

## ANNUAL ACTIVITIES REPORT OF THE APPOINTMENTS AND REMUNERATION COMMITTEE OF EUSKALTEL, S.A. FOR FINANCIAL YEAR 2015

### 1. Introduction

The Appointments and Remuneration Committee of Euskaltel, S.A. is an internal informational and consultative body without executive duties, the purview of which includes information, advisory, and proposal-making powers, and the principal task of which is to assist, inform and make proposals to the Board of Directors on the matters from time to time assigned thereto.

The Appointments and Remuneration Committee, which is mandatory for listed companies since the entry into force of Law 31/2014 of 3 December amending the Companies Act for the Improvement of Corporate Governance, was permanently created by Euskaltel's Board of Directors on 19 March 2013

This Annual Activities Report of the Appointments and Remuneration Committee of Euskaltel for financial year 2015 has been prepared to be made available to the Company's shareholders, following approval by the Board of Directors, upon the occasion of the call to the Ordinary General Shareholders' Meeting.

### 2. Regulatory framework

The rules applicable to the Appointments and Remuneration Committee are currently contained in Section 529 *quindecies* of the consolidated text of the Companies Act approved by Royal Legislative Decree 1/2010 of 2 July, articles 63 and 65 of the Bylaws, article 18 of the Regulations of the Board of Directors, and in the Regulations of the Appointments and Remuneration Committee.

### 3. Principal duties and powers

The Appointments and Remuneration Committee performs the following basic duties with respect to the Company itself as well as the subsidiaries of the Group:

- a) 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.
- b) Establish a goal for representation of the less represented gender on the Board of Directors and prepare guidelines on how to achieve this goal.
- c) 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.
- d) 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.

- e) Report on proposals for the appointment and removal of senior officers and the basic terms of their contracts.
- f) 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.
- g) 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.

The duties of the Appointments and Remuneration Committee also include the following:

**Powers regarding the composition of the Board of Directors and of the committees thereof and regarding the process of appointments to internal posts within the Board of Directors and of senior officers**

- Advise the Board of Directors regarding the most appropriate configuration thereof and of its committees as regards size and balance among the various classes of directors existing at any given time. To that end, the Committee shall review the structure of the Board of Directors and of its committees on a regular basis, particularly when vacancies occur within such bodies.
- Report on the proposal for the individual representative of a corporate director.
- Report on and review the criteria that should be followed in composing the Board of Directors and in selecting candidates, defining their required duties and abilities and evaluating the time and dedication required for the proper performance of their work, taking care to ensure that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implicit bias involving any kind of discrimination, and particularly from any bias that may hinder the selection of female directors, establishing a goal for the representation thereof on the Board of Directors and preparing guidelines on how to achieve this goal.
- Ensure that the persons to be appointed to the office of director by means of any procedure meet the requirements of respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to their duties and that they are not affected, directly or indirectly, by any of the instances of disqualification, prohibition, conflict or opposition of interests to the corporate interest as set forth in provisions of a general nature.
- Report on and make proposals regarding the appointment or removal of the members of each of the committees, verifying and confirming compliance with the requirements of knowledge and experience in connection with the purview of the committee in question, and particularly as regards the Audit and Control Committee.
- Report on or formulate proposals relating to the appointment or removal of the Chairman of the Board of Directors and any chief executive of the Company.
- Examine or 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.

- Report on or formulate proposals from the Chair of the Board of Directors relating to the appointment or removal of the Vice Chair of the Board of Directors.
- If the chair of the Board of Directors performs executive duties, submit to the Board of Directors a proposal for the appointment of a lead independent director (*consejero independiente especialmente facultado*) and report on proposals for such director's removal.
- Report on proposals from the chair of the Board of Directors or formulate proposals relating to the appointment or removal of the Secretary and Deputy Secretary of the Board of Directors.
- Ensure that non-executive directors have sufficient time available to properly perform their duties.
- Report on proposals relating to the appointment, promotion, or removal of senior officers, as well as proposals to revise and amend the organisational chart and the allocation of responsibilities within the Company.
- On an annual basis, verify compliance with the director selection policy and report thereon in the annual corporate governance report.
- Investigate and report, when appropriate, to the Board of Directors on the selection, appointment and remuneration of directors and senior officers of the Company and its group.
- Issue such reports and take such actions within its purview as are requested by the Board of Directors or the Chair thereof.

