ANNEX 1

ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS OF LISTED COMPANIES

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COMPANY NAME
EUSKALTEL, S.A.

REGISTERED ADDRESS:
PARQUE TECNOLOGICO, EDIFICIO 809 (DERIO) BISCAY

FORM OF ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS OF LISTED COMPANIES

A REMUNERATION POLICY OF THE COMPANY FOR THE CURRENT 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 year to the terms for exercising options already granted.

- Standards used and composition of the groups of comparable companies whose remuneration policies have been examined 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 (remuneration mix).

Explain the remuneration policy

Pursuant to article 27 of the Regulations of the Board of Directors of the Company, and within the limits set out in the Company's Bylaws, the Board of Directors shall endeavour to ensure that the remuneration of the directors is reasonably commensurate with the significance of the Company, the financial situation thereof at any particular time and the market standards used at companies of a similar size or activity, and takes into account their dedication to the Company. The remuneration system established should be focused on promoting the long-term profitability and sustainability of the Company and include the safeguards required to avoid the excessive assumption of risk or rewarding unfavourable results. The Board of Directors shall also ensure that the amount of the remuneration of external directors is such that it provides incentives to their dedication but does not compromise their independence.

In addition, the current 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 thereof at any particular time and market standards 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 non-executive Directors.

- Profitability and sustainability: in the remuneration of directors performing executive duties, 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.

Based on the foregoing principles, the Board of Directors seeks (i) to fully comply not only with legal requirements and internal rules, but also with the recommendations of the Good Governance Code applicable to listed companies, as well as (i) alignment with best market practices, to conform the remuneration of the directors to the long-term goals, values and interests of the Company.

Within the framework of the principles and objectives described above, the Board of Directors (i) has defined the director remuneration policy for application in financial year 2016 and the two subsequent years (i.e. 2017 and 2018),

(ii) has reviewed the services contract between the Chair of the Board of Directors and the Company (dated 1 April 2013), which was amended by novation pursuant to an addendum dated 24 May 2016 to conform it to the best corporate governance standards and practices, amongst other things, and (iii) has approved the terms and conditions of the contract between the CEO and the Company dated 1 September 2016.

In particular, the remuneration policy was prepared based on advice provided by Mercer Consulting, S.L.U., a global remuneration consulting firm, taking into account the remuneration practices and levels of listed companies comparable to Euskaltel.

Furthermore, the Appointments and Remuneration Committee issued the corresponding report on said policy, which was ultimately approved by the shareholders at the Company's Ordinary General Shareholders' Meeting on 27 June 2016.

Euskaltel's remuneration policy mainly distinguishes between remuneration of Directors in their capacity as such (non-executive external directors) and remuneration of Directors with executive duties (currently the Chair of the Board of Directors and the CEO).

In the case of Directors in their capacity as such, remuneration is established for their dedication but without affecting objectiveness in the protection of the corporate interest. Along these lines, article 62 of the Bylaws, the amendment of which was approved by the shareholders at the 27 June 2016 Ordinary General Shareholders' Meeting in order to, amongst other things, conform the text thereof to distinguish the remuneration of the directors in their capacity as such from that of the executive directors, includes the following items: (i) a fixed annual allotment, and (ii) potential commitments of the Company to pay amounts as insurance premiums in favour of the directors, in this latter case with a maximum annual limit of eight thousand euros (€8,000) per director.
The total amount of the remuneration that the Company may pay to all of its directors shall not exceed the amount determined for such purpose by the shareholders at the General Shareholders' Meeting. The amount thus established by the shareholders shall be maintained until it is modified by a new resolution of the shareholders at a General Shareholders' Meeting, pursuant to the provisions of applicable law. The specific amount corresponding to each of the directors shall be determined by the Board of Directors in accordance with the director remuneration policy.
For such purpose, it may take into account, amongst other issues, the positions held by each director within the collective body itself, their membership on and attendance at meetings of the various committees, and the classification of the director as independent or proprietary.

