

## ANNEX I

### ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

#### DATA IDENTIFYING ISSUER

**ENDING DATE OF REFERENCE FINANCIAL  
YEAR**

31/12/2016

**TAX ID CODE (C.I.F.)**

A48766695

**COMPANY NAME**

EUSKALTEL, S.A.

**REGISTERED ADDRESS:**

PARQUE TECNOLOGICO, 809, DERIO (BISCAY)

# ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

## A OWNERSHIP STRUCTURE

A.1 Complete the following table about the share capital of the company:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
24/11/2015	455,536,080.00	151,845,360	151,845,360

State whether there are different classes of shares with different rights attaching thereto:

Yes

No

A.2 Breakdown of direct and indirect holders of significant shareholdings in the company as of the end of the financial year, excluding directors:

Individual or company name of the shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
CORPORACIÓN FINANCIERA ALBA, S.A.	0	15,186,055	10.00%
ABANCA CORPORACIÓN BANCARIA, S.A.	0	8,004,960	5.27%
KUTXABANK, S.A.	38,087,977	0	25.08%
BESTINVER GESTION, S.A., S.G.I.I.C.	0	4,603,957	3.03%
UBS GROUP AG	0	4,277,713	2.82%
CITIGROUP GLOBAL MARKETS LIMITED	4,186,269	693,000	3.21%
ARTEMIS INVESTMENT MANAGEMENT LLP	0	7,634,637	5.03%
40 NORTH LATITUDE MASTER FUND LTD.	1,575,786	0	1.04%

Individual or company name of indirect holder of the interest	Through: Individual or company name of direct holder of the interest	Number of voting rights
CORPORACIÓN FINANCIERA ALBA, S.A.	ALBA EUROPE S.A.R.L	15,186,055
ABANCA CORPORACIÓN BANCARIA, S.A.	ABANCA CORPORACIÓN INDUSTRIAL Y EMPRESARIAL, S.L.U.	1,166,173
BESTINVER GESTIÓN, S.A., S.G.I.I.C.	BESTINFOND, F.I.	7,594
BESTINVER GESTIÓN, S.A., S.G.I.I.C	BESTINVER INDIVIDUAL EPSV	1,627,784
BESTINVER GESTIÓN, S.A., S.G.I.I.C	BESTINVER BOLSA, F.I.	399,354
BESTINVER GESTIÓN, S.A., S.G.I.I.C	BESTVALUE, F.I.	132,106
BESTINVER GESTIÓN, S.A., S.G.I.I.C	BESTINVER MIXTO, F.I.	499,571
BESTINVER GESTIÓN, S.A., S.G.I.I.C	BESTINVER HEDGE VALUE FUND, F.I.L.	15,185
BESTINVER GESTIÓN, S.A., S.G.I.I.C	BESTINVER EMPLEO, F.P.	1,518
BESTINVER GESTIÓN, S.A., S.G.I.I.C	BESTINVER EMPLEO III, F.P.	438,833
BESTINVER GESTIÓN, S.A., S.G.I.I.C	BESTINVER GLOBAL, F.P.	147,290
BESTINVER GESTIÓN, S.A., S.G.I.I.C	BESTINVER AHORRO, F.P.	3,037
BESTINVER GESTIÓN, S.A., S.G.I.I.C	BESTINVER EMPLEO II, F.P.	165,512
BESTINVER GESTIÓN, S.A., S.G.I.I.C	BESTINVER SICAV	4,277,713
UBS GROUP AG	UBS AG	693,000
CITIGROUP GLOBAL MARKETS LIMITED	CITIBANK NA	7,634,637
ARTEMIS INVESTMENT MANAGEMENT	ARTEMIS INVESTMENT MANAGEMENT LLP	8,004,960

State the most significant changes in the shareholding structure that have occurred during the financial year:

Individual or company name of the shareholder	Date of transaction	Description of transaction
BESTINVER GESTION, S.A., S.G.I.I.C.	21/12/2016	Increase to above 3% of share capital
CITIGROUP GLOBAL MARKETS LIMITED	02/02/2016	Decrease to below 5% of share capital
ARTEMIS INVESTMENT MANAGEMENT LLP	21/06/2016	Increase to above 5% of share capital

A.3 Complete the following tables about members of the company's board of directors who have voting rights attaching to shares of the company:

Individual or company name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR ALBERTO GARCÍA ERAUZKIN	357,222	0	0.24%
MR FRANCISCO MANUEL ARTECHE FERNÁNDEZ-MIRANDA	5,600	0	0.00%
MR JAVIER FERNÁNDEZ ALONSO	3,000	0	0.00%

<b>% of total voting rights held by the board of directors</b>	0.24%
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Complete the following tables about members of the company's board of directors who hold rights to shares of the company

A.4 State, if applicable, the family, commercial, contractual or corporate relationships between significant shareholders, to the extent known to the company, unless they are immaterial or result from the ordinary course of business:

A.5 State, if applicable, the commercial, contractual or corporate relationships between significant shareholders and the company and/or its group, unless they are immaterial or result from the ordinary course of business:

Name of related individual or company
KUTXABANK, S.A.
EUSKALTEL, S.A.

**Type of relationship:** Contractual

**Brief description:**

Financing agreement between Euskaltel and a banking syndicate, Kutxabank, S.A., among others, on 5 October 2015, and formalised in an instrument dated 27 November 2015.

Telecommunications services agreement between Euskaltel and Kutxabank, S.A. dated 1 January 2015.

Name of related individual or company
ABANCA CORPORACIÓN BANCARIA, S.A.
EUSKALTEL, S.A.

**Type of relationship:** Contractual

**Brief description:**

Financing agreement between Euskaltel and a banking syndicate, Abanca Corporación Bancaria, among others, dated 5 October 2015, and formalised in an instrument dated 27 November 2015.

Comprehensive corporate fixed communications services agreement between R Cable y Telecomunicaciones Galicia, S.A. and NCG Banco, S.A. (now Abanca Corporación Bancaria, S.A.) on 20 December 2011.

Name of related individual or company
CAJASUR BANCO, S.A.U.
EUSKALTEL, S.A.

**Type of relationship:** Contractual

**Brief description:**

Telecommunications services agreement between CajaSur and Euskaltel dated 1 January 2015.

A.6 State whether any shareholders' agreements affecting the company pursuant to the provisions of Sections 530 and 531 of the Companies Act (*Ley de Sociedades de Capital*) have been reported to the company. If so, briefly describe them and list the shareholders bound by the agreement:

Yes

No

State whether the company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:

Yes

No

Expressly state whether any of such agreements, arrangements or concerted actions have been modified or terminated during the financial year:

Not aware of such.

A.7 State whether there is any individual or legal entity that exercises or may exercise control over the company pursuant to Section 4 of the Securities Market Act (*Ley del Mercado de Valores*). If so, identify it:

Yes

No

Comments
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A.8 Complete the following tables about the company's treasury shares:

**At year-end:**

Number of direct shares	Number of indirect shares (*)	Total % of share capital
162,033	0	0.11%

**(\*) Through:**

Describe any material changes, pursuant to the provisions of Royal Decree 1362/2007, made during the financial year:

Explain material changes
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During financial year 2016, the Company made the following direct acquisitions of own shares, in successive transactions, each of which exceeded 1% of the voting rights:

- On 23 March 2016, direct acquisitions were made of a total of 1,523,877 shares (1.004%).
- On 22 August 2016, direct acquisitions were made of a total of 1,520,261 shares (1.001%).
- On 21 November 2016, direct acquisitions were made of a total of 1,522,304 shares (1.003%).

**A.9 Describe the terms and conditions and the duration of the powers currently in force given by the shareholders to the board of directors in order to issue, repurchase or transfer own shares of the company:**

Pursuant to the provisions of Sections 146 and 509 of the Companies Act, the shareholders acting at the Ordinary General Shareholders' Meeting held on 27 June 2016 expressly authorised the Board of Directors, with express power of substitution, to engage in the derivative acquisition of shares of the Company on the following terms:

- (a) The acquisitions may be made directly by the Company or indirectly through its subsidiaries upon the same terms of this resolution.
- (b) Acquisitions shall be made through purchase/sale, swap or any other transaction allowed by law.
- (c) Acquisitions may be made at any time up to the maximum amount allowed by law.
- (d) Acquisitions may not be made at a price higher than 105% of their quotation on the Exchange at the time of acquisition or less than the par value of the shares.
- (e) This authorisation is granted for a period of five years from the adoption of this resolution.
- (f) The acquisition of shares, including shares previously acquired by the Company or by a person acting in their own name but on the Company's behalf and held thereby, may not have the effect of reducing net assets below the amount of share capital plus reserves restricted by law or the bylaws, all as provided in letter b) of Section 146.1 of the Companies Act.

It is expressly stated for the record that the shares acquired as a result of the authorisation by the shareholders may be sold or cancelled, and may also be used for remuneration of the employees or directors of the Company and for the development or implementation of schemes promoting participation in the capital of the Company, such as dividend reinvestment plans, incentive plans, share purchase incentive plans or other similar instruments, pursuant to the provisions of letter a) of Section 146.1 of the Companies Act.

The authorisation by the shareholders shall also extend to the acquisition of own shares by Euskaltel for the implementation of liquidity agreements that have already been signed or that might hereafter be signed by the Company upon the terms allowed by law.

**A.9.bis Estimated free float:**

	%
<b>Estimated free float</b>	44.52

**A.10 State whether there are any restrictions on the transfer of securities and/or any restrictions on voting rights. In particular, disclose the existence of any restrictions that might hinder a takeover of the company through the acquisition of its shares in the market.**

Yes

No

A.11 State whether the shareholders acting at a general shareholders' meeting have approved the adoption of breakthrough measures in the event of a takeover bid pursuant to the provisions of Law 6/2007.

Yes

No

If applicable, explain the approved measures and the terms on which the restrictions will become ineffective:

A.12 State whether the company has issued securities that are not traded on a regulated market within the European Community.

Yes

No

If applicable, specify the different classes of shares, if any, and the rights and obligations attaching to each class of shares.

## **B GENERAL SHAREHOLDERS' MEETING**

B.1 State and, if applicable, describe whether there are differences with the minimum requirements set out in the Companies Act in connection with the quorum needed to hold a valid general shareholders' meeting.

Yes

No

B.2 State and, if applicable, describe any differences from the rules set out in the Companies Act for the adoption of corporate resolutions:

Yes

No

Describe how the system differs from the rules provided by the Companies Act.

	Qualified majority other than that of section 201.2 the Companies Act for the special circumstances described in section 194.1	Other instances in which a qualified majority is required
% established by the entity for the adoption of resolutions	75.00%	75.00%

### **Describe the differences**

In keeping with Section 201 of the Companies Act, article 17 of the Regulations for the General Shareholders' Meeting, under a cross-reference from article 41 of the Bylaws, provides that if shareholders representing less than fifty per cent (50%) of the subscribed capital with voting rights are present, resolutions on the issuance of bonds, elimination or limitation of pre-emptive rights to subscribe new shares, transformation, mergers, divisions or overall assignments of assets and liabilities, dissolution and liquidation of the Company, transfer of its registered office to a location outside Spain, and in general, any amendment to the Bylaws, that do not relate to Significant Decisions of the shareholders acting at a General Shareholders' Meeting may only be adopted with the favourable vote of two thirds (2/3) of the capital with voting rights and that is present in person or by proxy at the General Shareholders' Meeting.

As provided in article 37.2 of the Bylaws, resolutions covering a matter that is a Significant Decision shall be adopted by the affirmative vote of shareholders representing at least seventy-five per cent (75%) of the share capital with voting rights that are present in person or by proxy.

In this connection, and in light of article 37.3 of the Bylaws, the following are considered Significant Decisions of the shareholders acting at a General Shareholders' Meeting:

a) Amendment of the Bylaws of the Company affecting the registered office, company name, company object and rules for adopting resolutions by the shareholders acting at a General Shareholders' Meeting and by the Board of Directors (unless intended to conform them to applicable law), including Significant Decisions of the shareholders acting at a General Shareholders' Meeting and of the Board

of Directors, as well as a change in the “Euskaltel” brand for carrying out the activities of the Company within the Autonomous Community of the Basque Country.

- b) Any resolution having the purpose or effect of not maintaining effective administration and management of the Company within the Autonomous Community of the Basque Country.
- c) Delegation to the Board of Directors of any of the foregoing resolutions, in the instances allowed by law.

**B.3 State the rules applicable to the amendment of the bylaws of the company. In particular, disclose the majorities provided for amending the bylaws, and any rules provided for the protection of the rights of the shareholders in the amendment of the bylaws.**

In accordance with article 5 of the Regulations for the General Shareholders’ Meeting, the General Shareholders’ Meeting is the body with authority to amend the Bylaws.

Pursuant to article 17.2 of the Regulations for the General Shareholders’ Meeting, under a cross-reference from article 41 of the Bylaws, in order for the shareholders acting at an ordinary or extraordinary General Shareholders’ Meeting to validly approve any amendment to the Bylaws, shareholders owning at least 50% of the subscribed share capital with voting rights must be present at the meeting in person or by proxy on the first quorum call. On the second quorum call, the attendance of 25% of said capital will suffice.

