

ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS OF LISTED COMPANIES

Section 541 of Royal Legislative Decree 1/2010 of 2 July approving the consolidated text of the Companies Act (*Ley de Sociedades de Capital*), as amended by Law 31/2014 of 3 December amending the Companies Act, in order to improve corporate governance, provides that the Board of Directors of listed companies must annually prepare and publish a Director Remuneration Report, including the remuneration that directors receive or should receive in their capacity as such, and any remuneration they receive for the performance of executive duties.

The Annual Director Remuneration Report must include complete, clear and comprehensible information on the remuneration policy applicable to Directors in the current financial year. It must also include an overall summary of the application of the remuneration policy during the previous financial year, as well as details of the individual remuneration accrued for all items by each of the Directors in such financial year.

The Annual Director Remuneration Report must be disclosed by the Company as a significant event (*hecho relevante*) simultaneously with the Annual Corporate Governance Report, and must be submitted to a consultative vote as a separate item on the agenda for the Ordinary General Shareholders' Meeting.

Circular 7/2015 of 22 December of the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) was published on 30 December 2015, and establishes the forms of Annual Corporate Governance Report and the Annual Director Remuneration Report listed companies, in accordance with the express authorisation contained in sub-section 45 of Section 541 of the Companies Act.

The new regulation of the Annual Director Remuneration Report has not made significant changes to the content thereof, except for eliminating the need to include explanations regarding the remuneration policy that the company plans to apply in future financial years.

Pursuant to the foregoing, the Board of Directors of Euskaltel, S.A. has prepared this Annual Director Remuneration Report to be submitted to a consultative vote as a separate item on the agenda for the Ordinary General Shareholders' Meeting.

A. REMUNERATION POLICY OF THE COMPANY FOR THE CURRENT FINANCIAL YEAR

A.1. Explain the company's remuneration policy. This section will include information regarding:

- General principles and foundations of the remuneration policy.
- Most significant changes made to the remuneration policy from the policy applied during the prior financial year, as well as changes made during the financial year to the terms for exercising options already granted.
- Standards used to establish the company's remuneration policy.
- Relative significance of the variable items of remuneration as compared to fixed items and standards used to determine the various components of the director remuneration package (remunerative mix).

Explain the remuneration policy
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A.1.1 General principles and foundations

The remuneration policy for the Directors of Euskaltel, S.A. is based on the following principles and foundations:

- Moderation: establishing remuneration that is reasonably proportional to the size of the Company, the economic situation at any particular time and market practices at companies of similar size or activity.
- Suitability: allowing for the attraction, motivation and retention of valuable human capital and remunerating professional merit, responsibility assumed, and dedication in the case of external Directors.
- Balance: between fixed and variable components, in the case of executive Directors.
- Profitability and sustainability: incentivising performance and rewarding the creation of long-term value.
- Linked to results: based on the necessary link between remuneration and Company results, in the case of executive Directors.
- Fairness and external competitiveness: taking into account the external competitive environment and internal fairness.
- Transparency of remuneration policy: in accordance with the best practices and recommendations as regards remuneration design and governance.

On the basis of the foregoing principles, the remuneration policy for Directors of Euskaltel, and in particular that of the Chair having executive duties (the "Chair"), Mr Alberto García Erauzkin, is aimed at rewarding their dedication to the Company and fostering the long-term profitability and sustainability of Euskaltel.

A.1.2. Most significant changes made to the remuneration policy from the policy applied during the prior financial year

In accordance with the foregoing principles, the Board of Directors:

- Reviewed the regulatory framework established by the Companies Act as regards remuneration to ensure that the governance and design of the remuneration of its Directors conforms thereto.
- Established new fixed allotments for all external (non-executive) Directors, including proprietary Directors, which are described in section A.3, without these Directors receiving attendance fees or variable remuneration or shares for these duties (65,000 euros for belonging to the Board of Directors and 15,000 euros for belonging to any of the various Committees of the Board of Directors).
- In 2015, approved the general principles of the 2016-2018 Share Incentive Plan and of the 2016-2018 Share Purchase Incentive Plan, which, once developed and duly documented with the supervision of the Appointments and Remuneration Committee, shall be submitted for the approval of the Board of Directors and of the shareholders at the 2016 General Shareholders' Meeting.
- Plans to submit Euskaltel's Director Remuneration Policy for financial years 2016, 2017 and 2018, which will accompany the mandatory report of the Appointments and Remuneration Committee, for approval at the Ordinary General Shareholders' Meeting, in accordance with the provisions of article 529 *novedecies* of the Companies Act.

