or Lorca Bidco's capacity to meet its payment obligations, which might also affect the Issuer's capacity to meet its payment obligations under the Commercial Paper Notes.

Clearing and settlement

The Commercial Paper Notes will be registered with Iberclear in book-entry form (*anotaciones en cuenta*). Consequently, no physical notes will be issued. Clearing and settlement relating to the Commercial Paper Notes, as well as redemption or adjustment of principal amounts, will be performed within Iberclear's account-based system. Holders are therefore dependent on the functionality of Iberclear's account-based system.

Title to the Commercial Paper Notes will be evidenced by book entries (*anotaciones en cuenta*), and each person shown in the Spanish Central Registry (*Registro Central*) managed by Iberclear and in the registries maintained by the Iberclear members as being a holder of the Commercial Paper Notes shall be (except as otherwise required by Spanish law) considered the holder of the principal amount of the Commercial Paper Notes recorded therein.

The Issuer will discharge its payment obligations under the Commercial Paper Notes by making payments through Iberclear. Holders must rely on the procedures of Iberclear and the Iberclear members to receive payments. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, holders of the Commercial Paper Notes according to book entries and registries as described above.

Exchange rate risks and exchange controls for investors

The Commercial Paper Notes will be denominated in Euros. This may imply certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency other than the euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the investor's currency) and the risk that authorities with jurisdiction over the investor's currency may impose or modify exchange controls. An appreciation in the value of the investor's currency relative to the euro would decrease (i) the investor's currency equivalent yield on the Commercial Paper Notes; (ii) the investor's currency equivalent value of the amount payable on the Commercial Paper Notes; and (iii) the investor's currency equivalent market value of the Commercial Paper Notes.

Government and monetary authorities in some countries may impose, as some have done in the past, exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less amounts than expected.

The issues of Commercial Paper Notes under the Programme may not be suitable for all types of qualified investors, eligible counterparties or professional clients.

Each prospective qualified investor in the Commercial Paper Notes issued under the Programme should determine the appropriateness of such investment in the light of their own circumstances, in particular such investors should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Commercial Paper Notes, the benefits and risks of their investments, and the information contained in this Information Memorandum;
- have access to and knowledge of appropriate analytical tools to evaluate, in the context of their particular financial situation, an investment in the Commercial Paper Notes, and the impact that such investment will have on their portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Commercial Paper Notes;
- have a thorough understanding of the terms of the Commercial Paper Notes, as well as the performance of the financial markets in which they participate; and
- evaluate possible economic scenarios, interest rate variations and other factors that may affect to the investments and the ability to take risks.

Risk relating to Spanish Insolvency Law.

Law 22/2003, of 9 July, on Insolvency (*Ley Concursal*), which came into force on 1 September 2004, has been superseded by the restated text of the Insolvency Law approved by Royal Legislative Decree 1/2020, of 5 May (*Texto refundido de la Ley Concursal*) and passed by the Spanish government on May 5, 2020, entering into force on September 1, 2020 (the "**Insolvency Law**").

According to the classification and order of priority of debt claims laid down in the Insolvency Law, in the event of insolvency (*concurso*) of the Issuer, credits held by investors as a result of the Commercial Paper Notes will rank behind privileged credits, but ahead of subordinated credits (except if the Commercial Paper Notes could be classified as subordinated in accordance with article 281.1 of the Insolvency Law) and would not have any preference among them. For additional information, see section 11 of this Information Memorandum (*Classification of the Commercial Paper: order of priority*) below.

According to Article 281.1 of the Insolvency Law, the following are deemed to be subordinated credits, among others:

(i) Claims which, having been communicated late, are included by the insolvency administrators (*administradores concursales*) in the creditors' list, as well as those which, not having communicated or having done so late, are included in such list as a result of subsequent communications, or by the judge when resolving on an action contesting the list.

(ii) Claims corresponding to surcharges and interest of any kind, including late-payment interest, except for those corresponding to claims that are secured by an *in rem* security interest, up to the amount covered by the respective guarantee.

(iii) Claims held by any of the persons especially related to the debtor, as referred to in article 283 of the Insolvency Law.

In addition, as a result of the Coronavirus pandemic, the Spanish Government has approved various extraordinary resolutions. These extraordinary resolutions include, among others, Law 3/2020, of 18 September, on procedural and organizational measures to address Covid-19 in the field of the Administration of Justice (*Ley 3/2020, de 18 de septiembre, de medidas procesales y organizativas para hacer frente al COVID-19 en el ámbito de la Administración de Justicia*), as amended by Royal Decree-law 27/2021, of November (as amended from time to time, the "**Law 3/2020**"), which has introduced several temporary measures that impact pre-insolvency and insolvency proceedings.

In line with what other countries have done as a result of the Covid-19 health crisis, this Law 3/2020 provides that an insolvent debtor is not obliged to file an insolvency petition until 30 June 2022, even if the debtor has already filed the communication informing about the existence of negotiations with creditors to achieve a refinancing agreement, an out-of-court payment agreement or accession to an early proposal for a composition agreement, as provided for in the Insolvency Law.

In addition, this Law 3/2020 also provides that creditors' requests submitted from 14 March 2020 onwards, seeking a declaration to open insolvency proceedings, will not be admitted for processing until 30 June 2022. It also establishes that requests filed by the debtor prior to that date will be given priority, even if the creditors' requests are filed before the debtor's. Although a debtor is temporarily not obliged to file for insolvency during the abovementioned period, this can technically still be done if so decided by the debtor.

[rest of the page intentionally left in blank]

2. INFORMATION OF THE ISSUER AND THE EUSKALTEL GROUP

2.1. Full name of the issuer, including its address and identification data

The Issuer's full corporate name is EUSKALTEL, S.A (Unipersonal), though it is commonly abbreviated with its commercial name "EUSKALTEL" (the "**Company**" or "**EUSKALTEL**").

The Company is a Spanish stock corporation (*sociedad anónima*) incorporated for an indefinite period and has its registered address (*domicilio social*) in Parque Tecnológico de Bizkaia, Edificio 809, 48160 Derio, Bizkaia, Spain.

The Issuer is registered with the Commercial Registry of Bizkaia under volume 3271, sheet 212, page number BI-14727, its tax identification number is A-48766695 and its legal entity identifier (LEI) is 959800201400057774 97.

Moreover, the Company is registered with the Spanish Registry of Network and Electronic Communications Service (*Registro de Operadores de Redes y Servicios de Comunicaciones Electrónicas*):

https://numeracionyoperadores.cnmc.es/operadores/A-48766695

2.2. Issuer's website

www.euskaltel.com and www.grupomasmovil.es

In particular, business and financial information for investors is available and regularly updated on the following link:

https://www.euskaltel.com/CanalOnline/inversores/informacion-financiera

2.3. Description of the Euskaltel Group's business

The main activity of the Issuer is the provision, management, development, implementation, operation and sale of all types of public and private telecommunications services.

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 and R Cable y 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.

Mass market

The first half of 2021 has seen continuity in the strategy to add in convergent customers with broadband, TV and mobile, an increase in services and financing of equipment in portfolio, with a greater focus on improving ARPU in customer acquisition and a smaller ARPU reduction in customer loyalty and retention campaigns.

The first half of 2021 closes with 751,656 landline customers, up 4.9% on December 2020. At the June 2021 reporting date, the Euskaltel Group's has recorded 3,132,170 services, which is 5.6% more than at the prior year's reporting date. Broadband access stands at 689,330, with 5.9% growth since December. The Euskaltel Group has 1,355,021 mobile lines, which is an increase of 9% and TV services stand at 504,016 with growth of 1.9%. In terms of landline products, the Euskaltel Group has closed the six-month period with 583,803 services, up 0.9% taking into account 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 of all of the above, the Product/Customer ratio for landline services as at June 30, 2021 remains constant at 3.63 products per customer.

Mention is given to the first anniversary of the new Virgin telco brand launched nationwide on May 20, 2020, and which at the end of the six month period has 98,351 subscribers to landline services and 23,984 mobile-only customers, with a total of 356,375 services.

Sales activity in the traditional brands (Euskaltel, R and Telecable) has recovered its market proximity, reduced during 2020 by the restrictive mobility measures imposed by the Government, with 59% of new contracts achieved face-to-face, 22% in shops and points of sale, with an additional role in portfolio development, customer care and after sales services. 41% of new contracts were achieved remotely, with 23% from the website and inbound and 18% from telesales.

Virgin Telco's sales activity is based on remote customer acquisition channels, with 81% of new contracts, 46% of which are achieved on the website and inbound and 35% are telesales, leaving 19% for face-to-face channels and 17% for sales force and stands, as opposed to 2% on the retail channel, which is expected to develop further in the second half of the year..

Business market

The Business segment of the Euskaltel Group has shown positive performance overall in the first half of 2021, although with uneven results in Large Accounts and SMEs.

The SME segment shows a drop in income attributable to more business closures, suspended activity and on-site sales activities still affected by pandemic measures. In order to redress this trend, several measures have been adopted throughout this first half of the year. Focus has largely been placed on proactive customer retention and loyalty building. Also, in order to offset the impact on income, a repositioning of value and prices has been undertaken with customers, including a cybersecurity and data connection improvement service (NOBA solution) in the portfolio, and also strengthening the workplace equipment sales strategy with the launch of a new Online Store specialised in equipment. Both of these actions are being executed in the second half of 2021 and the effect thereof will be seen later in the year.

It should be noted that in both the SME and Large Accounts segments, there has been a progressive return to normal activity towards the end of the six-month period, with the return of face-to-face activity in direct sales teams, in addition to remote sales, which had become the norm in the previous months due to Covid.

In terms of the Large Accounts segment, this first half of the year has continued to see a positive trend in the demand for services and equipment that enables companies to extend remote working models and the need for these to take place in optimal secure conditions. On the other hand, the growing demand for AI services (Artificial Intelligence and Machine Learning) in businesses has led to the launch of an AI team and proposal (BAI Analytics) within the Euskaltel Group, which is already in the process of closing the first operations of this kind with large clients.

From the Business segment, active collaboration is ongoing with both the entrepreneurial associations in the region, renewing sponsorship agreements with the main associations during the first half of the year, and with sporting entities (football clubs) and cultural organisations, with whom the companies of the Euskaltel Group have collaboration and sponsorship agreements that focus on women's sports and gender equality policies.

As a result, income in the business segment is up overall by 5.6% with respect to the same period of last year and the customer base has remained stable.

Key performance indicators (KPIs)

The following table shows some of Euskaltel Group's operating and financial KPIs for the first six months of 2021.

Mass market	31.12.2020	30.06.2021
Homes passed_owned (HFC & FTTH)	**2,502,348**	**2,557,067**
Accessible homes_wholesale	**20,907,103**	**21,896,844**
Mass market subs	**823,313**	**862,758**
o/w fixed services subs	716,373	751,656
o/w only mobile subs	106,940	111,102
Total services (RGUs)	**2,966,849**	**3,132,170**

Fixed Voice	578,669	583,803
Broadband	650,717	689,330
TV	494,614	504,016
Post-paid mobile	1,242,849	1,355,021
Services (RGUs) per subscriber	**3.60**	**3.63**

SMEs and Large Accounts	**31.12.2020**	**30.06.2021**
Customers	15,985	15,837

Deployment continues, both in terms of in-house deployment (including the deployment of a new FFTH fibre optic network) and also access to new homes via network sharing agreements with other operators throughout Spain, allowing access to 85% of the market where the Euskaltel Group was not present through the Virgin Telco brand launched in May 2020.

Broadband has also grown from 650,717 products in 2020 to 689,330 products at 30 June 2021, an increase of 5.9%. The Euskaltel Group have 1,355,021 mobile phone lines, up 9%, and subscriptions to 504,016 TV services, which is a rise of 1.9%.

The Products/Customer ratio for landline services at 30 June 2021 stands at 3.63 products per customer, taking into account growth in convergent bundles in young households where greater Internet speeds and more mobile data are wanted to the detriment of landlines.

The Business segment customer base has remained stable in the first half of 2021.

2.4. Euskaltel Group's history and structure chart

The current Euskaltel Group is the result of:

(i) the creation of Euskaltel in 1995 and the acquisitions of R Cable Galicia and Telecable Asturias (as defined below) in 2015 and 2017, respectively, with the merge of both companies in May 2017 and the resulting entity being wholly-owned by Euskaltel; and

(ii) the integration, from August 2021, into the Masmovil Group, as previously acquired by certain investment vehicles of the Sponsors (as identified below).

1) Main milestones of the Euskaltel Group prior to the Acquisition by Masmovil

In 1995, Euskaltel was created by the Basque government and the three Basque savings banks (BBK, Kutxa and Vital) to become the alternative telecommunications operator in the Basque Country and, as a result, to end the monopoly of Telefónica in the industry.

On July 1, 2015, the ordinary shares in Euskaltel were listed on the Barcelona, Bilbao, Madrid and Valencia stock exchanges, where it has been a listed stock corporation until delisting (*exclusion de cotización*) took place in August 2021 following the successful completion of the tender offer launched by Masmovil through its vehicle Kaixo Telecom, S.A. (Unipersonal) (see section 3) below).

On November 27, 2015, Euskaltel acquired the entire share capital of the company R Cable y Telecomunicaciones Galicia, S.A. ("**R Cable Galicia**"), company founded in A Coruña on August 1, 1994, which principal activity is the rendering of services similar to those of Euskaltel 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.

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

On June 21, 2018, the board of directors of Telecable Asturias, Telecable Capital Holding, S.A. and

Parselaya, S.A. approved the merger of Telecable Asturias by the absorption of Telecable Capital Holding, S.A. and Parselaya, S.A. On April 15, 2019 the boards of directors of R Cable Galicia and Telecable Asturias approved the merger of these companies with the first being the absorbing company. On June 17, 2019, R Cable y Telecomunicaciones Galicia, S.A. changed its name to the current R Cable y Telecable Telecomunicaciones, S.A.U. ("**R Cable y Telecable**", as previously defined).

The main activity of R Cable y Telecable consists in the provision of services similar to those developed by Euskaltel in the regions *(comunidades autónomas*) of Galicia and Asturias, creating at that time together with Euskaltel a new reference telecommunications group in the north of Spain.

On June 5, 2019, the incumbent directors at that time of the Board of Directors of Euskaltel approved a new strategic roadmap, which focus was the expansion of the telecommunications services of the Euskaltel Group to the rest of the Spanish territory. This new strategy represented at that time a large growth opportunity as the Euskaltel Group offered at that time services in only 15% of the Spanish national territory. In order to expand to the remaining 85% not covered by the Euskaltel Group, the Euskaltel Group's strategy consisted in using wholesale third party networks, including those of Orange, with whom Euskaltel had an agreement to use its network throughout Spain, and Telefónica, which network is regulated.

In order to brand its services on the aforesaid national expansion, in December 2019 Euskaltel announced that it had signed a trademark licence agreement with the Virgin Group to use the Virgin brand to offer telecommunications services in Spain.

EKT Cable y Telecomunicaciones, S.L.U. ("**EKT Cable**") was incorporated in December 2016 as wholly-owned subsidiary of Euskaltel for the purposes of developing the own FTTH infrastructure of the Euskaltel Group.

2) The Masmovil Acquisition

Lorca Telecom Bidco, S.A.U. ("**Lorca Bidco**"), a company indirectly owned with equal stakes by the Sponsors, submitted before the CNMV on June 1, 2020 a request for approval of a voluntary takeover bid over all ordinary shares in Masmovil Ibercom, S.A. as stock corporation which shares were listed on the Spanish Stock Exchange (*Bolsa*) at that time (the "**Offer for Masmovil**") and which subsidiaries shaped at that time the fourth telecommunication services group in the Spanish market in both mobile and FTTH markets, right after Telefonica, Orange and Vodafone.

The terms and conditions of the Offer for Masmovil were set out in detail in the prospectus dated July 27, 2020 and authorized by the CNMV on July 29, 2020 under registration number 402. Following an analysis of the terms of the Offer on August 6, 2020, the board of directors of Masmovil declared its support for the Offer, as per the report that was also published on the CNMV's website by means of the relevant inside information release.

The Offer for Masmovil's initial acceptance period ended on September 11, 2020 and, as of that date, shareholders holding 86.41% of the shares in Masmovil tendered their shares to Lorca Bidco for an all-cash consideration equal to €22.50 per share (the "**Offer Price**"), satisfying the minimum acceptance condition of acceptance of at least 50% of the shares of Masmovil and implying an equity value of Masmovil equal to approximately €3.0 billion and an enterprise value of approximately €4.8 billion (calculated as market capitalization plus market value of debt net of cash and cash equivalents) (the "**Masmovil Acquisition**").

Pursuant to a standing purchase order (*orden sostenida*) that Lorca BidCo launched on September 23, 2020, Lorca Bidco increased its shareholding up to 91.61% of the shares in Masmovil at closing of trading on October 1, 2020, and subsequently increased up to 95.58% of the shares in Masmovil as at closing of trading on October 26, 2020, date on which an Extraordinary General Shareholders' Meeting of Masmovil was held, which approved, among other matters, the delisting of Masmovil's shares from the Spanish stock exchange (*exclusion de Bolsa*). The CNMV suspended the trading of Masmovil's shares from the Spanish stock exchange with effects from November 3, 2020, date on which the standing purchase order was terminated, resulting in Lorca Bidco holding ownership over 130,812,808 Company's shares that represent 99.32% of the Company's issued share capital.

Following a capital reduction approved by an Extraordinary General Shareholders' Meeting of Masmovil on December 29, 2020, Lorca Bidco became the sole shareholder of Masmovil, owning all the shares representing its issued share capital.

3) The Acquisition of Euskaltel by the Masmovil Group; current structure chart

On March 31, 2021, Kaixo Telecom, S.A.U. ("**Kaixo Telecom**"), a wholly owned subsidiary of Masmovil, filed an application with the CNMV for an all-cash voluntary public tender offer (the "**Public Tender Offer**") for all shares in Euskaltel. On July 5, 2021, the CNMV approved and authorized the Public Tender Offer launched by Kaixo Telecom. Following an analysis of the terms of the Public Tender Offer on July 12, 2021, the board of directors of Euskaltel gave a favourable assessment of the Public Tender Offer.

The Public Tender Offer's initial acceptance period ended on July 30, 2021 and, as of that date, shareholders holding 97.67% of the shares in Euskaltel had tendered their shares to Kaixo Telecom for an all-cash consideration equal to €11.00 per share (the "**Offer Price**"), satisfying the minimum acceptance condition of acceptance of at least 75% plus one of the shares of Euskaltel and implying an equity value of Euskaltel equal to approximately €2.0 billion and an enterprise value of approximately €3.5 billion (calculated as market capitalization plus market value of debt net of cash and cash equivalents). The settlement of the Public Tender Offer occurred on August 10, 2021.