If shareholders representing less than 50% of the subscribed share capital with voting rights are in attendance, resolutions to amend the bylaws may only be adopted with the favourable vote of 2/3 of the share capital with voting rights that is present in person or by proxy at the General Shareholders’ Meeting (provided that they do not relate to Significant Decisions of the shareholders acting at a General Shareholders’ Meeting, as defined in article 37.3 of the Bylaws, as set forth in section B.2.).

In addition, pursuant to article 37.2 of the Bylaws, if the amendment of the Bylaws is contained in the Significant Decisions of the shareholders acting at a General Meeting, as described in section B.2, resolutions shall be adopted with the affirmative vote of shareholders representing at least 75% of the share capital with voting rights that are present in person or by proxy.

**B.4 State the data on attendance at the general meetings held during the financial year referred to in this report and those of the prior financial year:**

Date of general meeting	Attendance data				
	% in person	% by proxy	% absentee voting		Total
			Electronic voting	Other	
31/03/2015	0.00%	100.00%	0.00%	0.00%	100.00%
01/06/2015	0.00%	100.00%	0.00%	0.00%	100.00%
16/06/2015	0.00%	100.00%	0.00%	0.00%	100.00%
26/06/2015	0.00%	100.00%	0.00%	0.00%	100.00%
12/11/2015	3.14%	58.26%	0.00%	2.83%	64.23%
27/06/2016	0.75%	69.33%	0.00%	0.50%	70.58%

**B.5 State whether there are any bylaw restrictions requiring a minimum number of shares to attend the general meeting:**

Yes  No

**B.6 Section deleted.**

**B.7 State the address and method for accessing the company’s website to obtain information regarding corporate governance and other information regarding general shareholders’ meetings that must be made available to the shareholders through the Company’s website.**

The Company’s website address is [www.euskaltel.com](http://www.euskaltel.com), which includes information for shareholders and investors and the documents provided for by law.

To access the Corporate Governance content, click on the “Investors” tab at the top and then on the “Corporate Governance” tab. The information on Corporate Governance and General Shareholders’ Meetings is also available on the website of the CNMV ([www.cnmv.es](http://www.cnmv.es)).

**C STRUCTURE OF THE COMPANY’S MANAGEMENT**

## C.1 Board of Directors

### C.1.1 Maximum and minimum number of directors set forth in the bylaws:

<b>Maximum number of directors</b>	15
<b>Minimum number of directors</b>	5

### C.1.2 Complete the following table identifying the members of the board:

Individual or company name of director	Representative	Class of director	Position on the board	Date of initial appointment	Date of last appointment	Election procedure
MR JOSÉ ÁNGEL CORRES ABASOLO		Independent	VICE CHAIR	08/03/2013	27/06/2016	SHAREHOLDER RESOLUTION
MR IÑAKI ALZAGA ETXEITA		Independent	DIRECTOR	31/03/2015	31/03/2015	SHAREHOLDER RESOLUTION
MR ALBERTO GARCÍA		Executive	CHAIR	28/11/2000	27/06/2016	SHAREHOLDER RESOLUTION
MR ALFONSO BASAGOITI ZAVALA		Proprietary	DIRECTOR	08/03/2013	08/03/2013	SHAREHOLDER RESOLUTION
MS BELÉN AMATRIAIN CORBI		Independent	DIRECTOR	31/03/2015	31/03/2015	SHAREHOLDER RESOLUTION
MR JAVIER FERNÁNDEZ ALONSO		Proprietary	DIRECTOR	30/09/2015	12/11/2015	SHAREHOLDER RESOLUTION
KARTERA 1, S.L.	MS ALICIA VIVANCO GONZALEZ	Proprietary	DIRECTOR	27/06/2016	27/06/2016	SHAREHOLDER RESOLUTION
MR FRANCISCO MANUEL ARTECHE FERNÁNDEZ-MIRANDA		Executive	CEO	27/06/2016	27/06/2016	SHAREHOLDER RESOLUTION
MS ELISABETTA CASTIGLIONI		Independent	DIRECTOR	27/06/2016	27/06/2016	SHAREHOLDER RESOLUTION
MR MIGUEL ÁNGEL LUJUA MURGA		Independent	DIRECTOR	27/06/2016	27/06/2016	SHAREHOLDER RESOLUTION
<b>Total number of directors</b>						<b>10</b>

State the vacancies on the board of directors during the reporting period:

Name of director	Class of director at the time of withdrawal	Date of vacancy
MS BRIDGET COSGRAVE	Independent	20/05/2016
MR RICHARD DAVID ALDEN	Independent	23/05/2016
MS ALICIA VIVANCO GONZÁLEZ	Proprietary	24/05/2016

### C.1.3 Complete the following tables about the members of the board and each member's status:

#### **EXECUTIVE DIRECTORS**



Name of director	Position within the company's structure
MR ALBERTO GARCÍA ERAUZKIN	CHAIR
MR FRANCISCO MANUEL ARTECHE FERNÁNDEZ-MIRANDA	CEO

<b>Total number of executive directors</b>	2
<b>Total % of the board</b>	20.00%

### **EXTERNAL PROPRIETARY DIRECTORS**

Name of director	Name of the significant shareholder represented by the director or that proposed the director's appointment
MR ALFONSO BASAGOITI ZAVALA.	KUTXABANK, S.A.
MR JAVIER FERNÁNDEZ ALONSO	CORPORACIÓN FINANCIERA ALBA, S.A
KARTERA 1, S.L.	KUTXABANK, S.A.

<b>Total number of proprietary directors</b>	3
<b>Total % of the board</b>	30.00%

### **EXTERNAL INDEPENDENT DIRECTORS**

#### **Name of director**

MR JOSÉ ÁNGEL CORRES ABASOLO

##### **Profile:**

José Ángel Corres was appointed as a Director of Euskaltel in 2013. In 2010 he was named President of the Chamber of Commerce, Industry and Navigation of Bilbao, a position that he holds until this date. His previous professional experience includes positions in the Basque Government as head of the "Ports of General Interest" Group and advisor to Basque Government representatives in the Port of Bilbao. In 1996 he was appointed President of the Bilbao Port Authority, a position he held until 2009. In addition, he was a member of the Board of Directors of Bilbao Ría 2000. He holds a degree in economics and business administration from the Deusto Business School, and has also studied at the Institute of Economics and Port Logistics in Bremen.

#### **Name of director**

MR IÑAKI ALZAGA ETXEITA

##### **Profile:**

Iñaki Alzaga was appointed as a Director of Euskaltel in March 2015. From 1998 to 2005, he was part of the Company, holding positions as Advanced Business Manager, Manager of Business Development and member of the Management Committee. Since 2005, he has been the President of Grupo Noticias. The positions he previously held include Managing Director of Editorial Iparragirre, S.A. and a 12-year career at PricewaterhouseCoopers.

#### **Name of director**

MS BELÉN AMATRIAIN CORBI

##### **Profile:**

Belén Amatriain was appointed as a Director of Euskaltel in March 2015. She is currently a Director of EVO Banco, S.A.U. Her previous professional career includes positions as Corporate Marketing Officer at Telefónica, S.A. from 2009 to 2012, CEO of Telefónica España from 2008 to 2009, CEO of Telefónica Móviles España from 2005 to 2007 and Chair and CEO of Telefónica Publicidad e Información. She holds a degree in law and business management and administration from ICADE at the Universidad Pontificia de Comillas in Spain.

**Name of director**

MS ELISABETTA CASTIGLIONI

**Profile:**

Ms Elisabetta Castiglioni joined the Euskaltel Board in June 2016. After developing her career in the world of telecommunications, working for operators (MCI Worldcom) and for manufacturers (Siemens), she currently offers advisory and consultancy services to different media and technological companies around the world, including clients like the BBC, ITV, BSkyB, SABC, Rai, Mediaset, SkyItalia, Mediacorp Singapore, Cox, New York Times, Corus Entertainment, The Globe and Mail, StarTV, Times of India and ProsiebenSat1.

**Name of director**

MR MIGUEL ÁNGEL LUJUA MURGA

**Profile:**

Mr Miguel Ángel Lujua Murga joined the Euskaltel Board in June 2016. Over the last thirty years, his career has focused on making different organisations more efficient, by managing the teams and people working under his responsibility. At the institutional level, he was Chair of the Basque Business Confederation (Confebask) from July 2011 to July 2015 and was a member of the Executive Committee and of the Management Board of the Spanish Confederation of Employers' Organisations (CEOE) and deputy chairman of Innobasque. He also belonged to the Management Board of the Bizkaia Business Confederation (Cebek) and has been Chair of the Basque Foundation for Excellence (Euskalit). In 2015, he was appointed Chief Executive Officer of the IMQ Group. He has been a member of the Board of APD Zona Norte since 2016.

<b>Total number of independent directors</b>	5
<b>Total % of the board</b>	50.00%

State whether any director classified as independent receives from the company or its group any amount or benefit for items other than director remuneration, or maintains or has maintained during the last financial year a business relationship with the company or with any company in its group, whether in the Director's own name or as a significant shareholder, director, or senior officer of an entity that maintains or has maintained such relationship.

N/A.

If applicable, include a reasoned statement of the director regarding the reasons for which it is believed that such director can carry out the duties of an independent director.

**OTHER EXTERNAL DIRECTORS**

Identify the other external directors and describe the reasons why they cannot be considered proprietary or independent directors as well as their ties, whether with the company, its management or its shareholders:

State any changes that have occurred during the period in the class of each director:

C.1.4 Complete the following table with information regarding the number of female directors during the last 4 financial years, as well as the nature of such directors:

	Number of female directors				% of total directors of each class			
	Financial Year 2016	Financial Year 2015	Financial Year 2014	Financial Year 2013	Financial Year 2016	Financial Year 2015	Financial Year 2014	Financial Year 2013
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	1	1	1	1	33.33%	33.33%	25.00%	25.00%
<b>Independent</b>	2	2	1	1	40.00%	40.00%	33.33%	33.33%
<b>Other External</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	3	3	2	2	30.00%	33.33%	25.00%	25.00%

C.1.5 Explain any measures adopted to include on the board of directors a number of women that allows for a balanced presence of men and women.

**Explanation of measures**

Article 6 of the Regulations of the Appointments and Remuneration Committee provides that this Committee must ensure that, when new vacancies occur or new members are appointed to the Board of Directors, the selection procedures must be free of any implied bias that could involve discrimination and, in particular, that could hinder the selection of female directors, also establishing a target for female representation on the board and preparing guidance on how to reach such target.

Accordingly, three women are currently part of the Company's Board of Directors, a number that is approximately one third of the current members of the Board.

In addition, the independent director who ceased to hold the position (Bridget Cosgrave) has been replaced by another woman (Elisabetta Castiglioni).

C.1.6 Explain any measures approved by the appointments committee in order for selection procedures to be free of any implied bias that hinders the selection of female directors, and in order for the company to deliberately search for women who meet the professional profile that is sought and include them among potential candidates:

**Explanation of measures**

Since the Company already complies with Recommendation 14 of the Good Governance Code in terms of the target number of female directors by 2020, it is not considered necessary, for the time being, to take any additional measures in this regard.

If there are few or no female directors despite any measures adopted, explain the reasons for such result:

**Explain the reasons**

N/A.

C.1.6 *bis* Explain the conclusions of the appointments committee regarding verification of compliance with the director selection policy. Particularly explain how said policy is promoting the goal that the number of female directors represents at least 30% of all members of the board of directors by 2020.

<b>Explanation of conclusions</b>
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The Company already complies with the goal that the number of female directors represents at least 30% of the total members of the Board of Directors.

**C.1.7 Explain the form of representation on the board of shareholders with significant holdings.**

Kartera 1, S.L., represented by Ms Alicia Vivanco González, and Mr Alfonso Basagoiti Zavala, are Directors at the proposal of the significant shareholder Kutxabank, S.A.

Mr Javier Fernández Alonso is a Director at the proposal of the significant shareholder Corporación Financiera Alba, S.A.

**C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed at the proposal of shareholders whose shareholding interest is less than 3% of share capital:**

State whether there has been a negative answer to formal petitions for presence on the board received from shareholders whose shareholding interest is equal to or greater than that of others at whose proposal proprietary directors have been appointed. If so, describe the reasons why such petitions have received a negative answer:

Yes

No

**C.1.9 State whether any director has withdrawn from the position as such before the expiration of the director's term of office, whether the director has given reasons to the board and by what means, and in the event that the director gave reasons in writing, describe at least the reasons given thereby:**

**Name of director:**

MS BRIDGET COSGRAVE

**Reason for withdrawal:**

Ms Bridget Cosgrave submitted her resignation as a Director of Euskaltel, for personal reasons and to dedicate herself to other professional endeavours, by means of a letter addressed to the entire Board of Directors.

**Name of director:**

MR RICHARD DAVID ALDEN

**Reason for withdrawal:**

Mr Richard Alden submitted his resignation as a Director of Euskaltel, for personal reasons and to dedicate himself to other professional endeavours, by means of a letter addressed to the entire Board of Directors.

**Name of director:**

MS ALICIA VIVANCO GONZÁLEZ

**Reason for withdrawal:**

Ms Alicia Vivanco submitted her resignation as a Director of Euskaltel, for personal reasons, by means of a letter addressed to the entire Board of Directors.

