DIRECTOR REMUNERATION POLICY OF EUSKALTEL, S.A.

1. Introduction

The Board of Directors of Euskaltel, S.A. recognises the need to provide the Company with internal rules and corporate policies that are in line with the legal provisions applicable from time to time as well as with the good governance rules applicable thereto by reason of its status as a listed company.

In addition, within the scope of its powers, the Board of Directors at all times pursues the fulfilment of the corporate interest, which entails not only the achievement of a business that is profitable and sustainable over the long term, whereby the continuity thereof and the maximization of the financial value of the enterprise are promoted, but also the reconciliation between said corporate interest and the legitimate interests of the Company's shareholders, employees, customers, suppliers and, in general, the community as a whole as well as the environment.

Specifically, pursuant to Sections 529 *septdecies*, 529 *octodecies* and 529 *novodecies* of the Consolidated Text of the Companies Act (*Texto Refundido de la Ley de Sociedades de Capital*), approved by Royal Legislative Decree 1/2010 of 2 July (the "**Companies Act**"), introduced by Law No. 31/2014 of 3 December amending the Companies Act for the improvement of corporate governance ("**Law No. 31/2014**"), listed companies must have a director remuneration policy.

Such remuneration policy must provide a description and detailed explanation of the various remuneration items that directors are entitled to receive in their capacity as such, as well as the characteristics and foundations of the remuneration of directors who perform executive duties, and must be submitted to the shareholders for approval by means of a binding vote at the Company's General Shareholders' Meeting at least every 3 years.

In order to comply with the provisions of the aforementioned laws and regulations, the Board of Directors of Euskaltel, following a report from the Appointments and Remuneration Committee and in exercise of the powers vested therein, has prepared this remuneration policy applicable to the directors of Euskaltel for financial years 2016, 2017 and 2018, for approval hereof by the shareholders at the Company's General Shareholders' Meeting (the "**Remuneration Policy**"), taking into account not only the amendments made by Law No. 31/2014 but also the recommendations of the Good Governance Code of Listed Companies, approved by the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) on 18 February 2015 (the "**Good Governance Code**"), and the Company's internal regulations (in particular, article 62 of the Bylaws and article 27 of the Regulations of the Board of Directors).

2. General guidelines of the remuneration policy and specific features of directors remuneration

2.1 Purpose and general principles of the Remuneration Policy

Pursuant to article 27 of the Regulations of the Board of Directors, the Board of Directors shall endeavour to ensure, within the limits set forth in the Company's Bylaws, that director remuneration is reasonably in proportion to the significance of the Company, the financial condition thereof at any given time and the standards followed in the market at companies of a similar size or engaged in similar activities, and that it takes into account the directors' dedication to the Company. The established remuneration scheme shall be aimed at promoting the profitability and sustainability of the Company over the long term and shall include such safeguards as are required to avoid an excessive assumption of risks or rewarding unfavourable results.

Additionally, the Board of Directors shall ensure that the amount of remuneration of external directors is such that it offers incentives for their dedication without jeopardising their independence.

In view of the foregoing, in designing the Remuneration Policy, the Board of Directors of Euskaltel believes that it should be governed by the following principles:

- Moderation: remuneration shall be reasonably in proportion to the Company, the financial condition thereof at any given time and the market standards followed by comparable companies.
- Competence: the Remuneration Policy shall be aimed at attracting, motivating and retaining valuable human capital, as well as at remunerating directors for their professional value, the responsibilities assumed and their dedication, in the case of non-executive external directors.
- Balance: the Remuneration Policy shall establish an appropriate balance between fixed and variable components, such that fixed remuneration accounts for a sufficiently high percentage of total remuneration allowing for the adoption of flexibility measures applicable to directors who perform executive duties.
- Profitability and sustainability: the remuneration of directors who perform executive duties shall incentivise performance and reward the creation of long-term value.
- Linkage to results: in the case of directors who perform executive duties, their remuneration shall reflect the required linkage to the Company's results within an appropriate timeframe and shall be aligned with the interests, values and strategy of the Company.
- Equity and external competitiveness: the external competitive environment and the principles of internal fairness shall be taken into account in establishing director remuneration.
- Transparency of the remuneration policy: the Remuneration Policy shall be established, adopted and applied in accordance with applicable law, the Company's internal regulations and best corporate governance practices, ensuring transparency and compliance with the Good Governance Code. In particular, at the time of the call to the Annual General Shareholders' Meeting, the Company shall make available to the shareholders the Annual Director Remuneration Report, which shall be submitted to a consultative vote as a separate item on the agenda.