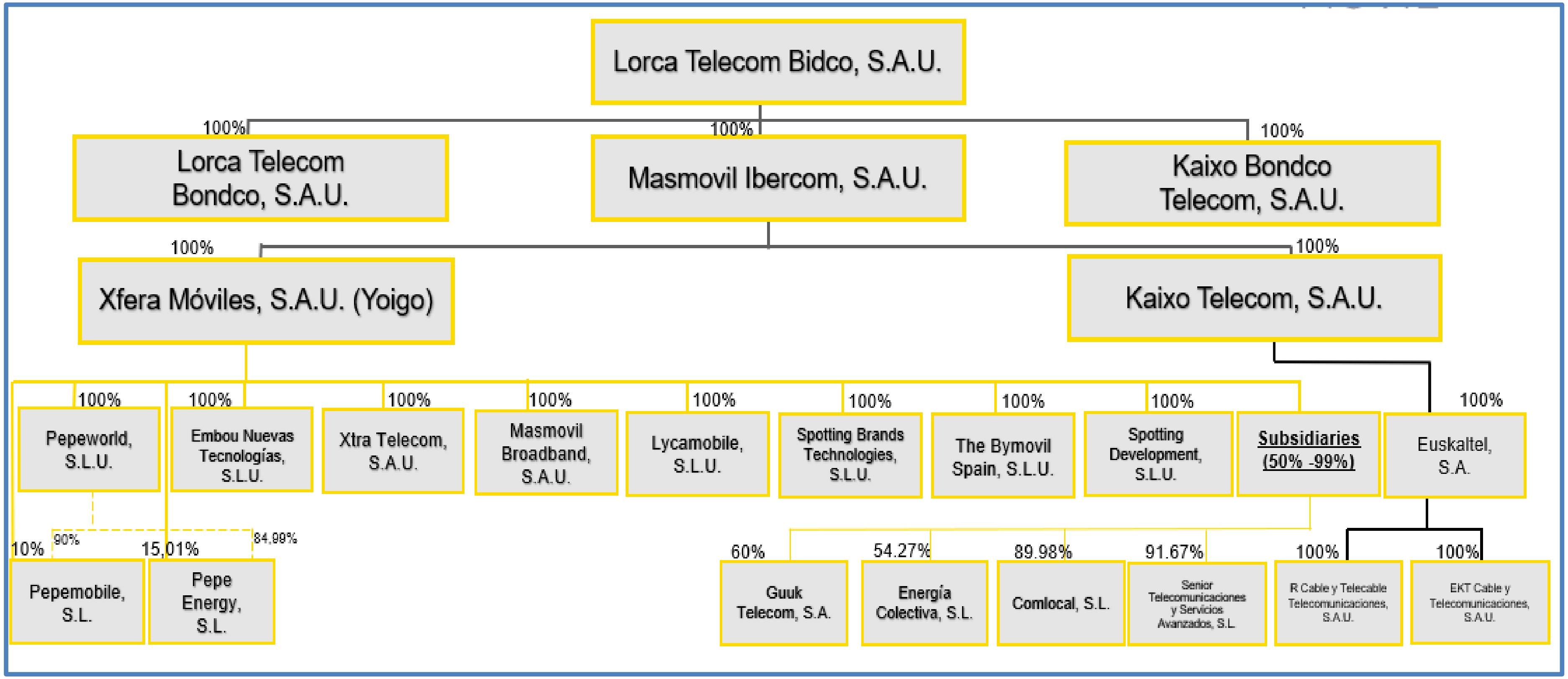
Thereafter, on August 27, 2021, Kaixo Telecom acquired the remaining 2.33% of the shares of Euskaltel pursuant to a compulsory squeeze-out procedure (the "**Euskaltel Acquisition Squeeze-out**"). The Euskaltel Acquisition Squeeze-Out was settled on August 31, 2021. In addition, the trading in the shares of Euskaltel was suspended with effect from August 17, 2021 and the shares of Euskaltel were delisted, with effect from the settlement of the Euskaltel Acquisition Squeeze-out on August 31, 2021.

Concurrently with the settlement of the Public Tender Offer and the acquisition of 97.67% of the shares of Euskaltel, on August 10, 2021, Lorca Finco granted an intercompany loan to Euskaltel (the "**Euskaltel Intercompany Loan**") to refinance and cancel certain existing indebtedness of the Euskaltel Group, particularly €1,435 million under a certain syndicated senior facilities agreement existing at that time with a pool of financing entities, acting BBVA as agent (the "**Euskaltel Refinancing**").

Lorca Finco funded the Euskaltel Acquisition (i.e. both the Public Tender Offer and the Euskaltel Acquisition Squeeze-out), the Euskaltel Refinancing and certain related fees and expenses with the proceeds from the following sources:

- drawings under Facility B2 of the SFA;
- drawings under certain bridge facilities, consisting of both a senior secured bridge facility and the senior bridge facility, which were fully repaid and cancelled with a portion of the proceeds obtained by the Masmovil Group under the offering of new long-term notes and an Incremental Facility B2 under the SFA; and
- drawings under the €500 million Asset Bridge Facility, which is intended to be fully repaid and cancelled during 2022 with the proceeds obtained under the Netco Asset Disposal further described in section 2.9.3. below.

Below is an organisational chart of the Euskaltel Group as part of the larger Masmovil Group as of the publication date of this Information Memorandum:


Lorca Telecom Bidco, S.A.U.
100%
Lorca Telecom Bondco, S.A.U.
100%
Masmovil Ibercom, S.A.U.
100%
Kaixo Bondco Telecom, S.A.U.
100%
Xfera Móviles, S.A.U. (Yoigo)
100%
Kaixo Telecom, S.A.U.
100%
Pepeworld, S.L.U.
100%
Embou Nuevas Tecnologías, S.L.U.
100%
Xtra Telecom, S.A.U.
100%
Masmovil Broadband, S.A.U.
100%
Lycamobile, S.L.U.
100%
Spotting Brands Technologies, S.L.U.
100%
The Bymovil Spain, S.L.U.
100%
Spotting Development, S.L.U.
Subsidiaries (50% -99%)
100%
Euskaltel, S.A.
10%
90%
15,01%
84,99%
Pepemobile, S.L.
Pepe Energy, S.L.
60%
Guuk Telecom, S.A.
54.27%
Energía Colectiva, S.L.
89.98%
Comlocal, S.L.
91.67%
Senior Telecomunicaciones y Servicios Avanzados, S.L.
100%
R Cable y Telecable Telecomunicaciones, S.A.U.
100%
EKT Cable y Telecomunicaciones, S.A.U.

4) Current shareholding structure and the Sponsors

Following the Masmovil Acquisition and as of the date of this Information Memorandum, the Sponsors hold indirectly approximately 86.0% of Lorca JVco, with the remaining 14.0% held by Key Wolf, S.L., Onchena, S.L. and Inveready Innovation Consulting, S.L (the "**Rolling Shareholders**") and certain other entities held by certain managers of the Masmovil Group.

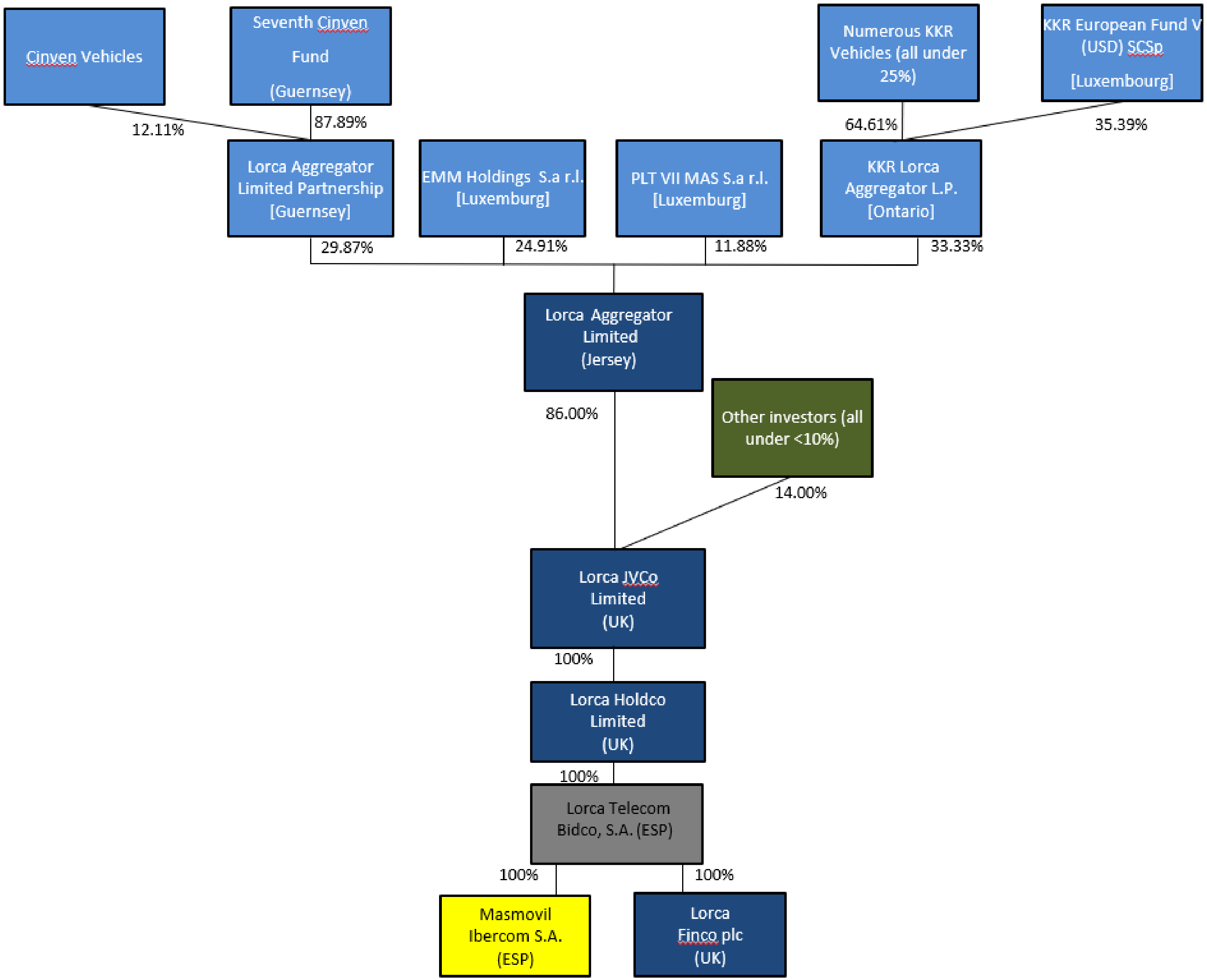
Lorca Holdco, which is the holding company of the Masmovil Group, is a private limited company organized under the laws of England and Wales on March 4, 2020. Lorca JVco holds the entire share capital of Lorca Holdco. Lorca Bidco, which is the current sole shareholder of the Issuer, is a public limited company (*sociedad anónima unipersona*l) incorporated under the laws of Spain on February 4, 2020.

Cinven is a leading international private equity firm focused on building world-class global companies leveraging its European focus and expertise. Cinven uses a matrix of sector and local country expertise to target companies where it can strategically drive revenue growth and operational improvement, both in Europe and globally, and which typically require an equity investment of €200 million or more. Since 1988, the Cinven Funds have invested in more than 140 companies and led transactions with an aggregate Enterprise Value of more than €145 billion across six key sectors: Business Services, Consumer, Financial Services, Healthcare, Industrials and Technology, Media and Telecommunications (TMT). Cinven has offices in London, New York, Frankfurt, Madrid, Paris, Milan, Guernsey and Luxembourg.

Founded in 1976 and led by Henry Kravis and George Roberts, KKR is a leading global investment firm with $429 billion in assets under management as of June 2021. KKR benefits from a truly global presence, with 21 offices across 4 continents. KKR has a successful track record of long-term capital investment in the European telecommunications sector, through both its private equity and infrastructure funds. These investments include United Group in Central and Eastern Europe, TDC in Denmark, Versatel and Deutsche Glasfaser in Germany, Telxius in Spain, Hyperoptic in the UK and Hivory (formerly Altice's French tower unit) in France.

Providence Equity Partners L.L.C. is a premier global private equity firm with approximately $45 billion in aggregate capital commitments as of June 2021. Providence pioneered a sector-focused approach to private equity investing with the vision that a dedicated team of industry experts could build exceptional companies of enduring value. Since the firm's inception in 1989, Providence has invested in over 170 companies and is a leading equity investment firm focused on the media, communications, education, software and services industries. Providence is headquartered in Providence, RI, and also has offices in New York and London. Providence has a history of investing in the telecommunications space in Europe, having completed over 10 transactions and invested close to $4 billion since 2000 in deals such as Kabel Deutschland, TDC and Eircom. Providence has also been an active investor in Spain, having made the following acquisitions or investments since 2010: Masmovil (initial investment made in 2016), the education company Globeducate (2017) and the cable operator Ono (sold to Vodafone in 2014). Over the course of Providence's investment, Masmovil has experienced strong operative and financial growth and has become the fourth largest telecoms operator in Spain through its combination with Yoigo and Pepephone in 2016, it has continued to invest in its own fixed and mobile network and has completed a number of acquisitions with potential for value creation in Spain and abroad.

The shareholding structure of the Masmovil Group and, therefore, of Euskaltel and its subsidiaries, as of the publication date of this Information Memorandum is shown in the chart below:



Cinven Vehicles
Seventh Cinven Fund (Guernsey)
12.11%
87.89%
Numerous KKR Vehicles (all under 25%)
KKR European Fund V (USD) SCSp [Luxembourg]
64.61%
35.39%
Lorca Aggregator Limited Partnership [Guernsey]
EMM Holdings S.a r.l. [Luxemburg]
PLT VII MAS S.a r.l. [Luxemburg]
KKR Lorca Aggregator L.P. [Ontario]
29.87%
24.91%
11.88%
33.33%
Lorca Aggregator Limited (Jersey)
86.00%
Other investors (all under <10%)
14.00%
Lorca JVCo Limited (UK)
100%
Lorca Holdco Limited (UK)
100%
Lorca Telecom Bidco, S.A. (ESP)
100%
100%
Masmovil Ibercom S.A. (ESP)
Lorca Finco plc (UK)

5) Announcement of Orange and Masmovil Group entering into exclusive discussions to combine their businesses in Spain

On March 8, 2022, the Masmovil Group and Orange SA (a public stock corporation incorporated in France and parent company of Orange Spain) ("**Orange**") jointly announced that that both groups have entered into exclusive discussions to combine their businesses in Spain.

The combination would take the form of a 50-50 joint venture co-controlled by Orange and Lorca JVco, with a combined enterprise valuation of 19.6 billion euros resulting from Orange Spain's enterprise value at 8.1 billion euros and plus Masmovil's (including the acquisition of Euskaltel) enterprise value at 11.5 billion euros.

Orange and Lorca JVco would benefit from equal governance rights in the combined entity. Accordingly, neither Orange nor Lorca JVco will consolidate the combined operations.

The joint venture agreement between both groups includes (i) a right to trigger an initial public offering (IPO) under certain conditions for both groups, and (ii) a path-to-control right for Orange to consolidate the combined entity in the case of an IPO. Orange would neither be forced to exit nor to exercise these options.

The joint venture would bring together the assets, capabilities and teams of the two groups in Spain, building on highly complementary business models as well as an existing successful collaboration, to serve 4.0 million plus 3.1 million fixed customers (of which 3.0 million plus 2.6 million convergent), 11.5 million plus 8.7 million contract mobile customers and close to 1.5 million TV customers.

Moreover, the joint venture would own network assets that provide it with a competitive edge in the market including: (i) a state-of-the-art, nationwide FTTH network reaching over 16 million homes, and (ii) a leading-edge mobile network with full national coverage, serving large volumes of traffic in the Spanish market.

The combined entity would become a stronger market player with revenues of over €7.5 billion, EBITDA after Leases ("**EBITDAaL**") over 2.2 billion euro (including synergies between the Masmovil Group and Euskaltel Group but excluding synergies between Orange and the Masmovil Group) and would gain the necessary scale and efficiency to undertake an ambitious and sustainable expansion of its FTTH and 5G networks, and contribute to Spain maintaining and further developing a competitive telecom infrastructure.

The transaction is expected to be signed by the second quarter of 2022 and should close by the second quarter of 2023, subject notably to approval from the relevant administrative, competition and regulatory authorities.

2.5. Netco Asset Disposal

The Euskaltel Group and the larger Masmovil Group intend to enter into a transaction for the potential transfer of up to 1.1 million BUs in HFC network, concentrated in Northern Spain, either to EKT Cable y Telecomunicaciones, S.L.U. or to a newly-incorporated company (any of these, the "**Netco**"), according to a joint venture scheme in which the Masmovil Group expect to hold a minority stake (the "**Netco Asset Disposal**").

The Masmovil Group expects to set up his joint venture scheme jointly with certain investors, who will hold the majority stake in Netco. In the event that the Netco Asset Disposal is consummated, Netco would own and operate the BUs transferred by the Euskaltel Group. Based on management's current expectations, agreements would be executed with the relevant investors relating to the investment in Netco and the Netco Asset Disposal during March or April 2022, and expect to complete the transaction during the second quarter of 2022. Upon completion of the Netco Asset Disposal, the Masmovil Group is expected to be the anchor client of Netco with a volume commitment corresponding to 85% of the customer base on the network. In addition, the Masmovil Group expects to enter into an arrangement under which Netco will commit to the completion of the retrofitting and upgrade of the HFC network, which will be managed by the Masmovil Group, and pursuant to which the Masmovil Group will grant an exclusive 25-year arrangement to Netco.

The Euskaltel Group and the larger Masmovil Group currently expect to receive at least €500 million of net proceeds from the Netco Asset Disposal, net of any equity investment that the Masmovil Group would be required to make in order to obtain a minority stake in Netco. The Masmovil Group where Euskaltel is now integrated intends to utilize the proceeds from the Netco Asset Disposal to repay in full and cancel the Asset Bridge Facility.

As of the date of this Information Memorandum, the Masmovil Group has not entered into any contractual arrangements or commitments in relation to the Netco Asset Disposal. In the event that the Masmovil Group enters into the relevant contractual arrangements in relation to the Netco Asset Disposal, which is expected to occur during March or April of 2022, completion would be subject to a number of closing conditions, including applicable regulatory and antitrust approvals (if any). There is no certainty that the Masmovil Group will be able to enter into the relevant contractual arrangements, or once the Masmovil Group enters into such arrangements, that Masmovil Group will be able to complete the Netco Asset Disposal within the expected time frame, or on the terms that are currently expected, or at all.

2.6. Issuer's board of directors

The following table sets forth certain information regarding the members of the board of directors of the Issuer as at the date of this Information Memorandum:

Name	**Position**
Xabier Iturbe Otaegi	Non-Executive Chairman and external director
Meinrad Spenger	Chief Executive Officer
Josep Maria Echarri Torres	External director (*Consejero externo*)
José Germán López Fernández	Executive director (*Consejero ejecutivo*)
Iñaki Alzaga Etxeita	Independent director (*Consejero independiente)*
Beatriz Mato Otero	Independent director (*Consejero independiente)*
José Poza	Proprietary director (*Consejero dominical*)

The biography of the members of the board of directors of Euskaltel is as below:

Xabier Iturbe Otaegi is the chairman of the board of directors of Euskaltel. Mr. Xabier Iturbe has a degree in Economics and Business Studies from Deusto University and an MBA with a specialization in Finance from the Stern School of Business at New York University. He has held management positions in leading companies in both the telecommunications and finance industries and for more than 10 years he has held top-level positions on the Boards of Directors of different entities and institutions representing the Basque Country (Chairman, Vice-Chairman, member, board member, etc.), and different sectors (finance, technology, foundations, etc.). This has given him excellent knowledge of the wider telecommunications industry, of Euskaltel, and of the financial world, as well as experience in coordinating and managing complex Boards of Directors. Mr. Iturbe is also very knowledgeable about the Basque Country and its institutions. Over the years, he has developed an international vision because of his education in the United States and his professional links to financial institutions and within Euskaltel itself. He has regularly taken part in and coordinated teams whose purpose was to define the strategic position of the companies and entities he has served and continues to serve.

Meinrad Spenger is Euskaltel's Chief Executive Officer (CEO) and he is also the founder and CEO of Masmovil Ibercom, S.A.U., as well as sole director of Kaixo Telecom, S.A.U. (the direct sole shareholder of Euskaltel). Meinrad worked as a consultant for five years at McKinsey & Company, where he served as engagement manager, gaining not only extensive international experience in countries such as Austria, Germany, Italy and Spain, but also in several sectors such as the telecommunications sector. Meinrad was one of the co-founders of Masmovil Telecom 3.0, SA where he held the position of CEO until its integration with Ibercom. Meinrad holds a bachelor's degree in law from both the University of Graz, Austria and the University of Trieste, Italy. He also holds an MBA from the Instituto de Empresa (IE), Spain and the Italian Business School SDA Bocconi, Italy.

Josep Maria Echarri Torres is an external director on the board of Euskaltel and he is also a director and vice-chairman of the board of directors of Masmovil Ibercom, S.A.U.. Josep Maria was responsible for the first comprehensive program for the creation of technological companies developed by the Spanish administration and the CEO of Oryzon from 2003 to 2007. He is also the CEO of Inveready Asset Management and SGECR, SA as well as chairman of Inveready Financial Group, companies of which Josep Maria was a founding partner, and he remains their largest shareholder. Josep Maria has taken part in dozens of corporate transactions such as the sale of PasswordBank Technologies, S.L. to Symantec and the sale of Indisys, S.L. to Intel. Josep Maria is actively involved in structuring and implementing the Masmovil Group's M&A strategy. Josep Maria holds a bachelor's degree in economics and actuarial sciences, both from the University of Barcelona, Spain and a master's degree in financial management from ESADE, Spain.

