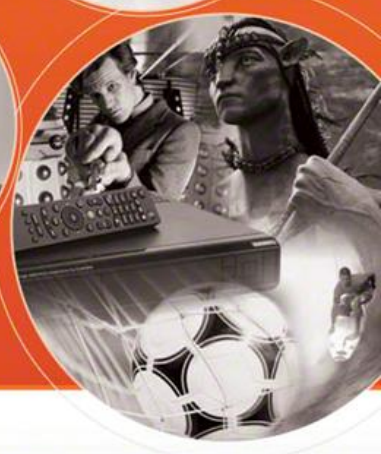


EUSKALTEL, S.A.

Elements of Remuneration Policy





- On 27 June 2016, the shareholders acting at the General Shareholders' Meeting of Euskaltel, S.A. approve item Seven on the Agenda: *“Approval of the payment of a portion of the remuneration of the executive directors by means of the delivery of shares of the Company.”*
- This item is included in compliance with the provisions of **Section 219** of Royal Legislative Decree 1/2010 of 2 July, approving the consolidated text of the **Companies Act (Ley de Sociedades de Capital)** (hereinafter, “LSC”):

“1. At a corporation (sociedad anónima), **if the director remuneration system includes the delivery of shares or share options, or remuneration linked to the value of the shares, it must be expressly provided for in the bylaws, and the application thereof shall require a resolution of the shareholders acting at a general shareholders' meeting.**”

2. The resolution of the shareholders **must include the maximum number of shares that may be assigned in each financial year to this remuneration system, the exercise price or the system for calculating the exercise price of the share options, the value of the shares that may be used as a reference and the duration of the plan.**”

Mention LSC 219	Resolution of the shareholders at the General Shareholders' Meeting of EUSKALTEL 2016:	Complies LSC
Beneficiaries	Directors who perform executive duties during the effective period of the Remuneration Policy	✓
Maximum number of shares to be allocated	180,000 shares	✓
Exercise price or calculation system	Not applicable (as there are no options)	✓
Base price	The beneficiaries will receive shares of the Company having a quoted value equal to the value of the incentive on the date of recognition of the rights. The quoted value of the Euskaltel shares to be delivered will be calculated by reference to the average quoted price of the Euskaltel shares during the 5 trading sessions prior to the date of recognition of rights.	✓
Term	Effectiveness of the Remuneration Policy: 2016, 2017 and 2018	✓



- During financial years 2015 – 2017, the following corporate milestones occurred:
 - October – November 2015: acquisition of 100% of the company R Cable y Telecomunicaciones Galicia, S.A.
 - September 2016: hiring of a new CEO (Mr Francisco Arteche)
 - May 2017: acquisition of 100% of the capital of Telecable de Asturias, S.A.U.

- In view of the foregoing, the Board of Directors, after a favourable report from the Appointments and Remuneration Committee, deemed it reasonable to propose to the shareholders an “Amendment of the term of the plan to pay a portion of the remuneration of the executive directors by means of the delivery of shares”, and in implementation of the June 2016 shareholder resolution has developed the 2017 – 2019 Incentive Plan aligned with best remuneration practices and the strategy of the Company, with the following characteristics:
 - It is directed towards the group of directors with executive duties (Chairman and CEO) responsible for strategic decisions to achieve the goals of the business, as well as other “key” officers
 - The remuneration strategy is linked to the targets of the 2017 – 2019 business plan, taking into account the new context of the business as well as the creation of value for the shareholders
 - It establishes a 2017 – 2019 Measurement Period aligned with the business plan, and a potential bonus during financial year 2020
 - Payable in cash, with the possibility of partial payment in shares in the case of the Chairman and CEO, maintaining the base price and the maximum of 180,000 shares already approved by the shareholders at the 2016 General Shareholders’ Meeting
 - Includes competitive achievement scales and incentive for extraordinary achievement of “EBITDA”, “EBITDA-CAPEX” and “Total Shareholder Return” goals
 - Represents a prudent percentage of capitalisation value



- In compliance with the provisions of LSC Section 219, Euskaltel's Board of Directors believes that the only aspect requiring the approval of the shareholders regards the **“Amendment of the term of the plan to pay a portion of the remuneration of the executive directors by means of the delivery of shares of the Company in implementation of incentive plans, share purchase incentive plans or other similar instruments that are approved by the Board of Directors”**, which is included as item Eleven of the Agenda included in the call to the General Shareholders' Meeting of 26 June 2017, maintaining in effect resolution Seven approved by the shareholders on 27 June 2016 as to all of its other terms and conditions.

Characteristics of the 2017 – 2019 Incentive Plan	Compliance with corporate governance and transparency requirements
Possibility of payment by delivery of shares to Chair and CEO	Approved at the 2016 General Shareholders' Meeting Provided for in the Director Remuneration Policy (sections 2.3 and 4.2.2) Information included in the Annual Director Remuneration Report (financial year 2016) Provided for in the contractual terms of the executive directors
The actual number of Euskaltel shares will be determined based on the accrued incentive and the average quoted price of the Euskaltel shares during the 5 trading sessions prior to the date of recognition of rights	Approved at the 2016 General Shareholders' Meeting
Maximum number of shares: 180,000	Approved at the 2016 General Shareholders' Meeting
Possibility of payment in cash to executive directors	Does not require shareholder approval
Payment in cash to the other beneficiaries	Does not require shareholder approval
Term: 2017 – 2019 Measurement Period plus the time needed to determine the level of compliance with targets and to settle the Plan	Approval at 2017 General Shareholders' Meeting (Item Eleven) ex LSC section 219



