

SPECIMEN ANNEX I

**ANNUAL CORPORATE GOVERNANCE REPORT
OF LISTED COMPANIES**

DATA IDENTIFYING ISSUER

ENDING DATE OF REFERENCE FINANCIAL YEAR

31/12/2015

C.I.F. A-48766695

Registered name:

EUSKALTEL, S.A.

Registered address:

Parque Tecnológico, Edificio 809, Derio (Bizkaia), Spain

ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the following table about the share capital of the company:

Date of last change	Share capital (€)	Number of direct	Number of voting rights
24/11/2015	455,536,080	151,845,360	151,845,360

State whether there are different classes of shares with different rights attaching thereto:

Yes No

A.2. Breakdown of direct and indirect holders of significant shareholdings in the company as of the end of the financial year, excluding Directors:

Individual or company name of the shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
KUTXABANK, S.A.	38,087,977		0	25.083%
CORPORACIÓN FINANCIERA ALBA, S.A.	0	Alba Europe, S.à.r.l.	15,186,055	10.001%
ABANCA CORPORACIÓN BANCARIA, S.A.	0	Abanca Corporación Industrial y Empresarial, S.L.U.	8,004,960	5.272%
BLACKROCK INC.	0	Black Rock Investment Management (UK) Ltd	7,771,437	5.118%
FRANKLIN MUTUAL ADVISERS, LLC	0	Franklin Mutual European Fund	6,100,000	4.01%

State the most significant changes in the shareholding structure that have occurred during the financial year:

Name of the shareholder	Date of transaction	Description of transaction
KUTXABANK, S.A.	24/11/2015	Decrease to below 30% of share capital.
CORPORACIÓN FINANCIERA ALBA, S.A.	24/11/2015	Increase to 10% of share capital.
ABANCA CORPORACIÓN BANCARIA, S.A.	24/11/2015	Increase to above 5% of the share capital.
FRANKLIN MUTUAL ADVISERS, LLC	01/07/2015	Increase to above 3% of the share capital.

A.3. Complete the following tables about members of the company's Board of Directors who have voting rights attaching to shares of the company:

Name of the director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
Alberto García Erauzkin	357,222	-	0	0.235%

Total percentage of voting rights held by the board of directors	0.235%
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Complete the following tables about members of the company's Board of Directors who hold rights to shares of the company:

Name of the director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct holder	Number of voting rights		

A.4. State, if applicable, the family, commercial, contractual or corporate relationships between significant shareholders, to the extent known to the company, unless they are immaterial or result from the ordinary course of business:

Name of related individual or person	Type of relationship	Brief description

A.5. State, if applicable, the commercial, contractual or corporate relationships between significant shareholders and the company and/or its group, unless they are immaterial or result from the ordinary course of business:

Name of related individual or company	Type of relationship	Brief description
Kutxabank, S.A.	Contractual	Financing agreement between Euskaltel and a banking syndicate, Kutxabank, S.A., among others, on 5 October 2015, and formalised in an instrument dated 27 November 2015. Telecommunications service agreement between Euskaltel and Kutxabank dated 1 January 2015.
Abanca Corporación Bancaria, S.A.	Contractual	Financing agreement between Euskaltel and a banking syndicate, Abanca Corporación Bancaria, among others, dated 5 October 2015, and formalised in an instrument dated 27 November 2015. Comprehensive corporate communications services agreement between R Cable y Telecomunicaciones Galicia, S.A. and NCG Banco, S.A. (now Abanca Corporación Bancaria, S.A.) on 20 December 2011.
CajaSur Banco, S.A.U.	Contractual	Telecommunications services agreement between CajaSur and Euskaltel dated 1 January 2015.

A.6. State whether any shareholders' agreements affecting the company pursuant to the provisions of Sections 530 and 531 of the Companies Act (*Ley de Sociedades de Capital*) have been reported to the company. If so, briefly describe them and list the shareholders bound by the agreement:

Yes No

State whether the company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:

Yes No

Expressly state whether any of such agreements, arrangements or concerted actions have been modified or terminated during the financial year:

A.7. State whether there is any individual or legal entity that exercises or may exercise control over the company pursuant to Section 5 of the Securities Market Act (*Ley del Mercado de Valores*). If so, identify it:

Yes No

A.8. Complete the following tables about the company's treasury shares:

As of year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
139,806	0	0.092%

(*) Through:

Name of direct holder of the interest	Number of direct shares
Total:	

Explain any material changes, pursuant to the provisions of Royal Decree 1362/2007, that occurred during the financial year:

A.9. Describe the terms and conditions and the duration of the powers currently in force given by the shareholders to the Board of Directors in order to issue, repurchase or transfer own shares of the company:

A.9.bis Estimated free float:

	%
Estimated free float	50.516%

A.10. State whether there are any restrictions on the transfer of securities and/or any restrictions on voting rights. In particular, disclose the existence of any restrictions that might hinder a takeover of the company through the acquisition of its shares in the market.

Yes No

A.11. State whether the shareholders acting at a general shareholders' meeting have approved the adoption of breakthrough measures in the event of a takeover bid pursuant to the provisions of Law 6/2007.

Yes No

If applicable, explain the approved measures and the terms on which the restrictions will become ineffective.

A.12. State whether the company has issued securities that are not traded on a regulated market within the European Community.

Yes No

If applicable, specify the different classes of shares, if any, and the rights and obligations attaching to each class of shares.

B GENERAL SHAREHOLDERS' MEETING

B.1. State and, if applicable, describe whether there are differences with the minimum requirements set out in the Companies Act in connection with the quorum needed to hold a valid general shareholders' meeting.

Yes No

B.2. State and, if applicable, describe any differences from the rules set out in the Companies Act for the adoption of corporate resolutions:

Yes No

Describe how they differ from the rules provided by the Companies Act.

	Qualified majority other than that of the Companies Act for the special circumstances described in section 194.1	Other instances in which a qualified majority is required
% established by the entity for the adoption of resolutions	75%	75%

Description of differences

In keeping with Section 201 of the Companies Act, article 17 of the Regulations for the General Meeting provides that if shareholders representing less than fifty per cent (50%) of the subscribed capital with voting rights are present, resolutions on the issuance of bonds, elimination or limitation of pre-emptive rights to subscribe new shares, transformation, mergers, divisions or overall assignments of assets and liabilities, dissolution and liquidation of the Company, transfer of its registered office to a location outside Spain, and in general, any amendment to the Bylaws, that do not relate to Significant Decisions of the General Shareholders' Meeting may only be adopted with the favourable vote of two thirds (2/3) of the capital entitled to vote and that is present in person or by proxy at the General Meeting of Shareholders.

As provided in article 37.2 of the Bylaws, resolutions covering a matter that is a Significant Decision shall be adopted by the affirmative vote of shareholders representing at least seventy-five per cent (75%) of the share capital with voting rights that are present in person or by proxy.

In this connection, and in light of article 37.3 of the Bylaws, the following are considered Significant Decisions of the shareholders acting at a General Shareholders' Meeting:

- a) Amendment of the Bylaws of the Company affecting the registered office, company name, company object and rules for adopting resolutions by the shareholders acting at a General Shareholders' Meeting and by the Board of Directors (unless intended to conform them to applicable law), including Significant Decisions of the shareholders

acting at a General Shareholders' Meeting and of the Board of Directors, as well as a change in the "Euskaltel" brand for carrying out the activities of the Company with the Autonomous Community of the Basque Country.

- b) Any resolution having the purpose or effect of not maintaining effective administration and management of the Company within the Autonomous Community of the Basque Country.
- c) Delegation to the Board of Directors of any of the foregoing resolutions, in the instances allowed by law.

B.3. State the rules applicable to the amendment of the bylaws of the company. In particular, disclose the majorities provided for amending the bylaws, and any rules provided for the protection of the rights of the shareholders in the amendment of the bylaws.

In accordance with article 5 of the Regulations for General Shareholders' Meeting, the General Shareholders' Meeting is the body with authority to amend the bylaws.

Pursuant to article 17.2 of the Regulations for the General Shareholders' Meeting, in order for the shareholders acting at an ordinary or extraordinary General Shareholders' Meeting to validly approve any amendment to the Bylaws, shareholders owning at least fifty per cent (50%) of the subscribed share capital with voting rights must be present at the meeting in person or by proxy on the first quorum call. On the second quorum call, the attendance of twenty-five per cent (25%) of said capital will suffice.

If shareholders representing less than fifty per cent (50%) of the subscribed share capital with voting rights are in attendance, resolutions to amend the bylaws may only be adopted with the favourable vote of two thirds (2/3) of the share capital with voting rights that are present in person or by proxy at the General Shareholders Meeting (provided that they do not relate to Significant Decisions of the shareholders acting at a General Shareholders Meeting, as defined in article 37.3 of the Bylaws, as set forth in paragraph B.2.).

In addition, pursuant to article 37.2 of the Bylaws, if the amendment of the Bylaws is contained in the Significant Decisions of the shareholders acting at a General Meeting, as described in paragraph B.2, the resolutions shall be adopted with the affirmative vote of shareholders representing at least seventy-five per cent (75%) of the share capital with voting rights that are present in person or by proxy.

B.4. State the data on attendance at the general meetings held during the financial year referred to in this report and those of the prior financial year:

Date of General Meeting	Attendance data				Total
	% in person	% by proxy	% absentee voting		
			Electronic voting	Other	
25/06/2014		100.00%			100.00%
21/10/2014		100.00%			100.00%
31/03/2015		100.00%			100.00%

01/06/2015		100.00%			100.00%
16/06/2015		100.00%			100.00%
26/06/2015		100.00%			100.00%
12/11/2015	3.149%	58.265%	0.00%	2.835%	64.249%

B.5. State whether there are any bylaw restrictions requiring a minimum number of shares to attend the General Meeting:

Yes No

Number of shares required to attend the General Meeting	1
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B.6. Section deleted.

B.7. State the address and method for accessing the company's website to access information regarding corporate governance and other information regarding general shareholders' meetings that must be made available to the shareholders through the company's website.

The Company's website address is www.euskaltel.com, which includes information for shareholders and investors and the documents provided for by law.

To access the Corporate Governance content, click on the "Investors" tab at the top and then on the "Corporate Governance" tab. The information on Corporate Governance and General Shareholders' Meetings is also available on the website of the CNMV (www.cnmv.es).

C STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1. Board of Directors

C.1.1. Maximum and minimum number of Directors set forth in the bylaws:

Maximum number of Directors	15
Minimum number of Directors	5

C.1.2. Complete the following table identifying the members of the Board:

Name of Director	Class of Director	Position on the Board	Date of initial appointment	Date of last appointment	Election procedure
Alberto García Erauzkin	Executive	Chair	28/11/2000	20/12/2012	Shareholder resolution

José Ángel Corres Abasolo	Independent	Vice Chair	08/03/2013		Shareholder resolution
Alicia Vivanco González	Proprietary	Director	17/12/2003	08/03/2013	Shareholder resolution
Alfonso Basagoiti Zavala	Proprietary	Director	08/03/2013		Shareholder resolution
Javier Fernández Alonso	Proprietary	Director	30/09/2015	12/11/2015	Shareholder resolution
Bridget Cosgrave	Independent	Director	08/03/2013		Shareholder resolution
Richard Alden	Independent	Director	20/12/2012		Shareholder resolution
Belén Amatriaín Corbi	Independent	Director	31/03/2015		Shareholder resolution
Iñaki Alzaga Etxeita	Independent	Director	31/03/2015		Shareholder resolution

Total number of directors	9
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State the vacancies on the board of directors during the reporting period:

Name of Director	Class of Director at the time of withdrawal	Date of vacancy
Mareblu, S.à.r.l	Proprietary	10/07/2015
Javier Bañón Treviño	Proprietary	10/07/2015

C.1.3. Complete the following tables about the members of the board and each member's status:

EXECUTIVE DIRECTORS

Name of Director	Position within the company's structure
Alberto García Erauzkin	Chair

Total number of Executive Directors	1
Total % of the Board	11.11%

EXTERNAL PROPRIETARY DIRECTORS

Name of the Director	Name of the significant shareholder represented by the director or that proposed the director's appointment
Alicia Vivanco González	Kutxabank, S.A.
Alfonso Basagoiti Zavala	Kutxabank, S.A.
Javier Fernández Alonso	Corporación Financiera Alba, S.A.

