

REPORT ON THE INDEPENDENCE OF THE STATUTORY AUDITOR OF THE EUSKALTEL GROUP FOR FINANCIAL YEAR 2019

1. Introduction

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

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

Articles 64.3 of the Bylaws and 5.2 of the Regulations of the Audit and Control Committee of Euskaltel assign the following duties, among others, regarding the independence of the statutory auditors of the Euskaltel Group:

- **Preserve the independence of the statutory auditors** in the performance of their duties and ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services and, in general, the rules established to ensure auditor independence.
- Establish appropriate relations with the statutory auditors to **receive information on those issues that might risk the independence thereof.**
- **Annually receive from the statutory auditors written confirmation of their independence from the Company** or entities directly or indirectly related thereto, as well as information on additional services of any kind provided to these entities by the statutory auditors or by persons or entities related thereto, in accordance with laws on auditing of accounts.
- **On an annual basis, and prior to the audit report, issue a report expressing an opinion as to whether the independence of the statutory auditors is compromised.** This report must in all cases make a pronouncement regarding the provision of the additional services referred to in the preceding paragraph, considered individually and as a whole, other than the legal audit, and in relation to the rules on independence or the legal provisions governing audit activities.

This report is prepared in compliance with the provisions of the aforementioned articles of the Bylaws and the Regulations of the Audit and Control Committee, as well as the directly applicable regulatory framework.

2. Regulatory framework

The principal rules making up the regulatory framework directly applicable to the content of this report are the following:

- Section 529 *quarterdecies* of the consolidated text of the Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010 of 2 July.

- Law 22/2015 of 20 July on Auditing of Accounts.
- Recommendations 6 and 42 of the Good Governance Code of Listed Companies 2015.
- Article 64 of the Bylaws of Euskaltel, S.A.
- Article 5.2 of the Regulations of the Audit and Control Committee of Euskaltel, S.A.
- The Technical Guide on Audit Committees of Public Interest Entities, published by the CNMV on 27 June 2017.

3. Principal actions of the Audit and Control Committee of Euskaltel, S.A. to preserve the independence of the statutory auditors in the performance of their duties

3.1. The Audit and Control Committee of Euskaltel, S.A. and its Chair have met with the group's statutory auditors on various occasions, both in the presence of Company management and in the absence thereof.

These meetings included follow-up to ensure that, among other issues, there were no issues jeopardising the independence of the Company's auditors with respect to the Euskaltel Group.

Apart from working meetings, the following meetings were held by the Audit and Control Committee with the statutory auditors during the year that dealt with the following principal issues regarding the function thereof:

Date	Principal issues analysed
26/02/2019	<ul style="list-style-type: none"> • Status of Audit Plan, pending procedures as at that date and monitoring of the special emphasis areas for the entire Group. • Other aspects relating to the Audit Plan, like internal control, accounting estimates and audit adjustments. Verification of compliance with duties of communication between the auditor and the Audit Committee. • Preliminary drafts of audit reports. • Monitoring to ensure that there are no issues affecting the independence of the external auditor.
23/07/2019	<ul style="list-style-type: none"> • Scope of consolidation of the Group. • Consistent application of accounting principles of the Annual Accounts in relation to the interim Financial Statements. • Aspects relating to the Audit Plan, like audit risks, internal control, accounting estimates and audit adjustments. • Applicable regulatory changes.
29/10/2019	<ul style="list-style-type: none"> • Planning of the audit: scope, planned dates and plan for ongoing communication with the Company. • Materiality and Areas of Special Attention in the audit. • Monitoring to ensure that there are no issues affecting the independence of the external auditor.

All of these meetings have been held in accordance with a previously defined agenda and in the normal course of activities of the Audit and Control Committee.

3.2. The Audit and Control Committee, in the absence of the external auditor, has engaged in additional follow-up relating to the external auditor and the issues that might affect the independence thereof at the following meetings:

Date	Principal issues analysed
26/02/2019	<ul style="list-style-type: none"> Analysis and preparation of the report on the independence of the auditors for financial year 2018.

3.3. The statutory auditors have held at least one meeting with the full Board of Directors, reporting on aspects such as the work performed, updates to accounting regulations, risks relating to their work that were taken into account and the maintenance of their independence.