Based on these guidelines, the Board of Directors of Euskaltel has designed a Remuneration Policy that takes into account not only the necessary compliance with legal requirements, the Good Governance Code and internal rules, but also alignment with best market practices, and has included in said Policy a number of items calculated to conform director remuneration to the Company's objectives, values and interests over the long term.

The Remuneration Policy establishes a basic difference between directors in their capacity as such (non-executive external directors) and directors who perform executive duties at the Company (at present, only the Chair of the Board of Directors), as explained in further detail below.

2.2 Specific features of the remuneration of directors in their capacity as such

The application of the guidelines set forth in section 2.1 above to the remuneration scheme for the directors of Euskaltel in their capacity as such has the following characteristics:

- The scheme is transparent as regards information on director remuneration.
- It is incentive-driven as it seeks to remunerate directors for their dedication, qualifications and responsibilities, without hindering observance of their duty of loyalty.
- It consists of a fixed amount, which is paid entirely in cash and remunerates directors for their membership on the Board of Directors and, if applicable, on the various Committees thereof,

without making a distinction based on duties performed or positions held, unless the Board of Directors decides otherwise and without prejudice to the provisions specifically applicable to the lead independent director (*consejero independiente coordinador*).

As regards the standards followed to determine the various components of the remuneration package of directors in their capacity as such, the aim is to remunerate such directors in accordance with their professional value, dedication to the position and responsibilities assumed therein, without the remuneration received affecting their objectiveness in furthering the corporate interest.

In the case of directors in their capacity as such, the Remuneration Policy does not contemplate the payment of attendance fees, variable items or items linked to results, or payments in shares, share options or instruments based on shares.

Directors in their capacity as such do not receive any compensation or severance payments for ceasing to serve as directors, nor do they participate in savings or social security plans.

In addition, the remuneration of directors in their capacity as such is supplemented by (i) the possibility of Euskaltel making individual annual contributions to insurance premiums, as well as (ii) civil liability insurance for directors maintained at the Company.

Finally, it should be noted that the aforementioned remuneration items are received by the directors solely in their capacity as such, including proprietary directors but to the exclusion of executive directors, who only and exclusively receive the remuneration agreed in their respective contracts, as set forth in sections 2.3 and 4.

2.3 Specific features of the remuneration of executive directors

Executive directors are entitled to receive remuneration for the executive duties they perform, in line with the standards applicable to senior management members generally and which are aimed at establishing a remuneration package that makes it possible to attract, motivate and retain valuable human capital.

The characteristics of this remuneration package are as follows:

- Remuneration is assigned for the performance of executive duties in accordance with the provisions of the respective contracts.
- The remuneration items established in the contracts are in line with the provisions of this Remuneration Policy.
- Remuneration is such that there is a balanced and efficient ratio between fixed components and variable components.
- The remuneration scheme is consistent with an appropriate and efficient management of risk and with the Company’s business strategy, values and interests over the long term, without variable remuneration jeopardising the Company’s ability to maintain its solvency and financial condition.
- Remuneration is aligned with market trends and is set within such market in accordance with the Company’s strategic approach as well as with its size and the nature and scope of its activities, such that it manages to attract and retain the best professionals.

The remuneration of directors who perform executive duties is therefore aimed at the generation of value for the Company, seeking an alignment with the interests of the shareholders, a prudent management of risk and strict compliance with applicable laws and regulations in the area of director remuneration at listed companies.

Consequently, the remuneration scheme for executive directors consists of:

- Fixed remuneration, which includes a fixed salary and specific in-kind remuneration.
- Variable annual remuneration, linked to short-term objectives.
- Variable remuneration through the delivery of shares, share options or instruments indexed to the value of shares, which remuneration is linked to business objectives, to changes in share value and, if applicable, to other corporate social responsibility objectives. All of the foregoing is subject to the approval by the Board of Directors of the respective incentive plans, if any.

Below is a description of the director remuneration scheme, based on the guidelines, foundations and features set forth above.

3. Remuneration scheme currently applicable to the directors in their capacity as such

The remuneration of directors in their capacity as such consists of a fixed annual amount by reason of their membership on the Board of Directors and, if applicable, on the various Committees thereof, without making a distinction based on duties performed or positions held, unless the Board of Directors decides otherwise and without prejudice to the provisions applicable to the lead independent director as set forth below. This fixed amount is paid entirely in cash.