C.1.10 State any powers delegated to the CEO(s):

**Name of director:**

MR FRANCISCO MANUEL ARTECHE FERNÁNDEZ-MIRANDA

**Brief description:**

Mr Francisco Arteche has been delegated all powers of the Board of Directors, except (i) those powers that may not be delegated pursuant to law or the bylaws, and (ii) the power to give guarantees in favour of third parties.

C.1.11 Identify any members of the board who are directors or officers of companies within the listed company's group:

Individual or company name of director	Name of group entity	Position	Does he/she have executive duties?
MR ALBERTO GARCÍA ERAUZKIN	R Cable y Telecomunicaciones Galicia, S.A.	Individual representative of the Sole Director (Euskaltel, S.A.)	YES

C.1.12 Identify any directors of your company who are members of the board of directors of other companies listed on official stock exchanges other than those of your group, which have been reported to your company:

Individual or company name of director	Name of group entity	Position
MR JAVIER FERNÁNDEZ ALONSO	CLÍNICA BAVIERA, S.A.	DIRECTOR
MS BELÉN AMATRIAIN CORBI	PRIM, S.A.	DIRECTOR

C.1.13 State, and if applicable explain, whether the company has established rules regarding the number of boards of which its directors may be members:

Yes

No

**Explanation of rules**

Article 9 of the Regulations of the Board of Directors (Disqualifications) provides that individuals or legal entities serving as directors at more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges, may not be appointed as directors or individual representatives of a corporate director.

This calculation shall not take into account (i) property holding companies (*sociedades patrimoniales*) of the director or of persons connected therewith; (ii) holding or portfolio companies that merely hold shares, membership interests or assets but that do not have recurring activities; or (ii) as regards proprietary directors, the boards to which they belong by appointment of the significant shareholder that proposed them as a proprietary director of the Company or by any company of its group, provided that the proprietary director has the material and/or personal means needed to sufficiently dedicate themselves to their position as director of the Company.

C.1.14 Section deleted.

C.1.15 State the overall remuneration of the board of directors:

Remuneration of the board of directors (thousands of euros)	1,295
Amount of pension rights accrued by current directors (thousands of euros)	0
Amount of pension rights accrued by former directors (thousands of euros)	0

C.1.16 Identify the members of the company's senior management who are not executive directors and state the total remuneration accruing to them during the financial year:

Name	Position
MR MANUEL ARCO BARRERAS	DIRECTOR OF ORGANISATION, HUMAN RESOURCES AND QUALITY
MR MANUEL SALAVERRIA MONFORT	DIRECTOR OF CORPORATE MARKETING
MR FRANCISCO JAVIER ALLENDE ARIAS	GENERAL SECRETARY AND SECRETARY OF THE BOARD
MR ALBERTO SANTAMARÍA RUBIO	DIRECTOR OF INTERNAL AUDIT
MR JON ANDER DE LAS FUENTES INCHAUSTI	CHIEF FINANCIAL OFFICER
MR KOLDO UNANUE CARAZO	DIRECTOR OF EUSKALTEL BUSINESS
MR ALFREDO RAMOS GONZALEZ	DIRECTOR OF R BUSINESS
MR ANTONIO RODRIGUEZ DEL CORRAL	DIRECTOR OF INNOVATION
MR NORBERTO OJINAGA GOITIA	DIRECTOR OF NETWORK

Total senior management remuneration (in thousands of euros)	1,687
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C.1.17 State the identity of the members of the board, if any, who are also members of the board of directors of significant shareholders and/or at entities of their group:

Describe any significant relationships, other than those contemplated in the preceding item, of the members of the board of directors connecting them to significant shareholders and/or entities within their group:

**Name of connected director:**

MR ALBERTO GARCÍA ERAUZKIN

**Name of connected significant shareholder:**

KUTXABANK, S.A.

**Description of relationship:**

Vice President of the Board of Fundación BBK.

**Name of connected director:**

MR JAVIER FERNÁNDEZ ALONSO

**Name of connected significant shareholder:**

**Description of relationship:**

Director of Investments and member of Management Committee.

**C.1.18 State whether the regulations of the board have been amended during the financial year:**

Yes

No

Description of changes
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Euskaltel's Board of Directors, at its meeting held on 26 April 2016, resolved to approve the new text of the Regulations of the Board of Directors of the Company to comply with Recommendations 25 (limited the maximum number of Boards of Directors of listed companies of which the Directors may be members) and 34 (vested in the Lead Independent Director the powers provided for in this Recommendation) of the Good Governance Code for Listed Companies, approved by the Board of the National Securities Market Commission on 18 February 2015.
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**C.1.19 State the procedures for the selection, appointment, re-election, evaluation and removal of directors. Describe the competent bodies, the procedures to be followed and the criteria applied in each of such procedures.**

Pursuant to the provisions of the Companies Act, Directors shall be appointed or re-elected by the shareholders at a General Shareholders' Meeting from among honourable, skilled people of recognised character, competence, experience, qualification, training, availability and commitment to their duties.

To this end, the proposals for appointing and re-electing Directors that the Board of Directors submits for consideration by the shareholders acting at a General Meeting must be preceded by (a) a proposal of the Appointments and Remuneration Committee, in the case of independent Directors; or (b) a report of the Appointments and Remuneration Committee, in the case of the other Directors, expressly evaluating the candidates' respectability, capability, expertise, competence, qualification, training, availability and commitment to their duties.

There is also a series of objective disqualifications that preclude a potential candidate from being appointed as a Director. These disqualifications are set out in article 9 of the Regulations of the Board of Directors.

The proposals for re-election of Directors that the Board of Directors resolves to submit to a decision of the shareholders at the General Meeting shall be subject to a process of preparation, which must include a proposal (in the case of independent Directors) or a report (in the case of the other Directors) issued by the Appointments and Remuneration Committee containing an analysis of the quality of the work performed and the dedication to the position shown by the proposed Directors during their preceding term of office as well as an express evaluation of their respectability, capability, expertise, competence, availability and commitment to their duties.

To this end, Directors sitting on the Appointments and Remuneration Committee shall be evaluated by the Committee itself, which shall use the internal and external means it deems appropriate for such purpose, and each of them shall leave the meeting during the deliberations and voting on resolutions that may affect them.

The Appointments and Remuneration Committee must ensure that, when new vacancies are filled or new Directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination, and in particular, that such procedures do not hinder the selection of female directors, also establishing a target for female representation on the Board and preparing guidelines on how to achieve it.

Furthermore, Directors shall cease to hold office upon the expiration of the term of office for which they have been appointed or when it is so resolved by the shareholders at a General Shareholders' Meeting. In addition to the foregoing, Directors must tender their resignation to the Board of Directors in the cases indicated in article 12, sections 2, 3 and 6 of the Regulations of the Board of Directors.

The Board of Directors may propose the termination of an independent director before the passage of the bylaw-mandated period only upon good cause as defined in article 12.6 of the Regulations of the Board of Directors.

Directors affected by proposals for appointment, re-election or removal from office shall leave the meeting during the deliberations and voting relating to them.

Among its other duties, the Appointments and Remuneration Committee is responsible for establishing and supervising an annual evaluation programme and an ongoing review of the Directors' qualifications, training, and if applicable, independence, as well as the maintenance of the conditions of the Directors' respectability, capability, expertise, competence, availability and commitment to their duties, not only when these conditions are necessary to serve as a Director as such but also to serve as a member of a particular committee, and proposes to the Board of Directors the measures that it deems appropriate in this regard, with the right to obtain any information or documentation that it deems necessary or appropriate to this end.

Finally, under the Director Selection Policy approved by the Board of Directors on 26 April 2016, the Board of Directors must perform, with the advice of and upon a report of from the Appointments and Remuneration Committee, an analysis of the needs of the Company and of its Group, which will be used as a starting point for the proposed re-election of Directors or the proposed selection of new candidates for Director.

In this regard, the search will focus on persons who meet the requirements set out below and whose appointment favours a diversity of knowledge, experience, origin and gender on the Company's Board of Directors.

The candidates for Director of the Company must be respectable and capable persons with recognised expertise, competence, experience, qualifications, training, availability and commitment to their duties.

In selecting candidates, an attempt shall be made to achieve proper equilibrium within the Board of Directors as a whole that enriches decision-making and contributes multiple viewpoints to the discussion of the matters within its purview.

The selection process shall be governed by the Company's interest, with meritocracy as the primary selection standard, and shall be geared toward the search for the most qualified candidates.

Euskaltel may rely upon the assistance of external experts in the selection and validation of candidates for Director.

### C.1.20 Explain the extent to which the annual self-evaluation of the board has given rise to significant changes in its internal organisation and regarding the procedures applicable to its activities:

Description of changes
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As a consequence of the expiration of the term of office of the majority of the members of the Board of Directors of Euskaltel prior to the Ordinary General Shareholders' Meeting 2017, the need arose to submit the appropriate decisions in this regard (renewals or new appointments) to the shareholders at the General Shareholders' Meeting held in 2016.

Thus, during the second half of 2015 and the first quarter of 2016, an intense process for selection of Directors was carried out, led by the Chair of the Appointments and Remuneration Committee.

The selection process included an individual evaluation of each of the Directors whose appointment required renewal, based on a detailed account of each of such Directors' personal circumstances.

The process also included three processes for search of a portfolio of possible candidates for Director:

- a) Process of search of a portfolio of possible female candidates for Lead Independent Director.
- b) Process of search of a portfolio of possible candidates for independent Director.
- c) Process of search and selection of a male or female candidate for executive Director.

The three processes had the following characteristics in common:

- a) They were carried out with the assistance of well-known head-hunters.
- b) They included, in addition to the obvious scope initially established for the search (Telecommunications and Cable profiles in Europe, Telecommunications and Cable profiles in Latin America and the United States, and profiles suited to other sectors in connection with the Basque Country), requirements associated with the position of a Director at a listed company of the size of Euskaltel (ample professional experience, prestige, university degree and, if possible, supplemented by a postgraduate or doctor's degree, deep knowledge of good corporate governance practices) as well as the indispensable requirement of being fluent in Spanish.
- c) They were intended to round out the array of expertise and experience contributed to the Company by the members of the Board of Directors.
- d) A total of 43 candidates were identified and appropriately analysed.

All the conclusions from the work performed were supervised and reviewed by the Appointments and Remuneration Committee, which issued the required reports or proposals for submission to Euskaltel's Board of Directors.

Finally, a large majority of the shareholders acting at the General Shareholders' Meeting approved all of the proposed resolutions for re-election and appointment of Directors (with the votes in favour exceeding in all cases 99% of the votes validly cast).

### C.1.20.bis Describe the process of self-evaluation and the areas evaluated by the board of directors, with the assistance of an external consultant, if any, regarding diversity in its composition and powers, the operation and composition of its committees, the performance of the chair of the board of directors and of the chief executive of the company, and the performance and contribution of each director.



As stated in the preceding section, in view of the need to renew the appointments of the members of the Board of Directors by means of the required reports or proposals of the Appointments and Remuneration Committee, a thorough Director evaluation process was carried out in 2016, which included, among other things, a review of the skills contributed by each of them in order to determine any areas that were not covered and should be added.

Such process showed that the following areas needed to be strengthened in order to complete the array of expertise and experience contributed to the Company by the members of the Board of Directors, as the other relevant areas of knowledge (telecommunications business, technology, international experience, experience in finance and operating development, vision of the corporate world, marketing, audit and risk control) were already adequately covered:

- a) Adapting the business to the digital economy, as a key to the long-term sustainable development of the Euskaltel enterprise.
- b) Experience in customer management / multi-channels / customer experience.
- c) Recognised experience in human resources management.

#### C.1.20. *ter* List any business relationships of the consultant or any company of its group with the company or any company of its group.

N/A.

#### C.1.21 State the circumstances under which the resignation of directors is mandatory.

Article 12.2 of the Regulations of the Board of Directors provides that Directors must tender their resignation to the Board of Directors and formalise the resignation in the following cases:

- (i) If due to supervening circumstances they are involved in any of the instances of disqualification or prohibition referred to in provisions of a general nature, the Bylaws or the Regulations.
- (ii) If serious damage is caused to the value or reputation of the Company or there is a risk to the Company of criminal liability as a result of any acts or conduct attributable to the Director.
- (iii) If they cease to deserve the respectability or to have the capability, expertise, competence, availability or commitment to their duties required to be a Director of the Company.
- (iv) If their continuance in office on the Board of Directors may for any reason jeopardise the faithful and diligent performance of their duties in furtherance of the Company interest, whether directly, indirectly or through connected persons (pursuant to the definition of this term set forth in the Regulations).
- (v) If the reasons why the director was appointed cease to exist, and particularly in the case of proprietary directors, if the shareholder or shareholders who proposed, requested or decided the appointment thereof totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.

Article 12.4 of the Regulations of the Board of Directors also provides that Directors must also tender their resignation to the Board of Directors when they reach the age of 70, and they must formalise the corresponding resignation from their position as Director at the first meeting of the Board of Directors that takes place after the holding of the General Shareholders' Meeting at which the shareholders approve the annual accounts for the financial year in which they reach said age.

Finally, article 12.6 of said Regulations provides that the Board of Directors may propose the termination of an independent Director before the passage of the bylaw-mandated period only upon good cause found by the Board of Directors. In particular, good cause shall be deemed to exist whenever the Director has failed to perform the duties inherent in the position held thereby or comes under any of the prohibited circumstances described in the definition of independent Director established by applicable legal provisions or, in the absence thereof, the good corporate governance recommendations applicable to the Company at any particular time.

#### C.1.22 Section deleted.

C.1.23 Are qualified majorities, different from the statutory majorities, required to adopt any type of decision?

Yes

No

If so, describe the differences.

Description of differences
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Article 55 of the Bylaws and article 22 of the Regulations of the Board of Directors provide that a valid quorum for a meeting of the Board of Directors held to adopt Significant Decisions of the Board of Directors shall require the attendance in person or by proxy of 4/5 of its members.

Furthermore, resolutions regarding a matter that is a Significant Decision of the Board of Directors shall be adopted with the favourable vote of at least 4/5 of the members present in person or by proxy.

Pursuant to article 56 of the Bylaws and article 23 of the Regulations of the Board of Directors, the following are considered Significant Decisions of the Board of Directors:

- a) Closure of any work centre of the Company at any time within the Autonomous Community of the Basque Country, unless there is documentation duly supporting said closure for reasons of efficiency in carrying out the business activity of the Company.
- b) Proposing any decision to the shareholders acting at a General Shareholders' Meeting that is intended to have the effect of not maintaining effective administration and management of the Company within the Autonomous Community of the Basque Country or within any other Autonomous Community in which the effective administration and management of a subsidiary or minority-owned company is located.
- c) Proposing to the shareholders acting at a General Shareholders' Meeting a change in the "Euskaltel" brand for carrying out the activities of the Company in the Autonomous Community of the Basque Country.
- d) Decision regarding the direction of the Company's vote in its capacity as member or shareholder (and the vote of its representatives on management bodies) at any subsidiaries or minority-owned companies regarding any resolution deemed to be a Significant Decision of the Board of Directors for purposes of this section.
- e) Resolutions to implement the delegations made by the shareholders acting at a General Shareholders' Meeting regarding the above matters.

C.1.24 Explain whether there are specific requirements, other than the requirements relating to directors, to be appointed chair of the board of directors.

Yes

No

C.1.25 State whether the chair has a tie-breaking vote:

Yes

No

Issues in which there is a tie-breaking vote
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In accordance with article 54 of the Bylaws and article 21 of the Regulations of the Board of Directors, the Chair shall have the tie-breaking vote in the event of a tie regarding any matter that is not a Significant Decision of the Board of Directors, unless the Chair has a conflict of interest, in which case he or she must refrain from participating in the discussions of and voting on the resolution in question.

C.1.26 State whether the bylaws or the regulations of the board set forth any age limit for directors:

Yes

No

Age limit for the chair: N/A.

Age limit for the CEO: N/A.

Age limit for directors: 70.

C.1.27 State whether the bylaws or the regulations of the board establish any limit on the term of office for independent directors that is different from the term provided by regulatory provisions:

Yes

No

C.1.28 State whether the bylaws or the regulations of the board of directors establish specific rules for proxy-voting at meetings of the board of directors, the manner of doing so, and especially the maximum number of proxies that a director may hold, as well as whether any restriction has been established regarding the categories of directors to whom proxies may be granted beyond the restrictions imposed by law. If so, briefly describe such rules.

Pursuant to article 57 of the Bylaws and article 24 of the Regulations of the Board of Directors, any Director may grant their proxy and vote to any other Director, giving notice thereof by letter addressed to the Chair. The proxy must be in writing and must be specially granted for each meeting.

Article 25 of the Regulations of the Board of Directors provides that Directors shall make every effort to attend the meetings of the Board of Directors and, if unable to do so in person, shall endeavour to give a proxy to another Director, to whom appropriate instructions must be given. They may not give a proxy in connection with matters in relation to which they have any conflict of interest.

There is no maximum number of proxies that may be granted by a Director, nor are Directors required to grant their proxy to another director of the same type, except as provided by law.

C.1.29 State the number of meetings that the board of directors has held during the financial year. If applicable, also state the number of meetings of the board at which the chair was not in attendance. Proxies granted with specific instructions shall be counted as attendance.

<b>Number of meetings of the board</b>	9
<b>Number of meetings of the board at which the chair was not in attendance</b>	0

If the chair is an executive director, state the number of meetings held without the presence in person or by proxy of any executive director and chaired by the lead independent director.

<b>Number of meetings</b>	0
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State the number of meetings held by the different committees of the board during the financial year:

<b>Committee</b>	<b>Number of meetings</b>
AUDIT AND CONTROL COMMITTEE	7
APPOINTMENTS AND REMUNERATION COMMITTEE	7

C.1.30 State the number of meetings that the board of directors has held during the financial year with the attendance of all of its members. Proxies granted with specific instructions shall be counted as attendance:

<b>Number of meetings with the attendance of all of the directors</b>	9
<b>% in attendance of total votes during the financial year</b>	100.00%

C.1.31 State whether the annual individual accounts and the annual consolidated accounts that are submitted to the board for approval are previously certified:

Yes

No

Identify, if applicable, the person/persons that has/have certified the annual individual and consolidated accounts of the company for formulation by the board:

Name	Position
MR JON ANDER DE LAS FUENTES INCHAUSTI	Chief Financial Officer

C.1.32 Explain any mechanisms established by the board of directors to avoid the individual and consolidated accounts formulated thereby to be submitted at the general meeting with qualifications in the audit report.

Article 43.3 of the Regulations of the Board of Directors provides that the Board shall seek to definitively formulate the annual accounts such that there is no room for reservations or qualifications by the auditor. In those exceptional circumstances in which they are made, both the Chair of the Audit and Control Committee and the external auditors shall clearly explain to the shareholders the content of such reservations or qualifications. However, if the Board of Directors believes that its opinion should prevail, it shall provide a public explanation of the content and scope of the discrepancy.

In addition, article 5 of the Regulations of the Audit and Control Committee provides that, without prejudice to any other duties that may be assigned thereto from time to time by the Board of Directors, or that are vested therein by applicable legal provisions, the Audit and Control Committee shall perform the following basic duties:

- a) Monitor the effectiveness of internal control at the Company and within its Group, as well as of their systems for the management of risks, including tax risks.
- b) Analyse with the external auditors any possible significant weaknesses in the internal control system detected when the audit was performed.
- c) Supervise the process of preparing and presenting the regulated financial information.
- d) Supervise the internal audit activity of the Company.
- e) Establish appropriate relations with the external auditors to receive information on those issues that might risk the independence thereof, for examination by the Committee, and any others related to the audit process, as well as such other communications as are provided for in the laws on auditing and in auditing rules. In any event, they must receive every year from the external auditors a written confirmation of their independence from the entity or entities directly or indirectly related thereto, as well as information about additional services of any kind provided to these entities by the auditors or companies, or by persons or entities related to them in accordance with the laws on auditing of accounts.

In addition, throughout the financial year, the Audit and Control Committee reports on the Company's financial information before it is approved by the Board of Directors and submitted to the National Securities Market Commission (CNMV).

C.1.33 Is the secretary of the board a director?

Yes

No

If the secretary is not a director, complete the following table:

Name of secretary	Representative
MR FRANCISCO JAVIER ALLENDE ARIAS	

C.1.34 Section deleted.

### C.1.35 State the mechanisms, if any, used by the company to preserve the independence of external auditors, financial analysts, investment banks and rating agencies.

In accordance with article 43 of the Regulations of the Board, the Audit and Control Committee proposes to the Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment (indicating the contractual terms and conditions and the scope of the professional mandate), renewal and revocation of the auditor of the annual accounts of the Company and oversees compliance with the auditing contract.

To this end, the Audit and Control Committee shall refrain from proposing to the Board of Directors, and the Board of Directors shall refrain from submitting to the shareholders at a General Shareholders' Meeting, the appointment as auditor of the Company of any audit firm that is affected by grounds for disqualification under the legal provisions on auditing or those firms for which the fees expected to be paid by the Company for all items is greater than five per cent (5%) of their total revenues for the previous financial year.

In addition, article 64.3 of the Bylaws provides that, without prejudice to any other duties that may be assigned to it from time to time by the Board of Directors, the Audit and Control Committee shall perform the following basic duties:

- a) Report to the shareholders at the General Shareholders' Meeting on the issues raised by the shareholders that are within its purview, and particularly regarding the results of the audit, explaining how it has contributed to the integrity of the financial information and the function that the Audit and Control Committee has performed in said process.
- b) Monitor the effectiveness of internal control at the Company and within its Group, as well as of their systems for the management of risks, including tax risks.
- c) Together with the auditors, but without diminishing the independence thereof, analyse significant weaknesses in the internal control system detected during the audit. For these purposes, it may submit any recommendations or proposals to the Board of Directors and the corresponding follow-up period.
- d) Supervise the process of preparing and presenting regulated financial information and submit recommendations or proposals to the Board of Directors to protect the integrity thereof.
- e) Propose to the Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment, re-election or replacement of the auditors, taking responsibility for the selection process, in accordance with applicable legal provisions, as well as the terms of engagement thereof, and regularly collect information therefrom on the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties.
- f) Supervise the internal audit activity of the Company.
- g) Establish appropriate relations with the auditors to receive information on those issues that might threaten the independence thereof, for examination by the Audit and Control Committee, and any others related to the audit process and, if applicable, the authorisation of services other than those prohibited under applicable legal provisions, as well as such other communications as are provided for in the laws on auditing and in other auditing rules. In any case, it must annually receive from the auditors written confirmation of their independence from the Company or entities directly or indirectly related thereto, as well as detailed and itemised information on additional services of any kind provided to these entities by the auditors or by persons or entities related thereto, in accordance with legal provisions governing audit activities.
- h) On an annual basis, and prior to the audit report, issue a report expressing an opinion as to whether the independence of the auditor is compromised. This report must in all cases and on a reasoned basis make a pronouncement regarding the provision of each and every one of the additional services referred to in the preceding letter, considered individually and as a whole, other than the legal audit, and in relation to the rules on independence or the legal provisions governing audit activities.
- i) Provide an advance report to the Board of Directors on all of the matters provided by law, the Company's Bylaws and the Regulations of the Board of Directors, and particularly regarding: (i) the financial information that the Company must periodically publish; (ii) the creation or acquisition of interests in special purpose entities or entities domiciled in territories or countries considered to be tax havens; and (iii) related-party transactions.

On the other hand, section 3.(ii) of article 5 of the Regulations of the Audit and Control Committee provides that, as regards the external auditor, the Audit and Control Committee is vested with the following powers, among others:

- (a) Ensure that the remuneration of the external auditor does not compromise the quality of its work or its independence.
- (b) Ensure the independence of the external auditor and, to that end: (i) ensure that the Company reports any change of external auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same; (ii) ensure that the Company and the auditor adhere to current legal provisions on the provision of non-audit services, and in general, to the other rules established to ensure the independence of the auditor; and (iii) investigate the issues giving rise to any resignation of the external auditor.

C.1.36 State whether the Company has changed the external auditor during the financial year. If so, identify the incoming and the outgoing auditor:

Yes  No

If there has been any disagreement with the outgoing auditor, provide an explanation thereof:

C.1.37 State whether the audit firm performs other non-audit work for the company and/or its group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the company and/or its group:

Yes  No

	Company	Group	TOTAL
Amount of other non-audit work (thousands of euros)	59	0	59
Amount of non-audit work / Total amount billed by the audit firm (%)	26.70%	0.00%	26.70%

C.1.38 State whether the audit report on the annual accounts for the prior financial year has observations or qualifications. If so, state the reasons given by the chair of the audit committee to explain the content and scope of such observations or qualifications.

Yes  No

C.1.39 State the number of consecutive years for which the current audit firm has been auditing the annual accounts of the company and/or its group. In addition, state the percentage represented by such number of financial years audited by the current audit firm with respect to the total number of financial years in which the annual accounts have been audited:

	Company	Group
Number of consecutive financial years	4	2
Number of financial years audited by the current audit firm / Number of financial years the company has been audited (as a %)	22.22%	11.11%

C.1.40 State whether there is any procedure for directors to hire external advisory services, and if so, describe it:

Yes  No

**Describe the procedure**

Article 29 of the Regulations of the Board of Directors provides that any Director may request the hiring of legal, accounting, technical, financial, commercial or other experts at the Company's expense in order to be assisted in the performance of the Director's duties.

The assignment must relate to specific issues of certain significance and complexity arising during the performance of the Director's duties.

The hiring request shall be channelled through the Secretary of the Board of Directors, who may subject it to the prior authorisation of the Board of Directors, and which may be denied on justifiable grounds, including the following circumstances:

- (i) That it is not necessary for the proper performance of the duties entrusted to the Directors.
- (ii) That the cost thereof is not reasonable in view of the significance of the problem and the assets and income of the Company.
- (iii) That the technical assistance sought may be adequately provided by the Company's own experts and technical personnel.
- (iv) That it may pose a risk to the confidentiality of the information that must be provided to the expert.

In addition, article 24 of the Regulations of the Audit and Control Committee and article 27 of the Regulations of the Appointments and Remuneration Committee provide that these Committees may request the hiring of legal, accounting, financial or other experts to assist them with their duties, at the Company's expense.

C.1.41 State whether there is any procedure for directors to obtain the information required to prepare sufficiently in advance for meetings of management bodies and, if so, describe it:

Yes  No

**Describe the procedure**

Article 15 of the Regulations of the Board of Directors provides that the Chair of the Board of Directors must ensure that the Directors receive in advance information sufficient to deliberate on the items on the agenda. Furthermore, article 19 of the Regulations of the Board of Directors provides that notice of meetings of the Board of Directors must be given at least 10 business days prior to the date set for the meeting.

C.1.42 State whether the company has established any rules requiring directors to inform the company—and, if applicable, resign from their position—in cases in which the credit and reputation of the company may be damaged, and if so, provide a detailed description:

Yes  No

**Explain the rules**

Directors must tender their resignation to the Board of Directors and formalise the resignation in the cases provided for in article 12.2 of the Regulations of the Board of Directors, including for these purposes the following:

- (i) If due to supervening circumstances they are involved in any of the instances of disqualification or prohibition referred to in provisions of a general nature, the Bylaws or the Regulations.
- (ii) If serious damage is caused to the value or reputation of the Company or there is a risk to the Company of criminal liability as a result of any acts or conduct attributable to the Director.
- (iii) If they cease to deserve the respectability or to have the capability, expertise, competence, availability or commitment to their duties required to be a Director of the Company.

In addition, article 39.2 of the Regulations of the Board of Directors provides that a Director must inform the Company of any court, administrative or other proceedings brought against the Director and which, due to the importance or nature thereof, could seriously affect the reputation of the Company.

In particular, every Director must inform the Company, through its Chair, if the Director has become subject to an order for further criminal prosecution (*resultar procesado*) or if an order for the commencement of an oral trial has been issued against such Director for any of the crimes specified in Section 213 of the Companies Act.

C.1.43 State whether any member of the board of directors has informed the company that such member has become subject to an order for further criminal prosecution upon indictment or that an order for the commencement of an oral trial has been issued against such member for the commission of any of the crimes contemplated in section 213 of the Companies Act:

Yes  No

State whether the board of directors has analysed the case. If the answer is affirmative, provide a reasoned explanation of the decision made on whether or not the director should continue in the position or, if applicable, describe the actions taken by the board of directors through the date of this report or that it expects to take.

C.1.44 Describe the significant agreements entered into by the company that go into effect, are amended or terminate in the event of a change in control at the company as a result of a takeover bid, and the effects thereof.

- The financing agreement entered into between the Company and a syndicate of banks, whose Agent is Banco Bilbao Vizcaya Argentaria, on 5 October 2015, and formalised in an instrument dated 27 November after compliance with the conditions precedent established in the agreement, contains an acceleration clause requiring the Company to prepay the loan and any amounts due in the event of a change in control. For purposes of such agreement, a change in control is deemed to occur if any person or group of persons acting in concert acquires more than 50% of the share capital with voting rights of Euskaltel.

- The master services outsourcing agreement to build, operate, maintain and guarantee the service of the Euskaltel network, executed on 16 October 2014 between the Company and ZTE, provides that if Euskaltel is subject to a change in ownership (whether as a result of a business combination, restructuring, reorganisation, sale or otherwise) such that there is a greater than fifty per cent (50%) change in its shareholding structure, Euskaltel may terminate the agreement, provided that it gives ZTE six (6) months' prior written notice.

- The master IT services outsourcing agreement entered into on 20 June 2014 between the GFI Norte corporate group and the Company may be terminated by Euskaltel after the passage of two (2) years from such date if Euskaltel is subject to a change in share ownership (whether as a result of a business combination, restructuring, reorganisation, sale or otherwise) such that there is a greater than fifty per cent (50%) change in its shareholding structure.

- The agreement entered into on 2 July 2012 for Orange to provide services to Euskaltel in order for Euskaltel to provide services as a full VMO provides that the companies may terminate the agreement in the event that a competitor of one of the companies directly holds the majority of the capital or the voting rights of the other. Thus, if a competitor of Orange should end up directly holding the majority of the capital or voting rights of Euskaltel, Orange will be entitled to terminate the agreement. Likewise, if a competitor of Euskaltel should end up holding the majority of the capital or voting rights of Orange, Euskaltel may terminate the agreement.

C.1.45 Identify on an aggregate basis and provide a detailed description of the agreements between the company and its management level and decision-making positions or employees that provide for indemnities, guarantee or "golden parachute" clauses upon resignation or termination without cause, or if the contractual relationship is terminated as a result of a takeover bid or other type of transaction.

**Number of beneficiaries: 2**

**Type of beneficiary:**

Executive directors

**Description of Agreement:**

Addendum of 24 May 2016 to the internal services agreement with the Chair of the Board of Directors dated 1 April 2013, whereby, if the Chair ceases to hold that position or resigns from the Board, he or she may resume their previous employment relationship, or terminate it and receive a severance payment equal to 45 days of salary per year of service to Euskaltel, up to a maximum of 24 monthly payments.

CEO services agreement dated 1 September 2016, whereby the CEO will be entitled to receive from the Company a severance payment in the case of termination of employment and of the Contract on the following grounds:

- a) Unilateral termination by the CEO due to serious breach by the Company of the obligations included in said 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.
- d) Unilateral termination of the contract by the Company, at any time, that is not due to (i) a serious breach attributable to the CEO of the duties of loyalty, diligence or good faith in accordance with which he must perform his office, or (ii) any other serious breach by the CEO of the obligations assumed under the contract.



The severance payment will consist of an amount equal to 18 months of his fixed annual remuneration on the date of termination of the Contract.

State whether such agreements must be reported to and/or approved by the decision-making bodies of the company or its group:

	<b>Board of Directors</b>	<b>General Meeting</b>
<b>Decision-making body approving the provisions</b>	<b>Yes</b>	<b>No</b>

	<b>Yes</b>	<b>No</b>
Are the shareholders informed of the provisions?		<b>X</b>

## C.2 Committees of the board of directors

C.2.1 Describe all of the committees of the board of directors, the members thereof, and the proportion of executive, proprietary, independent, and other external directors of which they are comprised:

### **AUDIT AND CONTROL COMMITTEE**

Name	Position	Class
MR IÑAKI ALZAGA ETXEITA	CHAIR	Independent
MS ELISABETTA CASTIGLIONI	MEMBER	Independent
MR JOSÉ ÁNGEL CORRES ABASOLO	MEMBER	Independent
KARTERA 1, S.L.	MEMBER	Proprietary

<b>% of proprietary directors</b>	25.00%
<b>% of independent directors</b>	75.00%
<b>% other external</b>	0.00%

Explain the duties assigned to this committee, describe its procedures and rules of organisation and operation, and summarise its most significant activities during the year.

The internal regulations of Euskaltel provide that the Audit and Control Committee shall be composed of a minimum of 3 and a maximum of 5 external Directors (proprietary and independent). A majority of the members of the Committee shall be independent Directors. A Chair shall be elected from among the independent Directors on the Committee, and the Secretary may be one of its members or the Secretary or Deputy Secretary of the Board of Directors. In case of a tie, the Chair shall have the tie-breaking vote.

The members of the Audit and Control Committee shall be appointed for a maximum term of 4 years, and may be re-elected on one or more occasions for terms of the same maximum length. The position of Chair shall be held for a maximum term of four years, after which period the Chair may not be re-elected as such until the passage of one year from ceasing to hold such position, but he or she continues to be a member of the Audit and Control Committee. The Secretary of the Committee shall be appointed for a maximum term of 4 years and may be re-elected on one or more occasions for terms of the same maximum length.

The Audit and Control Committee shall meet at least 2 to 4 times per year in order to review the periodic financial information to be submitted to the authorities and the information to be approved by the Board of Directors. The Committee shall also meet whenever called by its 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, or when requested by one third of the members of the Audit and Control Committee. The Chair of the Audit and Control Committee may also call a meeting whenever appropriate for the proper performance of its duties.

The Audit and Control Committee met 7 times during financial year 2016, and among other items, it reviewed the periodic financial information that the Company must submit to the CNMV, the monthly management reports, the related-party transactions, and the Internal Audit Plan 2016.

Pursuant to article 5.(v).a) of the Regulations thereof, the Audit and Control Committee shall conduct a periodic review of the Company's internal corporate governance rules and shall propose changes and updates to further develop and improve those rules to the Board of Directors for approval or submission to the shareholders at the General Meeting, as applicable.

Article 64 of the Bylaws and article 5 of the Regulations of the Audit and Control Committee assign the following basic duties, among others, to the latter:

- (a) Report to the shareholders at the General Meeting with respect to the matters raised therein by the shareholders on matters within its power, and particularly regarding the results of the audit.
- (b) Monitor the effectiveness of internal control at the Company and within its Group, as well as of their systems for the management of risks, including tax risks.
- (c) Together with the auditors, but without diminishing the independence thereof, analyse significant weaknesses in the internal control system detected during the audit. For these purposes, it may submit any recommendations or proposals to the Board of Directors and the corresponding follow-up period.
- (d) Supervise the process of preparing and presenting regulated financial information and submit recommendations or proposals to the Board of Directors to protect the integrity thereof.
- (e) Propose to the Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment, re-election or replacement of the auditors, taking responsibility for the selection process, in accordance with applicable legal provisions, as well as the terms of engagement thereof, and regularly collect information therefrom on the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties.
- (f) Supervise the internal audit activity of the Company.
- (g) Establish appropriate relations with the auditors to receive information on those issues that might threaten the independence thereof, for examination by the Audit Committee, and any others related to the audit process and, if applicable, the authorisation of services other than those prohibited under applicable legal provisions, as well as such other communications as are provided for in the laws on auditing and in other auditing rules. In any case, it must annually receive from the auditors written confirmation of their independence from the Company or entities directly or indirectly related thereto, as well as detailed and itemised information on additional services of any kind provided to these entities by the auditors or by persons or entities related thereto, in accordance with legal provisions governing audit activities.
- (h) On an annual basis, and prior to the audit report, issue a report expressing an opinion as to whether the independence of the auditor is compromised.
- (i) Provide an advance report to the Board of Directors on all of the matters provided by law, the Company's Bylaws and the Regulations of the Board of Directors, and particularly regarding: (i) the financial information that the Company must periodically publish; (ii) the creation or acquisition of interests in special purpose entities or entities domiciled in territories or countries considered to be tax havens; and (iii) related-party transactions.

Identify the director who is a member of the audit committee and who has been appointed taking into account the director's knowledge and experience in the areas of accounting, audit, or both, and report the number of years that the chair of this committee has held office.

<b>Name of director with experience</b>	MR INAKI ALZAGA ETXEITA
<b>Number of years during which Chair</b>	2

## **APPOINTMENTS AND REMUNERATION COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Class</b>
MR JOSÉ ÁNGEL CORRES ABASOLO	CHAIR	Independent
MR ALFONSO BASAGOITI ZAVALA	MEMBER	Proprietary
MS BELÉN AMATRIAIN CORBI	MEMBER	Independent
MR JAVIER FERNÁNDEZ ALONSO	MEMBER	Proprietary
MR MIGUEL ÁNGEL LUJUA MURGA	MEMBER	Independent

<b>% of proprietary directors</b>	40.00%
<b>% of independent directors</b>	60.00%
<b>% other external</b>	0.00%

Explain the duties assigned to this committee, describe its procedures and rules of organisation and operation, and summarise its most significant activities during the year.

The Committee shall be made up of a minimum of three and a maximum of five external Directors (i.e. proprietary and independent). A majority of the members of the Committee shall be independent directors. A Chair shall be elected from among the independent directors on the Committee, and in case of a tie, the Chair shall have the tie-breaking vote. The Committee shall also appoint a Secretary, who may be one of its members or the Secretary or Deputy Secretary of the Board of Directors.

The members of the Appointments and Remuneration 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. The position of Chair shall be 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 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.

The Appointments and Remuneration Committee meets two to four times per year for the ordinary review and evaluation of the status of the matters within its purview and whenever called by its Chair if appropriate for the proper performance of its duties. In all cases, the Chair shall also call a meeting of the Committee whenever the Board of Directors or the Chair thereof requests the issuance of a report or the adoption of proposals, or whenever requested by one third of the members of the Committee itself.

The Appointments and Remuneration Committee met 7 times during financial year 2016, and among other items, it reported favourably to the Board of Directors on the following matters:

- Proposed appointment and re-election of Directors.
- Proposed appointment of CEO.
- New organisational structure of the Euskaltel Group during the merger between Euskaltel and R Cable.
- Payment of the 2015 annual bonus and determination of the 2016 annual bonus.
- New composition of the Committees of the Board of Directors.
- Grant of powers and powers-of-attorney to the Chair, the CEO and the Officers of the Company.
- Establishment of the remuneration of the directors.

Article 65 of the Bylaws and article 5 of the Regulations of the Appointments and Remuneration Committee assign to the Committee the following basic duties, which are set forth in greater detail in articles 6 through 10 of the Regulations of said Committee:

- (i) Evaluate the skills, knowledge and experience needed on the Board of Directors. For these purposes, it shall define the functions and skills necessary in the candidates to fill each vacancy and shall evaluate the time and dedication required for them to effectively perform their duties.
- (ii) Establish a goal for representation of the less represented gender on the Board of Directors and prepare guidelines on how to achieve this goal.
- (iii) Submit to the Board of Directors proposals for the appointment of independent Directors on an interim basis or for submission to a decision of the shareholders at a General Shareholders' Meeting, as well as proposals for the re-election or removal of said Directors by the shareholders.
- (iv) Report on proposals for the appointment of the other Directors on an interim basis or for submission to a decision of the shareholders at a General Shareholders' Meeting, as well as proposals for the re-election or removal thereof by the shareholders.
- (v) Report on proposals for the appointment and removal of senior officers and the basic terms of their contracts.
- (vi) Examine and organise the succession of the chair of the Board of Directors and the chief executive of the Company and, if applicable, make proposals to the Board of Directors so that said succession occurs in an orderly and planned manner.
- (vii) Propose to the Board of Directors the remuneration policy for Directors and general managers or whomsoever performs the duties of senior management reporting directly to the Board, to executive committees or to CEOs, as well as the individual remuneration and other contractual conditions for the executive Directors, ensuring compliance therewith.

C.2.2 Complete the following table with information regarding the number of female directors comprising the committees of the board of directors for the last four financial years:

	Number of female directors							
	Financial Year 2016		Financial Year 2015		Financial Year 2014		Financial Year 2013	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND CONTROL COMMITTEE	2	50.00%	2	50.00%	2	50.00%	2	50.00%
APPOINTMENTS AND REMUNERATION COMMITTEE	1	20.00%	1	25.00%	0	0.00%	0	0.00%

C.2.3 Section deleted

C.2.4 Section deleted.

C.2.5 State, if applicable, the existence of regulations of the board committees, where such regulations may be consulted, and the amendments made during the financial year. Also state if any annual report of the activities performed by each committee has been voluntarily prepared.

The rules of organisation and operation of the Audit and Control Committee and the Appointments and Remuneration Committee are set forth in their respective Regulations and in the Bylaws, which can be found on the Company's website ([www.euskaltel.com](http://www.euskaltel.com)).

The Audit and Control Committee and the Appointments and Remuneration Committee each prepare a report on their respective activities each year. The reports for financial year 2016 will be made available to the shareholders upon the call to the General Meeting.

C.2.6 Section deleted.

## **D RELATED-PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS**

D.1 Explain any procedures for approving related-party and intragroup transactions.

### **Procedure to report the approval of related-party transactions**

In accordance with article 64 of the Bylaws and article 5 of the Regulations of the Audit and Control Committee, decisions related to related-party transactions are adopted by the Board of Directors, following a report from the Audit and Control Committee.

D.2 Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's significant shareholders:

<b>Name of significant shareholder</b>	<b>Name of company or entity within its group</b>	<b>Nature of relationship</b>	<b>Type of transaction</b>	<b>Amount (thousands of euros)</b>
KUTXABANK, S.A.	EUSKALTEL, S.A.	Contractual	Financing agreements: loans	148,000
ABANCA CORPORACIÓN BANCARIA, S.A.	EUSKALTEL, S.A.	Contractual	Financing agreements: loans	40,000
ABANCA CORPORACIÓN BANCARIA, S.A.	R CABLE Y TELECOMUNICACIONES GALICIA, S.A.	Contractual	Provision of services	5,732
KUTXABANK, S.A.	EUSKALTEL, S.A.	Contractual	Provision of services	10,075

D.3 Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's directors or officers:

D.4 Report the significant transactions by the company with other entities belonging to the same group, provided they are not eliminated in the preparation of the consolidated financial statements and they are not part of the ordinary course of business of the company as to their purpose and conditions.

In any case, report any intragroup transaction with entities established in countries or territories considered to be tax havens:

D.5 State the amount of transactions with other related parties. 0 (in thousands of Euros).

D.6 Describe the mechanisms used to detect, determine and resolve potential conflicts of interest between the company and/or its group, and its directors, officers or significant shareholders.

Pursuant to article 33 of the Regulations of the Board, conflicts of interest shall be governed by the following rules:

(i) Communication: a director must inform the Board, through the Chair or the Secretary, of any conflict of interest in which the director is involved.

(ii) Abstention: a director must leave the meeting during the deliberation and voting on those matters in which the director is affected by a conflict of interest, and shall not be counted in the number of members in attendance for purposes of calculating the quorum and majorities.

(iii) Transparency: the Company shall disclose any conflicts of interest in which the directors have been involved during the financial year in question and of which the Company is aware by reason of notice given thereto by the director affected by such conflict or by any other means. A conflict of interest shall exist in those situations in which there is a conflict, whether direct or indirect, between the interest of the Company or of any of the companies of its Group and the personal interest of a director. A personal interest of the director shall exist if a matter affects the director or a person connected therewith or, in the case of a proprietary director, if it affects the shareholder or shareholders that proposed or caused the appointment thereof or persons directly or indirectly connected therewith. In those instances in which the conflict of interest is, or can reasonably be expected to be, of a nature that constitutes a structural and permanent conflict between the director and the Company or the companies forming part of the Group, it shall be deemed that the director lacks, or has ceased to possess, the suitability required to hold office.

Pursuant to article 38 of the Regulations of the Board, a transaction by the Company or the companies forming part of its Group with directors, with shareholders holding a stake equal to or greater than that considered to be significant as provided for in the legal provisions governing the securities markets applicable at any particular time or that have proposed the appointment of any of the directors of the Company, or with the respective connected persons, shall be subject to the approval of the Board of Directors, following a favourable report from the Audit and Control Committee.

The Board of Directors and the Audit and Control Committee shall ensure that transactions between the Company or the companies forming part of its Group and the Directors, the shareholders mentioned in the preceding section, or the respective connected persons are carried out under arm's length conditions and with due respect for the principle of equal treatment of shareholders that are in the same situation.

Article 34 of the Regulations of the Board provides that a Director may not use the assets of the Company or use their position to obtain a financial benefit, unless appropriate consideration has been paid and it is a standardised service. The next article adds that a Director must observe the rules of conduct established in the legal provisions governing the securities market and, in particular, those contained in the Company's Internal Regulations for Conduct in the Securities Markets.

Article 10.2 of Euskatel's Internal Regulations for Conduct establishes the general principles that must be observed by Affected Persons covered by said Regulations who are subject to conflicts of interest, which are as follows:

(a) Independence: Affected Persons must act with independent judgement, with loyalty towards Euskaltel and its shareholders and regardless of their own or third parties' interests. They shall avoid prioritising their own interests at the expense of those of the Company or those of certain investors at the expense of those of others.

(b) Abstention: They must refrain from participating in or influencing the making of decisions relating to transactions that may affect the persons or entities with which a conflict exists and from accessing Significant Information (article 2 of the Internal Regulations for Conduct in the Securities Markets) that affects such conflict.

(c) Communication: Affected Persons must notify the Compliance Officer (article 2 of the Internal Regulations for Conduct in the Securities Markets) of possible conflicts of interest in which they are involved because of their activities outside of Euskaltel, family relationships, personal assets, or for any other reason, with the Company or any of the companies of its group, suppliers or significant customers of Euskaltel or companies in its group, entities in the same line of business or that compete with the Company or any subsidiary thereof.

Any questions regarding the possibility of a conflict of interest must be discussed with the Compliance Officer, who shall make the final decision.

A conflict of interest shall be deemed to exist when the Affected Person is in any of the following positions with respect to the entities referred to in article 10: (i) is a director or Senior Officer (article 2 of the Internal Regulations for Conduct in the Securities Markets); (ii) holds a significant interest (for listed companies, those referred to in Section 174 of the Securities Market Act and its implementing regulations, and for unlisted domestic or foreign companies, any direct or indirect holding greater than 20% of their issued share capital); (iii) is related, up to the second degree of affinity or the third degree of consanguinity, to its directors, holders of significant stakes in its capital or Senior Officers; and (iv) directly or indirectly holds material contractual relations.

## D.7 Is more than one company of the Group listed in Spain?

Yes

No

Identify the subsidiaries listed in Spain:

### Listed subsidiary

State whether they have publicly and accurately defined their respective areas of activity and any possible business relationships among them, as well as those between the listed dependent company and the other companies within the group:

**Describe the possible business relationships between the parent company and the listed subsidiary, and between the subsidiary and the other companies within the group**

Identify the mechanisms established to resolve possible conflicts of interest between the listed subsidiary and the other companies within the group:

**Mechanisms for the resolution of possible conflicts of interest**

## E RISK CONTROL AND MANAGEMENT SYSTEMS

### E.1 Explain the scope of the company's Risk Management System, including the system for managing tax risks.

The Euskaltel Group's Risk Management System is promoted by the Board of Directors through the Audit and Control Committee and managed by Senior Management and the Rest of the Organisation.

It operates in a comprehensive and continuous manner, and its management at the corporate level is established by each of the companies and Departments that form the consolidated group, especially Euskaltel, S.A. and R Cable y Telecomunicaciones Galicia, S.A., and to a lesser extent, in view of its relative significance, Cinfo, Contenidos Informativos Personalizados, S.L.

The scope of the Risk Management System thus affects the entire Group and comprises all of the various risks identified in the COSO Framework, i.e. Strategic, Operational, Information and Compliance.

### E.2 Identify the decision-making bodies of the company responsible for preparing and implementing the Risk Management System, including the system for managing tax risks.

Pursuant to article 4.2 of its Regulations, the Board of Directors "as a body reserves the power to approve general policies and strategies of the Company, and particularly, (...) the policy for controlling and managing risks, including tax risks, as well as the periodic monitoring of internal information and control systems".

Furthermore, the Audit and Control Committee is to "periodically review the internal control and risk management systems, such that the principal risks are properly identified, managed and reported" (article 5.3 of its Regulations). Internal Audit of the Group, under the supervision of the Audit and Control Committee, endeavours to ensure the effectiveness of the internal reporting and control systems (article 20 of the Regulations of the Audit and Control Committee).

By way of summary, the structure of the Group's Risk Management System is based on the following layout (per the COSO Framework):

- a) Strategic Risks, with the Board of Directors and the Management Committee and the rest of the Management Team being primarily responsible for the management thereof.
- b) Operational Risks, with the Management Committee and the rest of the organisation being primarily responsible for the management thereof.
- c) Compliance Risks, with Compliance and the rest of the organisation being primarily responsible for the management thereof.
- d) Information Risks, with official information being managed through the finance function and the Office of the General Secretary and internal information being managed through the various users thereof.

Additionally, based on the Group's activities and changes in the environment, the possibility of bringing so-called cyber-risks to the level of the four aforementioned risks is now being considered, with a view to allocating specific resources to their integrated management, with special emphasis on the Network, Systems, and Business Development Areas.

### E.3 Point out the principal risks, including tax risks, that could affect the achievement of business goals.

As regards Strategic Risks:

- risks inherent to the telecommunications industry.
- risk arising from the competitive situation and market growth (Euskaltel operates in a market subject to price pressure, to which it must be able to respond, and to continuous growth in the use of telecommunications services, which may be affected by issues related thereto such as security and changes in technology and may result in a change in forecasts of the demand for services).
- risk arising from changes in technology.

• As regards Operational Risks:

- risks inherent to the telecommunications industry.
- risk arising from regulation of the industry (the telecommunications industry is regulated, and such regulation is subject to possible changes resulting from changes in legal provisions and technological evolution).
- risk arising from changes in technology (the Company must respond to rapid changes in technology, which necessarily require it to adapt its services to those changes).
- risks arising from agreements with third parties (the Company has entered into access agreements with third parties, as well as agreements with suppliers for the provision of significant services for its business).

- Credit risk: the risk of financial loss faced by the Company if a customer or a counterparty under a financial instrument fails to perform its contractual obligations. This risk primarily occurs in the amounts of receivables.
- Liquidity risk: the risk that the Company might have difficulties complying with its obligations associated with financial liabilities to be paid through the delivery of cash or other financial assets.
- Market risk: the risk that changes in prices could affect the Company's income or the value of the financial instruments that it maintains.

#### E.4 Identify whether the entity has a risk tolerance level, including one for tax risk.

Euskaltel has procedures and systems within its organisation allowing it to decide the extent to which risks will be assumed, mitigated, hedged or avoided to the extent possible. Risk analysis is an integral part of the decision-making process.

#### E.5 State what risks, including tax risks, materialised during the financial year.

No material risks materialised during the financial year.

#### E.6 Explain the plans for responding to and supervising the entity's main risks, including tax risks.

Risk arising from the competitive situation and market growth: Euskaltel considers the trends forecasted for the market, taking into account these trends and changes in growth forecasts. The forecasts of growth in the telecommunications sector have been confirmed in the past financial years, as the sector is subject to a special policy promoting the growth thereof.

Risk arising from industry regulation: Through its legal department, Euskaltel permanently monitors the regulatory environment, evaluating the impact of potential changes on the Company, analysing such impact and taking specific action in connection with the regulators and other players in the sector.

Risk arising from changes in technology: Euskaltel has responded to technological changes in the sector by making the necessary adjustments to its network. Euskaltel also develops products and services demanded by society, which puts it in the position necessary to compete with the services provided by other companies in the sector.

Risks arising from agreements with third parties: Euskaltel takes action to strengthen relationships with strategic providers, developing alternative sources where possible.

Financial risks include the following:

a) Credit risk: the risk of financial loss if a customer or a counterparty under a financial instrument fails to perform its contractual obligations. Customer credit risk is mitigated both by the use of various policies and by a high dispersion of the line item amount for receivables. Specific policies and practices that the Company uses include a customer acceptance policy, the ongoing monitoring of customer credit, which reduces the possibility that the principal balances of accounts receivable will not be paid, as well as collection management. The impact of uncollectible trade receivables on the income statement was €2.88 million (€2.33 million in 2015), equivalent to 0.51% of total revenues in 2016 (0.67% in 2015). The amount of past-due receivables that had not deteriorated at 31 December 2016 and were more than 90 days past due was €3.25 million (€3.49 million at the end of 2015).

b) Liquidity risk: the risk of difficulties in complying with obligations associated with financial liabilities to be paid through the delivery of cash or other financial assets. The approach we apply for managing liquidity consists of ensuring, to the extent possible, that there is enough liquidity to meet the Company's payment obligations as they come due, both under normal conditions and under conditions of stress, without incurring unacceptable losses or endangering its reputation. At 31 December 2016, the consolidated group had a long-term revolving line of credit in the amount of €30 million, and short-term lines of credit in the amount of €50 million, which have not been drawn down. The balances shown in the cash and cash equivalents line item are the available liquidity kept in financial institutions with a high credit rating.

At 31 December 2016, the balances in this line item were €157.29 million (€23.37 million at the end of 2015).

We match our debt maturity profile to our ability to generate cash flows to service the debts. To do so, we have established a seven-year financing plan, with annual revisions and periodic analyses of our financial position, which includes long-term projections, along with daily monitoring of balances and bank transactions.

c) Market risk: the risk that changes in prices could affect our income or the value of the financial instruments that we maintain. The goal of managing market risk is to control exposure to risk within the parameters that we consider acceptable, thereby optimising the rate of return. Our Group's area of activity leads to quite low exchange rate risk and pricing risk, as these risks are concentrated in small amounts of infrequent foreign currency purchase transactions. Interest rate risk relates to the loans provided by financial institutions and related parties at variable rates, which expose us to changes in future cash flows. We regularly review the interest rate hedging policy. We determine the need to hedge interest rates on the basis of that policy. Beginning in the second quarter of 2016, we began to apply quarterly interest rate settlements, which allows the exhaustive tracking of rates in the financial market. For the year ended 31 December 2016, an increase in interest rates by 100 basis points, with other variables remaining constant, would have decreased results (after taxes) by €6.5 million (€2.8 million for the year ended 31 December 2015).

## **F INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN CONNECTION WITH THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICFRS)**

Describe the mechanisms making up the risk control and management systems with respect to the process of issuing the entity's financial information (ICFRS).

## F.1 Control environment of the entity

Indicate at least the following, specifying the main features thereof:

### F.1.1. What bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective internal control over financial reporting system (ICFRS); (ii) the implementation thereof; and (iii) oversight thereof.

Pursuant to article 4.2 of the Regulations of the Board of Directors, the Board of Directors reserves the power to approve the policy for controlling and managing risks, including tax risks, as well as the periodic monitoring of internal information and control systems.

Specifically, the "Framework for Conduct and general policies of the ICFRS" was approved in financial year 2016, which provides as follows:

The Board of Directors is responsible for ensuring the existence of an appropriate and effective ICFRS, and senior management is responsible for the design, implementation and operation thereof.

The finance function implements, coordinates and manages the tasks of senior management in connection with the ICFRS.

The finance function may appoint the persons responsible for maintenance of the ICFRS: corporate Head for the ICFRS, local Head for the ICFRS (at each subsidiary) and reporting to the corporate head for the ICFRS, and process Head.

The Audit and Control Committee is, among other things, the body responsible for overseeing the ICFRS, and in order to perform its duties, it relies upon Internal Audit, which helps it to evaluate the effectiveness of the ICFRS in compliance with a periodic action plan and reports to it periodically on the weaknesses detected during its work and on the time frame established for the implementation of measures proposed for correction thereof.

The Audit and Control Committee also supervises the process of preparing the financial information and the integrity thereof, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles..

### F.1.2. Whether the following items are in place, especially in connection with the process of preparing the financial information:

- Departments and/or mechanisms in charge of: (i) the design and revision of the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of work and duties; and (iii) ensuring that there are sufficient procedures for the proper dissemination thereof at the entity.

Pursuant to article 4 of the Regulations of the Board of Directors, the Board of Directors approves the determination and modification of the organisational structure of the Company, as well as the appointment and removal of the senior officers, understood as those who report directly to the Board of Directors or the chief executive (Executive Chair, CEO or Managing Director, whether or not a director), if any, the head of internal audit and any other officer to whom the Board of Directors gives such status.

The mission of the Organisation, Human Resources and Quality Department, reporting directly to the CEO, is to define the lines of responsibility, as well as to define the tasks and duties of each Department. That Department also establishes the necessary means of internal and external communication during each organisational change.

On the other hand, the preparation of financial information is the responsibility of the Finance Department, which must maintain reliable systems and models of economic, financial and operational information that can be used as the basis for decision-making by the Board of Directors and the Committees thereof.

- Code of conduct, body that approves it, degree of dissemination and instruction, principles and values included (indicating whether the recording of transactions and the preparation of financial information are specifically mentioned), body in charge of reviewing breaches and of proposing corrective actions and penalties.



There is a Code of Ethics and Conduct (the "Ethics Code") approved by the Board of Directors, the purpose of which is to establish the principles of conduct and guidelines to which the behaviour of Euskatel, its personnel and those working on its behalf must conform in their daily work, both in their internal relations and their relations outside the Company.

The Ethics Code is disseminated throughout the organisation by the Organisation, Human Resources and Quality Department using the communication channels available thereto, as well as the corporate intranet. In addition, there is a procedure pursuant to which all Euskatel personnel must take a training course on this topic and expressly agree to the Ethics Code (through the employee portal).

Pursuant to the Ethics Code, the professional work of Euskatel employees must conform to a series of basic principles, which have their concrete application in a series of commitments that the employees must make and certain specific conduct guidelines that they must apply. In particular, due to its importance, note should be taken of the principle of "compliance with applicable financial regulations", which means that the Company must prepare its financial information in a trustworthy manner and in accordance with applicable legal provisions, based on the principles of existence and occurrence of the transactions, completeness of the information, assessment, presentation, breakdown, comparability and reflection of rights and obligations, pursuant to the legal provisions in force at any particular time.

Furthermore, the Internal Audit Department, as a supervisory body, also ensures compliance with the Ethics Code, resolving any issues or questions regarding the interpretation thereof and taking the action necessary for compliance therewith.

- Reporting channel that makes it possible to report any irregularities of a financial or accounting nature to the audit committee, as well as any possible breach of the code of conduct and irregular activities at the organisation, specifying, if appropriate, whether it is confidential.

The Company has made a tool available to its employees called the "Ethics Channel", the purpose of which is to facilitate communication or reporting by Euskatel employees (confidentially, but not anonymously) of any irregular activities that they observe and consider significant in terms of the policies, codes and rules of internal conduct, particularly of a financial or accounting nature.

The Ethics Channel is accessed through the corporate intranet, and the communications or reports are sent to an email address provided on the intranet.

The Internal Audit Department is responsible for managing the Ethics Channel, although the actual administrator of the channel is the Corporate Defence Committee, which in turn reports to the Audit and Control Committee. However, it is important to note that if there is a question or discrepancy in the use of the Ethics Channel, the Corporate Defence Committee has the authority to interpret it.

- Regular training and update programmes for personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control over financial reporting system, covering at least accounting standards, auditing, internal control, and risk management.

The Organisation, Human Resources and Quality Department is responsible for establishing the diagnosis for training activities, preparing the Training Plan, and launching and coordinating training activities, as well as properly assisting each and every one of the other Departments and centres in the work of identifying training needs and also offering to each and every Euskatel employee the training that they need from time to time.

In particular, and without prejudice to other procedures, the Organisation, Human Resources and Quality Department meets these commitments through several rounds of meetings and interviews with the heads of each Department and the decision centres, and may also use any other means that it deems appropriate to identify the training needs of the Company's personnel. These rounds of meetings and interviews are usually held annually. As a result of this work, the training needs that are uncovered and appropriately classified by training skills and functional duties and responsibilities are then summarised in a document called "Training Diagnosis", which serves as the basis for preparing the Training Plan.

Furthermore, independently of the duties of the Organisation, Human Resources and Quality Department described above, the heads of the various Departments and decision centres are responsible for detecting the training needs of the employees who report to them and for evaluating the effectiveness of the training once it has been held.

In addition to the duties and procedures described above, the internal personnel involved in preparing and reviewing financial information maintain constant communication with the external auditors, who periodically report on new developments in accounting and taxation rules. Subscriptions to alerts from the main accounting firms and regulatory agencies regarding new developments in accounting and taxation rules function as channels for flows of this type of information.

## F.2 Risk assessment of financial information Indicate

at least the following:

### F.2.1. What are the main features of the risk identification process, including the process of identifying the risks of error or fraud, with respect to:

- Whether the process exists and is documented.

The risk identification process is documented in the “Framework for Conduct and general policies of the ICFRS”, which establishes Euskaltel’s methodology for the identification and analysis of the risks associated with achieving the financial information control goals.

- Whether the process covers all the objectives of financial information (existence and occurrence; completeness; assessment; presentation, breakdown and comparability, and rights and obligations), whether it is updated, and how often.

The following methodology has been determined for the identification and analysis of the risks present in the process of preparing and issuing the Company’s financial information:

- Identification of significant accounts based on the Group’s financial information.
- Identification of critical processes associated with the significant accounts.
- Identification of financial risks associated with the critical processes and definition of control objectives.

The processes identified above are analysed in order to identify possible risks of error in the financial information, in connection with existence and occurrence, integrity, assessment, presentation, breakdowns and comparability, and rights and obligations.

This identification process is carried out taking into account both quantitative and qualitative variables.

The “Framework for Conduct and general policies of the ICFRS” provides that the Audit and Control Committee must oversee and approve the risk identification process on an annual basis.

- The existence of a process for the identification of the scope of consolidation, taking into account, among other matters, the possible existence of complex corporate structures, holding entities or special purpose entities.

There is regular communication between the Departments, decision centres and departments involved in order to identify the scope of consolidation.

- Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.) to the extent that they affect the financial statements.

The Finance Department is the body entrusted with analysing and reporting on the potential impacts of any business risks that might affect the financial statements.

- What governing body of the entity supervises the process.

The process is supervised and approved by the Audit and Control Committee.

## F.3 Control activities

Indicate whether at least the following are in place and describe their main features:

### F.3.1. Procedures for review and authorisation of financial information, and description of the internal control over financial reporting system to be published in the securities market, indicating the persons or divisions responsible therefor, as well as documentation describing the flows of activities and controls (including those relating to risk of fraud) of the various types of transactions that could materially affect the financial statements, including the closing process and the specific review of significant judgements, estimates, assessments and projections.

The Board of Directors approves the financial information that the Company must periodically publish due to its status as a listed company, with the Audit and Control Committee being responsible for supervising the preparation and presentation of the regulated financial information. Therefore, the financial information to be provided to the markets is presented to the Audit and Control Committee and/or the Board of Directors by the Finance Department. In order to review such financial information, the Finance Department meets with the external auditors prior to submitting it to the Audit and Control Committee and/or the Board of Directors.

Furthermore, prior to the formulation of the annual accounts or interim financial statements, the Chief Financial Officer sends to the members of the Board of Directors a certification stating that the annual accounts / interim financial statements present, in all material respects, a true and fair view of the financial situation and of the results of operations and of the changes in the Company's financial situation during the financial year (or applicable period) and contain the information that is necessary and sufficient for proper comprehension thereof, pursuant to applicable regulations.

Euskaltel maintains documentation recording the processes deemed to entail a risk of material impact on the preparation of the financial information.

Each of such processes is documented, including detailed information on: Process information flowchart and/or description of the process, significant accounts/breakdowns, identification of significant risks and objectives in terms of reliability of the financial information that may be affected, specification of controls and their features (preventive, detective, manual, automatic, and frequency of the controls), as well as the identification of the risks mitigated thereby; the persons responsible for the process and for control activities are also specified.

Among the aforementioned processes, the following deserve special attention because of their significance and the nature of the industry in which Euskaltel does business: "Closing, Consolidation and reports", "Goodwill – Valuation of minority-owned companies", "Taxes, rates and levies (specifically, the sub-process for corporate income tax and deferred tax assets)", "Financial Liabilities (Debt)", "Fixed assets", "Interconnection" and "Revenues and customers".

Furthermore, in connection with the closing process and on a monthly basis, the Finance Department analyses the reasonableness of significant judgements, estimates, assessments and projections made internally, adjusting them to changes or new transactions, if necessary.

Moreover, and in addition to the preparation of financial information, the "Management and Reporting Control" staff prepares every month the business information that is then analysed by the Finance Department and the Management Committee. Since part of that business information is based on the financial information, closing meetings are held every month between "Management and Reporting Control" and "General Administration and Accounting" in order to ensure that the financial information and the internal and external reporting are consistent and reliable.

### F.3.2. Policies and procedures for internal control of the information systems (regarding, among other items, access security, change control, operation of changes, operational continuity and segregation of functions) supporting the entity's relevant processes in connection with the preparation and publication of the financial information.

Euskaltel believes that the information is one of the main assets of the organisation and that its protection is essential to ensure the continuity and development of the business. As a result, Euskaltel has established an Information Security Management System, integrated with the processes of the organisation and its overall management structure.

Within the framework of the Management System, Euskaltel has established a Policy for Information Security and for Management of Information Security Risks. Under this regulatory framework, Euskaltel has a Systems Security department that is responsible for ensuring security in the Company's processes.

In this regard, the controls included in the activities of said department fall within the following areas:

- Identity management.
- Network access.
- Security architecture: the IT infrastructure is comprised of various data processing centres and technologies that ensure retrieval in line with the time frames established by the business.
- Operations (monitoring and management of incidents).
- Back-up copies and IT contingency checks.
- Change control.
- Development (Ten good practices, secure development procedures, periodic internal and external audits).
- Physical access.

### F.3.3. Internal control policies and procedures designed to supervise the management of activities outsourced to third parties, as well as those aspects of assessment, calculation or valuation entrusted to independent experts, which may materially affect the financial statements.

With regard to its suppliers, the Management System controls and monitors subcontracts relating to the provision of the Company's services and activities relating to network construction and maintenance.

Assessments, calculations or valuations entrusted to independent experts, as well as the methods and principal assumptions used, are analysed at least by the Finance Department, taking advantage of its training and independence.

## F.4 Information and communication

Indicate whether at least the following are in place and describe their main features:

### F.4.1. A specific function charged with defining and updating accounting policies (accounting policy area or department) and with resolving questions or conflicts arising from the interpretation thereof, maintaining fluid communications with those responsible for operations at the organisation, as well as an updated accounting policy manual that has been communicated to the units through which the entity operates.

The Finance Department is responsible for standardising the accounting policies and keeping them up to date, always under the supervision of the Audit and Control Committee, which reports to the Board of Directors.

In particular, the Audit and Control Committee, with the assistance of the Internal Audit Department, ensures that generally accepted accounting principles are applied, along with any material change in such principles. The Audit and Control Committee also ensures that the half-yearly financial information and the interim management reports are prepared using the same accounting principles as the annual accounts.

### F.4.2. Mechanisms to capture and prepare financial information with standardised formats, to be applied and used by all units of the entity or the group, supporting the principal financial statements and the notes thereto, as well as the information provided on the internal control over financial reporting system.

After the acquisition of R Cable by Euskaltel at year-end 2015, it was necessary to develop an information collection procedure in order to prepare the consolidated financial statements. The Companies each have their own independent information systems, although a financial information reporting system as well as a monthly reporting procedure was developed in order to supply the information necessary to prepare the consolidated financial statements. This information, with a standardised format, contains the information necessary to prepare the financial statements and the notes thereto. This information is reviewed by the General Administration and Accounting Department before the consolidated financial statements are prepared.

## F.5 Supervision of the operation of the system

Indicate and describe the main features of at least the following:

### F.5.1. The activities of supervision of the internal control over financial reporting system (ICFRS) performed by the audit committee, as well as whether the entity has an internal audit function whose duties include providing support to the committee in its work of supervising the internal control system, including the internal control over financial reporting system. Information is also to be provided concerning the scope of the assessment of the internal control over financial reporting system performed during the financial year and on the procedure whereby the person or division charged with performing the assessment reports the results thereof, whether the entity has an action plan in place describing possible corrective measures, and whether the impact thereof on financial information has been considered.

The Audit and Control Committee performs the following basic duties, among others:

- a) Monitor the effectiveness of internal control at the Company and within its Group, as well as of their systems for the management of risks, including tax risks.
- b) Analyse with the external auditors any possible significant weaknesses in the internal control system detected when the audit was performed.

The Company also has an internal audit division, under the supervision of the Audit and Control Committee, that endeavours to ensure the effectiveness of the internal reporting and control systems.

The Audit and Control Committee met 7 times during financial year 2016, and among other items, it reviewed the periodic financial information that the Company must submit to the CNMV.

In addition, the "Framework for Conduct and general policies of ICFRS" approved in 2016 states that Euskaltel's supervision model must include a review of the following aspects by the Audit and Control Committee:

- Supervision and annual approval by the Audit and Control Committee of the risk identification process.
- Meetings with external auditors for the following purposes:
  - a) Analysing the external auditors' annual audit plan, including scope, main audit risks, significant non-recurring transactions subject to review during the financial year.
  - b) Recommendations for internal control.
- Preparation of periodic plans for revision of the ICFRS.

F.5.2. Whether it has a discussion procedure whereby the auditor (as provided in the Technical Auditing Standards), the internal audit function, and other experts can inform senior management and the audit committee or the directors of the entity of the significant internal control weaknesses detected during the review of the annual financial statements or such other reviews as may have been entrusted to them. Information shall also be provided on whether it has an action plan to seek to correct or mitigate the weaknesses found.

The Audit and Control Committee must cause the external auditor to appear before it at least twice per year: once during the preliminary stage of the auditor's work and the other on a date near the completion of such work. The purpose of these appearances is to report on the development of the auditor's work and to present its conclusions.

Along these lines, prior to the close of financial year 2016, the external auditor explained the audit plan, as well as its analysis of the risks and areas of special attention. Also, prior to formulation of the accounts for financial year 2016 and after the audit was finished, the external auditor explained the results of the audit, as well as the recommendations related to any weaknesses in the internal control system identified during the audit process.

Finally, one of the duties of the Audit and Control Committee is to verify that senior management takes into account the recommendations made by the external auditor.

## F.6 Other significant information

Nothing significant.

## F.7 External audit report

Report on:

F.7.1. Whether the information on the internal control over financial reporting system has been reviewed by the external auditor, in which case the entity should include the respective report as an exhibit. Otherwise, it should provide the reasons therefor.

The information on the internal control over financial reporting system has not been submitted for specific review by the external auditor, although the auditor's procedures include an assessment of the risks of material inaccuracy taking into account the internal control relevant to the formulation of the Company's annual accounts.

## **G** DEGREE TO WHICH CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED

State the company's degree of compliance with the recommendations of the Good Governance Code of Listed Companies.

If the company does not comply with any recommendation or follows it partially, there must be a detailed explanation of the reasons providing shareholders, investors and the market in general with sufficient information to assess the company's course of action. Generalised explanations will not be acceptable.

1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Complies

Explain

2. When a dominant and subsidiary company are both listed, they should provide detailed disclosure on:

- a) The respective areas of activity and any possible business relationships among them, as well as those between the listed dependent company and the other companies within the group.  
b) The mechanisms provided for the resolution of possible conflicts of interest that may arise.

Complies

Partially complies

Explain

Not applicable

3. During the ordinary general meeting the chairman of the board of directors should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report, and in particular:

- a) Changes taking place since the previous annual general meeting.  
b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Complies

Partially complies

Explain

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant contact persons or those charged with its implementation.

Complies

Partially complies

Explain

5. The board of directors should not make a proposal to the shareholder for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights in an amount exceeding 20% of capital at the time of such delegation.

When a board of directors approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Complies

Partially complies

Explain

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the appointments and remuneration committee.

c) Audit committee report on third-party transactions.

d) Report on the corporate social responsibility policy.

Complies

Partially complies

Explain

7. The committee should broadcast its general meetings live on the corporate website.

Complies

Explain

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies

Partially complies

Explain

9. The company should disclose its conditions and procedures for establishing share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and should be applied in a non-discriminatory manner.

Complies

Partially complies

Explain

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies  Partially complies  Explain  Not applicable

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies  Partially complies  Explain  Not applicable

12. The board of directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies  Partially complies  Explain

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Complies  Explain

14. The board of directors should approve a director selection policy that:

- a) Is concrete and verifiable.
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the needs of the board of directors.
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board seats occupied by women directors by the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies  Partially complies  Explain

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies  Partially complies  Explain



16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the board of directors but not otherwise related.

Complies

Explain

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board seats.

Complies

Explain

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

- a) Background and professional experience.
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
- c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or are connected with.
- d) Dates of their first appointment as a board member and subsequent re-elections.
- e) Shares held in the company, and any options on the same.

Complies

Partially complies

Explain

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies

Partially complies

Explain

Not applicable

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies

Partially complies

Explain

Not applicable

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in Recommendation 16.

Complies

Explain

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal cases in which they have been formally named as a suspect and the progress of any subsequent proceedings.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies

Partially complies

Explain

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might not be in the company's best interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the shareholders lacking board representation.

When the board makes material or repeated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies

Partially complies

Explain

Not applicable

24. Directors who give up their seat before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Complies

Partially complies

Explain

Not applicable

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

Complies  Partially complies  Explain

26. The board should meet with the necessary frequency to properly perform its duties, eight times a year at least, in accordance with the schedule and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies  Partially complies  Explain

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should grant powers of representation with appropriate instructions.

Complies  Partially complies  Explain

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Complies  Partially complies  Explain  Not applicable

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies  Partially complies  Explain

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies  Explain  Not applicable

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

If the chairman wishes to submit decisions or resolutions for board approval that were not on the meeting agenda due to reasons of urgency, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies  Partially complies  Explain

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies

Partially complies

Explain

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies

Partially complies

Explain

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board meeting in the absence of the chairman or vice chairmen; give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Complies

Partially complies

Explain

Not applicable

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Complies

Explain

36. The full board should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) Diversity in the composition and powers of the board.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies

Partially complies

Explain

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary of the executive committee.

Complies  Partially complies  Explain  Not applicable

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Complies  Partially complies  Explain  Not applicable

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee seats should be held by independent directors.

Complies  Partially complies  Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies  Partially complies  Explain

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Complies  Partially complies  Explain  Not applicable

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

- a) Monitor the preparation and the integrity of the financial information on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles.
- b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit department; propose the department's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

- a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Ensure that the company reports any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- d) Ensure that the external auditor holds an annual meeting with the full Board of Directors to report thereto on the work performed and any changes in the accounting and risk situation of the Company.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies  Partially complies  Explain

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies  Partially complies  Explain

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the transaction and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies  Partially complies  Explain  Not applicable

45. The risk control and management policy should identify at least:

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
- b) The determination of the risk level the company considers acceptable.
- c) The measures planned in order to mitigate the impact of identified risks in the event that they materialise.
- d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Complies  Partially complies  Explain

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies

Partially complies

Explain

47. Appointees to the nomination and remuneration committee - or of the nomination committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies

Partially complies

Explain

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Complies

Explain

Not applicable

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Complies

Partially complies

Explain

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee receives.

e) Verify the information on director and senior officer remuneration contained in the various corporate documents, including the annual director remuneration report.

Complies

Partially complies

Explain

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies

Partially complies

Explain

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) They should be chaired by independent directors.
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
- d) They may engage external advice, when they feel it necessary for the performance of their duties.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies       Partially complies       Explain       Not applicable

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.
- f) Monitor and evaluate the company's interaction with its stakeholder groups.
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies       Partially complies       Explain

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
- b) The corporate strategy with regard to sustainability, the environment and social issues.
- c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.



- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.
- f) Channels for stakeholder communication, participation and dialogue.
- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies  Partially complies  Explain

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies  Partially complies  Explain

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies  Explain

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies  Partially complies  Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies  Partially complies  Explain  Not applicable

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies  Partially complies  Explain  Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies  Partially complies  Explain  Not applicable

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies  Partially complies  Explain  Not applicable

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

This condition, however, will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies  Partially complies  Explain  Not applicable

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies  Partially complies  Explain  Not applicable

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies  Partially complies  Explain  Not applicable

## **H** OTHER INFORMATION OF INTEREST

1. If there are any significant aspects regarding corporate governance at the company or at entities of the group that is not included in the other sections of this report, but should be included in order to provide more complete and well-reasoned information regarding the corporate governance structure and practices at the entity or its group, briefly describe them.

2. In this section, you may also include any other information, clarification, or comment relating to the prior sections of this report to the extent they are relevant and not repetitive.

Specifically, state whether the company is subject to laws other than Spanish laws regarding corporate governance and, if applicable, include such information as the company is required to provide that is different from the information required in this report.

3. The company may also state whether it has voluntarily adhered to other international, industrial or other codes of ethical principles or good practices. If so, identify the code in question and the date of adherence thereto.

With regard to section C.1.16., and for purposes of a homogeneous comparison, the amount of €1,687 thousand is the total remuneration of the members of the Management Committee at 31 December 2016 and does not include expenses for contractual waivers incurred during financial year 2016 in the amount of €1,974 thousand.

This annual corporate governance 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