A.1.3. Standards used to establish the Company's remuneration policy.

The general standards for establishing Euskaltel's Remuneration Policy (which will be prepared by the Board of Directors following a report from the Appointments and Remuneration Committee, and which shall be submitted for approval of the shareholders at the General Shareholders' Meeting) are contained in articles 62 of the Bylaws and 27 of the Regulations of the Board, and in the case of the Chair in the contract approved by the Company's shareholders at the General Shareholders' Meeting of 19 March 2013 and executed on 1 April 2013.

As regards the remuneration of the Board of Directors, these standards distinguish between remuneration of Directors in their capacity as such and remuneration of Directors with executive duties.

In the case of Directors in their capacity as such, remuneration is established for their dedication but without affecting the goal of protecting the corporate interest. In this regard, the aforementioned article 62 of the Bylaws includes the following items: *"(i) a fixed annual allocation as members of the Board of Directors in their capacity as such and of any of the various Committees, and (ii) the potential to receive amounts as insurance premiums with a maximum annual limit of €8,000 euros per director. In any case, the total amount of the remuneration to be paid to all of the directors for these items shall not exceed the amount determined for such purpose by the shareholders at the General Shareholders' Meeting."*

The specific amount corresponding to the above items for each Director shall be determined by the Board of Directors and may take into account the positions held and attendance at the various committees, as well as the classification assigned to the Director.

This fixed allotment is only received by the external Directors (including proprietary Directors), and the Chair will not receive the fixed allotment or other items of remuneration based on the

Chair's status as a director other than the remuneration that the Chair receives for executive duties.

The Chair is entitled to receive remuneration for the executive duties performed thereby following the standards generally applicable to the members of senior management. These standards are intended to establish a remuneration package that allow for the attraction, motivation and retention of valuable human capital. The Board of Directors establishes the remuneration for performance of executive duties.

In particular, the items of remuneration for the Chair are provided for in the contract approved by the shareholders at the General Meeting of 19 March 2013 referred to above, and conform to the general standards approved for remuneration, including the parameters for the accrual thereof and potential severance payments for termination of contract and any commitments of the Company to pay amounts as insurance premiums or contributions to savings or social security schemes.

The main items of remuneration are the following: (i) fixed remuneration based on the responsibilities assumes, and (ii) variable annual remuneration linked to the achievement of corporate objectives defined on an annual basis.

The Company also has a civil liability insurance policy for its directors upon customary terms and proportional to the circumstances of the Company, as well as certain remuneration in kind for the Chair as described in section A.3 below.

A.1.4. Relative significance of the variable remuneration items as compared to fixed items (remunerative mix)

In accordance with the foregoing, in the case of the Chair and given the status thereof as a Director with executive duties, a remuneration package has been established with a balance between fixed and variable components.

The shareholders acting at the General Shareholders' Meeting held on 1 June 2015 resolved to set a limit of 1.5 million euros as the maximum annual amount of cash remuneration for the Directors for the fixed annual allotment item. This is the maximum amount currently in effect.

The specific amounts of the fixed allotment for external Directors in their capacity as such for the current financial year are described in section A.3 below.

External Directors do not receive variable remuneration, results-based adjustments or remuneration in shares.

The Chairp (who is Euskaltel's sole executive Director) has accrued annual variable remuneration amounting to 50% of fixed salary, corresponding to the achievement of 100% of the targets established.

The specific amounts and a description of the Chair's fixed and variable remuneration are set out in sections A.3 and A.4 below.

A.2. Information regarding preparatory work and the decision-making process followed to determine the remuneration policy, and any role played by the remuneration committee

and other control bodies in the configuration of the remuneration policy. This information shall include any mandate given to the remuneration committee, the composition thereof, and the identity of external advisors whose services have been used to determine the remuneration policy. There shall also be a statement of the nature of any Directors who have participated in the determination of the remuneration policy.

Explain the process for determining the remuneration policy

Euskaltel's Board of Directors is aware of the importance of having a corporate governance system that guides the structure and operation of its corporate bodies in the interests of the Company and its shareholders.

The Appointments and Remuneration Committee (consultative) and the Board of Directors (decision-making) are the control bodies that participate in establishing the Company's remuneration policy.

In addition to the Bylaws, both the Company's Board of Directors and the Appointments and Remuneration Committee have their respective Regulations containing the principles and elements that make up the Company's corporate governance system, and that establish the rules for the internal framework and operation of each one of such bodies.

The Board of Directors has appointed a Lead Independent Director (*Consejero Coordinador*), who has also been elected Chair of the Appointments and Remuneration Committee.