This fixed allotment is only received by the external Directors (including proprietary Directors); neither the Chair nor the CEO receive a fixed allotment or other items of remuneration based on their status as directors, other than the remuneration they receive for their executive duties.

Directors who perform executive duties (the Chair of the Board of Directors and the CEO) are entitled to receive remuneration for the performance of their executive duties as provided in the contract signed to that end between the director and the Company. Said contract must conform to the director remuneration policy.

The remuneration system for executive directors is made up of:

- Fixed remuneration, which includes a fixed salary and specific in-kind remuneration. Fixed remuneration (i) must primarily be based on a market approach and take account of the size, nature and scope of the Company's business; and (ii) must be in line with the remuneration established at comparable companies in the industry at the domestic and international level.
Executive directors may also receive specific in-kind remuneration, including the provision of an individual company vehicle, a life insurance policy covering death due to any cause, a health insurance policy, an accident insurance policy and a policy for other minor coverage.

- Variable annual remuneration, linked to short-term goals, intended to evaluate how the performance of their executive duties contributes to the Company's business objectives. Generally, the parameters to be taken into account for determining compliance with the variable annual remuneration objectives, as well as the respective weighting thereof, will be determined annually by the Board of Directors, upon a proposal of the Appointments and Remuneration Committee, based on indicators correlated to Company variables relating to (i) growth; (ii) profitability; (iii) innovation; and, when applicable, (iv) others of a qualitative or quantitative nature including, but not limited to, medium- and long-term sustainability, meeting strategic objectives or objectives relating to corporate social responsibility.
The preceding objectives and parameters will also take account of the risk assumed to obtain a result and will pursue a balance amongst the Company's short-, medium- and long-term objectives, not revolving solely around one-off, occasional or extraordinary facts or data.

- Variable remuneration, in the form of the delivery of shares, options on shares or instruments indexed to the value thereof linked to business objectives, the value of the shares and, if applicable, other corporate social responsibility objectives, all subject to approval by the Board of Directors of the corresponding incentives plans, if any.
The executive directors may enrol and participate in incentive plans or share purchase incentive plans on the terms and conditions set by the Board of Directors, which will entail the delivery of shares of the Company in the quantity and for the price or value that applies pursuant to the terms of said plans or instruments. However, as of the date of preparation of this Report, there are no incentive or share purchase incentive plans in force at the Company.

The specific amounts and a description of the fixed and variable remuneration of the Chair and of the CEO are set out in subsequent sections of this report.

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 and the composition of the Remuneration Committee and the identity of external advisors whose services have been used to determine the remuneration policy. There shall also be a statement as to the classification of any directors who have participated in the determination of the remuneration policy.

Explain the process for determining the remuneration policy

As stated in Section A.1 above, the director remuneration policy was approved by the shareholders at the Ordinary General Shareholders' Meeting held on 27 June 2016.

To determine said remuneration, the Board of Directors relied on external advice provided by Mercer Consulting, S.L.U., a consulting firm specialising in remuneration matters, which took into account the remuneration practices and levels of listed companies comparable to Euskaltel.

Furthermore, within the scope of its powers, the Appointments and Remuneration Committee participated in the preparation of the remuneration policy, ultimately reporting thereon in accordance with the provisions of Section 529 *novodecies* of the Companies Act.

This Committee is made up of five external (proprietary and independent) Directors. A majority of the members of the Committee are independent Directors. The Chair is elected from amongst the independent Directors on the Committee, and in the event of a tie, the Chair has the tie-breaking vote.
The Committee has also appointed a Secretary, who is currently the Secretary of the Board of Directors.

The members of the Appointments and Remuneration Committee are appointed for a maximum term of four years, and may be re-elected on one or more occasions for terms of the same maximum length. The position of Chair is held for a maximum term of four years, after which the Chair may not be re-elected to such office until the passage of one 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 years and may be re-elected on one or more occasions for terms of the same maximum length.