Total number of proprietary directors	3
% of the total Board	33.33%

EXTERNAL INDEPENDENT DIRECTORS

Name of the Director
José Ángel Corres Abasolo
Bridget Cosgrave
Richard Alden
Belén Amatriaín Corbi
Iñaki Alzaga Etxeita

MR JOSÉ ÁNGEL CORRES ABASOLO

Profile:

José Ángel Corres was appointed a Director of Euskaltel in 2013. In 2010 he was appointed President of the Chamber of Commerce, Industry and Navigation of Bilbao, a position that he currently holds. In his previous professional experience, he held positions as Group Director of “Ports of General Interest” of the Basque Government and advisor to the representatives of the Basque Government in the Port of Bilbao. In 1996 he was appointed President of the Bilbao Port Authority, a position he held until 2009. In addition, he was a member of the Board of Directors of Bilbao Ría 2000. He holds a degree in economics and business administration from the Deusto Business School, and has also studied at the Institute of Economics and Port Logistics in Bremen.

MS BRIDGET COSGRAVE

Profile:

Bridget Cosgrave joined the Board of Directors of Euskaltel in 2013. She is also the founder and president of Every European Digital, Chair of the Supervisory Board of Every European Digital Poland sp zo, and an investor in and advisor to Ukko Verkot OY, in addition to being a non-executive director and member of the Risk Committee of SES. She also serves as a non-executive director on the boards of listed companies, such as SES in 2008 and STERIA SA in 2012. She previously held positions at Essilor International SA from 2007 to 2010 and at Eutelsat SA in 2005. She holds a Master’s in Business Administration from the London Business School, as well as a degree in humanities from the Queen’s University in Kingston, Canada.

MR RICHARD DAVID ALDEN

Profile:

Richard David Alden joined the Board of Directors of Euskaltel in 2012. He is also the CEO of Wananchi Group Holdings, LTD, a communications operator that offers pay television, Internet and business services in East Africa, non-executive Chairman and director of Blue Interactive, a Brazilian cable TV and broadband operator, and non-executive director of Fon Wireless Limited. From 1998 to 2009 he held the

position of CEO and founding director of Grupo Corporativo Ono, S.A. He also held the position of CFO at subsidiaries of the Videotron Group in the United States and the United Kingdom.

MS BELÉN AMATRIAÍN CORBI

Profile:

Belén Amatriain was appointed a Director of Euskaltel in March 2015. She currently also holds the position of Manager of EVO Banco, S.A.U. Her prior professional experience includes positions as Head of Corporate Marketing for Telefónica, S.A. from 2009 to 2012, CEO of Telefónica España from 2008 to 2009, CEO of Telefónica Móviles España from 2005 to 2007 and Chairman and CEO of Telefónica Publicidad e Información. She holds a degree in law and economics from the law school at the Universidad Pontificia de Comillas, in Spain.

MR IÑAKI ALZAGA ETXEITA

Profile:

Iñaki Alzaga was appointed a Director of Euskaltel in March 2015. From 1998 to 2005, he was part of the Company, holding the positions of Director of Advanced Businesses, Business Development Director and member of the Management Committee. Since 2005, he has been the President of Grupo Noticias. The positions he previously held include Managing Director of Editorial Iparraguirre, S.A. and a 12-year professional career at PricewaterhouseCoopers.

Total number of independent Directors	5
Total % of the Board	55.56%

State whether any director classified as independent receives from the company or its group any amount or benefit for items other than director remuneration, or maintains or has maintained during the last financial year a business relationship with the company or with any company in its group, whether in the Director's own name or as a significant shareholder, director, or senior officer of an entity that maintains or has maintained such relationship.

On 1 January 2013, Euskaltel signed a business advisory and consulting agreement with independent Director Richard Alden (the “**Consulting Agreement**”).

The Consulting Agreement was approved by the Board of Directors of Euskaltel, following a favourable report from the Audit and Control Committee, and provided for fixed remuneration in the amount of €200,000 (€100,000 in 2013 and €100,000 in 2014), and variable remuneration linked to the return for the Euskaltel shareholders upon divestment of their stake in the Company in the case of a divestment event.

The Board of Directors decided not to extend the Consulting Agreement as of 31 December 2014, without prejudice to the amounts to which Mr Alden may be entitled for variable remuneration.

In addition, on 31 July 2013, Euskaltel signed an investment agreement with Mr Alden (the “**Investment Agreement**”), pursuant to which Mr Alden agreed to invest a total amount of €250,000 in the Company, acquiring a proportional stake in the

increased value of the Company and assuming the risk of loss of his own investment if the Company's value decreases.

The Investment Agreement was also approved by Euskaltel's Board of Directors, following a favourable report from the Audit and Control Committee.

In connection with the initial public offering of the Company's shares, both the Consulting Agreement and the Investment Agreement were settled. As a result, the amount received by Mr Alden in financial year 2015 under both contracts was €1,437,823 gross (which includes Mr Alden's initial investment), an aggregate amount that included both the settlement of the Investment Agreement and the variable remuneration under the Consulting Agreement.

If applicable, include a reasoned statement of the director regarding the reasons for which it is believed that such director can carry out the duties of an independent Director.

After receiving a favourable report from the Audit and Control Committee, the Board of Directors approved the execution of the Consulting Agreement and the Investment Agreement because it believed that neither of those contracts (now terminated) jeopardized Mr Alden's independence.

OTHER EXTERNAL DIRECTORS

Identify the other external directors and describe the reasons why they cannot be considered proprietary or independent directors as well as their ties, whether with the company, its management, or its shareholders:

C.1.4. Complete the following table with information regarding the number of female directors for the last 4 financial years, as well as the status of such directors:

	Number of female Directors				% of total directors			
	Financial Year 2015	Financial Year 2014	Financial Year 2013	Financial Year 2012	Financial Year 2015	Financial Year 2014	Financial Year 2013	Financial Year 2012
Executive	0	0	0	0	0%	0%	0%	0%
Proprietary	1	1	1	1	33.33%	25%	25%	33.33%
Independent	2	1	1	0	40%	33.33%	33.33%	0%
Other External	0	0	0	0	0%	0%	0%	0%
Total:	3	2	2	1	33.33%	25%	25%	20%

C.1.5. Explain any measures adopted to include on the board of directors a number of women that allows for a balanced presence of men and women.

Article 6 of the Regulations of the Appointments and Remuneration Committee provides that this Committee must ensure that, when new vacancies occur on or new members are appointed to the Board of Directors, the selection procedures must free of any implied bias that could involve discrimination, and in particular, that they must not hinder the selection of female directors, also establishing an objective for having women represented on the board and preparing guidance on how to reach this objective.

Accordingly, three women are currently part of the Company's Board of Directors, a number that exceeds one third of the current members of the Board.

- C.1.6. Explain any measures approved by the appointments committee in order for selection procedures to be free of any implied bias that hinders the selection of female directors, and in order for the company to deliberately search for women who meet the professional profile that is sought and include them among potential candidates:**

Since the Company already complies with Recommendation 14 of the Good Governance Code in terms of the objective of number of female directors by 2020, it is not considered necessary, for the time being, to take any additional measures in this regard.

If there are few or no female directors despite any measures adopted, describe the reasons for such result:

- C.1.6.bis Explain the conclusions of the appointments committee regarding verification of compliance with the Director selection policy. Particularly explain how said policy is promoting the goal that the number of female directors represents at least 30% of all members of the board of directors by 2020.**

The Company already currently complies with the objective that the number of female directors represents at least 30% of the total members of the Board of Directors.

- C.1.7. Explain the form of representation on the Board of shareholders with significant holdings.**

Alicia Vivanco González and Alfonso Basagoiti Zavala have been directors since 8 March 2013 at the proposal of significant shareholder Kutxabank, S.A.

Javier Fernández Alonso has been a Director since 30 September 2015 at the proposal of significant shareholder Corporación Financiera Alba, S.A.

- C.1.8. Explain, if applicable, the reasons why proprietary Directors have been appointed at the proposal of shareholders whose shareholding interest is less than 3% of share capital:**

State whether there has been no answer to formal petitions for presence on the board received from shareholders whose shareholding interest is equal to or greater than that of others at whose proposal proprietary Directors have been appointed. If so, describe the reasons why such petitions have not been answered:

Yes No

- C.1.9. State whether any Director has withdrawn from the position as such before the expiration of the Director's term of office, whether the director has given reasons to the board and by what means, and in the event that the Director gave reasons in writing, describe at least the reasons given thereby:**

Name of Director	Reason for withdrawal
Francisco Javier Bañón Treviño	Sale of the entire equity interest in the share capital of Euskaltel by the shareholder that proposed his appointment

Mareblu, S.à.r.l.	Sale of the entire equity interest in the share capital of Euskaltel by the shareholder that proposed its appointment
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As a result of the Company's initial public offering on 1 July 2015, International Cable B.V. sold its entire equity interest in the share capital of Euskaltel.

Article 12 of the Regulations of the Board provides that Directors must tender their position to the Board of Directors and formalise the corresponding resignation if the grounds for which they were appointed cease to exist, and in particular, in the case of Proprietary Directors, if the shareholder or shareholders who proposed, requested or decided their appointment totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.

In compliance with the foregoing, the Proprietary Directors whose appointment was proposed and determined by International Cable B.V. (Javier Bañón Treviño and Mareblu, S.à.r.l.) formalised their resignation effective 10 July 2015.

C.1.10. State any powers delegated to the CEO(s):

C.1.11. Identify any members of the Board who are directors or officers of companies within the listed company's group:

Name of Director	Name of group entity	Position	Does he/she have executive duties?
Alberto García Erauzkin	R Cable y Telecomunicaciones Galicia, S.A.	Individual representative of the sole director (Euskaltel, S.A.)	Yes
Alberto García Erauzkin	Rede Brigantium, S.L.U.	Individual representative of the sole director (Euskaltel, S.A.)	Yes

C.1.12. Identify any Directors of your company who are members of the Board of Directors of other companies listed on official stock exchanges other than those of your group, which have been reported to your company:

Name of Director	Name of the listed company	Position
Francisco Javier Bañón Treviño*	Talgo, S.A.	Director
Javier Fernández Alonso	Acerinox, S.A.	Director
Javier Fernández Alonso	Clínica Baviera, S.A.	Director

*Member of the board of directors of Euskaltel, S.A. until 10 July 2015.

C.1.13. State and, if applicable, explain whether the regulations of the board have established rules regarding the maximum number of boards of which its

directors may be members:

Yes No

C.1.14. Section deleted.

C.1.15. State the overall remuneration of the Board of Directors:

Remuneration of the Board of Directors (thousands of euros)	762
Amount of pension rights accumulated by the Directors (thousands of euros)	0
Amount of pension rights accumulated by former Directors (thousands of euros)	0

C.1.16. Identify the members of the company's senior management who are not executive Directors and state the total remuneration accruing to them during the financial year:

Name	Position(s)
Fernando Ojeda González-Posada	Managing Director
Francisco Javier Allende Arias	Secretary General and of the Board
Manuel Arco Barreras	Director of Human Resources
Carlos Ávila Rivero	Director of Transformation
Pedro Calvillo Arriazu	Chief Operating Officer
Jon Ander de las Fuentes Inchausti	Chief Financial Officer
Aitor Markaida Zallo	Business Development Director
Manuel Salaverría Monfort	Corporate Business Development Director
Alberto Santamaría Rubio	Director of Internal Audit

Total senior management remuneration (in thousands of euros)	1,832
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C.1.17. State the identity of the members of the board, if any, who are also members of the board of directors of significant shareholders and/or in entities of their group:

Name of Director	Company name of the significant shareholder	Position

Describe any significant relationships, other than the ones contemplated in the prior item, of the members of the Board of Directors connecting them to significant shareholders and/or companies within their group:

Name of connected Director	Name of connected significant shareholder	Description of relationship
Alberto García Erauzkin	Kutxabank, S.A.	Vice President of the Board of Fundación BBK
Alicia Vivanco González	Kutxabank, S.A.	Managing Director of Investees
Javier Fernández Alonso	Corporación Financiera Alba, S.A.	Director of Investments and member of Management Committee

C.1.18. State whether the regulations of the board have been amended during the financial year:

Yes No

At the meeting of the Board of Directors held on 1 June 2015, the new text of the Regulations of the Board of Directors of the Company was approved to bring them into line with the amendments to the Companies Act made by Law 31/2014 of 3 December amending the Companies Act to improve Corporate Governance, and with the Recommendations of the Good Governance Code for Listed Companies, approved by the Board of National Securities Market Commission on 18 February 2015.

C.1.19. State the procedures for the selection, appointment, re-election, evaluation and removal of Directors. Describe the competent bodies, the procedures to be followed and the criteria applied in each of such procedures.

Pursuant to the provisions of the Companies Act, Directors shall be appointed or re-elected by the shareholders from among honourable, skilled people of recognised character, competence, experience, qualification, training, availability and commitment to their duties.

