A LA COMISIÓN NACIONAL DEL MERCADO DE VALORES (CNMV)

DON ALBERTO GARCÍA ERAUZKIN, mayor de edad, de nacionalidad española, con domicilio profesional en 48160 Derio (Vizcaya), Parque Tecnológico, Edificio 809, y con D.N.I. número 16031817-N, actualmente en vigor, actuando en nombre y representación de **EUSKALTEL, S.A.**, sociedad con domicilio en 48160 Derio (Vizcaya), Parque Tecnológico, Edificio 809, inscrita en el Registro Mercantil de Vizcaya al tomo 3271, folio 212, hoja BI-14727 y con C.I.F. número A-48766695 (la ***Sociedad***), en su condición de Presidente y encontrándose debidamente apoderado al efecto, en relación con el procedimiento de aprobación y registro por la Comisión Nacional del Mercado de Valores del correspondiente folleto informativo (el ***Folleto Informativo***) relativo a la oferta de suscripción y admisión a negociación de las acciones ordinarias de la Sociedad,

CERTIFICA

Que la versión en soporte informático del Folleto Informativo que se adjunta a la presente, coincide con la última versión en papel del mismo presentada por escrito a la Comisión Nacional del Mercado de Valores, para su aprobación e incorporación al correspondiente registro oficial.

Asimismo, se autoriza a la Comisión Nacional del Mercado de Valores para que haga público el mencionado Folleto Informativo en soporte informático en su página *web*.

Y para que así conste, a los efectos oportunos, expido la presente certificación en Bilbao, a 19 de junio de 2015.

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Fdo.: D. Alberto García Erauzkin
En nombre y representación de
Euskaltel, S.A.

EUSKALTEL, S.A.

(A *sociedad anónima* incorporated under the laws of Spain)

Offering of 80,408,930 ordinary shares of Euskaltel, S.A.
Offer Price Range of €8.70 to €11.05 per ordinary share

This is an initial public offering (the "**Offering**") of 80,408,930 ordinary shares with a par value of €3.00 each (the "**Initial Offer Shares**") of Euskaltel, S.A ("**Euskaltel**" or the "**Company**"), a *sociedad anónima* incorporated under the laws of Spain, by Kutxabank, S.A., Araba Gertu, S.A.U., International Cable B.V. and Iberdrola, S.A. (the "**Selling Shareholders**") to qualified investors inside and outside of Spain, including a placement in the United States to "qualified institutional buyers" or "QIBs" (as defined in Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**")), in reliance on Rule 144A. In order to deliver ordinary shares to certain of its managers and employees, the Company currently expects that it will acquire between 1,587,145 and 1,680,740 Initial Offer Shares in the Offering (between 1.97% and 2.09% of the Initial Offer Shares), calculated on the basis of the Offer Price Range. These Initial Offer Shares to be acquired by the Company will not be taken into consideration for the book-building process referred to below. The ordinary shares with a par value of €3.00 each of Euskaltel have not been and will not be registered under the Securities Act. The Offering outside the United States will be made in compliance with Regulation S ("**Regulation S**") under the Securities Act.

In addition, Kutxabank, S.A. and International Cable B.V. will grant an option to the Joint Global Coordinators (defined below) to purchase up to 8,040,893 additional shares of the Company (representing 10% of the Initial Offer Shares) (the "**Additional Shares**", and together with the Initial Offer Shares, the "**Shares**") at the Offer Price (less agreed commissions) to cover over-allotments of Shares in the Offering, if any, and short positions resulting from stabilization transactions (the **"Over-allotment Option"**). The Over-allotment Option is exercisable, in whole or in part, by UBS Limited as stabilization manager for a period of 30 calendar days from the date on which our ordinary shares commence trading on the Spanish Stock Exchanges (as defined below).

An investment in the Shares involves a high degree of risk. See "Risk Factors" beginning on page 23 for a discussion of certain matters that investors should consider prior to making an investment in the Shares.

Prior to this Offering, there has been no public market for our ordinary shares. We will apply to have our ordinary shares listed on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges (the "**Spanish Stock Exchanges**") and to have our ordinary shares quoted on the Automated Quotation System or "*mercado continuo*" of the Spanish Stock Exchanges (the "**AQS**"). We expect our ordinary shares (including the Shares offered hereby) to be listed on the Spanish Stock Exchanges and quoted on the AQS on or about July 1, 2015 ("**Admission**") under the symbol "EKT".

The indicative offer price range at which Shares will be sold in the Offering is between €8.70 and €11.05 per Share (the "**Offer Price Range**"). This price range has been determined based on negotiations between the Selling Shareholders and the Joint Global Coordinators and no independent experts have been consulted in determining this price range. The final price of the Shares offered in the Offering (the "**Offer Price**") will be determined based on negotiations between the Selling Shareholders and the Joint Global Coordinators upon the finalization of the book-building period (expected to occur on or about June 29, 2015) and will be announced through the publication of a relevant fact disclosure ("*hecho relevante*").

The Initial Offer Shares are expected to be delivered through the book-entry facilities of *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.* and its participating entities ("**Iberclear**") on or about July 3, 2015.

This document (the "**Prospectus**") constitutes a prospectus for the purposes of Article 3 of Directive 2003/71/EC of the European Parliament and of the Council of the European Union (as amended, including by Directive 2010/73/EU, the "**Prospectus Directive**") and has been prepared in accordance with, and including the information required by, Annexes I, III and XXII of Regulation (EC) No. 809/2004 and the amendments thereto, including Commission Delegated Regulation (EU) 486/2012 and Commission Delegated Regulation (EU) 862/2012 (the "**Prospectus Rules**"). This Prospectus has been approved as a prospectus by the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) ("**CNMV**") in its capacity as competent authority under Law 24/1988, of July 28, on the Securities Market (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) ("**LMV**") and relevant implementing measures in Spain.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any of the Shares in any jurisdiction or to any person to whom it would be unlawful to make such an offer.

The Shares have not been and will not be registered under the Securities Act or the applicable securities laws of any state or other jurisdiction of the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of certain restrictions about eligible offerees and on transfer of the Shares, see "*Selling and Transfer Restrictions*".

Joint Global Coordinators and Joint Bookrunners

J.P. Morgan **UBS Investment Bank**

Joint Bookrunners

BBVA **Citigroup**

Co-Lead Managers

Banco Santander **CaixaBank** **JB Capital Markets** **N+1** **Norbolsa**

Financial Advisor to the Company

Rothschild

Prospectus dated June 19, 2015

IMPORTANT NOTICE

The Company wishes to highlight to investors and any future shareholders the following matters:

1. *As a result of the Company's new financing, the net debt of the Company will be increased by €248 million, which will be used, among other things, for the payment of an extraordinary dividend to the Selling Shareholders and to settle the Company's obligations under the Management Incentive Plans and the Investment Agreements (in a gross amount of between €39.1 million and €54.3 million, calculated on the basis of the Offer Price Range). As a result, none of the proceeds from the new financing will be available for investments.*
2. *The Company will use its existing liquidity and reserves for the payment of the extraordinary dividend to the Selling Shareholders in an amount of between €193.3 million and €209.2 million (calculated on the basis of the Offer Price Range). As a result, following the Offering, the Company will have no significant distributable reserves. Accordingly, our ability to make a distribution to shareholders will depend on our ability to generate net profits in future periods in order to achieve sufficient distributable reserves.*
3. *Upon completion of the Offering, the Management Incentive Plans and the Investment Agreements will be liquidated. In addition, the Company will deliver ordinary shares at no cost (for free) to its employees under the Employee Share Scheme. As a result, we expect the impact on our income statement for the year ended December 31, 2015 to amount to €39 million (for the Management Incentive Plans and the Investment Agreements) and between €3.3 million and €4.0 million (for the Employee Share Scheme).*
4. *The Offering comprises the sale of 63.5% of our share capital (69.9% if the Over-allotment Option is exercised in full). As a result, the Selling Shareholders will significantly reduce their stake in our Company or exit from their investments completely, and the Company will be required to adjust the composition of its Board of Directors and the relevant Board Commissions to reflect the change in its shareholder structure. The Company expects to make these adjustments as well as establish a remuneration policy for its directors as soon as reasonably practicable following the Offering (and in any case no later than at the Company's next annual general meeting).*

ESSENTIAL INFORMATION ABOUT THIS PROSPECTUS

YOU SHOULD READ THE ENTIRE PROSPECTUS AND, IN PARTICULAR, "RISK FACTORS" BEGINNING ON PAGE 23 OF THIS PROSPECTUS WHEN CONSIDERING AN INVESTMENT IN THE SHARES.

None of J.P. Morgan Securities plc ("**J.P. Morgan**") or UBS Limited ("**UBS**") (together, the "**Joint Global Coordinators**"), Banco Bilbao Vizcaya Argentaria, S.A. or Citigroup Global Markets Limited (together with the Joint Global Coordinators, the "**Joint Bookrunners**") or Banco Santander, S.A., Caixabank, S.A., JB Capital Markets, S.V., S.A.U., Nmás1 Equities Sociedad de Valores, S.A., or Norbolsa Sociedad de Valores, S.A. (the "**Co-Lead Managers**" and together with the Joint Bookrunners, the "**Managers**") or Rothschild, S.A. ("**Rothschild**") (acting as financial advisor to the Company) or any of their respective affiliates makes any representation or warranty, express or implied, nor accepts any responsibility whatsoever, with respect to the content of this document, including the accuracy or completeness or verification of any of the information in it. This document is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Selling Shareholders, the Managers or Rothschild that any recipient of this document should purchase the Shares.

Apart from the responsibility and liabilities, if any, which may be mandatorily imposed on them by the regulatory regime in Spain, neither the Managers nor Rothschild nor the Selling Shareholders accept any responsibility whatsoever for the contents of this Prospectus nor for any other statement made or purported to be made by any of them or on their behalf in connection with us, the Selling Shareholders or the Shares. The Managers, Rothschild and the Selling Shareholders accordingly disclaim all and any liability whether arising in tort or that they might otherwise have in respect of this Prospectus or any such statement.

The information contained in this Prospectus is accurate only as of the date of this Prospectus, regardless of the date of delivery of this Prospectus or any sale of the Shares. Every significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus which is capable of affecting the assessment of the securities and which arises or is noted between the time when this Prospectus is approved and the time when trading on the Spanish Stock Exchanges of the ordinary shares begins, shall be mentioned in a supplement to this Prospectus to be approved and published in the same manner as this Prospectus but no obligation is assumed to publish additional information other than general rules for issuance of supplements to this Prospectus or relevant fact disclosures ("*hechos relevantes*").

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied on as having been authorized by us, the Selling Shareholders, Rothschild or the Managers and none of them or us accept liability with respect to such information or representation.

The contents of this Prospectus are not to be construed as legal, financial or tax advice. You should consult your own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice. Therefore, this Prospectus is not intended to provide the basis of any credit or other valuation and shall not be considered as a recommendation by any of us, the Selling Shareholders, the Managers, or their advisors, that any recipient of this Prospectus should purchase the Shares. Each investor or purchaser of the Shares should determine for itself the relevance of the information contained in this document and its investment or purchase of the Shares shall be based upon such investigation, as it deems necessary, including the assessment of risk involved and its own determination of the suitability of any such investment, with particular reference to their own investment objectives and experience and any other factors that may be relevant to such investor in connection with the purchase of the Shares.

The Offer Price Range is indicative only and the Offer Price may be set within, above or below the Offer Price Range. The Offer Price of the Shares and the number of ordinary shares to be included in the Offering will be determined based on negotiations between the Selling Shareholders and the Managers upon the finalization of the book-building period (expected to be determined on or about June 29, 2015) and will be announced through the publication of a relevant fact disclosure ("*hecho relevante*"). No independent experts will be consulted in determining the Offer Price.

The contents of the website of the Company do not form any part of this document. The distribution of this Prospectus and the offer or sale of the Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions, including those set out in the section "*Selling and Transfer Restrictions*". Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. No action has been or will be taken in any jurisdiction by us, the Selling Shareholders, the Managers or Rothschild that would permit a public offering of the Shares or possession or distribution of a Prospectus in any jurisdiction where action for that purpose would be required. This Prospectus may not be used for, or in connection with, and does not constitute an offer to, or solicitation by, anyone in any jurisdiction in which it is unlawful to make such an offer or solicitation. Persons into whose possession this Prospectus may come are required by us, the Selling Shareholders, Rothschild and the Managers to inform themselves about and to observe these restrictions. Neither we, nor the Selling Shareholders, nor any of the Managers or Rothschild accepts any responsibility for any violation by any person, whether or not such a person is a prospective purchaser of our Shares, of any of these restrictions.

In connection with the Offering, each of the Managers and any of their respective affiliates acting as an investor for its own account, may take up Shares and in that capacity may retain, purchase or sell for its own account such Shares and any securities of the Company or related investments and may offer or sell such Shares, securities or other investments otherwise than in connection with the Offering. Accordingly, references in this document to the Shares being offered or placed should be read as including any offering or placement of such securities to the Managers and any relevant affiliate acting in such capacity. In addition, certain of the Managers or their affiliates may enter into financing arrangements (including swaps) with investors in connection with which such Managers or their respective affiliates may from time to time acquire, hold or dispose of Shares. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Managers are acting exclusively for the Company and the Selling Shareholders and no one else in connection with the Offering. They will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Offering and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for giving advice in relation to the Offering or any transaction or arrangement referred to herein.

TABLE OF CONTENTS

SUMMARY

*Summaries are made up of disclosure requirements known as "**Elements**". These Elements are numbered in Sections A—E (A.1—E.7).*

This summary contains all the Elements to be included in a summary for this type of securities and company. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and company, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the notation of "not applicable".

Section A—Introduction and warnings		
A.1	Warning to investors:	**THIS SUMMARY SHOULD BE READ AS AN INTRODUCTION TO THIS PROSPECTUS. ANY DECISION TO INVEST IN THE SHARES OF EUSKALTEL, S.A. (THE "COMPANY") SHOULD BE BASED ON CONSIDERATION OF THIS PROSPECTUS AS A WHOLE BY THE INVESTOR.** **Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Union, have to bear the costs of translating this Prospectus before the legal proceedings are initiated.** Under Spanish law, civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or it does not provide, when read together with other parts of this Prospectus, key information in order to aid investors when considering whether or not to invest in the Shares.
A.2	Subsequent resale of securities or final placement of securities through financial intermediaries:	Not applicable. The Company is not engaging any financial intermediaries for any resale of securities or final placement of securities requiring a prospectus after publication of this document and has not given its consent for any such resale or placement.

Section B—Issuer		
B.1	Legal and commercial name:	The legal name of the issuer is Euskaltel, S.A. The commercial name of the issuer is "Euskaltel".
B.2	Domicile and legal form:	The Company is incorporated as a public limited company (a *sociedad anónima* or S.A.) in Spain under the Spanish Companies Act. It has its registered office at Parque Tecnologico de Bizkaia, Edificio 809, 48160 Derio, Bizkaia, Spain. The Company is incorporated for an unlimited term.
B.3	Key factors relating to the nature of the issuer's current operations and its principal activities:	We are the Basque fiber and convergence leader (source: Company estimates based on CNMC data as of 2013 and 2014), and operate in one of the most affluent regions in Spain. We offer primarily bundled services comprised of high-speed broadband, Pay TV, mobile and fixed telephony services to residential and business customers. We have a proprietary, fully-invested next generation fiber network of approximately 350,000 km and are the only operator with a fiber network covering most of the Basque Country.

Residential segment

We provide our residential customers with a combination of fixed and mobile telecommunication services, as well as other value added services, primarily through our fiber network and our MVNO agreement with Orange. The following is a summary of the main services we provide to our residential customers:

Bundles: We offer customers the opportunity to subscribe to a variety of "bundled" packages, which provide them with multiple services (high-speed broadband, Pay TV, mobile telephony and fixed telephony) charged in a single bill and at competitive prices. "Double-play" or "2P" packages bundle two of our services, "triple-play" or "3P" packages bundle three of our services and "quadruple-play" or "4P" packages bundle all four of our services together. Following market trends and our own marketing efforts, there has been an increase in the popularity of our triple-play and quadruple-play packages with our new customers in this segment and because of cross-selling efforts on our existing customer base. As a result, as of March 31, 2015, 82.4% (up from 77.6% when compared to March 31, 2014) of our residential customers subscribed to a bundled package (24.8% double-play (a decrease of 9.4% when compared to March 31, 2014), 35.5% triple-play (an increase of 2.9% when compared to March 31, 2014) and 22.1% quadruple-play (an increase of 11.3% when compared to March 31, 2014)). This was accompanied by an increase in RGUs from 719,033 as at December 31, 2012 to 896,077 as at December 31, 2014 and a reduction in our annual churn from 17.2% during the year ended December 31, 2012 to 14.8% during the year ended December 31, 2014, which we believe is the lowest in the market.

Broadband: We are the leading provider of high-speed broadband services in the Basque Country with an estimated market share of approximately 41% (source: Company estimates based on CNMC data as of 2013 and 2014). Our fully-invested next generation fiber network allows us to offer differentiated products with ultra-high speeds currently up to 350 Mbps which cannot be matched by our DSL competitors. As of March 31, 2015, we provided 216,846 residential customers with our broadband services and 181,193 with high-speed broadband (speeds of 30 Mbps and higher) (a 150.2% increase from March 31, 2014).

Pay TV: We are the leading provider of Pay TV services in the Basque Country (jointly with Telefónica) with an estimated market share of approximately 47% (source: Company estimates based on CNMC data as of 2013 and 2014). We offer a wide selection of digital television programming from basic to premium packages together with TV Everywhere (which we market under our "Edonon" brand), VoD and PVR functionalities. We offer access to premium content with the most popular local offering. As of March 31, 2015, we provided 115,554 residential customers with our Pay TV services (an 89.4% increase from March 31, 2014).

Mobile telephony: We are the fastest-growing provider of mobile services in the Basque Country with an estimated market share of approximately 20% (source: Company estimates based on CNMC data as of 2013 and 2014). As of March 31, 2015, we provided 165,411 residential customers with our mobile services which represented a 24.8% increase since March 31, 2014. We currently offer our mobile products fully bundled with our fixed line telephony services, a strategy we believe is helping us to improve global ARPU and reduce churn. Mobile is a powerful customer loyalty and satisfaction tool as demonstrated by the low churn levels we experience on convergent offers which include mobile. Churn rates within our residential fixed-line customers are over three

		times lower when the customer also subscribes to a mobile line: during the first three months of 2015, our churn rate for bundles without mobile was 19.6%, compared to a churn rate for bundles that include mobile of only 6.4%. Fixed telephony: We are a leading provider of fixed telephony services in the Basque Country (with the second highest market share behind Telefónica) with an estimated market share of approximately 38% (source: Company estimates based on CNMC data as of 2013 and 2014). We offer this service primarily bundled with our other services and as of March 31, 2015 87.9% of our fixed telephony customers subscribed to bundled products (a 7.1% increase from March 31, 2014). We offer our fixed telephony services with unlimited national fixed calls as well as a wide range of price plans for fixed-to-mobile and fixed-to-international calls. With the aim of further improving our customer experience, reducing costs and further reducing our customer churn, in March 2015 we launched "Euskaltel WiFi", the biggest proprietary WiFi network ever built in the Basque Country with more than 128,000 access points. We believe that "Euskaltel WiFi" will enable us to improve our offering, especially for mobility, while potentially reducing our costs through the offload of mobile data traffic from our host mobile network provided by Orange to our own fiber network. **Business segment** We also provide fixed and mobile telecommunication services to SOHOs, SMEs and Large Accounts, leveraging our fiber network. For SMEs and Large Accounts, through our own dedicated salesforces, we are able to offer integrated and tailor-made solutions to a sophisticated and demanding customer base, which includes financial institutions, large corporates, healthcare providers and public administration bodies. As of March 31, 2015, we provided 52,177 business customers with our services (a 1.0% increase from March 31, 2014) and during the year ended December 31, 2014, our business segment generated revenue of €93.4 million (accounting for 29.1% of our Total Revenue). SOHOs: We have a specific product offering for small businesses (under ten employees), which includes premium technical support, online presence and email services. We have a dedicated outsourced salesforce and we recently launched an online sales platform for SOHOs. As of March 31, 2015, we served 47,136 customers in our SOHO product offering (a 1.4% increase from March 31, 2014) and our services to SOHOs generated €35.6 million during the year ended December 31, 2014 (accounting for 38.1% of our Total Revenue generated by our business segment for such year). SMEs: We provide a range of solutions for medium-sized businesses (ten to 40 employees) with relatively high technological requirements. These services include broadband access of up to 350 Mbps, fiber access of up to 1 Gbps symmetric, MPLS Network, fixed-mobile convergence, IP Switch and advanced IT services. As of March 31, 2015, we served 4,686 customers in our SME product offering (a 3.5% decrease from March 31, 2014) and our services to SMEs generated €18.5 million during the year ended December 31, 2014 (accounting for 19.8% of our Total Revenue generated by our business segment for such year). We sell these services directly through our own dedicated SMEs salesforce, which enables us to provide SMEs with standardized offerings according to the specific needs of our SME customers, leveraging our Large Accounts product innovation and know-how.

		Large Accounts: Our Large Accounts customer base includes both public administration bodies and large corporates. These entities are based in the Basque Country and a portion of our Large Accounts customers also have activities outside of the Basque Country (as of March 31, 2015, 26% of our Large Accounts services were provided outside of the Basque Country). Our Large Accounts customers have high technological requirements and we devise tailor-made solutions according to each customer's specific needs. These include fiber access of up to 1 Gbps symmetric, FMC, SIP Trunking, MLPS networks, cloud firewall and virtual data centers. Our services to our Large Accounts customer base generated €39.3 million during the year ended December 31, 2014 (accounting for 42.1% of our Total Revenue generated by our business segment). We sell these services directly through our own Large Accounts salesforce and implement a project team approach with dedicated managers and highly-qualified engineers across the life cycle of a project (pre-sale, implementation and post-sale). **Wholesale and Other** As of March 31, 2015, we provided communications services to 27 wholesale customers (most of whom are telecommunication companies which compete directly with us) including Leased Lines, data and voice services that use our facilities and infrastructure to provide services to their customers. We provide Leased Lines services in SDH and Ethernet technologies, Dark Fiber, Voice Services (that allow carriers to complete their end-user calls that originate or terminate within our territory) and Enabling Services, based in our BSS and Mobile Core Network. In addition, we offer IT outsourcing services to Telecable and, by virtue of our distribution agreement with RACC, we also offer mobile services in Catalonia using the "RACC Telefonía móvil" brand. We also provide mobile enabler and system enabler services as well as collocation and voice resale. We also sell installation material and electronics to third-party installation companies to be used in provisioning customers and deploying and maintaining our next generation fiber network. These operations have a neutral impact on our profitability. Our Wholesale and Other segment generated €24.7 million during the year ended December 31, 2014, which represented 7.7% of our Total Revenue. **Our Strengths** We believe we benefit in particular from the following competitive strengths which will allow us to execute our business plan: • We operate in a highly attractive geography with strong macroeconomic fundamentals; • The telecommunications sector is exhibiting strong penetration potential and rebounding dynamics, providing us with pricing, up-selling and cross-selling opportunities and potential for further growth; • We are the Basque fiber and convergence leader; • We have a fully-invested next generation fiber network and cost-efficient and flexible mobile capabilities; • We derive significant competitive advantage from the Euskaltel brand, our differentiated and innovative product offering and our customer-centric approach;

- Resilient revenue generation with growth momentum delivering superior profitability and cash flow conversion; and
- We benefit from an experienced management team with a proven track record of execution.

Our strategy

Our strategy is to maximize customer lifetime value by leveraging our leadership positions in the Basque Country, loyal customer base, proprietary fully-invested next generation fiber network and brand to consolidate our market shares in broadband, Pay TV and fixed telephony and to continue to grow our mobile telephony market share and further strengthen our position in the business segment. We strongly believe that, by leveraging our unique competitive strengths, our customer-centric commercial strategy places us in an unparalleled position to benefit from the overall increase in data consumption across the residential and business markets both at home and in mobility.

In order to achieve these goals, we have identified the following strategic pillars:

- Continue to focus on increasing customer lifetime value by up-selling and cross-selling to our existing customer base and acquiring new customers on high-value bundles to drive ARPU and reduce churn as well as actively promoting mobility and targeting DSL users;
- Foster customer experience and product innovations to maintain our leadership in the Basque Country;
- Continue with our disciplined approach to infrastructure investment to support our successful commercial strategy;
- Continue to optimize process efficiencies and drive digitalization to further improve profitability; and
- Strategically positioned to drive regional cable consolidation.

Our Areas of Operation

Our proprietary, fully-invested next generation fiber network gives us access to approximately 872,053 homes passed (85% of households in the Basque Country, representing approximately 86% of the population in the Basque Country) and 146,784 business premises. Our accessible market represents 100% of the population in the Basque Country through ad-hoc satellite and WiMAX.

We have deep coverage in the most densely-populated areas in the Basque Country. The following table sets forth certain information in relation to the coverage of our network as at April 30, 2015:

Top 3 cities by population	Homes passed	% total households
Greater Bilbao (includes Getxo, Barakaldo and Portugalete)	255,936	98%
Vitoria	104,133	91%
San Sebastian	72,421	81%

Network Architecture

Our proprietary, fully-invested next generation fiber network of approximately 350,000 km is fully upgraded to Docsis 3.0, with a capacity of 862MHz and a fully-owned backbone, currently capable of delivering speeds of up to 500 Mbps and with a number of small upgrades, our network could deliver speeds of up to 800 Mbps at marginal incremental costs and limited time-to-market. We believe our network is one of the most advanced and competitive in Europe.

		Proprietary WiFi Network With the aim of further improving our mobile offer, reducing operating costs and improving our customer churn, in March 2015 we launched the biggest proprietary WiFi network ever built in the Basque Country with more than 128,000 access points, "Euskaltel WiFi". We believe that our competitors are unable to replicate this concept in the near term due to their lack of coverage in the Basque Country. Although only launched recently, approximately 125,000 users have already downloaded the app and registered for the service within the first month (by April 26, 2015), which represents approximately 33% of our addressable bundled broadband and mobile users (residential customers and SOHOs). In addition, in less than one month after launch, more than 21 TB of data had been transmitted through our WiFi network.
B.4a	A description of the most significant recent trends affecting the issuer and the industries in which it operates:	The Spanish telecommunications market is highly competitive and has been through a series of evolutionary periods, since its liberalization in 1997. Prior to the recession, in 2007, the Spanish telecommunications market was characterized by high price points and significant competition from new challengers which drove increased levels of promotions and discounts. Beginning in 2008, the Spanish telecommunications market experienced sharp revenue contraction as a result of the recession and these market pressures. In 2012 Telefónica, the Spanish market incumbent, introduced heavily discounted bundled offerings via its "Movistar Fusión" product. The effect of this was to significantly drive down prices and lead to a rapid shift to convergence. As a result, the market has seen significant consolidation over the past two years, primarily driven by mobile-centric operators buying cable operators. The Spanish telecommunications and television market generated revenues of €30.1 billion over the year ended December 31, 2014 (source: CNMC). The largest telecommunications sector by revenue is mobile communications (voice and broadband) with €9.8 billion (or 32%), followed by fixed communications (voice and broadband) with €7.1 billion (or 23%). We mostly operate in six sectors of the telecommunications and television market: broadband, Pay TV, mobile, fixed telephony, business and fixed wholesale. These sectors in total generated revenues of €22.6 billion in the year ended December 31, 2014, which represented approximately 75% of the total Spanish telecommunications market. Aggregate revenues generated by these sectors declined 5.8% per year (calculated as a compound annual growth rate, or CAGR) from 2008 to 2014, mainly driven by a significant decrease in fixed and mobile voice revenues and as a result of the market shift to convergence as introduced by "Movistar Fusión". Growth in the telecommunications and television market in the Basque Country is expected to be driven by increasing data consumption, especially as customers demand higher bandwidth capacity and speeds, Pay TV adoption accelerates and there is an increase in mobile services consumption, particularly in mobile data. Market trends in the Basque Country mirror those of the broader Spanish market. **Convergence** The Spanish telecommunications and television market has most recently been characterized by a rapid transition to convergence of fixed and mobile services, with operators bundling services such as broadband, television, mobile and fixed-line telephony into integrated offers (double-, triple- and quadruple-play), which has made the Spanish telecommunications market amongst the most convergent markets in Europe.

Fiber Deployment

A number of the Spanish operators have announced FTTH deployment plans to transition from ULL ADSL to NGN access technologies. FTTH adoption at the national level is relatively limited given the lengthy and expensive process to install the vertical access required. As at December 31, 2014, Telefónica reached 10.3 million premises (residential and business) passed with fiber, representing approximately 55% of target homes passed (primary homes only, excluding business premises) in Spain, and has plans to reach up to 75% of homes passed (primary homes only, excluding business premises) by 2016 subject to appropriate regulation. Telefónica's strategy includes standalone deployment, complemented by a vertical infrastructure access agreement with Jazztel, in order to share the deployment of FTTH networks in Spain. Telefónica has been focusing on the largest Spanish cities, where competition is generally higher since all the main operators seek to gain a strong market stake. The CNMC is currently conducting a fiber access market review which could result in Telefónica's being obliged to offer wholesale FTTH in the near future in areas where the CNMC considers there not to be sufficient competition. As a result, Telefónica has publicly announced that it could slow the pace of FTTH deployment if it is forced to open up its fiber access network to competitors. In the Basque Country, we estimate that Telefónica's FTTH coverage is approximately 30% of homes passed (as at March 31, 2015) and it has shown limited focus on FTTH roll-out in the Basque Country to date.

Consolidation

The Spanish market's move towards fixed/mobile convergence has resulted in market consolidation, primarily driven by mobile-centric operators buying cable operators. Competition and convergence drove mobile revenues down and mobile-centric operators were increasingly unable to compete without a comparable broadband and Pay TV proposition. Similar consolidation activity is taking place in the telecommunications sector in the rest of Europe.

B.5	Group description:	Not applicable. As at the date of this Prospectus, the Company has no subsidiaries.
B.6	Major shareholders:	At the date of this Prospectus, the issued share capital of the Company consists of €379,613,400 divided into a single series of 126,537,800 ordinary shares in book-entry form, with a nominal value of €3.00 each. All of these shares are fully paid.

As at the date of this Prospectus, the Selling Shareholders hold 100% of the Company's share capital and voting rights and therefore control the Company.

The following table sets forth certain information with respect to the beneficial ownership of the ordinary shares in the Company held by Kutxabank, S.A., International Cable, B.V. and Iberdrola, S.A. prior to and after the Offering.

	Prior to the Offering		After the Offering			
Owner	**Number of shares**	**%**	**Number of shares(1)**	**%**	**Number of shares(2)**	**%**
Kutxabank, S.A.(3)	63,142,360	49.90	40,595,717	32.08	38,087,977	30.10
International Cable, B.V.(4)	60,864,680	48.10	5,533,153	4.37	—	—
Iberdrola, S.A.	2,530,760	2.00	—	—	—	—
Management(5)	—	—	1,269,702	1.00	1,269,702	1.00
Employees(6)	—	—	379,613	0.30	379,613	0.30
Free float	—	—	78,759,615	62.24	86,800,508	68.60
Total	**126,537,800**	**100**	**126,537,800**	**100**	**126,537,800**	**100**

Notes:

(1) Assuming no exercise of the Over-allotment Option.

(2) Assuming the Over-allotment Option is exercised in full.

(3) Kutxabank, S.A. holds 42.83% directly and the remaining 7.07% through its subsidiary Araba Gertu, S.A.U. Following completion of the Offering, Araba Gertu, S.A.U. will no longer hold any shares in our Company.

(4) This company is held by TCP Cable S.a.r.l (50.00%) and International Cable Holdings S.a.r.l (50.00%). International Cable Holdings S.a.r.l is participated by Investindustrial IV L.P. and other co-investors. TCP Cable S.a.r.l is participated by Trilantic Capital Partners IV (Europe) L.P. and other co-investors.

(5) Comprises the beneficiaries under the Management Incentive Plans who have agreed to reinvest part of the compensation due to them under the Management Incentive Plans in ordinary shares of the Company. In addition, Mr. Alberto García Erauzkin has agreed to reinvest part of the compensation due to him under the Investment Agreements in ordinary shares of the Company. The number of shares is calculated on the basis that the Offer Price is the mid-point of the Offer Price Range.

(6) Comprises the employees who will receive shares for free (at no cost) under the Employee Share Scheme. The number of shares is calculated on the basis that the Offer Price is the mid-point of the Offer Price Range.

As of the date of this Prospectus, the Selling Shareholders are party to two shareholders' agreements. However, these shareholders' agreements will automatically terminate upon Admission. Therefore, with effect from Admission, there will be no shareholders' agreements in place and upon completion of the Offering and assuming the full exercise of the Over-allotment Option, none of the Selling Shareholders, whether individually or together, will control the Company and the Company is not aware of any person who, following Admission, will, directly or indirectly, own or control the Company. However, the Company's bylaws do contain supermajority rights as described further below.

Our bylaws provide that the following shareholders' resolutions may only be validly passed if approved by a reinforced majority of 75% of the voting rights in attendance:

- Amendment of our bylaws affecting our corporate address, corporate name and corporate purpose, the regime of approval of resolutions by the general shareholders' meeting or the Board of Directors, as well as the change of the trademark "Euskaltel" for the operations of the Company within the Autonomous Community of the Basque Country.
- Any resolution with the purpose of not maintaining the effective administration and management of the Company in the Autonomous Community of the Basque Country.
- The delegation of faculties for the approval of the aforementioned resolutions by the Board of Directors, in those cases permitted by the applicable law.

Additionally, the bylaws provide for the following resolutions, which cannot be delegated by the Board of Directors, may only be validly passed if approved by a supermajority of at least four fifths (⅘) of the members of the Board of Directors (whether attending personally or by proxy) (and provided that a reinforced quorum of four fifths (⅘) of the members of the Board of Directors are in attendance, whether personally or by proxy):

- The closure of any of our workplaces located in the Autonomous Community of the Basque Country, unless duly justified by reasons of efficiency in the development of our business.
- Any resolution proposed to the general shareholders' meeting with the purpose of not maintaining the effective administration and management of the Company in the Autonomous Community of the Basque Country.

- Any resolution proposed to the general shareholders' meeting to amend the trademark "Euskaltel" with regard to the exercise of our activities within the Autonomous Community of the Basque Country.
- Any decision concerning the vote of the Company in its capacity as shareholder (or member of the governing bodies) of any of its subsidiaries or affiliate companies, in relation to any resolution considered as a Board of Directors' resolution subject to reinforced quorum and supermajority at the Company's level.
- The grant of delegations by the general shareholders' meeting in relation to the abovementioned resolutions.

B.7 Historical key financial information:

The selected financial information as of and for the years ended December 31, 2014, 2013, 2012 and as of and for the three months ended March 31, 2015 presented below has been prepared in accordance with IFRS-EU.

1. Income statement under IFRS-EU

	Three months ended March 31,		Year ended December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
	(unaudited)				
			(€ thousands)		
Revenue	78,437	77,959	315,109	329,148	338,542
Other income	126	71	331	559	819
Work performed by the entity and capitalized	1,047	1,555	5,721	5,184	3,439
Supplies	(17,487)	(17,965)	(71,524)	(73,018)	(76,916)
Personnel expenses	(5,839)	(8,089)	(30,318)	(34,379)	(31,708)
Other operating expenses	(19,015)	(16,332)	(64,612)	(70,946)	(92,217)
Depreciation, amortization and impairment	(19,874)	(19,664)	(81,508)	(83,243)	(75,889)
Results from Operating Activities	**17,395**	**17,535**	**73,199**	**73,305**	**66,070**
Net Finance Cost	(15,906)	(6,226)	(23,264)	(15,939)	(12,725)
Income tax	(248)	(2,988)	(13,152)	(15,072)	(13,220)
Profit for the Period	**1,241**	**8,321**	**36,783**	**42,294**	**40,125**

Our revenue for the three months ended March 31, 2015 was €78.4 million, as compared to €78.0 million for the three months ended March 31, 2014, representing a €0.4 million, or 0.5%, increase. This increase was attributable mainly to the Residential segment which has shown accelerating growth as a consequence of lower churn ratio (14.8%, compared to 16.2% for the three months ended March 31, 2014) and improved monthly residential Global ARPU (€55.2) as well as a rising mobile customer penetration rate compared to the prior period. The revenue in our Residential segment increased 2.1% compared to the three months ended March 31, 2014, while our SOHO segment showed an additional growth of 0.2% compared to the prior period.

Our other segments (SMEs, Large Accounts, Wholesale and Other business) showed a slight recovery month to month, as compared to the three months ended March 31, 2014, but have decreased overall by 7.9% as compared to the prior period, due in part to the discounts agreed to in our contract with the Basque government, regulatory changes relating to the pricing of termination rates in our fixed telephony network, decreases in equipment sales and tougher competition from our competitors in the segment. Our profit for the period decreased by €7.1 million, or 85.5%, to €1.2 million for the three months ended March 31, 2015 from €8.3 million for the three months ended March 31, 2014, which was mainly due to the recognition of our estimated liabilities under the Management Incentive Plans and Investment Agreements.

Our revenue for the year ended December 31, 2014 was €315.1 million, as compared to €329.1 million for the year ended December 31, 2013, representing a €14.0 million, or 4.3%, decrease.

This decrease was mainly attributable to a decrease in revenue from our Business segment as well as several factors impacting revenue across our segments, including an erosion in mobile ARPU (which was greater in the Business segment than in the Residential segment); the pricing pressures driven by Telefónica; and governmental entities/public administrative bodies reducing their telecommunications spend during this period, seeking price and service reductions. Our profit for the year decreased by €5.5 million, or 13.0%, to €36.8 million for the year ended December 31, 2014 from €42.3 million for the year ended December 31, 2013.

Our revenue for the year ended December 31, 2013 was €329.1 million, as compared to €338.5 million for the year ended December 31, 2012, representing a €9.4 million, or 2.8%, decrease.

This decrease was mainly attributable to a decrease in revenue from our Residential segment as a result of an erosion in Global ARPU, a decrease in residential customers and pricing pressures across the industry. Our profit for the year increased by €2.2 million, or 5.5%, to €42.3 million for the year ended December 31, 2013 from €40.1 million for the year ended December 31, 2012.

For the month ended April 30, 2015, revenue from the residential segment grew by 3.6% for the month compared to the same period in the prior year, thereby supporting the accelerating growth momentum in the residential segment. There has also been a stabilization of the Global ARPU trend in the SOHO sub-segment with a noticeable increase in April 2015, resulting in a 3.9% revenue growth in the SOHO subsegment year-on-year.

2. Balance sheet under IFRS-EU

	As at March 31, 2015	As at December 31,		
		2014	2013	2012
	(unaudited)	(€ thousands)		
Assets				
Non-current assets	911,297	921,542	973,003	1,017,651
Current assets	57,841	56,785	48,759	45,664
Total assets	**969,138**	**978,327**	**1,021,762**	**1,063,315**
Equity and Liabilities				
Equity	648,549	647,490	614,613	572,896
Non-current liabilities	210,512	212,949	223,829	284,571
Current liabilities	110,077	117,888	183,320	205,848
Total Equity and Liabilities	**969,138**	**978,327**	**1,021,762**	**1,063,315**

On June 3, 2015, we entered into a facilities agreement with Kutxabank S.A. and Banco Bilbao Vizcaya Argentaria, S.A. as mandated lead arrangers and the other parties named therein (the "**Facilities Agreement**").

Under the Facilities Agreement, the following facilities are made available, conditional upon, amongst other things, the Company confirming to the lenders that the final pricing for the Offering has been agreed with the Joint Global Coordinators (such date currently expected to be on or around June 29, 2015):

- a term loan A facility of €235,000,000;
- a term loan B facility of €235,000,000; (together, the "**Term Facilities**") and
- a revolving credit facility of €30,000,000.

Upon completion of the Offering, our refinancing arrangements under the Facilities Agreement will become effective which will create total new bank debt of €470 million (comprising the Term Facilities) and enable us to releverage our business to approximately 3.0x net debt to Adjusted EBITDA (based on Adjusted EBITDA of €156.3 million for the twelve months ended March 31, 2015).

We expect to use this new debt as follows:

- repayment of our outstanding bank debt (which amounted to €232 million as of March 31, 2015);
- payment of an extraordinary dividend to the Selling Shareholders in an amount of between €193.3 million and €209.2 million(1) (such extraordinary dividend includes €12.9 million of the total liquidity as of March 31, 2015 plus the cash that the Company has generated between April 1, 2015 and the date of this Prospectus which, as of the date of this Prospectus, is estimated at €21.2 million);
- payment of our obligations under the existing Management Incentive Plans and the Investment Agreements in an amount of between €39.1 million and €54.3 million(1) (comprising, among other things, a cash payment and the facilitating of the beneficiaries' reinvestment of part of the compensation due to them in ordinary shares of the Company, which the Company will arrange by acquiring Shares in the Offering);
- purchase of ordinary shares in the Offering for the purposes of delivering ordinary shares to certain of the Company's employees under the Employee Share Scheme in an amount of between €3.3 million and €4.0(1) million;
- payment of advisory costs and expenses in connection with the Offering, which we estimate to amount to €7 million;
- repayment of our interest rate swaps (which amounted to €6.9 million as of March 31, 2015);
- repayment of our other current financial debt (which amounted to €3.2 million as of March 31, 2015); and
- payment of fees and expenses in connection with the entry into the Facilities Agreement, which we estimate to amount to €3.8 million.

We estimate that our capitalization and indebtedness as of March 31, 2015, adjusted for the above transactions, would be affected as follows:

- a decrease in our total current debt from €110.1 million (as of March 31, 2015) to €56.9 million (as of March 31, 2015 and so adjusted);
- an increase in our total non-current debt (excluding the current portion of long-term debt) from €210.5 million (as of March 31, 2015) to €463.6 million (as of March 31, 2015 and so adjusted);

Note:

(1) Range calculated on the basis that the Offer Price is (a) the low point of the Offer Price Range and (b) the high point of the Offer Price Range. The Offer Price Range is indicative only and the Offer Price may be set within, above or below the Offer Price Range.

- a decrease in our shareholders' equity from €648.5 million (as of March 31, 2015) to €415.4 million (as of March 31, 2015 and so adjusted); and
- an increase in our net financial indebtedness from €228.8 million (as of March 31, 2015) to €470 million (as of March 31, 2015 and so adjusted).

3. Selected financial information under IFRS-EU

	Three months ended March 31, 2015	Three months ended March 31, 2014	Year ended December 31, 2014	2013	2012
	(unaudited)				
Selected financial data					
€ millions unless otherwise stated					
Total Revenue[(1)]	79.6	79.6	321.2	334.9	342.8
Y-o-y change	0.0%		(4.1)%	(2.3)%	
o/w residential	49.0	48.0	196.2	195.4	201.3
Y-o-y change	2.1%		0.4%	(2.9)%	
o/w Business	22.8	23.9	93.4	101.2	102.8
Y-o-y change	(4.6)%		(7.7)%	(1.6)%	
o/w Wholesale and Other	5.6	6.1	24.7	29.7	28.9
Y-o-y change	(8.2)%		(16.8)%	2.8%	
o/w Others[(2)]	2.2	1.6	6.9	8.6	9.8
Y-o-y change	37.5%		(19.8)%	(12.2)%	
Adjusted EBITDA[(3)] *(unaudited)*	37.7	37.3	155.9	155.1	134.7
Y-o-y change	1.1%		0.5%	15.1%	
Margin	47.4%	46.8%	48.5%	46.3%	39.3%
Capital expenditures	(9.1)	(7.9)	(42.2)	(41.5)	(119.2)
Y-o-y change	15.2%		1.7%	(65.2)%	
% Total Revenue	(11.4)%	(9.9)%	(13.1)%	(12.4)%	(34.8)%
Operational Free Cash Flow[(4)] *(unaudited)*	28.6	29.3	113.6	113.6	15.5
Y-o-y change	(2.4)%		0.0%	632.9%	
% Adjusted EBITDA	75.9%	78.6%	72.9%	73.2%	11.5%

Notes:

(1) Comprises revenue, other income and work performed by the Company and capitalized.

(2) Operations with a neutral impact upon profitability.

(3) Defined as Total Revenue less direct costs, commercial costs and overhead costs.