#### **Powers regarding the selection of candidates for director**

- Select possible candidates who might be appointed as directors of the Company and submit its proposals or reports, as applicable, to the Board of Directors through its chair.
- Submit to the Board of Directors proposals for the appointment of independent directors (for appointment on an interim basis or for submission to a decision of the shareholders at a General Shareholders' Meeting).
- Verify compliance with the specific requirements for independent directors provided by law and the internal rules of the Company, and gather adequate information regarding their personal qualities, experience and knowledge as well as on their actual availability.
- At the request of the Chair of the Board of Directors or any other member of the Board of Directors, report on the proposed appointment of other directors (for appointment on an interim basis or for submission to a decision of the shareholders at a General Shareholders' Meeting).

#### **Powers regarding the evaluation and re-election of directors**

- Establish and supervise an annual programme for continuous evaluation and review of the qualifications, training, and, if applicable, independence, as well as of ongoing compliance with the requirements of respectability, suitability, expertise, competence, availability and commitment to their duties that must be satisfied in order to serve as director and as a member of a particular committee, and propose to the Board of Directors such measures as it

deems advisable in this regard, with the power to collect any information or documentation that it deems necessary or appropriate to such end.

- Participate in the annual process of evaluation of performance of the chair of the Board of Directors and of any chief executive of the Company.
- Prior to the end of the term for which a director has been appointed, examine the advisability of the director's re-election, as well as the director's continuance, if applicable, on the committees of the Board of Directors of which such director is a member.
- Verify that the director to be re-elected continues to comply with the general requirements applicable to all directors of the Company pursuant to law, as well as evaluate the quality of work and dedication to office of the director in question during the preceding term of office, and specifically such director's respectability, suitability, expertise, competence, experience, qualifications, availability and commitment to the duties entrusted thereto.
- Once the procedures described in the preceding sub-sections have been completed, submit to the Board of Directors its proposal (in the case of independent directors) or report (in the case of the other directors) regarding the re-election of directors.

#### **Powers regarding the removal and termination of directors**

- Report to the Board of Directors regarding proposed removals due to breach of the duties inherent to the position of director or due to a director becoming affected by supervening circumstances of mandatory resignation or termination.
- Propose the removal of directors in the event of disqualification, prohibition, structural conflict of interest or any other grounds for resignation or termination, pursuant to law or the internal rules of the Company.
- For the purposes set forth in the preceding sub-sections, request the information or documents it deems necessary or appropriate of the directors, the individuals that are to represent the corporate directors and, in the case of proprietary directors, the shareholders that have proposed, requested or determined the appointment thereof.

#### **Powers regarding remuneration**

- Periodically review the remuneration policy applied to directors and senior officers, including share-based remuneration systems and the application thereof, as well as guaranteeing that the individual remuneration thereof is proportionate to that paid to the other directors and senior officers of the Company.
- Propose to the Board of Directors amendments and updates to the remuneration policy applied to senior officers.
- Propose to the Board of Directors amendments and updates to the remuneration policy applied to directors, for submission to the shareholders at a General Shareholders' Meeting, as well as the amount of their annual remuneration.
- Propose for approval by the Board of Directors the individual remuneration of the executive directors and the other basic terms and conditions of their contracts, including any compensation that may be set for early termination of office and the amounts to be paid by the

company for insurance premiums or savings plan contributions, in all cases in compliance with the internal rules of the Company, and particularly in accordance with the remuneration policy approved by the shareholders at the General Shareholders' Meeting.

- Report on and submit to the Board of Directors the proposals of the Chair of the Board of Directors or the chief executive regarding the structure of the remuneration payable to senior officers and the basic terms and conditions of their contracts, including any compensation or severance provided in the event of removal.
- Report on and formulate incentive plans and pension supplements for the group's entire workforce.
- Conduct a periodic review of the general remuneration programmes for the group's workforce, evaluating the suitability and results thereof, and formulate proposals for amendment or update.
- Endeavour to ensure compliance with the Company's remuneration programmes and report on the documents to be approved by the Board of Directors for general disclosure regarding remuneration-related information, including the annual director remuneration report and the applicable sections of the Company's Annual Corporate Governance Report.
- Endeavour to ensure that potential conflicts of interest do not prejudice the independence of the outside advice provided to the Committee.
- Verify the information on director and senior officer remuneration contained in the various corporate documents, including the annual director remuneration report.

#### 4. Composition of the Committee

The Appointments and Remuneration Committee shall be made up of a minimum of three and a maximum of five external (i.e. proprietary and independent), a majority of whom must be independent Directors.