To this end, the proposals for appointing and re-electing Directors that the Board of Directors submits for consideration by the shareholders acting at a General Meeting must be preceded by (a) a proposal of the Appointments and Remuneration Committee, in the case of independent Directors; or (b) a report of the Appointments and Remuneration Committee, in the case of the other Directors; expressly evaluating the candidate's respectability, capability, expertise, competence, qualification, training, availability and commitment to their duties.

There is also a series of objective disqualifications that preclude a potential candidate from being appointed as a Director. These disqualifications are found in article 9 of the Regulations of the Board of Directors.

The proposals for re-election of Directors that the Board of Directors resolves to submit to a decision of the shareholders at the General Meeting shall be subject to a

process of preparation, which must include a proposal (in the case of independent Directors) or a report (in the case of the other Directors) issued by the Appointments and Remuneration Committee containing an analysis of the quality of the work performed and the dedication to the position shown by the proposed Directors during their preceding term of office as well as an express evaluation of respectability, capability, expertise, competence, availability and commitment to their duties.

To this end, Directors sitting on the Appointments and Remuneration Committee shall be evaluated by the Committee itself, which shall use the internal and external means it deems appropriate for such purpose, and each of them shall leave the meeting during the deliberations and voting on resolutions that may affect them.

The Appointments and Remuneration Committee must ensure that, when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination, and in particular, that such procedures do not hinder the selection of female directors, also establishing an objective for representation of woman on the Board and preparing guidelines on how to achieve it.

Furthermore, Directors shall cease to hold office upon the expiration of the term of office for which they have been appointed or when it is so resolved by the shareholders at a General Shareholders' Meeting. In addition to the foregoing, Directors must tender their resignation to the Board of Directors in the cases indicated in article 12, sections 2 and 3 of the Regulations of the Board of Directors.

The Board of Directors may propose the termination of an independent director before the passage of the bylaw-mandated period only upon good cause as defined in article 12.6 of the Regulations of the Board of Directors.

The directors affected by proposals for appointment, re-election, removal from office shall leave the meeting during the deliberations and voting relating to them.

Among its other duties, the Appointments and Remuneration Committee is responsible for establishing and supervising an annual evaluation programme and an ongoing review of the qualification, training, and if applicable, independence, as well as the maintenance of the conditions of the Directors' respectability, capability, expertise, competence, availability and commitment to their duties, not only when these conditions are necessary to serve as a Director as such, but also to serve as a member of a particular committee, and proposes to the Board of Directors the measures that it deems appropriate in this regard, with the right to gather any information or documentation that it deems necessary or appropriate to this end.

C.1.20. Explain the extent to which the annual self-evaluation of the Board has given rise to significant changes in its internal organisation and regarding the procedures applicable to its activities:

Description of changes

C.1.20.bis Describe the process of self-evaluation and the areas evaluated by the Board of Directors, as it may be assisted by an external consultant, regarding diversity in its composition and powers, the operation and composition of its committees, the performance of the chair of the Board of Directors and of the chief

executive of the company, and the performance and contribution of each Director.

C.1.20.ter List any business relationships of the consultant or any company of its group with the company or any company of its group.

C.1.21. State the circumstances under which the resignation of Directors is mandatory.

Article 12.2 of the Regulations of the Board of Directors provides that directors must submit their resignation to the Board of Directors and formally resign from their position in the following cases:

- (i) If due to supervening circumstances they are involved in any of the instances of disqualification or prohibition referred to in provisions of a general nature, the Bylaws of the Company or these Regulations.
- (ii) If serious damage is caused to the value or reputation of the Company or there is a risk to the Company of criminal liability as a result of any acts or conduct attributable to the director.
- (iii) If they cease to deserve the respectability or to have the capability, expertise, competence, availability or commitment to their duties required to be a director of the Company.
- (iv) If their continuance in office on the Board of Directors may for any reason jeopardises the faithful and diligent performance of their duties in furtherance of the Company interest, whether directly, indirectly or through connected persons (pursuant to the definition of this term set forth in these Regulations).
- (v) If the reasons why the director was appointed cease to exist, and particularly in the case of proprietary directors if the shareholder or shareholders who proposed, requested or decided the appointment thereof totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.

Article 12.4 of the Regulations of the Board of Directors provides that Directors must also tender their resignation to the Board of Directors when they reach the age of 70, and they must formally resign from their position at the first meeting of the Board of Directors that takes place after the holding of the General Meeting that approves the annual accounts for the financial year in which they reach said age.

Finally, article 12.6 of the Regulations of the Board of Directors provides that the Board of Directors may propose the termination of an independent director before the passage of the bylaw-mandated period only upon good cause found by the Board of Directors. In particular, cause shall be deemed to exist whenever the director has failed to perform the duties inherent in the position held thereby or has come under any of the circumstances described in the definition of independent director established by the laws and regulations in force, or in the absence of such definition, by the corporate governance recommendations applicable to the Company from time to time.

C.1.22. Section deleted.

C.1.23. Are qualified majorities, different from the statutory majorities, required to adopt any type of decision?

Yes No

If so, describe the differences.

Description of differences

Article 55 of the Bylaws and article 22 of the Regulations of the Board of Directors provide that valid quorum for a meeting of the Board of Directors held to adopt Significant Decisions of the Board of Directors shall require the attendance in person or by proxy of four fifths (4/5) of its members. Resolutions regarding a matter that is a Significant Decision of the Board of Directors (as defined below) shall be adopted with the favourable vote of at least four fifths (4/5) of the members present in person or by proxy.

According to article 56 of the Bylaws and article 23 of the Regulations of the Board of Directors, the following are considered Significant Decisions of the Board of Directors:

- a) Closure of any work centre of the Company at any time within the Autonomous Community of the Basque Country, unless there is documentation duly supporting said closure for reasons of efficiency in carrying out the business activity of the Company.
- b) Proposing any decision to the shareholders acting at a General Shareholders' Meeting that is intended to have the effect of not maintaining effective administration and management of the Company within the Autonomous Community of the Basque Country or within any other Autonomous Community in which the effective administration and management of a subsidiary or minority-owned company is located. The clarifications set out in section 2 of article 37.3 shall apply for these purposes.
- c) Proposing to the shareholders acting at a General Shareholders' Meeting a change in the "Euskaltel" brand for carrying out the activities of the Company in the Autonomous Community of the Basque Country.
- d) Decision regarding the direction of the Company's vote in its capacity as member or shareholder (and the vote of its representatives on management bodies) at any subsidiaries or minority-owned companies regarding any resolution deemed to be Significant Decisions of the Board of Directors for purposes of this section.
- e) Resolutions to implement the delegations made by the shareholders acting at a General Shareholders' Meeting regarding the above matters.

C.1.24. Explain whether there are specific requirements, other than the requirements relating to directors, to be appointed chair of the board of directors.

Yes No

C.1.25. State whether the chair has a tie-breaking vote:

Yes No

In accordance with article 54 of the bylaws and article 21 of the Regulations of the

Board of Directors, the Chair shall have the tie-breaking vote in the event of a tie regarding any matter that is not a Significant Decision of the Board of Directors, unless the Chair has a conflict of interest, in which case he or she must refrain from participating in the discussions of and voting on the resolution in question.

C.1.26. State whether the bylaws or the regulations of the board set forth any age limit for directors:

Yes No

Age limit for the chair

Age limit for directors

As indicated in section C.1.21., article 12.4 of the Regulations of the Board of Directors provides that Directors must tender their resignation to the Board of Directors when they reach the age of 70, and must formalize the resignation from their position as director at the first meeting of the Board of Directors that takes place after the holding of the General Shareholders' Meeting that approves the annual accounts for the financial year in which they reach said age.

C.1.27. State whether the bylaws or the regulations of the Board establish any limit on the term of office for independent Directors that is different than the term provided by regulatory provisions:

Yes No

C.1.28. State whether there the bylaws or the regulations of the Board of Directors establish specific rules for proxy-voting at meetings of the Board of Directors, the manner of doing so, and especially the maximum number of proxies that a director may hold, as well as whether any restriction has been established regarding the categories of directors to whom proxies may be granted beyond the restrictions imposed by law. If so, briefly describe such rules.

According to article 57 of the Bylaws and article 24 of the Regulations of the Board of Directors, any director may grant their proxy and vote to any other director, giving notice thereof by letter addressed to the Chair. The proxy must be in writing and must be particular for each meeting.

Article 25 of the Regulations of the Board of Directors provides that Directors shall make every effort to attend the meetings of the Board of Directors and, if unable to do so in person, shall endeavour to give a proxy to another director, to whom appropriate instructions must be given. They may not give a proxy in connection on matters in relation to which they have any conflict of interest.

There is no maximum number of proxies that can be granted by a Director, nor are Directors required to grant their proxy to another director of the same type.

C.1.29. State the number of meetings that the board of directors has held during the financial year. In addition, specify the number of times the Board has met, if any, at which the chair was not in attendance. Proxies granted with specific instructions shall be counted as attendance.

Number of meetings of the Board	15
---------------------------------	----

Number of meetings of the Board at which the chair was not in attendance	0
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If the chair is an executive Director, state the number of meetings held without the presence in person or by proxy of any executive Director and chaired by the lead independent Director.

Number of meetings	0
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State the number of meetings held by the different committees of the Board during the financial year:

Number of meetings of the audit and control committee	5
Number of meetings of the appointments and remuneration committee	4

C.1.30. State the number of meetings that the Board of Directors has held during the financial year with the attendance of all of its members. Proxies granted with specific instructions shall be counted as attendance:

Number of meetings with the attendance of all Directors	15
% in attendance of total votes during the financial year	100.00%

C.1.31. State whether the annual individual accounts and the annual consolidated accounts that are submitted to the Board for approval are previously certified:

Yes No

Identify, if applicable, the person/persons that has/have certified the annual individual and consolidated accounts of the company for formulation by the Board:

Name	Position
Fernando Ojeda González-Posada	Managing Director
Jon Ander de las Fuentes Inchausti	Chief Financial Officer

C.1.32. Explain the mechanisms, if any, adopted by the Board of Directors to avoid any qualifications in the audit report on the annual individual and consolidated accounts formulated by the Board of Directors and submitted to the shareholders at the General Meeting.

Article 43.3 of the Regulations of the Board of Directors provides that the Board shall seek to definitively formulate the annual accounts such that there is no room for reservations or qualifications by the auditor. In those exceptional circumstances in which they are made, both the Chair of the Audit and Control Committee and the external auditors shall clearly explain to the shareholders the content of such reservations or qualifications. However, if the Board of Directors believes that its opinion should prevail, it shall provide a public explanation of the content and scope of the discrepancy.

In addition, article 5 of the Regulations of the Audit and Control Committee provides that, without prejudice to any other duties that may be assigned thereto

from time to time by the Board of Directors, or that are vested therein by applicable legal provisions, the Audit and Control Committee shall perform the following basic duties:

- a) Supervise the effectiveness of the internal control of the Company and its Group, as well as the effectiveness of its systems for managing risks, including tax risks.
- b) Analyse with the external auditors any possible weaknesses in the internal control system detected when the audit was performed.
- c) Supervise the process of preparing and presenting the regulated financial information.
- d) Supervise the activity of the Company's internal audit.
- e) Establish appropriate relationships with external auditors to receive information on issues that could jeopardise their independence, so that it can be examined by the Committee, and any other issues related to the process of auditing the financial statements, as well as other communications provided for in the legal provisions on audits of accounts and accounting standards. In any event, they must receive every year from the external auditors a written confirmation of their independence vis-à-vis the entity or entities related to it directly or indirectly, as well as information about additional services of any kind provided to these entities by the auditors or companies, or by persons or entities related to them in accordance with the laws on auditing of accounts.

In addition, throughout the financial year, the Audit and Control Committee reports the Company's financial information before it is approved by the Board of Directors and submitted to the National Securities Market Commission (CNMV).

C.1.33. Is the secretary of the board a Director?

Yes No

If the secretary is not a Director, complete the following table:

Name of secretary	Representative
Francisco Javier Allende Arias	

C.1.34. Section deleted.

C.1.35. State the mechanisms, if any, used by the company to preserve the independence of auditors, financial analysts, investment banks and rating agencies.

In accordance with article 43 of the Regulations of the Board of Directors, the Audit and Control Committee proposes to the Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment (indicating the contractual terms and conditions and the scope of the professional mandate), renewal and revocation of the auditor of the annual accounts of the Company and oversee compliance with the auditing contract.