In addition to the foregoing, it should be noted that the Board of Directors:

- has approved the addendum to the Contract of the Chair in order to amend said contract by novation such that, effective as of the date of execution thereof (24 May 2016), the Contract of the Chair of the Board of Directors meets the recommendations of the Good Governance Code regarding director remuneration. Specifically, clauses three (remuneration) and four (cessation in office) have been amended; and

- has approved the contract signed between the CEO and the Company dated 1 September 2016, taking into account applicable legal provisions and internal rules, the recommendations of the Good Governance Code regarding remuneration, and the principles, standards and conditions set by the current director remuneration policy.

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 fixed annual 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.

For financial year 2016, the amounts of individual fixed annual allotment for the external Directors, approved by the Board of Directors on 16 December 2015 and in the Director Remuneration Policy approved by the shareholders at the Ordinary General Shareholders' Meeting of 27 June 2016, were 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 on or for serving as 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.

As regards directors who perform executive duties, in 2016, the Chair's fixed remuneration for the performance of said duties was 323,510.56 euros, and that of the CEO was 116,666.67 euros (taking into account that the latter joined the Company on 1 September 2016).

The Company also makes annual contributions in favour of the Chair and the CEO as premiums for various insurance policies (health, life and accident) in accordance with the provisions of their respective contracts. The Chair is also entitled to other items at no cost to the Company. This last category includes flexible remuneration plans, voluntary social-welfare employment benefits without contributions by the Company, vehicle leasing, training, purchase of computers and home rental.

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 variable 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 above, the remuneration policy provides that the external Directors in their capacity as such do not receive any variable remuneration. On the other hand, directors performing executive duties do receive remuneration of this kind.

Along these lines, the Chair and the CEO, in their capacity as executive directors, have the right to receive: (i) variable annual remuneration linked to the corporate goals set on an annual basis by the Board of Directors, and (ii) variable remuneration in the form of the delivery of shares, options on shares or instruments indexed to the value thereof linked to business goals, the value of the shares and, if applicable, other corporate social responsibility objectives, all subject to approval by the Board of Directors of the corresponding incentives plans, as applicable.

Variable annual remuneration was determined in financial year 2016 using the following four parameters:

- Growth (income and net customer increase): 30% weighting.
- Profitability (EBITDA and Free Cash Flow): 30% weighting.
- Innovation (new products launched and number of connected products launched): 15% weighting.
- Integration (synergies): 25% weighting.

The variable annual remuneration of the Chair of the Board of Directors will in any event range between 0% and 60% of fixed remuneration, with variable annual remuneration coming to an amount equal to 50% of fixed remuneration for the achievement of 100% of the goals.

The specific amount to be received by the Chair as variable remuneration will be calculated in accordance with the formula determined by the Company's Board of Directors for each year. This formula will be based on the achievement of the goals communicated to the Chair by the Board of Directors at the beginning of each financial year.

In particular, the amount of this variable remuneration will depend on (i) continued performance of the duties of the Chair; (ii) compliance with predetermined and measurable goals of a financial and possibly non-financial nature set by the Board of Directors at the beginning of each annual period; and (iii) the results obtained by the Company during each financial year, thus promoting the long-term sustainability of the Company, and which are suitable for the creation of long-term value and to comply with the internal rules and procedures of the Company and its risk control and management policies.

Generally, the parameters to be taken into account for determining compliance with the variable annual remuneration objectives, as well as the respective weighting thereof, will be determined annually by the Board of Directors, upon a proposal of the Appointments and Remuneration Committee, based on indicators correlated to Company variables relating to (i) growth; (ii) profitability; (iii) innovation; and, when applicable, (iv) others of a qualitative or quantitative nature including, but not limited to, medium- and long-term sustainability, meeting strategic objectives or objectives relating to corporate social responsibility.

The objectives, parameters and weightings approved by the Board of Directors for the Company's management team generally will in any event be applicable to the Chair of the Board of Directors.