In particular, and in accordance with article 4.5 of its Regulations, the Board of Directors has the following duties, amongst others:

- To appoint and remove the Chief Executive Officers, and to give prior approval to the contracts to be signed between the Company and the Directors who will be vested with executive duties, including the items for which they may receive remuneration for the performance of said duties.
- To approve the remuneration of each director, following a proposal from the Appointments and Remuneration Committee, pursuant to the remuneration policy approved by the shareholders at the General Shareholders' Meeting.
- To approve the senior officer remuneration policy as well as the basic terms and conditions of their contracts, upon a proposal from the chief executive officer, if any, following a report from the Appointments and Remuneration Committee.

In addition, article 27 of the Regulations of the Board of Directors provides that this body shall annually prepare a report on the remuneration of the Directors upon the terms established by legal provisions, which shall be made available to the shareholders upon the call to the Ordinary General Shareholders' Meeting, and shall be submitted to a consultative vote as a separate item on the agenda.

Additionally, pursuant to article 65 of the Bylaws, the Appointments and Remuneration Committee is responsible for proposing to the Board of Directors the remuneration policy for Directors and Managing Directors or whomsoever performs the duties of senior management reporting directly to the Board, the Executive Committees or the Chief Executive Officers, as

well as the individual remuneration and other contractual conditions for the executive directors, ensuring compliance therewith.

Furthermore, article 10 of the Regulations of the Appointments and Remuneration Committee lists the powers of such body as regards 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 severance payment that may be provided 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.
- Verify the information on Director and senior officer remuneration contained in the various corporate documents, including the Annual Director Remuneration Report.

As regards the composition and operation of the Appointments and Remuneration Committee, the Bylaws and the regulations of the Committee itself provide that such body shall be made up of external Directors, a majority of whom shall be independent, and shall be in the number

determined by the Board of Directors upon a proposal of the Chair of the Board, with a minimum of three and a maximum of five.

At the date of preparation of this report, the composition of the Appointments and Remuneration Committee is as follows:

- Mr José Ángel Corres Abasolo: Lead Independent Director, as Chair.
- Mr Alfonso Basagoiti Zavala: External proprietary director, as Member:
- Mr Javier Fernández Alonso: External proprietary director, as Member:
- Ms Belén Amatriaín Corbi: External independent director, as Member
- Mr Francisco Javier Allende Arias: Non-director Secretary

The Chair has the tie-breaking vote in the case of a tie, which guarantees that the independent Directors have a voting majority.

The Appointments and Remuneration Committee shall meet from two to four times per year at the request of one third of its members and whenever called by the 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 and, in any case, whenever appropriate for the proper performance of the duties thereof.

The Appointments and Remuneration Committee met on 4 occasions during 2015.

In performing its duties and in preparing this Report, the Appointments and Remuneration Committee has relied on the external advice of Mercer Consulting, S.L.U., a global consultancy firm specializing in director and officer remuneration.

A.3. State the amount and nature of the fixed components, with a breakdown, if applicable, of remuneration for the performance by the executive Directors of the duties of senior management, of additional remuneration as chair or member of a committee of the board, of attendance fees for participation on the Board and the committees thereof or other fixed remuneration as director, and an estimate of the annual fixed remuneration to which they give rise. Identify other benefits that are not paid in cash and the basic parameters upon which such benefits are provided.

Explain the fixed components of remuneration

As stated in Section A.1, the Company has a remuneration system that distinguishes between external Directors in their capacity as such and Directors with executive duties.

The items of remuneration for external Directors in their capacity as such correspond to the annual fixed allowance for belonging to the Board of Directors or of any of its Committees.

In financial year 2015, the individual annual fixed allowance for belonging to the Board and to its various Committees amounted to 45,000 euros, without weighting for the assumption of posts or Chairpersonship.

For financial year 2016, the amounts of individual annual fixed allotment for the external Directors, approved by the Board of Directors on 16 December 2015, are the following:

- For belonging to the Board of Directors: 65,000 euros.
- For belonging to one of the Committees of the Board of Directors: 15,000 euros.

The Company has not established additional individual remuneration for holding positions or for the Chair of the Board or of the Committees thereof.

Though the Bylaws provide for the possibility of the external Directors being able to receive amounts as insurance premiums with a maximum annual limit of 8,000 euros for each Director, to date the Board of Directors has not resolved to make such payments or other contributions to insurance or social security schemes.

All the external Directors (proprietary and independent) receive these fixed allotments.

In 2015, the Chair's fixed remuneration for the performance of the executive duties thereof was 316,144.40 euros.