(4) Defined as Adjusted EBITDA less capital expenditure.

The selected financial information as of and for the years ended December 31, 2014, 2013, and 2012 and as of and for the three months ended March 31, 2015 and 2014 presented below has been prepared in accordance with Spanish GAAP.

4. Income statement under Spanish GAAP/Cuentas de pérdidas y ganancias

	As of March 31, 2015	As of March 31, 2014	Year ended December 31, 2014	2013	2012
	(unaudited)				
			(€ thousands)		
Revenue[(1)]	78,437	77,959	315,109	329,148	338,542
Self-constructed assets[(2)]	1,047	1,555	5,721	5,184	3,439
Supplies[(3)]	(17,487)	(17,965)	(71,524)	(73,018)	(76,916)
Other operating income[(4)]	126	71	331	559	819
Personnel expenses[(5)]	(5,839)	(8,089)	(30,318)	(34,379)	(31,708)
Other operating expenses[(6)]	(18,584)	(16,162)	(63,469)	(72,361)	(99,519)
Depreciation and amortization[(7)]	(19,874)	(19,664)	(81,508)	(83,243)	(74,088)
Impairment and gains/(losses) on disposal of fixed assets[(8)]	—	—	289	—	(1,801)
Other gains/(losses)[(9)]	(431)	(170)	(1,432)	1,415	7,302
Results from Operating Activities[(10)]	**17,395**	**17,535**	**73,199**	**73,305**	**66,070**
Net Finance Cost[(11)]	**(15,906)**	**(6,226)**	**(23,264)**	**(15,939)**	**(12,725)**
Profit Before Income Tax[(12)]	**1,489**	**11,309**	**49,935**	**57,366**	**53,345**
Income tax[(13)]	(248)	(2,988)	(5,601)	(7,274)	(5,241)
Profit for the Period[(14)]	**1,241**	**8,321**	**44,334**	**50,092**	**48,104**

Notes:

(1) Importe neto de la cifra de negocios

(2) Trabajos realizados por la empresa para su activo

(3) Aprovisionamientos

(4) Otros ingresos de explotación

(5) Gastos de personal

(6) Otros gastos de explotación

(7) Amortización del inmovilizado

(8) Deterioro y resultado por enajenaciones del inmovilizado

(9) Otros resultados

(10) Resultado de Explotación

(11) Resultado Financiero

(12) Resultado Antes de Impuestos

(13) Impuesto sobre beneficios

(14) Resultado del Ejercicio

5. Balance sheet under Spanish GAAP /*Balances*

	As of March 31, 2015	As at December 31,		
		2014	2013	2012
	(unaudited)			
		(€ thousands)		
Assets(1)				
Non-current assets(2)	911,297	921,542	973,003	1,017,651
Current assets(3)	57,841	56,785	48,759	45,664
Total assets(4)	**969,138**	**978,327**	**1,021,762**	**1,063,315**
Equity and Liabilities(5)				
Equity(6)	648,549	647,490	614,613	572,896
Non-current liabilities(7)	210,512	212,949	223,829	284,571
Current liabilities(8)	110,077	117,888	183,320	205,848
Total Equity and Liabilities(9)	**969,138**	**978,327**	**1,021,762**	**1,063,315**

Notes:

(1) Activo

(2) Activo no corriente

(3) Activo corriente

(4) Total activo

(5) Patrimonio Neto y Pasivo

(6) Patrimonio Neto

(7) Pasivo no corriente

(8) Pasivo corriente

(9) Total Patrimonio Neto y Pasivo

There has been no significant change in the financial or trading position of the Company since 31 March, 2015 (the date to which the financial information reported on in the auditors' report in respect of the Company was prepared) other than as disclosed in this Summary.

B.8	Selected key pro forma financial information:	Not applicable. This Prospectus does not contain pro forma financial information.
B.9	Profit forecast:	Not applicable. This Prospectus does not contain profit forecasts or estimates.
B.10	A description of the nature of any qualifications in the audit report on the historical financial information:	The audit reports corresponding to the Company's 2012 IFRS-EU Financial Statements and 2012 Spanish GAAP Financial Statements issued by PricewaterhouseCoopers Auditores, S.L. and the 2013-2014 IFRS-EU Financial Statements, 2013 Spanish GAAP Financial Statements and 2014 Spanish GAAP Financial Statements issued by KPMG Auditores, S.L., are unqualified.
B.11	Qualified working capital:	Not applicable. In the opinion of the Company, the working capital available to the Company is sufficient for the Company's present requirements and, in particular, is sufficient for at least the next 12 months from the date of this Prospectus. This will continue to be the case upon completion of the Offering and the availability of funds under the new financing agreement.

Section C—Securities		
C.1	Type and class of security:	The ordinary shares have the ISIN code ES0105075008 allocated by the Spanish National Agency for the Codification of Securities (*Agencia Nacional de Codificación de Valores Mobiliarios*), an entity dependent upon the CNMV. It is expected that the ordinary shares will be traded on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges (the "**Spanish Stock Exchanges**") and quoted on the Automated Quotation System or "*mercado continuo*" of the Spanish Stock Exchanges (the "**AQS**") under the ticker symbol "EKT".
C.2	Currency of the securities issue:	The ordinary shares are denominated in euro.
C.3	The number of shares issued:	At the date of this Prospectus, our issued share capital consists of €379,613,400 divided into a single series of 126,537,800 shares, with a nominal value of €3.00 each. Each ordinary share entitles its holder to one vote. All of our ordinary shares are fully subscribed and paid-up.
C.4	A description of the rights attached to the securities:	The ordinary shares rank *pari passu* in all respects with each other, including for voting purposes and for all distributions of our profits and proceeds from a liquidation. The ordinary shares grant their owners the rights set forth in the bylaws and under Spanish corporate law, such as, among others, (i) the right to attend general shareholders' meetings of the Company with the right to speak and vote, (ii) the right to dividends proportional to their paid-up shareholding in the Company, (iii) the pre-emptive right to subscribe for newly-issued ordinary shares in capital increases with cash contributions, and (iv) the right to any remaining assets in proportion to their respective shareholdings upon liquidation of the Company.
C.5	Restrictions on the free transferability of the securities:	There are no restrictions on the free transferability of the Company's ordinary shares.
C.6	Admission:	Application will be made to list the ordinary shares on the Spanish Stock Exchanges and to have them quoted on the AQS. No application has been made or is currently intended to be made for the ordinary shares to be admitted to listing or trading on any other exchange.

C.7	Dividend policy:	Holders of ordinary shares will be entitled to receive future dividends which are declared on the basis set out in the bylaws. The Company intends to commit to an attractive distribution policy following Admission whereby it will return excess cash to shareholders in order to remain within its target leverage ratio of 3.0x to 4.0x net debt to Adjusted EBITDA. Our Board of Directors may distribute capital to shareholders in the form of dividends and/or in other forms, including via share buy-backs, so that we remain in our target leverage ratio. Our ability to declare and pay dividends/distribute capital will depend, amongst other things, on potential acquisitions that the Company may undertake. While the Company is currently not involved in any acquisition process, it is possible that an acquisition could materialize in the next 12 to 18 months and, if so, this could have a material impact on our capital structure and leverage levels, interest expense and future shareholder remuneration and dividends. If the Company does not undertake acquisitions in next 12 to 18 months, the Company intends to revisit the optimal leverage within its target leverage ratio. If the Company were to undertake acquisitions, our ability to distribute dividends would be affected by the restrictions contained in our financing arrangements, which contains a financial covenant (tested twice annually) which requires that the leverage ratio (which is defined in our financing arrangements as the ratio of our net financial debt to consolidated pro forma EBITA (which is similar to how we calculate, and does not differ materially from, Adjusted EBITDA with certain pro forma adjustments customary for financing arrangements of this nature)) does not exceed 4.5:1.0, provided that such ratio will be automatically increased to 5.5:1.0 during any period commencing on the date on which the Company makes (and designates as such) a permitted acquisition for total consideration of at least €250,000,000 and ending on the date falling 18 months after the date of completion of such acquisition. In such case, the Board of Directors intends to revisit the above policy according to factors deemed relevant at the time. Subject to mandatory provisions of Spanish law, as at the date of this Prospectus, there are no legal and contractual obligations which may prevent the Company from executing this policy and an ordinary dividend of up to 100% of profit for the year may be distributed each year. However, our ability to distribute extraordinary dividends (meaning dividends paid other than out of our profit for the year arising from ordinary activities) or share buy-backs is subject to the limitations under our financing arrangements. Our ability to declare and pay dividends in the future will also depend on the performance and prospects of our business, our capital structure and financing needs, general and capital market conditions, and other factors that our Board of Directors and shareholders may deem relevant at the time, as well as the applicable legal restrictions and restrictions contained in our financing arrangements.

Section D—Risks		
D.1	Key information on the key risks that are specific to the issuer or its industry:	Prior to investing in the Shares, prospective investors should consider the risks associated therewith. <u>1. Risks Relating to the Company and its Business and the Industry in which it operates</u> • Our business may be affected by adverse conditions in the Spanish economy, the Basque economy and the Eurozone.

		• We operate in a highly competitive industry. • Fiber deployment plans announced by some of our competitors could make the telecommunications business in the Basque Country more competitive in the future, which could result in lower prices for our products and the loss of existing and new customers. • Our business is subject to rapid and significant change in technology and the results of technological changes are difficult to predict. • Our success is dependent on future demand for our products and services, which is difficult to predict. • We are exposed to the risk of declining use of fixed telephony due to customer migration to mobile telephony and from fixed to mobile broadband services. • Our business may be affected by the process of consolidation which the telecommunications industry is currently undergoing in Spain. • If we lose or are unable to obtain certain permits, licenses or authorizations necessary for our operations or expansion, we may not be able to carry on parts of our current or planned businesses. • We operate in a highly regulated market as a result of which we may be required to make additional expenditures or limit our revenue. • Any negative impact on the reputation of and value associated with our brand could adversely affect our business, prospects, financial condition and results of operations. • Health risks, whether real or perceived, or other problems connected with mobile devices or their base stations and other technologies used by us, could result in less intensive use of mobile communications. • If we fail to introduce new or enhanced products and services successfully, our revenue and margins could be lower than expected. • Failure to control customer churn may adversely affect our financial performance. • We may fail to keep our contracts with our large corporate accounts on commercially attractive terms or at all or fail to enter into new contracts with our Large Account customers. • We are subject to increasing operating costs (which often involve inflation risks), which may adversely affect our earnings. • We depend on others to provide premium programming for our Pay TV service. • We rely on the Orange network to carry the traffic relating to our mobile services. • We rely on third-party suppliers. • We rely on lease agreements to secure access to nodes which are key to the operation of a significant part of our proprietary network. • Unanticipated network interruptions and events beyond our control may adversely affect our ability to deliver our products and services. • Our business may be adversely affected if we fail to carry out continuous maintenance and improvement of our network, systems and operations. • The operation of our conditional access systems is dependent on licensed technology and subject to illegal piracy risks.

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We depend on our ability to attract and retain key personnel without whom we may not be able to manage our business effectively.
Strikes and other industrial actions, as well as the negotiation of new collective bargaining agreements, could disrupt our operations or make it more costly to operate our facilities.
We may not generate sufficient cash flow to fund our operations or capital expenditures or our capital expenditures may not generate a positive return.
The targets included in this Prospectus may differ materially from our actual results and investors should not place undue reliance on them.
Our processing, storage, use and disclosure of personal data is regulated, and any unauthorized access to, or disclosure of, such data or any failure to comply with industry or legal standards, could adversely affect our business, prospects, financial condition and results of operations.
We are subject to risks from legal and arbitration proceedings.
We may seek to expand through acquisitions or through alliances and partnerships with third parties, any of which may be unsuccessful or divert our management's attention. Any such acquisitions or alliances could have a significant impact on our financial structure or dividend policy.
We may not be able to implement our business strategy successfully or achieve our growth targets.

<u>2. Risks Relating to Our Financial Profile</u>

We may not be able to generate sufficient cash flow to repay all our debt obligations at maturity and to the extent we cannot repay such debt, we may not be able to refinance our debt obligations or may be able to refinance only on terms that will increase our cost of borrowing.
We are exposed to risks associated with movements in interest rates as a result of incurring floating rate debt.
If we fail to meet the financial covenant under the Facilities Agreement, this could lead to a default and the acceleration of all amounts due thereunder.
Restrictions imposed by our debt obligations limit our ability to take certain actions.
We may not be able to use all or a portion of our tax credits.

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<tr><td>D.3</td><td>Key information on the key risks that are specific to the securities:</td><td>

Our major shareholder will be able to exercise significant influence over us and we face certain risks relating to conflicts of interest between the major shareholder and our Company.
There is no established trading market for our ordinary shares. There is no guarantee that a liquid market for our ordinary shares will develop.
Sales of ordinary shares after the Offering may cause a decline in the market price of our ordinary shares.
The Company may in the future issue new shares or debt or equity securities, which may dilute investors' interest in the Company.

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		• Our share price could be volatile and subject to sudden and significant decline. • We may not pay dividends on our shares and, as a result, your only opportunity to achieve a return on your investment could be if the price of our shares appreciates. • It may be difficult for shareholders outside Spain to serve process on, or enforce foreign judgments against, the Company or the directors, for example, shareholders may face difficulties in protecting their interests because of differences in shareholders' rights and fiduciary responsibilities between Spanish laws and the laws of other jurisdictions, including most U.S. states. • Shareholders in certain jurisdictions other than Spain or other EU countries, including the United States, may not be able to exercise their pre-emptive rights to acquire further shares or participate in buy-backs. • The Shares will not be freely transferable in the United States. • An investor whose currency is not the euro is exposed to exchange rate fluctuations. • The Offering may be terminated or postponed.

Section E—Offer		
E.1	The total net proceeds and an estimate of the total expenses of the issue:	Pursuant to the Offering, the Selling Shareholders expect to raise gross proceeds of between €794.0 million (assuming no exercise of the Over-allotment Option) and €873.4 million (assuming full exercise of the Over-allotment Option), calculated on the basis that the Offer Price is the mid-point of the Offer Price Range. The Company will not receive any proceeds for the sale of the Shares by the Selling Shareholders in the Offering. The maximum commissions payable by the Selling Shareholders related to the Offering (assuming full payment of the discretionary fee but excluding value added tax (or other equivalent sales taxes), which will be added where applicable) amount to between €23.3 million (assuming no exercise of the Over-allotment Option) and €25.7 million (assuming full exercise of the Over-allotment Option), calculated on the basis that the Offer Price is the mid-point of the Offer Price Range. Accordingly, the Selling Shareholders expect to receive net proceeds of between €770.7 million (assuming no exercise of the Over-allotment Option) and €847.7 million (assuming the Over-allotment Option is exercised in full). The Selling Shareholders will not assume any other costs or expenses in connection with the Offering. See E.7 of this Summary for details about expenses charged to investors by the Company.
E.2	Reasons for the Offering, use of proceeds:	The Offering is expected to provide the Company with a diversified base of international shareholders and improved access to public capital markets (including for debt instruments) that could make it easier for us to obtain financing to be used for the future growth of our Company. In addition, it is hoped that the Offering will further enhance our brand recognition, transparency and prestige as a result of being a listed company. The Offering will also provide an opportunity for the Selling Shareholders to recover all or part of their investment in the Company. We will not receive any proceeds for the sale of the Shares by the Selling Shareholders in the Offering.

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<td>E.3</td>
<td>A description of the terms and conditions of the Offering:</td>
<td>
Kutxabank, S.A. (on its own behalf and on behalf of Araba Gertu S.A.U.), International Cable B.V. and Iberdrola, S.A., as Selling Shareholders, are offering 80,408,930 ordinary shares of the Company in the Offering, with a par value of €3.00 each (the “Initial Offer Shares”). The Initial Offer Shares constitute 63.55% of the outstanding share capital of the Company as of the date of this Prospectus. In order to deliver ordinary shares to certain of its managers and employees, the Company currently expects that it will acquire between 1,587,145 and 1,680,740 Initial Offer Shares in the Offering (between 1.97% and 2.09% of the Initial Offer Shares), calculated on the basis that the Offer Price is the mid-point of the Offer Price Range.
In addition, the Selling Shareholders will grant an option to the Joint Global Coordinators, on behalf of the Managers, to purchase up to 8,040,893 additional shares of the Company (representing 10% of the Initial Offer Shares) (the “Additional Shares”, and together with the Initial Offer Shares, the “Shares”) at the Offer Price to cover over-allotments of Shares in the Offering, if any, and short positions resulting from stabilization transactions.
The indicative Offer Price Range is €8.70 to €11.05 per Share. This price range has been determined by negotiations between the Selling Shareholders and the Joint Global Coordinators, and no independent experts were consulted in determining the Offer Price Range. The Offer Price, which may be higher or lower than the Offer Price Range, will be determined by negotiations among the Selling Shareholders and the Joint Global Coordinators upon the finalization of the book-building period (expected to occur on or about June 29, 2015) and will be reported to the CNMV through a relevant fact disclosure (“hecho relevante”).
The indicative Offer Price Range implies a market capitalization of the Company of between €1,100.9 million to €1,398.2 million and a Price Earnings Ratio (calculated as of December 31, 2014) of between 29.9x and 38.0x.
Upon finalization of the book-building period (expected to be on or about June 29, 2015), the Company, the Selling Shareholders and the Managers expect to enter into an underwriting agreement (the “Underwriting Agreement”) with respect to the Shares. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement and the Underwriting Agreement not having been terminated in accordance with its terms, each entity listed in the following table (the “Underwriters”) will agree, severally but not jointly, to procure purchasers for or failing which to purchase itself the percentage of Underwritten Shares (defined below) set forth opposite its name in the following table:
<table>
<tr><th>Underwriters</th><th>Percentage of Underwritten Shares(1)</th></tr>
<tr><td>J.P. Morgan Securities plc</td><td>34.0%</td></tr>
<tr><td>UBS Limited</td><td>34.0%</td></tr>
<tr><td>Banco Bilbao Vizcaya Argentaria, S.A.</td><td>10.0%</td></tr>
<tr><td>Citigroup Global Markets Limited</td><td>10.0%</td></tr>
<tr><td>Banco Santander, S.A.</td><td>3.0%</td></tr>
<tr><td>Caixabank, S.A.</td><td>3.0%</td></tr>
<tr><td>JB Capital Markets, S.V., S.A.U.</td><td>3.0%</td></tr>
<tr><td>Norbolsa Sociedad de Valores, S.A.U.</td><td>3.0%</td></tr>
<tr><td>TOTAL</td><td>100%</td></tr>
</table>
Note:
(1) Excluding between 1,587,145 and 1,680,740 Initial Offer Shares (between 1.97% and 2.09% of the Initial Offer Shares; calculated on the basis of the Offer Price Range) to
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be acquired by the Company in the Offering to (i) deliver ordinary shares to certain of the Company's employees under the Employee Share Scheme and (ii) to facilitate the reinvestment of part of the compensation due to beneficiaries under the Management Incentive Plans and the Investment Agreements (in the case of Mr. Alberto García Erauzkin) in ordinary shares. Such Initial Offer Shares to be acquired by the Company will not be taken into consideration for the book-building process to set the Offer Price referred to above. Therefore, the Initial Offer Shares subject to the underwriting commitment will be those addressed to institutional investors and will amount to between 62.29% and 62.22% of the share capital of the Company (calculated on the basis of the Offer Price Range) (the "**Underwritten Shares**").

Additionally, it is expected that Nmás1 Equities Sociedad de Valores S.A. will enter into the Underwriting Agreement but exclusively as a manager and placement agent (i.e., with no underwriting commitment).

The closing date of the Offering or the "**Transaction Date**" ("*fecha de operación bursátil*") is expected to be on or about June 30, 2015. We will publish the results of the Offering through a relevant fact disclosure ("*hecho relevante*") reported to the CNMV on the Transaction Date or the following business day. Under Spanish law, on the Transaction Date, investors become unconditionally bound to pay for, and entitled to receive, the Initial Offer Shares purchased in the Offering.

Payment by the final investors for the Initial Offer Shares will be made no later than the third business day after the Transaction Date against delivery through the facilities of Iberclear of the Initial Offer Shares to final investors, which is expected to take place on or about July 3, 2015 (the "**Settlement Date**"). Our shares are expected to be listed on the Spanish Stock Exchanges and quoted on the AQS on or about July 1, 2015, under the symbol "EKT".

The Offering consists of a placement to institutional investors, including into the United States only to QIBs (as defined in and in reliance upon Rule 144A) and outside the United States in "offshore transactions" as defined in, and in reliance upon, Regulation S. The Shares have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Any offer or sale of Shares in reliance on Rule 144A under the Securities Act will be made by brokers or dealers that are registered as such under the Exchange Act.

In case of withdrawal or revocation of the Offering, all offers to purchase shall be cancelled and all purchase orders related to the Offering shall be terminated. Additionally, the Selling Shareholders shall have no obligation to deliver the Shares and the investors (including for the purposes of this section, the Managers) shall have no obligation to purchase the Shares.

In the event that the Shares have already been delivered by the Selling Shareholders and the purchase price has been paid by the investors, the investors would be required to return title to the Shares to the Selling Shareholders and the Selling Shareholders will repurchase the Shares from the holders of the Shares for an amount equal to moneys paid by the investors in respect of the sale of the Shares in the Offering, together with interest calculated at the statutory rate ("*interés legal*", currently set at 3.5%) from the date on which the investors paid for the Shares until the date on which they repay the purchase price.

As a result of the Offering, an "exit event" will occur under the Management Incentive Plans and the Investment Agreements. Accordingly, both the Management Incentive Plans and Investment Agreements will be liquidated. The beneficiaries of the Management Incentive Plans as well as Mr. Alberto García Erauzkin under his

Investment Agreement have agreed with the Company that they will reinvest part of the compensation due to them thereunder in ordinary shares of the Company.

The Company estimates that, for the purposes of facilitating the beneficiaries' reinvestment of part of their compensation under the Management Incentive Plans and the Investment Agreements (in the case of Mr. Alberto García Erauzkin) in ordinary shares of the Company, the Company will acquire between 1,207,532 and 1,318,750 Initial Offer Shares at the Offer Price, which will represent between 0.95% and 1.04% of the share capital of the Company and with a value of between €10.5 million and €14.6 million (based on the Offer Price Range). The following table sets forth the number of ordinary shares that the Company will acquire in the Offering for the purposes of facilitating such reinvestment.

	Investment amount (€)[1]	Number of ordinary shares[1]
Alberto García Erauzkin	2,594,446	262,729
Senior Management[2]	8,266,032	837,066
Other managers[3]	1,677,836	169,907
Total	12,538,313	1,269,702

Notes:

(1) Assuming the Offer Price is the mid-point of the Offer Price Range.

(2) Comprising nine members of our senior management team.

(3) Comprising 14 other employees.

In addition, the general shareholders' meeting of the Company on June 16, 2015 and the Board of Directors on June 17, 2015 has approved the granting of a package of ordinary shares at no cost (for free) to the employees of the Company (excluding those employees who are also beneficiaries under the Management Incentive Plans), equivalent to the value of two monthly salaries per employee (the "**Employee Share Scheme**"). The Company estimates that, for the purposes of the Employee Share Scheme, it will acquire between 361,990 and 379,613 ordinary shares in the Offering at the Offer Price, which will represent between 0.29% and 0.30% of the share capital of the Company and with a value of between €3.3 million and €4.0 million (based on the Offer Price Range). Accordingly, the financial impact of the Employee Share Scheme in our 2015 annual accounts will be an expense in our income statement of between €3.3 million and €4.0 million (based on the Offer Price Range and without considering any potential tax impact).

Such ordinary shares to be acquired by the Company in the Offering will not be taken into consideration for the book-building process referred to below. The Company expects that such ordinary shares will be delivered to the beneficiaries of the Management Incentive Plans and the Investment Agreements and the employees immediately following settlement of the Offering (and, in the case of the Employee Share Scheme), as soon as possible after settlement of the Offering and, in any event, within three months from their acquisition).

E.4

A description of any interest that is material to the issue/offer including conflicting interests:

As at the date of this Prospectus, the Selling Shareholders hold 100% of the Company's share capital and voting rights and, therefore, control the Company. Kutxabank, S.A. holds 42.83% directly and the remaining 7.07% through its subsidiary Araba Gertu, S.A.U.

International Cable, B.V. is held by TCP Cable S.a.r.l (50.00%) and International Cable Holdings S.a.r.l (50.00%). International Cable Holdings S.a.r.l is participated by Investindustrial IV L.P. and other

		co-investors. TCP Cable S.a.r.l is participated by Trilantic Capital Partners IV (Europe) L.P. and other co-investors. Kutxabank S.A. is a lender under the Facilities Agreement granted to the Company with an aggregate exposure of €112 million.
E.5	Name of the person or entity offering to sell the securities and details of any lock-up agreements:	**A) Entities offering the Shares** The Selling Shareholders are the entites offering the Shares. The Shares are being placed by the Underwriters (defined in E.3 above) and Nmás1 Equities Sociedad de Valores S.A. **B) Lock-up arrangements** Pursuant to the Underwriting Agreement, the following parties will be subject to lock-up arrangements for the periods set out below following Admission: The Company . . . . 180 days The Selling Shareholders . . . . 180 days Beneficiaries under incentive plans[1] . . . . 360 days Note: (1) See E.3 of this Summary. The lock-up agreements are subject to customary exceptions including the sale of Shares pursuant to the Offering, or in the case of the Company, any ordinary shares of the Company issued, sold or transferred or options granted to purchase ordinary shares of the Company pursuant to any employee benefit or incentive plan. In addition, in the case of the Company, the lock-up shall not apply for the purpose of executing any strategic acquisitions or transactions by the Company provided that, in the event of any such strategic acquisitions or transactions, each recipient of such shares shall agree in favor of any of the Joint Global Coordinators to be bound by restrictions substantially similar to those assumed by the Selling Shareholders for the remainder of the 180-day period. In the case of the Selling Shareholders, the lock-up shall not apply to any pledge of Shares in favor of any of the Joint Global Coordinators or their affiliates, provided that if such pledge is enforced, each transferee to whom the pledge seeks to transfer the Shares must enter into restrictions, in favor of any of the Joint Global Coordinators, substantially similar to those assumed by the Selling Shareholders for the remainder of the 180-day period.
E.6	Dilution:	As all of the Offering is secondary, it will not involve any dilution effect. If the Over-allotment Option is exercised in full, following the Offering, Kutxabank, S.A. will hold 30.1% of the Company's share capital and voting rights; certain of the Company's managers and employees will hold 1.3%; and 68.6% of the Company's share capital and voting rights will form the free float (calculated on the basis that the Offer Price is the mid-point of the Offer Price Range).
E.7	Estimated expenses charged to the investor by the Issuer:	For the purpose of the transfer of the Shares, the Company will not charge investors any expense in addition to the Offer Price. Purchasers of the Shares may be required to pay stamp taxes and other charges in accordance with the practices of the country of purchase in addition to the Offer Price. In addition, purchasers will have to bear the commissions payable to the financial intermediaries through which they will hold the Shares.

RISK FACTORS

An investment in the Shares involves a high degree of risk. You should carefully consider the following risks and uncertainties, together with other information provided to you in this Prospectus, before deciding whether or not to invest in the Shares. If any of the following risks and uncertainties actually occur, our business, prospects, financial condition or results of operations could be materially affected. The trading price of our ordinary shares could decline due to any of these risks and uncertainties, and investors may lose all or part of their investment. The risks described below are not the only ones we are exposed to. There may also be other risks and uncertainties of which we are currently unaware or that we do not currently believe are material that could harm our business, prospects, financial condition or results of operations and which if they occur could cause the value of our ordinary shares to decline and you may lose all or part of your investment.

This Prospectus contains "forward-looking" statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences are discussed below and elsewhere in this Prospectus. See "Forward-looking Statements".

Investors should carefully review the entire Prospectus and should reach their own views and decisions on the merits and risks of investing in the Shares. Furthermore, investors shall consult their financial, legal, and tax advisors to carefully review the risks associated with an investment in the Shares.

Risks Relating to the Company and its Business and the Industry in which it operates

Our business may be affected by adverse conditions in the Spanish economy, the Basque economy and the Eurozone.

The Spanish economy has experienced a period of downturn in recent years, with GDP declining by 2.1% in 2012 and 1.2% in 2013, respectively (source: *Instituto Nacional de Estadística* ("**INE**")). While the Spanish economy returned to growth in the third quarter of 2013, GDP grew by 1.4% in 2014 (source: INE) and is expected to grow by 3.1% and 2.5% in 2015 and 2016, respectively (source: IMF, June 2015), unemployment still remains high at 23.7% in the last quarter of 2014 (source: INE).

We operate almost exclusively in the Basque Country and our success is therefore closely tied to general economic developments in that region and cannot be offset by developments in other markets. The Basque economy followed a similar pattern to the Spanish economy in recent years, with GDP declining by 1.8% in 2012 and 1.0% in 2013, respectively, but growing by 1.1% in 2014 (source: INE). Unemployment in the Basque Country was 16.6% in the last quarter of 2014 (source: INE).

During periods characterized by deteriorating economic conditions, high unemployment and tax increases, consumers have less discretionary spending to purchase services, including telecommunications services. As a result of the economic downturn, during the years 2012 to 2014 we experienced decreased demand for our services and our revenue, other income and work performed by the Company and capitalized ("**Total Revenue**") declined from €342.8 million in the year ended December 31, 2012 to €321.2 million in the year ended December 31, 2014. Our revenue during this period, both in the residential and business segments, was impacted by a combination of adverse macro conditions and a high level of competition among the various operators in the Spanish market, which increased the importance of pricing in the decision-making process of consumers and companies. Additionally, in years prior to 2014, there was a net decrease in the number of companies in the Basque Country, which also impacted the size of our potential addressable market in our business segment.

The ongoing crisis in the Eurozone, particularly the uncertainty surrounding the Greek economy, may also adversely affect the Spanish and Basque economies, as well as our business. In Spain, the general elections that will likely take place in the fourth quarter of 2015 add a significant level of instability to Spanish politics. There is uncertainty surrounding the outcome of these elections and they may have an adverse impact on the Spanish and Basque economies.

Any deterioration of the Spanish economy and in particular a deterioration of the economy of the Basque Country could result in declines in our revenue without a corresponding decrease in costs and we could suffer a material adverse effect on our business, prospects, financial condition and results of operations.

We operate in a highly competitive industry.

The Spanish and Basque telecommunications markets are highly competitive and may become more competitive in the future. This competition could result in lower prices for our products in the future, the loss of existing and new customers or both, which would result in reduced revenue and could materially adversely affect our business, prospects, financial condition and results of operations and substantially reduce our market share in the Basque Country.

We face significant competition from both established and new competitors that provide telecommunications services, generally in Spain and particularly in the Basque Country and our success in the marketplace is affected by the actions of our competitors. In some instances, we compete against companies with various advantages, including larger financial resources, greater personnel resources, wider geographical coverage, ability to offer different services and more established relationships with regulatory authorities and content providers.

For example, Telefónica de España, S.A.U. (together with its subsidiaries, "**Telefónica**") is our principal competitor in the areas in which we operate. Telefónica is the former monopoly provider of most telecommunications services in Spain. As one of the world's largest telecommunications operators, Telefónica, when compared to us, has, among other advantages, greater financial resources, brand recognition and market presence (in the Spanish market) and scale. Telefónica's relationship with existing and new customers and suppliers may impact our ability to negotiate contracts with them on terms commercially acceptable to us or at all. Moreover, suppliers may insist on terms and conditions secured in negotitations with Telefónica that are acceptable to the supplier and Telefónica but detrimental to us. Telefónica also has significant ability to influence pricing and commercial strategy in the broader telecommunications market. As evidenced by the introduction in October 2012 of "Movistar Fusión" (when Telefónica offered convergent bundles at a discount to the aggregated price of the individual services), this influence can have a significant adverse effect on pricing in the market. While, historically, prices in Spain for telecommunications products were higher than in other Western European countries, as a result of competition, which intensified with the launch of convergent offerings such as "Movistar Fusión", prices in Spain have come down to levels comparable to other European countries (for more information, see "*Industry*"). Since its introduction, the price of the "Movistar Fusión" offering has decreased significantly and the other national telecommunications providers have followed similar strategies in order to remain competitive, which, among other factors, contributed to a significant contraction in revenue in the Spanish Telecommunications Market (decreasing by 8.2% and 6.8% in 2013 and 2014, respectively) (source: Company estimates based on CNMC data). There can be no assurance that prices in Spain will not continue to decline if our competitors continue to implement aggressive pricing strategies.

In terms of bundled services, we have various competitors, in addition to Telefónica, including Vodafone Spain, Orange Spain and Jazztel. Bundled service offerings are becoming increasingly competitive and important for attracting and retaining customers. In addition, it is possible that in future years, competitors may add services to bundles which we may be unable to provide, and/or generate lower prices by effective bundling, thereby potentially increasing their subscriber numbers. If competitors' bundled products are successful in increasing their subscriber numbers, our competitive position may be adversely affected.

The bundled offerings of our competitors are becoming more flexible and are being adapted to different usage profiles, especially in mobile use of data, with a wider product range. For example, Telefónica has introduced a TV product into its high/medium "Movistar Fusión" range, bundling TV and broadband services as a single package for customers. Recent developments in bundling by other operators included the addition of second mobile lines and the return of handset subsidies to attract new customers.

Broadband: Since 2012, Telefónica has taken aggressive pricing measures in relation to broadband services, including launching packages which combine broadband, fixed telephony and mobile offerings (namely "Movistar Fusión" offers). In addition to Telefónica, there are various providers of digital subscriber line ("**DSL**") as well as fiber broadband services, that offer broadband services on a bundled and unbundled basis, such as Orange Spain, Vodafone Spain and Jazztel, or even Yoigo (which intends to enter the convergence market in the future). We have faced and may continue to feel pressure from DSL offerings as customers may prefer to subscribe to such lower-cost offerings instead of higher speeds.

Pay TV: Our television services compete against Spain's free digital terrestrial television ("**DTT**") nationwide, regional and local channels. In addition, in the Pay TV market, we compete against Distribuidora de Televisión Digital, S.A. ("**DTS**"), which is a satellite TV platform fully owned by Telefónica and trading as Canal+, and "Movistar TV" (Telefónica's existing Pay TV platform offered over ADSL/fiber). The combined Canal+/"Movistar TV" Pay TV platforms have greater market presence than we do and have exclusive access to certain premium television content. While we currently have access to 50% of this content (of our choosing) following the authorization of the acquisition of DTS issued by the

CNMC on April 23, 2015, in the future, it may become economically impractical to purchase this content. This could impact our ability to attract and retain customers in the Pay TV segment. See also "—*We depend on others to provide premium programming for our Pay TV service".*

In addition to established competitors such as DTS, we experience competition from providers utilizing DSL technology, such as Orange Spain, through their "Orange TV" platform or Vodafone/ONO and small over-the-top ("**OTT**") operators such as Wuaki or Filmin. Furthermore, we also experience competition from national online TV providers (Telefónica and Orange Spain) and may in the future face competition from international online TV providers (such as Netflix or Amazon) or any new Pay TV channel/platform.

Mobile: We provide our mobile services through our Mobile Virtual Network Operator ("**MVNO**") agreement with Orange Spain. Our mobile services compete against those provided by infrastructure-based mobile operators, in particular Telefónica, Vodafone Spain, Orange Spain and Yoigo. These competitors tend to have, in addition to their own infrastructure and among other competitive advantages, greater financial resources and (in the case of Telefónica, Orange Spain and Vodafone Spain) greater market presence and coverage than we do. In addition, our mobile services also face competition from other MVNOs (for example, Jazztel). Given the acquisitions of ONO by Vodafone Spain and Jazztel by Orange Spain (which, in May 2015, obtained regulatory approval), the MVNO market in Spain has significantly decreased in terms of number of operators and size (ONO and Jazztel were the largest full MVNOs in Spain, followed by us). There can be no assurance that the existing regulatory framework for network access for MVNOs will be preserved with the same or better terms as today given the loss of relevance from MVNOs in the context of the overall market.

Telefónica, Vodafone Spain, Orange Spain and Yoigo officially launched 4G services in 2013. These four operators have continued to expand their 4G coverage since then and have also announced further investment plans in this respect. As described further in "—*If we fail to introduce new or enhanced products and services successfully, our revenue and margins could be lower than expected.*", a failure by us to introduce new products, such as 4G, successfully or in a timely fashion could threaten our business.

Fixed Telephony: In addition to Telefónica, we compete with other operators such as Orange Spain, Vodafone Spain and Jazztel that provide their customers with fixed telephony services through Telefónica's Basque network, primarily via Local Loop Unbundling ("**LLU**"). This could potentially threaten the competitive position of our network, particularly if their charges for calls on mobile networks continue to decrease.

Business Services: Telefónica is our principal competitor in providing telecommunications services to businesses in the Basque Country. For the most technically-demanding customers (SMEs and Large Accounts), Telefónica is our only real competitor (other than Vodafone Spain for mobile-only contracts) due to their vast network, broad portfolio and financial strength. For SOHOs, low value/low price operators like Vodafone Spain and Orange Spain have a small market share, trying to take advantage of their position in the residential market.

Competition from the companies identified above, as well as from new entrants and new technologies could create downward pressure on prices across all our business lines, which could result in a decrease in our average revenue per user ("**ARPU**"), a loss of customers or RGUs and a decrease in our revenue and profitability. In addition, technological developments are increasing cross-competition in certain markets, such as that between mobile and fixed-line telephony.

If we are unable to compete effectively with our competitors or fail to effectively anticipate or respond to consumer sentiment, we could lose existing and new customers, which could result in reduced revenue, operating margins and our results of operations could fall substantially short of our current expectations and have a material adverse effect on our business, prospects, financial condition and results of operations.

Fiber deployment plans announced by some of our competitors could make the telecommunications business in the Basque Country more competitive in the future, which could result in lower prices for our products and the loss of existing and new customers.

Telefónica is currently in the process of deploying a fiber to the home ("**FTTH**") network which allows it to offer high-speed broadband services. As Telefónica currently only covers approximately 55% of all target homes based on 19.0 million primary homes in Spain (source: Spanish Ministry of Public Works and Transport; excludes business premises), passing approximately 10.3 million FTTH premises in Spain as of December 31, 2014 (source: Telefónica company presentation; figure includes residential and business premises), Telefónica is intensifying its investment in its network deployment and is aiming to reach approximately 75% of homes passed in Spain by 2016 (assuming a regulatory framework favorable to Telefónica's investment in fiber roll-out) with undeclared targets for the Basque Country (source: Telefónica company presentation). In the context of this plan, Telefónica also announced the expansion of its vertical infrastructure access agreement signed in October 2012 with Jazztel in order to share the deployment of FTTH networks in Spain. The initial agreement covered the deployment of FTTH connections in three million households by 2015, by which each operator would contribute 1.5 million homes. Telefónica has also announced its intention to close down its ADSL network in the medium/long term and maintain a single fiber-based network. For this, all ADSL subscribers will be progressively migrated to FTTH where fiber coverage is available. Jazztel also announced an expansion of its original fiber roll-out plan, from the original 3.2 million FTTH homes passed by the end of 2014 to the new target of five million FTTH homes passed by the end of 2015. As of March 31, 2015, Jazztel passed more than 3.6 million homes with FTTH (source: Jazztel first quarter 2015 results presentation).

The other operators, Orange Spain and Vodafone Spain, have announced plans to jointly deploy a FTTH network to be able to compete with the speed and quality of services offered by other fiber operators with the objective of reaching six million homes and workplaces across 50 major Spanish cities by September 2017, representing a residential penetration level of around 40%. The agreement between these two companies also provides a mechanism by which they can provide each other with wholesale access to future FTTH deployments across Spain on a reciprocal basis.

In March 2015, Orange Spain publicly announced the beginning of the roll-out of FTTH in the Basque Country with a plan to reach 120,000 homes in certain targeted neighborhoods of Bilbao, including Atxuri, Otxakoaga, Begoña and Miribilla, with an expected commercial availability by the end of the year. Orange Spain and Vodafone Spain also plan to expand their FTTH roll-out to San Sebastian, Vitoria, Irun, Portugalete, Basauri, Barakaldo and Getxo with a total target of 400,000 homes.

If these operators, and in particular Telefónica, successfully deploy their respective FTTH networks on a broad scale and in a swift manner across Spain and in particular the Basque Country, they would be able to offer high internet speeds on a wider basis, which could erode our competitive advantage in the high-speed broadband market and have an adverse effect on our revenue and ability to acquire and retain high-quality customers. Furthermore, if as a result of the nationwide deployment of its FTTH network, Telefónica is required by the CNMC to open up its FTTH network to third-party operators for speeds above 30 Mbps (as initially proposed by the CNMC within the consultation launched in December 2014—see "*Regulation—Regulation of Electronic Communications Services*"), this could further increase competition in the high-speed broadband market and could also have an adverse effect on our revenue and ability to acquire and retain high-quality customers. Any such development could adversely affect our business, prospects, financial condition and results of operations.

Our business is subject to rapid and significant change in technology and the results of technological changes are difficult to predict.

The fixed and mobile telecommunications markets are characterized by rapid and significant changes in technology. The effect of future technological changes on our business cannot be predicted. It is possible that products or other technological breakthroughs, such as 4G, 4K TV, Voice Over IP, Voice Over LTE or internet protocol television ("**IPTV**"), may result in our core offerings becoming less competitive and render our existing products and services obsolete. There can be no guarantee that we will successfully anticipate the demands of the marketplace with regard to new technologies or that we can make the necessary investments to develop such technology. Any failure to do so could adversely affect our ability to attract and retain customers and generate revenue growth, which in turn could have a material adverse effect on our business, prospects, financial condition and results of operations. Conversely, we may overestimate the demand in the marketplace for certain new technologies and services. If any new technology or service that we introduce fails to achieve market acceptance, our revenue, margins and cash flows may also be adversely affected, and as a result we may not recover any investment made to deploy such new technology.

Our future success depends on our ability to anticipate and adapt in a timely manner to technological changes. This may require us to invest further in our existing operations or in new technologies in order to compete effectively with our competitors. Moreover, the costs associated with such technological changes may also increase beyond those originally anticipated. There can be no assurance that we will be able to obtain the funding or other resources required to adopt and deploy new technologies in a timely manner.

Our success is dependent on future demand for our products and services, which is difficult to predict.

Bundling fixed and mobile telecommunication services is an important part of our strategy. If demand for our bundled offerings is not as high as we expect or if our bundled offerings no longer appeal to our customers, they may discontinue using our bundled or even our stand-alone services altogether. If we overestimate demand for any of our new, enhanced or planned products or services (in particular our proposed offering of 4G mobile data but also including super high-speed broadband, next generation TV, online TV, proprietary WiFi and cloud services), they may fail to achieve sufficient market acceptance and new or enhanced products or services introduced by our competitors may be more appealing to our customers than our offerings.

If demand for our services does not increase as expected, in particular as regards residential users and business customers, this could have a material adverse effect on our business, prospects, financial condition and results of operations as it may be: (i) more difficult to attract and retain customers; (ii) more likely that certain of our customers will downgrade or disconnect their services; and (iii) more difficult to maintain ARPUs at existing levels. In addition, adverse conditions in the economy may also negatively affect our business (see "*—Our business may be affected by adverse conditions in the Spanish economy, the Basque economy and the Eurozone*").

Furthermore, we rely on third-party subcontractors to provide, among other things, our fixed and mobile telecommunication services. For example, we have contracted with the multinational telecommunications equipment and systems company ZTE Corporation ("**ZTE**") to operate and maintain our network, with the international IT services group GFI Informatique ("**GFI**") to provide our IT systems support and with Technicolor to be our STB supplier. Some of our contracts with our suppliers, for example our MVNO agreement with Orange, contain cumulative minimum annual consumption/fee levels. If demand for our product offerings is lower than predicted, we may find it difficult or expensive to reduce our orders with some of our suppliers and therefore still have to bear certain operating costs, without generating corresponding revenue. For additional information regarding our contracts with ZTE, GFI and Orange, see "*Material Contracts*".

Conversely, our products and services may be more successful than we anticipate and we may be unable to meet the demand for our product offerings. For example, if we were to underestimate the popularity of our STBs, some customers could face a significant wait for the product due to the manufacturer's lead times or other delays. This might cause our existing or new customers to seek services and products from our competitors and we may lose market share.