The aforementioned objectives and parameters will also take account of the risk assumed to obtain a result and will pursue a balance amongst the Company's short-, medium- and long-term objectives, not revolving solely around one-off, occasional or extraordinary facts or data.

Variable remuneration will accrue at the end of the month in which the Company's annual accounts are audited, so that compliance with the previously-established performance goals can be verified.

Should the Company's auditors make qualifications in their audit report affecting one or more of the objectives and parameters that are to be taken into account in setting the variable annual remuneration of the Chair, said qualifications will be taken into account by the Board of Directors in setting the variable remuneration to be received by the Chair.

The Company may also demand reimbursement of all or part of the variable remuneration, as applicable, if (i) the payment of the variable remuneration did not match the conditions for performance of the Company; or (ii) the variable remuneration was paid in light of data subsequently proven to be incorrect (e.g. if there was a correction to the annual accounts on which the variable remuneration was based).

Neither the amount nor the system of determination, payment or calculation of variable remuneration may be consolidated.

The variable annual remuneration of the Chair in 2016 would be 161,755.28 euros for achievement of 100% of the goals for financial year 2016.

The CEO is entitled to receive variable annual remuneration in an amount equal to 50% of the corresponding fixed annual remuneration, which shall accrue upon meeting 100% of the budget goals established by the Company's Board of Directors for that year.

The Board of Directors, upon a proposal of the Appointments and Remuneration Committee, may adjust said weighting or include other objectives that have priority for the short-term development of the business. For purposes of clarification, partial compliance with the budget goals will not entitle the CEO to receive any amount as variable remuneration. As previously stated, the Board of Directors will annually establish, upon a proposal of the Appointments and Remuneration Committee, the minimum level of compliance with objectives necessary for the accrual of variable remuneration, below which no variable remuneration will accrue.

In addition to the variable annual remuneration provided for in the preceding paragraph, if the budget goals established by the Board of Directors have been exceeded on an extraordinary basis, the CEO will be entitled to receive variable remuneration in an amount equal to 25% of the corresponding fixed annual remuneration. The Board of Directors will annually establish, upon a proposal of the Appointments and Remuneration Committee, the level of compliance with objectives necessary for the accrual of this additional variable remuneration.

If the variable annual remuneration provided for in the preceding paragraph accrues, the total variable annual remuneration that the CEO will be entitled to receive will be an amount equal to 75% of the corresponding fixed annual remuneration.

This variable annual remuneration is paid in cash in all cases.

The variable annual remuneration of the CEO in 2016 would be 58,333.33 euros for achievement of 100% of the goals for financial year 2016.

Finally, the Chair and the CEO may enrol and participate in any incentive plans or share purchase incentive plans on the terms and conditions set by the Board of Directors, which will entail the delivery of shares of the Company in the quantity and for the price or value that applies pursuant to the terms of said plans or instruments.
This constitutes potential variable remuneration in the form of the delivery of shares, options on shares or instruments indexed to the value thereof. As of the date of preparation of this Report, there are no incentive or share purchase incentive plans in force at the Company.

A.5 Explain the main features of the long-term savings 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 amount or equivalent annual cost thereof, stating the type of plan, whether it is a defined-contribution or -benefit plan, the conditions for the vesting of financial rights in favour of the directors, and the compatibility thereof with any kind of indemnity for advanced or early termination of the contractual 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 and the CEO, in accordance with the provisions of the respective contracts signed with the Company.

The amounts contributed in this respect for financial year 2016 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 contracts with the Chair and with the CEO provide 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, amongst other things, the term, limits on termination benefit amounts, continuance in office clauses, prior notice periods and payment in lieu of prior notice, as well as any other clauses relating to hiring bonuses, and benefits or golden parachutes due to advanced or early termination of the contractual relationship between the company and the executive director. Include, amongst 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

The Board of Directors gives advance approval of contracts to be executed between the Company and those Directors to be vested with executive duties, and 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 compensate for early termination of office and the amounts to be paid by the company as insurance premiums or savings plan contributions.