To this end, the Audit and Control Committee shall refrain from proposing to the Board of Directors, and the Board of Directors shall refrain from submitting to the shareholders at a General Shareholders' Meeting, the appointment as auditor of the Company of any audit firm that is affected by grounds for disqualification under the legal provisions on auditing and those firms for which the fees expected to be paid by the Company for all items is greater than five per cent (5%) of their total revenues for the previous financial year.

In addition, Section 64.3 of the bylaws provides that, without prejudice to any other duties that may be assigned to it from time to time by the Board of Directors, the Audit and Control Committee shall perform the following basic duties:

- (a) Propose to the Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment, re-election or replacement of the auditors in accordance with applicable legal provisions, as well as the terms of engagement thereof, and regularly collect information therefrom on the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties.
- (b) Establish appropriate relationships with the auditors to receive information regarding matters that might risk the independence thereof, for examination by the Audit Committee, and any other information related to the development of the audit procedure, as well as such other communications as are provided for in the laws on auditing of accounts and in other legal provisions on auditing. In any case, it must annually receive from the 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 auditors or by persons or entities related thereto, in accordance with laws on auditing of accounts.
- (c) On an annual basis, and prior to the audit report, issue a report expressing an opinion as to whether the independence of the auditor 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.

In addition, section 3(ii) of Article 5 of the Regulations of the Audit and Control Committee provides that, with respect to the external auditor, the Audit and Control Committee has the following powers, among others:

- (a) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- (b) Ensure the independence of the external auditor and, to that end: (i) ensure that the Company reports any change of external auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same; (ii) ensure that the Company and the auditor adhere to current legal provisions on the provision of non-audit services, and in general, to the other rules established to ensure the independence of the auditor; and (iii) investigate the issues giving rise to any resignation of the external auditor.

C.1.36.State whether the Company has changed the external auditor during the financial year. If so, identify the incoming and the outgoing auditor:

Yes No

If there has been any disagreement with the outgoing auditor, provide an explanation thereof:

Yes No

C.1.37. State whether the audit firm performs other non-audit work for the company and/or its group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the company and/or its group:

Yes No

	Company	Group	Total
Amount of other non-audit work (thousands of euros)	250,000	250,000	250,000
Amount of non-audit work / Aggregate amount billed by the audit firm (%)	82.32%	82.32%	82.32%

C.1.38. State whether the audit report on the annual accounts for the prior financial year has observations or qualifications. If so, state the reasons given by the chair of the audit committee to explain the content and scope of such observations or qualifications.

Yes No

C.1.39. State the consecutive number of years for which the current audit firm has been auditing the annual accounts of the company and/or its group. In addition, state the percentage represented by such number of financial years audited by the current audit firm with respect to the total number of financial years in which the annual accounts have been audited:

	Company	Group
Number of continuous financial years	3	1

	Company	Group
Number of financial years audited by the current audit firm / Number of financial years the company has been audited (in %)	17.65%	5.88%

C.1.40. State whether there is any procedure for directors to hire external advisory services, and if so, describe it:

Yes No

Describe the procedure

Article 29 of the Regulations of the Board of Directors provides that any Directors may request the hiring of legal, accounting, technical, financial, commercial or other experts at the Company's expense.

The assignment must relate to specific issues of certain significance and complexity arising during the performance of the director's duties.

The hiring request hired shall be channelled through the Secretary of the Board of Directors, who may subject it to the prior authorisation of the Board of Directors, and which may be denied on justifiable grounds, including the following circumstances:

- (i) That it is not necessary for the proper performance of the duties entrusted to the directors.
- (ii) That the cost thereof is not reasonable in view of the significance of the problem and the assets and income of the Company..
- (iii) That the technical assistance sought may be adequately provided by the Company's own experts and technical personnel.
- (iv) That it may pose a risk to the confidentiality of the information that must be provided to the expert.

In addition, article 24 of the Regulations of the Audit and Control Committee and article 29 of the Regulations of the Appointments and Remuneration Committee provide that these Committees may request to hire legal, accounting, financial or other experts to assist them with their duties, at the Company's expense.

C.1.41.State whether there is any procedure for directors to obtain sufficiently in advance the information required to prepare for meetings of management bodies and, if so, describe it:

Yes No

Describe the procedure

Article 14.2 of the Regulations of the Board of Directors indicates that the Chair of the Board of Directors must ensure that the Directors receive in advance information sufficient to deliberate on the items on the agenda. Furthermore, article 19 of the Regulations of the Board of Directors provides that the notice of meetings of the Board of Directors must be given at least ten (10) business days prior to the date set for the meeting.

C.1.42.State whether the company has established any rules requiring Directors to inform the company –and, if applicable, resign from their position– in cases in which the credit and reputation of the company may be damaged, and if so provide a detailed description:

Yes No

Explain the rules

Directors must submit their resignations from the Board of Directors and formalise such resignations in the cases provided for in article 12.2 of the Regulations of the Board of Directors, which include the following:

- (i) If due to supervening circumstances they are involved in any of the

instances of disqualification or prohibition referred to in provisions of a general nature, the Bylaws or the Regulations.

- (ii) If serious damage is caused to the value or reputation of the Company or there is a risk to the Company of criminal liability as a result of any acts or conduct attributable to the Director.
- (iii) If they cease to deserve the respectability or to have the capability, expertise, competence, availability or commitment to their duties required to be a Director of the Company.

In addition, article 39.2 of the Regulations of the Board of Directors provides that a director must inform the Company of any court, administrative or other proceedings brought against the director and which, due to the importance or nature thereof, could seriously affect the reputation of the Company. In particular, every director must inform the Company, through its Chair, if the director is charged with or prosecuted for any of the offences specified in Section 213 of the Companies Act. In such a case, the Board of Directors shall investigate the case as soon as possible and decide in light of the particular circumstances whether or not the director should continue in office.

C.1.43. State whether any member of the board of directors has informed the company that such member has become subject to an order for further criminal prosecution upon indictment or that an order for the commencement of an oral trial has been issued against such member for the commission of any of the crimes contemplated in section 213 of the Companies Act:

Yes No

C.1.44. Describe the significant agreements entered into by the company that go into effect, are amended, or terminate in the event of a change in control at the company as a result of a takeover bid, and the effects thereof.

- The financing agreement entered into between the Company and a syndicate of banks, whose Agent is Banco Bilbao Vizcaya Argentaria, on 5 October 2015, and formalised in an instrument dated 27 November after compliance with the conditions precedent established in the agreement, contains an acceleration clause requiring the Company to prepay the loan and any amounts due in the event of a change in control. For purposes of such agreement, A change in control is deemed to occur if any person or group of persons acting in concert acquires more than 50% of the share capital with voting rights of Euskaltel.
- The master services outsourcing agreement to build, operate, maintain and guarantee the service of the Euskaltel network, executed on 16 October 2014 between the Company and ZTE, provides that if Euskaltel is subject to a change in ownership (whether as a result of a business combination, restructuring, reorganization, sale or otherwise) such that there is a greater than fifty per cent (50%) change in its shareholders, Euskaltel may terminate the agreement, provided that it gives ZTE six (6) months' prior written notice.
- The master IT services outsourcing agreement entered into on 20 June 2014 between the GFI Norte corporate group and the Company may be terminated by Euskaltel after the passage of two (2) years from such date if Euskaltel is subject to a change in share ownership (whether as a result of a business combination, restructuring, reorganization, sale or otherwise) such that there is a greater than fifty per cent (50%) change in its shareholders.

- The agreement entered into on 2 July 2012 for Orange to provide services to Euskaltel in order for Euskaltel to provide services as a full VMO provides that the companies may terminate the contract in the event that a competitor of the other company directly holds the majority of the capital or the voting rights of the other. Thus, if a competitor of Orange should end up directly holding the majority of the capital or voting rights of Euskaltel, Orange will be entitled to terminate the contract. Likewise, if a competitor of Euskaltel should end up holding the majority of the capital or voting rights of Orange, Euskaltel may terminate the contract.

C.1.45. Identify on an aggregate basis and provide a detailed description of the agreements between the company and its management level and decision-making positions or employees that provide for indemnities, guarantee or “golden parachute” clauses upon resignation or termination without cause, or if the contractual relationship is terminated as a result of a takeover bid or other type of transaction.

Number of beneficiaries	1
Type of beneficiary:	Description of agreement:
Executive director	Employment agreement between the Chair of the Board of Directors and the Company dated 1 April 2013, whereby, if the Chair ceases to hold that position or resigns from the board, he or she may resume their previous employment relationship, or terminate it and receive remuneration equal to 45 days of salary per year of service to Euskaltel, up to a maximum of 42 monthly payments.

State whether such agreements must be reported to and/or approved by the decision-making bodies of the company or its group:

	Board of directors	General Meeting
Decision-making body approving the provisions	Yes	No

	YES	NO
Is information about these provisions provided to the shareholders at the general shareholders’	X	

C.2. Committees of the Board of Directors

C.2.1. Describe all of the committees of the Board of Directors, the members thereof, and the proportion of executive, proprietary, independent, and other external Directors of which they are comprised:

AUDIT COMMITTEE

Name	Position	Class
Iñaki Alzaga Etxeita	Chair	Independent
Alicia Vivanco González	Member	Proprietary
Richard David Alden	Member	Independent
Bridget Cosgrave	Member	Independent

% of executive directors	0.00%
% of proprietary directors	25.00%
% of independent directors	75.00%
% other external	0.00%

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise its most significant activities during the year.

The rules of organisation and operation of the Audit and Control Committee, which are set forth in article 64 of the bylaws and article 5 et seq. of the Regulations of the Audit and Control Committee, are as follows.

Composition: The internal regulations provide that the Audit and Control Committee shall be composed of a minimum of three (3) and a maximum of five (5) external directors (i.e. proprietary and independent). A majority of the members of the Committee shall be independent directors. A Chair shall be elected from among the independent directors on the Committee, and the Secretary may be one of its members or the Secretary or Deputy Secretary of the Board of Directors. In case of a tie, the Chair shall have the tie-breaking vote.

Term of office: The members of the Audit and Control Committee shall be appointed for a maximum term of four (4) years, and may be re-elected on one or more occasions for terms of the same maximum length. The position of Chair shall be held for a maximum term of four (4) years, after which period they may not be re-elected as such until the passage of one (1) year from ceasing to act as such, but he or she remain a member of the Audit and Control Committee. In addition, the Secretary of the Committee shall be appointed for a maximum term of four (4) years and may be re-elected on one or more occasions for terms of the same maximum length.

At the end of financial year 2015, the Audit and Control Committee consisted of four external directors (three are independent and one is proprietary): Iñaki Alzaga Etxeita, Richard David Alden, Bridget Cosgrave and Alicia Vivanco González. Iñaki Alzaga Etxeita has been the Chair for one (1) year, from the time he replaced Alicia Vivanco González, while Francisco Javier Allende Arias serves as Secretary of the Committee.

Operation: The Audit and Control Committee meets from two (2) to four (4) times per year in order to review the periodic financial information to be submitted to the authorities and the information that the Board of Directors must approve. The Committee shall also meet whenever called by its Chair, who must do so whenever the Board of Directors or the Chair thereof requests the issuance of a report or the adoption of proposals, or when requested by one third of the members of the Audit and Control Committee. In addition, the Chair of the Audit and Control Committee may call a meeting whenever appropriate for the proper performance of its duties.

The Audit and Control Committee met five times during financial year 2015, and

among other items, it reviewed the periodic information that the Company must submit to the CNMV, as well as the prospectuses and reports issued in connection with the initial public offering of the Company.

Pursuant to article 18 of the Regulations of the Audit and Control Committee, the Committee shall prepare an annual report on its activities, which it will provide to the shareholders after approval by the Board of Directors on occasion of the call to the Ordinary General Shareholders' Meeting, in order to report to the shareholders the questions raised by the shareholders thereat regarding the matters within the Committee's purview. In connection with the Board of Directors, article 19 of the Regulations provide that the Chair of the Committee shall report on his or her activities to the Board of Directors at the first board meeting held after each of the Committee meetings.

In addition, pursuant to article 5.(v).a) of the Regulations of the Audit and Control Committee, the Committee periodically reviews the Company's internal corporate governance rules and proposes changes and updates to further develop and improve those rules to the Board of Directors for approval or submission to the shareholders at the General Meeting, as applicable.

In addition, pursuant to article 17 of the Rules of the Audit and Control Committee, the Committee may request the attendance at Committee meetings of any member of the Board of Directors, employee or officer of the Company, as well as any member of the governing bodies of the investees whose appointment was proposed by the Company, provided it is not legally prohibited. It may also request the external auditor or any outside consultant to attend its meetings.