In the event that we are unable to attract new customers or if we lose customers to our competitors, as a result of any of the foregoing factors or otherwise, our business, prospects, financial condition and results of operations may be adversely affected.

We are exposed to the risk of declining use of fixed telephony due to customer migration to mobile telephony and from fixed to mobile broadband services.

The subscriber base for fixed-line telephony throughout Spain (including the Basque Country) has generally been decreasing due to the migration of residential customers to mobile technology as mobile prices have decreased. We risk losing fixed-line telephony customers, leading to lower revenue, and the rate at which customers cease to use fixed-telephony may increase. These factors could adversely affect our business, prospects, financial condition and results of operations.

The introduction of mobile handsets with voice over IP ("**VoIP**") functionality or OTT voice-like services may adversely affect the prices we can charge for and our market share of fixed-telephony. Distribution of VoIP via mobile telephony networks is an emerging technology influenced by large, global corporations, which have greater resources than we do, such as Apple, Google and Microsoft, and there can be no guarantees that we will be able to develop service offerings and price plans that will prevent an erosion of revenue or profitability in our fixed-line telephony business due to the development of this emerging technology. This could have a material adverse effect on our business, prospects, financial condition and results of operations.

As prices have decreased while bandwidth and coverage have increased, mobile broadband has, for certain customers, become an alternative to, instead of merely complementing, fixed-line broadband, especially given the faster speeds associated with 4G mobile technology. As a result of such developments, we risk losing fixed-line broadband customers in the future to mobile broadband. In addition, our market-share in mobile broadband is smaller than our market share in fixed-line broadband, and there is no guarantee that our fixed-line customers will migrate to our 4G offering (once launched) rather than to those of our competitors. The loss of fixed-line broadband traffic and any increase in mobile data consumption will also cause our operating costs to increase. Therefore, such migration could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our business may be affected by the process of consolidation which the telecommunications industry is currently undergoing in Spain.

Similar to other telecommunications markets around the world, we have seen significant consolidation activity in the Spanish telecommunications and television market, primarily mobile-centric operators acquiring fixed-line assets operators. In March 2014, Vodafone acquired ONO and in May 2015, the European Commission approved Orange's acquisition of Jazztel. The approval is conditional upon the full implementation by Orange of a number of commitments intended to ensure effective competition in the fixed internet access services markets. These acquisitions will remove the two largest full MVNOs from the Spanish mobile market, creating a landscape dominated by three main convergent operators at the national level.

The consolidation process in Spain may affect our business because it may lead to, among other things:

- less capacity to influence in regulatory aspects, especially in our role as an MVNO, due to the decrease in the number of operators and our market share;
- difficulty in accessing key television content at a price which allows for attractive margins;
- an existence of competitors with greater market share in our territory and with greater local resources;
- an increase in the marketing aggressiveness in other regions (e.g., due to the new integrated offer by Vodafone) which can penetrate our market via the media; and
- reduction in the size of the market in the wholesale segment.

If any of these factors were to materialise, our revenue, profitability and financial condition may deteriorate if it becomes necessary to increase our operating costs and/or increase the level of our investments above those originally anticipated. In addition, if the market is increasingly concentrated between three operators with significantly greater scale than us, it could become more difficult for us to compete, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

If we lose or are unable to obtain certain permits, licenses or authorizations necessary for our operations or expansion, we may not be able to carry on parts of our current or planned businesses.

We are, in certain cases, permitted to provide services, operate and deploy networks and to use the spectrum under certain permits, licenses and authorizations granted by competent authorities. Some of these are issued for a limited period of time and may not be renewed, or, if they are renewed, their terms may be changed. These permits, licenses and authorizations contain a number of requirements regarding the way in which we conduct our business, as well as regarding network quality and coverage. Failure to meet these requirements could result in fines or other sanctions including, ultimately, revocation of such permits, licenses and authorizations. Certain licenses, particularly those relating to the use of our spectrum, are in scarce supply and may be difficult to obtain for regional operators as they are often allocated at the state level as opposed to the regional level. We may also be required to obtain certain permits, licenses and authorizations in order to expand our network and services into new areas of business and we cannot guarantee that we will be able to obtain them or be able to comply with their requirements. Any of the foregoing circumstances could have a material adverse effect on our business, prospects, financial condition and results of operations.

We operate in a highly regulated market as a result of which we may be required to make additional expenditures or limit our revenue.

We operate in a highly regulated market subject to the supervision of various regulatory bodies, including local, regional, national and European Union authorities. Changes in regulations may increase our administrative and operational costs or limit our revenue. Accordingly, any such development could adversely affect our business, prospects, financial condition and results of operations. We are subject to, among other things, rules and/or regulations relating to:

- the interconnection between different networks and the interconnection rates that we can charge and pay for fixed and mobile line connections;
- Telefónica's regulatory rates and wholesale network offering of FTTH, ADSL and indirect access services to other competitors in the marketplace;
- network access for MVNOs;
- the authorization of renewals and transfers;
- universal service obligations including recent developments in the National Universal Service Fund and contributions to it with respect to previous years;
- the obligation to pre-finance European audiovisual works;
- customer privacy and data protection and other consumer rights;
- intellectual property (e.g., the development of new products and services could require us to pay third-party content owners for the use of their intellectual property rights and under intellectual property regulation we may be required to enter into agreements with collecting societies);
- intelligent network services;
- information society services;
- taxes and regulations requiring us to invest in content;
- the use of the spectrum;
- a variety of operational areas such as land use and environmental protection, technical standards and subscriber service requirements and legal interception obligations;
- significant market power and other restrictions relating to competition;
- audiovisual communication services;
- data retention; and
- accessing content in the audiovisual market.

Changes in applicable law, regulations, governing policy, or the interpretation and application of existing laws or regulations, including recent developments on universal service, could adversely affect our business, prospects, financial condition and results of operations and our ability to introduce new products and services.

One of our regulators, CNMC, is required to review both the retail and wholesale telecommunications markets in order to (i) define relevant markets, (ii) determine whether there is effective competition or not, and (iii) identify operators with significant market power.

We are not considered by the CNMC as an operator with significant market power in any relevant market except in the wholesale markets for termination on fixed and mobile networks (as is the case for other fixed telephone network operators and mobile wholesale operators). No assurance can be given, however, that we will not, in the future, be identified by the CNMC as having significant market power in one or several other relevant markets and that the CNMC will not therefore impose additional regulatory requirements on us. For example, it is possible that we could, in the future and particularly in the context of the build-out of FTTH lines, be required to grant competitors access to our fiber network under certain conditions, which could erode our competitive advantage in the high-speed broadband market and have an adverse effect on our revenue and ability to acquire and retain high-quality customers.

Other examples where changes in applicable law or regulations could adversely impact our business, prospects, financial condition or results of operations include:

- the potential review by the CNMC of the current ex-ante regulation on the market for wholesale call termination on fixed networks; and
- the potential review by the CNMC of the ex-ante regulation of the market for access and call origination on public mobile telephone networks. If it is decided that there is effective competition in this market, no ex ante regulation will be needed.

Many of our suppliers, particularly content providers and suppliers of equipment and services, are also subject to extensive regulation, which could adversely impact their ability to satisfy their obligations to us and thereby indirectly expose us to additional risk.

Any of the above factors could have a material adverse effect on our business, prospects, financial condition and results of operations.

Any negative impact on the reputation of and value associated with our brand could adversely affect our business, prospects, financial condition and results of operations.

The "Euskaltel", "Euskaltel WiFi", "Edonon", and "OSOA" brands are important assets of our business. Maintaining the reputation of, and value associated with, these brands is central to the success of our business, but our business strategy and its execution may not accomplish this objective. Our reputation may be harmed if we encounter difficulties in the provision of new or existing services, whether due to technical faults, lack of necessary equipment, changes to our traditional product offerings, poor customer service (including by our third-party suppliers, distributors and service contractors as part of our outsourcing), financial difficulties, public disagreements among shareholders, employee disputes and strikes or otherwise, which in turn may adversely affect our reputation, business, prospects, financial condition and results of operations.

We believe that we form an integral part of the Basque community and that as a result there is a strong local attachment to Euskaltel. By virtue of the Offering and the more diverse shareholder base which we hope to achieve (and notwithstanding our continuing connection to the Basque Country), we may be viewed by some to have ceased to be a local fiber operator which could adversely affect our reputation, business, financial condition and results of operations. In addition, our brand is currently strongly tied to the Basque Country and it may be difficult for us to benefit from our brand outside the Basque Country.

Health risks, whether real or perceived, or other problems connected with mobile devices or their base stations and other technologies used by us, could result in less intensive use of mobile communications.

Certain studies of mobile and other technologies claim that the electromagnetic signals emitted by mobile and other devices and base stations involve health risks. Such risks, whether real or perceived, and the publicity they receive, together with any resulting legislation or litigation, could reduce our base of mobile customers, make the establishment of new base stations and the maintenance of existing base stations more difficult, or incite customers to reduce their use of mobile telephones. Such health risks could also become linked to or associated with WiFi or other equipment, and if WiFi and/or mobile telephones become tarnished with such a reputation we could experience a material adverse effect on our business, prospects, financial condition and results of operations.

If we fail to introduce new or enhanced products and services successfully, our revenue and margins could be lower than expected.

Our strategy includes the development and marketing of the most advanced fixed and mobile telecommunication products in the Basque market including super high-speed broadband (using Docsis 3.0 technology which we have already implemented), next generation TV, differentiated STBs, proprietary WiFi and 4G networks and cloud services. We cannot guarantee that these new and enhanced services, or any other new and enhanced products that we may develop in the future, will perform as expected when first introduced in the market or at all. Our prospects should be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies that regularly need to develop and launch new products and services to keep pace with their competitors and in the context of an industry which faces continual structural and technological change. Should these or other new and enhanced products and services fail to perform as expected, face delays in their implementation or should they fail to gain market acceptance, our business, prospects, financial condition and results of operations may be negatively affected.

Failure to control customer churn may adversely affect our financial performance.

The successful implementation of our business plan depends on our ability to control customer churn. Customer churn is a measure of the number of individuals who terminate their contract with us over a specific period of time and increased churn leads to increased costs as we have to invest in trying to retain or replace these customers. Customer churn could increase as a result of:

- the macroeconomic environment in Spain and the Basque Country;

- the availability of competing services, some of which may, from time to time, be less expensive or technologically superior to those offered by us or offer content or features or functionality that we do not offer;
- dissatisfaction with the quality of our customer service, including interruptions to the delivery of services to customers over our network and poor fault management, including as a result of the actions or omissions of our third-party suppliers and service contractors; and
- customers moving to areas where we do not offer services.

Our inability to control churn or an increase in churn as a result of any of these factors or otherwise could lead to a reduction in revenue or an increase in costs and investments, which would adversely affect our business, prospects, financial condition and results of operations.

We may fail to keep our contracts with our large corporate accounts on commercially attractive terms or at all or fail to enter into new contracts with our Large Account customers.

12% of our Total Revenue in 2014 came from our Large Accounts customer base. We primarily face competition for contracts with our large corporate customers and with public administration bodies from Telefónica, which has proven to be aggressive on pricing in the past. Moreover, Large Accounts customers, such as Kutxabank (to whom we provide services and which generated 3% of our Total Revenue in the year ended December 31, 2014) and government entities tend to have pricing power given the relative size of their telecommunications spend. Public administration bodies represented 5% of our Total Revenue for the year ended December 31, 2014 and our contracts with such public administration bodies are up for renewal on December 31, 2015 (except for the contracts with the Department of Internal Affairs of the Basque government, which may expire before such date as they have been extended until the awarding of new contracts). Any failure to renew our existing contracts with our large corporate customers and public administration bodies, on commercially attractive terms, or at all, or to enter into commercially attractive new contracts with such customers may adversely affect our business, prospects, financial condition and results of operations.

We are subject to increasing operating costs (which often involve inflation risks), which may adversely affect our earnings.

A number of our supply contracts, and in particular our collective bargaining agreements with 81% of our employees, are indexed to the Spanish consumer price index ("**CPI**"). Increases in the CPI could therefore increase our payment obligations with respect to our suppliers and employees.

We also risk an increase in operating costs as supplier contracts that come to an end have to be renegotiated and there is no guarantee that agreement on such contracts (or even our collective bargaining agreement) will be reached on commercially attractive terms or at all. While we attempt to offset increases in operating costs through a variety of measures focused on increasing revenue, including raising our subscription rates, there is no assurance that we will be able to do so. Therefore, our operating costs may increase at a faster rate than associated revenue, resulting in a material negative effect on our cash flow and net profit. Any increase in operating costs could adversely affect our business, prospects, financial condition and results of operations.

We depend on others to provide premium programming for our Pay TV service.

We do not produce the majority of our content and therefore our ability to compete in the Pay TV market depends, in part, on our ability to obtain attractive programming from third parties at reasonable prices. A relatively small number of third-party companies produce and control access to programming. If we are unable to purchase content at commercially reasonable prices, or at all, our ability to retain and grow our customer base could be adversely affected.

DTS, the satellite TV platform fully owned now by Telefónica and trading as Canal+, controls a significant portion of the Spanish Pay TV market. This significant market power may provide DTS with competitive advantages over our Pay TV operations, such as the ability to extend its range of preferential or exclusive agreements with providers of content, exert increased pricing power with respect to suppliers and the ability to benefit from cross-marketing with Telefónica. Although the authorization issued by the CNMC on April 23, 2015 of the acquisition by Telefónica of DTS imposes conditions on Telefónica with regards to making exclusive content available to other operators, these conditions may not prove sufficient to avoid a significant increase in the acquisition cost of certain contents by us (including, for example, major football competitions or popular U.S. television series). We may therefore take legal actions, either on our own or together with other operators, to protect our right to access such content including by challenging the aforesaid authorisation issued by the CNMC. See also "*Regulation—Regulation of Audiovisual Communication Services—Obligations*".

Any of the foregoing could adversely affect our business, prospects, financial condition and results of operations.

We rely on the Orange network to carry the traffic relating to our mobile services.

We rely on the Orange Contract (see "*Material Contracts*" for further details) for the voice and data services we provide to our mobile customers. Services are offered under the full MVNO model for both current technologies (GSM 900, DCS 1800, UMTS/HSPA2100) and future technologies (for example, 4G). The Orange Contract has an initial term that expires in June 2019, with automatic annual extensions after that date.

Under the Orange Contract, we have committed to a cumulative minimum annual consumption level. Although so far these minimum levels have been significantly surpassed, there can be no assurance that in the future we will be able to surpass these minimum annual consumption levels in any given year, as a result of the unpredictable nature of the demand for our mobile services. This could in turn adversely impact our profitability and financial condition. On the other hand, a potential sudden increase in mobile data traffic resulting from increased penetration and usage of 4G devices or expansion of the mobile data allowances offered by our competitors could result in higher than expected network charges from our host. In addition, while we plan to deploy our own 4G network in the next three years at a limited number of sites, this will be a partial network complemented by the coverage of the Orange network. Therefore, if we view the terms of the Orange Contract to no longer be attractive, we may choose to invest in our own 4G network to a greater extent than currently envisaged, which could increase our capital expenditure.

In the event that the Orange Contract is not automatically renewed or is otherwise terminated or if Orange fails to deploy and maintain its network or to provide the services required under the terms of the Orange Contract and we are unable to find a replacement network operator on a timely basis, on reasonable commercial terms or at all, we could be prevented from carrying on our mobile business altogether, or on less favorable terms or with less desirable services. In addition, there are no guarantees that we will find solutions to any technical interoperability problems that may arise between Orange's 4G and other networks and our own potential 4G network.

Additionally, any migration of all or some of our customer base to a new operator would depend in part on Orange and its co-operation and could entail technical and commercial risks.

Lastly, if, as a result of a regulatory review of this market (which might be carried out by the CNMC during 2015), operators with significant market power, such as Orange, were no longer obliged to offer network access agreements at reasonable prices, this could significantly impact our mobile services (see "*Regulation—Network Access for Virtual Mobile Network Operators*"). There is a risk, over which we have no control, that Orange (or other mobile operators) could choose to lower its retail data prices so that they are closer to the wholesale data prices that we pay under the Orange Contract, potentially eroding the margins that we are able to charge our customers.

Any of the above factors could adversely impact our business, prospects, financial condition and results of operations.

We rely on third-party suppliers.

Our business depends on third-party equipment and service suppliers (including twelve licensed distributors) who may fail to provide necessary equipment and services on a timely basis, fail to provide the equipment and services to the agreed upon standard, discontinue their products or seek to charge us prices that are not reasonable, any of which could adversely affect our business, prospects, financial condition or results of operations.

We depend on a small number of suppliers, including ZTE, Orange, GFI, Ericsson, Alcatel, Nagra and Technicolor, among others, for essential products and services relating, among other things, to our network and IT infrastructure. Additionally, we outsource some of our support services and certain of our customer services operations. For example, in 2014 we entered into an agreement with ZTE to outsource the operation and maintenance of our network and, in the same year, we entered into an agreement with GFI to provide our IT services. The fact that we outsource most of our network maintenance and operations and IT support to ZTE and GFI, respectively, means that we are exposed to counterparty risk in these key areas. For instance, we rely on these suppliers to carry out their contractual obligations on time and to the required standard. Although we monitor the work they do, it is difficult for us to exert the same level of control compared to any competitors who keep these important functions in-house.

We also have arrangements with twelve licensed distributors including Xentia Customer Services, Bioss Comunicaciones, GSS, and ACO and we rely on them to provide services through shops, sales forces or telesales.

These suppliers may, among other things, extend delivery times, supply unreliable equipment or below standard services, raise prices and limit or discontinue supply due to their own shortages, business requirements or otherwise. In many cases, we have made substantial investments in the equipment or software of a particular supplier or in the network of outsourcing, making it difficult for us to rapidly change such relationships if the need arises and also making it difficult to arrange for an alternative supplier in the event that any of our suppliers terminate their arrangements with us. Sudden shortages of the supply or disruptions in the services or changes in our relationships may affect our business, prospects, financial condition and results of operations and that of our customers. Further, our ability to renew our existing contracts with our suppliers on reasonable terms or find new suppliers and our ability to renew existing contracts or enter into new contractual relationships on commercially attractive terms is subject to numerous factors that may be beyond our control.

We rely on lease agreements to secure access to nodes which are key to the operation of a significant part of our proprietary network.

We have entered into various agreements relating to the lease of certain locations where our nodes are situated, as we only own the sites for 216 nodes out of a total of approximately 1,320 nodes that deliver our services to our customer base. These agreements have been entered into with various landlords and are crucial for our business.

Our ability to offer our services to our customers depends on the landlords' and their affiliates' compliance with their respective obligations under these leases and their rights of use. The majority of the leases are in a standard form and allow us to terminate the agreement at any time, for technological reasons, while the owner of the site has no such termination right. However, certain of the leases (comprising around 40% of the leases) are based upon an administrative authorization granted by the city councils, which have the authority to revoke these authorizations on grounds of public interest.

In the event that we do not fulfill our payment obligations or are otherwise in breach of our material lease agreements, our contractual counterparties would be entitled to terminate their agreements. Upon termination of any of the leases, we would need to make alternative arrangements in order to continue providing services including making a sizeable payment to lease the relevant nodes or a sizeable investment to replace the need for such leases.

Any disruption or termination of our lease arrangements could adversely affect our business, prospects, financial condition and results of operations.

Unanticipated network interruptions and events beyond our control may adversely affect our ability to deliver our products and services.

Our business depends on the continued and uninterrupted performance of our network. System, network, hardware and software failures have occurred before and could occur in the future and affect the quality of, or cause an unexpected interruption in, our service. These failures could result in costly repairs and affect customer satisfaction, thereby reducing our customer base and revenue and damaging our brand image. Such failures could even cause us to lose some of our key customers.

Moreover, if any part of our network or system infrastructure is affected by flood, fire or other natural disaster, computer viruses, terrorism, power losses, computer systems or data network failures, operator error, loss and corruption of data, sabotage, unauthorized access by individuals seeking to disrupt operations or misappropriate information and other physical or electronic breaches of security or any other unforeseen events, our operations and customer relations could be materially adversely affected. Our disaster recovery, security and service continuity and protection measures may not be sufficient to prevent loss of data or prolonged network downtime. While we have property damage insurance cover for our network operation center ("**NOC**") and our call centers, this insurance only covers property damage within an insured location and therefore our fiber network itself is not insured. We may not have sufficient resources to make the necessary repairs in the event of damage to our network infrastructure, and in particular our fiber network, or otherwise to replace it.

In addition, our business depends on certain sophisticated critical systems, including our NOC, call center and billing and customer service systems. The hardware supporting those systems is housed in a relatively small number of locations and if damage were to occur to any of these locations (e.g., from a fire or flood) or if those systems develop other problems, there could be a material adverse effect on our business, prospects, financial condition and results of operations. For example, we depend on our customer billing system to enable us to conduct our business and interact with our customers.

Despite having back-up systems in place, we can provide no assurances that our servers and network may not be damaged by physical or electronic break-downs, computer viruses or similar disruptions. Our IT system consists of numerous systems that are interlinked in a complex manner. As a technology-based company, we are particularly exposed to the risk of hacking and IT failure, even more so given our increasing focus on our online channel as our main tool for customer interaction. Sustained or repeated disruptions or damage to our network and systems which make it difficult to provide services to our customers without delays and problems may lead not only to contractual claims against us but also to irreparable damage to our reputation which could cause us to lose customers. If we lose customers, we will experience lower revenue and higher costs as we take measures to retain or replace them, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our business may be adversely affected if we fail to carry out continuous maintenance and improvement of our network, systems and operations.

We must continuously maintain and improve our networks in a timely and cost-effective manner in order to sustain and expand our customer base, service offerings and quality of service, enhance our operating and financial performance and satisfy regulatory requirements. We outsource most of our network maintenance and operations and IT support to ZTE and GFI, respectively. The maintenance and improvement of our existing networks depends on our and our suppliers' ability to:

- enhance the functionality of our network in order to offer increasingly customized services to our customers;
- upgrade our existing network and systems with new technology;
- expand the capacity of our networks to cope with increased bandwidth usage;
- expand and maintain customer service, network management and administrative systems;
- improve network infrastructure for new products and services;
- comply with maintenance and service level obligations set out in the relevant agreements; and
- finance our maintenance costs and future network upgrades.

If we fail to maintain and improve our network, our services may be less attractive to existing and new customers and we may lose customers to competitors who are able to provide higher quality services than we are. We may require information technology enhancements in order to continue to provide a high quality customer service. Failure to implement such enhancements may result in reduced quality of customer service, leading to an increase in customer churn, which may in turn adversely affect our business, prospects, financial condition and results of operations.

The operation of our conditional access systems is dependent on licensed technology and subject to illegal piracy risks.

We operate conditional access systems provided by Nagra to transmit encrypted digital programs, including our digital television packages. Billing and revenue generation for our services also rely on the proper functioning of our conditional access systems.

While we believe the current conditional access system that we deploy throughout our network for the purposes of protecting content adequately protects us from the risk of illegal piracy, there can be no assurance that such systems always function as intended. There is a risk that we will not be able to successfully eliminate the piracy we currently face or may face in the future. In addition, there can be no assurances that any new conditional access system security that we may put in place will not be circumvented. Encryption failures could result in lower revenue, higher costs and increased Pay TV subscriber churn or otherwise have a material adverse effect on our business, prospects, financial condition and results of operations.

We depend on our ability to attract and retain key personnel without whom we may not be able to manage our business effectively.

Our operations are currently managed by a number of key executives and employees. The loss of any key employee could significantly affect our business plans, product development, network completion, marketing and other plans, which could adversely affect our business, prospects, financial condition and results of operations. In addition, competition for qualified executives in the telecommunications industry is intense. Our growth and success in implementing our business plans largely depend on our continued ability to attract and retain experienced senior executives, as well as highly skilled employees. There can be no assurances that we will be successful in hiring and retaining such qualified personnel. If any of our senior executives or other key personnel ceases their employment with us, our business, prospects, financial condition and results of operations could be adversely affected.

Strikes and other industrial actions, as well as the negotiation of new collective bargaining agreements, could disrupt our operations or make it more costly to operate our facilities.

We are exposed to the risk of strikes and other industrial action. We estimate that approximately 10% of our employees are members of trade unions, including the *Comisiones Obreras* ("**CCOO**") and *Eusko Langileen Alkartasuna* ("**ELA**") trade unions. We may in the future experience lengthy consultations or even disputes with trade unions, strikes, work stoppages or other industrial actions called by the trade unions, which could result in delays in our ability to serve our customers in a timely manner. The collective bargaining agreement, to which 81% of our employees have adhered, renews automatically on a yearly basis at the end of each year and includes general terms and conditions on, among other things, holiday entitlements and working hours. There can be no assurance that any future renegotiation of the collective bargaining agreement will result in equally or more favorable terms for us than the current agreement. Strikes and other industrial actions, and the negotiation of new collective bargaining agreements or salary increases in the future, could disrupt our operations and make it more costly to operate our business, which in turn could adversely affect our business, prospects, financial condition and results of operations.

We may not generate sufficient cash flow to fund our operations or capital expenditures or our capital expenditures may not generate a positive return.

The costs of sales and marketing of our products and services as well as the operation and maintenance of our network require substantial upfront financing. We have major capital resource requirements relating to, among other things:

- paying network interconnection charges;
- paying personnel costs;
- increasing the loyalty of our customer base and attracting new customers;
- maintaining the quality of our network;
- acquiring TV content;
- developing and deploying new products and services;
- implementing new technologies; and
- continuously improving our processes and procedures through the implementation of systems and technologies.

Our ability to fund our ongoing operations depends on our ability to generate cash and/or access capital, which in turn depends on many factors (see "*—Risks Relating to Our Financial Profile*"). Although our operating working capital (defined as the sum of inventories, trade receivables and other current assets, minus trade and other payables, current income tax payable and other current liabilities) is currently negative (minus €13.1 million as of March 31, 2015), this is due to normal business activity, in which the average collection period is lower than the average payment period, which we believe to be normal for the sector in which we operate. We have historically relied primarily on operating cash flows and drawing under our credit facilities to ensure our working capital requirements and we expect to do so in the future. However, our liquidity and capital resource requirements may increase if we expand into additional areas of operation or if we make future acquisitions and we may not generate sufficient cash flow or have access to sufficient funding to meet these requirements. If we fail to meet these requirements, our operations could be significantly adversely affected and future growth could be significantly curtailed, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

Additionally, no assurance can be given that any such expenditure or current or future upgrades will generate a reasonable return. If we are unable to, or elect not to, pay for costs associated with adding new customers, expanding or upgrading our networks or making other planned or unplanned capital expenditures, our growth could be limited and our competitive position could be adversely affected.

The targets included in this Prospectus may differ materially from our actual results and investors should not place undue reliance on them.

The targets set forth in this Prospectus primarily under "*Business—Our Strategy*", "*Dividends and Dividend Policy*" and elsewhere represent our current expectations for the Company in the future. These targets are based upon a number of assumptions, including the success of our business strategy, which are inherently subject to significant business, operational, economic and other risks, many of which are outside of our control. Accordingly, such assumptions may change or may not materialize or be achieved at all. In addition, unanticipated events may adversely affect the actual results that we achieve in the future whether or not our assumptions prove to be correct. These targets constitute forward-looking information and involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. See "*Important Information—Forward-looking Statements*". As a result, our actual results may vary materially from these targets and investors should not place undue reliance on them.

Our processing, storage, use and disclosure of personal data is regulated, and any unauthorized access to, or disclosure of, such data or any failure to comply with industry or legal standards, could adversely affect our business, prospects, financial condition and results of operations.

In the processing of our transactions, we receive and store a large volume of personally identifiable information (some of which is processed by third-party suppliers on our behalf). This information is increasingly subject to regulation in numerous jurisdictions around the world: in particular but not limited to, we are subject to European Directive 95/46/EC on the protection of personal data, Organic Law 15/1999 of December 13, on Personal Data Protection, Royal Decree 1720/2007, of December 21 developing the Organic Act 15/1999 and Articles 39 to 44 of the General Law on Telecommunications. Such regulations seek to protect the privacy and security of personal information. Our business, prospects, financial condition and results of operations could be adversely affected if we are unable to comply with such regulations, if such regulations were to be expanded to require changes in our business practices or if governing jurisdictions interpret or implement such regulations in a manner that negatively affects our Company.

The secure transmission of confidential and personally identifiable information over the internet is essential in maintaining customer and supplier confidence. We rely on licensed encryption and authentication technology to effect the secure transmission of the confidential information that we receive from our customers. We also have sensitive confidential government information by virtue of our contracts with public administration bodies. It is possible that advances in computer capabilities, new innovations or other developments could result in a compromise or breach of the technology used by us to protect customer data. We could be required to incur substantial expense to remedy security breaches and their consequences. In addition, businesses that handle personal data have been subject to investigations, lawsuits and adverse publicity due to allegedly improper disclosure of personally identifiable information, and we cannot guarantee that our security measures will prevent all attempted security breaches. A party (whether internal, external, an affiliate or an unrelated third party) that is able to circumvent our security systems could steal proprietary information or cause significant interruptions in our operations. Substantial or ongoing data breaches, whether instigated internally or externally, on our system or other internet-based systems, could significantly harm our business, damage our reputation, expose us to potential litigation, fines, losses and liability or cause existing customers and prospective customers to lose confidence in our security measures, which would have a negative effect on the value of our brand. These concerns and other privacy and security developments (which are difficult to anticipate) could adversely affect our business, prospects, financial condition and results of operations.

We are subject to risks from legal and arbitration proceedings.

We may in the future become involved in commercial disputes as well as legal and arbitration proceedings, with public authorities or private entities, which involve claims for damages or other sanctions, for instance arising out of acquisitions or other material contracts entered into by us.

For example, the outsourcing of certain of the Company's employees pursuant to the GFI Contract and the ZTE Contract, was challenged by ELA, the Basque labor union, before the High Justice Tribunal of the Basque Country. ELA demanded the annulment of such outsourcing so that the relevant affected employees could maintain their employment status with the Company. On October 7, 2014 and January 20, 2015, the Tribunal ruled in our favor and ELA, on November 19, 2014 and February 13, 2015, lodged two appeals before the Supreme Court, which are currently pending resolution. Although we believe there are good legal grounds to conclude that the Supreme Court will rule in our favor, if the Supreme Court were to uphold the appeals, it could declare the right of the affected employees to regain their previous employment status with Euskaltel. We would then have to comply with the corresponding labor obligations in relation to such employees. An adverse ruling could also lead to the renegotiation of the ZTE Contract and the GFI Contract as various terms would need to be revisited.

In the event of a negative outcome of any material proceedings, whether based on a judgment or a settlement agreement, we could also be forced to make substantial payments or accept other sanctions, which could adversely affect our business, prospects, financial condition and results of operations. In addition, the costs related to litigation and arbitration proceedings may be significant.

We may seek to expand through acquisitions or through alliances and partnerships with third parties, any of which may be unsuccessful or divert our management's attention. Any such acquisitions or alliances could have a significant impact on our financial structure or dividend policy.

As part of our strategy, from time to time, we may consider and engage in negotiations with respect to acquisitions of other businesses or companies, including, among others, other regional cable operators. In many cases, we will be competing for opportunities with third parties that may have substantially greater financial resources than we do or we may enter into partnership or joint venture agreements in which we hold a minority stake and are therefore able to exercise less influence over operational decisions. In other cases, we may not have sufficient funds to engage in the acquisition of some of these assets, which could prevent us from benefiting from the integration of these assets, and could potentially put us at a disadvantage compared to other much bigger operators. Acquisitions or investments in businesses, properties or assets and entry into alliances or partnerships are subject to risks that could affect our business, and the success of our acquisition or partnership strategy depends on our ability to identify suitable acquisition targets or partners, to assess the value, strengths, weaknesses, liabilities and potential profitability of such targets or partners and to negotiate acceptable contractual terms for us to realize any anticipated benefits from our acquisitions, investments or alliances. We may not be able to identify, complete and/or successfully integrate acquired entities or assets in the future, and our failure to do so may limit our ability to grow our business. If we are unable to continue to acquire and efficiently integrate suitable acquisition or partnership candidates and to effect any required changes in operations or personnel, our ability to increase our revenue could be adversely affected. The integration and operation of any future acquisitions may expose us to certain risks, including difficulties in integrating the acquired businesses in a cost effective manner and the establishment of effective management information and financial control systems and unforeseen legal, regulatory, contractual, labor or other issues arising out of the acquisitions.

Similarly, we may not be able to obtain financing for acquisitions or investments on attractive terms or at all, and our ability to obtain financing may be restricted by the terms of our current financing agreements, or any other indebtedness we may incur. In addition, our investments may require capital expenditures or may result in unforeseen liabilities. Finally, it may be the case that we are not invited to, or be granted the opportunity to, take part in the proposals or discussions of interested third parties regarding new and potential transactions.

As part of our growth strategy, we may also consider disposing of certain of our assets, which could result in investment losses or returns below our investment criteria. In addition, any acquisition, investment, disposition or alliance may demand significant attention from our management that would otherwise be available for our regular business operations, which could have an adverse effect on our business, prospects, financial condition and results of operations.

While the Company is currently not involved in any acquisition process, it is possible that an acquisition could materialize in the next 12 to 18 months and, if so, this could have a material impact on our capital structure and leverage levels, interest expense and future shareholder remuneration and dividends.

We may not be able to implement our business strategy successfully or achieve our growth targets.

Our strategy is to maximize customer lifetime value by leveraging our leadership positions in the Basque Country, loyal customer base, proprietary fully-invested next generation fiber network and brand to consolidate our market shares in broadband, Pay TV and fixed telephony and to continue to grow our mobile telephony market share and further strengthen our position in the business segment. Even if we successfully implement our business strategy, as further described in "*Business—Our Strategy*", our operating results may not improve or may decline. We may decide to alter or discontinue aspects of our business strategy and may adopt different strategies due to business or competitive factors not currently foreseen, such as new technology that would make our services obsolete. Failure to implement and execute our business strategy successfully and to respond to competitive developments or in the event our business strategy, following implementation, proves unsuccessful could adversely affect our business, prospects, financial condition and results of operations.

Risks Relating to Our Financial Profile

We may not be able to generate sufficient cash flow to repay all our debt obligations at maturity and to the extent we cannot repay such debt, we may not be able to refinance our debt obligations or may be able to refinance only on terms that will increase our cost of borrowing.

Our ability to make payments on our debt or to refinance any such debt will depend on our ability to generate cash. Our ability to generate cash in turn depends on many factors, including, among others:

- general economic conditions and conditions affecting customer spending;
- competition;
- the demand and price levels for our products and services;
- our ability to improve our business processes and procedures;
- our future operating performance;
- our level of capital expenditures;
- our ability to use carry-forward tax credits;
- the availability of financing in the capital markets at attractive rates or at all; and
- legal, tax, litigation, regulatory and other factors affecting our business.

Our ability to raise capital or refinance our debt depends on a number of factors, including the liquidity of the capital markets, and we may not be able to do so on satisfactory terms, or at all. In the event that we cannot raise additional capital or refinance our debt, we may not be able to meet our debt repayment obligations at maturity. In addition, the terms of any refinancing indebtedness may be materially more burdensome to us than the indebtedness it refinances. Such terms, including additional restrictions on our operations and higher interest rates, could have an adverse effect on our business, prospects, financial condition and results of operations and could have a material adverse effect on the value of our ordinary shares.

Furthermore, our inability to meet repayment obligations under the existing agreements could trigger various default provisions, accelerate a substantial portion (if not all) of our debt and materially adversely affect our business, prospects, financial condition and results of operations.

Finally, upon completion of the Offering, our refinancing arrangements under the Facilities Agreement will become effective and as a result of this and certain payments, including the payment of an extraordinary dividend, our ratio of net financial indebtedness to shareholders' equity will increase from 35.3% to 113.2%. See "*Capitalization and Indebtedness*" for further details.

We are exposed to risks associated with movements in interest rates as a result of incurring floating rate debt.

As part of our refinancing arrangements and the entry into the Facilities Agreement (see "*Material Contracts—Facilities Agreement*"), our bank debt will amount to €470 million (€470 million under the Term

Facilities; an additional €30 million will also be available to us under the Revolving Credit Facility) immediately following the Offering. All of this debt has floating interest rates. We may also incur further debt with floating interest rates in the future. Interest rates are highly sensitive to many factors beyond our control, including central banks' policies, international and domestic economic and political conditions. The level of interest rates can fluctuate due to, among other things, inflationary pressures, disruption to financial markets or the availability of bank credit. If interest rates rise, we will be required to use a greater proportion of our revenue to pay interest expenses on our floating rate debt. While as at the date of this Prospectus, we have hedged part of the interest rate exposure on our gross financial debt, as part of our refinancing arrangements and the entry into the Facilities Agreement, we are intending to terminate such hedging arrangements simultaneously with the repayment of our existing financial debt (which we intend to do shortly following the Offering using part of the proceeds to be received under the Facilities Agreement) and, consequently, we will be exposed to the risks associated with movements in prevailing interest rates. While we may in the future choose to hedge, totally or partially, our interest rate exposure, any such measures may not be sufficient to protect us from such risks and there can be no assurance that we will be able to enter into hedge agreements in the future on satisfactory terms or at all. Any hedging arrangements will also expose us to credit risk in respect of the hedging counterparty. Any of the foregoing may have a material adverse effect on our business, prospects, financial condition and results of operations.

If we fail to meet the financial covenant under the Facilities Agreement, this could lead to a default and the acceleration of all amounts due thereunder.

The Facilities Agreement contains a financial covenant (tested twice per year) which requires us to maintain a specified ratio of consolidated total net debt to consolidated pro forma EBITDA (see "*Material Contracts—Facilities Agreement*").

Our ability to comply with this ratio and to meet this test may be affected by events beyond our control and, as a result, there can be no assurance that we will be able to meet this test. Our failure to comply with this obligation could lead to a default under the Facilities Agreement unless we can obtain waivers or consents in respect of any breaches of these obligations under the Facilities Agreement. There can be no assurance that these waivers or consents will be granted. In the event of any default under the Facilities Agreement, the lenders under the Facilities Agreement could refuse to lend any additional amounts to us and could elect to declare all outstanding borrowings, together with accrued interest, fees and other amounts due thereunder, to be immediately due and payable. If the debt under the Facilities Agreement or any other debt that we may incur in the future were to be accelerated, there can be no assurance that our assets would be sufficient to repay such debt in full.

Restrictions imposed by our debt obligations limit our ability to take certain actions.

The terms of the Facilities Agreement contain a number of restrictive covenants and other provisions that limit our ability to operate our business (see "*Material Contracts—Facilities Agreement*"). For example, some of these provisions limit our ability to, among other things: enter into mergers, make a substantial change to the general nature of our business, make disposals, incur additional financial indebtedness, create security over assets, provide guarantees and indemnities, make loans, make acquisitions and investments and pay extraordinary dividends or undertake share buy-backs.

These covenants could adversely affect our ability to finance our future operations and capital needs, pursue acquisitions and engage in other business activities that may be in our best interest. In addition to limiting our ability to operate our business, a failure to comply with these obligations could lead to a default under the terms of the Facilities Agreement, which would prevent us from borrowing any additional amounts thereunder or the lenders thereunder declaring all outstanding principal and interest becoming immediately due and payable and there can be no assurance that our assets would be sufficient to repay such debt in full.

We may not be able to use all or a portion of our tax credits.

As of December 31, 2014, we had tax credits equal to €8.8 million relating to historic losses in our business. Absent a change in the applicable law, in the year ended December 31, 2015 we expect to be able to apply these tax credits to offset our corporate income tax expense. Moreover, as of December 31, 2014 we had €139.6 million of accumulated deductible investments available that will provide additional tax credits for the following fifteen years (according to the Corporate Tax regulation of Biscay). However, there can be no assurance that tax law will not change in the future to restrict us using all or a portion of our tax credits, especially given that the Basque Country is permitted to set its tax rates independently from the rest of Spain. In addition, if our business does not, within the corresponding timeframe for application, generate sufficient profits to offset our tax credits (whether by reason of negative taxable income or deductions), we could lose our tax credits, which could have a material effect on our business, prospects, financial condition and results of operations. Lastly, any other potential change in the tax regime specifically related to the Basque Country or any potential increase in direct taxes to consumers, such as the most recent VAT increase to 21% (for telecommunications services), could have a material adverse effect on our business and financial performance.

In addition, changes in other governmental regulations or in the interpretation criteria of the relevant tax authorities, including with respect to corporate income tax or VAT rules, or other rules not directly related to our business might negatively affect our business, prospects, financial condition or results of operations.

Risks Relating to the Shares and the Offering

Our major shareholder will be able to exercise significant influence over us and we face certain risks relating to conflicts of interest between the major shareholder and our Company.

Upon completion of the Offering, Kutxabank, S.A. will own between 32.08% (assuming no exercise of the Over-allotment Option) and 30.1% of our issued share capital (assuming the Over-allotment Option is exercised in full). As a result, Kutxabank, S.A. will be able to exercise a significant influence over matters requiring shareholders' approval, including the declaration of dividends, appointment of directors, changes in our issued share capital and adoption of amendments to our bylaws. Its interests may differ from our interests or those of our other shareholders.

In addition, our bylaws provide that certain resolutions (namely related to the amendment of our bylaws affecting our corporate address, corporate name and corporate purpose, the regime of approval of resolutions by the general shareholders' meeting or the Board of Directors, as well as the change of the trademark "Euskaltel" for the operations of the Company within the Autonomous Community of the Basque Country and any resolution with the purpose of not maintaining the effective administration and management of the Company in the Autonomous Community of the Basque Country) may only be validly passed if approved by a reinforced majority of 75% of the voting rights in attendance.

Additionally, our bylaws provide that certain resolutions, which cannot be delegated by the Board of Directors, may only be validly passed if approved by a supermajority of at least four fifths (⅘) of the members of the Board of Directors, including the closure of any of our workplaces located in the Autonomous Community of the Basque Country, unless duly justified by reasons of efficiency in the development of our business; any resolution proposed to the general shareholders' meeting with the purpose of not maintaining the effective administration and management of the Company in the Autonomous Community of the Basque Country; and any resolution proposed to the general shareholders' meeting to amend the trademark "Euskaltel" with regard to the exercise of our activities within the Autonomous Community of the Basque Country.

Accordingly, in order to be validly passed, such resolutions will need the approval of our major shareholder.

We are independently managed and our current direct and indirect shareholders do not manage our day-to-day operations. However, the interests of our current direct and indirect shareholders and their respective affiliates could conflict with the interests of other holders of ordinary shares after the Offering, particularly if we encounter financial difficulties or are unable to pay our debts when due. Our current direct and indirect shareholders may also have an interest in pursuing divestitures, financings or other transactions that in their judgment could enhance their equity investments, although such transactions might involve risks to other holders of ordinary shares after the Offering.

Investindustrial IV L.P. and Trilantic Capital Partners IV (Europe) L.P. (the ultimate shareholders of our shareholder International Cable B.V., which will hold 4.37% of our share capital after the Offering in the event the Over-allotment Option is not exercised) are in the business of making investments in and providing financing to companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us, or act as our lenders, customers and suppliers. In addition, companies of the Investindustrial IV L.P. and Trilantic Capital Partners IV (Europe) L.P groups or their respective affiliates may, in the future, own other businesses that compete directly with ours or do business with us, or may make decisions or engage in transactions which might otherwise directly or indirectly adversely affect our business, including trading in our securities, acting as lenders, counterparties or clients.

Investindustrial IV L.P. is managed by an affiliate of the companies of the BI-Invest Group, a group of independently managed investment holding and financial advisory companies which are engaged in a wide variety of consulting, investment and investment management activities, including advising and managing funds engaged in a wide variety of investment strategies including, but not limited to, private equity, listed equity, fund of funds, corporate loans, debt securities, preferred equity securities, and real estate.

Although such funds and investment companies are, as applicable, segregated and pursuing different strategies, their interests may not be aligned, which could create actual or potential conflicts of interest or the appearance of such conflicts.

In certain cases, companies of our indirect shareholders' groups may manage or advise separate funds or companies that invest in the same as well as different parts of our capital structure with competing strategies and at different valuation and pricing expectations. In those cases, the interests of other affiliates could cause actual or potential conflicts of interest or the appearance of such conflicts, as well as a preferential right to investments.