	2017 – 2019 INCENTIVE PLAN	Market/Best Practice												
Duration	<ul style="list-style-type: none"> Until 31.12.2020, including the 3-year Measurement Period 2017 – 2019 (both inclusive), plus the time necessary (12 months) to measure the achievement of targets, make the settlement, and apply the other conditions. 	Appropriate (3 – 4 years)												
Beneficiaries	<ul style="list-style-type: none"> Chair, CEO and “key” Officers. 	Appropriate												
Amount of Incentive (“concession levels”)	<ul style="list-style-type: none"> The following “target amounts” have been approved in the event of 100% achievement of the targets, by category of beneficiary: <table border="1" data-bbox="512 596 1346 995"> <thead> <tr> <th>Category</th> <th>Total target incentive (% x 2017 Fixed Remuneration)</th> </tr> </thead> <tbody> <tr> <td>Chair</td> <td>Positioning at Average</td> </tr> <tr> <td>CEO</td> <td>Positioning at Average</td> </tr> <tr> <td>“Key” officers</td> <td>Positioning at Average</td> </tr> <tr> <td>TOTAL for Chair and CEO (100% Targets)</td> <td>1.74 million euros (est.) (for the full 3-year period)</td> </tr> <tr> <td>% Capitalisation (April'17)</td> <td>0.12%⁽¹⁾</td> </tr> </tbody> </table> <p>(1) After the inclusion of Telecable, the % of capitalisation represented by the Plan would be diluted to represent approximately 0.1%.</p>	Category	Total target incentive (% x 2017 Fixed Remuneration)	Chair	Positioning at Average	CEO	Positioning at Average	“Key” officers	Positioning at Average	TOTAL for Chair and CEO (100% Targets)	1.74 million euros (est.) (for the full 3-year period)	% Capitalisation (April'17)	0.12% ⁽¹⁾	<p>Appropriate</p> <p>“Austere” positioning compared to the market (around the average)</p> <p>Percentage dilution is in the lower part of the customary range (0.2% - 3%)⁽¹⁾</p>
Category	Total target incentive (% x 2017 Fixed Remuneration)													
Chair	Positioning at Average													
CEO	Positioning at Average													
“Key” officers	Positioning at Average													
TOTAL for Chair and CEO (100% Targets)	1.74 million euros (est.) (for the full 3-year period)													
% Capitalisation (April'17)	0.12% ⁽¹⁾													



	2017 – 2019 INCENTIVE PLAN	Market/Best Practice
Metrics	<ul style="list-style-type: none"> • In accordance with best recommendations, there has been a simplification of the number of targets and the establishment of multi-annual targets other than those used in the Annual Variable Remuneration: <ul style="list-style-type: none"> ○ Multi-annual Business Plan goals 2017-2019 (weighted at 50%): <ul style="list-style-type: none"> ➢ EBITDA – CAPEX (25% weight of total): definition pursuant to Business Plan ➢ EBITDA (25% weight of total): definition pursuant to Business Plan ○ Total Shareholder Return (TSR%) from 01.01.2017 to 31.12.2019 (weighted at 50%): <ul style="list-style-type: none"> ➢ A goal has been established of 15% accumulated increase by the end of the Measurement Period. ➢ In percentage terms, the ratio between (i) the positive difference in the quoted price of the shares of EUSKALTEL between the Initial Date and the Final Date, plus the value of the dividends distributed as if they were reinvested in more shares on each collection date, and (ii) the quoted price of the shares of EUSKALTEL on the Initial Date. <ul style="list-style-type: none"> - Initial Value: Weighted average over 20 trading days prior to 01.01.2017 - Final Value: Weighted average over 20 trading days prior to 31.12.2019 • The portion of the Incentive linked to each of these indicators is independently measured and consolidated. • Notwithstanding the foregoing, if any of the targets from the Business Plan are not achieved, the “incentive target” to accrue for the Total Shareholder Return will only be 25% of the total. • Each of the Metrics is paired to a competitive Achievement Scale 	<p>Rationale for use of absolute TSR:</p> <ul style="list-style-type: none"> • Methodological difficulties in creating a peer group (i.e. size, sector, market, risk profile) • Direct link to value creation • TSR weighting is limited to 50% • This incentive is in no case achieved if the share price does not increase above a minimum • If the strategic goal incentive is not achieved, the incentive linked to TSR is substantially reduced



In our opinion, the design of the General Lines for the **2017-2019 Incentive Plan** for the Chair, CEO and “key” officers includes best market practices and the recommendations of leading proxy advisors, institutional investors and the Good Governance Code for Listed Companies (*Código de Buen Gobierno de las Sociedades Cotizadas*) (CBGSC):

- The multi-annual bonus payable in shares and/or in cash is a frequently-used vehicle in the market practices of listed companies comparable to EUSKALTEL
- Establish clear grant levels for each level of beneficiaries near the average for the market (BlackRock)
- Establish a 3-year Measurement Period (all)
- Establish an additional holding period for the shares (Fidelity, Blackrock, Glass Lewis, CNMV, Investment Management Association, etc.)
- Represent a prudent percentage of capitalisation value (ISS)
- Combine financial targets with share price increase targets
- Total or partial payment in shares (BlackRock)
- Include competitive achievement scales (Fidelity)
- Circumscribe variable remuneration in shares for the executive directors (CNMV)