Duties: Article 64 of the Bylaws and article 5 of the Regulations of the Audit and Control Committee assign the following basic duties to the Committee:

- (i) Report to the shareholders at the General Shareholders' Meeting with respect to the matters raised therein by the shareholders on matters within its power.
- (ii) Monitor the effectiveness of the internal control of the Company and of its Group, as well as the systems for managing risks, including tax risks.
- (iii) Together with the auditors, analyse significant weaknesses in the internal control system detected during the audit.
- (iv) Supervise the process of preparing and presenting regulated financial information.
- (v) Propose to the Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment, re-election or replacement of the auditors in accordance with applicable legal provisions, as well as the terms of engagement thereof, and regularly collect information therefrom on the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties.
- (vi) Supervise the internal audit activity of the Company.
- (vii) Establish appropriate relationships with the auditors to receive information regarding matters that might risk the independence thereof, for examination by the Audit Committee, and any other information related to the development of the audit procedure, as well as such other communications as are provided for in the laws on auditing of accounts and

in other legal provisions on auditing. In any case, it must annually receive from the 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 auditors or by persons or entities related thereto, in accordance with laws on auditing of accounts.

- (viii) On an annual basis, and prior to the audit report, issue a report expressing an opinion as to whether the independence of the auditor 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.
- (ix) Provide an advance report to the Board of Directors on all of the matters provided by law, the Company's Bylaws and the Regulations of the Board of Directors, and particularly regarding: (i) the financial information that the Company must periodically publish; (ii) the creation or acquisition of interests in special purpose entities or entities domiciled in territories or countries considered to be tax havens; and (iii) related-party transactions.
- (x) Any others assigned thereto by the Board of Directors in its corresponding Regulations or in the Regulations of the Audit Committee.

Identify the director who is a member of the audit committee and who has been appointed taking into account the director's knowledge and experience in the areas of accounting, audit, or both, and report the number of years that the chair of this committee has held office.

Name of Director with experience	Alicia Vivanco González
Name of Director with experience	Iñaki Alzaga Etxeita
Number of years during which Chair has held the position	1

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Class
José Ángel Corres Abasolo	Chair	Independent
Alfonso Basagoiti Zavala	Member	Proprietary
Javier Fernández Alonso	Member	Proprietary
Belén Amatriaín Corbi	Member	Independent

% proprietary Directors	50.00%
% independent Directors	50.00%
% other external	0

Explain the duties assigned to this committee, describe its procedures and rules of organisation and operation, and summarise its most significant activities during the year.

The rules of organisation and operation of the Appointments and Remuneration

Committee, which are set forth in article 65 of the Bylaws and article 5 et seq. of the Regulations of the Appointments and Remuneration Committee, are as follows:

Composition: The Committee shall be composed of a minimum of three (3) and a maximum of five (5) external directors (i.e. proprietary and independent). A majority of the members of the Committee shall be independent directors. A Chair shall be elected from among the independent directors on the Committee, and in case of a tie, the Chair shall have the tie-breaking vote. The Committee shall also appoint a Secretary, who may be one of its members or the Secretary or Deputy Secretary of the Board of Directors.

Term of office: The members of the Appointments and Remuneration Committee shall be appointed for a maximum term of four (4) years, and may be re-elected on one or more occasions for terms of the same maximum length. The position of Chair shall be held for a maximum term of four (4) years, after which they may not be re-elected to act as such office until the passage of one (1) year, without prejudice to the continuance or re-election thereof as a member of the Appointments and Remuneration Committee. In addition, the Secretary of the Committee shall be appointed for a maximum term of four (4) years and may be re-elected on one or more occasions for terms of the same maximum length.

At the end of financial year 2015, the Appointments and Remuneration Committee consisted of four external directors (two are independent and two are proprietary): José Ángel Corres Abasolo, Belén Amatriáin Corbi, Javier Fernández Alonso and Alfonso Basagoiti Zavala. José Ángel Corres Abasolo has held the office of Chair since 16 December 2015, when he replaced Richard Alden, and Francisco Javier Allende Arias serves as Secretary of the Committee.

Operation: The Appointments and Remuneration Committee meets two (2) to four (4) times per year in order to review the status of the matters within its purview, and whenever called by its Chair whenever appropriate for the performance of the duties thereof. In addition, the Chair must call a meeting whenever the Board of Directors or its Chair requests a report or the adoption of proposals or at the request of one third of the members of the Committee.

The Appointments and Remuneration Committee met four times during financial year 2015, and among other items, it reported favourably to the Board of Directors on the following matters:

- Review and payment of the Incentive Plan for Officers and executive Directors.
- Appointment of Belén Amatriáin Corbi, Iñaki Alzaga Etxeita and Javier Fernández Alonso as new members of the Board of Directors of Euskaltel.
- New organisational structure of the Euskaltel Group after the consummation of the acquisition of R Cable by Euskaltel.
- Payment of the annual bonus for 2014 and determination of the annual bonus for 2015.
- Appointment of the Lead Independent Director (*Consejero Independiente Coordinador*), José Ángel Corres Abasolo, as new Vice Chair of the Board of Directors.
- New composition of the Committees of the Board of Directors (appointment of Javier Fernández Alonso as a new member of the Appointments and Compensation Committee, to replace Richard Alden, and appointment of José

Ángel Corres Abasolo as the new Chair thereof).

- Review of the authority and powers granted to the Chair and Managing Director and adjustment thereof to the situation of Euskaltel and the Group.
- Establishment of the remuneration of the directors.
- Approval of the general principles of the 2016-2018 Share Incentive Plan and the 2016-2018 Share Purchase Incentive Plan.

Duties: Articles 65 of the Bylaws and 5 of the Regulations of the Appointments and Remuneration Committee assign to the Committee the following basic duties, which are set forth in greater detail in articles 6 through 10 of the Regulations of said Committee:

- (i) Evaluate the skills, knowledge and experience needed on the Board of Directors. For these purposes, it shall define the functions and skills necessary in the candidates to fill each vacancy and shall evaluate the time and dedication required for them to effectively perform their duties.
- (ii) Establish a goal for representation of the less represented gender on the Board of Directors and prepare guidelines on how to achieve this goal.
- (iii) Submit to the Board of Directors proposals for the appointment of independent directors on an interim basis or for submission to a decision of the shareholders at a General Shareholders' Meeting, as well as proposals for the re-election or removal of said directors by the shareholders.
- (iv) Report on proposals for the appointment of the other directors on an interim basis or for submission to a decision of the shareholders at a General Shareholders' Meeting, as well as proposals for the re-election or removal thereof by the shareholders.
- (v) Report on proposals for the appointment and removal of senior officers and the basic terms of their contracts.
- (vi) Examine and organise the succession of the chair of the Board of Directors and the chief executive of the Company and, if applicable, make proposals to the Board of Directors so that said succession occurs in an orderly and planned manner.
- (vii) Propose to the Board of Directors the remuneration policy for directors and general managers or whomsoever performs the duties of senior management reporting directly to the Board, as well as the individual remuneration and other contractual conditions for the executive directors, ensuring compliance therewith.

C.2.2. Complete the following table with information regarding the number of female directors comprising the committees of the board of directors for the last four financial years:

Number of female directors			
Financial Year 2015	Financial Year 2014	Financial Year 2013	Financial Year 2012

	Number	%	Number	%	Number	%	Number	%
Audit and Control Committee	2	50.00%	2	50.00%	2	50.00%		
Appointments and Remuneration Committee	1	25.00%	0	0.00%	0	0.00%		

The Committees of the Board of Directors were created in 2013, so they did not yet exist in financial year 2012.

C.2.3. Section deleted.

C.2.4. Section deleted.

C.2.5. State, if applicable, the existence of regulations of the board committees, where such regulations may be consulted, and the amendments made during the financial year. Also state if any annual report of the activities performed by each committee has been voluntarily prepared.

The rules of organisation and operation of the Audit and Control Committee and the Appointments and Remuneration Committee are set forth in their respective Regulations and in the Bylaws, which can be found on the Company's website (www.euskaltel.com).

C.2.6. Section deleted.

D RELATED-PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

D.1. Explain any procedures for approving related-party and intragroup transactions.

Procedure for the approval of related-party transactions

In accordance with article 65 of the bylaws and article 5 of the Regulations of the Audit and Control Committee, decisions related to related-party transactions are adopted by the Board of Directors, following report from the Audit and Control Committee.

D.2. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's significant shareholders:

Name of significant shareholder	Name of company or entity within its group	Nature of relationship	Type of transaction	Amount (thousands of euros)

Kutxabank, S.A.	Euskaltel	Contractual	Financing received on 27 November 2015	148,000
Kutxabank, S.A.	Euskaltel	Contractual	Provision of telecommunications services	9,506
Abanca Corporación Bancaria, S.A.	Euskaltel	Contractual	Financing received on 27 November 2015	40,000
Abanca Corporación Bancaria, S.A.	Euskaltel Group	Contractual	Provision of telecommunications services by R Cable	619

- D.3. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's directors or officers:

Name of directors or officers	Name of related party	Connection	Nature of transaction	Amount (thousands of euros)

- D.4. Report the significant transactions by the company with other entities belonging to the same group, provided they are not eliminated in the preparation of the consolidated accounts and they are not part of the ordinary course of business of the company as to their purpose and conditions.

In any case, report any intragroup transaction with entities established in countries or territories considered to be tax havens:

Name of group entity	Brief description of transaction	Amount (thousands of euros)

D.5. State the amount of transactions with other related parties.

D.6. Describe the mechanisms used to detect, determine and resolve potential conflicts of interest between the company and/or its group, and its directors, officers or significant shareholders.

Pursuant to article 33 of the Regulations of the Board of Directors, a director must inform the Board of Directors, through the Chair or the Secretary of the Board of Directors, of any conflict of interest in which the director is involved.

A personal interest of the director will exist if a matter affects the director or a person connected therewith or, in the case of a proprietary director, if it affects the shareholder or shareholders that proposed or caused the appointment thereof.

For these purposes, “connected persons” means:

In the case of an individual director: (a) a spouse or persons related by a similar relationship of affection; (b) the ascendants, descendants and siblings of the director or of the director’s spouse (or a person with a similar relationship of affection); (c) the spouses of ascendants, descendants and siblings of the director; (d) companies or entities in which the director or any persons connected therewith, directly or through a nominee, falls within any of the situations referred to in Article 42 of the Commercial Code.

In the case of a corporate director, connected persons are the following: (a) the members or shareholders who, in respect of a corporate director, fall within any of the situations referred to in Article 42 of the Commercial Code; (b) the companies that form part of the same group, as such term is defined in Article 42 of the Commercial Code, and the members or shareholders thereof; (c) the individual representative, legal or de facto directors, and liquidators of and representatives holding general powers of representation granted by the corporate director; and (d) those persons who, in respect of the corporate director, are considered to be connected persons.

Pursuant to article 38 of the Regulations of the Board, a transaction by the Company or the companies forming part of its Group with directors, with shareholders holding a stake equal to or greater than that considered to be significant as provided for in the legal provisions governing the securities markets applicable at any particular time or that have proposed the appointment of any of the directors of the Company, or with the respective connected persons, shall be subject to the approval of the Board of Directors, following a favourable report from the Audit and Control Committee.

The Board of Directors and the Audit and Control Committee shall ensure that transactions between the Company or the companies forming part of its Group and the directors, the shareholders mentioned in the preceding section, or the respective connected persons are carried out under arm’s length conditions and with due respect for the principle of equal treatment of shareholders that are in identical conditions.

Article 34 of the Board Regulations provides that a director may not use the assets of the Company, including confidential information of the Company, or use their position therein to obtain a financial benefit, unless appropriate consideration has been paid and it is a standardised service. The next section states that the director must observe the rules of conduct established in the legal provisions governing the securities market, and particularly those contained in the Company's Internal Regulations for Conduct in the Securities Markets, regarding the treatment of non-public information and significant information. Article 9.2 of Euskatel's Internal Regulations for Conduct establishes the general principles that must be observed by Affected Persons (article 2 of the Rules) subject to conflicts of interest. These principles are as follows:

- (a) Independence: Affected Persons must act at all times with independent judgement, with loyalty towards Euskatel and its shareholders and regardless of their own or third parties' interests. They shall avoid prioritising their own interests at the expense of those of the Company or those of certain investors at the expense of others.
- (b) Abstention: They must refrain from participating in or influencing the making of decisions that may affect the persons or entities with which a conflict exists and from accessing Significant Information (article 2 of the Internal Regulations for Conduct in the Securities Market) that affect such conflict.
- (c) Communication: Affected Persons must notify the Compliance Officer (article 2 of the Internal Regulations for Conduct in the Securities Market) of possible conflicts of interest in which they are involved because of their activities outside of Euskatel, family relationships, personal assets, or for any other reason, with the Company or any of the members of its group, suppliers or significant customers of Euskatel or companies in its group, entities in the same line of business or that compete with the Company or any company in its group.