Trilantic Capital Partners IV (Europe) L.P is managed and advised by affiliates of Trilantic Europe a private equity firm focused on control and co-control investments in Western Europe. In certain cases, Trilantic Europe or any of its affiliates may manage or advise separate funds or companies that invest in the same as well as different parts of the Company's capital structure with competing strategies and at different valuation and pricing expectations. In those cases, the interests of other funds or companies managed or advised by Trilantic Europe or any of its affiliates could cause actual or potential conflicts of interest or the appearance of such conflicts. It may be the case that the future actions of Trilantic Europe, the BI-Invest Group or any of their affiliates could have a material adverse effect on our business, prospects, financial condition and results of operations and those of our other shareholders.

There is no established trading market for our ordinary shares. There is no guarantee that a liquid market for our ordinary shares will develop.

This Offering constitutes our initial public offering of ordinary shares, and no public market for our ordinary shares currently exists. We will apply to list our ordinary shares on the Spanish Stock Exchanges and we expect to have our shares quoted on the AQS on or about July 1, 2015 ("**Admission**"), subject to completion of customary procedures in Spain. Any delay in the commencement of trading of our ordinary shares on the Spanish Stock Exchanges would impair the liquidity of the market for our ordinary shares and make it more difficult for holders to sell our ordinary shares.

If our ordinary shares are listed on the Spanish Stock Exchanges and quoted on the AQS, there can be no assurance that an active and liquid trading market will develop or be sustained after the Offering is completed or that analysts will research us. The Offer Price is being determined by way of a book-building process. The Offer Price for the Shares may bear no relationship to the price at which the ordinary shares will trade upon completion of the Offering. If an active and liquid trading market does not develop or is not maintained, the liquidity and trading price of our ordinary shares could be seriously harmed.

Sales of ordinary shares after the Offering may cause a decline in the market price of our ordinary shares.

Sales of a substantial number of our ordinary shares in the public markets following the Offering, or the perception that such sales could occur, could adversely affect the market price for the ordinary shares or our ability to raise capital through future offerings of debt or equity securities. In addition, Investindustrial IV L.P. and Trilantic Capital Partners IV (Europe) L.P. (the ultimate shareholders of International Cable B.V., which holds 48% of our share capital as at the date of this Prospectus and which will hold 4.37% of our share capital after the Offering, assuming no exercise of the Over-allotment Option) are financial investors who may seek an exit from their investment in our Company at some point in the future.

As described further in "*Plan of Distribution*", the Selling Shareholders and senior managers, following the expiry of lock-up periods commencing on signing of the Underwriting Agreement and ending 180 days and 360 days, respectively, after the date of listing of our ordinary shares, may sell their shares in the market. We are unable to predict whether substantial amounts of shares will be sold in the open market following expiry of the lock-up arrangements or earlier if the relevant consents are provided. The future sales of these ordinary shares could adversely affect the trading price of our ordinary shares and our ability to raise additional capital by issuing equity securities.

The Company may in the future issue new shares or debt or equity securities, which may dilute investors' interest in the Company.

In the future, we may seek to raise additional capital through further offering of debt (potentially convertible debt) securities or additional equity securities which would (if made on a non-pre-emptive basis or, if made on a pre-emptive basis, where shareholders elect not to take up their preferential subscription rights) be dilutive to our shareholders and could have an adverse effect on the market price of the ordinary shares as a whole. Because the timing and nature of any future offering will depend on market conditions at the time of such offering, we cannot predict or estimate the amount, timing or nature of any future offerings.

However, as described further in "*Plan of Distribution*", the Company has agreed not to issue further shares from the date of signing the Underwriting Agreement until the date which is 180 days after the date of listing of our ordinary shares. However, such lock-up is subject to certain customary exceptions and does not apply for the purpose of executing any strategic acquisitions or transactions by the Company provided that, in the event of any such strategic acquisitions or transactions, each recipient of such shares shall agree in favor of any of the Joint Global Coordinators to be bound by restrictions substantially similar to those assumed by the Selling Shareholders for the remainder of the 180-day period. See "*Plan of Distribution—Lock-up Agreements*".

Our share price could be volatile and subject to sudden and significant decline.

The market price of our ordinary shares may be volatile. The price of shares sold in an offering is frequently subject to volatility for a period of time following the offering. Factors, including those outside our control such as stock market analyst recommendations, negative publicity or developments affecting our industry and changes in conditions in financial markets may have a significant effect on the market price of our ordinary shares. In addition, during the past few years, securities markets in Spain and worldwide have experienced significant volatility in prices and trading volumes. This volatility could have a negative impact on the market price of our ordinary shares, irrespective of our financial condition and results of operations. Investors may not be able to resell their Shares at or above the Offer Price.

We may not pay dividends on our shares and, as a result, your only opportunity to achieve a return on your investment could be if the price of our shares appreciates.

Any determination to pay dividends or buy back ordinary shares in the future must be proposed by our Board of Directors and then approved by our shareholders. The actual payment of future dividends and the amounts thereof, will depend on a number of factors, including (but not limited to) the amount of our distributable profits and reserves and our investment plans, earnings, level of profitability, cash flow generation, credit ratings, applicable restrictions on the payment of dividends under applicable laws, compliance with covenants in our debt instruments (further details of which are set out in "*Dividends and Dividend Policy*"), the level of dividends paid or shares repurchased by other comparable listed companies doing business in Spain and such other factors as the Board of Directors may deem relevant from time to time. As a result, our ability to pay dividends or buy back shares in the future may be limited and/or our distribution policy may change. In addition, on or around June 29, 2015 and in any event prior to Admission, the general shareholders' meeting of the Company will approve the distribution of an extraordinary dividend to the Selling Shareholders in an amount of between €193.3 million and €209.2 million (calculated on the basis of the Offer Price Range). Such extraordinary dividend includes €12.9 million of the total liquidity as of March 31, 2015 plus the cash that the Company has generated between April 1, 2015 and the date of this Prospectus which, as of the date of this Prospectus, is estimated at €21.2 million. Purchasers of ordinary shares in the Offering will not be entitled to any part of this extraordinary dividend. Moreover, upon completion of the Offering, an "exit event" under the Management Incentive Plans and the Investment Agreements will occur, which means they will be liquidated. We expect that the impact of the liquidation of the Management Incentive Plans and the Investment Agreements on our income statement for the year ended December 31, 2015 will amount to an expense of €26.5 million in addition to the €12.5 million expense that has already been recognized during the three month period ended March 31, 2015 (€39 million in total). We will also purchase ordinary shares in the Offering for the purposes of delivering ordinary shares to certain of the Company's employees under the Employee Share Scheme. The financial impact of the Employee Share Scheme in our 2015 annual accounts will be an expense in our income statement of between €3.3 million and €4.0 million (based on the Offer Price Range and without considering any potential tax impact). As a result, following Admission, the Company will have no significant distributable reserves. If dividends are not paid in the future, capital appreciation, if any, of the Shares would be investors' sole source of gains. The market price of our ordinary shares may never exceed, and may fall below, the Offer Price.

It may be difficult for shareholders outside Spain to serve process on, or enforce foreign judgments against, the Company or the directors, for example, shareholders may face difficulties in protecting their interests because of differences in shareholders' rights and fiduciary responsibilities between Spanish laws and the laws of other jurisdictions, including most U.S. states.

The Company is incorporated under the laws of Spain. The rights of the shareholders are governed by Spanish law and by the bylaws. These rights may differ from the rights of shareholders in non-Spanish corporations. A majority of our current directors are resident in Spain and all of our assets are currently located in Spain. As a result, it may be difficult for shareholders outside Spain to serve process on, or enforce foreign judgments against the Company or the directors.

Our corporate governance regime is principally determined by Spanish corporate law, the bylaws and the Company's internal rules governing the meetings of the Board of Directors and the shareholders as further described in "*Management and Board of Directors*". Shareholders' rights and the fiduciary responsibilities of directors, officers and controlling shareholders are different under Spanish law when compared with the statutes and judicial precedents of other jurisdictions, including most states in the United States. As a result, shareholders may have more difficulty in protecting their interests with regard to any acts or any failure to act by the Company's directors, officers or shareholders than would shareholders of a corporation incorporated in another jurisdiction or a state in the United States.

Shareholders in certain jurisdictions other than Spain or other EU countries, including the United States, may not be able to exercise their pre-emptive rights to acquire further shares or participate in buy-backs.

Under Spanish corporate law, holders of shares generally have the right to subscribe and pay for a sufficient number of shares to maintain their relative ownership percentages prior to the issuance of any new shares against monetary contributions or the issue of convertible securities, unless such right is excluded under special circumstances by a resolution passed at the general shareholders' or board of directors' meeting, in accordance with Royal Legislative Decree 1/2010 approving the restated text of the Spanish Companies Act (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*) (the "**Spanish Companies Act**"). Even if the right is not excluded and therefore exercisable, holders of the ordinary shares in certain jurisdictions other than Spain may not be able to exercise pre-emptive subscription rights unless applicable securities law requirements are complied with or exemptions are available, although the option provided under the prospectus rules to passport a prospectus into other member states of the EEA may facilitate the exercising of such rights by residents in the EEA. The Company may determine that it is not in its best interests to comply with these formalities and there can be no assurance that such exemptions will be available. Accordingly, the pre-emptive subscription rights of any such affected shareholders may lapse and their proportionate interests be reduced. In particular, holders of ordinary shares resident in the United States may not be able to exercise any future pre-emptive subscription rights in respect of the ordinary shares they hold unless a registration statement under the Securities Act is effective or an exemption from the registration requirements under the Securities Act is available, nor may they be able to participate in any buy-back program. No assurance can be given that the Company would file or has declared any such registration statement as effective or that any exemption from such registration requirements would be available to allow the exercising of the pre-emptive subscription rights or the participation in buy-back programs of US holders, or that the Company would make use of an exemption, if available.

We intend to evaluate at the time of any pre-emptive rights offering or buy-back program the costs and potential liabilities associated with the granting of pre-emptive rights or extending the buy-back program to U.S. holders of ordinary shares, as well as the benefits to our Company of enabling the exercise by such holders of pre-emptive rights for the ordinary shares or participation in the buy-back, as the case may be. In doing so, we will also evaluate any other factors we may consider appropriate at the time. It is possible that we may opt not to extend pre-emptive rights or any buy-back offer to U.S. holders.

The Shares will not be freely transferable in the United States.

Any shares offered and sold to investors located in the United States will be "restricted securities" (as defined in Rule 144 of the Securities Act) and such shares may not be reoffered, resold, pledged or otherwise transferred, except: (i) outside the United States in accordance with Rule 903 or Rule 904 under Regulation S; (ii) to a QIB in a transaction that is exempt from registration under the Securities Act and that meets the requirements of Rule 144A; (iii) pursuant to an effective registration statement under the Securities Act; (iv) in accordance with Rule 144 of the Securities Act; or (v) in another transaction not requiring registration under the Securities Act; and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

An investor whose currency is not the euro is exposed to exchange rate fluctuations.

The Shares will be priced in euro and any future payments of dividends on our ordinary shares will be denominated in euro. Any investment in Shares by an investor whose principal currency is not the euro exposes the investor to foreign currency exchange risk. The U.S. dollar or other currency equivalent of any dividends paid on the Shares or any distributions made on an investment made in the Shares could be adversely affected by the appreciation of the euro against other currencies.

The Offering may be terminated or postponed.

This Offering will terminate (i) if the Underwriting Agreement is not executed on or before 11.59 p.m. (CET) on the date the Offer Price is set (expected to be on or about June 29, 2015) or any postponement thereof duly notified to the CNMV; (ii) if the Underwriting Agreement is terminated upon the occurrence of certain events set forth in the Underwriting Agreement; (iii) in case the Offering is suspended or withdrawn by any judicial or administrative authority; or (iv) if our ordinary shares are not admitted to listing on the Spanish Stock Exchanges before 11.59 p.m. (CET) on July 15, 2015. See "*Plan of Distribution—Withdrawal and Revocation of the Offering*". In the event of any such termination, the Shares will be returned to the Selling Shareholders and the purchase price will be repaid to the purchasers, together with accrued interest. The Offering may also be revoked in the other cases envisaged in the "*Plan of Distribution*" section of this Prospectus.

In addition, the Offering may be postponed if one or more of the Managers shall fail at the Transaction Date (expected to be on or about June 30, 2015) to procure purchasers for or to purchase the ordinary shares which it or they are obliged to purchase under the Underwriting Agreement (the "**Defaulted Shares**"). In such case, the Joint Global Coordinators shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting Managers (excluding Nmás1 Equities Sociedad de Valores S.A.) or any other Manager (excluding Nmás1 Equities Sociedad de Valores S.A.) to procure purchasers for, or itself to purchase all, but not less than all, of the Defaulted Shares in such amounts as may be agreed upon and upon the terms set out in the Underwriting Agreement. However, if the Joint Global Coordinators shall not have completed such arrangements within such 24 hour period, then either the Joint Global Coordinators or the Company and the Selling Shareholders shall have the right to postpone the Transaction Date for a period not exceeding five days in order to effect any required changes to any documents or arrangements as a consequence of the relevant default. See "*Management and Board of Directors—The Underwriting Agreement*".

Also, the book-building period (expected to last from June 19, 2015 to June 29, 2015 (both inclusive)) may be extended by agreement of the Selling Shareholders and the Joint Global Coordinators if they understand that an extension of the book-building period for up to one additional week is convenient to ensure the success of the Offering.

Neither the Company, Selling Shareholders nor the Managers shall be in any way responsible for, or liable to investors as a result of, any such termination or postponement of the Offering.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Prospectus, references to "**we**", "**us**", and "**our**" are, as the context requires, to the Company (as defined above).

Financial Information

Important Notice

The Company's statutory annual accounts are only prepared on a standalone basis. Our statutory annual accounts are therefore prepared and filed, according to applicable Spanish law, in accordance with accounting principles generally accepted in Spain ("Spanish GAAP") and, following the Offering, we will continue to do so to the extent required under applicable Spanish law. Notwithstanding the foregoing, for the purposes of the Offering and in order to enable potential investors in the Company to evaluate our financial performance against our international peers, all the financial statements and other financial information included in this Prospectus, unless expressly specified otherwise, have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS-EU"). The Company has decided voluntarily to continue to prepare half yearly and annual financial statements in accordance with IFRS-EU following the Offering and such annual financial statements prepared in accordance with IFRS-EU will be audited.

IFRS-EU Financial Statements

We present in this Prospectus, in each case prepared under IFRS-EU, the Company's audited standalone financial statements as of and for the year ended December 31, 2012 (the "**2012 Financial Statements**"), the Company's audited standalone financial statements as of and for the years ended December 31, 2013 and December 31, 2014 (the "**2013-2014 Financial Statements**") and the Company's unaudited interim standalone financial statements for the three-month period ended March 31, 2015 (the "**2015 Interim Financial Statements**", and together with the 2012 Financial Statements and the 2013-2014 Financial Statements, the "**Financial Statements**").

The 2012 Financial Statements have been audited by PricewaterhouseCoopers Auditores, S.L. and the 2013-2014 Financial Statements have been audited by KPMG Auditores, S.L., as stated in each of their unqualified reports. While the 2015 Interim Financial Statements have not been audited, they have been subject to a limited review carried out by KPMG Auditores, S.L.

Spanish GAAP Annual Accounts

The Company's audited standalone annual accounts, in each case prepared under Spanish GAAP, as of and for the year ended December 31, 2012 (the "**2012 Spanish GAAP Financial Statements**"), the Company's audited standalone annual accounts as of and for the year ended December 31, 2013 (the "**2013 Spanish GAAP Financial Statements**"), the Company's audited standalone annual accounts as of and for the year ended December 31, 2014 (the "**2014 Spanish GAAP Financial Statements**") and the Company's unaudited interim standalone financial statements for the three-month period ended March 31, 2015 (the "**2015 Interim Spanish GAAP Financial Statements**", and together with the 2012 Spanish GAAP Financial Statements, the 2013 Spanish GAAP Financial Statements and the 2014 Spanish GAAP Financial Statements, the "**Spanish GAAP Financial Statements**") are incorporated by reference into this Prospectus. No Spanish GAAP financial information is included in the body of this Prospectus, except as set forth in the section "*Selected Financial and Operating Information*" and in B.7 of the section entitled "*Summary*".

The 2012 Spanish GAAP Financial Statements have been audited by PricewaterhouseCoopers Auditores, S.L. and the 2013 Spanish GAAP Financial Statements and 2014 Spanish GAAP Financial Statements have been audited by KPMG Auditores, S.L., as stated in each of their unqualified reports. While the 2015 Interim Spanish GAAP Financial Statements have not been audited, they have been subject to a limited review carried out by KPMG Auditores, S.L.

Reconciliation of IFRS-EU to Spanish GAAP

For a description of the impact of the first-time adoption of IFRS-EU and a reconciliation of the Company's shareholders' equity and income statement between Spanish GAAP and IFRS-EU, please see Note 21 to the 2012 Financial Statements and Note 21 to the 2013-2014 Financial Statements.

Non-IFRS-EU Financial Measures

Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBIT, Adjusted Profit, Operational Free Cash Flow and Operational Free Cash Flow Conversion as well as other data presented in this Prospectus are supplemental measures of our performance and liquidity that are not required by, or presented in accordance with, IFRS-EU (nor in accordance with Spanish GAAP). Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBIT, Adjusted Profit, Operational Free Cash Flow and Operational Free Cash Flow Conversion are not measures of our financial performance or liquidity under IFRS-EU (or Spanish GAAP) and should not be considered as an alternative to net income, operating profit or any other performance measures derived in accordance with IFRS-EU (or Spanish GAAP) or as an alternative to cash flow from operating, investing and financing activities as a measure of our liquidity.

We believe that Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBIT, Adjusted Profit, Operational Free Cash Flow and Operational Free Cash Flow Conversion facilitate comparisons of operating performance from period to period and company to company by eliminating potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses), the age and booked depreciation and amortization of assets (affecting relative depreciation and amortization of expense) and non-recurring items. We also present Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBIT, Adjusted Profit, Operational Free Cash Flow and Operational Free Cash Flow Conversion because we believe that they are frequently used by securities analysts, investors and other interested parties in evaluating similar companies in our industry, many of whom present such non-IFRS-EU financial measures when reporting their results. Finally, we present Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBIT, Adjusted Profit, Operational Free Cash Flow and Operational Free Cash Flow Conversion as a supplemental measure of our ability to service our debt.

Nevertheless, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBIT, Adjusted Profit, Operational Free Cash Flow and Operational Free Cash Flow Conversion have limitations as analytical tools, and you should not consider them in isolation from, or as a substitute for analysis of, our financial condition or results of operations, as reported under IFRS-EU (or Spanish GAAP). Some of these limitations are:

- Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBIT, Adjusted Profit, Operational Free Cash Flow and Operational Free Cash Flow Conversion do not reflect our future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBIT, Adjusted Profit, Operational Free Cash Flow and Operational Free Cash Flow Conversion do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBIT, Adjusted Profit, Operational Free Cash Flow and Operational Free Cash Flow Conversion do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future; Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBIT, Adjusted Profit, Operational Free Cash Flow and Operational Free Cash Flow Conversion do not reflect any cash requirements for such replacements;
- Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBIT, Adjusted Profit, Operational Free Cash Flow and Operational Free Cash Flow Conversion do not reflect non-recurring income/expense and other cash or non-cash items; and
- other companies in our industry may calculate these measures differently than we do, limiting their usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBIT, Adjusted Profit, Operational Free Cash Flow and Operational Free Cash Flow Conversion should not be considered as measures of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our IFRS-EU results and using Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBIT, Adjusted Profit, Operational Free Cash Flow and Operational Free Cash Flow Conversion measures only as supplemental measures.

For definitions for, and a reconciliation of, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBIT, Adjusted Profit, Operational Free Cash Flow and Operational Free Cash Flow Conversion to our Financial Statements, see "*Operating and Financial Review*".

Currency References

Unless otherwise indicated or otherwise required by the context, all references in this Prospectus to "euro," "€," "EUR" or "eurocent" are to the lawful currency of the participating Member States, including Spain, in the third stage of European Economic and Monetary Union of the Treaty establishing the European Community, as amended from time to time and all references to "U.S. dollars", "dollars", "U.S.$", "USD" or "$" are to the lawful currency of the United States of America.

Rounding

Certain numerical figures included herein have been rounded. Therefore, discrepancies in tables between totals and the sums of the amounts listed may occur due to such rounding. Further, certain percentages shown in the charts in this Prospectus reflect calculations based upon the underlying information prior to rounding off and, accordingly, may not conform exactly to the percentages that would result if the relevant calculation were based upon the rounded off figures. In addition, when describing the change in a percentage between two periods, the term "pp" means percentage points. As used in this Prospectus, the term "billion" means one thousand million (1,000,000,000).

Market and Industry Data

Certain of the market, market share, industry and certain other data contained in this Prospectus has been taken from, or based upon, industry reports, including reports of the CNMC, the Spanish National Statistics Institute (*Instituto Nacional de Estadística*, or "**INE**"), the State Secretariat for Telecommunications and the Information Society (*Secretaría de Estado de Telecomunicaciones y para la Sociedad de la Información*, or "**SETSI**"), Screen Digest Ltd. ("**ScreenDigest**"), Digital Agenda for Europe of the European Commission ("**Digital Agenda for Europe**"), World Bank Group ("**World Bank**") and Eurostat of the European Commission ("**Eurostat**"), as well as publicly available reports produced by telecommunications operators. Industry surveys and publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. We believe that these industry publications, surveys and forecasts are reliable but we have not independently verified them and cannot guarantee their accuracy or completeness and certain of this information, including market studies, are frequently based on information and assumptions which may not be exact or appropriate, and their methodology is by nature forward-looking and speculative.

Where information contained in this Prospectus has been sourced from a third party, the Company and the directors confirm that such information has been accurately reproduced and, so far as they are aware and have been able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where information in this Prospectus has been sourced from third parties, the source of such information has been clearly stated adjacent to the reproduced information.

This Prospectus also contains estimates of market data and information derived therefrom which cannot be gathered from publications by market research institutions or any other independent sources. Such information is prepared by us based on third-party sources (and in particular on CNMC data) and our own internal estimates. While we believe that these estimates of our competitive position and market share are helpful in order to give investors a better understanding of our position within the industry in which we operate, in many cases there is no publicly available information supporting these estimates. For example, the statements regarding our competitive position and market share in certain sectors of the telecommunications market in the Basque Country are based on industry data published by the CNMC. However, such data combines residential and business statistics and we therefore employ our own estimates and calculations to provide a breakdown of such data for each of these segments. Although we believe that our internal market observations are reliable, our own estimates are not reviewed or verified by any external sources. In addition, our 2014 data has been calculated on the basis of the quarterly data available from the

CNMC, as full year data for 2014 is not available at the date of this Prospectus. Accordingly, investors are cautioned not to place undue reliance on such estimates. Whilst we are not aware of any misstatements regarding the industry, market share or similar data presented in this Prospectus, such data involves risks and uncertainties and is subject to change based on various factors, including those discussed under the heading *"Risk Factors"* in this Prospectus.

Exchange Rates

The table below sets forth, for the period indicated, the high, low, average and period-end Bloomberg Composite Rate for the euro as expressed in U.S. dollars (which, after the euro, is the principal currency referred to herein). The Bloomberg Composite Rate is a "best market" calculation in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate.

We do not represent that the U.S. dollar amounts referred to below could have been converted into euro at any particular rate indicated or at any other rate. The rates below may differ from the rates used in our Financial Statements or Spanish GAAP Financial Statements and other financial information appearing in this Prospectus. The average annual amounts set forth below under "Average" are calculated as the average of the Bloomberg Composite Rates for euro on the last New York City business day of each month of the corresponding year. The average rate for a month, or for any shorter period, means the average of the daily Bloomberg Composite Rates during that month, or shorter period, as the case may be.

	Low	High	Average	End of Period
		(U.S. dollars per euro)		
2010	1.1942	1.4563	1.3257	1.3362
2011	1.2889	1.4882	1.3920	1.2939
2012	1.2089	1.3454	1.2847	1.3183
2013	1.2768	1.3814	1.3281	1.3791
2014	1.2141	1.3953	1.3285	1.2141
2015 (to June 12, 2015)	1.0552	1.2043	1.1149	1.1220

	Low	High	Average	End of Period
		(U.S. dollars per euro)		
October 2014	1.2524	1.2823	1.2673	1.2524
November 2014	1.2393	1.2539	1.2472	1.2483
December 2014	1.2141	1.2537	1.2331	1.2141
January 2015	1.1198	1.2043	1.1621	1.1305
February 2015	1.1240	1.1447	1.1348	1.1240
March 2015	1.0557	1.1227	1.0838	1.0759
April 2015	1.0552	1.1215	1.0779	1.1215
May 2015	1.0863	1.1419	1.1150	1.0970
June 2015 (to June 12, 2015)	1.0944	1.1317	1.1178	1.1220

The euro versus U.S. dollar exchange rate on June 12, 2015 was U.S.$1.1220 per €1.00.

Trademarks

We own or have rights to certain trademarks, trade names or service marks which we use in connection with the operation of our business. We assert to the fullest extent under applicable law, our rights to our trademarks, trade names and service marks. Solely for convenience, the trademarks, trade names or service marks appearing in this Prospectus are listed without the applicable ®, © or ™ symbols.

Legislation

This Prospectus refers to various statutes, directives and other legislation and regulations. Unless specified to the contrary, all such references are to the laws of Spain.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS AND OFFER STATISTICS

Expected Timetable of Principal Events

Event	Date
Registration of this Prospectus with the CNMV	June 19, 2015
Commencement of the book-building period	June 19, 2015
Finalization of book-building period	June 29, 2015
Execution of Underwriting Agreement	June 29, 2015
Publication of a relevant fact disclosure with Offer Price	June 30, 2015
Selection of offers to buy Initial Offer Shares	June 30, 2015
Confirmation of offers to buy Initial Offer Shares	June 30, 2015
Final allocation of Initial Offer Shares and publication of relevant fact disclosure ("**Transaction Date**")	June 30, 2015
Admission and commencement of Stabilization Period	July 1, 2015
Settlement Date	July 3, 2015
End of Stabilization Period	July 31, 2015

Each of the dates in the above timetable is subject to change, without prior notice, in which case we will file a relevant fact disclosure ("*hecho relevante*") with the CNMV.

Offering Statistics

Indicative Offer Price Range (per Share)	€8.70 - €11.05
Initial Offer Shares	80,408,930
Additional Shares(1)	Up to 8,040,893
Minimum number of Shares to be sold by the Selling Shareholders in the Offering	80,408,930 (63.5% of share capital)
Maximum number of Shares to be sold by the Selling Shareholders in the Offering(2)	88,449,823 (69.9% of share capital)
Estimated gross proceeds of the Initial Offer Shares receivable by the Selling Shareholders(3)	€794.0 million
Estimated gross proceeds of the Additional Shares receivable by the Selling Shareholders(4)(5)	€79.4 million
Estimated fees and expenses of the Offering(5)	€32.7 million
Estimated net proceeds of the Initial Offer Shares receivable by the Selling Shareholders(4)(5)(6)	€769.7 million
Estimated net proceeds of the Additional Shares receivable by the Selling Shareholders(4)(5)(6)	€77.0 million
Expected market capitalization of the Company following the Offering(3)	€1,249.6 million

(1) Refers to the additional shares under the Over-allotment Option.

(2) Includes the additional shares under the Over-allotment Option.

(3) Assumes that the Offer Price is the mid-point of the Offer Price Range.

(4) The Company will not receive any portion of the proceeds resulting from the sale of the Shares, all of which will be paid to the Selling Shareholders or to such persons as the Selling Shareholders may direct.

(5) Assumes the Over-allotment Option is exercised in full and that the Offer Price is the mid-point of the Offer Price Range. See "*Plan of Distribution—Offering Expenses*".

(6) Assuming payment of the maximum amount of the Managers' discretionary commission excluding VAT (payable by the Selling Shareholders). The fees of the Company's other advisers will be payable by the Company.

IMPORTANT INFORMATION

Declaration of Responsibility

Mr. Alberto García Erauzkin, acting in the name and on behalf of the Company, in his capacity as Chairman of the Company, accepts responsibility for the information contained in this document. Having taking all reasonable care to ensure that such is the case, the information contained in this document is, to the best of his knowledge, in accordance with the facts and contains no omissions likely to affect its import.

Stabilization

In connection with the Offering, UBS Limited, or any of its agents, as stabilizing manager (the "**Stabilizing Manager**"), acting on behalf of the Managers, may (but will be under no obligation to), to the extent permitted by applicable law, engage in transactions that stabilize, support, maintain or otherwise affect the price of our ordinary shares (including the Shares), as well as over-allot Shares or effect other transactions with a view to supporting the market price of our ordinary shares at a level higher than that which might otherwise prevail in an open market. Any stabilization transactions shall be undertaken in accordance with applicable laws and regulations, in particular, Commission Regulation (EC) No 2273/2003 of December 22, 2003 as regards exemptions for buy-back programs and stabilization of financial instruments.

The stabilization transactions shall be carried out for a maximum period of 30 calendar days from the date of the commencement of trading of our ordinary shares on the Spanish Stock Exchanges, provided that such trading is carried out in compliance with the applicable rules, including any rules concerning public disclosure and trade reporting. The stabilization period is expected to commence on July 1, 2015 and end on July 31, 2015 (the "**Stabilization Period**").

For this purpose, the Stabilizing Manager may carry out an over-allotment of Shares in the Offering, which may be covered by the Managers pursuant to one or several loans granted by certain of the Selling Shareholders. The Stabilizing Manager is not required to enter into such transactions and such transactions may be effected on any securities market, or otherwise and may be taken at any time during the Stabilization Period. However, there is no obligation that the Stabilizing Manager or any of its agents effect stabilizing transactions and there is no assurance that the stabilizing transactions will be undertaken. Such stabilization, if commenced, may be discontinued at any time without prior notice, without prejudice to the duty to give notice to the CNMV of the details of the transactions carried out under Commission Regulation (EC) No 2273/2003 of December 22, 2013. In no event will measures be taken to stabilize the market price of our ordinary shares above the Offer Price. In accordance with Article 9.2 of Commission Regulation (EC) No 2273/2003 of December 22, 2013, the details of all stabilization transactions will be notified by the Stabilizing Manager to the CNMV no later than closing of the seventh daily market session following the date of execution of such stabilization transactions.

Additionally, in accordance with Article 9.3 of Commission Regulation (EC) No 2273/2003 of December 22, 2013, the following information will be disclosed to the CNMV by the Stabilizing Manager within one week of the end of the Stabilization Period: (i) whether or not stabilization transactions were undertaken; (ii) the date at which stabilization transactions started; (iii) the date at which stabilization transactions last occurred; and (iv) the price range within which the stabilization transaction was carried out, for each of the dates during which stabilization transactions were carried out.

NOTICE TO INVESTORS IN THE UNITED STATES

THE SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION IN THE UNITED STATES FOR OFFER OR SALE AS PART OF THEIR DISTRIBUTION AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN COMPLIANCE WITH APPLICABLE STATE SECURITIES LAWS. THE SHARES OFFERED HEREBY ARE BEING OFFERED AND SOLD IN THE UNITED STATES ONLY TO QIBS IN RELIANCE ON RULE 144A OR ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS AS DEFINED IN, AND IN RELIANCE ON, REGULATION S.

PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT ANY SELLER OF THE SHARES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. THE SHARES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED HEREIN. SEE "*SELLING AND TRANSFER RESTRICTIONS*".

THE SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER UNITED STATES REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO INVESTORS IN THE EEA

This Prospectus has been prepared on the basis that all offers of the Shares will be made pursuant to an exemption under Article 3 of the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of the Shares. Accordingly, any person making or intending to make any offer within the EEA of the Shares should only do so in circumstances in which no obligation arises for the Company, the Selling Shareholders, the Managers or any other person to produce a prospectus for such offer. The Company, the Selling Shareholders and the Managers have not authorized, nor do they authorize, the making of any offer of the Shares through any financial intermediary other than offers made by the Managers, which constitute the final placement of the Shares contemplated in this Prospectus.

In relation to each member state of the EEA that has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, the offer of any Shares which are the subject of the Offering contemplated by this Prospectus is not being made and will not be made to the public in that Relevant Member State, other than: (a) to any legal entity which is a "qualified investor" as defined in Article 2(1)(e) of the Prospectus Directive; (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) in any Relevant Member State; or (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of the Shares shall require the Company or the Selling Shareholders to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this notice to investors, the expression an "**offer of the Shares**" in relation to the Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase the Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

Each purchaser of Shares in the Offering located within a member state of the EEA will be deemed to have represented, acknowledged and agreed that it is a qualified investor or in the case of Spain, that it is a qualified investor or that it acquires Shares under any of the remaining exceptions set forth under Article 30 bis of the LMV. The Company, the Selling Shareholders, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing representation, acknowledgment and agreement.

For the purposes of this Prospectus, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in each Relevant Member State), and includes any relevant implementing measure in each Relevant Member State of the EEA and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This Prospectus is for distribution only to, and is directed only at, qualified investors who: (i) are persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Financial Promotion Order**"); (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; or (iii) are other persons to whom they may otherwise lawfully be communicated (all such persons, including qualified investors, together being referred to as "**relevant persons**").

In the United Kingdom, this Prospectus is directed only at relevant persons and must not be acted on or relied on by anyone who is not a relevant person. In the United Kingdom, any investment or investment activity to which this Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

NOTICE TO PROSPECTIVE INVESTORS IN CERTAIN OTHER COUNTRIES

For information to investors in certain other countries, see "*Selling and Transfer Restrictions*".

FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements. These forward-looking statements include matters that are not historical facts, including the statements under the headings "*Summary*", "*Risk Factors*", "*Business*", "*Industry*", "*Operating and Financial Review*" and elsewhere regarding future events or prospects. Statements containing the words "believe", "expect", "intend", "anticipate", "will", "positioned", "project", "risk", "plan", "may", "estimate" or, in each case, their negative and words of similar meaning are forward-looking statements.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual financial condition, results of operations and cash flows, and the development of the industry in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this Prospectus. In addition, even if our financial condition, results of operations and cash flows, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

The various factors described under "*Risk Factors*" could impact our ability to perform our obligations or to realize revenue in accordance with our expectations. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from those projected. Any forward-looking statements in this Prospectus reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. You should specifically consider the risks and other factors identified in this Prospectus, which could cause actual results to differ, before making an investment decision. Additional risks that the Company may currently deem immaterial or that are not presently known could also cause the forward-looking events discussed in this Prospectus not to occur. Readers should not place undue reliance on any forward-looking statements.

These forward-looking statements speak only as of the date of this Prospectus. Subject to any continuing obligations under Spanish, U.S. federal and other applicable securities laws and regulations and by applicable stock exchange regulations, we undertake no obligation to publicly update or review any forward-looking statement contained in this Prospectus, whether as a result of new information, future developments or otherwise.

This Prospectus does not include profit forecasts or profit estimates as defined in section 13 of Annex I of Regulation (EC) No. 809/2004.

AVAILABLE INFORMATION

For so long as any Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which the Company is neither subject to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such person pursuant to Rule 144A(d)(4) under the Securities Act.

BUSINESS

Overview

We are the Basque fiber and convergence leader (source: Company estimates based on CNMC data as of 2013 and 2014), and operate in one of the most affluent regions in Spain. We offer primarily bundled services comprised of high-speed broadband, Pay TV, mobile and fixed telephony services to residential and business customers. As of March 31, 2015, we enabled access to our services to approximately 872,053 homes passed and 146,784 business premises. We have a proprietary, fully-invested next generation fiber network of approximately 350,000 km and are the only operator with a fiber network covering most of the Basque Country.

We are 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) (source: Company estimates based on CNMC data as of 2013 and 2014). As of March 31, 2015, we provided 918,120 services (in terms of RGUs) to 295,360 residential customers. We also offer products and services to SOHOs, SMEs, Large Accounts and public sector entities as well as the wholesale market.

Euskaltel is a household name deeply rooted in the Basque Country (*Euskadi* means Basque Country in the local language). We believe that the strength of our customer base relies not only on the unmatched quality of our services but also on the emotional attachment that our customers have with our Company. We believe that we form an integral part of the Basque community through our significant engagement in regional and local sponsorship and patronage activities and our advertising and marketing activities. We pride ourselves on our customer service, being the only provider in the region to offer bilingual customer care services (in both Spanish and Basque), and we have a strong track record of high customer satisfaction.

Our proprietary, fully-invested next generation fiber network (approximately €1.3 billion invested since 1999) gives us access to 85% of homes in the Basque Country, representing approximately 86% of the population in the Basque Country. Our network is fully upgraded to Docsis 3.0, with a capacity of 862MHz and a fully-owned backbone, currently capable of delivering speeds of up to 500 Mbps. We believe our network is one of the most advanced and competitive in Europe, as shown in the table below.

	Euskaltel	Numericable	Com Hem	Telenet	Tele Columbus	NOS	ONO
Coverage(1)	85%(2)	35%	39%	61%	36%(3)	81%	47%
% of EuroDocsis 3.0	100%	58%	92%	100%	51%(4)	100%(5)	100%
Access capacity (MHz)	862	862	862	600(6)	862	750	862
Households per node (average)	ca. 500	N/A	ca. 580	ca. 580	N/A	N/A	ca. 500
Fully-owned backbone network	Yes	No	No	No	No	No	No
4G License	Yes	Yes(8)	No	No(7)	No	Yes(9)	Yes(10)

Sources: Publicly-available information of peers

Notes:

(1) Percentage of households in region in which companies operate, except where stated otherwise.

(2) Based on Basque households.

(3) In "core regions" (as defined by Tele Columbus).

(4) 94% of households connected fully upgraded for two-way connectivity of which 54% upgraded to Docsis 3.0.

(5) EuroDOCSIS NGN.

(6) In August 2014, Telenet announced the upgrade to 1 GHz in Flanders by 2019.

(7) Excluding BASE as transaction not completed yet.

(8) Via SFR.

(9) Via Optimus.

(10) Via Vodafone.

We have made substantial network investments compared to our sector peers, measured in terms of fixed assets (including property, plant and equipment and intangible assets, excluding goodwill and gross of depreciation) per cable customer and per homes provisionable (residential and SOHO fixed services customers only) as compared to ONO (based on its financial statements for the third quarter of 2014), Com Hem, Telenet, Tele Columbus and Numericable (based on their financial statements for the fourth quarter of 2014).

We provide mobile communications services through our MVNO agreement with Orange and also hold a 4G/LTE license in the 2.6GHz band in the Basque Country (expiring on December 31, 2030), which enables us to strategically deploy a proprietary 4G network in the future with limited investment, where and when we deem this to be economically attractive. We believe this is a unique advantage over most other fiber operators.

As a fiber convergent operator in one of the most convergent telecommunication markets in Europe, we believe we are well-positioned for future growth as we offer bundled and innovative services, delivered over a superior network, with a unique brand and unparalleled service quality.

For the year ended December 31, 2014, we generated Total Revenue of €321.2 million, Adjusted EBITDA of €155.9 million (representing an Adjusted EBITDA margin of 48.5%) and Operational Free Cash Flow of €113.6 million (representing an Operational Free Cash Flow Conversion of 72.9%).

The following tables set forth certain information with respect to our unaudited operating information and financial data as of and for the periods indicated.

	As of March 31, 2015	As of March 31, 2014	2014	As of December 31, 2013	2012
			(unaudited)		
Residential					
Homes passed[(1)]	872,053	867,532	869,900	866,716	863,461
Household coverage[(2)]	85%	84%	85%	84%	84%
Residential customers	295,360	298,178	296,023	298,495	305,761
o/w fixed services[(3)]	278,051	283,507	279,212	284,105	287,457
as % of homes passed[(1)]	31.9%	32.7%	32.1%	32.8%	33.3%
o/w mobile only customers	17,309	14,671	16,811	14,390	18,304
o/w 1P (%)	17.6%	22.4%	17.8%	23.1%	26.5%
o/w 2P (%)	24.8%	34.2%	26.9%	35.8%	41.2%
o/w 3P (%)	35.5%	32.6%	35.0%	31.8%	26.4%
o/w 4P (%)	22.1%	10.8%	20.3%	9.4%	6.0%
Total RGUs[(4)]	918,120	784,713	896,077	769,036	719,033
RGUs / customer excluding mobile-only	3.2	2.7	3.1	2.7	2.4
Residential churn fixed-line customers[(5)]	14.8%	16.2%	14.8%	14.8%	17.2%
Global ARPU fixed-line customers (€/month)[(6)]	55.2	53.2	53.8	53.3	54.3
Other unaudited operating data					
Fixed voice RGUs	278,516	283,709	279,691	284,311	287,042
as % of fixed services customers	100.2%	100.1%	100.2%	100.1%	99.8%
Broadband RGUs	218,391	217,313	217,726	215,520	209,092
as % of fixed services customers	78.5%	76.7%	78.0%	75.9%	72.8%
Pay TV RGUs	124,729	61,390	124,754	56,992	50,177
as % of fixed services customers	44.9%	21.7%	44.7%	20.1%	17.4%
Postpaid Mobile RGUs[(7)]	296,484	222,301	273,906	212,213	172,722
Postpaid Mobile subs	165,411	132,538	153,939	126,016	104,801
as % of fixed services customers (excl. mobile only)	53.3%	41.6%	49.1%	39.3%	30.1%
Mobile lines per customer	1.8	1.8	1.8	1.7	1.6
SOHO[(8)]					
Customers	47,136	46,474	47,038	46,317	45,637
o/w 1P	32.1%	34.7%	32.7%	35.0%	37.8%
o/w 2P	23.9%	29.1%	26.1%	29.9%	31.0%
o/w 3P	32.9%	30.6%	31.1%	30.0%	27.2%
o/w 4P	11.1%	5.6%	10.2%	5.1%	3.9%
Total RGUs	147,585	134,317	143,472	133,079	125,772
RGUs/customer	3.1	2.9	3.1	2.9	2.8
Global ARPU Fixed-line customers (€/month)[(6)]	64.2	66.2	64.8	68.2	72.0
SME and Large Accounts					
Customers	5,041	5,198	5,094	5,251	5,291

Notes:

(1) Homes passed: homes passed are homes, residential multiple dwelling units or commercial units that can be connected to our network without materially extending the distribution plant.

(2) Household coverage: calculated by dividing total homes passed by total households in the Basque Country.

(3) Fixed services: fixed services include fixed voice, fixed broadband and Pay TV.

(4) RGUs: each customer is counted as a revenue generating unit for each service for which such customer subscribes, regardless of the number of services that customer receives from us. Services include fixed voice, broadband, Pay TV and postpaid mobile.

(5) Residential churn fixed-line customers: a customer is considered a churning customer when all active products of that customer become inactive (disconnected); partial deactivations are considered internal migrations (downgrades). Given the conditions of

our offerings, when a customer's voice service is disconnected it will be considered a churning customer as all other products will be automatically forced into deactivation.

(6) Global ARPU fixed-line customers: ARPU of a client of fixed services, which includes both the revenue derived from the fixed services and the revenue derived from mobile postpaid services (excluding "mobile only" customers).

(7) Postpaid Mobile RGUs: number of mobile postpaid lines (including mobile only). Hence one customer can account for more than one RGU if he has multiple postpaid lines registered.

(8) SOHOs: small office home office customers.

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)	Year ended December 31,		
			2014	2013	2012
Selected financial data					
€ millions unless otherwise stated					
Total Revenue[1]	79.6	79.6	321.2	334.9	342.8
Y-o-y change	0.0%		(4.1)%	(2.3)%	
o/w residential	49.0	48.0	196.2	195.4	201.3
Y-o-y change	2.1%		0.4%	(2.9)%	
o/w Business	22.8	23.9	93.4	101.2	102.8
Y-o-y change	(4.6)%		(7.7)%	(1.6)%	
o/w Wholesale and Other	5.6	6.1	24.7	29.7	28.9
Y-o-y change	(8.2)%		(16.8)%	2.8%	
o/w Others[2]	2.2	1.6	6.9	8.6	9.8
Y-o-y change	37.5%		(19.8)%	(12.2)%	
Adjusted EBITDA[3] *(unaudited)*	37.7	37.3	155.9	155.1	134.7
Y-o-y change	1.1%		0.5%	15.1%	
Margin	47.4%	46.8%	48.5%	46.3%	39.3%
Capital expenditures	(9.1)	(7.9)	(42.2)	(41.5)	(119.2)
Y-o-y change	15.2%		1.7%	(65.2)%	
% Total Revenue	(11.4)%	(9.9)%	(13.1)%	(12.4)%	(34.8)%
Operational Free Cash Flow[4] *(unaudited)*	28.6	29.3	113.6	113.6	15.5
Y-o-y change	(2.4)%		0.0%	632.9%	
% Adjusted EBITDA	75.9%	78.6%	72.9%	73.2%	11.5%

Notes:

(1) Comprises revenue, other income and work performed by the Company and capitalized.