For 2016, the fixed salary for the Chair for the performance of the executive duties thereof is set at 323,144.40 euros, which includes a salary increase of 2.3% for such year.

The Company also makes annual contributions in favour of the Chair as premiums for various insurance policies (medical, life and accident) in accordance with the provisions of the Chair's contract.

A.4 Explain the amount, nature and main features of the variable components of the remuneration systems.

In particular:

- **Identify each of the remuneration plans of which the Directors are beneficiaries, including the scope, date of approval, date of implementation, date of effectiveness, and main features thereof. In the case of share option plans and other financial instruments, the general features of the plan shall include information on the conditions for the exercise of such options or financial instruments for each plan.**
- **State any remuneration received under profit-sharing or bonus schemes, and the reason for the accrual thereof.**
- **Explain the fundamental parameters and rationale for any annual bonus plan.**
- **The classes of Directors (executive Directors, external proprietary Directors, external independent Directors, or other external Directors) that are beneficiaries of remuneration systems or plans that include variable remuneration.**
- **The rationale for such remuneration systems or plans, the chosen standards for evaluating performance, and the components and methods of evaluation to determine whether or not such evaluation standards have been met, as well as an estimate of the absolute amount of variable remuneration to which the current remuneration plan would give rise, based on the level of compliance with the assumptions or goals used as a benchmark.**

- **If applicable, information shall be provided regarding any payment deferral periods that have been established and/or the periods for retaining shares or other financial instruments.**

Explain the variable components of the remuneration systems

As stated, the external Directors in their capacity as such do not receive any variable remuneration.

However, in the case of the Chair, the components of variable remuneration for the Chair's executive duties include annual variable remuneration that is linked to the company targets set annually by the Board of Directors, and which in financial year 2015, was determined by EBITDA (50% weighting), revenue volume (35%) and free cash flow (15%). This annual variable remuneration is in all cases paid in cash.

In 2015, the Chair's variable annual remuneration amounted to 50% of fixed salary (i.e. 158,072.20 euros), which corresponds to meeting 100% of the targets established, and which will be paid in full in 2016.

No annual variable remuneration would accrue if the compliance rate is less than 90%.

A.5. Explain the main features of the long-term saving systems, including retirement and any other survival benefit, either wholly or partially financed by the company, and whether funded internally or externally, with an estimate of the equivalent annual amount or cost thereof, stating the type of plan, whether it is a defined-contribution or -benefit plan, the conditions for the vesting of economic rights in favour of the Directors, and the compatibility thereof with any kind of indemnity for advanced or early termination of the labour relationship between the company and the director.

Also state the contributions on the director's behalf to defined-contribution pension plans; or any increase in the director's vested rights, in the case of contributions to defined-benefit plans.

Explain the long-term savings systems

The external Directors do not participate in pension plans or long-term savings systems linked to retirement or to any other survival benefit.

The Company makes annual contributions to a life insurance policy in favour of the Chair, in accordance with the provisions of the contract signed with the Company.

The amounts contributed in this respect for financial year 2015 are set out in the tables in section D. below.

A.6. State any severance payments agreed to or paid in case of termination of duties as a director.

Explain the severance payments

No severance payment is contemplated for the external Directors in the event of termination of their duties as such.

The current contract with the Chair provides for the severance payments that are described in section A.7 below.

A.7. State the terms and conditions that must be included in the contracts of executive Directors performing senior management duties. Include information regarding, among other things, the term, limits on termination benefit amounts, continuance in office clauses, prior notice periods, and payment in lieu of prior notice, and any other clauses relating to hiring bonuses, as well as benefits or golden parachutes due to advanced or early termination of the contractual relationship between the company and the executive director. Include, among other things, any clauses or agreements on non-competition, exclusivity, continuance in office or loyalty, and post-contractual non-competition.

Explain the terms of the contracts of the executive Directors

Prior approval of the contracts to be signed between the Company and the Directors who will be vested with executive duties, including the items for which they may receive remuneration for the performance of said duties, is within the purview of the Board of Directors.

Furthermore, the Appointments and Remuneration Committee proposes the individual remuneration of the executive Directors and the other basic terms and conditions of their contracts for approval by the Board of Directors, including any severance payment that may be provided to supplement early termination of office and the amounts to be paid by the company for insurance premiums or savings plan contributions.

In particular, the essential terms and conditions of the Chair's contract are principally as follows:

- Term: indefinite.
- Exclusivity: the Chair must be exclusively dedicated to the Company.
- Non-competition: the Chair may not have direct or indirect economic interests in businesses competing with those of the Company.
- Prior notice period: there are no specific provisions in the contract with respect to prior notice periods for the Chair or the Company in cases of resignation, voluntary leave or withdrawal.