The essential terms and conditions of the contract with the Chair are:

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

a) Termination or resignation: in the event of termination or resignation of the Chair, and of termination of the contract as a result thereof, the Chair shall have the option to resume the prior ordinary employment relationship (suspended on 28 November 2000) or to immediately extinguish said ordinary employment relationship.
b) Option to resume: if the Chair opts to resume and continue the prior ordinary employment relationship, the rules for termination of said ordinary employment relationship shall be subject to the Workers Statute (*Estatuto de los Trabajadores*). In this case, for purposes of severance payments, the entire period during which the current Chair has been linked to the Company, regardless of whether it was pursuant to an employment relationship (ordinary or senior management) or a commercial relationship shall be counted as length of service.
c) Option to terminate: if the Chair opts to immediately terminate the ordinary employment relationship, he will have the right to receive a severance payment equal to 45 days of remuneration per year of services rendered to Euskaltel, with periods of less than a year apportioned by months, up to a maximum of 24 monthly instalments. In this event, the gross annual cash remuneration received during the calendar year immediately prior to the termination will be taken into account for purposes of the calculation.
Said severance payment will not be paid until the Company has been able to confirm that the Chair has met the predetermined performance criteria.

- The contract of the Chair of the Board of Directors 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, it should be noted that as a Director, the Chair of the Board of Directors is subject to the rules on prohibitions, duties of confidentiality and of non-competition provided for both in the Bylaws and in the Regulations of the Board of Directors.

The essential terms and conditions of the contract with the CEO are:
- Commencement and term of the Contract: the contract enters into full force and effect from the date of execution thereof and will remain in force for so long as the CEO remains in his position.
- Exclusivity and full dedication: services are provided by the CEO on an exclusive and full-dedication basis.
- No post-contractual competition: the CEO assumes a post-contractual commitment not to compete for a period of 2 years. As compensation, upon termination of the Contract, he will receive an amount equal to the sum of the last two fixed annual remuneration amounts received. Said amount will be pro-rated and disbursed in two payments, the first of which must be made 12 months after the termination of the Contract and the second 24 months after the termination of the Contract.
- Termination of the contract and severance: the CEO is entitled to receive from the Company a severance payment in the event of termination of employment and of the Contract on any of the following grounds:

a) unilateral termination by the CEO due to serious breach by the Company of the obligations included in the Contract.
b) unilateral termination by the CEO due to a material change in his duties, powers or conditions for providing the Services that is not due to reasons attributable to the CEO.
c) change in control of the Company within the meaning provided by article 42 of the Commercial Code or assignment or transfer of all or a significant portion of its activities or of its assets and liabilities to a third party or merger into another business group; and
d) unilateral termination of the Contract by the Company, at any time, that is not due to a serious breach attributable to the CEO of the duties of loyalty, diligence or good faith in accordance with which he must hold office, or any other serious breach by the CEO of the obligations assumed under the Contract.
e) In any of the foregoing circumstances, severance will consist of an amount equal to eighteen months of his fixed annual remuneration on the date of termination of the Contract.

- Advance notice period: the CEO must exercise his right to terminate the Contract within a maximum period of three months from the date on which he becomes aware of the grounds for termination. Upon the expiration of this period without exercising his right to termination, the CEO will not be entitled to receive any severance payment upon such grounds.

A.8 Explain any supplemental remuneration accrued by the directors in consideration for 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 for 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 returned, if any, as well as the obligations assumed on their behalf as a guarantee.

Explain the advances, loans and guarantees provided

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 of them.

The Company makes annual contributions in favour of the Chair and the CEO as premiums for various insurance policies (health, life and accident) in accordance with the provisions of their respective contracts.
The Chair is also entitled to other items at no cost to the Company. This last category includes flexible remuneration plans, voluntary social-welfare employment benefits without contributions by the Company, vehicle leasing, training, purchase of computers and home rental.

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

Explain the remuneration accrued by directors by virtue of the payments made by the listed company to a third-party entity to which such directors provide 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 annual management objectives and budgets.