(2) Operations with neutral impact on profitability.

(3) Defined as Total Revenue less direct costs, commercial costs and overhead costs.

(4) Defined as Adjusted EBITDA less capital expenditure.

Residential segment

We provide our residential customers with a combination of fixed and mobile telecommunication services, as well as other value added services, primarily through our fiber network and our MVNO agreement with Orange. The following is a summary of the main services we provide to our residential customers:

Bundles: We offer customers the opportunity to subscribe to a variety of "bundled" packages, which provide them with multiple services (high-speed broadband, Pay TV, mobile telephony and fixed telephony) charged in a single bill and at competitive prices. "Double-play" or "2P" packages bundle two of our services, "triple-play" or "3P" packages bundle three of our services and "quadruple-play" or "4P" packages bundle all four of our services together. Following market trends and our own marketing efforts, there has been an increase in the popularity of our triple-play and quadruple-play packages with our new customers in this segment and because of cross-selling efforts on our existing customer base. As a result, as of March 31, 2015, 82.4% (up from 77.6% when compared to March 31, 2014) of our residential customers subscribed to a bundled package (24.8% double-play (a decrease of 9.4% when compared to March 31, 2014), 35.5% triple-play (an increase of 2.9% when compared to March 31, 2014) and 22.1% quadruple-play (an increase of 11.3% when compared to March 31, 2014)). This was accompanied by an increase in RGUs from 719,033 as at December 31, 2012 to 896,077 as at December 31, 2014 and a reduction in our annual churn from 17.2% during the year ended December 31, 2012 to 14.8% during the year ended December 31, 2014, which we believe is the lowest in the market.

Broadband: We are the leading provider of high-speed broadband services in the Basque Country with an estimated market share of approximately 41% (source: Company estimates based on CNMC data as of 2013 and 2014). Our fully-invested next generation fiber network allows us to offer differentiated products with ultra-high speeds currently up to 350 Mbps which cannot be matched by our DSL competitors. As of March 31, 2015, we provided 216,846 residential customers with our broadband services and 181,193 with high-speed broadband (speeds of 30 Mbps and higher) (a 150.2% increase from March 31, 2014).

Pay TV: We are the leading provider of Pay TV services in the Basque Country (jointly with Telefónica) with an estimated market share of approximately 47% (source: Company estimates based on CNMC data as of 2013 and 2014). We offer a wide selection of digital television programming from basic to premium packages together with TV Everywhere (which we market under our "Edonon" brand), VoD and PVR functionalities. We offer access to premium content with the most popular local offering. As of March 31, 2015, we provided 115,554 residential customers with our Pay TV services (an 89.4% increase from March 31, 2014).

Mobile telephony: We are the fastest-growing provider of mobile services in the Basque Country with an estimated market share of approximately 20% (source: Company estimates based on CNMC data as of 2013 and 2014). As of March 31, 2015, we provided 165,411 residential customers with our mobile services which represented a 24.8% increase since March 31, 2014. We currently offer our mobile products fully bundled with our fixed line telephony services, a strategy we believe is helping us to improve global ARPU and reduce churn. Mobile is a powerful customer loyalty and satisfaction tool as demonstrated by the low churn levels we experience on convergent offers which include mobile. Churn rates within our residential fixed-line customers are over three times lower when the customer also subscribes to a mobile line: during the first three months of 2015, our churn rate for bundles without mobile was 19.6%, compared to a churn rate for bundles that include mobile of only 6.4%.

Fixed telephony: We are a leading provider of fixed telephony services in the Basque Country (with the second highest market share behind Telefónica) with an estimated market share of approximately 38% (source: Company estimates based on CNMC data as of 2013 and 2014). We offer this service primarily bundled with our other services and as of March 31, 2015 87.9% of our fixed telephony customers subscribed to bundled products (a 7.1% increase from March 31, 2014). We offer our fixed telephony services with unlimited national fixed calls as well as a wide range of price plans for fixed-to-mobile and fixed-to-international calls.

With the aim of further improving our customer experience, reducing costs and further reducing our customer churn, in March 2015 we launched "Euskaltel WiFi", the biggest proprietary WiFi network ever built in the Basque Country with more than 128,000 access points. We believe that "Euskaltel WiFi" will enable us to improve our offering, especially for mobility, while potentially reducing our costs through the offload of mobile data traffic from our host mobile network provided by Orange to our own fiber network.

Business segment

We also provide fixed and mobile telecommunication services to SOHOs, SMEs and Large Accounts, leveraging our fiber network. For SMEs and Large Accounts, through our own dedicated salesforces, we are able to offer integrated and tailor-made solutions to a sophisticated and demanding customer base, which includes financial institutions, large corporates, healthcare providers and public administration bodies. As of March 31, 2015, we provided 52,177 business customers with our services (a 1.0% increase from March 31, 2014) and during the year ended December 31, 2014, our business segment generated revenue of €93.4 million (accounting for 29.1% of our Total Revenue).

SOHOs: We have a specific product offering for small businesses (under ten employees), which includes premium technical support, online presence and email services. We have a dedicated outsourced salesforce and we recently launched an online sales platform for SOHOs. As of March 31, 2015, we served 47,136 customers in our SOHO product offering (a 1.4% increase from March 31, 2014) and our services to SOHOs generated €35.6 million during the year ended December 31, 2014 (accounting for 38.1% of our Total Revenue generated by our business segment for such year).

SMEs: We provide a range of solutions for medium-sized businesses (ten to 40 employees) with relatively high technological requirements. These services include broadband access of up to 350 Mbps, fiber access of up to 1 Gbps symmetric, MPLS Network, fixed-mobile convergence ("**FMC**"), IP Switch and advanced IT services. As of March 31, 2015, we served 4,686 customers in our SME product offering (a 3.5%

decrease from March 31, 2014) and our services to SMEs generated €18.5 million during the year ended December 31, 2014 (accounting for 19.8% of our Total Revenue generated by our business segment for such year). We sell these services directly through our own dedicated SMEs salesforce, which enables us to provide SMEs with standardized offerings according to the specific needs of our SME customers, leveraging our Large Accounts product innovation and know-how.

Large Accounts: Our Large Accounts customer base includes both public administration bodies and large corporates. These entities are based in the Basque Country and a portion of our Large Accounts customers also have activities outside of the Basque Country (as of March 31, 2015, 26% of our Large Accounts services were provided outside of the Basque Country). Our Large Accounts customers have high technological requirements and we devise tailor-made solutions according to each customer's specific needs. These include fiber access of up to 1 Gbps symmetric, FMC, SIP Trunking, MLPS networks, cloud firewall and virtual data centers. Our services to our Large Accounts customer base generated €39.3 million during the year ended December 31, 2014 (accounting for 42.1% of our Total Revenue generated by our business segment). We sell these services directly through our own Large Accounts salesforce and implement a project team approach with dedicated managers and highly-qualified engineers across the life cycle of a project (pre-sale, implementation and post-sale).

Wholesale and Other

As of March 31, 2015, we provided communications services to 27 wholesale customers (most of whom are telecommunication companies which compete directly with us) including Leased Lines, data and voice services that use our facilities and infrastructure to provide services to their customers. We provide Leased Lines services in SDH and Ethernet technologies, Dark Fiber, Voice Services (that allow carriers to complete their end-user calls that originate or terminate within our territory) and Enabling Services, based in our BSS and Mobile Core Network.

In addition, we offer IT outsourcing services to Telecable and, by virtue of our distribution agreement with RACC, we also offer mobile services in Catalonia using the "RACC Telefonía móvil" brand. We also provide mobile enabler and system enabler services as well as collocation and voice resale.

We also sell installation material and electronics to third-party installation companies to be used in provisioning customers and deploying and maintaining our next generation fiber network. These operations have a neutral impact on our profitability.

Our Wholesale and Other segment generated €24.7 million during the year ended December 31, 2014, which represented 7.7% of our Total Revenue.

Our Strengths

We believe we benefit in particular from the following competitive strengths which will allow us to execute our business plan:

We operate in a highly attractive geography with strong macroeconomic fundamentals

We operate almost exclusively in the Basque Country, which is the second wealthiest region in Spain with a GDP per capita estimated at €29,700 as of December 31, 2014, higher than the Spanish average (estimated at €22,800 as of the final quarter of 2014) (source: INE), and comparable to the GDP per capita of major European economies, such as Germany, France and the United Kingdom (€31,100, €32,200 and €32,500 in 2014, respectively (source: IMF and INE)). The Basque Country is also a highly industrialized region and Basque industrial GDP represented approximately 8% of Spanish industrial GDP in 2014, while its population of approximately 2.2 million people only represents 4.7% of the Spanish population. In four of the last five years (all except in 2014) economic growth in the Basque Country was higher than in Spain as a whole. The Basque real GDP is expected to grow by 2.5% in 2015 (source: Basque government), higher than the European Union average of 1.8% (source: European Commission, European Economic Forecasts, Spring 2015). In addition, the unemployment rate in the Basque Country (16.6% at the end of 2014, improving from its peak of 17.4% in the first quarter of 2014) is among the lowest of all Spanish autonomous regions (*Comunidades Autónomas*), significantly lower than the Spanish average of 23.7% in 2014 (source: INE). In 2014, the number of companies registered in the Basque Country grew for the first time since 2007 (source: Spanish Ministry of Employment and Social Security).

The telecommunications sector is exhibiting strong penetration potential and rebounding dynamics, providing us with pricing, up-selling and cross-selling opportunities and potential for further growth

The Spanish telecommunications sector, following a period of intense competitive pressure and resulting revenue contraction (revenues in the Spanish Telecommunications Market decreased by 27% between 2009 and 2014 (source: Company estimates based on CNMC data)), is beginning to show signs of recovery.

The Spanish telecommunications sector exhibits a significant penetration potential in broadband and Pay TV services when compared to European peer countries where the cable sector is particularly relevant. Fixed broadband penetration of 74.0% as a percentage of households in 2014 in Spain is lower than the 85.1% average of relevant European cable markets including Sweden, Germany, Belgium, UK, Portugal, France and the Netherlands (source: Eurostat 2014) and Pay TV penetration at just 20.0% of Spanish households in 2014 lagging behind the 83.5% average of such relevant European cable markets (source: SNL Kagan 2015). High-speed broadband penetration in Spain at 23.4% is also markedly lower than the European average (excluding Spain) of 47.2% (source: European Commission, Digital Agenda Scoreboard, March 2015). In addition, there has recently been an accelerated shift in the Spanish Telecommunications Market towards convergence of fixed and mobile services, with operators bundling services such as broadband, television, fixed-line telephony and mobile into integrated offers. Spain is one of the most convergent telecommunications markets in Europe, with 3P and 4P bundles accounting for 67.0% of the total market in 2014, compared to 24.0% in 2012 (source: CNMC). As a result of a strong increase in the number of connected mobile devices, the use of social media offerings, streaming services and adaptation of 4K TV and UHD technology, demand for mobile services, in particular mobile data, is expected to significantly increase over the coming years, fostering demand for convergence offerings: according to the CISCO Visual Networking Index, consumer IP traffic is forecast to grow by 21% CAGR between 2014 and 2018 and mobile data and internet traffic is forecast to grow by 57% CAGR over the same period.

We believe we are well-placed to take advantage of the penetration potential in the market and that our platform allows us to meet the increasing customer demand for convergent offers.

High quality high-speed broadband. While more than half of broadband subscribers in the Basque Country had contracted ADSL in 2014 and merely 5% of subscribers in Spain used speeds higher than 30 Mbps in 2014 (source: Company estimates based on CNMC data as of 2014 and 2013), we have seen a shift in customer demand towards higher speeds, particularly following the ongoing recovery of the Spanish economy. As of December 31, 2014, 82.3% of our residential customers had contracted high speeds (at least 30 Mbps), compared to only 20.0% as at December 31, 2013. However, 36.0% of such high-speed broadband customers as at December 31, 2014 had contracted speeds of only 30 Mbps, which we believe provides excellent up-selling opportunities to move them to even higher speeds. We think we are uniquely placed to meet the growing demand for high-speed broadband through our proprietary fully-invested next generation fiber network which covers 85% of homes in the Basque Country (representing approximately 86% of the population in the Basque Country), while the fiber network of our main competitor, Telefónica, merely covers approximately 30% of homes in the Basque Country (source: Company estimates based on CNMC data; Telefónica).

Attractive TV offering. In light of the under-penetration of the Spanish Pay TV market relative to other European countries, there are a number of drivers for adoption in this market. Telefónica, through its "Movistar TV" offering and recent acquisition of Canal+ is helping to increase Pay TV awareness. We also have initiatives in place to actively promote, and increase demand for, Pay TV. For example, in June 2014, we migrated approximately 70,000 of our existing fixed-line residential customers (who were merely paying the rent fees for their STBs but not for content) to our basic Pay TV offering, thereby more than doubling the number of our fixed-line residential customers who had subscribed for our Pay TV service (from 20.1% as of December 31, 2013 to 44.7% as of December 31, 2014 (excluding "mobile only" customers)). We are also constantly improving our offering by adding new features, such as VoD and increasing PVR functionality and are aiming to launch our next generation STB later this year or early next year. We believe the regulatory environment in Spain could also be a driver, as premium content will be offered on a wholesale basis following the approval of the acquisition of DTS by Telefónica.

Attractive mobile offerings. Customers are increasingly focused on mobility and data usage. According to the CISCO Visual Networking Index, mobile traffic per user is expected to grow at a CAGR of 42% from 2014 to 2019. We believe mobile will be a key area of growth for the market as a whole, and we believe we are ideally-placed to benefit from such growth given our cross-selling capacity of mobile services to our fixed telephony and broadband customer base. For example, as a result of the introduction of our mobile family tariff ("Tarifa Family"), which offers additional mobile lines for existing customers at competitive prices, we increased the number of our fixed-line residential customers who had subscribed for our mobile offering from 39.3% as at December 31, 2013 to 49.1% as at December 31, 2014.

Lastly, we believe there is a significant upside in the market resulting from the stabilization of pricing and encouraging signs of a rebound of the market. We believe that the severe re-pricing in the Spanish market triggered by Telefónica's aggressive push of their bundled offering "Movistar Fusión" has passed, with prices for the "Movistar Fusión" offering (ADSL broadband, fixed telephony and mobile) decreasing by half between October 2012 and the date of this Prospectus. The introduction of attractively-priced bundle packages has led Spain to become one of the most convergent telecommunications market in Europe with 67% of total telecommunications services being sold as part of triple-play or quadruple-play bundles in 2014 (source: CNMC). In addition, this rapid move to convergence sparked a consolidation trend driven by mobile operators. With Vodafone buying ONO and assuming the successful completion of Orange's public offer for Jazztel, the Spanish telecommunications market will be dominated by three nationally integrated operators who can compete on bundle offerings and we expect this could lead to a more rational pricing environment and focus on customer lifetime value. In addition, the decline of revenues in the Spanish Telecommunications Market slowed in 2014 (decreasing by 6.8% in 2014, compared to 8.2% in 2013 and 6.9% in 2012) (source: Company estimates based on CNMC data) and revenues are expected to stay largely flat in 2015. We have already been able to take advantage of the momentum in the market by increasing our ARPUs (from €54.29 to €55.15 between December 31, 2012 and March 31, 2015) and—despite the significant increase of convergent offers in the market—reducing our annual churn in our residential segment from 17.2% during the year ended December 31, 2012 to 14.8% during the year ended December 31, 2014, which we believe is the lowest in the market.

We believe the recovery of the market coupled with a stabilization in prices should continue to provide us with an attractive environment for the growth of our business.

We are the Basque fiber and convergence leader

We are 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) (source: Company estimates based on CNMC data as of 2013 and 2014), offering highly attractive value-for-money bundles.

Our leading position is cemented by our strong proprietary, fully-invested next generation fiber network and technological capabilities, which have allowed us to develop a successful, fully convergent commercial strategy with a strong focus on triple- and quadruple-play packages. To further anchor our position, we are continuously improving our customer mix and value through the push of cross-selling of mobile services to our fixed telephony and broadband customer base, launching more up-selling initiatives such as the migration of customers to higher broadband speeds and promoting higher value Pay TV propositions, through an innovative, selective and analytical customer segmentation approach.

This strategy enabled us to gain significant commercial success during 2014: we have benefited from our continuous push of fixed-mobile convergence, which has translated into a strong growth in mobile of 29.1% as of December 31, 2014 (in terms of number of lines) when compared to December 31, 2013, while we have managed to increase the number of our fixed-mobile convergent customers from 28.3% as at December 31, 2012 to 46.3% as at December 31, 2014. Furthermore, through the migration of customers to higher broadband speeds, 82.3% of our residential broadband customers had contracted speeds of 30 Mbps or above as at December 31, 2014 compared to only 11.9% as at December 31, 2012. We were also successful in pushing our higher value bundles, with 55.3% of our residential customers having subscribed to a 3P or 4P bundle as at December 31, 2014 compared to only 32.3% as at December 31, 2012. We also have strong positions in the business segment, providing fixed and mobile telecommunication services to SOHOs, SMEs and Large Accounts, leveraging our superior infrastructure, brand and customer service.

We have a fully-invested next generation fiber network and cost-efficient and flexible mobile capabilities

Our proprietary, fully-invested next generation fiber network (approximately €1.3 billion invested since 1999) gives us access to approximately 872,053 homes passed (85% of homes in the Basque Country, representing approximately 86% of the population in the Basque Country) and 146,784 business premises, leaving out only those areas which are uneconomic to reach (although we still cover those areas through ad-hoc satellite and WiMAX solutions). Our network is fully upgraded to Docsis 3.0, with a capacity of 862MHz and a fully-owned backbone, currently capable of delivering speeds of up to 500 Mbps. We believe our network is one of the most advanced and competitive in Europe and we do not foresee significant additional investment in its expansion, leaving our future capital investments predominantly linked to the success of our commercial strategy.

We believe we have a significant time-to-market advantage based on superior network coverage when compared to our competitors. We estimate that the fiber network of our main competitor Telefónica currently reaches only approximately 30% of homes in the Basque Country (source: Company estimates based on CNMC data; Telefónica). In addition, the CNMC is currently conducting a fiber access market review which could force Telefónica to offer wholesale access to its fiber network in certain areas where the CNMC considers there not to be sufficient competition (all outside the Basque Country). Following this review, Telefónica has publicly announced that it would reduce by 35% its planned network expansion of FTTH across Spain, thus reducing the targeted additional households to be covered for 2015 from 5.5 million to 3.6 million, if final conditions imposed by the CNMC were not deemed adequate by Telefónica. We believe this could allow us to build on our market leading position by adding new customers and moving existing customers to higher speeds. Moreover, Telefónica's ongoing focus on marketing and promoting super high-speed broadband in Spain raises awareness, which is beneficial to us since we are uniquely placed to offer this service to the vast majority of Basque households and businesses.

We believe our strength does not only reside in our fixed network infrastructure, but also in our cost-efficient and flexible mobile capabilities, which include:

- a competitive MVNO agreement with Orange, which includes national roaming, access to 3G and 4G services, including the flexibility for us to deploy our own 4G network;
- our proprietary WiFi network "Euskaltel WiFi" with over 128,000 access points, the biggest proprietary WiFi network ever built in the Basque Country, which we believe will enable us to improve our offering, especially for mobility, while potentially reducing our costs through the offload of mobile data traffic from our host mobile network provided by Orange to our own fiber network; and
- our 4G/LTE license in the 2.6GHz band in the Basque Country (expiring on December 31, 2030), which enables us to strategically deploy a proprietary 4G network in the future with limited investment, where and when we deem this to be economically attractive.

We derive significant competitive advantage from the Euskaltel brand, our differentiated and innovative product offering and our customer-centric approach

Our leadership in the Basque market has been cemented by three key areas which we believe differentiate us from our competitors:

Our brand. Euskaltel is a household name deeply rooted in the Basque Country (*Euskadi* means Basque Country in the local language). We believe the "Euskaltel" brand, together with our corporate color orange, is one of the most recognized brands in the Basque Country (source: Company survey, April 2014) and our brand is the only telecommunications brand to be ranked higher than Movistar (Telefónica's brand), the market leader in Spain (source: GfK "Brand Potential Index", January 2015). We believe that we form an integral part of the Basque community through our significant engagement in regional and local sponsorship and patronage activities and our advertising and marketing activities. For example, we are the official technology partner for the top four Basque football clubs, act as sponsor for traditional Basque sports and Basque cultural associations, support local and regional non-governmental organizations and participate in environmental and sustainability activities. We are also at the core of the Basque economy, where we are actively involved in Basque business associations and industry bodies. One of our strengths is the proximity to, and strong connection with, our customers in the Basque Country and we are the only company in our sector that operates bilingual call centers, enabling our customers to interact with our customer service and sales staff in the Spanish and Basque languages. The strong attachment of our customers to our brand is also exhibited by significant levels of customer loyalty: approximately two thirds of our customer base has never unsubscribed from our services.

Our differentiated and innovative product offering. We believe our product offering represents the best value proposition in the residential segment (broadband speeds of up to 350 Mbps, extensive TV offering with TV Everywhere and VoD, attractive mobile packages with multi-line bundles for families at competitive prices and our recently launched proprietary WiFi network "Euskaltel WiFi", offering free internet access to our mobile and broadband customers through over 128,000 access points throughout the Basque Country) and sets us apart from our competitors. For SOHOs, we adapt our residential products and services offering to small businesses (under ten employees) with extended technical capabilities and features to meet the particular requirements of this customer segment. In the business segment for SMEs and Large Accounts, we have a strong track record of delivering high quality integrated and tailor-made solutions to our sophisticated and demanding customer base. Proximity to our business customers and a superior customer service, underpinned by our own sales force for SMEs and Large Accounts to support our customers throughout the cycle (pre- and post-sales), sets up apart from our competitors.

Our focussed customer-centric strategy. We pride ourselves on our customer service and we communicate with our customers in a simple, honest and attractive way through our attractive product offering and our innovative marketing activities. We also have a strong track record of high customer satisfaction, both in terms of technical and informational requests with an average satisfaction level of 9.21 out of 10 (for technical requests) and 9.13 out of 10 (for information requests) between 2012 and 2014 (source: based on telephone customer surveys). In January 2015, we ceased heavy promotional offers linked to long-term contracts, shifting our focus to maximizing customer lifetime value and offering our customers simple, easy-to-understand packages centered around broadband speeds and then adding Pay TV and attractive mobile offerings, which we expect will help to further increase bundling and decrease churn. We have been able to successfully increase prices in certain segments in January 2015, by using a selective and analytical approach to customer segmentation.

We believe that these key differentiating factors have allowed us to retain a high quality customer base, with high and growing ARPUs (increasing from €54.29 to €55.15 in our residential segment between December 31, 2012 and March 31, 2015) and lower churn rates (decreasing from 17.2% as at December 31, 2012 to 14.8% as at March 31, 2015 in our residential segment) as we continue our strategy of focusing on customer lifetime value.

Resilient revenue generation with growth momentum delivering superior profitability and cash flow conversion

Despite pricing pressures in the Spanish market following the impact of the economic recession and the introduction of Telefónica's "Movistar Fusión" offering in 2012, our revenue performance has demonstrated resilience in recent years. We have successfully repositioned our residential strategy with the objective of maintaining stable revenue, acquiring new customers on high value 3P and 4P bundles, and focusing on up-selling and cross-selling with the objective of maximizing customer lifetime value within our existing customer base. The Total Revenue generated by our residential segment increased by 0.4% in the year ended December 31, 2014 (compared to the year ended December 31, 2013), while revenues in the Spanish Telecommunications Market overall decreased by 6.8% during the same year (source: Company estimates based on CNMC data), which evidences our resilience. We believe that we have now reached an inflexion point in residential with our successful commercial strategy in recent quarters translating into top-line growth momentum with ARPU increasing from €53.23 to €55.15 between March 31, 2014 and March 31, 2015 and Total Revenue generated by our residential segment increasing from €195.4 million to €196.2 million between December 31, 2013 and December 31, 2014. We believe this acceleration will carry through 2015 and onwards in our residential segment and SOHO product offering (which typically follows a similar trend to residential) while our remaining business lines continue to be largely linked to the overall evolution of the economy.

Despite difficult pricing and macro conditions in prior years, we have consistently improved our Adjusted EBITDA while reducing our costs leading to an increase of our Adjusted EBITDA margins by 9.2 percentage points from 39.3% in the year ended December 31, 2012 to 48.5% in the year ended December 31, 2014. This was mainly achieved through the implementation of the first phase of the transformation plan carried out over 2013 and 2014 (the "**Transformation Plan**"), with the objective of reaching sustainable efficiencies, which include, among many other things:

- rationalization and outsourcing (e.g., network and IT) as well as in-sourcing of key tasks performed by third parties;
- refocusing of our sales channels mix to more economic channels (online and inbound), providing a leaner and more flexible cost structure;
- improving of our processes and renegotiation with key suppliers (e.g., post-sales activity); and
- acquiring from the Basque government the remaining part of the backbone of our network not previously owned by us.

During the years ended December 31, 2012 to December 31, 2014, covering the period of the Transformation Plan, in addition to the growth in our Adjusted EBITDA margins, our Operational Free Cash Flow Conversion rate increased from 11.5% to 72.9%.

We believe that our Operational Free Cash Flow Conversion rate set us apart from our European peers: in the year ended December 31, 2014, for every euro that we generated in Adjusted EBITDA, we converted 73 eurocents into Operational Free Cash Flow, which we estimate is significantly higher than other European cable operators, as shown in the table below.

	Year ended December 31, 2014		
Name	**OpFCF[1] conversion**	**OpFCF margin**	**Capex as a percentage of revenue**
Euskaltel	72.9%	35.4%	13%[4]/16%[5]
Telenet[2]	55%	34.1%	20%
Liberty Global	53%	25.3%	22%
Com Hem	53.5%	25.4%	22%
Altice[3]	47.0%	14.7%	15%
NOS	46.0%	17.0%	20%
Numericable/SFR[4]	42.5%	11.5%	16%

Sources: Company estimates based on publicly-available information of peers for year ended December 31, 2014

Notes:

(1) Operational Free Cash Flow ("**OpFCF**") calculated as Adjusted EBITDA minus capital expenditure. Cash conversion calculated as OpFCF/Adjusted EBITDA.

(2) Excluding BASE.

(2) Pro forma for SFR and Portugal Telecom deals.

(3) Pro forma for SFR deal.

(4) Calculated as a percentage of Total Revenue.

(5) Calculated as fixed-line capex as a percentage of Total Revenue, excluding mobile.

This superior cash flow conversion is primarily a consequence of our proprietary, fully-invested next generation fiber network with owned backbone and the measures taken as part of the implementation of our Transformation Plan, which allows us to focus our capital investments on maintenance, customer acquisition and key growth projects while containing our capex/revenue ratio within the 13% to 14% region. While we have identified additional technology and network investments, such as the launch of our next generation STB, connection of carefully selected and already identified additional provisionable homes and businesses and the implementation of our proprietary 4G network, as a result of our disciplined investment approach we believe our capital expenditure levels will remain within approximately 13% to 14% of Total Revenue per year. Lastly, we benefit from a favorable Basque tax regime that allows us to use our net operating losses incurred in the past as well as certain tax credits and tax assets, which translates into limited cash tax payments in 2015 and, subject to future changes in law and policy, a reduced effective cash tax rate of 15.4% in the medium term. We believe our superior cash conversion provides us with a privileged financial position to potentially support an attractive shareholder remuneration policy and pursue value-accretive strategic acquisitions.

We benefit from an experienced management team with a proven track record of execution

Our Company is managed by one of the most experienced management teams in the Spanish telecommunications sector. All of the members of our management team have a long and noteworthy track record of successfully working and managing across all segments of the telecommunications industry. While many of the senior members of our management team have been with Euskaltel for a number of years (some since the Company started providing internet services back in 1998) we have in recent years selectively reinforced the top management team, resulting in a mix of invaluable Company experience and the best talent in the telecommunications sector. In addition, most members of our management team have held various roles within the Company, which has allowed them to develop a more holistic view about our business and its potential going forward. We believe the distinct knowledge of our management team of all areas of our business, the sector in which we operate as well as the Basque Country, its culture and its people sets us apart from our competitors and enables us to capitalize on the opportunities presented by current and expected market conditions. In addition, we believe we have a best-in-class Board of Directors with considerable expertise and highly reputable independent directors with extensive experience in the governance of publicly-listed companies.

Our Strategy

Our strategy is to maximize customer lifetime value by leveraging our leadership positions in the Basque Country, loyal customer base, proprietary fully-invested next generation fiber network and brand to consolidate our market shares in broadband, Pay TV and fixed telephony and to continue to grow our mobile telephony market share and further strengthen our position in the business segment. We strongly believe that, by leveraging our unique competitive strengths, our customer-centric commercial strategy places us in an unparalleled position to benefit from the overall increase in data consumption across the residential and business markets both at home and in mobility.

In order to achieve these goals, we have identified the following strategic pillars:

Continue to focus on increasing customer lifetime value by up-selling and cross-selling to our existing customer base and acquiring new customers on high-value bundles to drive ARPU and reduce churn as well as actively promoting mobility and targeting DSL users

Our growth strategy is based on three main levers: (i) increase value among existing customers and thereby drive ARPU growth, (ii) putting mobility at the heart of our customer proposition and (iii) acquire new customers.

We plan to continue with our successful bundling strategy by offering higher-value products to our existing customer base by focusing on cross-selling and up-selling and acquiring new customers on 3P and 4P offerings. Our 4P offerings have the highest ARPU of our bundled offerings (around €82 per 4P bundle as at December 31, 2014) and we estimate that adding an extra service to a bundle (e.g., migrating a customer from a 2P bundle to a 3P bundle) adds around €20 of ARPU per service.

While 57.6% of our customers, as at March 31, 2015, subscribed to 3P or 4P bundle packages, we believe there is significant room to increase the number of RGUs per customer. Furthermore, we believe there is room to increase the value of our products. For example, our mobile family tariff ("Tarifa Family") offers additional mobile lines for existing customers at competitive prices and we also actively promote our convergent packages to our broadband customers and continue to migrate customers to higher broadband speeds and promote higher value TV offerings. We believe successfully promoting our bundles will progressively continue to drive ARPU and reduce churn. In particular, we believe that our focus on putting mobility at the heart of our customer proposition will have a positive impact on our churn rates as we experience significantly lower churn rates once a customer has subscribed to our mobile offering: during the three months ended March 31, 2015, average churn for bundles without mobile was 19.6%, compared to only 6.4% for bundles that included mobile. In general, we have found that the more services a customer has, the less likely that customer is to stop subscribing for our services (i.e., the average churn for customers on 4P bundles is significantly lower than the average churn for customers on 3P bundles, the average churn for customers on 3P bundles is significantly lower than the average churn for customers on 2P bundles and so on).

In addition, we will continue to evaluate the introduction of targeted price increases from time to time, reflecting customers' willingness to add higher-value services. This is also supported by the overall rebounding telecommunications environment. We have a disciplined and selective approach to our pricing strategy, which is based on a sophisticated segmentation of our customer base and may include the provision of additional services, such as increased broadband speeds or additional minutes or data allowances. This approach has allowed us to successfully implement targeted price increases across certain customer sub-segments and packages in January 2015, without adversely affecting churn so far. As a result, we have been able to increase ARPU in our residential segment by 2.5% between December 31, 2014 and March 31, 2015. In line with our commercial strategy, we have also recently adjusted our offering with the aim of improving user experience in our medium- and high-value bundles by offering higher broadband speeds and added Pay TV functionality, among other things. This has been accompanied by slight price increases, which we believe should drive ARPU while having a limited impact on churn.

We believe our strong focus on mobility and providing high-speed access everywhere will fuel our growth whilst we continue to increase our market share in mobile and to monetize the data opportunity. As at March 31, 2015, approximately 46.7% of our existing fixed telephony customers had not yet subscribed to one of our mobile products, which is markedly lower than the corresponding levels of some of our competitors (source: Company estimates based on CNMC data as of 2013 and 2014). Our infrastructure choices in mobile, including our proprietary WiFi network "Euskaltel WiFi" as well as the targeted deployment of our own 4G network, aim to support this strategy whilst being fully aligned with our cost-efficient model.

By executing this strategy, we believe that, in the medium term, we may increase the proportion of our residential customer base subscribing to triple- or quadruple-play bundle packages to approximately 70% compared to 57.6% (as at March 31, 2015), increase our penetration of fixed telephony customers subscribing to a postpaid mobile service to approximately 70% compared to 53.3% (as at March 31, 2015), whilst continuing to lower churn and increasing global ARPU to over €60 per month.

In order to capture new customers and latent demand for fiber in underserved areas, we also plan to roll out our next generation fiber network to up to 51,000 carefully selected and already identified additional provisionable homes (of which approximately 30,000 are located in city centers), to be built in strategic geographic areas, with relatively low required investments (given that over 90% of these homes can be served via existing nodes), in the coming months which will enable us to increase our number of customers. This deployment commenced during the first quarter of 2015 and the roll-out is based on customer demand and traffic concentration. We are also planning to add approximately 2,200 new provisionable SOHOs over the next five years and deploy our fiber network over nine industrial areas to cover an additional 700 SMEs and Large Accounts over the same period. The total expected investment for this coverage expansion plan over the next five years is approximately €20 - €25 million (60% deployment and 40% provisioning).

We currently serve approximately 32% of the homes passed by our network, which we believe provides us with a significant opportunity to further increase our penetration in-footprint, particularly given our existing in-footprint in the three largest cities of the Basque Country. In broadband in particular, as approximately 50% of broadband subscribers in the Basque Country are still accessing via ADSL, we aim to leverage our superior proposition to capture a share of this market. We believe that this will be facilitated by the active marketing and promotion of high-speed broadband currently being carried out by other fiber operators in the Spanish market.

Finally, we believe there is an excellent opportunity to increase the value of, and to grow our current market share in, the business segment, facilitated by the signs of recovery exhibited in the Basque economy, by leveraging our key assets, such as our superior infrastructure, our proximity to our customers and our attractive product portfolio.

By doing so, we believe that, in the medium term, we may be able to increase our market share in all products and penetrate approximately 35% to 40% of the additional homes and businesses provisionable that we intend to reach with our network, as described above.

Foster customer experience and product innovations to maintain our leadership in the Basque Country

We believe that a positive customer experience and an innovative product offering are key to maintaining our leadership in the Basque telecommunications market and we aim to continue to roll out initiatives to improve our customer experience and add new innovative products to our offering.

For example, in our residential segment, we have been actively promoting ultra-high speeds of up to 350 Mbps, and we have the capacity to actively increase speeds as demand evolves. As a result, we have significantly increased the number of broadband customers on high-speed broadband, with 82.3% of our residential broadband customers subscribing for speeds of 30 Mbps or higher as at December 31, 2014, compared to only 20.0% and 11.9% as at December 31, 2013 and 2012, respectively. Our latest Pay TV platform added functionalities such as TV Everywhere, VoD and a new PVR and, later this year or early next year, we aim to launch our next generation STB, which we believe will significantly enhance our already attractive Pay TV offering. Initiatives such as the launch in March 2015 of our proprietary WiFi network "Euskaltel WiFi", offering free internet access to all our broadband and mobile customers through over 128,000 access points across the Basque Country, aim at continuously enhancing our customer experience. We also continue to renew our offering with an array of other value added-services, such as mobile insurance, smart home and home security, among others, which we believe will help foster customer loyalty and growth.

For our business segment, we are continuously expanding our product suite by offering new and innovative solutions for SOHOs, SMEs and Large Accounts, such as advance cloud services, housing/hosting in our datacenters and customized solutions with dedicated post-sales engineers.

SOHOs: Given the similarities between SOHOs and our residential customer base, we aim to employ a similar strategy as that used in residential by, for example, actively migrating SOHO customers to ultra-high speeds and promoting our innovative value-added services adapted to SOHOs, such as online presence (e.g., domain and web page hosting), cloud antivirus or collaborative tools. We also aim to continue with our dedicated sales and customer care approach for SOHOs, which includes a SOHO-specific salesforce, our recently launched SOHO online presence and our specific SOHO-dedicated call center.

SMEs: Our aim is to refocus our approach to SMEs, which we refer to as our transformation from "farmers to hunters", by actively targeting SMEs to achieve a higher penetration, particularly in business parks across the whole of the Basque Country, and focus our efforts to win high value/high margin SMEs. We aim to implement this strategy by pro-actively pursuing multi-location customers with heavy data needs through our dedicated in-house SME sales team and our SME-specific customer care, which includes mini-conferences to educate SMEs and increase customer interactions with existing and new SME customers. We also believe that we can successfully leverage our Large Accounts expertise and adapt our technological know-how to our SME offering.

Large Accounts: We aim to continue to increase our Large Accounts customers' total expenditure with us by adding additional services as well as more technologically-advanced solutions specifically tailored to the requirements of this sophisticated customer base.

Continue with our disciplined approach to infrastructure investment to support our successful commercial strategy

We benefit from our proprietary, fully-invested next generation fiber network which is one of the most advanced in Europe as well as a clear competitive advantage which our network strategy aims at preserving, whilst supporting our growth.

Our network is fully-invested and maintenance and success-based investments account for approximately 84% of our current annual capital expenditure. We will continue to make disciplined investments for maintenance, customer equipment and, as and when necessary, for upgrades to support our commercial strategy. For example, while our network is currently capable of delivering speeds of up to 500 Mbps, with a number of small upgrades, our network could deliver speeds of up to 800 Mbps at marginal incremental costs and limited time-to-market if the demand evolves.

We are also constantly evaluating opportunities to expand our network coverage by adding homes where we believe this to be economically attractive. For example, we have already carefully selected and identified up to 51,000 additional provisionable homes and 2,900 provisionable business premises (including 2,200 SOHOs and 700 SMEs and Large Accounts) which we believe we can add to our network over the coming years at relatively low investments (given that over 90% of these homes can be served via existing nodes) and with adequate financial returns.

We also have a 4G/LTE license in the 2.6GHz band in the Basque Country (expiring on December 31, 2030), which enables us to strategically deploy a proprietary 4G network in the future with limited investment, where and when we deem this to be economically attractive.

A fully invested network means that we have had a stable level of investments in recent years (€42.2 million and €41.5 million and in the years ending December 31, 2014 and 2013, respectively) and expect our future capital expenditure to be mostly linked to our commercial success. We will continue to apply our disciplined approach to investments including to the future targeted deployments of our fixed and mobile networks. We expect capital expenditure to be between €40 million and €45 million in 2015 and to remain within 13% to 14% of Total Revenue going forward.

Continue to optimize process efficiencies and drive digitalization to further improve profitability

We plan to continue to manage our business with a strong focus on cost optimization and to continuously improve our process efficiencies, building on the implementation of our Transformation Plan carried out over the last two years, which provided us with structural cost savings of approximately 40% in installation cost per fixed RGU, thereby freeing up funds for capital expenditure to fund our growth.

Whilst we have managed to increase our Adjusted EBITDA margin by 9.2 percentage points between December 31, 2012 and December 31, 2014 (from 39.3% to 48.5%), we believe the effects of some of the measures from our Transformation Plan are still to materialize in the coming months whilst we have also identified further efficiencies which we believe will enable us to narrow the gap with the best-in-class cable companies in Europe in the medium term.

To that end, and as we continue to evaluate our internal processes to identify rationalization opportunities, we have clearly identified several areas of further upside. Our "Online First" strategy aims at increasingly digitizing customer interactions as well as certain internal business processes in order to provide a leaner and more flexible cost structure. In addition, we expect to benefit from the roll-out of our proprietary WiFi network "Euskaltel WiFi" with over 128,000 access points, which will potentially reduce our costs through the offload of mobile data traffic from our host mobile network provided by Orange to our own fiber network.

Our 4G/LTE license in the 2.6GHz band in the Basque Country (which expires on December 31, 2030) enables us to strategically deploy a proprietary 4G network with the objective of diverting 4G data and voice traffic from the mobile host's network to our own network and thus significantly reduce direct mobile costs in future years. We are currently planning to deploy the network in the next three years at a limited number of sites. Our intention is to focus the deployment just on the geographical areas where our customers consume the majority of the traffic (mostly in cities) in order to optimize the number of sites required and hence minimize the capital expenditure outlay and future operating costs. Accordingly, our 4G network will be a partial network complemented by the coverage of our host's network, which we believe provides us with a cost-efficient solution to enter the 4G market. We plan to invest in the region of €15 million in our 4G network from this year until the end of 2018.

Strategically positioned to drive regional cable consolidation

While the Company is currently not involved in any acquisition process, we are constantly monitoring opportunities to undertake value-accretive strategic acquisitions and it is possible that an acquisition could materialize in the next 12 to 18 months. We believe we are uniquely positioned to participate in any future consolidation of the regional fiber landscape, particularly in the north of Spain. We are by far the largest regional cable operator in Spain, which strategically positions us to participate in any such combination, which we believe could yield significant value creation potential. Some of the benefits from such a consolidation would include, among other things, potential costs and capital expenditure reduction from savings in interconnection or connectivity costs, unification of infrastructure platforms and simplification of network maintenance processes, reductions in content costs (taking advantage of increased purchasing power) as well as scale benefits from the implementation of efficiencies and best practices already in place at Euskaltel.

Our History

In 1992, the Basque government began construction of a fiber network in the region, which initially only covered the communication networks of public institutions and bodies, such as hospitals, universities or government agencies before extending it to the three Basque provincial capitals, Bilbao, San Sebastian and Vitoria.

In 1995, our Company was created by the Basque government and the three Basque savings banks (BBK, Kutxa and Vital) to become the alternative telecommunications operator in the Basque Country and, as a result, to end the monopoly of Telefónica in the sector.

On October 10, 1997, in the wake of the liberalization of the Spanish telecommunications market, Telecom Italia, Iberdrola, Endesa, Retevisión (the second operator in Spain at that time) and Grupo Mondragón acquired an aggregate stake of 43% in our Company, which began operations in that year and started providing fixed telephony and internet services in 1998.

In 1998, Euskaltel and its partners in Retevisión (Endesa and Telecom Italia) acquired the third national mobile communication license through Amena, in which Euskaltel was a shareholder. In August 1998, Euskaltel obtained a cable telecommunication services license to provide services including cable television. Euskaltel and Amena signed an agreement, whereby in 1999 we began to offer Amena's mobile services to our fixed line customers.

During the period from 2000 to 2006, we deployed our access network and expanded our service portfolio to our growing customer base in the residential, SOHO, SME and Large Accounts segments. We launched Digital Pay TV in 2000 and we started offering simple bundled products. For example, in 2000 we launched integrated telephony and internet bundles for the business segment. In 2002, we launched our first broadband service using Docsis technology. In 2003, we introduced a wireless WiFi kit for households and Virtual Private Networks ("**VPN**") for our business customers. In 2006, we launched an Ethernet Metropolitan fiber service to improve connectivity among business customer premises.

The agreement with Amena allowed us to market mobile services to our customers under our own brand, but the agreement prevented us from designing our own mobile offering since the mobile packages were defined by Amena and we acted as pure resellers of such packages. The agreement also prevented us from offering products and services based on 3G technology. On the other hand, we gained invaluable experience in running a mobile network, including design, network planning, rollout, operation and maintenance.

In 2006, in a move to become a fixed and mobile convergent operator, we took the strategic decision to become a full Mobile Virtual Network Operator ("**MVNO**"), subject to regulatory approval. As we were unable to reach an agreement with Amena, which was in the process of being sold to France Telecom, we reached an agreement with Vodafone in 2006 which allowed us, from 2007 onwards, to offer mobile services as a full MVNO using Vodafone's mobile network and, in the same year, we completed the migration process of mobile telephone customers from France Telecom to our own network.