Severance payments: in the case of the removal or resignation of the Chair, the Chair will have the option to terminate or to renew the ordinary employment relationship that was suspended on 28 November 2000. If renewal of the previous ordinary employment relationship is chosen, it would be subject to the termination regime governed by Royal Legislative Decree 1/1995 of 24 March approving the Consolidated Text of the Workers' Statute Act (*Ley del Estatuto de los Trabajadores*). For purposes of severance payments, the time for which services have been provided shall be calculated as the entire period for which the Chair has been linked to the Company, regardless of whether it was

pursuant to an ordinary or senior management employment relationship or to a commercial relationship.

If termination is chosen, the Chair will have the right to receive a severance payment equal to 45 days' salary per year of services provided to the Company, with periods of less than a year apportioned by months, up to a maximum of forty-two monthly instalments, calculated based on the gross annual cash salary received in the calendar year immediately prior to the termination.

The Chair's contract does not contemplate disqualification clauses, golden parachute clauses or clauses relating to hiring bonuses.

Nor does the Chair's contract contain specific provisions with respect to continuance in office or loyalty agreements or post-contractual non-competition. However, as a director, the Chair is subject to the rules on prohibitions, duties of confidentiality and of non-competition, which are established in articles 51 of the Bylaws and 31 and 32 of the Regulations of the Board of Directors, respectively.

A.8. Explain any supplemental remuneration accrued by the directors in consideration of services provided other than those inherent to their position.

Explain the supplemental remuneration

At the date of issuance of this Report, there is no supplemental remuneration accrued in favour of the Directors in consideration of services provided other than those inherent to their position.

A.9. State any remuneration in the form of advances, loans or guarantees provided, with an indication of the interest rate, main features, and amounts potentially returned, as well as the obligations assumed on their behalf as a guarantee.

Explain the advances, loans and guarantees

At the date of issuance of this Report, the Company has provided no advances, loans or guarantees to the Directors due to their status as members of Euskaltel's Board of Directors or of other Boards of Directors of other companies of the Group.

A.10. Explain the main features of remuneration in kind.

Explain the remuneration in kind

The Company maintains civil liability insurance for the benefit of its Directors and officers in a maximum coverage amount of 10 million euros for each one.

Additionally, the Chair receives contributions to medical insurance, life insurance, accident insurance and other minor coverage. The amounts contributed by the Company for these items are set out in section D below.

A.11. State the remuneration accrued by the director by virtue of payments made by the listed company to a third party to which the director provides services, if such payments are intended to provide remuneration for the services thereof in the company.

Explain the remuneration accrued by the director by virtue of the payments made by the listed company to a third party to which the director provides services

At the date of issuance of this Report, no remuneration of this nature has accrued.

A.12. Any item of remuneration other than those listed above, of whatever nature and provenance within the group, especially when it is deemed to be a related-party transaction or when the making thereof detracts from a true and fair view of the total remuneration accrued by the director.

Explain the other items of remuneration

No items of remuneration other than those explained in the preceding sections are contemplated in the Director remuneration system.

A.13. Explain the actions taken by the company regarding the remuneration system in order to reduce exposure to excessive risk and align it with the long-term goals, values, and interests of the company, including any reference to: measures provided to ensure that the remuneration policy takes into account the long-term results of the company, measures establishing an appropriate balance between the fixed and variable components of remuneration, measures adopted with respect to those categories of personnel whose professional activities have a significant impact on the entity's risk profile, recovery formulas or clauses to be able to demand the return of the variable components of remuneration based on results if such components have been paid based on data that is later clearly shown to be inaccurate, and measures provided to avoid any conflicts of interest.

Explain actions taken to reduce risks

Through the Board of Directors and the Appointments and Remuneration Committee, Euskaltel exercises a continuous function of supervision and review of the policy for remuneration of its Directors, ensuring compliance therewith.

In addition, the Audit and Control Committee monitors the effectiveness of the internal control of the Company and of its Group as well as the systems for managing risks, including tax risks.

Pursuant to article 4 of the Regulations of the Board of Directors, such body is responsible for adopting specific operational decisions including the approval of the Company's general policies and strategies, particularly including:

- The strategic or business plan, as well as management objectives and annual budgets.
- The corporate governance policy.
- The corporate social responsibility policy.
- Risk policy on control and managing risks, including tax risks, as well as the regular monitoring of the internal information and control systems.