3.4. The services directly provided by the Group's statutory auditor during financial year 2019 were analysed, with the following results (thousands of euros):

	<u>Group</u>
Amount of audit services:	249
Amount of other non-audit work:	55
Total amount billed by the statutory auditors:	304
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Amount of non-audit work / Total amount billed by the audit firm (%):	18.10%

The analysis has shown that, in financial year 2019, the amounts contracted for all items do not affect the independence of the Company's statutory auditors.

The amount of the audit services includes the services of auditing the consolidated Annual Accounts of Euskaltel, S.A. and independent companies, and the services of auditing the individual Annual Accounts of the Companies making up the Group (Euskaltel, S.A. and R Cable y Telecable Telecomunicaciones, S.A.U.).

The amounts billed for non-audit work are for:

- Limited review of the consolidated financial statements for the six-month period ended 30.06.19, in the amount of 45 thousand euros.
- Approved procedures relating to compliance with certain financial covenants, in the amount of 4 thousand euros.

Approved procedures relating to compliance with certain contracts with television channels, in the amount of 6 thousand euros.

- 3.5. In addition to the services directly billed by the External Auditor, the services in which KPMG (as the global firm to which it belongs) is not the primary contractor, but acts as subcontractor, have been analysed. Specifically, KPMG is working for Bring Consulting, which in turn is working for the Euskaltel Group on the Corporate Systems integration project.

This analysis takes into account that it is not a service prohibited by law, and that action is not taken on financial, accounting, procurement or billing processes. Furthermore, it should be noted that KPMG acts in turn as a contractor for 6 other suppliers (Pega, Saltech Consulting, Habber Tec, Serem, Indra and GFI).

- 3.6. The statutory auditors' fees are approved by the Audit and Control Committee, which, through the services of the Group's Internal Audit area, monitors to ensure that they do not impair either the quality or the independence thereof.

- 3.7. An External Auditor Contracting and Relations Policy has been defined.

- 3.8. A procedure has been approved for selecting the statutory auditor and contracting non-audit services, such that, among other issues, a limit has been established on the services of the statutory auditors, which limit may only be approved by the Group's Audit and Control Committee, by application of article 21 of the Regulations of the Audit and Control Committee of the Group.

- 3.9. An analysis was made of the appropriate rotation of the Company's statutory auditor, financial year 2019 being the seventh year that it is being audited by the same audit firm for the parent company, which is the fourth year for the consolidated Group.

- 3.10. The written confirmation of the statutory auditors' independence vis-à-vis the Company or entities directly or indirectly connected thereto referenced in article 64.3 of Euskaltel's Bylaws has been received.

- 3.11. This written confirmation, attached as an Annex hereto, expressly states that:

"The audit team and KPMG Auditores, S.L., and any other persons belonging to the audit firm and, if applicable, to other firms of the network, with the extensions applicable thereto, have met the applicable independence requirements in accordance with the provisions of the Consolidated Text of the Audit Act and Regulation (EU) no 537/2014 of 16 April.

(...)

Our Firm (sic) have implemented internal policies and procedures designed, as described in section 4 of the Transparency Report for financial year 2018 of KPMG Auditores, S.L. available at <https://home.kpmg.com/es/es/home/servicios/audit.html>, to provide you (sic) reasonable assurance that KPMG Auditores, S.L. and its staff and any other persons subject to independence requirements (including the staff of network firms) maintain independence when so required by applicable legal provisions.

The procedures include those intended to identify and evaluate threats that might arise from circumstances relating to audited entities, including those that might constitute grounds for disqualification and/or that might require application of the protective measures necessary to reduce the threats to an acceptably low level.

In this regard, no circumstances regarding said auditors have been identified, either individually or as a whole, that in our professional opinion might entail a significant threat to our independence and thus require the application of protective measures, or that might be grounds for disqualification.”

4. Opinion of the Audit and Control Committee regarding the independence of the auditor

Based on the actions taken, the Audit and Control Committee of Euskaltel, S.A. believes that during financial year 2019 and through the date of formulation of the Annual Accounts of the Euskaltel Group for financial year 2019, the independence of the statutory auditors of the Company and the consolidated Group was maintained, in accordance with the provisions of Law 22/2015, of 20 July, on Statutory Auditing, issued by Royal Legislative Decree 1/2011 of 1 July and the regulations in implementation thereof.