José Germán López Fernández is an executive director on the board of Euskaltel and he is also member of the board of directors of Masmovil Ibercom, S.A.U.., and is the Masmovil Group's Chief Consumer Officer. Before joining the Masmovil Group, he was El Corte Ingles' purchasing manager, as well as the person responsible for its MVNO project (SWENO). He has also worked at Telefónica and France Telecom Uni2. Previously, he was also the president of Brightstar Europe (SoftBank Group), CEO for Spain and Portugal of 2020 Mobile Iberia, a logistics and distribution operator in the telecommunications sector, global COO of BQ and a member of board of directors of several companies. Germán holds a master's degree in telecommunications engineering from the Polytechnic University of Madrid, Spain and Grenoble INP Phelma (Erasmus Stage), France, an MBA from Instituto de Empresa (IE) Business School, Spain and undertook a graduate course at Wharton Business School, University of Pennsylvania, United States under the CEO Global Programme at IESE Business School, Spain.

Iñaki Alzaga Etxeita is an independent director within the board of directors of Euskaltel. Iñaki Alzaga was appointed a director of Euskaltel in March 2015. He was at the company from 1998 to 2005 in the positions of Director of Advanced Businesses and Director of Strategy and Business Development, as well as sitting on the Management Committee. He became the Chair of Grupo Noticias in 2005. In 2020, he was appointed Chair of Nortegas Energía Grupo, S.L. and Vice-Chair of Talde Gestión, SGEIC, S.A. Previous positions included General Manager of Editorial Iparraguirre, S.A. and a 12-year professional career at PricewaterhouseCoopers.

Beatriz Mato Otero is an independent director within the board of directors of Euskaltel. Beatriz Mato Otero has a degree in Industrial Engineering, with a specialization in in Business Organisation, from the Bilbao College of Industrial Engineers and an MBA from the A Coruña University Business School. She also holds a certificate in Good Corporate Governance from Instituto de Consejeros-Administradores (Spanish institute of directors). Beatriz Mato has worked professionally for 30 years in the private and public sectors, leading business projects in the technology and consultancy sector for SMEs and multi-nationals and as a minister for the regional government in Galicia. She has an extensive consultancy background with particular expertise in introducing quality systems and innovation. She began her career as a systems technician at IBM Spain (1989-1991), moving on to become an IT services sales technician at Rank Xerox (1991-1993) and then a quality engineer at the engineering firm Norcontrol, which is now Applus (1993-1995). She has broad experience in public management due to her role as minister for the regional government in Galicia, firstly as minister for work and welfare from 2009 to 2015 and subsequently as minister for the environment and territorial planning from 2015 to 2018, where she has acquired extensive knowledge of the business and social fabric in Galicia. From 2002 to 2005 she was provincial representative for the fisheries ministry. From 2009 to 2010 she was chair of Sogaserso S.A. and a member of the Boards of Directors of several public entities in Galicia, such as the A Coruña Port Authority, the Ferrol-San Cibrao Port Authority and IGAPE (the Galician institute for economic development) from 2009 to 2018. Furthermore, as the head of innovation at IGAPE, from 1995 to 2002 she supported companies in Galicia with regard IT and consultancy services, providing advice on economic and financial issues, internationalisation and support for enterprises. Since February 2020 she has held the position of Head of Corporate Development and Sustainability at the renewable energy company Greenalia.

Jose Poza is proprietary director within the board of directors of Euskaltel. He holds a degree in Computer Science from the University of the Basque Country and started his career as a researcher and lecturer in the School of Computer Science at the University of the Basque Country (1993-2000); in 2000, he joined World Wide Web Ibercom S.L. ("**Ibercom**"), where he developed his career as technical director for almost 9 years (2000-2009), and from 2009 as managing director, office which he held until 2014, when Ibercom and Masmovil combined their business; following the amalgamation of Ibercom and Masmovil, he held the office of Vice-President of the resulting entity (*i.e.*, Masmovil Ibercom) until 2020; in 2020, he was appointed Vice-President of Guuk (an affiliate of the Masmovil Group with main operations in the Basque Country), and he currently holds the office of member of the board of directors of the venture capital company Easo Ventures S.C.R. (since 2018) and of the leading provider of digital TV/OTT named Agile Content, S.A. (since 2021).

2.7 Issuer's Financial Information

The Issuer's consolidated financial statements for the financial years ended on December 31, 2020 and December 31, 2019, audited and without reservations, are attached as **Schedule 1** to this Information

Memorandum, while Issuer's consolidated interim financial statements for the 6-month periods ended on June 30, 2021 and June 30, 2020 attached as **Schedule 2** to this Information Memorandum, and Issuer's individual financial statements for the financial years ended on December 31, 2020 and December 31, 2019 audited and without reservations, are attached as **Schedule 3** to this Information Memorandum.

Please note that the Issuer produced consolidated financial statements for the financial years 2020 and 2019 because of mandatory application of Spanish regulations on the preparation of consolidated financial statements, but that for financial year 2021 consolidated financial statements for the Issuer and its subsidiaries (*i.e.*, R Cable y Telecable and EKT Cable) will be drawn up on a voluntarily basis on the grounds that, following the completion of Euskaltel by the Masmovil Group in August 2021, the consolidation perimeter changed from Euskaltel to Lorca JVco Limited ("**Lorca JVco**"), which is a private limited company incorporated under the laws of England and Wales that indirectly owns 100% of the shares in Masmovil Ibercom and, therefore, 100% of the shares in Euskaltel (see structure chart at section 2.3 above, and, therefore, for subsequent reporting periods, consolidated financial results are produced at the level of Lorca JVco.

Once the consolidated financial statements for the Issuer and its subsidiaries voluntary prepared for the financial year ended on December 31, 2021, these will be published and available on the Issuer's website as well as on MARF's website by the relevant notice of relevant information (*hecho relevante*).

The summary of financial information presented below must be read in conjunction with the information contained in the historical consolidated financial information and accompanying notes thereto appearing elsewhere in this Information Memorandum and its schedules. Please note that these summaries in English are free translations from the original drafted in Spanish, so in the event of discrepancy, the Spanish-language version available at the links included in the Schedules to this Information Memorandum prevails.

2.7.1. Summary of consolidated annual financial statements

A) Consolidated Statements of Financial Position at 31 December 2020 and 2019

(expressed in thousands of Euros)

ASSETS	**31.12.2020**	**31.12.2019**
NON-CURRENT ASSETS	**2,721,038**	**2,740,013**
Goodwill	1,024,923	1,024,923
Intangible assets	301,140	299,311
Property, plant and equipment	1,198,390	1,213,578
Right of use assets	62,668	66,210
Financial assets	7,430	8,939
Deferred tax assets	126,487	127,052
CURRENT ASSETS	**233,779**	**168,246**
Inventories	2,783	4,213
Trade and other receivables	90,032	58,242
Current tax assets	8,863	1,459
Other current assets	4,735	6,085
Cash and cash equivalents	127,366	98,247
TOTAL ASSETS	**2,954,817**	**2,908,259**

EQUITY AND LIABILITIES	**31.12.2020**	**31.12.2019**
EQUITY		
Capital and reserves	**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
	1,009,249	**981,965**
NON-CURRENT LIABILITIES	**1,543,430**	**1,524,908**
Non-current debt	1,420,226	1,368,981
Derivatives	202	804
Other financial liabilities	68,125	74,863
Deferred tax liabilities	54,877	80,260
CURRENT LIABILITIES	**402,138**	**401,386**
Current debt	149,867	195,290
Trade and other payables	193,942	144,043
Current tax liabilities	85	2,727
Provisions	1,516	1,524
Other current liabilities	56,728	57,802
TOTAL EQUITY AND LIABILITIES	**2,954,817**	**2,908,259**

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

(Expressed in thousands of Euros)

	31.12.2020	**31.12.2019**
Revenues	**677,785**	**668,303**
Work performed by the entity and capitalised	19,176	16,763
Supplies	(181,718)	(163,257)
Other operating income	139	404
Personnel expenses	(42,107)	(58,713)
Other operating expenses	(151,183)	(149,608)
Amortisation and depreciation	(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	**(58,886)**	**(49,278)**
PROFIT BEFORE INCOME TAX	**66,704**	**71,518**
Income tax	**12,662**	**(9,500)**
PROFIT FOR THE YEAR	**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**

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

(Expressed in thousands of Euros)

	31.12.2020	31.12.2019
Profit for the year before tax	**66,704**	**71,518**
Adjustments for	**292,553**	**253,079**
Amortisation and depreciation	196,502	193,096
Impairment allowances	6,103	5,282
Changes in provisions	(8)	(153)
Allocation of grants	-	(389)
Impairment and gains/(losses) on disposals of fixed assets	10,672	9,650
Impairment and gains/(losses) on disposals of financial instruments	-	(9)
Finance income	(971)	(76)
Finance cost	60,697	49,513
Exchange gains/(losses)	(238)	376
Change in fair value of financial instruments	(602)	(526)
Other income and expense	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**
Payments for investments	**(186,699)**	**(155,326)**
Intangible assets	(73,682)	(56,871)
Property, plant and equipment	(113,017)	(97,388)
Financial assets	-	(1,067)
Proceeds from sale of investments	**5,160**	**2,812**
Property, plant and equipment	3,651	2,812
Financial assets	1,509	-
Cash flows from/(used in) investing activities	**(181,539)**	**(152,514)**

Proceeds from and payment for equity instruments	**(22)**	**390**
Disposal of own equity instruments	(22)	390
Proceeds from and payment for financial liability instruments	**(11,230)**	**(54,957)**
Issue of:	131,600	133,156
Bonds and other marketable securities	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	(3,653)	-
Dividends and interest paid on other equity instruments	**(55,327)**	**(55,329)**
Dividends	(55,327)	(55,329)
Cash flows from/(used in) financing activities	**(66,579)**	**(109,896)**
Cash and cash equivalents at beginning of the year	98,247	107,356
Cash and cash equivalents at year end	127,366	98,247
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**29,119**	**(9,109)**

2.7.2. Summary of condensed interim consolidated financial statements

A) Condensed Consolidated Statement of Financial Position at 30 June 2021 and 31 December 2020

(expressed in thousands of Euros)

ASSETS	30.06.2021	31.12.2020
NON-CURRENT ASSETS	**2,740,329**	**2,721,038**
Goodwill	1,024,923	1,024,923
Intangible assets	318,930	301,140
Right of use assets	58,316	62,668
Property, plant and equipment	1,199,468	1,198,390
Financial assets	7,331	7,430
Deferred tax assets	131,361	126,487
CURRENT ASSETS	**202,470**	**233,779**
Inventories	3,663	2,783
Trade and other receivables	93,981	90,032
Current tax assets	8,947	8,863
Other current assets	7,564	4,735
Cash and cash equivalents	88,315	127,366
TOTAL ASSETS	**2,942,799**	**2,954,817**

EQUITY AND LIABILITIES	30.06.2021	31.12.2020
EQUITY		
Capital and reserves	**976,232**	**1,009,313**
Capital	535,936	535,936
Share premium	355,165	355,165
Retained earnings	80,634	141,485
(Own shares)	(1,387)	(1,531)
Interim dividend paid during the year	-	(25,010)
Other equity instruments	5,884	3,268
Other comprehensive income	**(64)**	**(64)**
Equity attributable to equity holders of the Parent	**976,168**	**1,009,249**
NON-CURRENT LIABILITIES	**1,537,116**	**1,543,430**
Non-current debt	1,421,536	1,420,226
Derivatives	-	202
Other financial liabilities	62,807	68,125
Deferred tax liabilities	52,773	54,877
CURRENT LIABILITIES	**429,515**	**402,138**
Current debt	168,154	149,867
Trade and other payables	232,086	193,942
Current tax liabilities	-	85
Provisions	1,764	1,516
Other current liabilities	27,511	56,728
TOTAL EQUITY AND LIABILITIES	**2,942,799**	**2,954,817**

B) Condensed Consolidated Income Statement for the six-month periods ended 30 June 2021 and 2020

(expressed in thousands of euros)

	30.06.2021	30.06.2020
Revenues	**338,836**	**334,668**
Work performed by the entity and capitalised	9,567	8,477
Supplies	(106,441)	(84,269)
Other operating income	43	280
Personnel expenses	(23,900)	(20,082)
Other operating expenses	(87,557)	(72,942)
Amortisation and depreciation	(119,825)	(95,424)
RESULTS FROM OPERATING ACTIVITIES	**10,723**	**70,708**
Finance income	206	361
Finance cost	(23,792)	(27,102)
NET FINANCE COST	**(23,586)**	**(26,741)**
PROFIT/(LOSS) BEFORE TAX	**(12,863)**	**43,967**
Income tax	**7,337**	**(8,412)**
PROFIT/(LOSS) FOR THE YEAR	**(5,526)**	**35,555**
Profit/(loss) for the year attributable to equity holders of the Parent .	**(5,526)**	**35,555**
Profit/(loss) for the year attributable to non-controlling interests	**-**	**-**

C) Condensed Consolidated Statement of Cash Flows for the six-month periods ended 30 June 2021 and 2020

(expressed in thousands of euros)

	30.06.2021	30.06.2020
Profit/(loss) for the year before tax	**(12,863)**	**43,967**
Adjustments for	**167,547**	**141,570**
Amortisation and depreciation	119,825	95,424
Gains/(losses) on disposals of fixed assets	5,830	4,810
Valuation adjustments for impairment of business transactions	7,221	2,393
Allocation of grants	-	(258)
Other income and expense	8,469	12,024
Incentive plan expense	2,616	436
Finance income	(4)	(69)
Finance cost	24,258	26,921
Exchange gains/(losses)	(466)	181
Change in fair value of financial instruments	(202)	(292)
Changes in operating assets and liabilities	**771**	**(23,882)**
Inventories	(880)	(601)
Trade and other receivables	(11,171)	(13,013)
Other current assets	(2,726)	(164)
Trade and other payables	19,508	(5,401)
Other current liabilities	(3,960)	(4,703)
Other cash flows from /(used in) operating activities	**(29,475)**	**(33,282)**
Interest paid	(23,038)	(23,374)
Income tax paid	(6,437)	(9,908)
Cash flows from/(used in) operating activities	**125,980**	**128,373**
Payments for investments	**(122,825)**	**(75,271)**
Intangible assets	(58,527)	(28,599)
Property, plant and equipment	(64,298)	(46,672)
Cash flows from/(used in) investing activities	**(122,825)**	**(75,271)**
Proceeds from and payment for equity instruments	**199**	**(16)**
Issue of equity instruments	-	(16)
Disposal of own equity instruments	199	-
Proceeds from and payment for financial liability instruments	**(42,405)**	**(28,871)**

Issue of:	18,400	71
Other debt	18,400	-
Grant payments	-	71
Repayment of:	(5,425)	(3,955)
Other debt	(1,473)	(116)
Lease liabilities	(3,952)	(3,839)
Dividends and interest paid on other equity instruments	**(55,380)**	**(24,987)**
Dividends	(55,380)	(24,987)
Cash flows from/(used in) financing activities	**(42,206)**	**(28,887)**
Cash and cash equivalents at beginning of the year	127,366	98,247
Cash and cash equivalents at year end	88,315	122,462
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(39,051)**	**24,215**

[rest of the page intentionally left in blank]

3. FULL NAME OF THE SECURITIES ISSUE

Commercial Paper Programme EUSKALTEL 2022.

4. PERSONS RESPONSIBLE

Mr.. Meinrad Spenger, acting on behalf of and representing EUSKALTEL, S.A. (Unipersonal) (in this document, indistinctly, "**EUSKALTEL**", the "**Company**" or the "**Issuer**" and together with the companies that belong to its group for the purposes of commercial law, the **"Euskaltel Group"** or the **"Group"**), in his capacity of Chief Executive Officer (CEO), is responsible for the entire content of this Information Memorandum, pursuant to the authorisation granted by the Issuer's Board of Directors on February 10, 2022.

Mr. Meinrad Spenger hereby declares that the information contained in this Information Memorandum is, to the best of his knowledge and after executing the reasonable diligence to ensure that it is as stated, compliant with the facts and does not suffer from any omission that could affect its contents.

5. DUTIES OF THE REGISTERED ADVISOR OF MARF

Banca March, S.A. is a Spanish corporation (*sociedad anónima*) with tax identification code A-07004021, registered with the Commercial Registry of Baleares in volume 410, book 334, sheet PM-644, with registered office at Avenida Alejandro Rosselló, 8 07002 Palma de Mallorca ("Banca March"), which has been admitted as a registered advisor (*asesor registrado*) of MARF pursuant to operative instruction (*instrucción operativa*) 8/2014.Euskaltel has appointed Banca March as the Issuer's registered advisor (*asesor registrado*) in the MARF (the "**Registered Advisor**").

In accordance with this appointment, Banca March has undertaken to cooperate with the Issuer so that it can comply with the obligations and duties that the Issuer will assume when incorporating each issuance of Commercial Paper under the Programme into MARF as multilateral trading facility, acting as specialist liaison between both MARF and the Issuer, and as a means to facilitate the insertion and development of the same under the new securities trading regime.

In accordance with its duties and responsibilities, Banca March must provide MARF with any periodic information that MARF may require and, on the other hand, MARF may require as much information as it may deem necessary regarding the actions to be carried out by Banca March and its obligations as Registered Advisor, MARF being authorized to perform as many actions as necessary, where appropriate, in order to verify the information that has been provided.

In this regard, it should be noted that the Issuer must have, at all times as long as there are outstanding Commercial Paper, a designated Registered Advisor registered with the "Market Registered Advisor Registry" (*Registro de Asesores Registrados del Mercado*).

Banca March, as Registered Advisor of the Issuer, will provide the Issuer with the following advisory services:

(i) advice on the admission (*incorporación*) to trading on MARF of the Commercial Paper issued under the Programme;

(ii) advice on the compliance with any obligations and duties that the Issuer may have as a result of its participation in the MARF;

(iii) advice on compiling and submitting the financial and business information required by MARF regulations; and

(iv) advice on ensuring that the information produced by the Issuer complies with the requirements of MARF regulations.

As Registered Advisor, Banca March with respect to the request for the admission (*incorporación*) to trading on MARF of the Commercial Paper:

(i) has verified that the Issuer meets all the requirements that MARF regulations provide for in order to obtain the admission (*incorporación*) to trading of the Commercial Paper as securities;

(ii) has assisted the Issuer in the preparation of this Information Memorandum, has reviewed all the information provided by the Issuer to MARF in connection with the request for the admission (*incorporación*) to trading on MARF of the Commercial Paper, and has verified that the information delivered meets all the requirements of applicable regulations and does not leave out any relevant information that could lead to confusion among potential investors.

Once the Commercial Paper is admitted to trading on MARF, the Registered Advisor:

(i) will review the information that the Issuer produces and submits to MARF either periodically or on a one-off basis, and will verify that this information meets the requirements concerning contents and deadlines set out in the applicable regulations;

(ii) will advise the Issuer on the events that might affect the fulfilment of the obligations assumed by the Issuer when including the Commercial Paper to trading on MARF, as well as the best way to deal with such events in order to avoid any breach of said obligations;

(iii) will report to MARF any events that might represent a breach by the Issuer of its obligations in the event the Registered Advisor identifies any potential breach of material obligations that has not been cured by the Issuer following the Registered Advisor's advice; and

(iv) will manage, answer and deal with any queries and requests for information that MARF may require regarding the situation of the Issuer, progress of its business, the level of compliance with its obligations and any other data that MARF may deem relevant.

For these purposes, the Registered Advisor will carry out the following actions:

(i) will maintain regular and necessary contact with the Issuer and will analyse any exceptional situations that may arise or occur with regard to the evolution of the price, trading volumes and other relevant circumstances related to the trading of the Commercial Paper;

(ii) will sign any declarations which, in general, have been set out in the regulations as a consequence of the admission (*incorporación*) to trading of the Commercial Paper on MARF, as well as with regard to the information required from companies with securities being traded on MARF; and

(iii) will forward to MARF, without delay, the communications received in response to queries and requests for information the latter may send.

6. MAXIMUM OUTSTANDING BALANCE

The maximum amount of outstanding issuances of Commercial Paper under the Programme will be a nominal of two hundred million euros (€200,000,000).

This amount is understood as the maximum outstanding balance of all the Commercial Paper issued at any given time during the term of the Programme pursuant to this Information Memorandum.