The remuneration policy generally applicable at Euskaltel is in line with the interests of its shareholders and with prudent risk management. Such policy incorporates the appropriate indicators for evaluating results, adjusted for current and future risks, into the annual variable remuneration schemes, and takes into consideration performance on financial and non-financial measures that include group, business unit and individual targets.

The Directors in their capacity as such are entitled to fixed remuneration that, as previously stated, amounted to 45,000 euros in 2015.

Directors with executive duties receive fixed annual remuneration and results-based variable remuneration, with the Chair of the Board of Directors currently being the sole executive Director of Euskaltel.

In the case of the Chair, the Company considers that the variable annual remuneration is not excessive, is based on market parameters and is proportional to the size, nature and scope of the Company's activities. Moreover, such annual variable remuneration is linked to annual business targets and is aimed at fostering the profitability and sustainability of Euskaltel.

Finally, the Company has Internal Regulations for Conduct on the Securities Markets for the purpose of regulating the rules of conduct to be observed by the Company, its management bodies, employees and representatives in its activities with the securities markets.

B. REMUNERATION POLICY FOR FUTURE YEARS

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C. OVERALL SUMMARY OF THE APPLICATION OF THE REMUNERATION POLICY DURING THE PREVIOUS FINANCIAL YEAR

C.1. Summarise the main features of the structure and items of remuneration from the remuneration policy applied during the previous financial year, which give rise to the breakdown of individual remuneration accrued by each of the directors as reflected in section D of this report, as well as a summary of the decisions made by the board to apply such items.

Explain the structure and items of remuneration from the remuneration policy applied during the financial year

The main items of remuneration applied to the members of the Board of Directors during financial year 2015 were as follows:

- Fixed remuneration: annual fixed allotment for belonging to the Board and to its various Committees in the amount of 45,000 euros annually, without weighting for the assumption of posts or Chairpersonship.

The shareholders acting at the General Shareholders' Meeting held on 1 June 2015 resolved to the amount of 1.5 million euros as the maximum annual amount of cash remuneration for the Directors for the fixed annual allotment item. This is the maximum amount currently in effect.

- Salaries: fixed remuneration of the Chair in the amount of 316,144.40 euros.
- Variable remuneration: annual variable remuneration of the Chair in the amount of 158,072.20 euros (“target” remuneration for 100% compliance with targets for financial year 2015). For this annual variable remuneration accrued in 2015 and to be paid in 2016, the target compliance level is estimated at 100%.
- Other items: included in section E, “Other Information of Interest”, providing additional information with regard to the settlement of the Company’s Investment Agreements with Directors and of the Incentive Plan for the Chair on occasion of the IPO.

D. BREAKDOWN OF INDIVIDUAL REMUNERATION ACCRUED BY EACH OF THE DIRECTORS

Mr Alberto García Erauzkin	Executive	From 01/01/2015 to 31/12/2015
Mr José Ángel Corres Abasolo	Independent	From 01/01/2015 to 31/12/2015
Ms Alicia Vivanco González	Proprietary	From 01/01/2015 to 31/12/2015
Mr Alfonso Basagoiti Zavala	Proprietary	From 01/01/2015 to 31/12/2015
Mr Javier Fernández Alonso	Proprietary	From 30/09/2015 to 31/12/2015
Mr Richard David Alden	Independent	From 01/01/2015 to 31/12/2015
Ms Bridget Cosgrave	Independent	From 01/01/2015 to 31/12/2015
Ms Belén Amatriaín Corbi	Independent	From 31/03/2015 to 31/12/2015
Mr Iñaki Alzaga Etxeita	Independent	From 31/03/2015 to 31/12/2015
Mareblu S.à.r.l. (represented by Mr John C. Mowinckel)	Proprietary	From 01/01/2015 to 10/07/2015
Mr Javier Bañón Treviño	Proprietary	From 01/01/2015 to 10/07/2015

D.1 Complete the following tables regarding the itemised remuneration of each of the directors (including remuneration for the performance of executive duties) accrued during the financial year.