In addition, the Board of Directors may decide that the lead independent director be paid an additional amount for the performance of duties inherent in such position. The amount of such additional sum, if any, shall be determined by the Board of Directors on an annual basis and, when individually considered, may not exceed 25% of the fixed annual remuneration to which the director is entitled by reason of membership on the Board of Directors.

The maximum remuneration of the directors in their capacity as such may not exceed the maximum amount approved on an annual basis by the shareholders at the General Shareholders' Meeting, and the Board of Directors may establish a lower amount.

For financial year 2016, the maximum amount of the total annual remuneration of the directors in their capacity as such is 1,500,000 euros. During the effective period of this Remuneration Policy, such maximum amount of total annual remuneration shall remain unchanged, unless the shareholders at the General Shareholders' Meeting decide otherwise.

Of the aforementioned sum, the Board of Directors has approved payment of the following amounts as fixed annual remuneration:

- Fixed annual amount for membership on the Board of Directors: 65,000 euros.
- Fixed annual amount for membership on the Audit and Control Committee or the Appointments and Remuneration Committee: 15,000 euros.

A breakdown of the remuneration scheme and an itemised description of the remuneration amounts shall be provided annually in the respective Annual Director Remuneration Report.

These fixed amounts are received by the directors solely in their capacity as such, including proprietary directors but to the exclusion of executive directors, who only and exclusively receive the remuneration agreed in their respective contracts, as explained in further detail in sections 2.3 and 4.

In order to establish these remuneration amounts, including the structure and levels of remuneration, the Company has relied on external advice provided by Mercer Consulting, S.L.U., a global advisory firm in the area of remuneration, which has taken into account the practices and remuneration levels at listed companies comparable to the Company.

Moreover, pursuant to the provisions of article 62 of the Bylaws, it is possible for the directors in their capacity as such to receive in-kind remuneration consisting of payment by Euskaltel of insurance premiums up to a maximum annual limit of 8,000 euros for each director, the implementation of which must be approved by the Board of Directors.

The Company also maintains civil liability insurance for its directors on customary terms that are in proportion to the circumstances of the Company. The maximum amount of this coverage is 10,000,000 euros.

4. Remuneration scheme currently applicable to executive directors

The remuneration scheme for executive directors consists of:

- Fixed remuneration, which includes a fixed salary and specific in-kind remuneration.
- Variable annual remuneration, linked to short-term objectives.
- Variable remuneration through the delivery of shares, share options or instruments indexed to the value of shares, which remuneration is linked to business objectives, to changes in share value and, if applicable, to other corporate social responsibility objectives, for the 3-year effective period of the Remuneration Policy. All of the foregoing is subject to the approval by the Board of Directors of the respective incentive plans, if any.

4.1 Fixed remuneration

The purpose of fixed remuneration is to reward the performance of executive duties and is made up of (i) a fixed salary, and (ii) specific in-kind remuneration.

Executive directors may receive specific remuneration in kind, including the individual availability of a company vehicle, a life insurance policy covering death for any reason, a medical insurance policy, an accident insurance policy and a policy providing other minor coverage.

Fixed remuneration (i) shall be primarily based on a market approach, and is commensurate with the size, nature and scope of the Company’s activities; and (ii) shall be duly aligned with the remuneration established at comparable companies in the industry at the domestic or the international level.

The Company shall provide timely information regarding the remuneration scheme and the adjusted levels of remuneration of executive directors in the respective Annual Director Remuneration Report.

4.2 Variable remuneration

4.2.1 Variable annual remuneration

As set forth above, variable annual remuneration applies only to executive directors as a percentage of their fixed remuneration. Such variable remuneration is based on objective standards that seek to evaluate their contribution to the Company’s business objectives in the performance of their executive duties.

In this regard, this variable annual remuneration of executive directors shall as a general rule be within a range of 0% to a maximum of 75% of the fixed salary, and accounts for 50% of the fixed salary in a scenario of achievement of 100% of the objectives set. As an exception, the variable annual remuneration of the Chair of the Board of Directors shall be within a range of 0% to 60% of the fixed salary, as explained in section 4.4.