Any questions regarding the possibility of a conflict of interest must be discussed with the Compliance Officer, who shall make the final decision.

A conflict of interest shall be deemed to exist when the Person Subject to the Compliance Rules is in any of the following positions with respect to the entities referred to in article 9: (i) is a director or senior officer (article 2 of the Internal Regulations for the Conduct in the Securities Markets); (ii) holds a significant interest (for listed companies, those referred to in Section 125 of the consolidated text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October, and its implementing regulations, and for unlisted domestic or foreign companies, any direct or indirect holding greater than 20% of its issued share capital); (iii) is related, up to the second degree of affinity or the third degree of consanguinity, to its directors, holders of significant stakes in its capital or Senior Officers; and (iv) holds material contractual relations.

D.7. Is more than one company of the Group listed in Spain?

Yes No

Identify the subsidiaries listed in Spain:

Listed subsidiaries

--

State whether they have publicly and accurately defined their respective areas of activity and any possible business relationships among them, as well as those between the listed dependent company and the other companies within the group:

Yes No

Describe the possible business relationships between the parent company and the listed subsidiary, and between the subsidiary and the other companies within the group

Identify the mechanisms established to resolve possible conflicts of interest between the listed subsidiary and the other companies within the group:

Mechanisms for the resolution of possible conflicts of interest

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1. Explain the scope of the company's Risk Management System, including the system for managing tax risks.

Euskatel's Risk Management System operates entirely through the procedures established in the Company's various operating areas, which are coordinated through the Management Committee.

Based on the planning of the Company's objectives, Euskaltel has procedures and systems in each of its areas that allow it to identify, monitor and manage the risks to which it is exposed, in order to meet those objectives.

These processes are also supervised by the Internal Audit Department and by the Board of Directors of the Company and the Audit and Control Committee.

Euskatel's Risk Management System is consistent with the policies approved and implemented at the Company in January 2014 (Good Governance Policy and Risk Management Policy), as well as the Corporate Defence Policy, as last amended in November 2015.

E.2. Identify the decision-making bodies of the company responsible for preparing and implementing the Risk Management System, including the system for managing tax risks.

Pursuant to article 4.2 of the Regulations of the Board of Directors, the Board of Directors reserves the power to approve the policy for controlling and managing risks, including tax risks, as well as the periodic monitoring of the internal information and control systems.

As stated in article 5.3 of the Regulations of the Audit and Control Committee, this Committee is responsible for supervising the effectiveness of the internal control system of the Company and its Group and the system for managing risks, including tax risks. To this end, the Audit Committee has the following duties:

- (a) Identify the different types of risk (operational, technological, financial, legal, reputational, etc.) the Company is exposed to, including financial or economic risks such as contingent liabilities and other off-balance sheet risks.
- (b) Identify the risk levels that the Company deems acceptable.
- (c) Identify the measures planned to mitigate the impact of identified risks in the event that they materialise.
- (d) Identify the internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

The Risk Management System is defined by the Company's Management through the Management Committee, which is made up of the Managers of the various operating areas. The various Managers, as heads of the different areas, coordinate the Company's objectives, identifying and managing the specific risks that are detected in each of them. The operating areas are responsible for identifying and managing their risks and defining and applying the means to keep them from materialising.

As regards the decentralised Risk Management System described above, the Internal Audit Department has been assigned the duties of general supervision and evaluation of the Company's risks. To perform these duties, the Internal Audit Department prepares an Audit Plan that is submitted to the Audit and Control Committee for approval. The Internal Audit Department is the area responsible for advising and directly reporting to the Audit and Control Committee on the risks identified.

The Company also has a Corporate Defence Committee that assumes the duties of monitoring and tracking the regulatory framework (general and industry-specific) applicable to Euskaltel's business and with the specific duty of monitoring and tracking to prevent criminal risks.

The Corporate Defence Committee is responsible for ensuring that the various departments at the Company are familiar with the obligation to manage the risks they detect, as well as to define the information technology and internal control systems to be used for risk control and management.

This Committee consists of the Chair of the Board of Directors, the Managing Director and the Secretary. The Director of Internal Audit also attends meetings of the Committee with the right to speak but not to vote, in performing his or her oversight duties.

Furthermore, pursuant to the Corporate Defence Programme for which the Committee is responsible, Euskaltel has a mandatory Code of Ethics and Conduct, as well as a reporting channel (Ethics Channel) that allows for the communication to the Internal Audit Department of any irregularities or potential violations of the Code of Ethics and Conduct, and provides specific training to the entire Company.

E.3. Point out the principal risks, including tax risks, that could affect the achievement of business goals.

In connection with risk policy and management, the Risk Management System identifies (i) operational or business risks, i.e. those derived from its activities, related to the business and the market in which Euskaltel operates; and (ii) financial risks.

Operational or business risks include the following:

Euskaltel provides services that are subject to the risks inherent in the telecommunications

industry. In this connection, during this financial year and taking into account the procedures established in the Risk Management System described above, the Company relates each risk to one of its operating areas and then evaluates and defines the risks on an ongoing basis. The potential risks are identified in a dynamic process, evaluating their possible impact and probability of occurrence and establishing the proper means of minimising the potential negative effects thereof.

The more specific operational or business risks include:

- risk arising from the competitive situation and market growth (Euskaltel operates in a market subject to price pressure, to which it must be able to respond, and to continuous growth in the use of telecommunications services, which may be affected by issues related thereto such as security and changes in technology and may result in a change in forecasts of the demand for services);
- risk arising from regulation of the industry (the telecommunications industry is regulated, and such regulation is subject to possible changes resulting from changes in legal provisions and technological evolution);
- risk arising from changes in technology (the Company must respond to rapid changes in technology, which necessarily require it to adapt its services to those changes); and
- risks arising from agreements with third parties (the Company has entered into access agreements with third parties, as well as agreements for the provision of significant services for its business).

Financial risks include:

Credit risk: the risk of financial loss faced by the Company if a customer or a counterparty fails to perform its contractual obligations. This risk primarily occurs in the amounts of receivables.

Liquidity risk: the risk that the Company might have difficulties complying with its obligations associated with financial liabilities to be paid through the delivery of cash or other financial assets.

Market risk: the risk that changes in prices could affect the Company's income or the value of the financial instruments that it maintains.

E.4. Identify whether the entity has a risk tolerance level, including one for tax risk.

Euskaltel has procedures and systems within its organisation allowing it to decide the extent to which risks will be assumed, mitigated, hedged or avoided to the extent possible. Risk analysis is an integral part of the decision-making process.

E.5. State what risks, including tax risks, materialised during the financial year.

No material risks materialised during the financial year.

E.6. Explain the plans for responding to and supervising the entity's main risks, including tax risks.

The plans for responding to and supervising the Company's main operating or business risks are as follows:

Risk arising from the competitive situation and market growth

The Company considers the trends forecasted for the market, taking into account these trends and changes in growth forecasts. In addition, the forecasts of growth in the telecommunications sector have been confirmed in the past financial years, as the sector is

subject to a special policy promoting the growth thereof.

Risk arising from industry regulation

Through its legal department, Euskaltel permanently monitors the regulatory environment, evaluating the impact of potential changes on the Company, analysing their impact and taking specific action in connection with the regulators and other players in the sector.

Risk arising from changes in technology

The Company has responded to technological changes in the sector by making the necessary adjustments to its network. Euskaltel also develops products and services demanded by society, which puts it in the position necessary to compete with the services provided by other companies in the sector.

Risk arising from agreements with third parties

The Company taken action to strengthen relationships with strategic providers, developing alternative sources where possible. Euskaltel has entered into stable agreements with the principal strategic suppliers in recent years.

Financial risks include the following:

Credit risk

Customer credit risk is mitigated by the use of various policies, such as a high dispersion of the line item amount for receivables. Specific policies and practices that the Company uses include a customer acceptance policy, the ongoing monitoring of customer credit, which reduces the possibility that the principal balances of accounts receivable will not be paid, as well as collection management.

The impact of the uncollectible receivables on the income statement was €2.33 million (€2.01 million in 2014), equivalent to 0.67% of total revenues in 2015 (0.64% in 2014). The amount of past-due receivables that had not deteriorated at 31 December 2015 and were more than 90 days past due was €3.49 million (€0.82 million at the end of 2014, when R Cable was not included).

Liquidity risk

The focus for managing liquidity consists of ensuring, to the extent possible, that there is enough liquidity to meet the Company's payment obligations as they come due, both under normal conditions and under conditions of stress, without incurring unacceptable losses or endangering its reputation.

At the end of financial year 2015, the Company has a long-term revolving line of credit within the consolidated group in the amount of €30 million, and short-term lines of credit in the amount of €50 million, which have not been drawn down.

The balances shown in the cash and cash equivalents line item are the available liquidity kept in financial institutions with a high credit rating. At 31 December 2015, the balances in this line item were €23.37 million (€10.65 million at the end of 2014).

The Company matches its debt maturity profile to its ability to generate the cash flows to service the debts. To do so, it has established a seven-year financing plan, with annual revisions and periodic analysis of the financial position, which includes long-term projections, along with daily monitoring of balances and bank transactions.

Therefore, although working capital, defined as the difference between current assets and current liabilities (due, in both case, in less than 12 months) is negative, this is primarily the result of the ordinary course of the Company's business. This means that the average life cycle of accounts receivable is less than the average life cycle of accounts payable, which is a normal situation in the sector in which Euskaltel does business, and the amount of merchandise and inventory on the Company's balance sheet is low, totalling €3.53 million at 31 December 2015 (€2.31 million in 2014, when R Cable was not included).

Market risk

The goal of managing market risk is to control exposure to risk within the parameters that the Company considers acceptable, thereby optimising the rate of return.

The area in which Euskaltel and its Group leads to quite low exchange rate risk and pricing risk, as these risks are concentrated in the small amounts of the Company's infrequent foreign currency purchase translations.

Interest rate risk relates to the loans provided by financial institutions and related parties at a variable rate, which expose Euskaltel to changes in future cash flows.

The Company regularly reviews its interest rate hedging policy. The need to hedge interest rates is determined on the basis of that policy.

The Company also applies monthly interest rate settlements, which allows it to track rates in the financial market.

For the year ended 31 December 2015, an increase in interest rates by 100 basis points, with other variables remaining constant, would have decreased results (after taxes) by €2,765,000 (€2,475,000 for the year ended 31 December 2014).

F INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN CONNECTION WITH THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICFRS)

Describe the mechanisms making up the risk control and management systems with respect to the process of issuing the entity's financial information (ICFRS)

F.1. Control environment at the entity

Indicate at least the following, specifying the main features thereof:

F.1.1. What bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective internal control over financial reporting system (ICFRS); (ii) the implementation thereof; and (iii) oversight thereof.

Pursuant to article 4.2 of the Regulations of the Board of Directors, the Board of Directors reserves the power to approve the policy for controlling and managing risks, including tax risks, as well as the periodic monitoring of internal information and control systems.

In particular, as indicated in article 5 of the Regulations of the Audit and Control Committee, this Committee has the duty to supervise the effectiveness of the internal control of the Company and its Group. The Audit Committee has the following duties in connection with the information and internal control systems:

- (a) Supervise the preparation and completeness of the financial information regarding the Company and its group, if any, reviewing compliance with

regulatory requirements, the appropriate determination of the scope of consolidation, and the proper application of accounting principles.

- (b) Periodically review the internal control and risk management systems in order to properly identify, manage and report the principal risks.

The Finance Department is also responsible for establishing and maintaining an effective internal control system, and for implementing that system in order to ensure that transactions are accounted for properly.

F.1.2. Whether any of the following are in place, particularly as regards the financial information preparation process:

- **Departments and/or mechanisms in charge of: (i) the design and revision of the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of work and duties; and (iii) ensuring that there are sufficient procedures for the proper dissemination thereof at the entity.**

Pursuant to article 4 of the Regulations of the Board of Directors, the determination and modification of the organisational structure of the Company, as well as the appointment and removal of the senior officers of the Company (those who report directly to the Board of Directors, the CEO or the Managing Director, including the Director of Internal Audit) is within the purview of the Board.

The mission of the Organisation, Human Resources and Quality Department, reporting directly to the Managing Director, is to define the lines of responsibility, as well as to define the tasks and duties of each Department. That Department also establishes the necessary means of internal and external communication during each organisational change.