Break down the section regarding remuneration for belonging to board committees by each different committee.

a) Accrued remuneration at the company covered by this report:

i) Cash remuneration (in thousands of €)

Name	Salaries	Fixed remuneration	Attendance fees	Short-term variable remuneration	Long-term variable remuneration	Remuneration for belonging to committees of the board	Severance payments	Other items	Total 2015	Total 2014
Mr Alberto García Erauzkin	316	0	0	158	0	0	0	6	480	468
Mr José Ángel Corres Abasolo	0	45	0	0	0	0	0	0	45	45
Ms Alicia Vivanco González	0	23	0	0	0	0	0	0	23	0
Mr Alfonso Basagoiti Zavala	0	45	0	0	0	0	0	0	45	45
Mr Javier Fernández Alonso	0	11	0	0	0	0	0	0	11	0
Mr Richard David Alden	0	45	0	0	0	0	0	0	45	45
Ms Bridget Cosgrave	0	45	0	0	0	0	0	0	45	45
Ms Belén Amatriain Corbi	0	34	0	0	0	0	0	0	34	0
Mr Iñaki Alzaga Etxeita	0	34	0	0	0	0	0	0	34	0
Mareblu S.à.r.l. (represented by Mr John C. Mowinckel)	0	0	0	0	0	0	0	0	0	0
Mr Javier Bañón Treviño	0	0	0	0	0	0	0	0	0	0
TOTAL	316	282	0	158	0	0	0	6	762	648

ii) Share-based remuneration systems

Name/Class/accrual period year t	Name of Plan and date of implementation	Ownership of options at beginning of year t				Options allocated during year t					Shares delivered during year t	
		No. of options	No. of shares affected	Exercise price (€)	Exercise period	No. of options	No. of shares affected	Exercise price (€)	Exercise period	Conditions for exercise	No.	Price Amount
Director 1	Plan 1											
	Plan 2											

Name/Class/accrual period year t	Name of Plan and date of implementation	Options exercised during year t				Options expired and not exercised	Options at end of year t				
		No. of options	No. of shares affected	Exercise price (€)	Gross Profit (€)		No. of options	No. of options	No. of shares affected	Exercise price (€)	Exercise period
Director 1	Plan 1										
	Plan 2										

iii) Long-term savings systems

Name/Class/total accrual period in years	Contribution for the year by the Company (€ thousands)		Amount of accumulated funds (€ thousands)	
	Year t	Year t-1	Year t	Year t-1
Director 1				

iv) Other benefits (in thousands of €)

	Remuneration in the form of advances, loans
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Name/Class	Interest rate for the transaction	Main features of the transaction	Amounts potentially returned
Director 1			
Director 2			

Name	Life insurance premiums		Guarantees provided by the company in favour of the directors	
	Financial Year 2015	Financial Year 2014	Financial Year 2015	Financial Year 2014
Mr Alberto García Erauzkin (*)	6	6		

(*) Includes medical insurance, life insurance, accident insurance and other minor coverage.

b) Remuneration accrued by directors of the company for belonging to boards at other companies of the group:

i) Cash remuneration (in thousands of €)

Name/Class/accrual period year t	Salary	Fixed remuneration	Attendance fees	Short-term variable remuneration	Long-term variable remuneration	Remuneration for belonging to committees of the board	Severance payments	Other items	Total year t	Total year t-1
Director 1										
Director 2										

ii) Share-based remuneration systems

Name/Class/accrual period year t	Ownership of options at beginning of year t				Options allocated during year t					Shares delivered during year t	
	No. of options	No. of shares affected	Exercise price (€)	Exercise period	No. of options	No. of shares affected	Exercise price (€)	Exercise period	Conditions for exercise	No.	Price Amount
Director 1											

Name/Class/accrual period year t	Options exercised in year t				Options expired and not exercised	Options at end of year t				
	No. of options	No. of shares affected	Listing price (€)	Gross Profit (€)	No. of options	No. of options	No. of shares affected	Exercise price (€)	Exercise period	Other requirements for exercise
Director 1										

iii) Long-term savings systems

Name/Class/total accrual period in years	Contribution for the year by the Company (€ thousands)		Amount of accumulated funds (€ thousands)	
	Year t	Year t-1	Year t	Year t-1
Director 1				

iv) Other benefits (in thousands of €)

Remuneration in the form of advances, loans			
Name/Class	Interest rate for the transaction	Main features of the transaction	Amounts potentially returned
Director 1			
Director 2			

Name/Class	Life insurance premiums		Guarantees provided by the company in favour of the directors	
	Year t	Year t-1	Year t	Year t-1
Director 1				
Director 2				

c) Summary of remuneration (in thousands of €):

The summary must include the amounts for all items of remuneration included in this report that have been accrued by the director, in thousands of euros.