The agreement with Vodafone triggered France Telecom's legal claim filed against us in the International Arbitration Chamber of Paris ("**CCI**") in June 2008. France Telecom alleged breach of the non-compete obligations under the sale and purchase agreement governing the sale of Amena's parent company, Auna Operadores de Telecomunicaciones, S.A., dated July 29, 2005, to which we became a party on October 31, 2005, and a shareholders' agreement dated November 8, 2005. This dispute was finally settled on July 2, 2012, when we entered into a settlement agreement with France Telecom, under which France Telecom declared all outstanding obligations, liability and debts as extinguished, putting an end to all disputes between the parties. Pursuant to this settlement agreement, on July 2, 2012, we paid France Telecom a sum of €215 million in full and final settlement.

In 2008, we entered into an agreement with Real Automóvil Club de Cataluña ("**RACC**"), Spain's largest automobile club by number of members, to provide mobile telecommunication services outside of the Basque Country.

In 2009, we continued expanding our mobile portfolio with new broadband services for mobile devices.

In 2011, and for the first time, we became owners of a block of frequencies in the 2.6 Gigahertz (GHz) band to provide mobile services, which was offered as part of a public auction process in the Basque Country by the Spanish Ministry of Industry. During this time, we also improved our customers' Pay TV experience by offering them new services with high definition quality.

At the end of 2011, following the merger of the three Basque savings banks into one single entity, Kutxabank (the entity resulting from the merger) became our majority shareholder with a holding of 68%. At the end of 2012, Kutxabank, Endesa, the Basque government and Grupo Mondragón sold 48.1% of the shares in our Company to International Cable B.V., an independently managed investment and holding company held by TCP Cable S.à r.l. (50%) and International Cable Holdings S.à r.l. (50%). This left 42.83% of our ordinary shares directly in the hands of Kutxabank, with a further 7.07% held by Araba Gertu, S.A.U., a wholly-owned subsidiary of Kutxabank. The remaining 2.0% of our shares are owned by Iberdrola, S.A.

In 2012, faced with weakening economic conditions in the Basque Country, we commenced a transformation plan with the objective of repositioning our Company to become a best-in-class European convergent operator. In 2013, we launched our Transformation Plan designed along three main pillars: (i) organization and culture; (ii) cost efficiencies; and (iii) growth initiatives.

With regard to organization and culture, three main projects were implemented: (i) outsourcing of IT and network operations to two large multinational technological companies (GFI and ZTE, respectively), which enables us to focus on customers whilst ensuring that the outsourced operations benefit from the scale and technological advantages of these two partners; (ii) internalization of tasks conducted by external parties, such as the management of outsourced activities (e.g., provisioning); and (iii) early retirements and other personnel voluntary redundancies. The streamlining of our organization has also led to significant and stable cost savings in addition to reduction of personnel.

On the cost efficiencies side, a whole program of projects was put in place to achieve structural optimization of costs with a positive long-lasting impact on margins and cash generation enhancement. Some of the key initiatives launched included: re-negotiation of contracts with suppliers (e.g., installers and technicians); change of sales channel mix (shifting sales from "push" channels such as direct sales force towards more cost efficient "pull" channels such as online and inbound); shift from paper billing to e-billing, promotion of customer self-installation of equipment at home; new process for capital expenditure approval; and a new company annual bonus scheme based partially on individual performance targets and partially on key financial metrics (namely revenue, Adjusted EBITDA and Operational Free Cash Flow) to align our organization with the Company's financial targets. On May 27, 2015, we also agreed with Orange the pricing for the use of Orange's 4G network.

Finally, we have launched several growth initiatives to better position our Company in the market in the coming years. For example, we created a new business unit dedicated to customer management with special focus on managing churn and ARPU. We also created an "Online" unit to develop web sales and customer service, and a "TV" unit to increase our focus on TV products and services, which oversaw the launch of our TV Everywhere offering and the introduction of new functionalities such as VoD and a new PVR. In 2014, we launched WiFi services for our mobile and broadband customers: initially we focused on bars and restaurants and, in March 2015, we rolled out our community "Euskaltel WiFi" network with over 128,000 access points across the whole of the Basque Country.

Our Products and Services

We are the Basque fiber and convergence leader (source: Company estimates based on CNMC data as of 2013 and 2014), and operate in one of the most affluent regions in Spain. We offer primarily bundled services comprised of high-speed broadband, Pay TV, mobile and fixed telephony services to residential and business customers. As of March 31, 2015, we enabled access to our services to approximately 872,053 homes passed and 146,784 business premises. We have a proprietary, fully-invested next generation fiber network of approximately 350,000 km and are the only operator with a fiber network covering most of the Basque Country.

We are 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) (source: Company estimates based on CNMC data as of 2013 and 2014). As of March 31, 2015, we provided 918,120 services (in terms of RGUs) to 295,360 residential customers. We also offer products and services to SOHOs, SMEs, Large Accounts and public sector entities as well as the wholesale market.

Residential segment

Overview

We provide our residential customers with a combination of fixed and mobile telecommunication services, as well as other value added services, primarily through our fiber network and our MVNO agreement with Orange.

We have access to 85% of homes in the Basque Country, representing approximately 86% of the population in the Basque Country. Our network is fully upgraded to Docsis 3.0, with a capacity of 862MHz and a fully-owned backbone, currently capable of delivering speeds of up to 500 Mbps and, with a number of small upgrades, our network could deliver speeds of up to 800 Mbps at marginal incremental costs and limited time-to-market if the demand evolves. We believe our network is one of the most advanced and competitive in Europe.

As of March 31, 2015, we provided 918,120 services (in terms of RGUs) to 295,360 residential customers and our residential segment generated revenue of €196.2 million in the year ended December 31, 2014 (accounting for 61.1% of our Total Revenue during 2014). As of December 31, 2014, 78% of our fixed-line customer base (excluding "mobile only" customers) subscribed to our broadband services, 45% to our Pay TV offering and 49% to our mobile offering.

We offer our customers a variety of services that include: (i) high-speed broadband with real speeds of 50, 150 and 350 Mbps, (ii) Pay TV with three packages: "TV Esencial+" (with over 50 channels), "TV Selección+" (with over 70 channels) and "TV Premium+" (with over 90 channels), together with TV Everywhere, VoD and PVR functionalities; (iii) mobile telecommunications with a number of innovative price plans for calls and data packages; (iv) fixed telephony; and (v) other value-added services such as premium technical support, mobile insurance, and, through our "Euskaltel Life" offering, other innovative products, such as smart watches and wearable technology linked to prestigious brands.

The table below sets out certain information with respect to our residential services:

	As of and for the year ended December 31, 2014
Total residential customers EOPs	296,023
RGUs EOPs	896,077
Total Revenue generated by residential segment	€196.2 million
ARPU	€53.78
Churn	14.8%

Bundled services

In order to maximize revenue from our residential customer base, we actively encourage customers to subscribe to more than one service by offering bundles which provide them with multiple services (high-speed broadband, Pay TV, mobile telephony and fixed telephony) at competitive prices, and by offering the convenience of having a single supplier and a single point of contact and billing for all communication, entertainment and information needs. There has been an increase in the popularity of our triple-play and quadruple-play packages with our new customers in this segment and because of cross-selling efforts on our existing customer base and, as a result, as of March 31, 2015, 82.4% (up from 77.6% when compared to March 31, 2014) of our residential customers subscribed to a bundled package (24.8% double-play (a decrease of 9.4%), 35.5% triple-play (an increase of 2.9%) and 22.1% quadruple-play (an increase of 11.3%)). In particular, we were successful in pushing our higher value bundles, with 57.6% of our residential customers having subscribed to a 3P or 4P bundle as at March 31, 2015 compared to only 32.3% as at December 31, 2012 and we managed to increase RGU per customer (excluding "mobile only" customers) from 2.43 to 3.22 during the same period. Despite the highly competitive market environment in recent years, we managed to grow our residential ARPUs (from €54.29 to €55.15 between December 31, 2012 and March 31, 2015), and to decrease our churn rates (from 17.2% as at December 31, 2012 to 14.8% as at March 31, 2015).

We also encourage customers to subscribe to more than one mobile line from us by offering attractive prices on additional mobile lines in order to further increase our revenue and reduce churn. For example, our mobile family tariff ("Tarifa Family") offers additional mobile lines for existing customers at competitive prices. As of March 31, 2015, 53.3% of our fixed-line customer base subscribed to our mobile service and, on average, our mobile customers subscribed for 1.8 mobile lines (up from 1.6 as at December 31, 2012) from us which we believe demonstrates there is further growth potential.

In the table below, we summarize the main bundled packages we offer to our new residential customers (all of them include fixed telephony) as of June 1, 2015 (the latest practicable date prior to the date of this Prospectus):

	Monthly price[(2)] (excluding VAT) as at March 31, 2015
Broadband[(1)] Mobile/TV	
Internet 15 Mb + Mobile 120min/500 MB	€32.90
Internet 15 Mb + Mobile 1000min/1 GB	€37.80
Internet 50 Mb + Mobile 120min/500 MB	€37.10
Internet 50 Mb + Mobile 1000min/1 GB	€42.10
Internet 60 Mb + Mobile 1000min/1 GB+ TV Selección	€50.30
Internet 60 Mb + Mobile unlimited calls/2 GB + TV Selección	€55.30
Internet 350 Mb + Mobile unlimited calls/2 GB + TV Selección	€60.20
Internet 350 Mb + Mobile unlimited calls/2 GB + TV Premium	€65.20
Broadband[(1)] /TV (without mobile)	
Internet 50 Mb + TV Selección	€47.10
Internet 150 Mb + TV Premium	€57.10

Notes:

(1) Download speeds. Standard broadband products offer one-to-ten upload/download speed ratio.

(2) Promotional activity may affect these prices. We also offer, at no extra cost, basic telephony services which include unlimited local and national fixed line calls.

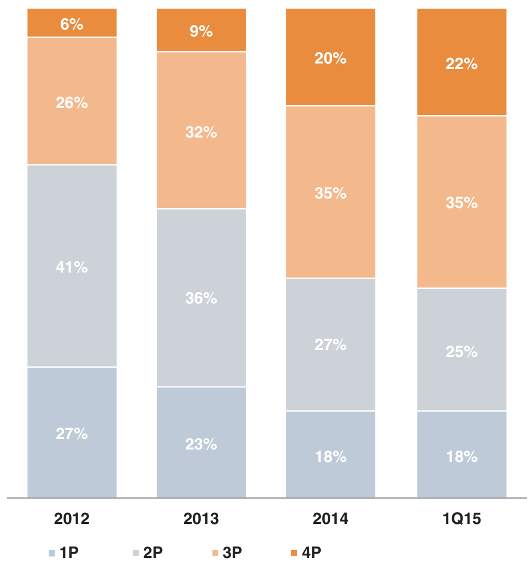
The sale of bundled products improves our customer mix thus supporting ARPU expansion and an increase in customer loyalty—the more products our customers subscribe to, the less likely it is that they will leave.

The following tables set forth certain information on the evolution of our bundling offering as of December 31, 2014, 2013 and 2012:

Subscribers EOP by bundle type

	March 31, 2015	2014	2013	2012
4P	65,301	59,948	28,036	18,206
3P	104,846	103,693	94,806	80,656
2P	73,166	79,645	106,801	125,830
1P	52,047	52,737	68,852	81,069
TOTAL	**295,360**	**296,023**	**298,495**	**305,761**

Percentage of residential subscribers per bundle type



In addition to monthly charges, customers also pay variable charges related to fixed and mobile telephony consumption, subscriptions to add-on premium TV channels and VoD television content and other value-added services, such as advanced technical support and cloud services as well as administrative charges.

Broadband

Our broadband service connects our customers to our local networks via cable modems at a variety of different speeds and prices, and is fully bundled with our fixed telephony service. We offer unlimited downloads with all our packages and we usually provide a one-to-ten upload/download speed ratio on our standard broadband products. As of March 31, 2015, we provided 216,846 residential customers with our broadband services and 181,193 with high-speed broadband (a 150.2% increase from March 31, 2014).

Our proprietary, fully-invested next generation fiber network allows us to offer our customers greater quality and higher internet speeds. Our network is fully upgraded to Docsis 3.0, with a capacity of 862MHz and a fully-owned backbone. With the deployment of this technology, our network is currently capable of delivering speeds of up to 500 Mbps and we currently offer ultra high-speed broadband to 872,053 homes passed (85% of homes in the Basque Country, representing approximately 86% of the population in the Basque Country), which makes us the leading provider of high-speed internet across the entire region. For those areas where our fiber network does not reach, we offer alternative solutions such as internet by satellite, WiMAX for rural areas and ADSL services. We intend to continue focusing on marketing and deriving the commercial benefits from this service.

The following table sets forth certain information with respect to our broadband offering in our residential segment as of December 31, 2014, 2013 and 2012:

	March 31, 2015	2014	2013	2012	CAGR 2012 - 2014
Number of customers	216,846	216,233	214,170	207,951	2.0%
Change year-on-year	*0.4%*	*1.0%*	*3.0%*	*(1.8)%*	—
RGUs	218,391	217,726	215,520	209,092	2.0%
Change year-on-year	*0.5%*	*1.0%*	*3.1%*	*(1.8)%*	—
Customers with speeds of 30 Mbps and higher(1)	*83.0%*	*82.3%*	*20.0%*	11.9%	—

Note:

(1) As a percentage of total residential customers subscribing to our broadband offering.

We seek to upgrade our customers to higher speeds from time to time and offer upgrade promotions which we think increases customer satisfaction and loyalty and in turn reduces churn. As a result, we were able to significantly increase the number of customers on high-speed broadband packages, with 82.3% of our residential broadband customers subscribing to speeds of 30 Mbps or higher as at December 31, 2014 compared to only 11.9% as at December 31, 2012. Migrating customers to higher speeds also provides us with an opportunity to implement targeted price increases.

We believe that the increase in customer awareness of high-speed broadband due to the active marketing and promotion currently being carried out by other fiber operators in the Spanish market (in particular Telefónica) and as a result of a strong increase in the number of connected mobile devices, the use of social media offerings and streaming services and adaptation of 4K TV and UHD technology, will continue to result in increasing demand for higher speeds. We believe we are uniquely-positioned to benefit from such increasing demand as a result of our proprietary, fully-invested next generation fiber network, which provides us with a competitive advantage based on speed, coverage and time-to-market over our competitors in the Basque Country who predominantly rely on DSL networks. In addition, as of December 31, 2014, we served 34.8% of our provisionable homes (calculated as penetration of fixed RGUs over provisionable homes), providing us with further upside potential to increase our in-footprint in the Basque Country.

We also offer our broadband customers other value-added services at a small incremental cost, such as our premium technical support, which includes a dedicated, priority technical support seven days a week.

Pay TV

We provide our television customers with multi-channel Pay TV ranging from basic to premium packages with a variety of channels in SD and HD quality. In addition, we offer all our television customers VoD services (transaction and subscription based with a catalogue of over 1,000 titles), live football programming as well as value-added services such as DVR, PVR, catch-up, and TV Everywhere (marketed under the name "Edonon"), a multi-device functionality whereby our customers can watch our TV offering across a number of different devices (including mobile handheld devices). To avoid piracy, we provide the television content encrypted. Therefore, a decoder is required to receive the service, which is rented to customers for a rental fee that is usually included in the monthly fee of the respective customer's bundle services. As with our other services, customers can subscribe to our television services as part of a bundled package. In June 2014, we migrated approximately 70,000 of our existing fixed-line residential customers (who were merely paying the rent fees for their STBs but not for content) to our basic Pay TV offering, thereby more than doubling the number of our fixed-line residential customers who had contracted our Pay TV service (from 20.1% as of December 31, 2013 to 44.7% as of December 31, 2014 (excluding "mobile only" customers)). As of March 31, 2015, we provided 115,554 residential customers with our Pay TV services (an 89.4% increase from March 31, 2014).

The following table sets forth certain information with respect to our Pay TV offering in our residential segment as of the dates indicated:

	March 31, 2015	December 31, 2014	2013	2012	CAGR 2012 - 2014
Number of Subscribers	115,554	115,199	56,602	49,840	52.0%
RGUs	124,729	124,754	56,992	50,177	57.7%

In addition to our Pay TV service, we provide a legacy analog basic TV service, allowing customers without a STB or with very old televisions to watch a limited number (20) of free-to-air national and local channels. This service will be discontinued before December 31, 2015.

We offer our Pay TV services through three different TV service packages ("TV Esencial+", "TV Selección+" and "TV Premium+") at different price levels in order to address the broadest possible television audience. The programming offered to our customers contains a wide selection of international and local content, with television series, movies, sports, news, music, documentaries and children's channels, including, the following: AXN, Discovery channel, Disney channels, Fox, MTV, Eurosport, BBC World, National Geographic, Playboy, Nickelodeon and Paramount Comedy. We also offer VoD movies from the "Big Six" major film studios (Warner Bros. Entertainment, The Walt Disney Studios, NBC Universal, Columbia TriStar Motion Picture Group, Fox Filmed Entertainment and Paramount Motion Pictures Group), U.S. independent producers and Basque, Spanish and other European producers. In addition, we offer the premium Spanish football league channel "Canal+ Liga" and the premium channel "Canal+1", which features the Sunday match of the week, both on a monthly subscription basis in our television line-up. We also offer other selective add-ons to our standard TV packages, such as cinema and children's packages as well as second TV functionality.

The table below sets forth certain information in relation to our Pay TV offerings as at June 1, 2015 (the latest practicable date prior to the date of this Prospectus):

Pay TV offer	TV Esencial+	TV Selección+	TV Premium+
TV channels	≥50	≥70	≥90
Of which HD channels	*15*	*23*	*30*
VoD titles	>100	>500	>1,000
Personal Video Recorder	20 hours	20 hours	350 hours
TV Everywhere	Yes	Yes	Yes
Pricing(1)	€5.0	€7.0(2)	€10.0(2)

Notes:

(1) Monthly prices (excluding VAT). Add-ons monthly prices (excluding VAT): Canal+1: €16.9; Canal+ Liga: €16.9; Cinema: €5.0; Kids: €5.0 and Second TV: €5.0.

(2) Includes a promotion that lasts for one year.

In October 2014, we launched a full VoD service named "Videoclub". As of March 31, 2015, "Videoclub" offered a catalogue of over 1,000 titles for our "TV Premium+" customers, including pay-per-view titles from the "Big Six" major film studios, as well as titles that come with a subscription (at no additional cost for customers in their respective packages). In 2014, we launched our TV Everywhere service "Edonon", allowing customers to access our TV offering on a variety of different devices such as mobile phones, tablets or laptops. In May 2015, we added extra services to our Pay TV offering, such as additional PVR services, enhanced "Edonon" services (remote recording through mobile) and the incorporation of "Child" and "Cinema" packages in the high-value Pay TV products with an enhanced recording service in terms of hours.

Our Pay TV strategy is focused on:

- educating non-paying TV customers on the value of our Pay TV proposition via "Edonon" (our OTT offering);
- a disciplined approach to content (only if margin/bottom-line accretive), and
- introduction of our next generation STB by targeting first our premium customers and gradually expanding the rollout to all our Pay TV customers within two to three years.

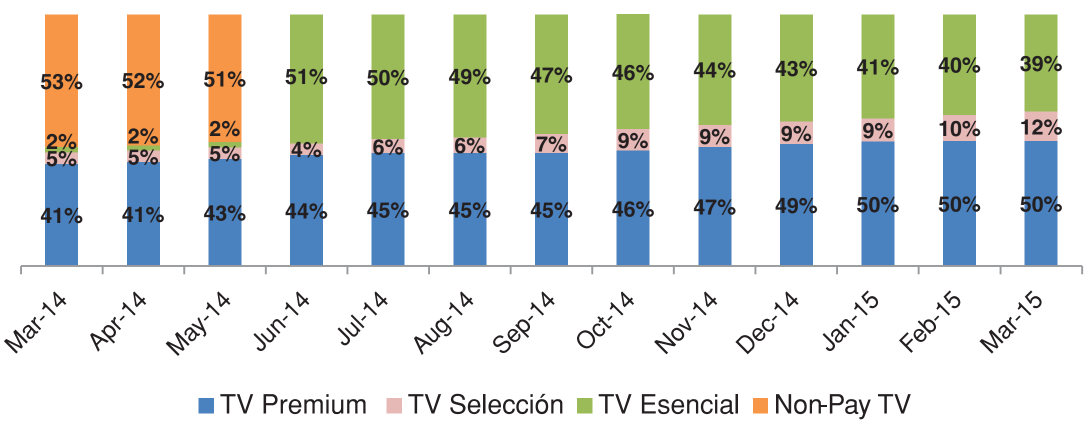
We intend to continue improving our television offering in the near future with the development of new products and services. We believe this will help us to increase the number of our Pay TV customers and revenue going forward. For instance, later this year or early next year, we intend to launch our next generation of TV service, introducing the first UHD/4K TV STB service in Spain running Android TV 5.0. This new platform will:

- allow users to quickly and efficiently integrate new services and third-party content (such as Netflix, Wuaki, Amazon, Spotify, Youtube, Picasa and others), as soon as they are made available by the respective providers in the territory;
- support UHD/4K TV resolution;
- provide a very advanced user interface, a unique STB industrial design, and a high quality radio frequency remote control; and
- be compatible with any technological network scenario (HFC, IP and others).

We also currently plan to add to our current TV offering:

- a new TV package, including our next generation STB, associated services and UHD/4K content, starting with OTT and on-demand during 2016 and a limited number of 4K TV channels, and followed by a larger number and better UHD broadcast channels during 2017;
- remote recording capabilities;
- broadcasters content apps, which are apps by TV channels providing subscribers with additional content. For example, subscribers to the Fox channel will have the opportunity to access entire box sets (complete seasons) of TV series on the "Fox Play" app;
- integrate other Euskaltel services such as our "self-care" online service on the TV, which enables our customers to view their bill and mobile data consumption, and home automation services; and
- offer controllers and similar devices for purchase, which allow our customers to play sophisticated games available from the "Android Play Store".

The following table sets forth certain information with regard to our Pay TV subscriber base:



Mobile

We provide our customers with a broad range of mobile voice and data packages, with the possibility of bundling mobile with our fixed line services: customers can subscribe to our mobile services as part of a bundled package (representing 92% of our mobile telephony RGUs as at March 31, 2015) or on a stand-alone basis (representing 8% of our mobile telephony RGUs as at March 31, 2015). As of March 31, 2015, 90% of our mobile lines were postpaid, which compares favorably to the Spanish average of 64.4% (Telefónica, Vodafone, Orange and Yoigo). In addition, we also offer a wide range of mobile handsets to our customers although we do not offer handset subsidies. As of March 31, 2015, we provided 148,102 residential fixed-line customers with our mobile services (representing 53% of our residential customer base). We believe that mobile is a key growth driver for our business, as it broadens our ability to deliver value to our customers which in turn leads to incremental revenue. We believe mobile is also a key loyalty and customer satisfaction tool as demonstrated by the market leading, low churn levels we experience on convergent offers which include mobile: during the three months ended March 31, 2015, average churn for bundles without mobile was 19.6%, compared to only 6.4% for bundles that included mobile. We have also developed new complementary mobility solutions improving capacity and value proposition to our customer.

The following table sets forth certain information with respect to our mobile telephony offering in our residential segment as of the dates indicated:

	March 31, 2015	December 31 2014	2013	2012	CAGR 2012 - 2014
Subscribers (EoP)	165,411	153,939	126,016	104,801	21%
RGUs (EoP)	296,484	273,906	212,213	172,722	26%
RGUs growth year-on-year	33%	29%	23%	N/A	—
Postpaid number of lines	296,484	273,910	212,214	172,722	26%
Prepaid number of lines	32,368	33,558	39,614	43,758	– 12%
Free-Mobile number of lines(2)	40,197	48,415	42,705	6,951	N/A
Mobile lines per mobile customer	1.8	1.8	1.7	1.6	N/A
Mobile Penetration(1)	53%	49%	39%	30%	N/A

Notes:

(1) As a percentage of our fixed-line customers.

(2) Refers to free lines gifted to a customer as part of a temporary promotional offer. Once the promotional offer expires and the customer continues to subscribe for such mobile line, it is recorded as a "postpaid line".

We have defined our mobile strategy on the back of fixed-mobile convergence, offering attractive convergent offers (marketed as our "OSOA" offering), which has evolved with new products and services that are more in line with customer demand and provide more value at a reduced price. We believe mobile is a key growth driver because it provides us with strong RGU growth (172,722 postpaid lines as at December 31, 2012 to 296,484 as at March 31, 2015) and improves our ARPU. We have experienced sustained and accelerating gross adds in mobile: in the three months ended March 31, 2015 we had 32,000 mobile gross adds and upgrades, showing 66% year-over-year growth. In January 2014, we launched the Voice Pack, the first convergent proposition for fixed/mobile customers with only voice and without internet access. Later, in February 2014, we launched a new convergent offer aimed at satisfying all the communication needs of a customer, including high-speed internet access, fixed telephony, calls from fixed to mobile and a competitive, flexible mobile and TV offering at a single price. For example, for €5 more than the price of our basic bundle, the customer could have access to flat rate calls to all networks and destinations and 1 GB of mobile data. Later, in May 2014, we successfully launched our mobile family tariff ("Tarifa Family"), which seeks to unify all the mobile needs of families in one package, offering 1 GB and unlimited calls for each member of the family for €5 per additional line.

The following table sets forth certain information with regard to our mobile offering as at June 1, 2015 (the latest practicable date prior to the date of this Prospectus):

Category	Minutes	Data allowance	Monthly price (excluding VAT) as at March 31, 2015
Entry level	€0.00 per minute Call set-up charge	500 Mb	€4.96
	€0.00 per minute Call set-up charge	1 Gb	€9.92
Flat tariffs	120 mins	500 Mb	€11.49
	1000 mins	1 Gb	€16.45
	Unlimited minutes	2 Gb	€21.40
	Unlimited minutes	3 Gb	€25.56
Multi-line family solution ("Tarifa Family")	Unlimited minutes	1 Gb	First line: €19.75 Extra lines: €4.96

Since July 2012 and following the termination of our previous agreement with Vodafone, we provide our mobile services through an MVNO agreement with Orange. We believe that this agreement enables us to provide excellent mobile services to our current customers and improve our convergent offerings while we work on future solutions to support our growth in mobile. For more information on the MVNO agreement with Orange, see "*Material Contracts*" and "*—Network Architecture*".

In addition, in 2011, we were granted a 4G/LTE license in the 2.6GHz band in the Basque Country for a total one-off consideration of €2.7 million, including taxes. The license enables us to strategically deploy a proprietary 4G network and expires on December 31, 2030 and its carrying amount is currently impaired in the Financial Statements. Similar to the four Spanish full mobile operators who have directed their efforts in 2014 to differentiate themselves through 4G, we believe that 4G is a key factor that can help us gain market share, improve customer loyalty and gain further brand recognition and we aim to actively up-sell 4G to our existing customer base. Our 4G development strategy aims to achieve a progressive and cost-efficient deployment with the objective of diverting 4G data and voice traffic from the mobile host's network to our own network and thus significantly reduce direct mobile costs in future years. We are currently planning to deploy the network in the next three years at a limited number of sites. Our intention is to focus the deployment just on the geographical areas where our customers consume the majority of the traffic (mostly in cities) in order to optimize the number of sites required and hence minimise the capital expenditure outlay and future operating costs. Our aim is to increase our offer of handheld devices with 4G capabilities in order to capture higher income customers, upgrade mobile clients to higher value tariffs, increase ARPU of existing customers, obtain new customers on higher value tariffs and increase customer retention. We believe our 4G strategy will allow us to improve the range of services we offer to customers and achieve significant savings.

In addition, and with the aim of further improving our offerings, reducing operating costs and improving our customer loyalty, in March 2015, we launched "Euskaltel WiFi", the biggest proprietary WiFi network ever built in the Basque Country with more than 128,000 access points. We believe that "Euskaltel WiFi" will enable us to improve our offering, especially for mobility, while potentially reducing our costs through the offload of mobile data traffic from our host mobile network provided by Orange to our own fiber network. "Euskaltel WiFi" is available, free of charge, to all of our broadband and mobile telephony customers, significantly improving the attractiveness of our offering. Although only launched in March 2015, approximately 125,000 users had already downloaded the app and registered for the service within the first month (by April 26, 2015), which represents approximately 33% of our addressable bundled broadband and mobile users (residential customers and SOHOs). In addition, in less than one month after launch, more than 21 TB of data had been transmitted through our WiFi network, representing 15% of our overall traffice.

Fixed Telephony

Our fixed telephony service offers direct access connectivity to our customers in the Basque Country. Customers can subscribe to our fixed telephony services as part of a bundled package or on a stand-alone basis. We also seek to attract new customers from other networks by allowing customers to maintain their existing telephone number. As of March 31, 2015, we provided 276,310 residential customers with our fixed telephony services (representing 93.4% of our residential customer base).

The following table sets forth certain information with respect to our fixed telephony offering in our residential segment as of the dates indicated:

	March 31,	December 31,			
	2015	2014	2013	2012	CAGR 2012 - 2014
Subscribers (EoP)	276,310	277,527	282,228	284,929	−1%
RGUs (EoP)	278,516	279,691	284,311	287,042	−1%
Annual RGU growth year-on-year	−2%	−2%	−1%	N/A	N/A

We offer an "all included" direct access telephony service with all our packages, which includes unlimited calls to any standard fixed-line telephone number in Spain. For all our customers, we also offer a range of add-on services to our basic telephony service including additional telephone lines and vouchers for international calls. Additionally, all our customers are offered a number of value-added services, such as voicemail, call waiting, call return, short code dialing, caller identification, selective barring of outgoing and some incoming calls, call return and an alarm clock service. We also offer telephone handsets for sale.

We also offer all our customers our directory inquiry service number at a competitive price. This service allows customers to inquire about the location and telephone numbers of restaurants, cinemas and theatres.

We monitor the tariffs and services offered by our competitors and adjust pricing and the type of services we offer on a regular basis to maintain our competitive position. Our tariffs are usually priced competitively against those of other operators.

Value-added services and products

We offer premium technical support and assistance services for our residential customers, including at home and remote technical assistance for Euskaltel services (marketed under the name "Lagundu"), as well as customers' device configuration. This is a value-added service for our customers. Linked to the sales of smartphones, we also offer mobile phone insurance that provides additional cover (e.g., for accidental damage, water and liquid damage and theft).

In addition, through our "Euskaltel Life" offering, we offer innovative products, such as smart watches and wearable technology linked to prestigious brands.

We are planning to launch in the future "Smart Home" services, that will allow our customers to monitor their homes when they are away and to control their homes from their smartphones, as well as family-oriented solutions such as "Real Time Location Sharing" and "Safe Internet" and our elderly care services, which includes a geolocator and a "panic button".

Business segment

We provide fixed and mobile telecommunication services to SOHOs, SMEs and Large Accounts, leveraging our proprietary, fully-invested next generation fiber network. For SOHOs (small businesses with up to ten employees), we adapt our residential products and services with extended technical capabilities and features, including a dedicated call center, to meet the particular requirements of this customer segment. We are able to address the sophisticated and highly technical requirements of SMEs through our own sales force and we provide bespoke and innovative solutions to our Large Accounts through dedicated project and engineering teams, with a particular focus on data services, which include:

- fixed communication services such as traditional telephony services, commercial prefixes, additional tarification numbers, multi-conference services, massive SMS services; and Voice over IP;
- mobile communication services including tailored fixed mobile convergent products;
- internet access and VPNs (based on MPLS and several access technologies such as Ethernet SDH, broadband and mobile); and
- cloud services including housing, web hosting, virtual office, virtual data center, advance messaging, video streaming and domain registration.

Our approach to serving the business segment is to provide our customers with personalized attention, through dedicated sales and customer support channels, and to leverage our network, high quality standards and innovative solutions in order to adapt our offerings to the business needs of our customers. We believe that our proximity to business customers is key and we take a proactive approach in this segment. We provide our business customers with a complete product offering from simple, standardized solutions to complex and bespoke offerings. We have launched a number of value-added services such as cloud, hosting/housing, M2M, Centrex IP, MDM, virtual firewalling and internet DDOS and have a number of new services under development such as remote technical assistance. While these value-added services are not key drivers of revenue in the segment, we believe they reinforce the perception of Euskaltel as an innovative provider and address new trends we are seeing in the segment. In addition, we have established alliances with large corporations such as Cisco, Avaya and Microsoft, which help us to improve the quality and breadth of the services we offer.

As of March 31, 2015, we provided 52,177 business customers with our services and during the year ended December 31, 2014, our business segment generated revenue of €93.4 million (accounting for 29.1% of our Total Revenue during the year ended December 31, 2014).

The table below sets out certain information with respect to our business segment for the years ended December 31, 2014, 2013 and 2012:

Business segment revenue	2014	(€ million, unless indicated otherwise) 2013	2012
SOHOs	35.6	36.8	37.1
% Total Revenue	11.1%	11.0%	10.8%
% business segment revenue	38.1%	36.3%	36.1%
SMEs	18.5	18.2	18.0
% Total Revenue	5.8%	5.4%	5.3%
% business segment revenue	19.8%	18.0%	17.5%
Large Accounts	39.3	46.3	47.7
% Total Revenue	12.2%	13.8%	13.9%
% business segment revenue	42.1%	45.7%	46.4%

SOHOs

SOHOs comprise a significant proportion of Basque companies so they are an important market as a whole. We provide solutions to traditional SOHOs as well as larger "small" businesses in the Basque Country. Offerings for these clients are primarily driven by connectivity services and generally require higher broadband speeds, superior mobile packages and additional services based on their specific needs, such as cloud services, hosting and housing. We have seen steady growth in SOHO subscribers over the past three years and believe that this trend will continue as the corporate market continues to improve in the Basque Country.

Our convergent product offering for SOHOs is based on an enhanced variation of our residential offering, and includes premium technical support, online presence and email services. We have a dedicated outsourced salesforce for SOHOs and have created a dedicated call center for SOHOs in order to better service the requests of these customers. Our services to SOHOs generated €35.6 million during the year ended December 31, 2014 (accounting for 38.1% of our Total Revenue generated by our business segment in such year).

The market forces in the SOHO segment are similar to those in Residential, including increasing ARPU and churn reduction through convergence and mobility. In this segment we plan to focus on increasing our subscriber base, both within our footprint and through expansion, increasing bundle take-up and mobile penetration. We are also planning to extend the coverage of our next generation fiber network by adding approximately 2,200 new provisionable SOHOs over the next five years.

The following table sets forth certain information with respect to our product offering to SOHOs as of December 31, 2014, 2013 and 2012:

SOHO Subscribers EOP	31/12/2014	31/12/2013	31/12/2012	CAGR 2012 - 2014
Fixed Services	43,726	42,705	41,020	3%
Voice	39,501	39,191	38,160	2%
Broadband	33,214	31,416	28,629	8%
Pay TV	8,806	5,057	4,823	3.5%
Mobile Services-Postpaid	21,410	19,408	18,382	8%

SOHO RGUs EOP	31/12/2014	31/12/2013	31/12/2012	CAGR 2012 - 2014
Fixed Services	100,894	93,984	89,015	6%
Voice	52,715	52,644	51,628	1%
Broadband	38,405	36,058	32,358	9%
Pay TV	9,774	5,282	5,029	39%
Mobile Services-Postpaid	42,578	39,095	36,757	8%

SMEs

We provide a range of standardized solutions for medium-sized businesses (ten to 40 employees) with relatively high technological requirements. These services include broadband access of up to 350 Mbps, fiber access of up to 1 GBps symmetric, MPLS Network, FMC, Centrex IP and advanced IT services. We sell these services directly through our own dedicated SMEs salesforce of 17 people, which enables us to provide SMEs with standardized offerings according to the specific needs of our SME customers, leveraging our Large Accounts product innovation and know-how. Similar to the other segments within business, we have a dedicated call center for SMEs. Our services to SMEs generated €18.5 million during the year ended December 31, 2014 (accounting for 19.8% of our Total Revenue generated by our business segment). We believe that this segment is underserved in the market and we see the most potential for growth in the SME segment coming from multi-location SMEs with high data requirements.

Our aim is to refocus our approach to SMEs, which we refer to as our transformation from "farmers to hunters", by actively targeting SMEs to achieve a higher penetration, particularly in business parks across the whole of the Basque Country, and focus our efforts to win high value / high margin SMEs. We aim to implement this strategy by pro-actively pursuing multi-location customers with heavy data needs through our dedicated in-house SME sales team and our SME-specific customer care, which includes mini-conferences to educate SMEs and increase customer interactions with existing and new SME customers.

The following table sets forth certain information with respect to our product offering to SMEs as of December 31, 2014, 2013 and 2012:

SME Subscribers EOP	31/12/2014	31/12/2013	31/12/2012	CAGR 2012 - 2014
Fixed Services	4,336	4,406	4,258	1%
Voice	3,979	4,132	4,026	−1%
Broadband	3,715	3,802	3,632	1%
Pay TV	530	294	271	−40%
Mobile Services-Postpaid	2,615	2,774	2,727	−2%

SME RGUs EOP	31/12/2014	31/12/2013	31/12/2012	CAGR 2012 - 2014
Fixed Services	31,810	30,878	26,504	10%
Voice	24,441	23,999	20,592	9%
Broadband	6,644	6,430	5,593	9%
Pay TV	725	449	319	51%
Mobile Services-Postpaid	15,958	17,148	16,358	−1%

Large Accounts

Our Large Accounts customers comprise both public administration bodies and large corporates (financial institutions, industrials, healthcare and services) with an average telecommunications spend of approximately €250,000 per year, which is smaller than traditional Large Accounts customers for other operators. These customers have high technological requirements and we devise tailor-made solutions according to each customer's specific needs. These include fiber access of up to 1 GBps symmetric, FMC, SIP Trunking, MLPS networks, cloud firewall and virtual data centers. These tailor-made solutions are supported by strong technical capability in the form of a unique high quality, dedicated engineers, which are involved across the life cycle of a project (pre-sale, implementation and post-sale) and backed by a network of integrators and manufacturers. We sell our services directly through our own dedicated Large Accounts salesforce (one director and seven managers), which allows us to devise customized offers and better service our customers.

For our Large Accounts customer base, we have developed dedicated provisioning, installation and customer attention teams and have set up an account management system to give these customers a single direct point of contact with us. Large Accounts claims and requests are served by a dedicated commercial administrator and we provide 24/7 highly skilled technical support. With this system, we assign each large customer a staff member, which allows us to provide customized solutions on a proactive basis to fulfill our large customers' communications requirements. We also use telecommunications consultants who assess our customers' needs and provide innovative communication solutions, which are adapted to each customer.

Our services to Large Accounts generated €39.3 million during the year ended December 31, 2014 (accounting for 42.1% of our Total Revenue generated by our business segment). We have a stable Large Account customer base and a good track record of obtaining new contracts.

12.2% of our Total Revenue for the year ended December 31, 2014 came from our Large Accounts customer base. Our two most relevant Large Accounts customers include the Basque government and Kutxabank, one of the Selling Shareholders (representing 4.0% and 3.0% of our Total Revenue in the year ended December 31, 2014, respectively). Basque government contracts (one framework agreement with several government entities) represented 24% of revenue generated by our Large Accounts in 2014. While public administration bodies have significant leverage on pricing, they are high quality customers characterized by large telecom spend, long-term contracts and have historically been disciplined in making payments.

A portion of our Large Accounts customers have activities outside of the Basque Country (as of March 31, 2015, 26% of our Large Accounts services were provided outside of the Basque Country) and we are steadily increasing and diversifying our customer mix.

Wholesale and Other

We provide traditional wholesale services to other telecommunications operators that use our facilities and infrastructure to provide services to their customers, including Leased Lines, data and voice services by leveraging our network capacity and capillarity. We offer services to other operators aiming to use our excess data or voice capacity on our network. Euskaltel provides Leased Lines services in SDH and Ethernet technologies, LDF, Voice Services (that allow carriers to complete their end-user calls that originate or terminate within our territory). In addition, we offer services such as collocation and voice resale. We also provice enabler services to operators and businesses, based in our Business Support Systems (BSS) and Mobile Network. Our mobile enabler services include outsourcing our mobile core platform to smaller operators as well as the possibility to outsource the technical component, customer car or IT services related to operational processes (e.g. provisioning, billing). We provide system enabler services for smaller operators and provide outsourcing services to Telecable. Finally, by virtue of our agreement with RACC, we also offer mobile services in Catalonia using the "RACC Telefonía móvil" brand. A portion of the segment revenue is generated by a small number of large telecommunication companies, most of whom compete directly with us.

Our Wholesale and Other segment generated €24.7 million during the year ended December 31, 2014, which represented 7.7% of our Total Revenue. The largest component of this segment was the provision of communications services including Leased Lines, data and voice services to 27 other telecommunications operators, generating €7.6 million during that year. The offering of mobile services in Catalonia under the "RAAC Telefonía móvil" brand to approximately 30,000 customers generated €4.5 million in 2014 and Enabling Services to Telecable generated €2.9 million during 2014.

We also sell installation material and electronics to third-party installation companies to be used in provisioning customers and deploying and maintaining our next generation fiber network. These activities have no impact on our profitability as we sell and bill them at the same price so all revenue recognized is offset by the corresponding costs.

Brand, Marketing and Customer Care

The "Euskaltel" brand

All our services in the Basque Country are offered under a single "Euskaltel" brand, which is used in all advertising, sales materials, customer contracts, bills, employee uniforms, installation vans and elsewhere in our business. We believe that we form an integral part of the Basque community through our advertising and marketing activities and our significant engagement in regional and local sponsoring and patronage activities. For example, we are the official technology partner for the top four Basque football clubs. We also provide sponsorships in the Basque Country for other sports, such as Basque *pelota* and surfing, cultural events and local festivals. All our communications with our clients (whether through our website or telephone channels) are available in Basque as well as Spanish. In addition, we also play an active role in local and regional economic and cultural organizations, such as the Basque Chamber of Commerce, the Basque Regional Business Association, the Basque Circle of Entrepreneurs, Guggenheim Bilbao Foundation, Kursaal, Artium, Innobasque, among others.

We believe the "Euskaltel" brand, together with our corporate color orange, is one of the most recognized brands in the Basque Country (source: Company survey, April 2014) and our brand is the only telecommunications brand to be ranked higher than Movistar (Telefónica's brand), the market leader in Spain (source: GfK "Brand Potential Index", January 2015). We believe that the Euskaltel brand continues to be recognized as a telecommunications operator focused on the following core values: solid and reliable, proximity to the client, excellent quality of service, innovative, value for money, commitment, honest and simple and a reference for the Basque society. The strong attachment of our customers to our brand is also exhibited by significant levels of customer loyalty: approximately two thirds of our customer base has never unsubscribed from our services.

We own all the material trade and service marks and logos used in our business. Our most important trade and service marks are "Euskaltel", and "Edonon" and the related words and logos, and these are registered with the relevant intellectual property registrars. We also have registered domain names, including euskaltel.com. We take reasonable precautions to protect against unauthorized use or infringement of our trademarks, service marks and logos in the marketplace, primarily through our global surveillance service which receives reports on unauthorized use or infringement by third parties of our intellectual property.

Marketing

Our Marketing Department is responsible for our strategic brand positioning in addition to developing and monitoring advertisement campaign management, which includes initiating and creating advertising campaigns in accordance with our advertising campaign process. We have one Marketing Department covering our residential and business segments, allowing us to focus all the business intelligence in one point in our Company and ensure a consistent approach to all our marketing activities, together with know-how sharing. We market all of our services under the single, well-known Euskaltel brand and all marketing materials are made available in Basque as well as Spanish.

We are actively incorporating more value to our offering through different innovations, introduced mainly by our Marketing Department. Additionally, in order to launch new offerings to the market, we have a development and innovation department working closely with our engineering and information systems departments to explore and develop these new growth initiatives. As part of this activity, we are also taking part in different research and development programs.