7. DESCRIPTION OF THE TYPE AND CLASS OF THE SECURITIES. NOMINAL VALUE.

The Commercial Paper Notes (*pagarés* in Spanish) are securities with an implicit positive, zero or negative yield, so that their return (positive, zero or negative) results from the difference between the subscription or acquisition price and the redemption price, with no right to receive a periodic coupon.

The Commercial Paper Notes issued and outstanding at any given time represents a debt for the Issuer and will be reimbursed at maturity at their face value.

An ISIN (International Securities Identification Number) code will be assigned to each issuance of Commercial Paper that has the same maturity date.

Each Commercial Paper will have a nominal value of one hundred thousand euros (€100,000), meaning that the maximum number of issuances of Commercial Paper in circulation at any given time will not exceed two thousand (2,000).

8. GOVERNING LAW OF THE SECURITIES

The Commercial Paper Notes are securities issued in accordance with the Spanish legislation applicable to the Issuer and to the Commercial Paper as securities (*valores*).

In particular, the Commercial Paper Notes will be issued pursuant to Royal Legislative Decree 4/2015, of 23 October, by virtue of which the restated text of the Securities Market Act is approved (*Texto Refundido de la Ley del Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre*) (the "**Securities Market Act**"), in accordance with its current wording and with any other related regulations.

This Information Memorandum is the one required in Circular 2/2018 of MARF, on admission (*incorporación*) and removal of securities on the Alternative Fixed-Income Market.

The courts and tribunals of the city of Madrid will have exclusive jurisdiction to settle any disputes arising from or in connection with the Commercial Paper (including disputes regarding any non-contractual obligation arising from or in connection with the Commercial Paper).

9. REPRESENTATION OF THE SECURITIES THROUGH BOOK ENTRIES

The Commercial Paper Notes to be issued under the Programme will be represented by book entries (*anotaciones en cuenta*), as set out in the mechanisms for trading on MARF for which admission of the Commercial Paper Notes is required.

The party in charge of the accounting records is *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.* ("**Iberclear**"), with registered office at Madrid, Plaza de la Lealtad, 1, together with its participating entities, pursuant to article 8.3 of the Securities Market Act and Royal Decree 878/2015, of 2 October, on the clearing, settlement and recording of transferable securities represented in book-entry form, on the legal regime of the central securities depositaries and central counterparties, and on the transparency requirements for issuers of securities admitted to trading in a regulated market *(Real Decreto 878/2015, de 2 de octubre, sobre compensación, liquidación y registro de valores negociables representados mediante anotaciones en cuenta, sobre el régimen jurídico de los depositarios centrales de valores y de las entidades de contrapartida central y sobre requisitos de transparencia de los emisores de valores admitidos a negociación en un mercado secundario oficia*l), as amended by Royal Decree 827/2017, of 1 September, and Royal Decree 1464/2018, of 21 December.

10. CURRENCY OF THE ISSUE

The Commercial Paper Notes issued under the Programme will be denominated in Euros.

11. CLASSIFICATION OF THE COMMERCIAL PAPER: ORDER OF PRIORITY

Any issuance of Commercial Paper under the Programme will not be secured by any *in rem* guarantees (*garantías reales*) or guaranteed by any personal guarantees (*garantías personales*).

Principal and interest amounts owed by the Issuer under the Commercial Paper will be unsecured, but the Issuer will be liable for any amount with its total net worth (*responsabilidad personal universal*). Therefore, the payment obligations of the Issuer under the Commercial Paper shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer.

For the purposes of priority, should the Issuer file for insolvency, the investors are behind any privileged creditors that the Issuer has on that date pursuant to the classification and order of priority of credits set out in the Insolvency Law.

12. DESCRIPTION OF THE RIGHTS INHERENT TO THE SECURITIES AND THE PROCEDURE TO EXERCISE SUCH RIGHTS. METHOD AND TERM FOR PAYMENT AND DELIVERY OF THE SECURITIES

In accordance with the applicable legislation, the Commercial Paper Notes issued under the Programme will not grant the investors any present or future political rights over the Issuer.

The economic and financial rights of the investor associated to the subscription (or acquisition) and holding of the Commercial Paper will be those arising from the conditions of the nominal interest rate, yields and redemption prices with which the notes are issued, as specified in sections 13, 14 and 16 below.

The date of disbursement of the Commercial Paper will be the same as the date of issuance, and the effective value of the Commercial Paper will be paid to the Issuer by the relevant Dealers (as this term is defined in section 15 below) or by the investors, as the case may be, through the Paying Agent (as defined in section 15 below), in its capacity as paying agent, in the account specified by the Issuer on the relevant date of issuance of Commercial Paper.

In all cases each Dealer or, as the case may be, the Issuer, will issue a nominative and non-negotiable certificate of acquisition regarding the Commercial Paper in which said Dealer has collaborated in its placement or in which the investors have acquired the Notes directly from the Issuer, as applicable. This document will provisionally give evidence of the subscription of the Commercial Paper until the appropriate book entry (*anotación en cuenta*) is registered, which will grant its holder the right to request the relevant legitimacy certificate (*certificado de legitimación*).

Furthermore, the Issuer will report the disbursement to MARF and Iberclear through the relevant certificate.

13. ISSUE DATE. TERM OF THE PROGRAMME

The term of validity of the Programme is one (1) year from the date of incorporation of this Information Memorandum with MARF.

As the Programme is a continuous type, the Notes may be issued and subscribed on any day during its term of validity. However, the Issuer reserves the right not to issue new Notes when it deems such action appropriate pursuant to the cash needs of the Issuer or because it finds more favourable financing conditions.

The issue date and disbursement date of the Commercial Paper Notes will be indicated in the complementary certificates (*certificaciones complementarias*) produced at the time of each issuance. The issue date, disbursement and admission (*incorporación*) of the Commercial Paper may not fall after the expiration date of this Information Memorandum.

14. NOMINAL INTEREST RATE. INDICATION OF THE YIELD AND CALCULATION METHOD

The annual nominal interest for the Commercial Paper Notes will be set in each issuance.

The Commercial Paper will be issued at the interest rate agreed by and between Banca March, S.A., Banco Santander, S.A., Banco de Sabadell, S.A., Bred Banque Populaire, S.A., Norbolsa, S.V., S.A. and PKF Attest Capital Markets, A.V., S.A. (for these purposes, the "**Dealers**" and each individually a "**Dealer**") and the Issuer, or, as the case may be, agreed between the Issuer and the investors. The yield shall be implicit in the subscription or acquisition price of the Commercial Paper Notes issued at a particular issuance, considering that the Notes will be reimbursed on the maturity date at their face value.

The price at which the relevant Dealer transfers the Commercial Paper Notes to third parties will be the rate freely agreed between the relevant dealer and the interested investors.

As the Notes are securities issued with an implicit yield, the cash amount to be paid out by each investor (effective value) varies in accordance with the nominal interest rate and term agreed.

Therefore, the cash amount (effective value) of the Commercial Paper Notes can be calculated by applying the following formulas:

- When the Notes are issued for a maximum term of 365 days:

$$E = \frac{N}{1 + i \text{x} \frac{d}{365}}$$

- When the Notes are issued for more than 365 days:

$$E = \frac{N}{(1+i)^{\frac{d}{365}}}$$

where:

N = nominal amount of the Commercial Paper Notes.

E = cash amount (effective value) of the Commercial Paper Notes.

d = number of days from the issue date until maturity date.

i = nominal interest rate, expressed as a decimal.

A table is included hereafter to help the investor, including the effective value scenarios for different rates of interest and redemption periods, and there is also a column showing the variation of the effective value of the Commercial Paper Notes by increasing such period in 10 days.

[see table in the following page]

EFFECTIVE VALUE OF A COMMERCIAL PAPER WITH A NOMINAL VALUE OF €100,000
(Less than one year term)

	7 DAYS			14 DAYS			30 DAYS			60 DAYS		
Nominal rate (%)	Subscription price (euros)	IRR/AER (%)	+10 days (euros)	Subscription price (euros)	IRR/AER (%)	+10 days (euros)	Subscription price (euros)	IRR/AER (%)	+10 days (euros)	Subscription price (euros)	IRR/AER (%)	+10 days (euros)
0,25	99.995,21	0,25	-6,85	99.990,41	0,25	-6,85	99.979,46	0,25	-6,85	99.958,92	0,25	-6,84
0,50	99.990,41	0,50	-13,69	99.980,83	0,50	-13,69	99.958,92	0,50	-13,69	99.917,88	0,50	-13,67
0,75	99.985,62	0,75	-20,54	99.971,24	0,75	-20,53	99.938,39	0,75	-20,52	99.876,86	0,75	-20,49
1,00	99.980,83	1,00	-27,38	99.961,66	1,00	-27,37	99.917,88	1,00	-27,34	99.835,89	1,00	-27,30
1,25	99.976,03	1,26	-34,22	99.952,08	1,26	-34,20	99.897,37	1,26	-34,16	99.794,94	1,26	-34,09
1,50	99.971,24	1,51	-41,06	99.942,50	1,51	-41,03	99.876,86	1,51	-40,98	99.754,03	1,51	-40,88
1,75	99.966,45	1,77	-47,89	99.932,92	1,76	-47,86	99.856,37	1,76	-47,78	99.713,15	1,76	-47,65
2,00	99.961,66	2,02	-54,72	99.923,35	2,02	-54,68	99.835,89	2,02	-54,58	99.672,31	2,02	-54,41
2,25	99.956,87	2,28	-61,55	99.913,77	2,27	-61,50	99.815,41	2,27	-61,38	99.631,50	2,27	-61,15
2,50	99.952,08	2,53	-68,38	99.904,20	2,53	-68,32	99.794,94	2,53	-68,17	99.590,72	2,53	-67,89
2,75	99.947,29	2,79	-75,21	99.894,63	2,79	-75,13	99.774,48	2,78	-74,95	99.549,98	2,78	-74,61
3,00	99.942,50	3,04	-82,03	99.885,06	3,04	-81,94	99.754,03	3,04	-81,72	99.509,27	3,04	-81,32
3,25	99.937,71	3,30	-88,85	99.875,50	3,30	-88,74	99.733,59	3,30	-88,49	99.468,59	3,29	-88,02
3,50	99.932,92	3,56	-95,67	99.865,93	3,56	-95,54	99.713,15	3,56	-95,25	99.427,95	3,55	-94,71
3,75	99.928,13	3,82	-102,49	99.856,37	3,82	-102,34	99.692,73	3,82	-102,00	99.387,34	3,81	-101,38
4,00	99.923,35	4,08	-109,30	99.846,81	4,08	-109,13	99.672,31	4,07	-108,75	99.346,76	4,07	-108,04
4,25	99.918,56	4,34	-116,11	99.837,25	4,34	-115,92	99.651,90	4,33	-115,50	99.306,22	4,33	-114,70
4,50	99.913,77	4,60	-122,92	99.827,69	4,60	-122,71	99.631,50	4,59	-122,23	99.265,71	4,59	-121,34

EFFECTIVE VALUE OF A COMMERCIAL PAPER WITH A NOMINAL VALUE OF €100,000

	(Less than one year term)						(Equal to one year term)			(More than one year term)		
	90 DAYS			180 DAYS			365 DAYS			731 DAYS		
Nominal rate (%)	Subscription price (euros)	IRR/AER (%)	+10 days (euros)	Subscription price (euros)	IRR/AER (%)	+10 days (euros)	Subscription price (euros)	IRR/AER (%)	+10 days (euros)	Subscription price (euros)	IRR/AER (%)	+10 days (euros)
0,25	99.938,39	0,25	-6,84	99.876,86	0,25	-6,83	99.750,62	0,25	-6,81	99.501,19	0,25	-6,81
0,50	99.876,86	0,50	-13,66	99.754,03	0,50	-13,63	99.502,49	0,50	-13,56	99.006,10	0,50	-13,53
0,75	99.815,41	0,75	-20,47	99.631,50	0,75	-20,39	99.255,58	0,75	-20,24	98.514,69	0,75	-20,17
1,00	99.754,03	1,00	-27,26	99.509,27	1,00	-27,12	99.009,90	1,00	-26,85	98.026,93	1,00	-26,72
1,25	99.692,73	1,26	-34,02	99.387,34	1,25	-33,82	98.765,43	1,25	-33,39	97.542,79	1,25	-33,19
1,50	99.631,50	1,51	-40,78	99.265,71	1,51	-40,48	98.522,17	1,50	-39,87	97.062,22	1,50	-39,58
1,75	99.570,35	1,76	-47,51	99.144,37	1,76	-47,11	98.280,10	1,75	-46,29	96.585,19	1,75	-45,90
2,00	99.509,27	2,02	-54,23	99.023,33	2,01	-53,70	98.039,22	2,00	-52,64	96.111,66	2,00	-52,13
2,25	99.448,27	2,27	-60,93	98.902,59	2,26	-60,26	97.799,51	2,25	-58,93	95.641,61	2,25	-58,29
2,50	99.387,34	2,52	-67,61	98.782,14	2,52	-66,79	97.560,98	2,50	-65,15	95.175,00	2,50	-64,37
2,75	99.326,48	2,78	-74,28	98.661,98	2,77	-73,29	97.323,60	2,75	-71,31	94.711,79	2,75	-70,37
3,00	99.265,71	3,03	-80,92	98.542,12	3,02	-79,75	97.087,38	3,00	-77,41	94.251,96	3,00	-76,30
3,25	99.205,00	3,29	-87,55	98.422,54	3,28	-86,18	96.852,30	3,25	-83,45	93.795,46	3,25	-82,15
3,50	99.144,37	3,55	-94,17	98.303,26	3,53	-92,58	96.618,36	3,50	-89,43	93.342,27	3,50	-87,93
3,75	99.083,81	3,80	-100,76	98.184,26	3,79	-98,94	96.385,54	3,75	-95,35	92.892,36	3,75	-93,64
4,00	99.023,33	4,06	-107,34	98.065,56	4,04	-105,28	96.153,85	4,00	-101,21	92.445,69	4,00	-99,28
4,25	98.962,92	4,32	-113,90	97.947,14	4,30	-111,58	95.923,26	4,25	-107,02	92.002,23	4,25	-104,85
4,50	98.902,59	4,58	-120,45	97.829,00	4,55	-117,85	95.693,78	4,50	-112,77	91.561,95	4,50	-110,35

Given the different types of issues that will applied throughout the Commercial Paper Programme, the Issuer cannot predetermine the internal rate of return (IRR) for each investor.

In any case, for the Commercial Paper Notes with a term of 365 days or less, it will be determined in accordance with the following formula:

$$i = \left[\left(\frac{N}{E} \right)^{365/d} - 1 \right]$$

where:

i = effective annual interest rate, expressed as a decimal.

N = nominal amount of the Commercial Paper Notes.

E = cash amount (effective value) at the time of subscription or acquisition.

d = number of calendar days between the issue date (inclusive) and the maturity date (exclusive).

Regarding the Commercial Paper with a term exceeding 365 days, the IRR is equal to the nominal rate of the Commercial Paper set out in this section.

If the Commercial Paper Notes are originally subscribed by the Dealers in order to have the relevant Notes transferred to the investors, the price at which each Dealers may transfer the Commercial Paper Notes will be freely agreed among the relevant Dealer and investors, which may not be the same as the issue price.

15. DEALERS, PAYING AGENT AND DEPOSITARY ENTITIES

The entities that initially collaborate in this Programme and in the placement of the Commercial Paper under each issuance (the "**Dealers**" and each of them a "**Dealer**") are the following:

1. Banca March, S.A. ("**Banca March**")
   - Tax Identification Number: A-07004021
   - Registered office: Av. Alejandro Rosselló, 8, 07002 Palma de Mallorca
2. Banco Santander, S.A. ("**Santander**")
   - Tax Identification Number: A-39000013
   - Registered office: Paseo de Pereda, 9-12, 39004 Santander
3. Banco de Sabadell, S.A. ("**Banco Sabadell**")
   - Tax Identification Number: A-08000143
   - Registered office: Avda. Óscar Esplá, 37, 03007 Alicante
4. BRED Banque Populaire, S.A. ("**BRED**")
   - Tax Identification Number: FR09552091795
   - Registered office: 18, Quai de la Rapee Paris, 75012 France
5. Norbolsa, S.V., S.A. ("**Norbolsa**")
   - Tax Identification Number: A-48403927
   - Registered office: Plaza de Euskadi, 5, 26th floor, 48001 Bilbao (Bizkaia)

6. <u>PKF Attest Capital Markets, A.V., S.A. (“**PKF**”)</u>

- Tax Identification Number: A-86953965
- Registered office: calle Orense 81, 7th floor, 28020 Madrid

A collaboration agreement for the placement (*contrato de colaboración en la colocación*) has been entered into by the Issuer and each of the Dealers for this Programme, including the possibility to sell the Notes to third parties.

The Issuer reserves the right to appoint new Dealers under the Programme. In the case that a new Dealer is appointed by the Issuer, a relevant information notice will be promptly communicated to MARF.

Banca March will also act as paying agent (the “**Paying Agent**”). By acting under the paying agency agreement executed with the Issuer and in connection with the Notes, the Paying Agent will act solely as agent of the Issuer and will not assume any obligations towards or relationship of agency or trust for or with any of the holders of the Notes. Notice of any change of the entity acting as Paying Agent will be promptly communicated to MARF by means of the relevant notice.

Although Iberclear will be the entity in charge of the book-keeping (*registro contable*) of the accounting records corresponding to the Notes, the investors must note that Euskaltel, as Issuer, has not designated any depository entity for the Notes. Each subscriber or acquirer of the Notes must appoint, among Iberclear’s participating entities, the entity that will act as depositary of the Notes held by such investor.

Any holder of the Notes who does not have, directly or indirectly through its custodians, a participating account with Iberclear may participate in the Commercial Paper Notes through bridge accounts maintained by each of Euroclear Bank, SA/NV or Clearstream Banking, Société Anonyme, Luxembourg, as appropriate.

16. REDEMPTION PRICE AND PROVISIONS REGADING MATURITY OF THE SECURITIES. DATE AND METHODS OF REDEMPTION

The Commercial Paper Notes issued under a particular issuance made under the Programme will be redeemed at their face value on the maturity date indicated in the terms and conditions of each issuance, withholding the relevant amount according to tax regulations if such withholding is applicable.

The Commercial Paper issued under the Programme may have a redemption period of between three (3) Business Days and seven hundred and thirty (730) calendar days (twenty-four (24) months). “**Business Day**” means: a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System or any successor thereto is operating, except from those days that, in spite of being business days according to TARGET2, are holidays in the city of Madrid.

Considering that the Commercial Paper Notes will be traded on MARF, their redemption will take place pursuant to the operating rules of the clearance system of MARF, so that, on maturity date, the nominal amount of the relevant Notes is paid to their legitimate holder. The Paying Agent does not take any liability whatsoever regarding any investor’s expected reimbursement from the Issuer on the maturity date of the relevant Commercial Paper Notes held by each investor.

17. VALID TERM TO CLAIM THE REIMBURSEMENT OF THE PRINCIPAL

In accordance with article 1,964.2 of the Spanish Civil Code, actions to request the reimbursement of the face value of the Commercial Paper Notes may be exercised by each relevant investor during five (5) years from the date on which the Notes held by such investor become due.

18. MINIMUM AND MAXIMUM ISSUE PERIOD

As previously stated, during the validity term of this Information Memorandum the Commercial Paper issued may have a redemption period of between three (3) Business Days and seven hundred and thirty (730) calendar days (that is, twenty four (24) months).

19. EARLY REDEMPTION

Any Commercial Paper Notes issued under the Programme will not include an early redemption option for the Issuer (*call*) or for the holder of the Notes (*put*). Notwithstanding the foregoing, the Issuer may redeem the Commercial Paper Notes that the Issuer can hold or possess for any legitimate title prior to the relevant maturity date

.

20. RESTRICTIONS ON THE FREE TRANSFERABILITY OF THE SECURITIES

In accordance with current legislation, there are no specific or generic restriction on the free transferability of the Commercial Paper Notes that will be issued under the Programme.

21. TAXATION OF THE SECURITIES

In accordance with the provisions set out in current Spanish legislation, the Commercial Paper Notes are classified as **financial assets with implicit yield**.

Therefore, the general tax regime in force in Spain at any given time for issues of financial assets with implicit yield will apply to the Notes issued under the Programme.