In the case of long-term saving systems, include contributions or funding for these types of systems:

Name	Accrued remuneration at the Company				Accrued remuneration at companies of the group				Totals		
	Total cash remuneration	Amount of shares provided	Gross profit on options exercised	Total year 2015	Total cash remuneration	Amount of shares delivered	Gross profit on options exercised	Total year 2015 group	Total year 2015	Total year 2014	Contribution to savings systems during the year
Mr Alberto García Erauzkin	480	0	0	480	0	0	0	0	480	468	0
Mr José Ángel Corres Abasolo	45	0	0	45	0	0	0	0	45	45	0
Ms Alicia Vivanco González	23	0	0	23	0	0	0	0	23	0	0
Mr Alfonso Basagoiti Zavala	45	0	0	45	0	0	0	0	45	45	0

Mr Javier Fernández Alonso	11	0	0	11	0	0	0	0	11	0	0
Mr Richard David Alden	45	0	0	45	0	0	0	0	45	45	0
Ms Bridget Cosgrave	45	0	0	45	0	0	0	0	45	45	0
Ms Belén Amatriáin Corbi	34	0	0	34	0	0	0	0	34	0	0
Mr Iñaki Alzaga Etxeita	34	0	0	34	0	0	0	0	34	0	0
Mareblu S.à.r.l. (represented by Mr John C. Mowinckel)	0	0	0	0	0	0	0	0	0	0	0
Mr Javier Bañón Treviño	0	0	0	0	0	0	0	0	0	0	0
Total:	762	0	0	762	0	0	0	0	762	648	0

D.2 Report the relationship between remuneration obtained by the directors and the results or other measures of the entity's performance, explaining how any changes in the company's performance may have influenced changes in the remuneration of the directors.

As previously explained, variable remuneration is limited to the case of executive Directors and is in all cases linked to the evolution of corporate indicators, business indicators and shareholder value.

The Appointments and Remuneration Committee reports on the incentive plans and proposes individual Director remuneration to the Board of Directors.

This Report sets out the levels of compliance with the targets for previous financial years that give rise to the payment of an amount as variable remuneration.

D.3 Report the results of the consultative vote of the shareholders on the annual remuneration report for the preceding financial year, indicating the number of votes against, if any:

	Number	% of total
Votes cast		

	Number	% of votes cast
Votes against		
Votes in favour		
--Abstentions		

E. OTHER INFORMATION OF INTEREST

If there are any significant aspects regarding director remuneration that could not be included in the other sections of this report, but should be included in order to provide more complete and well-reasoned information regarding the remuneration structure and practices of the company with respect to its directors, briefly describe them.

- A) A) Investment Agreements and Incentive Plans with Directors, settled in 2015 on occasion of the IPO

The Investment Agreements of the Chair, Mr Alberto García Erauzkin, and of the director Mr Richard David Alden, as well as the Incentive Plans of the Chair, in effect since financial year 2013, which were reported in detail in the public documentation supplied by the Company during the IPO process, were settled on occasion of the admission to trading of the Company's shares.

Both the Investment Agreements and the Incentive Plans defined "Liquidity Event" as, among other things, the public offer of more than 50% of the shares of the Company. In a "Liquidity Event", investors had the right to receive remuneration based on the increase in value of the Company's shares.

Consequently, the initial public offer of newly-issued shares and admission to trading gave rise after the completion thereof to the settlement of the Investment Agreements and of the Incentive Plans.

The investment of Mr Alberto García Erauzkin was 975 thousand euros.

The investment of Mr Richard David Alden was 250 thousand euros.

The settlements, which were initially reported on an estimated basis in the public information submitted by the Company during the IPO process, ultimately amounted to the following (thousands of euros):

	Gross Profit	Withholding, tax costs, financial costs and other	Net Profit
Mr Alberto García Erauzkin	8,717	5,273	3,444
Mr Richard David Alden	1,188	285	903

The Chair, Mr Alberto García Erauzkin, wholly reinvested the net profit in ordinary shares of the Company on occasion of the IPO, as well as in the subsequent increase of capital carried out on occasion of the acquisition of R Cable Telecomunicaciones Galicia, S.A. by Euskaltel. Overall, Mr García Erauzkin has acquired a total of 357,222 ordinary shares of the Company, which are subject to a lock-up period of 360 days, expiring on 1 July 2016.

B) Other information

On 17 June, the external independent Director Mr José Ángel Corres Abasolo was appointed Lead Independent Director (*Consejero Independiente Coordinador*).

Mr Javier Fernández Alonso was appointed as a member of the Appointments and Remuneration Committee on 16 December 2015, replacing Mr Richard David Alden after the latter's resignation.

On 16 December 2015, the Lead Independent Director Mr José Ángel Corres Abasolo was appointed Chair of the Appointments and Remuneration Committee and Vice Chair of the Board of Directors following the resignation of Mr Richard David Alden, the previous Chair of the Appointments and Remuneration Committee and Vice Chair of the Board of Directors.

This annual remuneration report was approved by the Company's Board of Directors 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