The following table sets forth the number of employees in our Marketing Department, which as of March 31, 2015 had a total of 32 full-time employees:

Activity Area	Residential	SOHO	SME and LA	Total
Market Research & Product Management	4	1	1	**6**
Corporate Marketing & Publicity	3	1	1	**5**
Product & Selling Proposal Development	5	2	2	**9**
Customer Retention, Up-selling and Cross-selling	8	2	2	**12**
Total	**20**	**6**	**6**	**32**

Our Marketing Department is responsible for the following activities:

- Market Research & Product Management: this group detects the needs and expectations of current and new customers using market research and studies. In addition, this area performs technical documents needed to deploy products in the information system, gathering the requirements of all departments of the Company.
- Corporate Marketing & Publicity: this area designs, develops, implements and monitors publicity campaigns, in order to transmit to the target audience, product, commercial and corporate messages according to the marketing and strategic plans, as well as managing the Company's brand and corporate image.
- Product & Selling Proposal Department: this group analyzes, defines, develops and maintains the offer (product, price, promotion and marketing actions) according to the operational and strategic objectives set by the Company with the aim of attracting new customers and maintaining and growing existing customers.
- Customer Retention, Up-selling and Cross-selling: these employees design and monitor actions that aim to generate new customers, new RGUs and increase ARPU. To achieve these objectives the knowledge of the universe of potential and current customer base segmentation is used, as well as offering support to the commercial department in these areas.

Our Marketing Department is also responsible for overseeing relationships with third-party service providers and agencies, including web development, advertising, media agencies and government agencies. Our media strategy primarily focuses on television and online advertising in combination with direct marketing, and participation in social media sites such as Twitter and Facebook. Our television adverts are recognized for their creativity and a number of our adverts have been awarded prizes, such as "Patxi" advert, which has been selected as one of the top 50 adverts in Spain over the last 50 years according to the Spanish Advertisers Association.

Sales Channels

We proactively manage our sales channels with the aim of optimizing the process of customer acquisition and reducing costs. Currently, we sell our products to our customers using the following five channels:

Retail stores: As of March 31, 2015, we had 57 stores located in central locations in the Basque Country. These stores are managed by twelve official licensed distributors. We lease these stores directly from the proprietors and then sub-let them to the distributors, except for eight stores which are leased directly by the distributors and three stores which are points of sales incorporated in large department stores. These stores, located mainly in main retail and town centers, have been designed to showcase our products and transmit our values to our customers. Although we believe it is important to keep these stores to maintain our close connection with the people of the Basque Country, the costs of sales have seen us streamline this channel, reducing the number of stores from 70 at December 31, 2012 to 57 at December 31, 2014. During the three months ended March 31, 2015, our retail stores accounted for 35.9% of our total RGUs sold during that period.

Outbound channel: We manage our outbound channel through five official licensed distributors with 87 agents as of March 31, 2015 as a separate operation from our call center. These agents make proactive calls to new customers to inform them of our products and to up- and cross-sell our products. In addition, our sales force selectively offers product upgrades to customers that call our inbound channel once their original request has been satisfactorily resolved and undertakes targeted marketing to those clients we have identified as potential leavers. During the three months ended March 31, 2015, our outbound channel accounted for 24.6% of our total RGUs sold during that period.

Salesforce channel: As of March 31, 2015, we had a dedicated team of five managers and a salesforce of approximately 70 people employed by eight official licensed distributors, who carry out door-to-door sales. These efforts are often complemented by our marketing campaigns. During the three months ended March 31, 2015, our salesforce channel accounted for 14.6% of our total RGUs sold during that period.

Inbound channel: We manage our inbound channel through our call center. This is a reactive channel and 15 agents from two distributors respond to calls from customers interested in our services. The agents are not our employees but each agent is trained in-house by our staff to ensure a quality response for our customers. During the three months ended March 31, 2015, our inbound channel accounted for 14.3% of our total RGUs sold during that period. See "*—Brand, Marketing and Customer Care—Customer care*" for further information on our call center.

Online channel. We believe the online channel is attractive because it has low levels of churn and cancellations and a low cost structure. Our marketing strategy has seen us shift our focus to this channel through our "Online First" initiative, which is now our fastest growing channel. For example, during the month of December 2014, 20% of new customers were acquired through this channel (compared to the month of January 2012 when only 6% of new customers came through this channel or January 2013 when only 10% of new customers came through this channel) and 9% of our smartphones sold during that month were sold online. In order to enhance this sales channel in 2014, we substantially upgraded our website in order to make it more appealing to our customers and we developed a mobile application through which our customers can manage or upgrade some of their own products and services and undertake other customer interactions through their mobile devices. As of March 31, 2015, this app had 22,000 downloads and around 50% of our customers had registered an account on our website's private area. In addition, in 2014, we also took steps to substantially improve our online sales process in order to make it more efficient. The implementation of these initiatives helped us to increase our sales through this channel but we aim to implement further improvements which we expect should strengthen both the website's private area and the app such that our online channel platform becomes our main interface to interact with our customers. During the three months ended March 31, 2015, our online channel accounted for 10.6% of our total RGUs sold during that period.

In addition to the above channels, we also have two small salesforce teams, one of which focuses on SMEs and the other on large corporate accounts, who have the expertise necessary to customize our services for these more sophisticated clients whose technological requirements often demand a bespoke service. As of March 31, 2015, the SMEs sales team consists of one commercial director, three managers and a salesforce of 17 people and the large corporate accounts sales team was made up of one commercial director and seven managers. The group of telecommunications consultants who assess our customers' needs and provide innovative communication solutions and acts in the presale stage consists of one manager and five telecommunications engineers.

We have recently adopted a new commercial strategy that includes:

- moving towards more economically-efficient, online-based channels;
- employing specific commercial efforts on existing customers;
- differerentiation of marketing to new and existing customers since 2013;
- sophisticated customer segmentation;
- pro-active sales strategy (mainly through physical telesales (outbound) and points of sale (which accounts for approximately 50% of cross-selling RGUs to existing customers), accompanied by an increased use of our online channel);
- focusing on customer loyalty (which includes the repositioning and management of customers that we have identified as potential leavers); and
- aiming to provide a homogeneous customer experience across all channels.

We believe this strategy has contributed to an increase in our residential monthly Global ARPU from €54.3 in 2012 to €55.2 for the three months ended March 31, 2015, a reduction in residential churn from 17.2% to 14.8% over the same period and an ongoing shift to a more cost-efficient sales mix with an increasing use of our more economic inbound and online channels (which have an average cost per sale of around 20% to 25% of the costs incurred through the retail stores or salesforce channels).

Quality and Customer Service

Installation

In 2014, we installed services to over 38,500 new residential and 9,700 new business customers as well as performing 14,300 services up-sells with technicians (with the remaining 45,000 up-sells and upgrades being made by courier and autoinstallation). During the year ended December 31, 2014, 95% of our new customers were provisioned in less than 15 days, and for internet access we installed 95% of applications in less than 11 days.

Apart from interactions in our retail stores, the installation process is the first contact we have with our customers once they have subscribed for our services and often it is the only face-to-face contact between them and us. Customer satisfaction is a key priority for us and therefore we continuously track the quality of service delivered by our technicians. We do this by monitoring complaints and service failures within a short period following installation as well as through the results of order closure calls.

We track complaints in relation to installations during the first month following such installation. We consider all issues reported by a customer during this period (including doubts about the equipment and usability) and we require the relevant third-party installation company to solve such complaint within 12 hours and free of charge for the customer. Within half an hour after the installation, a VRU machine calls the customer to request feedback about the overall quality and speed of the installation.

The following table sets forth certain information in relation to our installation performances when compared to our competitor Telefónica as well as the average in the Spanish market as of December 31, 2014.

	Euskaltel	Telefónica	Average
Time to provide internet access (days)	11	12	16
Time taken to repair internet faults (hours)	45	45	64
Telephony faults in access lines (%)	1.33	2.77	3.06
Customer claim rate (%)	2.07	2.36	3.58

Source: Department of Telecommunications and Information Society ("SETSI") of Spanish Ministry for Industry, Energy and Tourism, Q4 2014 report

Billing and collection

Our billing and collection operation includes billing, account receivables and collection. We employ a dedicated team of professionals to manage our billing and collection process. Our customers require transparent, accurate and timely invoicing for services provided. To meet these customer needs, we have implemented a single billing system, which provides our customers with one single bill irrespective of the number of services they subscribe to (double-, triple- or quadruple-play bundles). We believe that this service improves the customer experience, reduces bill-related calls to our customer care platforms, improves payment cycles and reduces our operating costs.

In 2013, we started the roll-out of our e-billing system, which does away with bills in paper format that are sent by post to our customers. E-billing is usually available to our residential customers and is under development for our business customers. We believe e-billing allows us to reduce our operating costs and we are currently actively promoting the transition of our customers to e-billing. For example, as a condition to using our proprietary WiFi network "Euskaltel WiFi", customers have to agree to transition to e-billing. As of March 31, 2015, around 56% of our residential customers used e-billing.

Customer care

We manage our customer care interactions through a multi-channel strategy, combining our call center, our retail stores and our state-of-the-art online platform. All of our customer care staff are fully bilingual in Spanish and Basque, which we believe is a key differentiating factor in the Basque Country when compared to the customer care services offered by our competitors. We believe that our customer care activities are key elements to improving customer experience and satisfaction and to increase loyalty. We continue to analyze new initiatives to help us improve the service we provide to our customers.

We have outsourced our customer call center to three telemarketing services providers located in the Basque Country. As of March 31, 2015, our residential call center had 231 operators dealing with information requests, technical support and complaints who were responding to calls and 66 operators who were in the back office (resolving issues in the second instance). Information and complaint services are available from 9 a.m. to 10 p.m. Monday to Friday and Saturday from 9 a.m. to 2 p.m. Technical support is available seven days a week. These customer care staff are trained by an in-house team of 15 Company employees. The same operators who provide these services also deal with sales (closing of purchases and inbound call management) and complaints.

The table below sets forth certain information with respect to our customer care services:

	2014	2013	2012
Total answered calls(1)	1,530,507	1,438,165	1,514,595
Answered calls/RGUs (x)	1.7	1.9	2.1
Number of monthly website visits(2)	507,344	447,797	354,904
Number of stores visits	1,995,958	1,977,898	2,032,041

Notes:

(1) Total residential information and technical calls.

(2) Average.

Customer satisfaction for these services is judged through direct evaluation questionnaires at the end of each call. We monitor the results of these questionnaires intensively in order to identify potential situations in which the clients are not satisfied and to make the necessary improvements in procedures, products and call operators' training. Furthermore, monthly reports on complaints are compiled where we identify the origin of these complaints, and these are sent to the departments where the complaints originated. The relevant departments then carry out the necessary improvements accordingly.

We have managed to maintain consistently high levels of customer satisfaction in our customer care activities, as set forth in the table below:

	Year		
	2014	2013	2012
Information service:			
Customer satisfaction (out of 10)	9.16	9.16	9.06
Technical requests:			
Customer satisfaction (out of 10)	9.13	9.24	9.26
Claims solved at first instance	45%	37%	35%

Source: Based on telephone customer surveys/direct evaluation from customers after service.

We also believe that our online platform, by which customer care interactions are managed online, offers us significant opportunities to improve our customer care process while it enables us to reduce operating costs. In 2014, we took steps to improve our online platform through our "Online First" initiative and we are now able to offer a wide range of functionalities that include, among other, a new online customer private area that has evolved in terms of usability and is adapted for navigation from mobile devices, invoices that can be downloaded on mobile devices as well as displaying graphics with the consumption month by month. We have also added an intuitive way to recover passwords without any call center help and have automated directly to the network some of the operations our customers can make, so that no agents need to manage such operations (such as activate voice email, international calls and roaming). We plan to launch our dedicated SOHO online platform during 2015. Our aim is to make our online platform the main way to interact with our customers. We believe that efforts of transitioning more customer interactions onto our online platform will help us to further improve customer experience and satisfaction while reducing operating costs going forward.

Customer Loyalty and Retention

Customer loyalty and retention is a high priority for us and one of the pillars of our strategy given its high impact on churn. We analyze on a regular basis the performance of this indicator and implement a wide range of initiatives to improve customer satisfaction metrics.

We have developed customer management procedures for five key customer situations: (i) customer acquisition, (ii) end of promotion of customer acquisition, (iii) customer growth, (iv) non-explicit withdrawal risk detection (when we detect a risk that a customer wishes to terminate our services in the near future), and (v) explicit withdrawal risk detection (when the customer has requested termination). In each situation, the customer is being managed by a specific commercial and marketing team and with a customer-specific offer or pricing.

We also segment our customers on the basis of consumption patterns, each of which is characterized by churn and ARPU. The offering policy and cross-selling objectives (particularly for mobile sales) includes a commercial objective to increase the customer's ARPU and its movement from one segment to another in order to reduce churn.

Our Areas of Operation

Our proprietary, fully-invested next generation fiber network gives us access to approximately 872,053 homes passed (85% of households in the Basque Country, representing approximately 86% of the population in the Basque Country) and 146,784 business premises. Our accessible market represents 100% of the population in the Basque Country through ad-hoc satellite and WiMAX.

We have deep coverage in the most densely-populated areas in the Basque Country. The following table sets forth certain information in relation to the coverage of our network as at April 30, 2015.

Top 3 cities by population	Homes passed	% total households
Greater Bilbao[(1)]	255,936	98%
Vitoria	104,133	91%
San Sebastian	72,421	81%

Notes:

(1) Including Getxo, Barakaldo and Portugalete.

Network Architecture

Our proprietary, fully-invested next generation fiber network of approximately 350,000 km is fully upgraded to Docsis 3.0, with a capacity of 862MHz and a fully-owned backbone, currently capable of delivering speeds of up to 500 Mbps and with a number of small upgrades, our network could deliver speeds of up to 800 Mbps at marginal incremental costs and limited time-to-market. We believe our network is one of the most advanced and competitive in Europe, as shown in the table set forth under "*Business—Overview*".

We have made substantial network investments compared to our sector peers (measured in terms of fixed assets (including property, plant and equipment and intangible assets, excluding goodwill and gross of depreciation) per cable customer and per homes provisionable (residential and SOHO fixed services customers only) as compared to ONO (based on its financial statements for the third quarter of 2014), Com Hem, Telenet, Tele Columbus and Numericable (based on financial statements for the fourth quarter of 2014)).

We believe our next generation fiber network, covering 85% of homes in the Basque Country (representing approximately 86% of the population in the Basque Country), provides us with a key competitive advantage versus our competitors as they either cannot reach these speeds or have limited fiber coverage in the Basque Country. For example, the fiber network of our main competitor, Telefónica, merely covers approximately 30% of homes in the Basque Country (source: Company estimates based on CNMC data; Telefónica) and Vodafone, Orange and Jazztel do not currently have FTTH capabilities in the Basque Country.

We have invested over €1.3 billion in our network since 1999, which equates to around €590 per inhabitant of the Basque Country (based on 2014 population numbers (source: INE)). The following table sets forth certain information in relation to our investments in our network from 1999 to date:

Type	Total
	(million €)
Infrastructure	576
Core Network	207
Customer provisioning	384
BSS	92
Other	8
Research & Development	2

In order to capture new customers and latent demand for fiber in underserved areas, we also plan to roll out our next generation fiber network to up to 51,000 carefully selected and already identified additional provisionable homes: Of those, 46,000 are already passed, 5,000 are new homes and approximately 30,000 are located in city centers. We aim for such deployment to cover around 11,000 homes during 2015 and aim to cover the remaining homes before the second half of 2018. Such extended network will be built in strategic geographic areas, with relatively low required investments (given that over 90% of these homes can be served via existing nodes), which will enable us to increase our number of customers. This deployment commenced during the first quarter of 2015 and the roll-out is based on customer demand and traffic concentration. We are also planning to add approximately 2,200 new provisionable SOHOs over the next five years and deploy our fiber network over nine industrial areas to cover an additional 700 SMEs and Large Accounts over the same period. The total expected investment for this coverage expansion plan over the next five years is approximately €20 - €25 million (60% deployment and 40% provisioning).

Principal characteristics of our network

- *We have a fully proprietary network:* save for certain exceptions, we own over 99% of the ducts, all the equipment and the backbone network. This substantially lowers our operating costs.
- *Our network is highly reliable:* the design of our network includes different types of redundancy and security politics:
    - the optical fiber architecture is based on rings, which reduce any adverse impact to the service in case of fiber damages (the signals have two different ways to access the final node); and
    - the technologies used are tested (they are not test pilots) and the critical elements of the main equipment are duplicated.
- *All our equipment is upgraded:* we have upgraded our equipment in line with state-of-the-art technologies through partnerships with quality infrastructure network suppliers, such as Ericsson, Alcatel, Cisco, ZTE, and Nagra.
- *Our network covers all our services:* broadband, fiber television and telephony services are all provided through the same distribution system, thus creating economies of scale.
- *Our network is highly scalable:* due to our superior coverage across the Basque Country, we are able to add new customers with limited extra capital expenditure requirements.

Our network is integrated and convergent. We have different solutions to access the network (cable, fiber, mobile (2G/3G/4G), WiMAX, satellite) and we are able to offer a whole range of customary telecoms services:

- **Voice:** fixed voice, VoIP, Centrex and Virtual Private Networks.
- **Data:** internet access, dedicated services, cloud solutions and gaming.
- **TV:** HD linear TV, TV on demand and OTT services.
- **Mobile:** 2G and 3G voice and data services. We are also developing our 4G proprietary network to complement our 4G arrangements with Orange.

Over the last few years, we have made substantial investments in order to update the key network systems to the latest technologies and standards:

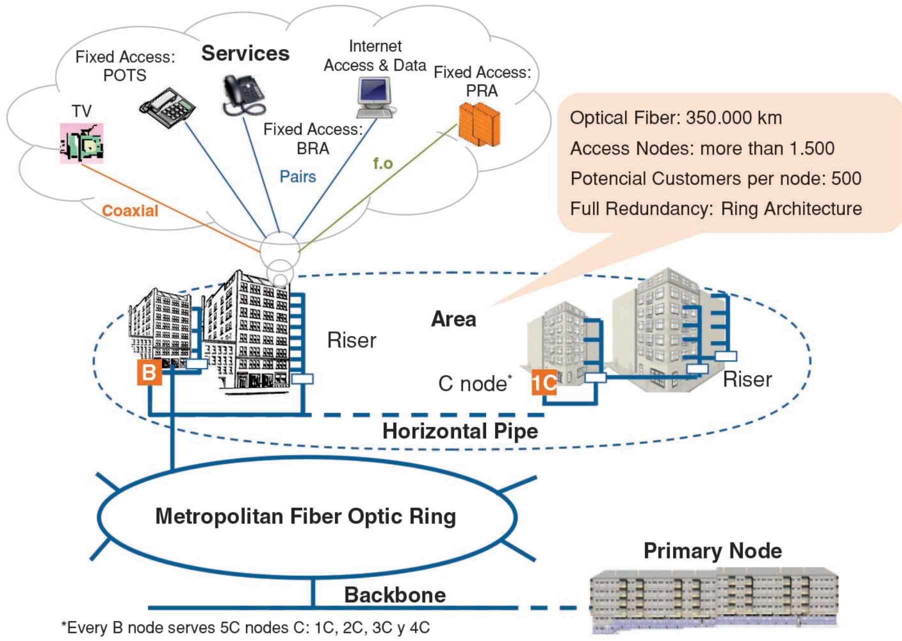
- We completed our mobile core upgrade at the end of 2014.
- We are currently upgrading our fixed core network to IMS (due to be completed in July 2015).
- We upgraded our IP network (new IP aggregators and full upgrade to Docsis 3.0) in 2012.
- We replaced all our TV headers in 2013.
- We introduced new technologies to offer additional services, such as OTT and IMS in 2014.

In November 2014, we signed a 10-year contract with telecommunications equipment provider ZTE to outsource the management of our network. ZTE provides a complete range of integrated network management solutions including maintenance, operations and new builds for all the network systems as well as support for network development projects (such as VoIP and the roll-out to 51,000 carefully selected and already identified additional provisionable homes). The agreement also provides the potential to extend into mobile, leveraging ZTE's experience in 4G and 5G. In addition, the agreement reinforces the collaboration between our two companies through the transfer of 133 of our employees to ZTE and the establishment of ZTE's Southern European headquarters in the Basque Country. We believe that this partnership will provide us with significant operating costs and capital expenditure savings going forward while benefiting from the best-in-class service and innovative solutions. See also "*Material Contracts—ZTE Contract*".

Access networks

Our local access networks have been designed using a high-speed fiber optic based system, capable of providing a full range of digital services. The local networks are capable of supporting high-speed broadband, fiber television and telephony services. All our services are provided through the same distribution system thus creating economies of scale. Fiber routing is designed to provide route diversity to the fiber junctions, or nodes, thereby protecting against loss of service resulting from fiber damage.

The diagram below indicates how our transportation network is organized and how the network access is situated on the last stage of the hierarchized ring system, just before reaching the customer.

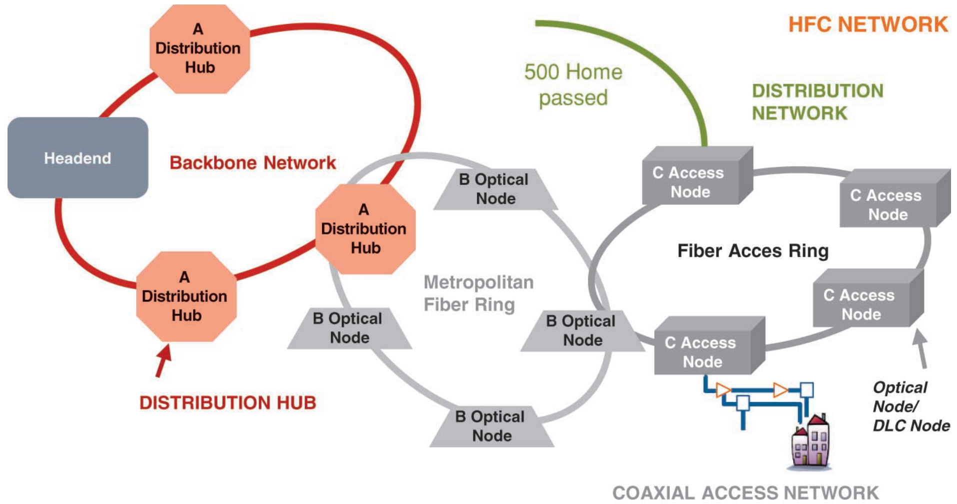


Our broadband and fiber television networks use a hybrid fiber coaxial transmission system ("**HFC**"). Our fiber optic ring architecture is used to transport signals from local operations centers to primary nodes, or hub points.

For broadband and TV services, both optical signals are transformed in the final nodes back into electrical format and transmitted onwards to the customer's premises in coaxial cable format. Coaxial cables are used to transport the signals to homes, and amplifiers are used to boost the signal levels. Customer taps are used to serve individual dwellings. The networks are constructed with extra fiber and duct capacity in order to allow for future upgrades.

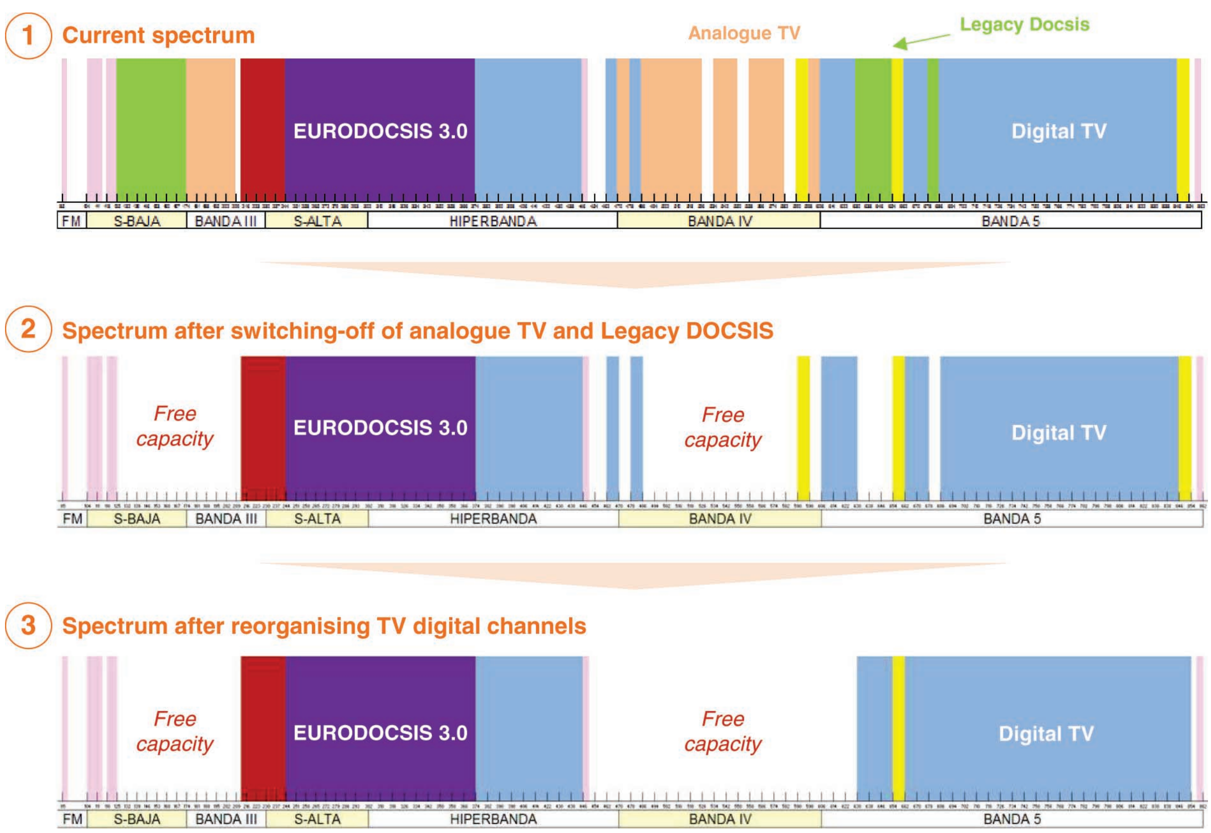
The television head-end assembles the fiber television signals for transmission to the customers. The primary nodes, which house the fiber modem head-end to provide internet service, wrap together both the TV signal and IP signal for broadband service multiplexed in the fiber. Primary nodes are connected to secondary nodes along a secondary fiber optic ring network. These secondary nodes are optical distribution points, which distribute fiber to the home terminal nodes or final nodes. Each home terminal node serves approximately 500 homes with an average distance to the node of around 500m.

For telephony service in most of the territory, a copper overlay access network is used, in which the final points for distribution to homes and small businesses are cross connect boxes located in secondary nodes, in terminal nodes or in intermediate points, depending on the deployment zone, from which the final connection to a customer's home is made using twisted-pair copper wire. The HFC access network's topology (overlapped with the pair access network) is as follows:



Our HFC network uses 862MHz, is fully interactive (2-way) and 100% Docsis 3.0 upgraded. We have the capacity to deliver speeds of up to 500 Mbps with Docsis 3.0, which is well above the capacity that can be provided by ADSL networks.

The diagram below shows our current spectrum and the measures we could take to free additional capacity if required to offer additional services.



We are in the process of switching off the spectrum allocated to analogue TV. Should we need additional capacity, we also have the ability to switch off the spectrum allocated to the legacy Docsis. We estimate that these changes could reduce our network occupation from currently 94% to around 70%. In addition, we can reorganize our digital TV channels to free up additional spectrum to develop new products and services.

Finally, broadband and TV services benefit from different spectrum allocation providing us with a significant competitive advantage versus fiber/ADSL when it comes to speed quality.

Backbone Networks

Optical and SDH Transmission Layer

We have our own backbone network which is built with around 350,000 kilometers of fiber optic ("**FO**") cables. In 2012, we purchased from the Basque government the part of the backbone network which we did not previously own for €68 million. This strategic transaction allowed us to assure the main governance of the network, eliminate the related rental costs (which for the year ended December 31, 2012, amounted to €3.3 million) and also helped us reduce third-party risk.

We have also developed a next generation 50 GB core data network based on an optical backbone that supports all traffic and interconnection with tier-1 operators to provide internet access and data services.

L2/L3 Packet Transport Layer

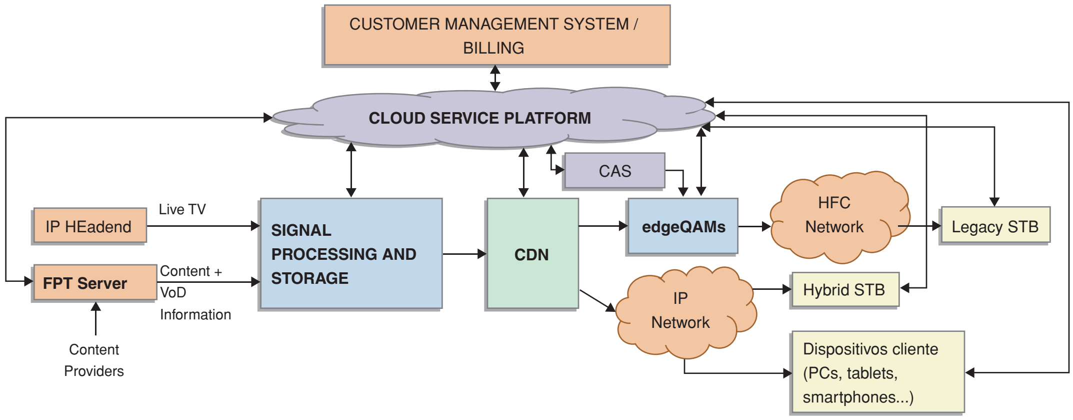
The Data Aggregation Network deals with the majority of the data services traffic that we offer to our customers, as well as other services such as:

- internet access services to contents nested in our network (e.g., customer websites and emails) and content outside our network (from other content providers, thanks to transit agreements and neutral point peering);
- television services, mainly connectivity to television head-ends and contribution and distribution of the channels comprising our Pay TV offering;
- connectivity to GSSN (router use for the interconnection and mobile traffic exchange with mobile host) as well as other services offered for mobiles access (such as SMS center, MMS center and others); and
- Connect-Lan virtual private network services, a solution allowing VPNs to be configured between different geographic location on Ethernet accesses, with speeds of 2, 10, 100 and 1,000 Mbps, as well as to develop applications that demand large bandwidths and/or services guarantees such as videoconferences, IP voices critical data access.

All of these core systems are configured with power redundancy, matrix/processor redundancy and redundancy of all common parts. This core design means we have a very high availability of core systems. The re-dimensioning of the core links is monitored so that it enables the core network to absorb all of the routed traffic in case of failure, enlarging the capacity of the core links when necessary. The probability of failures of a different nature is minimized by the diversification to the maximum of HW on services of the same kind. In fact, we aim to continuously improve our service quality metrics: from year ends December 31, 2012 to 2014, we reduced instances of customer failure by 18.8% (from approximately 80,000 to approximately 65,000) and over the same time period cut telephony faults per access line by 28.4% (from 2.0% to 1.4%). We believe this is due to our equipment's being designed to international standards, our selection of Tier 1 partners to provide best-in-class solutions and our use of qualified trained operators who are capable of executing not only emergency procedures but also routine procedures to follow up provider recommendations.

Audiovisual Services Network

Our audiovisual network relies on several technology providers to offer this service. These services are delivered to the customer through the HFC and IP network. The audio visual network is made up of two structures: (i) DVB-C broadcast platform; and (ii) TV Everywhere and VoD platform.



DVB-C broadcast platform

This platform provides all the DVB-C broadcasted services. It receives all the TV signals coming from the different content suppliers. Additionally, it prepares for the different channel groupings to be distributed (according with our marketing department) while increasing value added services.

Access control of customers with STB to TV-paid contents is carried out through the conditional access system, where content encryption is managed, the contents are packaged into packages and, finally, the access to the content is granted.

The structure of the DVB-C broadcast platform is comprised of five parts: (i) central digital header; (ii) three digital regional headers; (iii) distribution/contribution network; (iv) conditional access system; and (v) an Interactive Services platform.

Online TV Platform

TV Everywhere and VoD

We provide the following services to our customers through the online platform:

- delivery of more than 40 channels over the internet;
- delivery of catch-up TV content over the internet;
- delivery of VoD content over the internet;
- delivery of information about the content: VoD catalogue and EPG;
- PVR (network storage); and
- integration with IT systems for provisioning and billing.

Our online TV platform consists of an in-house system installed within our premises and a cloud part including the services platform, located in Abertis' premises.

Our in-house system comprises the following: (i) signal processing and storage facilities, including the necessary parts to transcoding live channels, offline transcoding and storage; (ii) origin server feeding CDN esystems; (iii) Content Delivery Network; and (iv) EdgeQAMs.

Current STB

The STB that we offer to our customers at the date of this Prospectus has the following main features:

- HD TV;
- integrated cable modem;
- fast user-interface;
- DVB-C (cable) only;
- VOD and PVR services included; and
- 7 days EPG.

Next Generation STB

In order to improve our Pay TV offering and customer experience, we are aiming to launch a next generation STB, which we expect to roll later this year or early next year. The main features of this STB, to be purchased by us from a single vendor at a competitive price, are:

- UHD/4K TV;
- Android based;
- large memory resources;
- advanced and fast user-interface;
- hybrid HFC-IP;
- cloud functionality;
- voice-search integrated;
- chromecast device;
- WiFi support;
- HTML5; and
- integrated with third-party apps: YOUTUBE, Vimeo, Spotify and others.

We are planning to offer our next generation STB first to our premium customers and then gradually expanding the rollout to all our Pay TV customers within two to three years.

Mobile Network

We are the largest full MVNO operator in Spain (assuming the successful completion of Orange's acquisition of Jazztel) and have strong experience in mobile from our time managing Amena's network in the Basque Country and acting as an MVNO with Vodafone. Thanks to the MVNO agreement we have in place with Orange (see "*Material Contracts—Orange Contract*"), we are able to provide mobile services for both our residential and business customers. We own all the core infrastructure of our network allowing us to provide a complete suite of mobile services. The radio access is provided by Orange to ensure the coverage of the Basque Country, as well as the rest of Spain. We also have various roaming agreements with other operators to provide our customers with mobile coverage internationally.

Current 2G/3G mobile network

Our core network currently supports GSM, UMTS and 3.5G services. Services are offered under the full MVNO model for both current technologies (GSM 900, DCS 1800, UMTS/HSPA2100) and future technologies (e.g., LTE 800 MHz). Our current agreement has an initial term of five years from the effective provision of services (January 2014), with automatic annual extensions. We are committed to a cumulative minimum consumption per year. As at the date of this Prospectus, the minimum consumption has been surpassed and we do not consider it likely that we will fail to reach the minimum consumption amount in the future given increasing consumer needs for data.

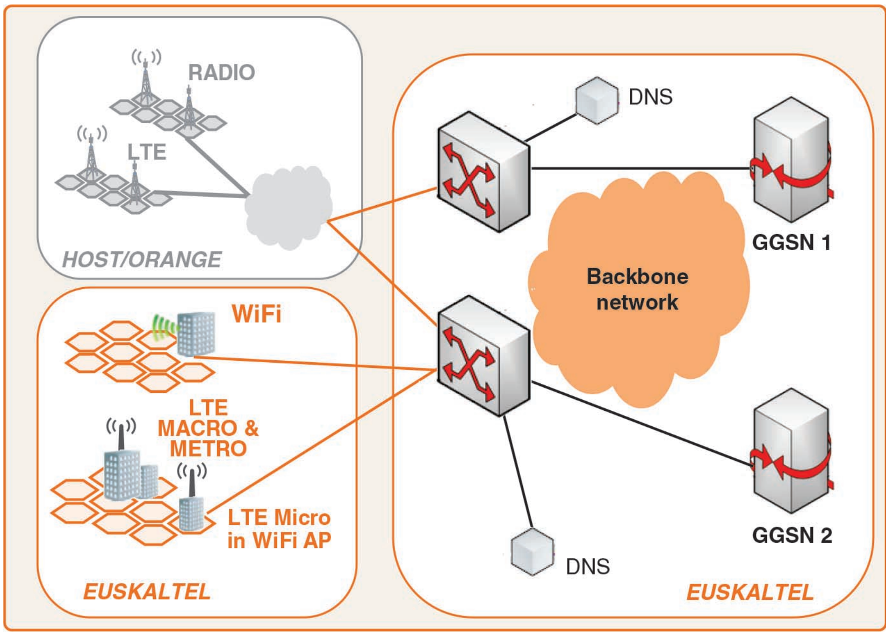
Our mobile network is distributed and can be summarized as:

- *Access layer:* GSM/GPRS/UMTS/3.5G+ (including HSDPA and HSUPA) access from Orange's network.
- *Control (switching) layer:* Circuit Core infrastructure (HLR, MSC). Voice connection to host at MSC level. Packet core infrastructure (such as SGSN and GGSN).
- *Service layer:* Prepaid and IN services (VPN and twin card), IVR, convergent fixed/mobile,Voicemail, SMS, MMS, WAP OTA Platform and others.

4G/LTE

In order to prepare our mobile platform for future growth, we are currently assessing the most efficient way to roll out our proprietary 4G network. In 2011, we were awarded a 4G/LTE license in the Basque Country at a very competitive price (€2.7m) and we currently own two blocks (2x10 MHz FDD and 10MHz TDD). Our license expires on December 31, 2030.

Our 4G/LTE license in the 2.6GHz band in the Basque Country enables us to strategically deploy a proprietary 4G network with the objective of diverting 4G data and voice traffic from the mobile host's network to our own network and thus significantly reduce direct mobile costs in future years. We are currently planning to deploy the network in the next three to four years at a limited number of sites. Our intention is to focus the deployment just on the geographical areas where our customers consume the majority of the traffic (mostly in cities and the analysis will be based on data traffic usage and 4G uptake) in order to optimize the number of sites required and hence minimize the capital expenditure outlay and future operating costs. We also have the opportunity to use third-party towers to swiftly and tactically roll out our radio network and can use our existing HFC network for mobile backhaul, which will provide for substantial network operating expenditure savings. Accordingly, our 4G network will be a partial network complemented by the coverage of our host's network, which we believe provides us with a cost-efficient solution to enter the 4G market. The commencement of the deployment of our 4G network was approved by our Board of Directors in May 2015 and we plan to invest in the region of €15 million in our 4G network from this year until the end of 2018.



Proprietary WiFi Network

With the aim of further improving our mobile offer, reducing operating costs and improving our customer churn, in March 2015 we launched the biggest proprietary WiFi network ever built in the Basque Country with more than 128,000 access points, "Euskaltel WiFi". We believe that our competitors are unable to replicate this concept in the near term due to their lack of coverage in the Basque Country.

Our proprietary WiFi network architecture consists of a dedicated core platform, connected to our data network, with all the elements needed to control and ensure internet access from different devices that are used by our customers, such as tablets and smartphones, and from different access points within the proprietary WiFi network.

We have rolled out two types of proprietary WiFi network points in the frequency bands of 2.4 Ghz and 5 GHz, which are as follows:

- Customer premise cable modems, where we remotely activate customers' existing cable modems to provide a proprietary WiFi service in addition to the customer's private WiFi service. Customers are given the option to opt out and there is no impact on the quality of service on the customer's private WiFi source.
- Cable modems in bars and restaurants, as well as in other types of establishments, providing WiFi access to Euskaltel's customers and also to non-customers with a time limited service in this latter case. This was rolled out in September 2014.

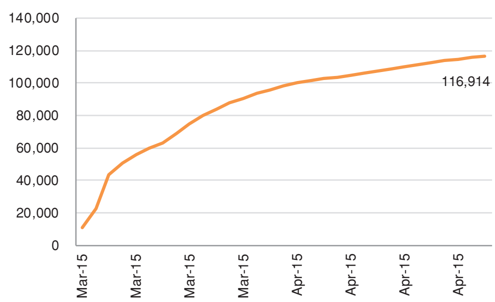
Our proprietary WiFi service is available for all types of devices running the following operating systems: iOS, Android and Windows Phone.

Once the customer has registered for our proprietary WiFi service, the customer's device will always automatically connect to the service when it is within the coverage range of an access point. With the information obtained from our mobile customers (use and localization), we will be able to build mobile traffic maps to identify the high density areas of traffic, in order to create a more efficient proprietary WiFi radio plan and maximize traffic offloading.

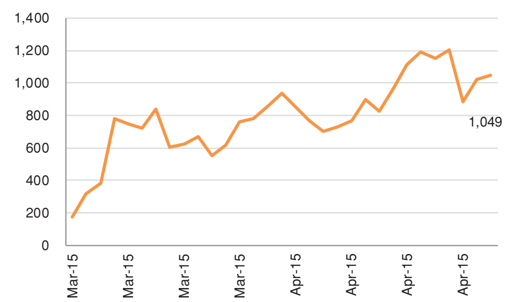
We believe that Euskaltel WiFi will enable us to improve our mobile customer experience while potentially reducing our operating costs through the offload of mobile data traffic to our fiber network. Euskaltel WiFi is available, free of charge, to our broadband and mobile customers, which, we believe, significantly improves the attractiveness of our offering and increases customer loyalty.

Although only launched in March 2015, approximately 125,000 users had already downloaded the app and registered for the service within the first month (by April 26, 2015), which represents approximately 33% of our addressable bundled broadband and mobile users (residential customers and SOHOs). In addition, in less than one month after launch, more than 21 TB of data had been transmitted through our WiFi network. The following charts set forth certain information in relation to the uptake and daily traffic of our "Euskaltel WiFi" network, as shown in the graphs below:

Registered total mobile lines



Daily Traffic (Gbytes)



Fixed Voice Network

Fixed legacy switching network

This network enables the phone services offered to all fixed line customers, both residential and business customers. Our technology provider is Ericsson.

This network includes five principal nodes servicing all our fixed voice customers located in the Basque Country. All of them have the same functionalities (local, transit international) but have different configurations and capacities depending on the actual needs of the network.

We are currently in the process of deploying an IMS solution (IP Multimedia System) under which all voice services will be serviced. This solution will swap the fixed switching network based on the Ericsson AXE equipment. The IMS network provider is ZTE, a leading provider of telecommunication equipment.

The architecture of the fixed switching service is built around switching nodes that, because of their critical nature, are located in primary nodes. All of them are AXE equipment, interconnected between them in a mesh-fashion to provide fixed voice services to all customers in our access network.

VoIP network

We have provided this service to our business customers for several years. More recently, we have been working on developing a global VoIP network to provide all our residential customers with this service which we expect will be available in September of this year. This development strengthens our position in the market as it will allow us to offer new products and features to both business and residential customers.

Additionally we hope also to reduce our operational costs by swapping our current TDM circuit network for the new IMS network, a step that we hope will be completed in July 2015.

Principal Suppliers

We rely on different suppliers of goods, equipment and services depending on the business and product area. Further details about certain of these contracts which are material to the Company are set out in *"Material Contracts"*.

The table below presents our main equipment suppliers:

	Core network equipment	Next generation TV	Voice switching	Mobile network	Digital TV	Data & CM headend	CM	Set-top boxes
ZTE	—	—	Yes	—	—	—	—	—
Ericsson	Yes	—	Yes	Yes	—	—	—	—
Alcatel—Lucent	Yes	—	—	—	—	Yes	—	—
Cisco	—	Yes	—	—	Yes	Yes	Yes	—
Nagra	—	Yes	—	—	Yes	—	—	—
Juniper	Yes	—	—	—	—	—	—	—
Netgear	—	—	—	—	—	—	Yes	—
Technicolor	—	—	—	—	—	—	Yes	Yes
ADB	—	—	—	—	—	—	—	Yes

For our TV offering, we rely on external content suppliers and we currently have contracts with, among others:

- **AMC** (Hollywood, AMC, Xtrm, Buzz, Panda, Historia, Odisea, Cocina, Biography, Sol Música, Dcasa);
- **Fox** (Fox, Fox Life, National Geographic, Nat Geo Wild, Baby TV);
- **Sony** (AXN, AXN White);
- **DTS** (Canal+, Sportmania, Dcine, Canal+Liga);
- **Discovery** (Discovery, Discovery Max, Eurosport);
- **NBC Universal** (Calle 13, Syfy);
- **Viacom** (Comedy Central, Nickelodeon, VH1, VH1 Classic, MTV Hits, MTV Rocks);
- **Disney** (Disney, Disney Junior, Disney XD);
- **ONO** (transactional VoD sublicense for "Big Six" major film studios (Warner Bros. Entertainment, The Walt Disney Studios, NBC Universal, Columbia TriStar Motion Picture Group, Fox Filmed Entertainment and Paramount Motion Pictures Group)); and
- **ETB** (regional public broadcaster including ETB HD, ETB1, ETB2, ETB3 and access to entire VoD catalogue).