Income from the Notes is considered to be capital gains and subject to Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*) (the "**PIT**"), Corporate Income Tax (*Impuesto sobre Sociedades*) (the "**CIT**") and Non-residents Income Tax (*Impuesto sobre la Renta de no Residentes*) (the "**NRIT**").

The tax is collected through interim withholdings at source, under the terms and conditions set out in the respective regulatory laws and other standards that implement said laws.

For illustrative purposes only, the main pieces of Spanish tax legislation at the time this Information Memorandum is published are the following:

(i) Law 35/2006, of November 28, on Personal Income Tax and partial amendment of the laws on Corporate Tax, Non-residents Income Tax and Wealth (*Ley 35/2006, de 28 de noviembre, del Impuesto sobre la Renta de las Personas Físicas y de modificación parcial de las leyes de los Impuestos sobre Sociedades, sobre la Renta de no Residentes y sobre el Patrimonio*) (the "**PIT Law**"), as well as those contained in articles 74 *et seq.* of Royal Decree 439/2007, of March 30, which approves the regulation on Personal Income Tax and modifies the regulations on Pension Funds and Plans approved through Royal Decree 304/2004, of February 20 (*Real Decreto 439/2007, de 30 de marzo, por el que se aprueba el Reglamento del Impuesto sobre la Renta de las Personas Físicas y se modifica el Reglamento de Planes y Fondos de Pensiones, aprobado por Real Decreto 304/2004, de 20 de febrero*);

(ii) Law 27/2014, of November 27, on Corporate Tax Law (*Ley 27/2014, de 27de noviembre, del Impuesto sobre Sociedades*) (the "**CIT Law**") as well as articles 60 *et seq.* of the Corporate Income Tax regulations approved through Royal Decree 634/2015, of July 10 (*Reglamento del Impuesto sobre Sociedades aprobado por el Real Decreto 634/2015, de 10 de julio*);

(iii) Royal Legislative Decree 5/2004, of March 5, which approves the recast text of the Non-residents Income Tax law (*Real Decreto Legislativo 5/2004, de 5 de marzo, por el que se aprueba el texto refundido de la Ley del Impuesto sobre la Renta de no Residentes*) (the "**NRIT Law**") and those contained in Royal Decree 1776/2004, of July 30, which approves the regulations in respect of Non-residents Income Tax (*Real Decreto 1776/2004, de 30 de julio por el que se aprueba el Reglamento del Impuesto sobre la Renta de no residentes*) (the "**NRIT Regulation**");

(iv) Law 19/1991, of 6 June, on the Wealth Tax (*Ley 19/1991, de 6 de junio, del Impuesto sobre el Patrimonio*); and

(v) Law 29/1987, of 18 December, on the Inheritance and Gift Tax (*Ley 29/1987, de 18 de diciembre, del Impuesto sobre Sucesiones y Donaciones*) (the "**I&GT Law**") and its regulations contained in Royal Decree 1629/1991, of 8 November.

This section of the Information Memorandum summarizes the tax regime applicable to the acquisition, ownership and, if only, subsequent transfer of the offered Notes. All this without prejudice to any regional tax regimes that may be applicable, particularly those corresponding to the historic territories of the Basque Country and of the Regional Community of Navarre, or any other regimes that could be applicable due to the specific features of the relevant investor.

As a general rule, in order to dispose of or obtain reimbursement of financial assets with implicit yield that are subject to a withholding at source at the time of transfer, redemption or reimbursement, prior acquisition of the same must be substantiated through a notary public or by financial institutions obliged to perform withholdings. The price of the transaction must also be certified. The financial institutions through which the payment of interest is made or which intervene in the transfer, redemption or reimbursement of securities are obliged to calculate the returns attributable to the securities holder and notify this to both the holder of the security as well as to the relevant tax authorities. The tax authorities must also be notified of those persons taking part in the aforementioned transactions.

Ownership of the Commercial Paper will likewise be subject to Wealth Tax (*Impuesto sobre el Patrimonio*) (the "**WT**") and the Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*) (the "**I&GT**") on the date of accrual of said taxes, by virtue of the provisions set out in current regulations in each case.

This section of the Information Memorandum does not intend to be a comprehensive description of all tax considerations that may be relevant for a decision to acquire the Commercial Paper Notes, nor does it seek to cover the tax consequences applicable to all categories of investors, some of which (e.g. financial institutions, corporate income tax exempt entities, collective investment institutions, superannuation funds, cooperatives, etc.) may be subject to special rules.

Consequently, any prospective investor interested in acquiring the Notes must consult and get advice from its own tax advisors or lawyers who could give such prospective investor personalized advice in view of such investor's specific circumstances.

Likewise, any investors and prospective investors should take into consideration potential changes in legislation or its criteria of interpretation.

21.1. INVESTORS THAT ARE INDIVIDUALS WITH TAX RESIDENCE ON SPANISH TERRITORY

21.1.1. Personal Income Tax (PIT)

The net income obtained by the holders of the Notes that are taxpayers of the PIT because of the transfer, redemption, exchange or reimbursement thereof will be considered as an implicit yield from movable capital and will be included in the PIT taxable savings base for the financial year when the sale, redemption, exchange or reimbursement takes place. PIT will be paid at the rate in force from time to time for taxable savings, which is currently at 19% up to EUR 6,000, 21% from EUR 6,000.01 up to EUR 50,000, 23% from EUR 50,000.01 up to EUR 200,000.00 and 26% from EUR 200,000.01 upwards.

Negative income derived from the transfer of the Notes, in the event that the relevant holder had acquired other homogeneous securities within the two months prior or subsequent to such transfer or exchange, will be included in his or her PIT base as and when the remaining homogeneous securities are transferred.

When calculating the net income, expenses related to the management and deposit of the Notes will be deductible, excluding those pertaining to discretionary or individual portfolio management.

Generally, income derived from the Notes will be subject to withholding tax on account of PIT (r*etención a cuenta*) at the current rate of 19%. Any withheld amounts may be credited against individuals' final PIT liability.

In accordance with article 93 of PIT Regulations, such income will be calculated by the difference between the redemption, exchange, reimbursement or transfer value and the acquisition or subscription value of the Notes(without deducting expenses).

As regards any income derived from the transfer of the Notes, the financial institution acting on behalf of the transferring party will be obliged to apply any relevant withholding. When the income is obtained from the reimbursement, the issuer or the financial institution responsible for the transaction will be the entity required to apply the relevant withholding.

The transfer or reimbursement of the Notes will require that the relevant prior acquisition as well as the transaction price is evidenced by a public notary or the financial institutions obliged to apply the relevant withholding.

21.1.2. Wealth Tax

Any individual with tax residence in Spain will be subject to Wealth Tax, which imposes a tax on his or her net wealth (that is, property and rights regardless of the place where the assets are located or where the rights may be exercise) in excess of EUR 700,000 held on the last day of any year.

Therefore, any individual with tax residence in Spain whose net worth is above EUR 700,000 and who holds Notes on the last day of any year would be subject to Wealth Tax for such year at marginal rates varying between 0.2% and 3.5% of the average market value of the Notes during the last quarter of such year, as published by the Spanish Ministry of Revenues on an annual basis.

However, those rates may vary depending on the Autonomous Region of residency of the relevant individual investing in the Notes, so any prospective investor must consult and get advice from his or her own tax advisers.

21.1.2. Inheritance and Gift Tax (IGT)

Any individual with tax residence in Spain who acquires ownership or other rights over any Notes by inheritance, gift or legacy will be subject to the IGT in accordance with the applicable Spanish regional or State rules (subject to any regional tax exemptions being available to each individual). The applicable effective tax rates can range currently between 0% and 81.6% subject to any specific regional rules, depending on relevant factors (such as previous net wealth, family relationship among transferor and transferee or applicable tax laws approved by the relevant Autonomous Region where the relevant individual is resident for tax purposes).

21.2. INVESTORS THAT ARE ENTITIES WITH TAX RESIDENCE IN SPAIN

21.2.1. Corporate Income Tax (CIT)

Income derived from the transfer, redemption, exchange or reimbursement of the Notes will be subject to CIT at the general flat tax rate of 25% in accordance with the rules established for this tax.

Such income will be exempt from withholding tax on account of CIT provided that the Notes (i) are registered by way of book-entries (*anotaciones en cuenta*); and (ii) are traded on a Spanish official secondary market of securities (such as AIAF) or on multilateral trading facility such as MARF.

If this exemption was not applicable, this income would be subject to Spanish withholding tax at the rate currently in force of 19%. Withheld amounts may be credited against entities' final CIT liability. However, no withholding on account of CIT will be imposed on income derived from the redemption or repayment of the Notes provided that the requirements set forth in Law 10/2014 and article 44 of Royal Decree 1065/2007 are met, including that the entities that are members to Iberclear that have the Notes registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, provides the Issuer, in a timely manner, with a duly executed and completed Payment Statement, as defined below. See "*Information about the Commercial Paper in connection with Payments.*"

The transfer or reimbursement of the Notes will require that its prior acquisition as well as the transaction price is evidenced by a public notary or the financial institutions obliged to apply the relevant withholding

.

21.2.2. Wealth Tax

Legal entities are not subject to WT.

21.2.3. Inheritance and Gift Tax

Legal entities do not pay I&GT and will be subject to the CIT Law.

21.3. INVESTORS THAT ARE NOT RESIDENT IN SPAIN

21.3.1. Non-residents Income Tax for investors not resident in Spain acting through a permanent establishment

If the Notes form part of the assets affected to a permanent establishment in Spain of a person or legal entity that is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are, generally, the same as those summarized above for Spanish CIT taxpayers. Ownership of the Notes by investors who are not resident in Spain for tax purposes will not in itself create the existence of a permanent establishment in Spain.

21.3.2. Non-residents Income Tax for investors not resident in Spain not acting through a permanent establishment

Income derived from the transfer, redemption or repayment of the Notes obtained by individuals or entities who are not resident in Spain for tax purposes and who do not act, with respect to the Notes, through a permanent establishment in Spain, are exempt from the Non-residents Income Tax and, therefore, no withholding on account of NRIT will be levied on such income provided that the requirements set out in Law 10/2014 and article 44 of Royal Decree 1065/2007 are met, including that, in respect of payments from the Notes carried out by the Issuer, the entities that are members to Iberclear that have the Notes registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, provide the Issuer, in a timely manner, with a duly executed and completed Payment Statement, as defined below, as set out in article 44 of the regulations approved by Royal Decree 1065/2007. See "*Information about the Commercial Paper in connection with Payments*."

If the relevant entity that is member to Iberclear fails or for any reason is unable to deliver a duly executed and completed Payment Statement to the Issuer in a timely manner in respect of a payment of income under the Notes, the Issuer will withhold Spanish withholding tax at the then-applicable rate (the current rate is 19%) on such payment of income on the Notes.

Noteholders not resident in Spain for tax purposes and entitled to exemption from NRIT but where Spanish withholding tax has been applicable in accordance with the procedure described in detail under "*Information about the Commercial Paper in connection with Payments*" would have to apply directly to the Spanish tax authorities for any refund to which they may be entitled, according to the procedures that the NRIT Law provides for.

21.3.3. Wealth Tax

Notwithstanding the provisions included in the double tax treaties entered into by Spain, an individual who is not tax resident in Spain whose net worth related to property located, or rights that can be exercised, in Spain is above EUR 700,000 and who holds Notes on the last day of any year would be subject to Wealth Tax for such year at marginal rates varying between 0.2% and 3.5% of the average market value of the Notes during the last quarter of such year, as published by the Spanish Ministry of Revenues on an annual basis. However, an individual who is not tax resident in Spain will be exempt from Wealth Tax in respect of Notes which income is exempt from NRIT.

An individual who is not resident in Spain for tax purposes may apply the rules approved by the Autonomous Region where the assets and rights with more value (i) are located, (ii) can be exercised or (iii) must be fulfilled.

21.3.4. Inheritance and Gift Tax

An individual who is not resident in Spain for tax purposes who acquires ownership or other rights over Notes by inheritance, gift or legacy, will be subject to IGT in accordance with the applicable Spanish regional and state rules, unless he or she resides in a country for tax purposes with which Spain has entered into a double tax treaty in relation to IGT. In such case, the provisions of the relevant double tax treaty will apply.

If the provisions of the foregoing paragraph do not apply, such individual will be subject to IGT in accordance with Spanish legislation. As such, any prospective investor who is not resident in Spain for tax purposes must consult and get advice from his or her own tax advisers.

Notwithstanding the foregoing, if the relevant deceased, the heir or the donee is resident in a Member State of the European Union or of the European Economic Area, depending on the specific case, the regulations approved by the relevant Autonomous Region may apply, following specific rules. As such, any prospective investor who is not resident in Spain for tax purposes must consult and get advice from his or her own tax adviser. Likewise, in its decisions dated 19 February, 21 March and 22 March 2018, the Spanish Supreme Court, based on the European right to the Free Movement of Capital, has declared that the application of the regional rules corresponding to the relevant Autonomous Region according to the law must be extended in some circumstances to deceased heirs or donees who are resident outside of the European Union or of the European Economic Area.

Any legal entity with tax residence outside Spain that acquires ownership or other rights over the Notes by inheritance, gift or legacy is not subject to the IGT. Such acquisitions will be subject to NRIT (as summarized above), except as provided in any applicable double tax treaty entered into by Spain. In general, double tax treaties provide for the taxation of this type of income in the country of tax residence of the holder of the Notes.

21.4. INFORMATION ABOUT THE COMMERCIAL PAPER IN CONNECTION WITH PAYMENTS

As described above, to the extent that the conditions set out in Law 10/2014 and article 44 of Royal Decree 1065/2007 are met, income in respect of the Notes for the benefit of either a holder of the Notes with tax residence outside Spain or of a Spanish CIT taxpayer will not be subject to Spanish withholding tax, provided that the entities that are members to Iberclear that have the Notes registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, if applicable, provide the Issuer, in a timely manner, with a duly executed and completed statement (a "**Payment Statement**"), including the following information:

1. Identification of the Commercial Paper Notes.

2. Total amount of the income paid by the Issuer.

3. Amount of the income corresponding to individuals residents in Spain that are PIT taxpayers.

4. Amount of the income that must be paid on a gross basis.

If the relevant entity member to Iberclear fails or for any reason is unable to deliver a duly executed and completed Payment Statement to the Issuer in a timely manner in respect of a payment of income made by the Issuer under the Notes, such payment will be made net of Spanish withholding tax, at the current rate of 19%. If this were to occur, affected holders of the Notes will receive a refund of the amount withheld, with no need for action on their part, if the relevant member to Iberclear submits a duly executed and completed Payment Statement to the Issuer no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, holders of the Notes may apply directly to the Spanish tax authorities for any refund to which they may be entitled, according to the procedures that the NRIT Law provides for.

21.5. INDIRECT TAXATION IN THE ACQUISITION AND TRANSFER OF THE SECURITIES ISSUED

Irrespective of the nature and residence of the investors holding the Commercial Paper Notes, the acquisition and transfer of the Notes will be exempt from indirect taxes in Spain, in particular exempt from Transfer Tax and Stamp Duty (*Impuesto de Transmisiones y Actos Jurídicos Documentados*), in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September, and exempt from Value Added Tax (*Impuesto sobre el Valor Añadido*), in accordance with Law 37/1992, of 28 December, regulating such tax, and article 314 of Royal Legislative Decree 4/2015, of 23 October, which approves the recast text of the Securities Market Law (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*).

22. PUBLICATION OF THE INFORMATION MEMORANDUM

This Information Memorandum will be published on the MARF's website: http://www.bmerf.es.

23. DESCRIPTION OF THE PLACEMENT SYSTEM AND, IF APPLICABLE, SUBSCRIPTION OF EACH ISSUE

23.1. Placement by the Dealers

The Dealers may act as intermediaries in the placement of the Commercial Paper, without prejudice to each Dealer being able to subscribe the Commercial Paper in its own name.

For these purposes, the Dealers may request the Issuer in any Business Day, between 10:00 a.m. CET and 2:00 p.m. CET, volume quotations and nominal interest rates for potential issues of the Notes in order to carry out the relevant book building process among qualified investors (including eligible counterparties and professional clients). In addition, the Issuer may request to the Dealer in any Business Day, between 10:00 a.m. and 2:00 p.m. CET, proposals of volume quotations and interest rates for any potential issuances of the Notes.

The amount, nominal interest rate, issue date, disbursement date, maturity date, as well as the rest of the terms of each issuance of Notes will be agreed between the Issuer and the Dealer or Dealers involved in each specific issuance of Notes. Such terms will be confirmed by means of the delivery of a document which includes the conditions of the issue, to be sent by the Issuer to the relevant Dealers and Paying Agent.

The interest to which each Dealer transfers the relevant Notes to final investors will be the same as those agreed by the Dealer and the Issuer, and there can be no difference between the listing price of the Commercial Paper, that is, the interest rate that the Issuer is willing to satisfy and has notified to the Dealers, and the interest rate to which the Managers place such Notes to the investors.

23.2. Issue and subscription of the Commercial Paper directly by investors

Additionally, it is also possible that final investors having the status of qualified investors, eligible counterparties and/or professional clients subscribe the Notes directly from the Issuer, provided that any such investor complies with all current legal requirements..

In such cases, the amount, interest rate, issue date, disbursement date, maturity date, as well as the rest of the terms of each will shall be agreed between the Issuer and the relevant final investors in relation to each particular issuance of Notes.

24. COSTS FOR LEGAL, FINANCIAL AND AUDITING SERVICES, AND OTHER SERVICES PROVIDED TO THE ISSUER REGARDING THE ADMISSION (*INCORPORACIÓN*) TO TRADING

The costs for all legal and financial services, and other services provided to the Issuer for the admission (*incorporación*) to trading of the Commercial Paper amount to approximately ninety-five thousand euros (€95.000), excluding taxes but including the fees of MARF and Iberclear.

25. ADMISSION TO TRADING (*INCORPORACIÓN*) OF THE SECURITIES

25.1. Deadline for the admission (*incorporación*) to trading

The admission (*incorporación*) to trading of the Commercial Paper Notes described in this Information Memorandum will be requested for the Spanish multilateral trading facility known as the Alternative Fixed-Income Market (*Mercado Alternativo de Renta Fija*, abbreviated in Spanish as MARF)

The Issuer hereby undertakes to carry out all the necessary actions so that the Commercial Paper is listed on MARF within seven (7) days from the date of issuance of the securities.

For these purposes, as stated above, **the date of issuance will coincide with the date of disbursement** for each particular issuance of Commercial Paper under the Programme.

Under no circumstances will the deadline exceed the maturity of the Commercial Paper. In the event of breach of the aforementioned deadline, the reasons for the delay will be notified to MARF as "*otra información relevante*". This is without prejudice to any possible contractual liability that may be incurred by the Issuer. The date of incorporation of the Commercial Paper must be, in any event, a date falling within the validity period of the Programme and under no circumstances will the listing period exceed the maturity date of the Commercial Paper.

MARF has the legal structure of a multilateral trading facility (MTF) (*sistema multilateral de negociación*, abbreviated as *SMN*), under the terms set out in the Royal Decree-Law 21/2017, of 29 of December, on urgent measures for the adaptation of Spanish law in accordance with European Union regulation in relation to the securities market, constituting an unofficial alternative market for the trading of fixed-income securities.

This Information Memorandum is the one required in Circular 2/2018 of MARF, on admission (*incorporación*) and removal of securities on the Alternative Fixed-Income Market.

Neither MARF nor any of the Dealers or the Legal Advisor have approved or carried out any verification or testing regarding the content of the Information Memorandum, the audited financial statements and other financial information of the Issuer. The intervention of MARF does not represent a statement or recognition of the full, comprehensible and consistent nature of the information set out in the documentation provided by the Issuer.

It is recommended that any prospective investor fully and carefully reads this Information Memorandum and obtains financial, legal and tax advice from experts in the procurement of these financial assets prior to making any investment decision regarding the Commercial Paper Notes as securities.

The Issuer hereby expressly declares that it is aware of the requirements and conditions necessary for the acceptance, permanence and removal of the securities on MARF, according to current legislation and the requirements of its governing body, and expressly agrees to comply with them.

The Issuer hereby expressly declares that it is aware of the requirements for registration and settlement on Iberclear. The settlement of transactions will be performed through Iberclear.

25.2. Publication of the admission (*incorporación*) to trading

The admission (*incorporación*) to trading will be published on the website of MARF (http://www.bmerf.es).