- The corporate governance policy.
- The corporate social responsibility policy.
- Risk policy on the control and management of 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 variable annual remuneration schemes, and takes into consideration performance on financial and non-financial measures that include group, business unit and individual targets.

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

There was also a partial amendment of the contract of the Chair of the Board of Directors during financial year 2016 in order to conform it to the requirements of the Good Governance Code regarding the remuneration of directors and to Euskaltel's director remuneration policy. Specifically, said contract was adapted to meet recommendations 58, 61, 63 and 64 of the Good Governance Code.

B REMUNERATION POLICY FOR FUTURE FINANCIAL YEARS

Deleted.

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, and provide 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 2016 were as follows:

- Fixed remuneration: fixed annual allotment for belonging to the Board in the amount of 65,000 euros and, where applicable, to its various Committees in the amount of 15,000 euros, without weighting for holding positions or serving as Chair.

The shareholders acting at the General Shareholders' Meeting held on 1 June 2015 resolved to set 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 maximum amount is currently maintained in effect, in accordance with the Director Remuneration Policy approved by the shareholders at the Ordinary General Shareholders' Meeting of 27 June 2016 for financial years 2016, 2017 and 2018.

- Salaries: fixed annual remuneration of the Chair in the amount of 323,510.56 euros, and fixed annual remuneration of the CEO in the amount of 116,666.67 euros (taking into account that the latter joined Euskaltel on 1 September 2016).

- Variable remuneration: for an estimated 100% achievement of goals, variable annual remuneration of the Chair in the amount of 161,755.28 euros and of the CEO in the amount of 58,333.33 euros.

D BREAKDOWN OF INDIVIDUAL REMUNERATION ACCRUED BY EACH OF THE DIRECTORS

Name	Class	Accrual period - financial year 2016
ALICIA VIVANCO GONZÁLEZ	Proprietary	From 01/01/2016 to 24/05/2016
ALBERTO GARCIA ERAUZKIN	Executive	From 01/02/2016 to 31/12/2016.
FRANCISCO ARTECHE FERNANDEZ-MIRANDA	Executive	From 01/09/2016 to 31/12/2016.
KARTERA 1, S.L.	Proprietary	From 27/06/2016 to 31/12/2016.
ALFONSO BASAGOITI ZAVALA	Proprietary	From 01/01/2016 to 31/12/2016.
JAVIER FERNANDEZ ALONSO	Proprietary	From 01/01/2016 to 31/12/2016.
JOSE ANGEL CORRES ABASOLO	Independent	From 01/01/2016 to 31/12/2016.
BELEN AMATRIAIN CORBI	Independent	From 01/01/2016 to 31/12/2016.
JON IÑAKI ALZAGA ETXEITA	Independent	From 01/01/2016 to 31/12/2016.
MIGUEL ANGEL LUJUA MURGA	Independent	From 27/06/2016 to 31/12/2016.
ELISABETTA CASTIGLIONI	Independent	From 27/06/2016 to 31/12/2016.
BRIDGET COSGRAVE	Independent	From 01/01/2016 to 20/05/2016.
RICHARD ALDEN	Independent	From 01/01/2016 to 23/05/2016.

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.

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 2016	Total 2015
ALFONSO BASAGOITI ZAVALA	0	65	0	0	0	15	0	0	80	45

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 2016	Total 2015
JAVIER FERNANDEZ ALONSO	0	65	0	0	0	15	0	0	80	11
BELEN AMATRIAIN CORBI	0	65	0	0	0	15	0	0	80	34
JON IÑAKI ALZAGA ETXEITA	0	65	0	0	0	15	0	0	80	34
ELISABETTA CASTIGLIONI	0	32	0	0	0	8	0	0	40	0
MIGUEL ANGEL LUJUA MURGA	0	32	0	0	0	8	0	0	40	0
RICHARD ALDEN	0	16	0	0	0	4	0	0	20	45
BRIDGET COSGRAVE	0	33	0	0	0	7	0	0	40	45
JOSE ANGEL CORRES ABASOLO	0	65	0	0	0	22	0	0	87	45
ALBERTO GARCIA ERAUZKIN	323	0	0	161	0	0	0	8	492	480
FRANCISCO ARTECHE FERNANDEZ-MIRANDA	116	0	0	58	0	0	0	2	176	0
ALICIA VIVANCO GONZÁLEZ	0	0	0	0	0	0	0	0	0	65
KARTERA 1, S.L.	0	65	0	0	0	15	0	0	80	0