ANNEX I.- EXTERNAL AUDITOR INDEPENDENCE LETTER



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A la atención de D. Jose Angel Corres

24 de febrero de 2020

Muy señores nuestros:

Con fecha 1 de abril de 2019 fuimos nombrados, auditores de las cuentas anuales individuales y consolidadas de Euskaltel, S.A. y sus sociedades dependientes (en adelante 'Euskaltel' o 'el Grupo') para el ejercicio terminado el 31 de diciembre de 2019.

En relación con este nombramiento como auditores y según lo requerido por la Norma Técnica de Auditoría (NIA-ES) 260 (Revisada) de "Comunicación con los responsables del gobierno de la entidad", para Entidades de Interés Público (EIPs) que, a los efectos exclusivos de lo dispuesto en la normativa reguladora de la actividad de auditoría de cuentas, se definen en el Artículo 15 del Real Decreto 1517/2011, de 31 de octubre, (modificado por el RD 877/2015, de 2 de octubre) por el que se aprueba el Reglamento que desarrolla el Texto Refundido de la Ley de Auditoría de Cuentas, y considerando lo establecido en el artículo 529 quaterdecies.4.e) del texto refundido de la Ley de Sociedades de Capital (TRLSC), aprobado por Real Decreto legislativo 1/2010, de 2 de julio (modificado por la disposición final cuarta de la Ley 22/2015, de 20 de julio, de Auditoría de Cuentas (LAC)), les confirmamos que:

- El equipo del encargo de auditoría, KPMG Auditores, S.L. y, en su caso, otras personas pertenecientes a la firma de auditoría y, cuando proceda, otras firmas de la red, con las extensiones que les son aplicables, han cumplido con los requerimientos de independencia aplicables de acuerdo con lo establecido en la LAC y el Reglamento (UE) nº 537/2014, de 16 de abril.



Euskaltel, S.A.

24 de febrero de 2020

- A continuación se detallan los honorarios cargados a la entidad y a sus entidades vinculadas, desglosados por concepto, tanto por servicios de auditoría como por servicios distintos de la auditoría, durante el ejercicio finalizado el 31 de diciembre de 2019 por KPMG Auditores, S.L. y otras firmas de su misma red, para facilitarles la evaluación de los mismos en el marco de nuestra independencia:

	EUSKALTEL (la Sociedad)	Entidades vinculadas a EUSKALTEL	Total	De los cuales sujetos a pre-aprobación de la CA
Servicios de auditoría	144.000	105.000	249.000	-
Otros servicios relacionados con la auditoría	45.000	-	45.000	-
Total servicios de auditoría y relacionados	189.000	105.000	294.000	-
Otros servicios	5.500	4.000	9.500	-
Total servicios profesionales	194.500	109.000	303.500	-

Bajo el concepto de "Otros servicios relacionados con la auditoría" se incluyen servicios por la revisión limitada sobre los Estados Financieros Intermedios Resumidos Consolidados a 30 de junio de 2019.

"Otros servicios" incluyen informes de cumplimiento de ratios y procedimientos acordados.

Adicionalmente, durante el ejercicio terminado el 31 de diciembre de 2019, hemos actuado como subcontratistas de Bring Consulting S.L., proveedor de Euskaltel, S.A, en un servicio relacionado con la implantación de una herramienta de gestión de clientes (CRM) para el Grupo. En este sentido confirmarles que realizamos un análisis de independencia del servicio, concluyendo que era un servicio permitido y que no existían amenazas a nuestra independencia

- Nuestra Firma tienen implantados políticas y procedimientos internos diseñados, según se describe en el apartado 4 del Informe de Transparencia del ejercicio 2019 de KPMG Auditores, S.L. disponible en <https://home.kpmg.com/es/es/home/servicios/audit.html>, para proporcionarles una seguridad razonable de que KPMG Auditores, S.L. y su personal, y, en su caso, otras personas sujetas a requerimientos de independencia (incluido el personal de las firmas de la red) mantienen la independencia cuando lo exige la normativa aplicable. Estos procedimientos incluyen aquellos dirigidos a identificar y evaluar amenazas que puedan surgir de circunstancias relacionadas con entidades auditadas, incluidas las que puedan suponer causas de incompatibilidad y/o las que puedan requerir la aplicación de las medidas de salvaguarda necesarias para reducir las amenazas a un nivel aceptablemente bajo.