On the other hand, the preparation of financial information is the responsibility of the Finance Department, which must maintain reliable systems and models of economic, financial and operational information that can be used as the basis for decision-making by the Board of Directors and the Committees thereof.

- **Code of conduct, body that approves it, degree of dissemination and instruction, principles and values included (indicating whether the recording of transactions and the preparation of financial information are specifically mentioned), body in charge of reviewing breaches and of proposing corrective actions and penalties.**

There is a Code of Ethics and Conduct (the “**Ethics Code**”) approved by the Board of Directors, the purpose of which is to establish the principles of conduct and guidelines to which the behaviour of Euskatel, its personnel and those working on its behalf must conform in their daily work, both in their internal relations and their relations outside the Company.

The Ethics Code is disseminated throughout the organisation by the Organisation, Human Resources and Quality Department using the communication channels available thereto, as well as the corporate intranet. In addition, there is a procedure pursuant to which all Euskaltel personnel must take a training course on this topic and expressly agree to the Ethics Code (through the employee portal).

Pursuant to the Ethics Code, the professional work of Euskaltel employees must conform to a series of basic principles, which have their concrete application in a series of commitments that the employees must make and certain specific conduct guidelines that they must apply. In particular, due to its importance, note should be taken of the principle of “compliance with applicable financial regulations”, which means that the Company must prepare its financial information in a trustworthy manner and in accordance with applicable legal provisions, based on the principles of existence and occurrence of the transactions, completeness of the information, assessment, presentation, breakdown, comparability and reflection of rights and obligations, according to the legal provisions in force at any particular time.

Moreover, to ensure compliance with the Ethics Code, the Corporate Defence Committee’s duties include the following: (i) to oversee and monitor the regulatory environment affecting Euskaltel’s business; (ii) to supervise and monitor compliance with the Ethics Code; and (iii) to promote a culture of compliance and prevention of corruption and bribery and potential conflicts of interest at Euskaltel. For its part, the Internal Audit Department, as a supervisory body, also ensures compliance with the Ethics Code, resolving any incidents or questions regarding the interpretation thereof and taking the action necessary for compliance therewith.

- **Reporting channel that makes it possible to report any irregularities of a financial or accounting nature to the audit committee, as well as any possible breach of the code of conduct and irregular activities at the organisation, specifying, if appropriate, whether it is confidential.**

The Company has made a tool available to its employees called the “Ethics Channel”, the purpose of which is to facilitate communication or reporting by Euskaltel employees (confidentially, but not anonymously) of any irregular activities that they observe and consider significant in terms of the policies, codes and rules of internal conduct, particularly of a financial or accounting nature.

The Ethics Channel is accessed through the corporate intranet, and the communications or reports are sent to an email address provided on the intranet.

The Internal Audit Department is responsible for managing the Ethics Channel, although the actual administrator of the channel is the Corporate Defence Committee, which in turn reports to the Audit and Control Committee. However, it is important to note that if there is a question or discrepancy in the use of the Ethics Channel, the Corporate Defence Committee has the authority to interpret it.

- **Regular training and update programmes for personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control over financial reporting system, covering at least accounting standards, auditing, internal control, and risk management.**

The Organization, Human Resources and Quality Department is responsible for establishing the diagnostic for training activities, preparing the Training Plan, and launching and coordinating training activities, as well as properly assisting each and every one of the other Departments and centres in the work of identifying training needs and also offering to each and every Euskaltel employee the training that they need from time to time.

In particular, and without prejudice to other procedures, the Organisation, Human Resources and Quality Department meets these commitments through several rounds of meetings and interviews with the heads of each Department and the decision centres, and may also use any other means that it deems appropriate to identify the training needs of the Company's personnel. These rounds of meetings and interviews are usually held annually. As a result of this work, the training needs that are uncovered and appropriately classified by training skills and functional duties and responsibilities are then summarised in a document called "Training Diagnostic", which serves as the basis for preparing the Training Plan.

Furthermore, independently of the duties of the Organisation, Human Resources and Quality Department described above, the heads of the various Departments and decision centres are responsible for detecting the training needs of the employees who report to them, and for evaluating the effectiveness of the training once it has been held.

In addition to the duties and procedures described above, the internal personnel involved in preparing and reviewing financial information maintain constant communication with the external auditors, who periodically report on new developments in accounting and taxation rules. Subscriptions to alerts from the main accounting firms and regulatory agencies regarding new developments in accounting and taxation rules function as channels for flows of this type of information.

F.2. Risk assessment of financial information

Indicate at least the following:

F.2.1. What are the main features of the risk identification process, including the process of identifying the risks of error or fraud, with respect to:

(a) Whether the process exists and is documented.

The Finance Department is responsible for preparing financial information. Its primary mission is to optimise the use of the Company's financial and physical resources, ensuring that the use of these resources is properly monitored, in accordance with any internal or external rules that may be established, that they are used effectively, and that transactions are properly recorded on the books and reported.

Therefore, in order to ensure proper bookkeeping, the process of risk identification in connection with the process of generating and issuing financial information is considered one of the responsibilities of the Finance Department, for which the Department has the necessary staff, whose profiles, duties and tasks are defined and documented internally, aimed at meeting the objective described above.

(b) Whether the process covers all the objectives of financial information (existence and occurrence; completeness; assessment; presentation, breakdown and comparability, and rights and obligations), whether it is updated, and how often.

The tasks and duties of the Finance Department include considering the purposes of the financial information for purposes of proper bookkeeping. These include the existence and occurrence of the transactions, completeness of the information, assessment, presentation, breakdown, comparability and reflection

of rights and obligations.

- (c) **The existence of a process for the identification of the scope of consolidation, taking into account, among other matters, the possible existence of complex corporate structures, holding entities, or special purpose entities.**

There is ongoing communication between the Departments, decision centres and departments involved in order to identify the scope of consolidation.

- (d) **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.**

The Finance Department is the body entrusted with analysing and reporting on the potential impacts of any business risks that might affect the financial statements.

- (e) **What governing body of the entity supervises the process.**

The body responsible for supervising the internal control and risk management systems is the Audit and Control Committee.

F.3. Control activities

Indicate whether at least the following are in place and describe their main features:

- F.3.1. Procedures for review and authorisation of financial information, and description of the internal control over financial reporting system to be published in the securities market, indicating the persons or divisions responsible therefor, as well as documentation describing the flows of activities and controls (including those relating to risk of fraud) of the various types of transactions that could materially affect the financial statements, including the closing process and the specific review of significant judgements, estimates, assessments, and projections.**

The Company has procedures, control activities and information systems that affect the generation of financial information (billing, revenues and accounts receivable, purchases and accounts payable, acquisition, depreciation, amortisation and impairment of tangible and intangible assets, financing, financial income and expense, taxes, closing process and consolidation, etc.).

Furthermore, in connection with the closing process and on a monthly basis, the Finance Department analyses the reasonableness of significant judgments, estimates, assessments and projections made internally, adjusting them to changes or new transactions, if necessary.

Moreover, and in addition to the preparation of financial information, the “Management and Reporting” staff prepares the business information every month that is then analysed by the Finance Department and the Management Committee. Since part of that business information is based on the financial information, closing meetings are held every month between “Management and Reporting Control” and “General Administration and Accounting” in order to ensure that the financial information and the internal and external reporting are consistent and reliable.

Ultimately, it is the Board of Directors that approves the financial information that the Company must periodically publish due to its status as a listed company, with

the Audit and Control Committee being responsible for supervising the preparation and presentation of the regulated financial information. Therefore, the financial information to be provided to the markets is presented to the Audit and Control Committee and/or the Board of Directors by the Finance Department and/or the General Management.

F.3.2. Policies and procedures of internal control over reporting systems (including, among others, security of access, control of changes, operation thereof, operational continuity, and segregation of duties) that provide support for the significant processes of the entity in connection with the preparation and publication of financial information.

Euskaltel believes that information is one of the Company's principal assets and that defending it is essential for ensuring the continuity and growth of its business. As a result, Euskaltel has established an Information Security Management System, integrated with the processes of the organization and its overall management structure (the "Management System").

In the Management System, Euskaltel has defined a series of responsibilities and has prepared Information Security and Information Security Risk Management Policies, on the basis of which the internal control rules and procedures are implemented, the purpose of which is to guarantee the management of information security risks, security of access, control of changes and operation thereof, based on the analysis and management of information system risks, thereby ensuring the confidentiality, integrity and availability of the information managed in the Company's relevant procedures.

These procedures define operating decisions and responsibilities in the areas of:

- Organization of information security;
- Security related to human resources;
- Asset management;
- Access control;
- Physical security and security of the environment;
- Security of operations;
- Control of software;
- Security of communications;
- Acquisition, development and maintenance of information systems;
- Management of information security incidents;
- Aspects of information security for the continuity of the business; and
- Legal compliance.

As a complement to this system, periodic internal and external audits are conducted, continuous improvement cycles are applied, and internal checks of the system and use of internal indicators and metrics are checked to ensure that they are efficient.

F.3.3. Internal control policies and procedures designed to supervise the management of activities outsourced to third parties, as well as those aspects of assessment, calculation, or valuation entrusted to independent experts, which may materially affect the accounts.

With regard to its suppliers, the Management System controls and monitors subcontracts relating to the provision of the Company's services and activities relating to network construction and maintenance.

Assessments, calculations or valuations entrusted to independent experts, as well as the methods and principal assumptions used, are analysed at least by the Finance

Department, taking advantage of its training and independence.

F.4. Information and communication

Indicate whether at least the following are in place and describe their main features:

F.4.1. A specific function charged with defining and updating accounting policies (accounting policy area or department) and with resolving questions or conflicts arising from the interpretation thereof, maintaining fluid communications with those responsible for operations at the organisation, as well as an updated accounting policy manual that has been communicated to the units through which the entity operates.

The Finance Department is responsible for standardising the accounting policies and keeping them up to date, always under the supervision of the Audit and Control Committee, which reports to the Board of Directors.

In particular, the Audit and Control Committee, with the assistance of the Internal Audit Department, ensures that generally accepted accounting principles are applied, along with any material change in such principles. The Audit and Control Committee also ensures that the half-yearly financial information and the interim management reports are prepared using the same accounting principles as the annual financial statements.

F.4.2. Mechanisms to capture and prepare financial information with standardised formats, to be applied and used by all units of the entity or the group, supporting the principal financial statements and the notes thereto, as well as the information provided on the internal control over financial reporting system.

After the recent acquisition of R Cable by Euskaltel, it has been necessary to develop a procedure to capture information in order to prepare consolidated financial statements. The Companies each have their own independent information systems, although a financial information reporting system has been developed with a standardised format that collects all information necessary to prepare the financial statements and the notes to the financial statements. This information is reviewed by the General Administration and Accounting Department before the consolidated financial statements are prepared.

F.5. Supervision of the operation of the system

Indicate and describe the main features of at least the following:

F.5.1. The activities of supervision of the internal control over financial reporting system (ICFRS) performed by the audit committee, as well as whether the entity has an internal audit function whose duties include providing support to the committee in its work of supervising the internal control system, including the internal control over financial reporting system. Information is also to be provided concerning the scope of the assessment of the internal control over financial reporting system performed during the financial year and on the procedure whereby the person or division charged with performing the assessment reports the results thereof, whether the entity has an action plan in place describing possible corrective measures, and whether the impact thereof on financial information has been considered.

The Audit and Control Committee has the following basic duties:

- a) Supervise the effectiveness of the internal control of the Company and of its

Group, as well as the systems for managing risks, including tax risks.

- b) Together with the auditors, analyse significant weaknesses in the internal control system detected during the audit.

The Company also has an Internal Audit Department, which, under the supervision of the Audit and Control Committee, ensures that the information and internal control systems run smoothly.

The Audit and Control Committee met on four occasions in financial year 2015 and, among other things, reviewed the periodic financial information that the Company was required to submit to the CNMV, as well as the prospectuses and reports issued in connection with the Company's initial public offering and the accelerated capital increase to partially finance the acquisition of R Cable.

F.5.2. Whether it has a discussion procedure whereby the auditor (as provided in the Technical Auditing Standards), the internal audit function, and other experts can inform senior management and the audit committee or the directors of the entity of the significant internal control weaknesses detected during the review of the annual financial statements or such other reviews as may have been entrusted to them. Information shall also be provided on whether it has an action plan to seek to correct or mitigate the weaknesses found.

The Audit and Control Committee must cause the external auditor to appear before it at least twice per year: once during the preliminary stage of the auditor's work and the other on a date near the completion of such work. The purpose of these appearances is to report on the development of the auditor's work and to present its conclusions.