ii) Share-based remuneration systems

iii) Long-term savings systems

iv) Other benefits (in thousands of €)

ALBERTO GARCIA ERAUZKIN			
Remuneration in the form of advances, loans			
Interest rate for the transaction		Main features of the transaction	Amounts returned, if any
0.00		**N/A**	**N/A**
Life insurance premiums		Guarantees provided by the company in favour of the directors	
Financial Year 2016	Financial Year 2015	Financial Year 2016	Financial Year 2015
8	6	**N/A**	**N/A**

FRANCISCO ARTECHE FERNANDEZ-MIRANDA			
Remuneration in the form of advances, loans			
Interest rate for the transaction		Main features of the transaction	Amounts returned, if any
0.00		**N/A**	**N/A**
Life insurance premiums		Guarantees provided by the company in favour of the directors	
Financial Year 2016	Financial Year 2015	Financial Year 2016	Financial Year 2015
2	0	**N/A**	**N/A**

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	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 2016	Total 2015
ALBERTO GARCIA ERAUZKIN	0	0	0	0	0	0	0	0	0	0

ii) Share-based remuneration systems

iii) Long-term savings systems

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 savings 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 financial year 2016 (company)	Total cash remuneration	Amount of shares delivered	Gross profit on options exercised	Total financial year 2016 (group)	Total financial year 2016	Total financial year 2015	Contribution to savings systems during the year
ALBERTO GARCIA ERAUZKIN	492	0	0	492	0	0	0	0	492	480	0
FRANCISCO ARTECHE FERNANDEZ-MIRANDA	176	0	0	176	0	0	0	0	176	0	0
KARTERA 1, S.L.	80	0	0	80	0	0	0	0	80	0	0
ALFONSO BASAGOITI ZAVALA	80	0	0	80	0	0	0	0	80	45	0
JAVIER FERNANDEZ ALONSO	80	0	0	80	0	0	0	0	80	11	0
JOSE ANGEL CORRES ABASOLO	87	0	0	87	0	0	0	0	87	45	0
BELEN AMATRIAIN CORBI	80	0	0	80	0	0	0	0	80	34	0
JON IÑAKI ALZAGA ETXEITA	80	0	0	80	0	0	0	0	80	34	0
ELISABETTA CASTIGLIONI	40	0	0	40	0	0	0	0	40	0	0
MIGUEL ANGEL LUJUA MURGA	40	0	0	40	0	0	0	0	40	0	0
BRIDGET COSGRAVE	40	0	0	40	0	0	0	0	40	45	0
RICHARD ALDEN	20	0	0	20	0	0	0	0	20	45	0
ALICIA VIVANCO GONZÁLEZ	0	0	0	0	0	0	0	0	0	23	0
TOTAL	**1,295**	**0**	**0**	**1,295**	**0**	**0**	**0**	**0**	**1,295**	**762**	**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 Directors who perform executive duties and is in all cases linked to the performance of corporate indicators, business indicators and increase in shareholder value.

This Report sets out the levels of compliance with the targets for financial year 2016 that give rise to the payment of an amount as variable remuneration to the Chair and to the CEO. Specifically, see Section A.4 above.

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	106,422,482	70.08%

	Number	% of total
Votes against	32,320	0.03%
Votes in favour	106,317,323	99.71%
Abstentions	72,839	0.06%

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.

This annual remuneration report was approved by the company's board of directors at its meeting of 22 February 2017.

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

Yes ☐ No ☒