26. LIQUIDITY AGREEMENT

The Issuer has not entered into any liquidity undertaking or agreement with any entity regarding the Commercial Paper Notes to be issued under the Programme.

[rest of the page intentionally left in blank]

In Bilbao, March 10, 2022.

As the person responsible for this Information Memorandum:

Mr. Meinrad Spenger

p.p.

CHIEF EXECUTIVE OFFICER

EUSKALTEL, S.A. (UNIPERSONAL)

ISSUER

Euskaltel, S.A. (Unipersonal)

Parque Tecnológico de Bizkaia,
Edificio 809, 48160 Derio, Bizkaia

DEALERS

Banca March, S.A.

Av. Alejandro Rosselló, 8, 07002 Palma de Mallorca

Banco Santander, S.A.

Paseo de Pereda, 9-12, 39004 Santander

Banco de Sabadell, S.A.

Avda. Óscar Esplá, 37. 03007 Alicante

BRED Banque Populaire, S.A.

8, Quai de la Rapee Paris, 75012 France

Norbolsa, S.V., S.A.

Plaza de Euskadi, 5, 26th floor, 48001 Bilbao (Bizkaia)

PKF Attest Capital Markets, A.V., S.A.

Calle Orense 81, 7th floor, 28020 Madrid

PAYING AGENT

Banca March, S.A.

Av. Alejandro Rosselló, 8, 07002 Palma de Mallorca

LEGAL ADVISOR

Evergreen Legal, S.L.P.

Paseo del General Martínez Campos 15, 28010 Madrid

REGISTERED ADIVOSR

Banca March, S.A.

Av. Alejandro Rosselló, 8, 07002 Palma de Mallorca

SCHEDULE 1

ISSUER'S AUDITED CONSOLIDATED FINANCIAL STATEMENTS

PART 1

ISSUER'S AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2020

Spanish version:

https://www.euskaltel.com/webektest/GaleriaCorporativo/Documentos/informacion_financiera/2021/euskaltel-cuentas-anuales-2020.pdf

English translation:

https://www.euskaltel.com/webektest/GaleriaCorporativo/Documentos/informacion_financiera/2021/euskaltel-cuentas-anuales-2020-en.pdf

PART 2

ISSUER'S AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2019

Spanish version:

https://www.euskaltel.com/webektest/GaleriaCorporativo/Documentos/informacion_financiera/es/informe-financiero-2019.pdf

English translation:
https://www.euskaltel.com/webektest/GaleriaCorporativo/Documentos/informacion_financiera/en/informe-financiero-2019-en.pdf

SCHEDULE 2

ISSUER'S CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

PART 1

ISSUER'S CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2021

https://www.euskaltel.com/webektest/GaleriaCorporativo/Documentos/informacion_financiera/2021/estados-intermedios-2021.pdf

PART 2

ISSUER'S CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2020

https://www.euskaltel.com/webektest/GaleriaCorporativo/Documentos/informacion_financiera/2021/estados-intermedios-2020.pdf

SCHEDULE 3

ISSUER'S INDIVIDUAL FINANCIAL STATEMENTS

<u>PART 1</u>

ISSUER'S INDIVIDUAL FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2020

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

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

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.

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

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*
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. 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. 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.	Our audit procedures included the following: a) evaluating the design and implementation of key controls related to the supplies and discounts process; b) reading and understanding the volume discount contracts with suppliers; c) assessing the consistency of the volume discounts recorded on the basis of the agreed-upon terms and conditions in the contract; and 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.

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

<table>
<tr><th colspan="2">Recoverable amount of non-current investments in Group companies and associates
See notes 4.5 and 8 to the annual accounts</th></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>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.</td><td>Our audit procedures included the following:
- assessing the design and implementation of key controls related to the process of estimating the recoverable amount of investments in Group companies and associates;
- 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;
- comparing the cash flow forecasts estimated in prior years with the actual cash flows obtained;
- assessing the sensitivity of certain assumptions to changes that are considered reasonable; and
- contrasting the information contained in the model used to calculate the recoverable amount with the business plan approved by the Directors.
We also assessed whether the disclosures in the annual accounts meet the requirements of the financial reporting framework applicable to the Company.</td></tr>
</table>

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

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.	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. 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. We also performed tests of detail, including the following: a) Reconciliation of data from the invoicing and collection systems with the accounting records. b) Review of corrective invoices and subsequent payments.

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

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

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.

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

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.

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

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

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

Contract Period

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
NON-CURRENT ASSETS		**2,679,421**	**2,627,136**
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**
CURRENT ASSETS		**79,609**	**86,038**
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**
TOTAL ASSETS		**2,759,030**	**2,713,174**

EQUITY AND LIABILITIES	Notes	31.12.2020	31.12.2019
EQUITY		**1,039,404**	**1,050,912**
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**
NON-CURRENT LIABILITIES		**1,420,677**	**1,372,878**
Non-current debt	**11**	**1,420,229**	**1,372,421**
Deferred tax liabilities		**448**	**457**
CURRENT LIABILITIES		**298,949**	**289,384**
Current provisions		**700**	**700**
Current debt	**11**	**204,511**	**238,443**
Trade and other payables	**11 & 12**	**93,738**	**50,241**
TOTAL EQUITY AND LIABILITIES		**2,759,030**	**2,713,174**

Derio, 25 February 2021

euskaltel

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)
RESULTS FROM OPERATING ACTIVITIES		67,438	71,371
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
NET FINANCE INCOME/COST	13.6	(19,007)	(3,549)
PROFIT BEFORE INCOME TAX		48,431	67,822
Income tax	12	(7,495)	(7,561)
PROFIT FOR THE YEAR	10	40,936	60,261

Derio, 25 February 2021

euskaltel

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

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

Derio, 25 February 2021

euskaltel

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	-	**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.)

	2020	2019
Profit/(loss) for the year before tax	**48,431**	**67,822**
Adjustments for	**141,422**	**97,595**
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
Changes in operating assets and liabilities	**10,670**	**(22,943)**
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)
Other cash flows from /(used in) operating activities	**(53,754)**	**26,947**
Interest paid	(44,474)	(45,786)
Dividends received	-	43,903
Interest received	607	29,777
Income tax paid	(9,887)	(947)
Cash flows from/(used in) operating activities	**146,769**	**169,421**

Derio, 25 February 2021

EUSKALTEL, S.A.

Statement of Cash Flows for the year ended 31 December 2020

(Expressed in thousands of Euros)

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

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
	478,054,645.83

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
	478,054,645.83

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
	457.674.630,50

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
	457.674.630,50

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)
Cash situation	
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).

euskaltel

NOTE 6.- Intangible assets

Details of intangible assets and movement are as follows:

	31.12.19	Additions	Disposals	Transfers	31.12.20
Cost					
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
	158,500	49,260	(7,946)	-	199,814
Accumulated amortisation					
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)
	(95,658)	(18,633)	2,456	-	(111,835)
Carrying amount	62,842	30,627	(5,490)	-	87,979

	31.12.18	Additions	Disposals	Transfers	31.12.19
Cost					
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
	135,293	31,210	(8,003)	-	158,500
Accumulated amortisation					
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)
	(83,029)	(15,459)	2,830	-	(95,658)
Carrying amount	52,264	15,751	(5,173)	-	62,842

The cost of fully amortised intangible assets in use at 31 December 2020 totals Euros 73,242 thousand (Euros64,594 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
Cost					
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
	1,656,909	72,949	(3,472)	-	1,726,386
Accumulated depreciation					
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)
	(1,014,092)	(61,899)	1,744	-	(1,074,247)
Carrying amount	**642,817**	**11,050**	**(1,728)**	**-**	**652,139**

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

	31.12.18	Additions	Disposals	Transfers	31.12.19
Cost					
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
	1,607,736	50,305	(2,473)	1,341	1,656,909
Accumulated depreciation					
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)
	(956,014)	(59,268)	1,190	-	(1,014,092)
Carrying amount	**651,722**	**(8,963)**	**(1,283)**	**1,341**	**642,817**

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
Equity instruments		
RCable y Telecable Telecomunicaciones, S.A.U.	1,116,872	1,116,872
EKT Cable y Telecomunicaciones, S.L.U.	3	3
	1,116,875	1,116,875
	(note 9)	(note 9)

	31.12.20	31.12.19
Loans to Group companies		
RCable y Telecable Telecomunicaciones, S.A.U.	689,151	672,612
	689,151	672,612
	(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.

euskaltel

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

	R Cable
Capital	40,144
Share premium	26,698
Reserves and prior years' losses	168,266
Profit/(loss) for the year	8,354
Grants	27,693
	271,155
Results from operating activities	27,665

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	8,354

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.

euskaltel

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
Non-current								
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
	694,925	676,533	1,116,875	1,116,875	1,016	1,016	1,812,816	1,794,424
Current								
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
	75,621	83,512	-	-	-	-	75,621	83,512

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:

Past due	**31.12.20**	**31.12.19**
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
	22,189	**17,051**
Not past due		
Invoiced	27,119	15,442
Pending invoice	11,765	9,284
	38,884	**24,726**
	61,073	**41,777**

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

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

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

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

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:

	Number of shares	% ownership
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%
	178,645,360	**100.00%**

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:

	31.12.20	**31.12.19**
Reserves		
Legal reserve	68,124	62,097
Voluntary reserves	61,574	62,629
	129,698	**124,726**

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.

    - June 2020 (date on which the Plan is approved by the shareholders' meeting).
    - 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
Non-current				
Related parties				
Non-current loans received (note 15.2)	153,251	146,501	-	-
Unrelated parties				
Loans received	1,266,738	1,225,082	-	-
Hedging derivatives	-	-	202	804
Other financial liabilities	38	34	-	-
	1,420,027	1,371,617	202	804
Current				
Related parties				
Other financial liabilities (note 15.2.)	8,654	-	-	-
Current loans received (note 15.2)	-	6,750	-	-
	8,654	6,750		
Unrelated parties				
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	-	-
	294,673	279,564	-	-

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:

	Nominal amount outstanding				
Tranche	31.12.20	31.12.19	Initial nominal amount	Interest	Maturity
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:

	2020	2019
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	2,277	2,370
	3,576	9,120

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:

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

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:

	Profit and loss	
	2020	2019
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	-	(3,030)
	7,495	7,561

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

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:

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

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
Total	**378,369**	**354,544**
Work performed by the entity and capitalised	(10,202)	(8,223)
Other operating income	(37)	(17)
Revenues	**368,130**	**346,304**

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:

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

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 ± 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:

	2020	2019
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	25,441	34,601

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

	2020	2019
Executives	26	30
Management	33	31
Other professionals	251	261
	310	322

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
	151	**161**	**312**	**150**	**160**	**310**

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
	71,239	68,797

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
	4,734	**3,513**

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:

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

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:

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

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:

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

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
	4,172	**2,228**	**4,499**	**6,385**

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)
	(4,844)	**61,466**	**56,322**	**1,699**	**66,808**	**68,507**

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
Key shareholders				
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)
Group companies				
Payables	(5,481)	-	(2,795)	-
Receivables	15,123	-	12,972	-
Dividend receivable	-	-	-	-
Loans granted (note 9)	-	689,151	-	672,612
	5,290	535,900	44,955	526,111

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
	174	**195**

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.

euskaltel

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 joint 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.

Directors' Report for 2020 Euskaltel, S.A.

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

CONTENTS

1.- Introduction

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

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

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

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

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

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

The Euskaltel Group is the leading optic fibre telecommunications group (broadband, phones, Pay TV and convergent telecommunications services) in the north of Spain, characterised by its strong roots and commitment to the regions of the Basque Country, Galicia and Asturias, where it has traditionally developed its activities through its operators Euskaltel, R Cable and Telecable, and more recently in Navarre, La Rioja, León, Cantabria and Catalonia 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 results 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 MLPS 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
Total revenues	**354,544**	**378,369**
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%
EBITDA	**165,386**	**160,219**
Margen sobre ingresos	46.6%	42.3%
Y-o-y change		-3.1%
Resultado del ejercicio	**60,261**	**40,936**
Inversiones	**(81,608)**	**(114,430)**
Y-o-y change		40.2%
Cash Flow operativo	**83,778**	**45,789**
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 sand systems carry and store large volumes of information, confidential data both pertaining to private individuals and companies, as well as personal data. The Company also renders Internet access and online storage services. Since telecommunications companies are dependent on these networks, systems and services, they face increased cybersecurity threats in this field. This can entail hacking of networks and systems or installation of viruses or malware, and thus the Company must adopt certain physical and logical security measures.

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

On 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 Amatriaín 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

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

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.

	31.12.19	31.12.20
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
	165,386	**160,219**

- 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	31.12.20
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)
	81,608	**114,430**

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

- Operating cash flow: EBITDA - Investments

	31.12.19	31.12.20
EBITDA	165,386	160,219
Investments	(81,608)	(114,430)
	83,778	**45,789**

- Conversion rate: Operating cash flow / EBITDA

	31.12.19	31.12.20
Operating cash flow	83,778	45,789
EBITDA	165,386	160,219
	50.7%	**28.6%**

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) and that of the Spanish National Securities Market Commission (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:

Sr. D. Xabier Iturbe Otaegui
(Presidente)

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

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

Sr. D. Eamonn O'Hare
(Consejero)

Sr. D. Robert W. Samuelson
(Consejero)

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

Sra. Dña. Belén Amatriain Corbi
(Consejera)

Sr. D. Iñaki Alzaga Etxeita
(Consejero)

Sra. Dña. Ana García Fau
(Consejera)

Sra. Dña. Beatriz Mato Otero
(Consejera)

<u>PART 2</u>

ISSUER'S INDIVIDUAL FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2019

Euskaltel, S.A.

Annual Accounts

31 December 2019

Directors' Report

2019

(With Auditor's 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

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

To the shareholders of Euskaltel, S.A.:

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Euskaltel, S.A. (the Company), which comprise the balance sheet at 31 December 2019, the income statement, the statement of changes in equity, the statement of cash flows, and the notes thereto, for the year ended at that date.

In our opinion, the accompanying annual accounts present, in all material respects, a true and fair view of the equity and financial position of the Company at 31 December 2019, and of its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in note 2 to the annual accounts) and, in particular, with the accounting principles and criteria contained therein.

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the 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 - Supply costs
See Note 13.2 to the annual accounts

Key audit matter	*How the matter was dealt with in our audit*
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. In these circumstances, the appropriate recognition of supply costs requires the Company to be able to reliably estimate the degree of fulfilment of the conditions giving discount entitlements, and this requires judgement on the part of the Directors. Due to the uncertainty associated with these estimates, the effect of applying amendments to contracts agreed during the year, and the significant effect that these discounts have on the recognition of the supply costs for the year, this has been considered a key audit matter.	Our audit procedures have comprised, inter alia: a) assessing the design and implementation of the key controls relating to the supplies and discounts process, b) reading and gaining an understanding of the volume discount agreements held with suppliers, including the amendments agreed during the year, c) checking the consistency of the volume discount calculation based on the terms agreed in the contract, and d) assessing whether the forecast accumulated consumptions for the years for which a minimum volume requirement has been signed are fair and consistent with the Business Plan approved by Management. In this regard, we have reviewed the historical rate of attainment of these forecasts, comparing actual consumption volumes with the initial forecasts.

Recoverable value in 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 dealt with in our audit*
The recoverable value in non-current investments in Group companies and associates is calculated, for companies where there are indications of impairment, by applying measurement techniques that often require judgements to be made by the Directors and assumptions and estimates to be used. Due to the uncertainty of these estimates, we consider this a key audit matter.	Our audit procedures have comprised, inter alia: - evaluating the design and implementation of key controls relating to the process of measuring the recoverable value of the investments in Group companies and associates, - evaluating the methodology and assumptions used in the estimation of the recoverable value, on the basis of value in use, using cash flow discounting methods, using our appraisal experts to assess the suitability of the discounting rate and the long-term growth rates used, - comparing the cash flow forecasts estimated in prior years with the actual cash flows obtained, - assessing the sensitivity of certain assumptions in the event of changes that could be considered reasonable, - contrasting the information contained in the model used for the recoverable value with the Business Plan approved by Management. In addition, we have assessed whether the information disclosed in the annual accounts meets the requirements of the regulatory framework for financial reporting applicable to the Company.

Revenue recognition See Notes 4.10 and 13.1 to the annual accounts	
Key audit matter	*How the matter was dealt with in our audit*
Revenue recognition is considered a key audit matter given its significance in terms of the annual accounts as a whole, and because the registration and accounts closing process for revenue from the rendering of services is a highly automated process involving a large number of individual transactions.	Our main audit procedures included, inter alia, assessing the design and implementation, in collaboration with our IT specialists, of the controls in place in the Company regarding the process of recording revenue from the rendering of services. We have also assessed the design and implementation and tested the effectiveness of the general controls for access to and modification of programs, as well as automatic controls carried out on invoicing systems and other back-up systems classified as critical for the purposes of our audit. We have also performed detailed tests including, inter alia, the following: a) Reconciliation of data from the invoicing and collection systems with the accounting records. b) Review of corrected invoices and subsequent payments.

Other information: Directors' Report

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

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

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

KPMG

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

On the basis of the work undertaken, as described previously, we have verified that the director's report includes a reference to the fact that the non-financial information outlined in section a) above is presented in the consolidated directors' report for the Euskaltel Group to which the Company belongs, that the information in the Annual Corporate Governance Report mentioned in such section, is included in the directors' report, and that the rest of the information in the directors' report is consistent with the annual accounts for 2019 and the content and presentation complies with the standards applicable thereto.

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

The Directors of the Company are responsible for preparing the accompanying annual accounts in such a way as to present a true and fair view of the equity, financial position and results of the Company, in accordance with the financial reporting framework applicable to the Company in Spain, and of the internal controls they deem necessary to enable the annual accounts to be prepared free from material misstatement due to fraud or error.

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

The Company's 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 that the annual accounts as a whole are free from material misstatement, due to fraud or error, and issue an audit report containing our opinion thereon.

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

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

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

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

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

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

- We 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 Euskaltel S.A.'s audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional report for the Company's audit committee

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

Contract term

The ordinary general shareholders' meeting held on 1 April 2019 appointed us as Company auditors for a 1-year term commencing on 1 January 2019.

Prior to this, we were appointed by agreement of the general shareholders' meeting for a one-year period and we have been auditing the annual accounts on a continuous basis since 31 December 2013.

KPMG Auditores, S.L.
On the Spanish Official Register of Auditors ("ROAC") with No. S0702

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

26 February 2020

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

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

EUSKALTEL, S.A.

Balance Sheet at 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	31.12.2019	31.12.2018
NON-CURRENT ASSETS		2,627,136	2,636,542
Intangible assets	6	62,842	52,264
Property, plant and equipment	7	642,817	651,722
Land and buildings		91,870	96,175
Technical installations and other items		550,947	555,547
Non-current investments in Group companies and associates	8 & 9	1,789,487	1,804,516
Non-current investments	9	4,937	2,954
Deferred tax assets	12	127,053	125,086
CURRENT ASSETS		86,038	146,586
Inventories		1,759	3,567
Trade and other receivables	9	41,777	48,840
Current investments	9	115	38,539
Prepayments for current assets		767	901
Cash and cash equivalents	9	41,620	54,739
TOTAL ASSETS		2,713,174	2,783,128

EQUITY AND LIABILITIES	Notes	31.12.2019	31.12.2018
EQUITY		1,050,912	1,044,220
Capital and reserves	10	1,049,606	1,044,284
Capital		535,936	535,936
Share premium		355,165	355,165
Reserves		124,726	87,706
(Own shares and equity holdings)		(1,472)	(1,602)
Profit/(loss) for the year		60,261	92,089
(Interim dividend)		(25,010)	(25,010)
Valuation adjustments		(64)	(64)
Available-for-sale financial assets		(64)	(64)
Grants, donations and bequests received		1,370	-
NON-CURRENT LIABILITIES		1,372,878	1,453,635
Non-current debt	11	1,372,421	1,453,635
Deferred tax liabilities		457	-
CURRENT LIABILITIES		289,384	285,273
Current provisions		700	700
Current debt	11	238,443	206,179
Trade and other payables	11 & 12	50,241	78,117
Prepayments for current assets		-	277
TOTAL EQUITY AND LIABILITIES		2,713,174	2,783,128

Derio, 25 February 2020

EUSKALTEL, S.A.