We also have contracts with other brands (e.g., Cosmopolitan, Playboy, Sundance and Cazavision), international channels (e.g., BBC World, DW, Aljazeera and TV5 Monde) and local channels (e.g., Telebilbao, Bizkaia TV, Televitoria, Teledonosti and Tele 7).

Since 2007, we have provided our mobile services as an MVNO, first through an MVNO agreement with Vodafone and later with Orange. We believe that our current agreement with Orange enables us to provide excellent mobile services to our customers and improve our convergent offerings while we work on future solutions to support our growth in mobile. For more information on the MVNO agreement with Orange, see "*Material Contracts*" and "*—Network Architecture*".

Intellectual property collecting societies

Our Pay TV offering requires the permission of certain intellectual property collecting societies, which are in charge of granting intellectual property licenses on behalf of the corresponding rights holders.

We have signed contracts to carry out our business with the following Spanish collecting societies: (i) AISGE; (ii) AGEDI; (iii) DAMA; (iv) EGEDA; (v) SGAE; (vi) VEGAP; and (vii) AIE. Although not all of these contracts have been expressly renewed, we continue to pay the fees to use the intellectual property rights and we do not currently consider the lack of express renewal to be a material risk to our business.

The Euskaltel Foundation and Euskaltel Konekta

The Euskaltel Foundation was set up in 2000 to create and promote connection between people, in particular young people, businesses and initiatives using technology in the Basque Country, as well as to promote research and development in technology, broadening access to the Global Society of Information and Communication and contributing to the improvement and expansion of training and education, mainly in the fields of telecommunications and audiovisuals.

From its inception until today, many activities have been carried out within the Euskaltel Foundation's framework, including giving training on sales and technical support, funding research projects to facilitate access to new technologies for severely disabled people, providing technology training to reduce the 'digital divide', lecturing on PhD programs at universities, and giving risk prevention training sessions for new technologies. One of the most high-profile activities undertaken by the Euskaltel Foundation is the Euskal Encounter, one of the largest tech events in Europe with more than 6,000 participants and 4,096 computer terminals.

In 2014, the Euskaltel Foundation revised its strategy and, as a result, it was decided that the Euskaltel Foundation would acquire its own legal personality, whilst remaining a tool that helps to reinforce Euskaltel's brand with its community engagement, proximity to the people of the Basque Country and innovation. The Euskaltel Foundation was thus reborn in 2014 as Euskaltel Konekta, a non-profit organization with a yearly budget of €1 million (we contributed over €600,000 to Euskaltel Konekta in the year ended December 31, 2014) whose objective is to further, create and encourage connections between people, companies and initiatives, through the use of information and communications technology ("**ICT**"). The main areas on which Euskaltel Konekta focuses its efforts are improving the interaction between young people and ICT, being a leading example in the Basque Country in ICT, presenting a unified technological image both inside and outside of the Basque Country and, lastly, being a leading example among people and companies in its natural environment of technology.

Properties

We lease and own certain properties for administrative offices, retail stores, hubs, switches, head-end sites, nodes and warehouses. Our network operations center ("**NOC**"), which we own, is located at Edificio 226, Zamudio 48160, Biscay, Spain and our corporate headquarters, which we also own, is located at Edificio 809, Zamudio 48160, Biscay, Spain.

A significant portion of the properties are used for both administrative and technical purposes. Our main network operations centers are located in the Basque regions of Biscay, Álava and Gipuzkoa and our call centers are located in Biscay and Gipuzkoa.

We have also entered into various agreements relating to the lease of certain locations where our nodes are situated, as we only own the sites for 216 nodes out of a total of approximately 1,320 nodes that deliver our services to our customer base. These agreements have been entered into with various landlords and are crucial for our business. See "*Risk Factors—We rely on lease agreements to secure access to nodes which are key to the operation of a significant part of our proprietary network*".

Further details of our property, plant and equipment are set out in Note 6 to the 2012 Financial Statements and Note 6 to the 2013-2014 Financial Statements included elsewhere in this Prospectus.

Employees

The table below sets forth our average number of total full-time employees by category for the three months ended March 31, 2015 and for the years ended December 31, 2014, 2013 and 2012:

	Average number of employees in the period, by category			
	March 31, 2015	2014	2013	2012
Directors and senior managers	68	76	77	74
Qualified, technical	234	381	421	426
Administration	43	43	49	48
	345	**500**	**547**	**548**

During the three months ended March 31, 2015, we had an average of 345 fixed and temporary full-time equivalent employees, a decrease of 31.0% when compared to the year ended December 31, 2014 average.

During the year ended December 31, 2014, we had an average of 500 fixed and temporary full-time equivalent employees, a decrease of 9.1% compared to the year ended December 31, 2013 average. These decreases were predominantly the result of the outsourcing of our IT and network operations to GFI and ZTE, respectively, in the context of our Transformation Plan. See "*Material Contracts*".

We are currently party to a collective bargaining agreement (*II Convenio Colectivo de Euskaltel*), which had an initial maturity date of December 31, 2013 but includes a provision of automatic annual renewal unless terminated by one of the parties (the majority of the represented employees and/or the Company). The agreement was tacitly renewed on two occasions, most recently until December 31, 2015. Accordingly, all provisions of the agreement continue in force except for those which refer to salary increases (which terminated on December 31, 2013).

As at the date of this Prospectus, the Company has no outstanding obligations in respect of pension plans or early retirement plans.

Environmental and Land Use Matters

We are subject to a variety of laws and regulations relating to land use and environmental protection in connection with our ownership of real property and other operations, including our use of fuels, coolants and batteries. While we could incur costs, such as clean-up costs, fines and third-party claims for property damage or personal injury, as a result of violations of or liabilities under environmental and land use laws or regulations, we believe we substantially comply with the applicable requirements of such laws and regulations and follow standardized procedures to manage environmental and land use risks.

Legal Proceedings

We are engaged in litigation arising in the ordinary course of our business. As of the date of this Prospectus and other than as set out in the following paragraph, there are no, and during the 12 months preceding such date, there were no, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware), which may have, or have had in the recent past significant effects on our financial position or profitability.

The outsourcing of certain of the Company's employees pursuant to the GFI Contract and the ZTE Contract, was challenged by ELA, the Basque labor union, before the High Justice Tribunal of the Basque Country. ELA demanded the annulment of such outsourcing so that the relevant affected employees could maintain their employment status with the Company. On October 7, 2014 and January 20, 2015, the Tribunal ruled in our favor and ELA, on November 19, 2014 and February 13, 2015, lodged two appeals before the Supreme Court, which are currently pending resolution. Although we believe there are good legal grounds to conclude that the Supreme Court will rule in our favor, if the Supreme Court were to uphold the appeals, it could declare the right of the affected employees to regain their previous employment status with Euskaltel.

Insurance

As at the date of this Prospectus, we insure against certain corporate risks in relation to civil liability, including damage to our property and other material assets and business interruption. Our general civil liability insurance covers us for up to €10 million per incident and our property and also includes coverage of damages caused by errors and omissions in relation to our activity per incident per year up to the amount of €5 million. Our material damages insurance policy covers us for up to approximately €40 million per incident. We also maintain policies covering the liability of our directors and officers with an aggregate coverage of €10 million per year.

While we have property damage insurance cover for our NOC and our call centers, this insurance only covers property damage within an insured location and our cable network is not insured. See "*Risk Factors—Unanticipated network interruptions and events beyond our control may adversely affect our ability to deliver our products and services*".

We believe that our insurance policies are sufficient to protect us against potential damage and liabilities incurred in the ordinary course of business although we can provide no assurance that our insurance coverage will adequately protect us from all the risks that may arise or in amounts sufficient to prevent material loss.

INDUSTRY

Overview

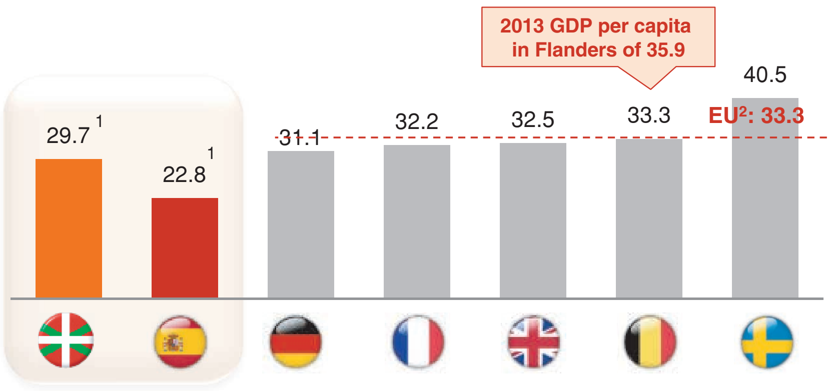
Spain is the fifth largest economy in the European Union with a GDP of €1.1 trillion and is the fifth most populated country in the European Union, with an estimated 46.5 million inhabitants as of December 31, 2014 (source: INE). There are an estimated 19.0 million households in Spain (primary homes only) and like the majority of developed economies, the Spanish population is mostly concentrated in urban areas. However, the density of the Spanish population, at approximately 93 inhabitants per square kilometer, is lower than the average of 248 inhabitants per square kilometer in other major Western European countries (Netherlands, France, UK, Belgium, Germany and Sweden). There are an estimated 3.1 million enterprises in Spain with the majority of GDP generated by the services and industry sectors, which respectively represented 68% and 16% of Spain's total GDP in 2014.

From 1996 to 2007, Spain experienced a period of significant growth driven by an abundance of available external financing, a significant increase in investment (particularly in the construction sector), demographic growth and consumption. Spanish GDP increased at a compounded annual growth rate ("**CAGR**") of 3.9% during this period, according to INE, lower than the average CAGR for the European Union of 4.9% during the same period. GDP per capita in 2007 reached €23,900, the highest during this period and unemployment rates were 8.6% (source: INE). In 2008, Spain entered a period of economic recession. From 2008 to 2012, Spain's GDP fell 6.2%, the fourth largest drop experienced by any of the European Union economies. Unemployment also increased significantly to 25.8% of the population in the fourth quarter of 2012. GDP per capita fell to €22,600 in 2012 and the business sector faced significant pressures as the Spanish government implemented austerity measures to counter the economic recession. Gross domestic income, an important driver of consumer spending on telecommunications services, fell 7% from 2008 to 2012 (source: World Bank). In 2014, the Spanish economy showed a return to growth with GDP expanding by 1.4% (source: INE), and it is expected to continue growing in 2015 and 2016 by 3.1% and 2.5%, respectively (source: IMF, June 2015). While GDP per capita and unemployment remain behind the average for the European Union, Spain has seen improvements in both metrics throughout 2014. GDP per capita in Spain as of the final quarter of 2014 was estimated to be €22,800, lower than the European Union average of €33,300, but has improved 1.2% year-on-year. Spain's unemployment rate of 23.7% in 2014 (source: INE) was also higher than the European Union average of 10.5% (source: Eurostat) but has shown signs of improvement, down from 26.9% in 2013.

The Basque Country is an autonomous region (*Comunidad Autónoma*) within Spain that has historically had self-governing powers, including its own tax regime, and where Basque and Spanish are both official languages. As of July 2014, the Basque Country had a population of 2.2 million inhabitants and approximately 1.03 million total households (source: Ministry of Industry, Energy and Tourism). Population density in the region is higher than the rest of Spain with approximately 303 inhabitants per square kilometer. Population density and distribution are key factors for cable and convergent operators like Euskaltel, which are not subject to universal service obligations, when deciding whether to concentrate infrastructure investments in particular areas.

The Basque Country is one of the most affluent regions in Spain with a highly industrialized economy. GDP per capita in the Basque Country was estimated at €29,700 as of the final quarter of 2014, which is the second highest GDP per capita amongst all Spanish regions, second only to Madrid (source: INE). Industrial GDP accounts for approximately 30% of total Basque GDP, which compares favorably to the average of 24.2% for other industrialized Western European economies (European Union industrial GDP average calculated as average industrial GDP (including construction) for Netherlands, France, UK, Belgium, Germany, Spain and Sweden). Basque industrial GDP represents approximately 8% of Spain's total industrial GDP (whilst the region's population represents around 5% of the Spanish total). Unemployment rates in the Basque Country in the last quarter of 2014 were 16.6% (source: INE), which is 7 percentage points lower than the Spanish national annual average and lower than most other regions in Spain.

GDP per capita 2014E (€ '000s)

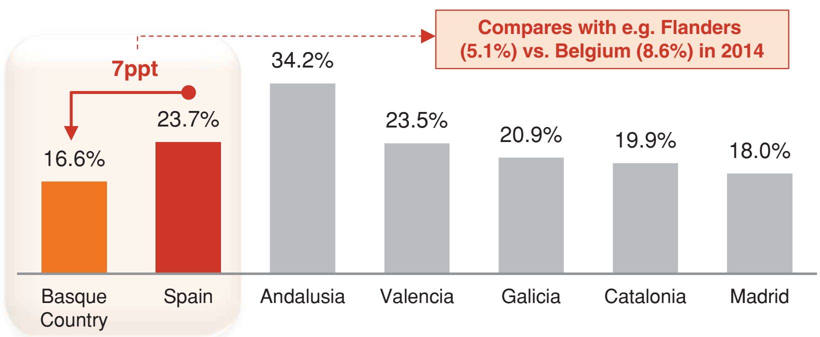


Source: IMF; INE; National Bank of Belgium.

(1) Spain and Basque Country 2014E GDP per capita as of 27 March 2015 (INE).

(2) European Union (28 countries).

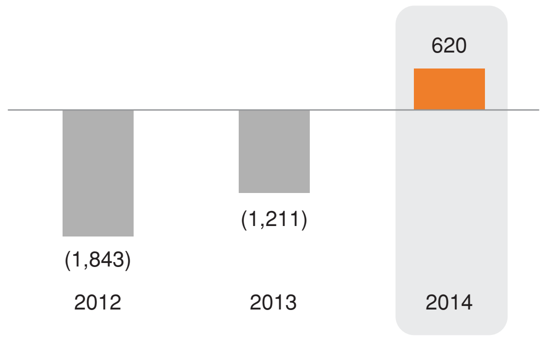
Unemployment rate as of 4Q14 (%)



Source: INE; SPF Economie.

The Basque Country experienced many of the same recent economic trends as Spain. However, it proved to be more resilient than the broader country with Basque GDP outgrowing Spanish GDP in four of the last five calendar years (all except in 2014) due to the region's rich natural resources and focus on manufacturing which contrast to the Spanish economy's dependence on construction and tourism. The Basque Country is showing signs of recovery with GDP growing 1.1% in 2014 (source: INE). Moreover, the corporate sector is showing signs of stabilization with the harmonized business confidence index increasing 12% and 10% in the three months ended March 31, 2014 and 2015, respectively, as compared to prior periods. In addition, after a number of years of decreasing numbers of corporates registered with the Social Security (numbers fell by 1,843 and 1,211 in 2012 and 2013, respectively), the Basque Country saw net additions of corporates of 620 in 2014 and 624 in the three months ended March 31, 2015.

Change in corporates registered to Social Security



Source: Ministry of Employment and Social Security as of March 2015.

Spanish Telecommunications Market Overview

The Spanish telecommunications market is highly competitive and has been through a series of evolutionary periods, since its liberalization in 1997. Prior to the recession, in 2007, the Spanish telecommunications market was characterized by high price points and significant competition from new challengers which drove increased levels of promotions and discounts. Beginning in 2008, the Spanish telecommunications market experienced sharp revenue contraction as a result of the recession and these market pressures. In 2012 Telefónica, the Spanish market incumbent, introduced heavily discounted bundled offerings via its "Movistar Fusión" product. The effect of this was to significantly drive down prices and lead to a rapid shift to convergence. As a result, the market has seen significant consolidation over the past two years, primarily driven by mobile-centric operators buying cable operators. We now believe we are at an inflection point in the market with revenue rebounding and tangible signs of pricing discipline in the market.

Spain is one of the most convergent countries in Europe and there remains significant upside potential in terms of broadband and Pay TV penetration, both of which are below the European average, as well as an opportunity in mobile data. Fiber penetration remains relatively low in Spain and is becoming increasingly important as consumers require higher speeds and more data.

The Spanish telecommunications market has a relatively long history of competition. Deregulation of the Spanish telecommunications market began in 1987 as a result of Spain joining the European Union and the need to abide by the European Union's free market principles. Further deregulation laws were enacted in the early to mid-1990s. However, Telefónica, as the incumbent telecommunications operator in Spain, retained a monopoly of fixed-line services until 1997, when the Telecommunications Liberalization Act allowed other operators to begin offering their own services on a national basis. The CMT, later integrated into the CNMC, was also established in June 1996 to supervise Spain's telecommunications operators and promote competition in the market. Spain's national radio and television utility company, Retevisión, obtained a license in the fixed-line telephony market in 1997 and commenced operations. Shortly afterwards, in May 1998, LINCE, predominantly owned by France Telecom, became the third participant to enter the Spanish market. ONO also entered the market in 1998, after obtaining the licenses required to roll out a fixed-line network.

Following the enactment of Law 12/1997, Law 11/1998 General on Telecommunications further liberalized the provision of telecommunication services and permitted telecommunication networks to be exploited under free competition principles. As a result, competition continued to increase as additional participants entered the market. Orange entered the Spanish market in 1999 through Wanadoo, the ISP division of France Telecom, after acquiring a stake in Uni2. Vodafone followed suit and entered the Spanish market in 2000 by acquiring a stake in Airtel, Spain's second largest mobile phone operator at the time. In 2006, Orange acquired Spain's third largest mobile operator Amena. The development of regional licenses then fostered the emergence of regional telecommunications and cable operators. We were Spain's first regional telecommunications company, commencing its commercial operations in the Basque Country in January 1998. Other regional cable operators in Spain now include Telecable in Asturias and R Cable in Galicia.

The development of fiber as an alternative technology increased competition in the telecommunications market in Spain and provided consumers with a new alternative. Spain's fiber industry, first introduced in the mid-1990s, is relatively young compared to other European countries where fiber was introduced in the

1970s and 1980s. As at December 31, 2014, Telefónica's FFTH coverage was close to 55% of primary households in Spain (excluding business premises) and only 30% of all homes in the Basque Country (source: Company estimates based on CNMC data; Telefónica). In 1992, the Basque government began the construction of a fiber network, Euskalnet, which initially covered the communication networks of public institutions and bodies, and in 1995, Euskaltel's predecessor entity was created to break the monopoly, by using, developing and eventually owning this Basque fiber network. Therefore, our company was born with a fiber network and in a position to take advantage of a shift to fiber technology.

More recently, the Spanish market has undergone a period of consolidation. Today, the three main operators in the Spanish market are Telefónica, Orange, which had its acquisition of Jazztel approved by the European Commission in May 2015, and Vodafone, which acquired ONO in July 2014. In addition, in 2014, Telefónica also announced the purchase of Prisa TV's controlling stake in DTS, the leading satellite-based Pay TV provider in Spain operating under the Canal+ brand, a transaction which was approved on April 23, 2015 by the CNMC and closed on April 30, 2015.

We compete mainly against the three national telecommunications providers in the Basque Country. However, we benefit from a strong brand, loyal customer base and unmatched fiber network in the region, with access to 872,053 homes passed (as of March 31, 2015), representing 85% of total households and 86% of the Basque population. As a result, Euskaltel currently has #1 market positions in both broadband and Pay TV (in terms of number of customers), and the #2 market position in fixed telephony in the Basque Country. We are the #3 provider of mobile services (based on number of lines in post-paid mobile), but are gaining share quickly. In our business segment we are the #2 provider (source: Company estimates based on CNMC data as of 2013 and 2014).

The Spanish telecommunications and television market generated revenues of €30.1 billion over the year ended December 31, 2014 (source: CNMC). The largest telecommunications sector by revenue is mobile communications (voice and broadband) with €9.8 billion (or 32%), followed by fixed communications (voice and broadband) with €7.1 billion (or 23%). We mostly operate in six sectors of the telecommunications and television market: broadband, Pay TV, mobile, fixed telephony, business and fixed wholesale. These sectors in total generated revenues of €22.6 billion in the year ended December 31, 2014, which represented approximately 75% of the total Spanish telecommunications market. Aggregate revenues generated by these sectors declined 5.8% per year (calculated as a compound annual growth rate, or CAGR) from 2008 to 2014, mainly driven by a significant decrease in fixed and mobile voice revenues and as a result of the market shift to convergence as introduced by "Movistar Fusión".

Market revenue development in the Spanish telecommunications market

	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014[(1)]**	**% growth 2008 - 14**	**% of total 2014**
	(euro in billions, except as otherwise indicated)								
Fixed telephony	7.0	6.4	5.9	5.4	4.8	4.2	3.5	*(50.8)%*	*11.5%*
Broadband	3.9	4.0	4.0	3.8	3.7	3.6	3.6	*(7.6)%*	*11.9%*
Pay TV	2.1	1.8	1.7	1.7	1.7	1.7	1.7	*(16.2)%*	*5.8%*
Business communications	1.5	1.5	1.5	1.5	1.5	1.4	1.4	*(7.7)%*	*4.5%*
Wholesale (fixed)	2.8	2.8	2.9	3.0	3.1	3.0	2.7	*(3.7)%*	*9.0%*
Mobile	15.1	14.5	14.0	13.5	12.3	10.9	9.8	*(35.2)%*	*32.5%*
Subtotal	**32.3**	**30.9**	**30.0**	**28.9**	**27.1**	**24.9**	**22.6**	***(30.1)%***	***75.2%***
% YoY growth	*2.2%*	*(4.4)%*	*(3.1)%*	*(3.7)%*	*(6.3)%*	*(8.1)%*	*(9.0)%*		
TV advertising	3.3	2.6	2.6	2.3	1.9	1.8	2.0	*(39.8)%*	*6.5%*
Other TV (non-pay TV)	0.2	0.2	0.2	0.1	0.1	0.1	0.1	*(60.6)%*	*0.2%*
Wholesale (mobile, TV, other)	4.4	3.9	3.6	3.4	2.9	2.5	2.3	*(48.2)%*	*7.6%*
Other	3.9	3.7	3.5	3.2	3.3	3.6	3.1	*(20.6)%*	*10.4%*
Total market	**44.1**	**41.2**	**39.8**	**37.9**	**35.3**	**32.8**	**30.1**	***(31.9)%***	***100.0%***
%YoY growth	*0.6%*	*(6.6)%*	*(3.5)%*	*(4.7)%*	*(7.1)%*	*(7.0)%*	*(8.3)%*		

Source: CNMC.

Note:

(1) 2014 data calculated as the sum of the quarterly data available from the CNMC, as full year data for 2014 is not yet available at the date of this Prospectus.

While telecommunications revenue is not published on a regional basis, the CNMC reports penetration levels based on population for the various services. As of December 31, 2013, fixed telephony had a 47.7% penetration in the Basque Country, with 1,038,740 lines, while mobile telephony had a 75.3% penetration with 1,640,148 post-paid mobile lines. Broadband DSL, HFC and FTTH had a 16.6%, 11.7% and 0.5% penetration level each, with 362,132, 254,190 and 11,858 lines, respectively. DSL and HFC lines have respectively increased at a 7.1% and 2.7% CAGR from 2011 to 2013, while FTTH lines have sharply increased at a 90.3% CAGR. On the installed accesses, the most significant development in the 2011 to 2013 period has been the significant increase in FTTH and FTTN accesses, growing from 45,157 to 197,485 at a 109.1% CAGR. Pay TV had a 9.3% penetration with 201,678 accesses, having decreased from 12.0% penetration and 260,930 accesses in 2011 (12.1% and 12.0% negative CAGR in the 2011 to 2013 period, respectively).

Growth in the telecommunications and television market in the Basque Country is expected to be driven by increasing data consumption, especially as customers demand higher bandwidth capacity and speeds, Pay TV adoption accelerates and there is an increase in mobile services consumption, particularly in mobile data.

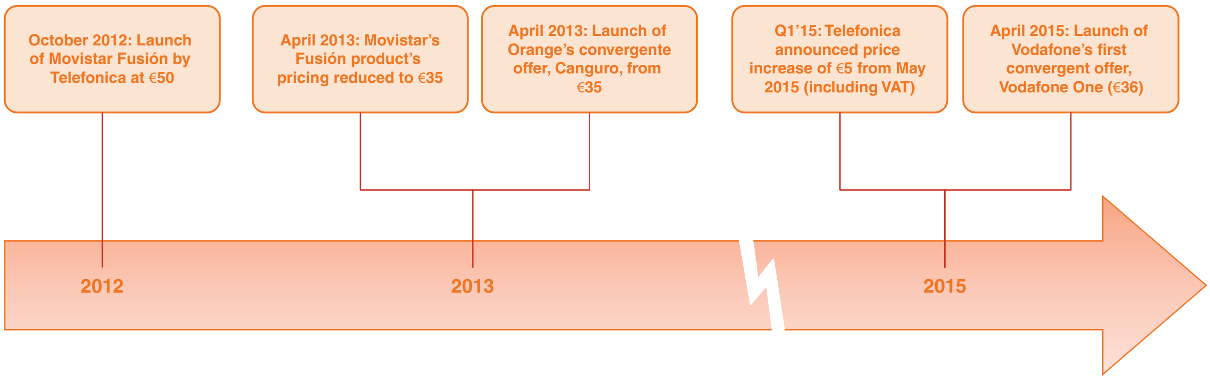
Market trends in the Basque Country mirror those of the broader Spanish market. The major current trends of the Spanish market are detailed below.

Convergence

The Spanish telecommunications and television market has most recently been characterized by a rapid transition to convergence of fixed and mobile services, with operators bundling services such as broadband, television, mobile and fixed-line telephony into integrated offers (double-, triple- and quadruple-play), which has made the Spanish telecommunications market amongst the most convergent markets in Europe. We believe that such a convergent market environment is favorable to Euskaltel because our superior fiber and mobile infrastructure best positions us to deliver convergent services to the Basque Country. We have the flexibility to provide our customers with a full range of speeds, currently from 15Mbps to 350Mbps commercially, which together with our other quality service offerings, allows us to create bundles for and capture a very broad set of customers.

Telefónica's commercial transformation process began in mid-2011 with the launch of new tariffs, driving lower ARPU and lower churn and the removal of mobile subsidies, leading to lower commercial expenses. This had a significant impact on pricing in the Spanish telecommunications market, which experienced a two-step decline. The first step occurred in October 2012 with the initial launch of "Movistar Fusión" where prices of bundled offerings were significantly lower than the aggregated price of the individual offerings. Telefónica's goal was to lower churn of subscribers, particularly in mobile, at the expense of reducing ARPU in its customer base. The underlying principle was that the reduction of churn and the associated commercial costs would lead to a greater customer lifetime value over time. The market experienced a second step decline in pricing in April 2013 when the other market operators followed Telefónica's strategy, launching their own convergent offerings, and reducing prices to remain competitive. For example, pricing on a similar product offering by Telefónica decreased by 56% from €79 in October 2012, prior to the introduction of "Movistar Fusión", to €35 in December 2014 (source: Telefónica's website). Prices shown here exclude VAT and the price before October 2012 shows the combined cost of all the individual products combined. The €35 per month offer included 10MBps broadband, 100 minutes of mobile voice and 100MB of mobile data. Due to the introduction of "Movistar Fusión" and given the competitive environment, Spanish telecommunication market revenues dropped 21% from 2011 to 2014 (source: CNMC). The price war witnessed on converged products particularly impacted the Spanish mobile market, which suffered a significant downward drop in pricing, also fuelled by the appearance of multiple mobile challengers, such as Yoigo and MVNOs like Pepephone, Masmóvil, Lebara and Lycamobile. As a result, we believe there is limited downside risk in terms of prices.

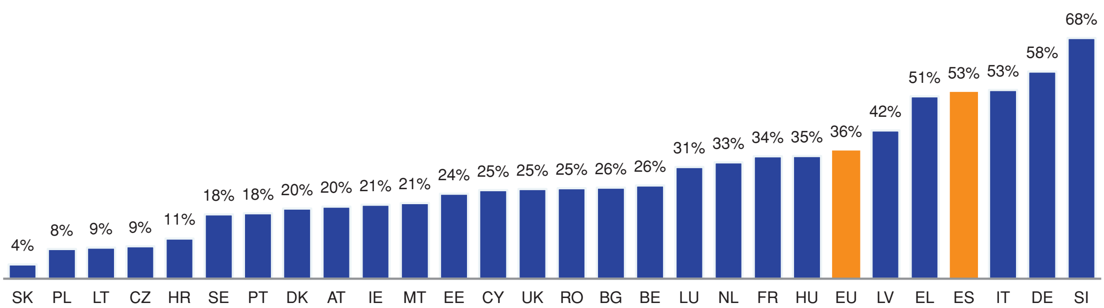
Since 2013, prices of bundled offerings have stabilized. Moreover, recently a number of providers have started to announce selective price increases for 2015, usually associated with increased functionality or services (e.g., higher speeds or bigger mobile data allowances). For example, in March 2015, Telefónica announced an automatic €5 price increase from May onwards to all its "Movistar Fusión" customers in exchange for broadband speeds (both download and upload) three times higher than current speeds. In April 2015, Vodafone announced its new "Vodafone One" commercial offering beginning on April 20, 2015 for all of its convergent packages, which entails price increases in exchange for enhanced services. In May 2015, Vodafone announced a new commercial initiative with an improvement in its broadband speeds (from 200 Mbps to 300Mbps) in order to keep pace with Telefónica. This follows Telefónica's announcement (earlier in 2015) to triple fiber broadband speeds to 300Mbps before summer 2015. At Euskaltel, we have also successfully implemented selective price increases which have been a key driver of the €2.0 increase in our global ARPU in the first quarter of 2015 compared to the first quarter of 2014.



This convergence strategy, led by Telefónica, has driven a rapid uptake of bundled offerings in Spain. As of December 31, 2014, the number of triple and quadruple-play customers in Spain increased to 8.7 million, more than triple the number from 2012 (source: CNMC). Currently, 67% of the Spanish market is represented by triple (3P) and quadruple (4P)-play bundled offerings, up from 24% in 2012 (source: CNMC and note 1P only assumes fixed broadband to calculate total market).

Spain has one of the highest convergence rates among European countries. According to the Digital Agenda for Europe Scoreboard, Spain is above the average penetration (at 53% as at year end December 31, 2013) of bundled packages in the European Union which was 36% as at year end December 31, 2013. As of March 31, 2015, 58% of our subscribers have 3P/4P bundles.

Bundled offer penetration (of population)



Source: European Comission (Data as of end 2013).

The drive to convergence has made network quality even more important as bundled offerings leverage operators' infrastructure to offer more services to consumers. Our fully-invested next generation cable network, together with our ability to offer mobile services through our MVNO agreement with Orange, is therefore proving to be a key source of competitive advantage in an increasingly convergent Basque market. In fact, only Telefónica, and only then in a limited number of Basque households, can offer competing convergent offerings, while Vodafone and Orange at present primarily focus on mobile data offerings and lower end convergent packages based on "unbundling of the local loop" ("**ULL**") ADSL.

Not only do we have a significant network advantage, but our bundled offerings are also very competitive in both the low tier and high tier triple-play converged offerings in terms of pricing as demonstrated in the following tables:

Monthly prices of bundled offerings, as of June 2, 2015 (the latest practicable date prior to the date of this Prospectus)

Monthly prices excl. VAT	**Euskaltel**		**Movistar Fusión**	**Orange**	**Vodafone One**	**Jazztel**
Broadband[(1)]	**15 Mbps** ***(14 Mbps avg.)*** ***Fiber***	**50 Mbps** ***Fiber***	Up to 20 Mbps/ 30 Mbps[(5)] *DSL/FTTH*	Up to 20 Mbps *(14 Mbps avg.)[(9)]* *DSL*	Up to 30 Mbps *(15 Mbps avg.)[(9)]* *DSL*	Up to 30 Mbps *(13 Mbps avg.)[(9)]* *DSL*
Mobile	**120 mins/500MB**		100 mins/ 500 MB	150 mins/ 1 GB	200 mins/ 1GB	200 mins/ 1.1 GB
Fixed telephony	**Monthly: 4,000 mins fixed calls 60 mobile mins 1000 mins fixed calls and 1000 mobile mins on weekeds**		Unlimited fixed calls. 0 mobile mins	Unlimited fixed calls 1,000 mobile mins[(10)]	3,000 mins fixed calls 60 mobile mins	5,000 mins fixed calls 60 mobile mins
Pricing[(2)]	**€33.0**	**€37.1**	€38.8	€34.7	€35.5	€34.9
Short-term promotions[(3)]	**€23.0[(4)]**	**€27.1[(4)]**	Free low value smartphone[(6)]	€27.2[(7)]	€28.4[(8)]	Low value smartphone from €1/month

Notes:

(1) Download speed; 1/10 upload/download speed ratio offered in standard packages.

(2) Monthly prices excl. VAT and promotions. Prices for comparable packages.

(3) Short-term promotions as of week of June 2, 2015, excl. VAT.

(4) As of January 2015, Euskaltel stopped long-duration promotions (one year) and focused on offering short-term promotions (either more intensive ones with a duration of two to three months or less intensive with a duration of five to six months). Promotion shown has a duration of fix months.

(5) Up to 20 Mbps with ADSL where no FTTH coverage if available; 30Mpbs on FTTH if available.

(6) Additional 1GB of mobile data per month until September 17, 2015; free TV online (seven channels).

(7) Promotion lasts three months.

(8) Promotion lasts three months.

(9) FTTH commercially available but with negligible coverage across the Basque Country.

(10) 1,000 minutes to mobiles only if purchased online.

Monthly prices excl. VAT	**Euskaltel**		**Movistar Fusión**
Broadband[(1)]	**60 Mbps Fiber**	**350 Mbps Fiber**	Up to 300 Mbps FTTH
TV[(2)]	**90 channels o/w 24 HD**		91 channels o/w 22 HD
Mobile	**Unlimited/2 GB**		Unlimited/2 GB
Fixed telephony	**4,000 mins fixed calls 1,060 mobile mins**		Unlimited fixed calls 550 mobile mins
Additional services[(3)]	EDONON	wifi	TV Everywhere, PVR
Pricing[(4)]	**€60.2**	**€65.2**	€63.6[(6)]
Offer price[(5)]	**€50.2[(7)]**	**€55.2[(7)]**	€63.6[(6)] Free low value smartphone

Notes:

(1) Download speed; 1/10 upload/download speed ratio offered in standard packages.

(2) Including DTT channels.

(3) Free of charge.

(4) Monthly prices excluding VAT and promotions. Pricing for comparable packages.

(5) Offer price as of week June 2, 2015, excl. VAT.

(6) "Fusión TV para todos" tariff.

(7) As of January 2015, Euskaltel stopped long-duration promotions (one year) and focused on offering short-term promotions (either more intensive ones with a duration of two to three months or less intensive with a duration of five to six months). Promotion shown has a duration of five months.

Fiber Deployment

A number of the Spanish operators have announced FTTH deployment plans to transition from ULL ADSL to NGN access technologies. FTTH adoption at the national level is relatively limited given the lengthy and expensive process to install the vertical access required. As at December 31, 2014, Telefónica reached 10.3 million premises (residential and business) passed with fiber, representing approximately 55% of target homes passed (primary homes only, excluding business premises) in Spain, and has plans to reach up to 75% of homes passed (primary homes only, excluding business premises) by 2016, subject to appropriate regulation. Telefónica's strategy includes standalone deployment, complemented by a vertical infrastructure access agreement with Jazztel, in order to share the deployment of FTTH networks in Spain. Telefónica has been focusing on the largest Spanish cities, where competition is generally higher since all the main operators seek to gain a strong market stake. The CNMC is currently conducting a fiber access market review which could result in Telefónica's being obliged to offer wholesale FTTH in the near future in areas where the CNMC considers there not to be sufficient competition. As a result, Telefónica has publicly announced that it could slow the pace of FTTH deployment if it is forced to open up its fiber access network to competitors.

In the Basque Country, we estimate that Telefónica's FTTH coverage is approximately 30% of homes passed (as at March 31, 2015) and it has shown limited focus on FTTH roll-out in the Basque Country to date. The most recent announcements from Telefónica suggest it will convert all DSL lines to FTTH where FTTH coverage is available across Spain. Telefónica is also focused on tripling upload and download speeds on all of its FTTH connections. We believe this will change the market dynamics significantly and increase fiber awareness. Specifically, we believe that Telefónica's focus on fiber will raise awareness in the market of super high-speed broadband (the so-called "fiber marketing effect"), which we see as a positive for us since we are already able to provide this service across almost the entire region.

Jazztel also announced an expansion of its original fiber roll-out plan in Spain, from the original 3.2 million FTTH homes passed by the end of 2014 to the new target of five million FTTH homes passed by the end of 2015. As of March 31, 2015, Jazztel had managed to pass more than 3.6 million homes with FTTH. No specific plans relating to the Basque Country have been unveiled to date by Jazztel.

Vodafone and Orange have also implemented initiatives to roll out fiber in Spain, including a joint investment agreement in 2013 which aimed to reach six million homes and workplaces across 50 major cities in Spain by September 2017, representing a residential penetration level of around 40%. The plan also included interim targets such as 800,000 homes passed by March 31, 2014 and three million homes by September 2015. Despite various announcements, neither Vodafone nor Orange seems to have made significant progress on the deployment of their FTTH network and the offering of these products.

Vodafone's acquisition of ONO provided it with immediate access to 7.2 million households via ONO's fiber network. Following this acquisition, the two companies updated their agreement to co-invest in FTTH to three million homes and businesses across Spain by September 2015 and agreed that: (i) the total number of homes and businesses to be jointly accessed by the two companies will remain three million overall; (ii) the companies will collectively build FTTH to two million premises across Spain, and as the joint deployment had already met their target of reaching 800,000 premises across twelve Spanish cities, this meant that the companies will jointly deploy fiber to an additional 1.2 million premises in areas where the ONO high-speed fiber network is not present by September 2015; and (iii) Vodafone will provide Orange with wholesale access to one million homes using ONO's existing network. This commercial agreement was meant to take the overall number of premises jointly accessed by the two companies to the total of three million. The amended agreement also provides a mechanism for Vodafone and Orange to provide each other with access to future FTTH deployments across Spain on a reciprocal basis. Through its proposed acquisition of Jazztel, Orange plans to reach ten million households as Jazztel alone was expecting to reach five million premises by the end of 2015.

In March 2015, Orange and Vodafone publicly announced the beginning of the roll-out of FTTH in the Basque Country with a plan to invest in order to reach 120,000 homes in some targeted neighborhoods of Bilbao, including Atxuri, Otxakoaga, Begoña and Miribilla, with an expected commercial availability by the end of the year. Orange and Vodafone also plan to expand their FTTH roll-out to San Sebastian, Vitoria, Irun, Portugalete, Basauri, Barakaldo and Getxo with a total target of 400,000 homes over the next three years. Vodafone Spain announced plans to expand its fiber network in the Basque Country to 300,000 households in just over a year. Vodafone confirmed it would continue to collaborate with Orange on fiber deployment to roll out FTTH services in Basque cities such as Bilbao, San Sebastian, Vitoria and Irun. Vodafone currently has 600,000 mobile customers and 50,000 fixed telephony and broadband customers in the Basque Country and has invested around €67 million in the region over the past two years, mainly in the deployment of its 4G network, which now covers 80% of the Basque population. Orange announced that it will expand its fiber-optic network to the locality of Basauri in the Basque Country. The service will be launched in some areas before the end of the year, with the aim of bringing FTTH services to around 15,000 households in total.

Orange, in partnership with Vodafone, intends to bring fiber broadband services to three million homes and businesses all over Spain by the end of the year and a total of ten million by the end of 2016 if its takeover of Jazztel completes successfully.

Consolidation

The Spanish market's move towards fixed/mobile convergence has resulted in market consolidation, primarily driven by mobile-centric operators buying cable operators. Competition and convergence drove mobile revenues down and mobile-centric operators were increasingly unable to compete without a comparable broadband and Pay TV proposition. Similar consolidation activity is taking place in the telecommunications sector in the rest of Europe.

In July 2014, Vodafone acquired ONO, providing a significant time-to-market advantage and network reach that is complementary to Vodafone's ongoing FTTH roll-out program. On May 19, 2015 the European Commission approved Orange's voluntary offer for Jazztel's shares. Once completed, this acquisition will increase Orange's broadband market share in Spain by approximately 12% and its mobile market share by approximately 4% (source: CNMC, Company filings). The approval is conditional upon the full implementation by Orange of a number of commitments intended to ensure effective competition in the fixed internet access services markets following the acquistion. Namely, Orange has committed to divest an independent FTTH network covering 700,000 to 800,000 building units, which is similar to the size of Orange's current FTTH network in Spain. This high-speed network covers 13 urban districts located in five of the largest Spanish cities: Madrid, Barcelona, Valencia, Seville and Málaga. Orange has also committed to grant the purchaser of that FTTH network wholesale access to Jazztel's national ADSL network for up to 8 years. This commitment is for an unlimited number of subscribers and will allow the purchaser to compete immediately on 78% of the Spanish territory. The cost for this wholesale access to Jazztel's ADSL network will allow such purchaser to compete as aggressively as Orange and Jazztel do today. Orange has also committed to grant to the purchaser of the FTTH network wholesale access to its mobile network including 4G services, unless the purchaser already has access to a mobile network. As a result of these conditions, other smaller operators, such as Yoigo and Masmóvil, may be able to reinforce their convergent capabilities in the Spanish market and new operators would be able to replicate quadruple-play packages for FTTH customers.

Another consequence of these two acquisitions is the removal of the two largest full MVNOs from the Spanish mobile market, creating a landscape dominated by three main convergent operators at the national level. We believe the impacts of consolidation are multi-fold: (i) as concentration increases with the top three operators controlling 96% of the market (compared to 84% in 2012) (source: CNMC), we could see the main operators shifting their commercial focus from price to quality and innovative services supported by network differentiation; (ii) we could also see an impact on churn levels as customers have fewer providers to select from; (iii) in the short term, Vodafone and Orange are likely to be focused on integrating their acquisitions, which could also incentivize the companies to focus on retaining customers instead of new aggressive commercial campaigns; and (iv) as stated above, we have already seen pricing discipline return to the market very recently, a trend which we would expect to continue.

In May 2014, Telefónica announced its intention to acquire Prisa's 56% stake in Canal+ thereby obtaining full control over the satellite-based Pay TV operator given that Telefónica simultaneously reached an agreement with Mediaset Spain to acquire the remaining 22% stake of Canal+. The acquisition was approved by the CNMC on April 23, 2015 and closed on April 30, 2015. This acquisition demonstrates Telefónica's focus on strengthening its content offering and continue pushing convergence through quadruple-play bundles. We expect this to have a significant impact on Pay TV penetration and awareness in Spain. As part of it's decision, the CNMC is requiring Telefónica to offer certain premium content to other telecommunications providers in Spain. Similar to FTTH deployment, we believe that Telefónica's Pay TV push will be a positive for our market, driving customer demand for higher value services and more bundling, potentially translating into higher ARPU. Given our network capabilities and existing and planned TV proposition, we should benefit from this trend.

All the above trends are showing signs of stabilization in the Spanish and Basque telecommunications markets after a period of significant market transition and revenue challenges. The reduction in the number of operators is favoring investments and more rational competitive behavior, as infrastructure investments require price discipline to achieve target returns. We are already witnessing a shift to higher prices both at Euskaltel and across the broader market.

Business

In the Basque Country, we estimate that there are approximately 135,000 SOHOs and 76,000 SMEs and Large Accounts. Similar to the residential segment, business revenue has been impacted by the economic downturn and aggressive pricing actions taken by Telefónica. The SOHO and SME segments are particularly sensitive to changes in broader economic conditions as smaller companies tend to have less flexibility and fewer resources to weather an economic downturn. In the Basque Country, specifically, the number of companies registered with the Social Security fell by 1,843 and 1,211 in 2012 and 2013, respectively. While the number of Large Accounts remained relatively stable during the recession, these companies were faced with reduced budgets. As a result, Large Accounts focused on reducing prices as much as possible, driving down revenues in the segment.

Increasingly, businesses are looking for ways to manage growing data needs. These customers require higher broadband speeds and innovative solutions such as Hosting and Housing, Virtual Data Centers, Cloud Collaboration Tools, