

**TO THE COMISION NACIONAL DEL MERCADO DE VALORES
“HECHO RELEVANTE”**

Bilbao, July 23rd 2015

EUSKALTEL, S.A.

EUSKALTEL AND R CABLE Y TELECOMUNICACIONES DE GALICIA, S.A. (“R CABLE”) REACH A PRELIMINARY AGREEMENT FOR ITS INTEGRATION

- Euskaltel and R Cable have reached a preliminary agreement to integrate both companies and create a leading telecommunication operator in the North of Spain.
- The resulting entity would count on a c.725,000 km combined network serving to over 715 thousand clients (residential and companies) and with pro-forma revenue of €570m and EBITDA of €265m. This would significantly increase its relevance in the Spanish and European markets while maintaining their solid positioning and commitment in the regions where both companies are strongly rooted.
- R Cable has been valued at €1,155 million (Enterprise Value), representing a multiple of approximately 10.9x EBITDA, which are similar parameters as to Euskaltel IPO.
- Euskaltel offers to R shareholders a consideration consisting primarily in cash and the remaining in newly issued shares of Euskaltel
- All shareholders commit to maintain the local component of both companies. This will mean the continuity of both brands, local structure and management teams, which are deemed key for the success of the respective companies during the past years.
- Euskaltel and R expect to share their best practices and deliver relevant synergies from the transaction, mainly derived from an improved access and negotiation capability on products, services and contents, which will be thoroughly analysed by the management teams of the companies and will be communicated to the market at the conclusion of the due diligence process.
- The Agreement has been approved by the Board of Directors of both companies and is subject to the successful completion – with no major issues – of a due diligence process and the subsequent approval from regulatory authorities. The Transaction must be also approved in the respective Shareholders Meetings of both companies.
- The Agreement does not prohibit the companies to explore other potential acquisition opportunities.

Strategic rationale of the Transaction

Euskaltel, S.A. (“Euskaltel”), and R Cable y Telecomunicaciones Galicia, S.A. (“R”), both leading companies in optic fiber and telecommunication convergence services in the Basque country and Galicia respectively, announce a preliminary agreement to integrate both companies and create a leading telecommunication operator at national and European level with a 725,000km combined network serving to over 715 thousand clients (residential and companies) and with pro-forma revenues of €570m and EBITDA of €265m.

This transaction represents a new and relevant milestone within the history of both companies as well as another step in the consolidation of the Spanish telecommunications market. The transaction provides the combined entity with additional strength, efficiencies and growth potential through the creation of a leading operator in the North of Spain

Shareholders commit to maintain the local component of both companies. This will mean the continuity of both brands, local structure and management teams, which are deemed key for the success of the respective companies during the past years.

Euskaltel and R Cable share many cultural and strategic affinities that guarantee the successful execution of a joint business plan going forward. Both companies are deeply rooted in their respective regions and benefit from a strong customer base as a result of its focus on high quality, bilingual customer services (Spanish, Basque and Galician) and a differentiated and innovative product offering.

Both companies’ strategy is to maximize customer lifetime value by leveraging their leadership positions in their respective regions, loyal customer base, proprietary fully-invested next generation fiber network and strong brand to consolidate their market shares and drive growth. In both Euskaltel and R Cable, mobility is at the heart of their strategy, which focuses on delivering their clients high speed access everywhere, through their optic fiber network, WiFi hotspots, attractive mobile offering with own frequency on the LTE/4G width at 2.6GHz.

The combination of Euskaltel and R is expected to deliver relevant synergies, which will be thoroughly analysed by the management teams of the companies and will be communicated to the market at the completion of the due diligence process. Synergies will include, among other: (i) improved access and negotiation capability on products, services and contents; (ii) integration of systems and technologies; (iii) optimization of contractual relationship with suppliers; and (iv) harmonization of growth strategies.

Alberto García Erauzkin and Honorato López Isla, chairmen of Euskaltel and R Cable respectively, have shown his satisfaction on the preliminary agreement and has highlighted the strategic importance of the transaction within the telecommunications sector in Spain: “The transaction has an important strategic rationale and means a further step towards the consolidation of the cable operators in Northern Spain, which provides the companies with additional strength, efficiencies, synergies and growth potential. In this context, the new company will increase its footprint and relevance in the market, whilst maintaining its local power in the regions in which it is deeply rooted, Basque Country and Galicia”.

Key terms of the Agreement

R Cable has been valued at €1,155 million (Enterprise Value), representing a multiple of approximately 10.9x EBITDA, which are similar parameters as to Euskaltel IPO.

R Cable current shareholders will become shareholders of Euskaltel and have committed to adhere to the lock-up period of Kutxabank (which will maintain a 25% stake in Euskaltel)

Transaction calendar

The Agreement has been approved by the Board of Directors of both companies and is subject to the successful execution – without significant issues – of a due diligence process and the subsequent approval from regulatory authorities.

R Cable: The cable telecommunications operator in Galicia

Headquartered in A Coruña, R is the leading telecommunications company in Galicia, offering fixed telephony, high speed broadband, pay-TV and mobile services to both residential and enterprise customers in Galicia.

R was founded in 1998 by a group of local investors and has grown since then to become the leading operator in Galicia. R Cable operates its own fiber network which grants access to more than 935,000 homes and businesses in Galicia. R Cable is well known for its high quality standards and its outstanding customer service.

R Cable counts on a well invested NGN network, which is does not require additional significant investments and covers 63% of Galician households and businesses. In addition, the company offers mobile telephony services through its MVNO agreement with Vodafone and owns a 4G / LTE network in Galicia

Euskaltel: the Basque fiber and convergence leader

Headquartered in the *Parque Científico y Tecnológico* in Bizkaia, Euskaltel offers primarily bundled services comprised of high-speed broadband, Pay TV, mobile and fixed telephony services to residential and business customers in the Basque Country.

Euskaltel is the market leader for broadband and Pay TV services (in terms of customers) and the fastest growing provider of mobile telephony services in the Basque Country (in terms of number of lines). As of March 31, 2015, Euskaltel provided 918,120 services (in terms of RGUs) to 295,360 residential customers. The Company also offers products and services to SOHOs, SMEs, Large Accounts and public sector entities as well as the wholesale market.

Euskaltel counts on a proprietary, fully-invested next generation fiber network which gives access to 85% of homes in the Basque Country. In addition, the Company provides mobile communications services through its MVNO agreement with Orange and also holds a 4G/LTE license in the Basque Country. All this is a unique advantage over most other fiber operators.

Euskaltel will host a conference call to analysts and investors on Tuesday, July 28th, 2015 at 4.00pm CET

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