The establishment of the objectives and of the achievement scales as well as the evaluation of performance are within the purview of the Board of Directors, which shall subsequently determine the level of fulfilment of the business objectives taken as a reference and the level of achievement of variable annual remuneration (including cases of underachievement and overachievement, if any).

As a general rule, the parameters to be used in determining the achievement of objectives for purposes of variable annual remuneration, as well as the respective weighting thereof, shall be established annually by the Board of Directors following a proposal from the Appointments and Remuneration Committee, based on indicators referenced to variables of the Company relating to (i) growth; (ii) profitability; (iii) innovation; and, if applicable, (iv) other quantitative or qualitative indicators, including but not limited to sustainability over the medium and long term and the achievement of strategic objectives or of objectives relating to corporate social responsibility.

The aforementioned objectives and parameters must also take into account the risk assumed to achieve a result, and shall seek to find a balance between the Company's short-, medium- and long-term objectives, such that they do not revolve exclusively around facts or data that are exceptional, sporadic or extraordinary.

In all cases, executive directors shall be subject to the application of the objectives, parameters and weightings approved by the Board of Directors for the Company's management team generally.

The Board of Directors, acting upon a proposal from the Appointments and Remuneration Committee, may adjust the aforementioned weightings or include other objectives that must be addressed as a matter of priority for the development of the business over the short term.

The variable annual remuneration scheme shall be periodically revised by the Appointments and Remuneration Committee, which shall determine whether it is the appropriate scheme to measure the contribution to the results of Euskaltel.

Specifically, the parameters applicable to variable annual remuneration during the current financial year 2016 and the respective weighting thereof are set forth below:

- Growth (revenues and increase in net customers): 30% weighting.
- Profitability (EBITDA and Free Cash Flow): 30% weighting.
- Innovation (new products launched and number of launched products that have been connected): 15% weighting.
- Integration (synergies): 25% weighting.

These objectives and metrics represent a suitable balance between the financial and operating aspects of the Company for financial year 2016.

If the Company's auditors include qualifications in their audit report and these qualifications affect one or more of the objectives and parameters that must be used in order to determine the variable annual remuneration of executive directors, such qualifications shall be taken into account by the Board of Directors in establishing the variable remuneration to be received by executive directors.

Furthermore, the Company may demand the reimbursement of all or part of the variable remuneration, as applicable, if (i) payment of variable remuneration has not been in accordance with the Company's performance; or (ii) variable remuneration has been paid in light of data that are subsequently found to be inaccurate (e.g. if there is a correction of the annual accounts that served as a basis for such variable remuneration).

4.2.2 Variable remuneration through the delivery of shares, share options or instruments indexed to the value thereof

The variable remuneration of executive directors through the delivery of shares, share options or instruments indexed to the value thereof serves many different purposes:

- To reward contributions to the creation of value by allowing the participants therein, including the executive directors, to benefit from the results of their management efforts.
- To align the interests of executive directors with those of the shareholders, by linking them to the increase in value of Euskaltel shares, to the objectives set in the Business Plan approved by the Board of Directors and, if applicable, to other corporate social responsibility objectives.
- To include in the remuneration package a variable remuneration item through the delivery of shares, share options or instruments indexed to the value thereof, in line with best recommendations in the area of remuneration as well as with market practices followed by other listed companies comparable to Euskaltel.

To such end, when the Board of Directors approves the respective incentive plans, incentive share purchase plans or other similar instruments for officers or employees of Euskaltel, executive directors shall be entitled to join and participate in them upon the terms and conditions established by the Board of Directors, which shall entail the delivery of shares of the Company in such number and at such price or for such value as is applicable pursuant to the provisions of those plans or instruments.

4.3 Social security

Except as already set forth in sections 3 and 4.1 of this Remuneration Policy, no commitments in connection with pensions, life or other insurance have been assumed with the directors of the Company.

4.4 Main terms and conditions of the Contract with the Chair of the Board of Directors

The main terms and conditions of the contract with the Chair of the Board of Directors (the only executive director as of the date of preparation of this Remuneration Policy by the Board of Directors) are as described below:

- Fixed remuneration: the fixed salary of the Chair of the Board of Directors comes to 323,144 euros.

  It should be noted that the fixed salary of the Chair of the Board of Directors has not experienced substantial changes as a result of the admission of the Company's shares to trading, such that the guidelines and standards followed in previous financial years have continued to apply.