Income Statement for the year ended 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)

	Notes	2019	2018
Revenues	13.1	346,304	325,274
Work performed by the entity and capitalised	6 & 7	8,223	6,037
Supplies	13.2	(96,566)	(77,451)
Other operating income		17	292
Personnel expenses	13.3	(34,601)	(27,203)
Other operating expenses	13.4	(68,797)	(69,244)
Amortisation and depreciation	6 & 7	(74,727)	(69,957)
Non-financial capital grants		77	-
Impairment and gains/(losses) on disposal of fixed assets	6 & 7	(5,046)	(4,797)
Other profit/(loss)	13.5	(3,513)	(5,228)
RESULTS FROM OPERATING ACTIVITIES		71,371	77,723
Finance income		42,201	78,163
Finance cost		(45,999)	(47,740)
Change in fair value of financial instruments		526	(354)
Exchange gains / (losses)		(286)	291
Impairment and gains/(losses) on disposal of financial instruments		9	371
NET FINANCE INCOME/(COST)	13.6	(3,549)	30,731
PROFIT/(LOSS) BEFORE INCOME TAX		67,822	108,454
Income tax	13	(7,561)	(16,365)
PROFIT FOR THE YEAR	10	60,261	92,089

Derio, 25 February 2020

EUSKALTEL, S.A.

Statement of Changes in Equity for the year ended 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)

A) Statement of Recognised Income and Expense for the year ended 31 December 2019

	Notes	2019	2020
a) Profit/(loss) for the year	10	60,261	92,089
Income and expense recognised directly in equity			
Grants, donations and bequests		1,904	-
Tax effect		(457)	-
Total income and expense recognised directly in equity		1,447	-
Amounts transferred to the income statement			
Grants, donations and bequests		(77)	-
Tax effect		-	-
Total amounts transferred to the income statement		(77)	-
TOTAL RECOGNISED INCOME AND EXPENSE		61,631	92,089

Derio, 25 February 2020

euskaltel

EUSKALTEL, S.A.

Statement of Changes in Equity for the year ended 31 December 2019

(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 2019

(Expressed in thousands of Euros)

	Registered capital	Share premium	Reserves and prior years' profit/(loss)	Own shares	Profit/(loss) for the year	Interim dividend	Valuation adjustments	Grants, donations and bequests	Total
Closing balance 2017	**535,936**	**355,165**	**60,225**	**(1,887)**	**77,112**	**(22,688)**	**(64)**	**-**	**1,003,799**
Total recognised income and expense	-	-	-	-	92,089	-	-	**-**	**92,089**
Transactions with shareholders									
Own shares	-	-	(47)	285	-	-	-	**-**	**238**
Dividends	-	-	-	-	-	(25,010)	-	**-**	**(25,010)**
Distribution of profit/(loss)	-	-	27,528	-	(77,112)	22,688	-	**-**	**(26,896)**
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/(loss)	-	-	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**

Derio, 25 February 2020

EUSKALTEL, S.A.

Statement of Cash Flows for the year ended 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)

	2019	2018
Profit for the year before tax	**67,822**	**108,454**
Adjustments for	**97,595**	**42,654**
Amortisation and depreciation	74,727	69,957
Impairment allowances	2,427	1,865
Changes in provisions	-	(77)
Allocation of grants	(77)	-
Impairment and gains/(losses) on disposals of fixed assets	5,046	4,797
Impairment and gains/(losses) on disposals of financial instruments	(9)	(371)
Finance income	(42,201)	(78,163)
Finance cost	45,999	47,740
Exchange gains/(losses)	286	(291)
Change in fair value of financial instruments	(526)	355
Other income and expense	11,923	(3,158)
Changes in operating assets and liabilities	**(22,943)**	**8,213**
Inventories	466	(1,742)
Trade and other receivables	(18,881)	(15,806)
Other current assets	134	(99)
Trade and other payables	2,593	17,216
Other current liabilities	(7,255)	8,644
Other cash flows from /(used in) operating activities	**26,947**	**11,683**
Interest paid	(45,786)	(41,433)
Dividends received	43,903	34,653
Interest received	29,777	28,719
Income tax paid	(947)	(10,256)
Cash flows from / (used in) operating activities	**169,421**	**171,004**

Derio, 25 February 2020

EUSKALTEL, S.A.

Statement of Cash Flows for the year ended 31 December 2019

(Expressed in thousands of Euros)

	2019	2018
Payments for investments	**(83,557)**	**(80,270)**
Intangible assets	(31,210)	(28,810)
Property, plant and equipment	(50,305)	(51,460)
Other financial assets	(2,042)	-
Proceeds from sale of investments	**4,738**	**32,778**
Property, plant and equipment	1,411	-
Group companies and associates	3,300	31,552
Other financial assets	27	1,226
Cash flows from / (used in) investing activities	**(78,819)**	**(47,492)**
Proceeds from and payment for equity instruments	**390**	**257**
Disposal of own equity instruments	390	257
Proceeds from and payment for financial liability instruments	**(48,782)**	**(34,300)**
Issue of:	131,918	70,700
Bonds and other marketable securities	131,000	70,700
Grants	918	-
Repayment of:	(180,700)	(105,000)
Loans and borrowings	(110,000)	(105,000)
Bonds and other marketable securities	(70,700)	-
Dividends and interest on other equity instruments paid	(55,329)	(49,603)
Dividends	(55,329)	(49,603)
Cash flows from/(used in) financing activities	**(103,721)**	**(83,646)**
Cash and cash equivalents at beginning of the year	54,739	14,873
Cash and cash equivalents at year end	41,620	54,739
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(13,119)**	**39,866**

Derio, 25 February 2020

EUSKALTEL, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

NOTE 1.- General information

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

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

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.

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.

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 2020 and show consolidated profit of Euros 62,018 thousand and consolidated equity of Euros 981,965 thousand (Euros 62,786 and Euros 974,886 thousand in 2018).

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 2019 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 2019, authorised for issue on 25 February 2020, will be approved with no changes by the shareholders at their annual general meeting.

2.2. Comparative information

The balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto for 2019 include comparative figures for the prior year as approved by the shareholders of the Company at the general meeting held on 1 April 2019.

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) Capitalisation 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 in 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 the Euskaltel's Business Plan. The Plan's key assumptions are based on growth through national expansion under the new brand (see note 19).

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 2018, approved by the shareholders at their annual general meeting held on 1 April 2019, was as follows:

	Euros
Legal reserve	9,208,847.92
Dividends	
Interim dividend	25,010,350.40
Complementary dividend	30,369,711.20
Voluntary reserves	27,499,569.69
	92,088,479.21

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

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

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

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

On 29 October 2019, the Board of Directors agreed to pay an interim dividend against 2019 results for a gross amount of Euros 0.140 per share outstanding with dividend rights. This interim dividend, which was paid on 7 February 2020, 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 2019 in accordance with the legal requirements, and which showed that there was enough liquidity to distribute the dividend is as follows:

	Thousands of Euros
Net result obtained from 01.01.2019 to 30.09.2019 (*)	42,008
Mandatory reserves	(4,201)
Distributable profit	37,807
Proposed interim dividend (maximum amount)	(25,010)
Cash situation	
Funds available for distribution:	193,438
Cash and cash equivalents	14,188
Appropriations available	179,250
Proposed interim dividend (maximum amount)	(25,010)
Excess liquidity	168,428

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

a) 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) 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.

d) 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
Cabling	18-40
Network equipment	10-18
Customer equipment	2-15
Other installations, equipment and furniture	6-7
Other property, plant and equipment	5-8

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

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

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 have merged through the absorption of Telecable by R Cable, which has 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 has been 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

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.

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

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.

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 risk 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 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 2019, had interest rates risen by 100 basis points, with other variables remaining constant, profit (after tax) would have fallen by Euros 7,293 thousand (Euros 8,015 thousand for the year ended 31 December 2018).

NOTE 6.- Intangible assets

Details of intangible assets and movement are as follows:

	31.12.18	Additions	Disposals	31.12.19
Cost				
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
	135,293	31,210	(8,003)	158,500
Accumulated amortisation				
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)
	(83,029)	(15,459)	2,830	(95,658)
Carrying amount	52,264	15,751	(5,173)	62,842

	31.12.17	Additions	Disposals	31.12.18
Cost				
Industrial property	590	50	-	640
Computer software	80,007	14,167	-	94,174
Licences	2,674	-	-	2,674
Other intangible assets	29,526	14,593	(6,314)	37,805
	112,797	28,810	(6,314)	135,293
Accumulated amortisation				
Industrial property	(439)	(186)	-	(625)
Computer software	(63,017)	(6,912)	-	(69,929)
Licences	(859)	(118)	-	(977)
Other intangible assets	(8,385)	(5,280)	2,167	(11,498)
	(72,700)	(12,496)	2,167	(83,029)
Carrying amount	**40,097**	**16,314**	**(4,147)**	**52,264**

The cost of fully amortised intangible assets in use at 31 December 2019 totals Euros 64,594 thousand (Euros 57,760 thousand at 31 December 2018).

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

At 31 December 2019 Company personnel expenses totalling Euros 2,524 thousand (Euros 3,962 thousand at 31 December 2018) have been capitalised as intangible assets.

NOTE 7.- Property, plant and equipment

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

	31.12.18	Additions	Disposals	Transfers	31.12.19
Cost					
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
	1,607,736	50,305	(2,473)	1,341	1,656,909
Accumulated depreciation					
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)
	(956,014)	(59,268)	1,190	-	(1,014,092)
Carrying amount	**651,722**	**(8,963)**	**(1,283)**	**1,341**	**642,817**

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

	31.12.17	Additions	Disposals	Transfers	31.12.18
Cost					
Land and buildings	134,147	-	-	1,217	135,364
Civil engineering	265,168	-	-	2,045	267,213
Cabling	279,160	3,992	-	6,204	289,356
Network equipment	373,226	-	-	26,484	399,710
Customer equipment	301,331	-	-	17,364	318,695
Other installations, equipment and furniture	154,217	-	-	7,451	161,668
Under construction	27,146	47,468	(650)	(63,628)	10,336
Other property, plant and equipment	22,531	-	-	2,863	25,394
	1,556,926	51,460	(650)	-	1,607,736
Accumulated depreciation					
Land and buildings	(34,426)	(4,686)	-	-	(39,112)
Civil engineering	(74,570)	(5,491)	-	-	(80,061)
Cabling	(161,648)	(7,439)	-	-	(169,087)
Network equipment	(294,092)	(14,076)	-	-	(308,168)
Customer equipment	(210,730)	(15,048)	-	-	(225,778)
Other installations, equipment and furniture	(104,320)	(10,005)	-	-	(114,325)
Other property, plant and equipment	(18,767)	(716)	-	-	(19,483)
	(898,553)	(57,461)	-	-	(956,014)
Carrying amount	**658,373**	**(6,001)**	**(650)**	**-**	**651,722**

During the year ended 31 December 2019 internal expenses amounting to Euros 5,699 thousand (Euros 2,075 thousand in 2018) have been capitalised.

The cost of fully depreciated property, plant and equipment in use at 31 December 2019 is Euros 528,745 thousand (Euros 465,053 thousand at 31 December 2018).

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

At 31 December 2019, the Company's telecommunications network is pledged to secure compliance with the Company's financing obligations (see note 12).

NOTE 8.- Investments in Group companies and associates

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

	31.12.19	31.12.18
Equity instruments		
RCable y Telecable Telecomunicaciones, S.A.U.	1,116,872	894,819
Telecable de Asturias, S.A.U.	-	222,053
EKT Cable y Telecomunicaciones, S.L.U.	3	3
Hamaika Telebista, S.A.	-	-
	1,116,875	1,116,875
	(note 9)	(note 9)

	31.12.19	31.12.18
Loans to Group companies		
RCable y Telecable Telecomunicaciones, S.A.U.	672,612	234,429
Telecable de Asturias, S.A.U.	-	453,212
	672,612	687,641
	(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 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. In 2018 it was recorded in the Current payables caption of the balance sheet at 31 December 2018 (note 12.1).

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 has 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 y Telecable's financial information at 31 December 2019 are as follows:

	R Cable
Capital	40,144
Share premium	26,698
Reserves and other shareholder contributions	191,752
Profit/(loss) for the year	(23,487)
Interim dividend	-
Grants	28,087
	236,194
Results from operating activities	20,059

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

In 2019 the company received dividends from R Cable for Euros 5,442 thousand.

At 31 December 2019, the investments in the Group company R Cable y Telecable were pledged to secure compliance with the Company's financing obligations (see note 12).

Similarly, the Company incorporated EKT Cable y Telecomunicaciones, S.L. in 2016 with paid-up capital of Euros 3 thousand. This company has no business activity at 31 December 2019.

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 2019, since the subsidiary R Cable y Telecable has generated losses of Euros 23,487 thousand, a recoverability analysis has been carried out thereon based on projections taken from the Euskaltel Group 2020-2025 Business Plan. The key assumptions thereof in relation to this Company are growth through the expansion of the R and Telecable brands in León and Cantabria, as well as continued achievement of efficiencies. Based on the analysis carried out, no evidence of impairment has been detected.

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

- Discount rate after tax: 6.3%
- Sales growth for the budgeted period: between 1% and 3.6%.
- Growth rate after the five-year period: 1.9%.
- EBITDA Margin/Non-current revenue: approximately 46-51%, in line with the aforementioned business plan.
- CAPEX/Revenue ratio: at levels of between 17% and 27%, also in line with the aforementioned business plan.

Furthermore, Management has performed a sensitivity analysis on the following key assumptions:

-EBITDA variation of -5%: Would not give rise to impairment
-Variation of -5% in the perpetuity growth rate (g): Would not give rise to impairment
-Variation of +5% in the discount rate (wacc): Would not give rise to 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	
	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18
Non-current								
Equity instruments (note 8)	-	-	1,116,875	1,116,875	1,016	19	1,117,891	1,116,894
Loans extended								
Group companies and associates (note 16.2)	672,612	687,641	-	-	-	-	672,612	687,641
Third parties	3,649	2,663	-	-	-	-	3,649	2,663
Other non-current assets	272	275	-	-	-	-	272	275
	676,533	690,579	1,116,875	1,116,875	1,016	19	1,794,424	1,807,473
Current								
Trade receivables	41,777	48,840	-	-	-	-	41,777	48,840
Investments	115	38,539	-	-	-	-	115	38,539
Cash and cash equivalents	41,620	54,739	-	-	-	-	41,620	54,739
	83,512	142,118	-	-	-	-	83,512	142,118

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 213,106 thousand. This credit account earns interest at an annual rate of 5%, payable annually, and repayment is payable in a single sum upon maturity on 27 November 2022, although early repayments have been made throughout the year.

- 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, although early repayments have been made throughout the year. The balance of this account at 31 December 2019 amounts to Euros 459,506 thousand.

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 7,633 thousand (Euros 7,437 thousand at 31 December 2018).

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:

Past due	**31.12.19**	**31.12.18**
From 0 to 30 days	7,174	3,367
From 31 to 90 days	3,665	3,799
From 91 to 180 days	3,091	8,555
From 181 to 365 days	466	3,408
More than 365 days	2,655	6,606
	17,051	**25,735**
Not past due		
Invoiced	15,442	13,830
Pending invoice	9,284	9,275
	24,726	**23,105**
	41,777	**48,840**

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

	31.12.19	**31.12.18**
Gross balance	51,532	57,896
Impairment	(9,775)	(9,056)
	41,757	48,840

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

	2019	**2018**
Opening balance	**9,056**	**10,084**
Charge	2,427	1,865
Write-offs	(1,708)	(2,893)
Closing balance	**9,775**	**9,056**

NOTE 10.- Equity

10.1. Capital

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

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

Details of shareholders at 31 December 2019 are as follows:

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

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:

	31.12.19	**31.12.18**
Reserves		
Legal reserve	62,097	52,889
Voluntary reserves	62,629	34,817
	124,726	**87,706**

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

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	
	31.12.19	31.12.18	31.12.19	31.12.18
Non-current				
Related parties				
Non-current loans received (note 16.2)	146,501	165,267	-	-
Unrelated parties				
Loans received	1,225,082	1,285,956	-	-
Hedging derivatives	-	-	804	1,330
Other financial liabilities	34	1,082	-	-
	1,371,617	1,452,305	804	1,330
Current				
Related parties				
Current loans received (note 16.2)	6,750	11,250		
Unrelated parties				
Bonds and other marketable securities	131,000	70,700	-	-
Loans received	46,516	72,163		
Dividend payable	25,010	25,010	-	-
Suppliers	31,924	37,430	-	-
Asset purchase payables	29,417	26,017	-	-
Salaries payable	8,947	5,203	-	-
Other financial liabilities (note 8)	-	1,039	-	-
	279,564	248,812	-	-

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

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

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

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

The following changes were made during 2019:

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

These amendments have not led to a significant change in the debt in qualitative or quantitative terms, since the future cash flows of the debt based on the new conditions, updated to the effective interest rate of the previous debt, differ from the old debt by less than 10%.
A summary of the main characteristics of the tranches at the reporting date are as follows:

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

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

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

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

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

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

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

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

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

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

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:

	2019	**2018**
Average supplier payment period (in days)	46.83	44.23
Transactions paid ratio	47.04	43.44
Transactions payable ratio	46.08	46.68
Total payments made (thousands of Euros)	243,169	169,125
Total payments payable (thousands of Euros)	67,404	54,776

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 2019 and 2018 balances with public entities are as follows:

	2019	2018
Current tax liabilities	2,727	1,128
Value added tax	3,285	2,111
Social Security	399	415
Withholdings and payments on account	339	406
Other liabilities	2,370	2,638
	9,120	6,698

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:

	Profit and loss	
	2019	2018
Income and expenses for the year	**60,261**	92,089
Income tax	(7,561)	(16,365)
Profit before tax	67,822	108,454
Permanent differences	(6,888)	(43,072)
Temporary differences	(999)	1,303
Taxable income	**59,935**	**66,685**

Permanent differences mainly comprise dividends from Group companies (see note 8).

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

	2019		2018	
	Profit and loss	Total	Profit and loss	Total
Income and expenses for the year	67,822	67,822	108,454	108,392
Tax at 24% (26% in 2018)	16,277	16,277	28,198	28,182
Permanent differences	(1,653)	(1,653)	(11,199)	(11,199)
Prior years' adjustments	(371)	(371)	83	83
Changes in tax rates	-	-	98	98
Deductions for the current year	(3,662)	(6,692)	(816)	(816)
Prior years' capitalised deductions	(3,030)	-	-	-
	7,561	7,561	**16,365**	**16,349**

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

	31.12.17	Source	Reversal	Other	31.12.18	Source	Reversal	Other	31.12.19
Deferred tax assets									
Provisions	274	339	-	154	767	510	(750)	239	766
	274	339	-	154	767	510	(750)	239	766
Deductions on tax due	130,328	815	(6,641)	(183)	124,319	6,692	(4,675)	(49)	126,287
	130,602	**1,154**	**(6,641)**	**(29)**	**125,086**	**7,205**	**(5,425)**	**190**	**127,053**

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:

	2019	2018
	Profit and loss	
Current tax		
Taxable income at 24% (26% in 2018)	14,384	17,338
Deductions	(4,675)	(6,641)
Prior years' adjustments and other	(181)	151
	9,528	10,848
Deferred tax		
Source and reversal of temporary differences	240	(339)
Change in deductions	(2,017)	5,826
Tax rate adjustments	-	98
Prior years' adjustments	(190)	(68)
	7,561	**16,365**

At 31 December 2019 and 2018, 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 3,348 thousand in its 2020 income tax return.

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

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

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

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

NOTE 13.- Income and expenses

13.1. Revenues

The Company's activity primarily includes: the provision of combined broadband, Pay TV, mobile and fixed-line 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:

	2019	2018
Mass market customers	260,220	254,968
Business	47,178	45,754
Wholesale and other	47,146	30,881
Total	**354,544**	**331,603**
Work performed by the entity and capitalised	(8,223)	(6,037)
Other operating income	(17)	(292)
Revenues	**346,304**	**325,274**

Mass market

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

Business

Customers in this category - SMEs and large accounts (including the public sector) also receive fixed-line and mobile telecommunication services. 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, fixed-line/mobile convergence, IP Switch and advanced IT services.

