REPORT OF THE AUDIT AND CONTROL COMMITTEE REGARDING RELATED-PARTY TRANSACTIONS WITH DIRECTORS AND SIGNIFICANT SHAREHOLDERS OF EUSKALTEL, S.A. DURING FINANCIAL YEAR 2015

1. Object of the report

Pursuant to article 4.5.E).e) of the Regulations of the Board of Directors of Euskaltel, S.A., the approval, following a report from the Audit and Control Committee, of related-party transactions as defined by the law from time to time in effect, is within the purview of the Company's Board of Directors.

Article 38 of the Regulations adds that 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, significant shareholders, 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, disclosing such transactions to the Company in the cases and to the extent provided by law.

Moreover, as provided by article 5.3.(iv).c) of the Regulations of the Audit and Control Committee, the latter body shall report to the Board of Directors, prior to the adoption thereby of the relevant decision, regarding related-party transaction, as defined by applicable law at any particular time.

Finally, recommendation 6 of the Good Governance Code of Listed Companies approved by the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (CNMV) on 18 February 2015 recommends that listed companies prepare and publish certain reports on their websites, including the Audit and Control Committee's report on related-party transactions, sufficiently in advance of the ordinary general shareholders' meeting.

In light of the foregoing, the Audit and Control Committee of Euskaltel prepares this report upon the occasion of the Ordinary General Shareholders' meeting that is expected to be called shortly.

2. Related-party transactions approved during financial year 2015

In financial year 2015, and as provided by the Company's internal rules, the Audit and Control Committee reported favourably on four transactions between the Company and one or more of its significant shareholders, concluding that said transactions were conducted on arm's length terms, as described below:

2.1. Financing agreement between Euskaltel and a bank syndicate to, *inter alia*, finance the acquisition of R Cable y Telecomunicaciones Galicia, S.A.

As part of the process of acquiring R Cable y Telecomunicaciones Galicia, S.A. and re-financing the debt of such Company, Euskaltel and a syndicate of banking institutions entered into a financing agreement dated 3 June 2015, subsequently amended on 26 June 2015 and 5 October 2015, and finally formalised in a notarial instrument dated 27 November 2015.

This financing agreement, through which Euskaltel partially financed said acquisition of R Cable, involved an increase in Euskaltel's bank financing facilities to a total amount of 1,400 million euros, and was made up of (i) tranche A, in the amount of 535 million euros; (ii) tranche B, also in the amount of 535 million euros; (iii) a 300 million euro institutional debt tranche (TLB-3), which was successfully syndicated among domestic and international institutional funds; and (iv) a revolving credit line in the amount of 30 million euros.

The banking institutions party to the financing agreement included Kutxabank, S.A. and Abanca Corporación Bancaria, S.A., both of which are currently significant shareholders of Euskaltel.

Kutxabank contributed a total amount of approximately 148 million euros to the financing, and Abanca contributed approximately 40 million euros.

As Kutxabank was a significant shareholder of the Company at the time the financing agreement was executed, said agreement was deemed a related-party transaction.

Following the corresponding analysis by the Audit and Control Committee, the Committee concluded that the transaction had been conducted on arm's length terms and reported on favourably thereon.

As Abanca became a shareholder of Euskaltel after the signing of the financing agreement, the transaction did not need to be submitted to the Audit and Control Committee.

2.2. Telecommunications services agreement between Euskaltel and Kutxabank, S.A.

On 1 January 2015, Kutxabank and Euskaltel entered into an agreement for provision of integral telecommunications services (fixed telephony, mobile telephony, Internet, equipment maintenance, etc.) with a term of 2 years.

As Kutxabank was a significant shareholder of the Company, the agreement was deemed a related-party transaction.

Following the corresponding analysis by the Audit and Control Committee, the Committee concluded that the transaction had been conducted on arm's length terms and reported on favourably thereon.

2.3. Telecommunications services agreement between Euskaltel and CajaSur Banco, S.A.U.

On 1 January 2015, CajaSur Banco, S.A.U. and Euskaltel entered into an agreement for provision of integral telecommunications services (fixed telephony, mobile telephony, Internet, equipment maintenance, etc.) with a term of 2 years.

The terms and conditions of this agreement included a provision that the amount to be invoiced by Euskaltel per year under said agreement was the amount of 2,610,000 euros. This amount is subject to certain mechanisms to adjust for major variations in consumption and services.

As CajaSur was a wholly-owned subsidiary of Kutxabank, which was a significant shareholder of Euskaltel, the agreement with CajaSur was deemed to be a related-party transaction.
Following the corresponding analysis by the Audit and Control Committee, the Committee concluded that the transaction had been conducted on arm's length terms and reported on favourably thereon.

2.4. Financial services agreement between Euskaltel and Norbolsa, S.V., S.A.

On 17 September 2015, Norbolsa, S.V., S.A. and Euskaltel entered into an agreement whereby Norbolsa would trade on behalf of the Company by buying or selling Euskaltel treasury shares so as to promote the liquidity and regularity of trading therein, for a term of 12 months.

The terms and conditions of this agreement include the following: (i) the annual amount to be billed by Norbolsa under the agreement was the amount of 30,000 euros per year; and (ii) upon expiration, the Liquidity Agreement will be deemed to be automatically extended for another 12-month period unless otherwise desired by either party.

As Norbolsa was subsidiary of Kutxabank, a significant shareholder of the Company, the agreement was deemed a related-party transaction.

Following the corresponding analysis by the Audit and Control Committee, the Committee concluded that the transaction had been conducted on arm's length terms and reported on favourably thereon.

In Derio, on 26 April 2016