The standard for selecting the members of the Appointments and Remuneration Committee of Euskaltel shall be independent directors, who shall be appointed while endeavouring to ensure that they have the knowledge, skill and experience appropriate for the duties they are called upon to perform.

As of 31 December 2015, the Appointments and Remuneration Committee is composed of four external (independent and proprietary) Directors:

Name	Committee position	Class	Date of first appointment	Date of most recent appointment
Mr José Ángel Corres Abasolo	Chair	Independent	19/03/2013	19/03/2013
Mr Alfonso Basagoiti Zavala	Member	Proprietary	19/03/2013	19/03/2013
Mr Javier Fernández Alonso	Member	Proprietary	16/12/2015	16/12/2015

Ms Belén Amatriaín Corbi	Member	Independent	06/05/2015	06/05/2015
--------------------------	--------	-------------	------------	------------

Mr José Ángel Corres Abasolo has held the position of Chair of the Appointments and Remuneration Committee since 16 December 2015, following the voluntary resignation of the previous Chair of the Committee, Mr Richard Alden.

The Secretary of the Board of Directors, Mr Francisco Javier Allende Arias, acts as Secretary of the Appointments and Remuneration Committee.

## 5. Meetings held, reports reviewed and appearances

The Appointments and Remuneration Committee shall meet two to four times per year for the ordinary review and evaluation of the status of the matters within its purview and whenever called by its Chair if appropriate for the proper performance of its duties.

In all cases, the Chair shall also call a meeting of the Committee whenever the Board of Directors or the Chair thereof requests the issuance of a report or the adoption of proposals, or whenever requested by one third of the members of the Committee itself.

The Appointments and Remuneration Committee formally met on four occasions during financial year 2015.

All meetings were held at the registered office of Euskaltel, located in Derio (Biscay), at Parque tecnológico, Edificio 809.

The level of attendance was as follows:

Number of meetings	4	
Possible attendees at each meeting	4	
Possible attendees	16	100.0%
Attendance in person	15	93.75%
Proxies given to the Chair	1	6.25%
Other proxies	-	0.0%
Non-proxy attendance	-	0.0%

The dates of the meetings and the matters dealt with are described below:

Date	Matters dealt with
03/03/2015	<ul style="list-style-type: none"> <li>Organisational structure.</li> <li>Payment of 2014 annual bonus.</li> <li>Proposal for and definition of 2015 annual bonus.</li> <li>Officers' and Executive Directors' Incentive Plan.</li> <li>Appointments of Directors.</li> </ul>
30/09/2015	<ul style="list-style-type: none"> <li>Interim appointment of members of the Board of Directors.</li> <li>New proposed organisational structure.</li> <li>Collective Bargaining Agreement.</li> </ul>
28/10/2015	<ul style="list-style-type: none"> <li>Organisational structure.</li> </ul>

	<ul style="list-style-type: none"> <li>• Collective Bargaining Agreement.</li> </ul>
16/12/2015	<ul style="list-style-type: none"> <li>• Report of the Chair of the Board on Corporate Governance.</li> <li>• 2016-2018 Remuneration Plans.</li> <li>• Remuneration of the members of the Board of Directors.</li> </ul>

In view of the various matters dealt with throughout financial year 2015, the Appointments and Remuneration Committee reported favourably to the Board of Directors on the following matters:

**Regarding the composition of the Board of Directors and of the committees thereof and regarding the process of appointments to internal posts within the Board of Directors and of senior officers**

- Appointment of Mr José Ángel Corres Abasolo as Lead Independent Director (*Consejero Independiente Coordinador*).
- Appointment of the Lead Independent Director, Mr José Ángel Corres Abasolo, as the new Vice Chair of the Board of Directors.
- New composition of the consultative Committees of the Board of Directors.
- New organisational structure of the Euskaltel Group.

**Regarding the selection of candidates for director**

- Appointment of Ms Belén Amatriaín Corbi and Mr Iñaki Alzaga Etxeita as new members of Euskaltel's Board of Directors.
- Interim appointment of Mr Javier Fernández Alonso as a member of Euskaltel's Board of Directors.

**Regarding remuneration**

- Settlement of the Officer and Executive Director Incentive Plan.
- Payment of the 2014 annual bonus and determination of the 2015 annual bonus.
- Setting of the individual remuneration of the members of the Board of Directors.
- Approval of the general principles of the 2016-2018 Share Incentive Plan and of the 2016-2018 Share Purchase Incentive Plan.