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

Wholesale market and others

We offer communication services including line access and voice and data services to other operators in the telecommunications sector who use our infrastructure and installations for providing services to their customers. Part of the revenues generated in the wholesale market come from the 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:

	2019	2018
Merchandise used		
Purchases	36,821	23,937
Changes in inventories	467	(1,742)
	37,288	22,195
Subcontracted work		
Interconnection expenses	42,754	42,214
Other supplies	16,524	13,042
	59,278	55,256
	96,566	77,451

At the end of 2018, the Company commenced an integration process of the Group's logistics management and the increase in purchases for the year is explained in part by the acquisition of terminals on a centralised basis by Euskaltel, for subsequent sale to Group companies.

Interconnection expenses includes discounts for certain services rendered by third parties, for an amount of Euros 33,288 thousand (Euros 25,572 thousand in the comparative period). These discounts rely on the fulfilment of a certain minimum cumulative consumption until 30 June 2024. The contractual changes negotiated during 2019 have led to a significant increase in the consumption that may be subject to discount, and have also improved our competitive conditions in the market.

Discounts pending collection amounted to Euros 7,355 thousand (Euros 19,273 thousand at 31 December 2018).

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 changes in discounts covering ± 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:

	2019	2018
Salaries and wages	19,268	19,342
Employee benefits expense (other employee benefits expense)	4,605	4,580
Compensation	8,630	1,589
Other remuneration	2,098	1,692
Total	34,601	27,203

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

	2019	2018
Executives	30	31
Management	31	34
Other professionals	261	269
	322	334

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

	2019			2018		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Executives	22	4	26	26	7	33
Management	20	11	31	21	13	34
Other professionals	108	145	253	119	150	269
	150	**160**	**310**	**166**	**170**	**336**

The average number of Company employees with disabilities of 33% or greater during 2018 was one person (one person in 2018).

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

13.4. Other operating expenses

Details are as follows:

	2019	2018
Advertising	7,482	7,955
Repairs and maintenance	19,724	19,382
Services provided by third parties	21,278	22,326
Other external services and utilities	11,278	10,870
Tax	6,608	6,846
Losses, impairment and changes in trade provisions (note 9)	2,427	1,865
	68,797	69,244

13.5. Other profit/(loss)

Details are as follows:

	2019	2018
Contribution to the Euskaltel Foundation	2,016	1,631
Integration costs	181	1,261
Other	1,316	2,336
	3,513	**5,228**

13.6. Net finance income/(cost)

Details are as follows:

	2019	2018
Finance income		
Third parties	62	2
Dividends	5,442	41,813
Group companies and associates	36,697	36,348
	42,201	78,163
Finance cost		
On third party loans	(45,999)	(47,740)
	(45,999)	(47,740)
Exchange gains/(losses)	(286)	291
Change in fair value of financial instruments	526	(354)
Impairment and gains/(losses) on disposal of financial instruments	9	371
	(3,549)	**30,731**

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:

	2019	2018
Intangible assets	2,338	1,011
Property, plant and equipment	11,960	8,894
Inventories	378	3,337
	14,676	**13,242**

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:

	2019	2018
Less than one year	2,899	2,434
One to five years	9,185	8,296
Over five years	10,265	12,022
	22,349	**22,752**

The operating lease expense recognised in the income statement amounts to Euros 4,951 thousand (Euros 4,698 thousand for the same period in 2018).

NOTE 15.- Related party transactions

15.1. Transactions and balances with key personnel

Details of transactions with key Company personnel are as follows:

	2019		2018	
	Board members	**Executives**	**Board members**	**Executives**
Salaries and wages	991	1,535	1,061	1,830
Other remuneration				
Compensation	1,708	3,490	-	861
Other remuneration	810	1,288	743	852
Other	990	72	979	78
	4,499	**6,385**	**2,783**	**3,621**

Compensation to board members includes the amounts relating to the dismissals of the chairman and the CEO.

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

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 44 thousand (Euros 42 thousand in 2018).

15.2. Transactions and balances with other related parties

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

	2019			2018		
	Significant shareholders	Group companies	Total	Significant shareholders	Group companies	Total
Sales	6,785	27,098	33,883	6,088	12,877	18,965
Services rendered	(30)	(2,429)	(2,459)	(50)	(2,522)	(2,572)
Finance income and dividends	-	42,139	42,139	-	78,161	78,161
Finance cost	(5,056)	-	(5,056)	(5,271)	-	(5,271)
	1,699	**66,808**	**68,507**	**767**	**88,516**	**89,283**

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

	31.12.19		31.12.18	
	Current	Non-current	Current	Non-current
Key shareholders				
Credit accounts	41,528	-	36,523	-
Loans received (note 11)	(6,750)	(146,501)	(11,250)	(165,267)
Group companies				
Payables	(2,795)	-	(5,132)	-
Receivables	12,972	-	24,226	-
Dividend receivable	-	-	38,461	-
Loans granted (note 9)	-	672,612	-	687,641
	44,955	526,111	82,828	522,374

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 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.- Other information

The firm auditing the annual accounts of the Company has invoiced the following net fees for professional services during the years ended 31 December 2019 and 2018:

	2019	2018
Audit services	144	124
Other assurance services	45	45
Other services	6	6
	195	**175**

Other assurance services include those relating to limited reviews.

NOTE 17.- Environmental information

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

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

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

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

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

NOTE 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 12).

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

On 12 January 2020, a contract was signed with Virgin to transfer the use of its brand to the Euskaltel Group. The signing of this agreement represents a major milestone for Euskaltel. Thanks to improved wholesale access agreements signed in December 2019, Euskaltel now has all the assets needed for its nationwide expansion (see note 2.3). This plan will bring Euskaltel to 85% of the Spanish market where it does not currently have a presence, enabling the customers in these regions to benefit from high-quality, high-value quadruple play services, taking advantage of the advanced capacities of Euskaltel. The Virgin brand will coexist with the Group's three established brands (Euskaltel, Telecable and R), which will continue to render leading services in each of their respective regions. Euskaltel considers that the combination of their established regional brands with the Virgin brand, which it will use at national level, will provide excellent growth opportunities.

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

Directors' Report for 2019

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

CONTENTS

1.- Introduction

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

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

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

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

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

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

Euskaltel is market leader in broadband and Pay TV services (in terms of customer base) and is the fastest-growing supplier of mobile phone services in the Basque Country (in number of lines). The company also offers products and services to small offices, customer offices, small and medium-sized businesses, large account customers and public sector entities, as well as the wholesale market.

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

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

2.- Business overview

Mass market

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

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

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

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

- Broadband: Euskaltel is the leading high-speed broadband service provider in the Basque Country. The fully invested next generation fibre-optic network enables the company to offer different products at ultra high-speeds of up to 350 Mbps, which cannot be equalled by its DSL rivals. At 31 December 2019, Euskaltel offers broadband services to 289,375 mass-market customers, of which over 99% have high-speed broadband (speeds of 30 Mbps or more).

- Pay TV: Euskaltel is the leading Pay TV service provider in the Basque Country (jointly with Telefónica). A wide selection of digital TV programming, including basic and premium bundles, and also Everywhere TV (sold under the "Edonon" brand) and VoD and PVR functionalities are offered. The company offers access to premium content with the most popular local offering. At 31 December 2019, the company offers Pay TV services to 212,412 mass market customers (11% growth compared to 2018).

- Mobile phones: Euskaltel is the fastest-growing and leading mobile phone service provider in the Basque Country. At 31 December 2019, Euskaltel postpaid lines amounted to Euros 589,599 (up 7% compared to 2018).

- Fixed-line phones: Euskaltel is the leading fixed-line service provider in the Basque Country (with the second highest market share, behind Telefónica). The company offers fixed-line services with unlimited national calls to fixed-lines and a wide range of price plans for fixed-line to mobile calls and fixed-line to international numbers.

Business Market

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

- SMEs: Euskaltel offers a range of solutions for medium-sized businesses (from 10 to 40 employees) with relatively high tech needs. These services include broadband access with speeds of up to 500 Mbps, symmetrical fibre access with speeds of up to 1 Gbps, MPLS Network, fixed-line/mobile convergence (FMC), IP Switch and advanced IT services.

  Large Businesses: Euskaltel's Large Account customer base includes both public entities and large corporations. The headquarters of these companies are based in the Basque Country and a portion of the Large Account customers also do business outside their home regions. Large Accounts have technically complex requirements and the company designs tailor-made solutions based on each customer's specific needs, mainly in the fields of cybersecurity, data centres and cloud solutions. These include symmetrical fibre access with speeds of up to 1 Gbps, FMC, SIP Trunking, MLPS networks, cloud firewalls and virtual data centres.

The wholesale segment generated Euros 47.2 million during 2019, representing 24.2% of the company's total revenue.

Wholesale and Other revenue

- Euskaltel renders communications services to wholesale clients (most of whom are telecommunications companies in direct competition with Euskaltel) including leased lines, data and voice services using Euskaltel's installations and infrastructures to render services to their customers. Euskaltel renders Lease Lines Services in SDH and Ethernet technologies, Dark Fibre, 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 and Mobile Core Network.

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

- Another item included in this section is revenues from work performed by the entity and capitalised.

- Revenues from services and sales rendered by Euskaltel to Group companies are recorded in this caption.

The Wholesale and Other revenue market generated Euros 47.1 million during 2019, representing 13.6% of the company's total revenue.

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 2019 are as follows: R Cable y Telecable Telecomunicaciones, S.A.U. (100%) and EKT Cable y Telecomunicaciones, S.L.U. (100%).

Within the process of consolidation as a telecommunications group, the Euskaltel Group has defined a 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:

- A new organisation that seeks to achieve best practice in the sector.

- A simpler structure: two business units (mass market and business) targeting the whole customer footprint as a single unit.

- Unique technology factory that fully integrates the network, the systems and the customer care platforms: opportunities to generate additional synergies, operating leverage and excellent customer care service.

4.- Board of directors

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

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

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

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

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

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

A) In terms of the General Meeting of Shareholders:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D) In terms of board members and senior management:

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

b) Appointing board members by co-opting.

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

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

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

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

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

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

E) In terms of other duties:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Audit and Control Committee
- Appointments and Remuneration Committee
- Strategy Committee

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

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

Audit and Control Committee

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

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

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

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

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

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

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

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

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

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

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

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

Appointments and Remunerations Committee

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

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

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

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

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

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

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

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

Strategy Committee

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

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

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

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

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

5.- Shareholder structure

Euskaltel 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 2019 are as follows:

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

6.- Macroeconomic and industrial climate

Macroeconomic environment

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

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

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

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

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

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

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

Industrial Environment

The main trends that impacted the market are the following:

- Increased revenue: industry revenue in Spain increased by 0.4% (1.5% retail revenue) during the first half of 2019 compared with the same period last year (source: CNMC), which means a significant decrease in growth compared to the prior year, due to revenue consolidation per user of customers with contracts for convergent offerings, as a result of:

    - Gradual rise in tariffs of the main operators (data).
    - Increase in input speed of convergent fibre optic offers (from 50Mbps to 100Mbps).
    - Increase in mobile data use (expected to multiply by 6 between 2007 and 2021).
    - Increased penetration of broadband.
    - Increase in number of customers with convergent product bundles combining pay TV with four telecommunications services (fixed and mobile telephony, fixed and mobile broadband) (+2.1% increase in TV market).

- Increase in new competitors: Influx of new players in the sector, generally in a value-for-money price range, as well growth of MasMóvil and the launch of Euskaltel nationwide. Unprecedented portability, especially in mobile lines.

Significant investing efforts made by operators: the fibre optic network deployed in Spain is the largest in Europe with over 33.3 million access points, covering 75% of the population. The figure for broadband lines catered for with fibre technology to the home (FFTH) has now exceeded the number of lines serviced using other technologies (9.77M vs 5.36M at September 2019). Furthermore, this infrastructure is becoming increasingly more accessible to operators due to the numerous strategic joint investment and shared infrastructure agreements between operators in recent years.

7.-Commercial activity and customer relations

Mass market

During 2019 we continued our strategy of directing our new and existing customer bases towards convergent bundles with the highest added value. In 2019, we have continued to renew the convergent product offering, resulting in improvements, especially in mobile phone and Internet access. Flexibility is what distinguishes our convergent product, allowing customers to configure their services according to their needs. At 2019 year end, there are 372,035 mass market customers.

Postpaid lines increase from 552,985 at the end of 2018 to 589,599 at December 2019, an increase of 6.6%.

Broadband products reach 289,375, representing 6.1% growth.

Pay TV products are up 10.8% from 191,637 at the end of 2018 to 212,412.

As a result, the Product/Customer ratio at 31 December 2019 stood at 3.8 products per customer, up 2.9% compared to December 2018.

Business Market

The business market presents income growth, reaching growth of 3.1% in 2019 and customer growth of 0.4%.

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

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

The main advantages in the Business area are:

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

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

In terms of Large Accounts, in 2019 we have pursued our strategy to extend the scope of our solutions which we commenced in 2018 and which have led to interesting new features for this business market, largely in terms of services, Cloud solutions and Digital Transformation.

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

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

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

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

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

- Technological events with clients.

- Workshops and breakfast events with customers on topics such as security, Wi-Fi and digital transformation.

- Relaunch of Business Blogs and Social Media (LinkedIn) accompanied by an increase in communications activity and content generation (success stories, signing of agreements with associations, agreements with new partners such as WMware).

- Launch of a corporate newsletter.

- Taking part in congresses such as Basque Industry 4.0 or BeDigital in collaboration with our main partners (DataRobot and Ecomt) in areas like AI, Big Data and Energy Efficiency.

In 2019 we have also begun restructuring the large business account website for our 3 brands, beginning with Euskaltel, which is now complete.

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

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

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

In 2019 the Group has given a push to the marketing of managed Wi-Fi services - Wi-Fi Business, both for private companies and in its public administrations format -Wi-Fi AAPP, a model which has enabled the solution to be rolled out to a significant number of customers. These customers include the first city councils availing of the Wi-Fi4EU European grant-aid scheme.

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

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

8.- Marketing activity

<u>New 2019 offer: More for more</u>

In 2019 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.

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

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

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

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

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

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

New sales tools

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

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

Campaigns:

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

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

Services

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

9.- R&D&i activity

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

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

Innovation in user interfaces.

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

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

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

TV innovation

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

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

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

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

Business services: Industry 4.0

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

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

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

5G pilots

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

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	**2018**	**2019**
Total customers	361,988	372,035
Total RGUs	1,325,038	1,401,192
Fixed network	307,726	309,806
Broadband	272,690	289,375
Pay TV	191,637	212,412
Postpaid mobile	552,985	589,599
RGUs /customer	3.7	3.8

Business	Year	
KPI	**2018**	**2019**
Customers	4,740	4,757

In mobile communications, growth is underpinned by the strong performance and improvements in mobile telephony and the possibility of financing purchases of mobile devices, which have all contributed to the strong performance in this area. This has also been seen in mass market postpaid mobile contract customers, with an increase in products from 552,985 lines in 2018 to 589,599 at 31 December 2019.

Broadband has also grown from 272,690 products in 2018 to 289,375 at 31 December 2019.

The Business segment has performed positively in 2019, increasing to 4,757 customers, up 0.4 % with regards the number of customers at 31 December 2019.

Financial information	2018	2019
Total revenue	**331,603**	**354,544**
Y-o-y change		6.9%
Mass market	254,968	260,220
Y-o-y change		2.1%
Business	45,754	47,179
Y-o-y change		3.1%
Wholesale and other	30,881	47,146
Y-o-y change		52.7%
EBITDA	**160,983**	**165,386**
Revenue margin	48.5%	46.6%
Y-o-y change		2.7%
Profit for the year	**92,088**	**60,261**
Investment	**(80,273)**	**(81,608)**
Y-o-y change		1.7%
Operating cash flow	**80,711**	**83,778**
Y-o-y change		3.8%

Mass market revenues increased during the period up 2.1% with respect to the prior year, despite significant sales competition, and particularly pricing pressure, during 2019. This is mainly due to the increase in the number of fixed network customers in 2019.

Revenue from the business market amounted to Euros 47,179 thousand, up 3.1% on the prior year with growth in both the Large Accounts and the SME market.

EBITDA stands at Euros 165,386 thousand at 31 December 2019, reflecting an increase in absolute terms compared to the same period last year. This growth is due to several factors, including the increase in income, the renegotiation of wholesale agreements and the positive effect of the expense control measures put in place in the second and, above all, the third quarter, which have resulted in greater efficiencies and improved EBITDA.

At 31 December 2018 investments stood at Euros 81,608 thousand, in line with the same period in the prior year.

Operating cash flow, defined as the difference between EBITDA and investments, resulted in a EBITDA ratio of around 50%, maintaining our leading position in comparison with companies in the European industry.

The process to integrate and simplify the organisational structure has resulted in higher extraordinary and other non-recurring expenses as well as the reduction of dividends received. Despite this, profit after tax stands at 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.

The impact of bad trade debts on the income statement was Euros 2.4 million (Euros 1.9 million in 2018), equivalent to 0.7% of 2019 turnover (0.6% in 2018). Aged, non-impaired receivables past due by more than 90 days at 31 December 2019 amount to Euros 6.2 million (Euros 9.0 million at the end of 2018).

Liquidity risk

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Our approach to managing liquidity risk is to ensure, as far as possible, that 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.

At 31 December 2019 we had a non-current revolving credit facility of Euros 300 million, with Euros 150 million drawn down, and current undrawn credit facilities totalling Euros 28.25 million.

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

At 31 December 2019, cash and cash equivalents amounted to Euros 41.6 million (Euros 54.7 million at the end of 2018).

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

Market risk

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

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

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

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

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

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

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.

<u>Cost of the universal service for 2016</u>

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%.

<u>Universal service elements and designation of the mandatory operator</u>

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.

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).

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

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

Definition of regulatory risks

- Copyright Regulation Copyrights - management companies

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

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

- Obligations deriving from information security

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

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

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

13.- Corporate governance

a) Board of directors

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

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

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

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

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

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

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

- The Extraordinary General Shareholders' Meeting held on 10 July 2019 agreed: (i) to fix the number of members of the Board of Directors at 13; (ii) to ratify the appointment by co-optation and choose Mr. José Miguel García as Executive director; (iii) to ratify the appointment by co-optation and choose Mr. Eamonn O'Hare as proprietary director; and (iv) to appoint Mr. Robert W. Samuelson as proprietary director.

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

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

<u>Appointment of a new CEO</u>

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

Appointment of Non-executive Chairman

- The board of directors' meeting held on 29 October 2019 agreed to appoint Mr. Xabier Iturbe Oategui as Non-executive Chairman of Euskaltel.

Appointment of new secretary of the Board of Directors

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

b) Committees reporting to the Board of Directors

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

Audit and Control Committee

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

Appointments and Remunerations Committee

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

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

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

c) Significant events

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

euskaltel

14.- Share price evolution

Share price evolution

Closing price at 31-12-2019: €8.97

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

Trading volume

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

15.- Outlook and events after the reporting period

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

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

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

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

16.- Acquisition of own shares

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

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

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

a) Favour liquidity in transactions.

b) Share price stability.

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 + 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.

	31.12.2018	**31.12.2019**
Results from operating activities	77,723	71,371
Depreciation and amortisation (notes 6 and 7)	69,957	74,727
Impairment and gains/(losses) on disposals of fixed assets (notes 6 and 7)	4,797	5,046
Compensation and other remuneration (note 13.3)	5,228	10,728
Other profit/(loss) (note 13.5)	3,278	3,514
	160,983	**165,386**

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

	31.12.2018	31.12.2019
Additions of intangible assets (note 6)	28,810	31,210
Additions of property, plant and equipment (note 7)	51,463	50,398
	80,273	**81,608**

- Operating cash flow: EBITDA - Investments

	31.12.2018	31.12.2019
EBITDA	160,983	165,386
Investments	(80,273)	(81,608)
	80,710	**83,778**

- Conversion rate: Operating cash flow / EBITDA

	31.12.2018	31.12.2019
Operating cash flow	80,710	83,778
EBITDA	160,983	165,386
	50.1%	**50.7%**

18.- Annual Corporate Governance Report

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

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 2019 as part of the Euskaltel Group's Responsible Company Report, which is available as an Appendix to the director's report of the consolidated annual accounts of Euskaltel, S.A. 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 2020

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 2019.

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)

Mr. Luis Ramón Arrieta Durana
(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)

Mr. Jonathan Glyn James
(Board member)