- Variable annual remuneration: the variable annual remuneration of the Chair of the Board of Directors shall be within a range of 0% to a maximum of 60% of the fixed salary, and accounts for 50% of the fixed salary in a scenario of achievement of 100% of the objectives set.

  As in the case of fixed remuneration, the variable annual remuneration of the Chair of the Board of Directors has not experienced substantial changes as a result of the admission of the Company's shares to trading, such that the guidelines and standards followed in previous financial years have continued to apply.

- Variable remuneration through the delivery of shares, share options or instruments indexed to the value thereof: in his capacity as a director who performs executive duties, the Chair shall be entitled to join and participate in incentive plans, incentive share purchase plans or other similar instruments in effect from time to time for officers or employees of Euskaltel, which shall entail the receipt by the Chair of an incentive in the form of shares of the Company, share options or instruments indexed to the value thereof.

  In the event of any such adhesion or participation, the Chair shall be entitled to receive the number of shares that is established by the Company's Board of Directors and at such price or for such value as the Board fixes at any given time, all of the foregoing being in accordance with the incentive plans, incentive share purchase plans or other similar instruments designed and approved by the Board of Directors within the framework of this Remuneration Policy.

- Duration: indefinite.
- Exclusivity: the Chair of the Board of Directors must be exclusively dedicated to his position.
- Non-competition: the Chair of the Board of Directors may not hold financial interests, either directly or indirectly, in any business that competes with the Company's business.
- Prior notice period: the contract does not contain any specific provisions in connection with prior notice periods to the Chair of the Board of Directors or to the Company in the event of resignation, voluntary termination or withdrawal.
- Compensation: if the Chair of the Board of Directors ceases to hold or resigns from his position, he shall have the option to terminate or to resume the ordinary employment relationship that was suspended on 28 November 2000.

  If he chooses to resume the prior ordinary employment relationship, such relationship would become subject to the termination rules set forth in 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 compensation, the entire period during which he worked at the Company shall be counted as length of service, regardless of whether he did so under an ordinary or senior management employment relationship or under a commercial relationship.

  If he chooses to terminate the relationship, he shall be entitled to receive compensation equal to 45 days' salary for each year of service to the Company, with periods that are less than a year being prorated on a monthly basis up to a maximum of 24 monthly payments; said compensation shall be calculated based on the annual gross cash salary received in the calendar year immediately prior to termination.
- The contract with the Chair of the Board of Directors does not contain disqualification provisions or golden parachute clauses or clauses relating to hiring bonuses.

  Neither does it contain specific provisions in connection with covenants or agreements on continuance or retention or on the post-contractual duty not to compete. However, it should be recalled that due to his status as a director, the Chair of the Board of Directors is subject to the rules on prohibitions, duty of confidentiality and duty not to compete that are established in article 51 of the Bylaws and articles 31 and 32 of the Regulations of the Board of Directors, respectively.

4.5 New appointments

If other directors with executive duties join the Board of Directors during the effective period of this Remuneration Policy, the determination of their remuneration package (i.e. remuneration items and the corresponding minimum and maximum limits thereof) shall be governed by the provisions set forth in section 2.3 and by the guidelines described in sections 4.1, 4.2 and 4.3 of this Remuneration Policy, without prejudice to the specific features of their respective services agreements with the Company.

In this regard, upon proposing the basic terms and conditions of such services agreements for approval by the Board of Directors, the Appointments and Remuneration Committee shall take into account, by way of example and not of limitation, variables or aspects such as (i) the duties assigned to the new executive director; (ii) the level of dedication to the Company; (iii) the responsibilities to be assumed by such new executive director; (iv) such director's experience in management, leadership and business strategy; (v) the director's professional background and track record in the creation of value; and (vi) the director's level of remuneration at the time of the appointment.

5. Application of the Remuneration Policy

Without prejudice to the provisions of the Companies Act in connection with director remuneration policy, the Appointments and Remuneration Committee shall ensure that this Remuneration Policy is duly observed, shall review it on a periodic basis and shall propose the amendment and update hereof to the Board of Directors for submission to the shareholders at the General Shareholders' Meeting, all in accordance with the provisions of the Regulations of the Appointments and Remuneration Committee.

6. Effective Period of the Remuneration Policy

This Policy shall apply to the remuneration of the directors of Euskaltel during financial years 2016, 2017 and 2018, pursuant to the provisions of Section 529 *novodecies* of the Companies Act.

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