Along these lines, prior to the close of the 2015 financial year, the external auditor explained the audit plan, as well as its analysis of the risks and areas of special attention. Also prior to formulation of the financial statements for 2015 and after the audit was finished, the external auditor explained the results of the audit, as well as the recommendations related to any weaknesses in the internal control system identified during the audit process.

Finally, one of the duties of the Audit and Control Committee is to verify that senior management takes into account the recommendations made by the external auditor.

F.6. Other relevant information

F.7. External audit report

Report on:

F.7.1 Whether the information on the internal control over financial reporting system has been reviewed by the external auditor, in which case the entity should include the respective report as an exhibit. Otherwise, it should provide the reasons therefor.

The information on internal control over financial reporting system was not submitted to the external auditor for review during financial year 2015 because the

2015 financial statements are the first annual financial reports published after the Company's initial public offering.

G DEGREE TO WHICH CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED

State the company's degree of compliance with the recommendations of the Good Governance Code of Listed Companies.

If the company does not comply with any recommendation or follows it partially, there must be a detailed explanation of the reasons providing shareholders, investors and the market in general with sufficient information to assess the company's course of action. Generalised explanations will not be acceptable.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market

Complies Explain

2. When a dominant and subsidiary company are both listed, they should provide detailed disclosure on:

- a) The activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies.
- b) The mechanisms in place to resolve possible conflicts of interest.

Complies Partially complies Explain Not applicable

3. During the ordinary general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

- a) Changes taking place since the previous annual general meeting.
- b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Complies Partially complies Explain

This recommendation does not apply to the Company during financial year 2015 because it was not a listed company at the time the General Meeting was held.

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant contact persons or those charged with its implementation.

Complies Partially complies Explain

The Company is fully committed to the establishment and promotion of a policy of communication with shareholders, investors and proxy advisors, as reflected in article 42 of the Regulations of the Board of Directors. Although the Company is completely compliant with market abuse regulations and accords equitable treatment to all shareholders in the same position, the communication and contact policy is not formally documented, but it is expected to be documented as soon as possible during financial year 2016.

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights in an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Complies Partially complies Explain

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

- a) Report on auditor independence.
- b) Reviews of the operation of the audit committee and the appointments and remuneration committee.
- c) Audit committee report on third-party transactions.
- d) Report on the corporate social responsibility policy.

Complies Partially complies Explain

7. The committee should broadcast its general meetings live on the corporate website.

Complies Explain

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies Partially complies Explain

9. The company should disclose its conditions and procedures for establishing share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and should be applied in a non-discriminatory manner.

Complies Partially complies Explain

10. When an accredited shareholder exercises the right to supplement the agenda or

submit new proposals prior to the general meeting, the company should:

- a) Immediately circulate the supplementary items and new proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies Partially complies Explain Not applicable

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies Partially complies Explain Not applicable

12. The board of directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies Partially complies Explain

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Complies Explain

14. The board of directors should approve a director selection policy that:

- a) Is concrete and verifiable.
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board seats occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies Partially complies Explain

The Company is fully committed to the establishment and promotion of a director selection policy, as reflected in article 6.(xiii) of the Regulations of the Appointments and Remuneration Committee, which tasks that Committee with annually verifying compliance with the director selection policy, on which it will report in the annual corporate governance report, and as reflected by the fact that more than 30% of the total current members of the Board of Directors are women.

Although the director selection policy is not formally documented, it is expected to be documented as soon as possible during financial year 2016 for approval by the Board.

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies Partially complies Explain

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies Explain

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board seats.

Complies Explain

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

- a) Background and professional experience.
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

- c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.
- d) Dates of their first appointment as a board member and subsequent re-elections.
- e) Shares held in the company, and any options on the same.

Complies Partially complies Explain

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies Partially complies Explain Not applicable

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies Partially complies Explain Not applicable

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in Recommendation 16.

Complies Explain

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal cases in which they have been formally named as a suspect and the progress of any subsequent proceedings.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies Partially complies Explain

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might not be in the company's best interest. In particular,

independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the shareholders lacking board representation.

When the board makes material or repeated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies Partially complies Explain Not applicable

24. Directors who give up their seat before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Complies Partially complies Explain Not applicable

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

Complies Partially complies Explain ?

Although it is true that the Regulations of the Board do not establish the maximum number of company boards on which a Directors of Euskaltel can serve, article 30 does state that Directors must dedicate the time and effort necessary to carry out their duties effectively, and therefore, the Directors must inform the Appointments and Remuneration Committee of their other professional obligations, in case they might interfere with the dedication required.

In addition, article 6.(xi) of the Regulations of the Appointments and Remuneration Committee provides that the Committee must ensure that the non-executive Directors have enough time available to discharge their responsibilities effectively.

26. The board should meet with the necessary frequency to properly perform its duties, eight times a year at least, in accordance with the schedule and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies Partially complies Explain

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should grant delegate their powers of representation with appropriate instructions.

Complies Partially complies Explain

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Complies Partially complies Explain Not applicable

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies Partially complies Explain

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies Explain Not applicable

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to submit decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies Partially complies Explain

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies Partially complies Explain

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies Partially complies Explain ?

The Chair complies with all the duties included in the recommendation, except for the duties related to periodic evaluation of the Board of Directors, which duties have been assigned to the Appointments and Remuneration Committee.

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board meeting in the absence of the chairman or vice chairmen; give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Complies Partially complies Explain Not applicable

The powers granted to the lead independent director in article 18.4 of the Regulations of the Board of Directors are those set out in Section 529 *septies* of the Companies Act.

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Complies Explain

36. The full board should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of board membership and competences.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies Partially complies Explain

This recommendation was not applied by the Company in financial year 2015, because it was not a listed company throughout the entire financial year.

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary of the executive committee.

Complies Partially complies Explain Not applicable

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Complies Partially complies Explain Not applicable

39. All members of the audit committee, particularly its chairman, should be appointed

with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee seats should be held by independent directors.

Complies Partially complies Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies Partially complies Explain

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Complies Partially complies Explain Not applicable

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems

- a) Monitor the preparation and the integrity of the financial information on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles.
- b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit department; propose the department's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

- d) Investigate the issues giving rise to the resignation of the external auditor, should this come about.
- e) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- f) Ensure that the company reports any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

g) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

h) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies Partially complies Explain

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies Partially complies Explain

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the transaction and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies Partially complies Explain Not applicable

45. The risk control and management policy should identify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

b) The determination of the risk level the company considers acceptable.

c) The measures planned in order to mitigate the impact of identified risks in the event that they materialise.

d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Complies Partially complies Explain

Euskaltel has a Risk Control and Management Policy classifying nine categories of risks previously identified as relevant for the Company, and responsibilities are distributed within the Organization for proper risk management (Management Committee, Corporate Defence Committee for criminal risks and other Departments based on their responsibilities within the Company).

In turn, and in addition to the Management Committee, the Security Committee meets periodically when the possible materialisation of a risk is identified.

The integration of the entire Group into the Risk Management and Control System and its subsequent systematization will occur simultaneously with the integration of the Consolidated Group itself.

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function

should be expressly charged with the following responsibilities:

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies Partially complies Explain

Risk control and management duties are currently being performed by the Management Committee as a whole, which regularly shares the risk analysis and integral and cross-departmental measures deemed necessary to mitigate their potential impact, applying the Risk Control and Management Policy and the rest of the Corporate Governance System.

These activities by the Audit and Control Committee and the Board of Directors are directly supervised by means of the regular attendance of the Managing Director at meetings of the Audit and Control Committee and of the Board of Directors, at which effective risk management and the implementation of the Risk Control and Management Policy are discussed.

47. Appointees to the nomination and remuneration committee - or of the nomination committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies Partially complies Explain

We comply with this recommendation, except with respect to the composition of the Appointment and Remuneration Committee, 50% of whose members are independent although the Chair of the Committee (an independent director) has a tie-breaking vote in the event of a tie.

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Complies Explain Not applicable

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Complies Partially complies Explain

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

- a) Propose to the board the standard conditions for senior officer contracts.

- b) Monitor compliance with the remuneration policy set by the company.
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee receives.
- e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies Partially complies Explain

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies Partially complies Explain

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) They should be chaired by independent directors.
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
- d) They may engage external advice, when they feel it necessary for the performance of their duties.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies Partially complies Explain Not applicable

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established *ad hoc* by the board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.
- f) Monitor and evaluate the company's interaction with its stakeholder groups.
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies Partially complies Explain

A procedure for coordinating the reporting of non-financial information is being approved in connection with the Company's initial public offering.

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
- b) The corporate strategy with regard to sustainability, the environment and social issues.
- c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.
- f) Channels for stakeholder communication, participation and dialogue.
- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies Partially complies Explain

The Company is fully committed to establishing and promoting a corporate social responsibility policy, which is approved by the Board (article 4 of the Regulations of the Board of Directors), while the Audit and Control Committee is responsible for (i) hearing, promoting, guiding and supervising the Company's activities in terms of corporate social responsibility and sustainability, ensuring that it is aimed at creating shareholder value, and reports on these activities to the Board of Directors, or if

applicable, to the Executive Committee, and for (ii) monitoring the corporate social responsibility strategy and practices and evaluating compliance therewith (article 5.3.(v). letters (d) and (e) of the Regulations of the Audit and Control Committee).

The Company's corporate social responsibility policy that was approved prior to the initial public offering is expected to be adapted to the parameters established in Recommendation 54 of the Good Governance Code.

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies Partially complies Explain

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies Explain

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies Partially complies Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies Partially complies Explain Not applicable

The variable remuneration of the Chair of the Board of Directors encourages the

personal performance of the beneficiary and is tied to performance criteria determined in advance in the employment agreement. However, the agreement does not expressly include any non-financial parameters.

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies Partially complies Explain Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies Partially complies Explain Not applicable

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies Partially complies Explain Not applicable

The contract between the Company and the Chair of the Board of Directors was signed two years before Euskatel's initial public offering, and the determination of his variable remuneration was not linked to the award of shares or financial instruments whose value is linked to the share price. However, before the Company went public, there was an Incentive Plan linked to the value of the Company's shares when certain "liquidity events" occurred (as was the case); therefore, the amount to be received by the Chair of the Board of Directors under the Incentive Plan was indeed linked to the price of Company's shares. In addition, for the future, the general principles for a Share Incentive Plan and a Share Purchase Incentive Plan have been approved.

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies Partially complies Explain Not applicable

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies Partially complies Explain Not applicable

The contractual arrangements currently in force do not include a clause that permits the company to reclaim the variable component on the terms described in Recommendation 63.

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria. Complies

Complies Partially complies Explain Not applicable

The employment agreement dated 1 April 2013 between the Company and the Chair of the Board of Directors provides that termination payments might exceed two years of total annual remuneration, up to a maximum of 42 monthly payments. However, it is important to note that the termination payments that could result from that agreement are based on the ordinary employment relationship between the Chair of the Board of Directors and Euskatel, which has currently been suspended; that employment relationship provided for a termination payment in accordance with the labour laws in force at that time, which was limited to 42 monthly payments.

H OTHER INFORMATION OF INTEREST

1. If there are any significant aspects regarding corporate governance at the company or at entities of the group that is not included in the other sections of this report, but should be included in order to provide more complete and well-reasoned information regarding the corporate governance structure and practices at the entity or its group, briefly describe them.
2. In this section, you may also include any other information, clarification, or comment relating to the prior sections of this report to the extent they are relevant and not repetitive.

Specifically, state whether the company is subject to laws other than Spanish laws regarding corporate governance and, if applicable, include such information as the company is required to provide that is different from the information required in this report.

3. The company may also state whether it has voluntarily adhered to other international, industrial or other codes of ethical principles or good practices. If so, identify the code in question and the date of adherence thereto. In particular, mention whether there has been adherence to the Code of Good Tax Practices of 20 July 2010.

With regard to paragraph C.1.16., the amount of €1,832 thousand is the total remuneration of the members of the Management Committee. The remuneration of €4,461 thousand (salaries and wages of Officers) shown in the notes to the financial statements for financial year 2015 includes the entire management team.

With regard to paragraph C.1.37., audit expenses were incurred in financial year 2015 that can be broken down into three categories: (i) actual audit work, of a recurring nature; (ii) audit work as such, but not recurring; and (iii) work other than audit on a one-off basis, engaged in connection with the initial public offering and the accelerated capital increase to partially finance the acquisition of R Cable (i.e., financial due diligence, comfort letters, etc.).

This annual corporate governance report was approved by the Board of Directors of the company at its meeting of 24 February 2016.

State whether any directors voted against or abstained in connection with the approval of this Report.

Yes No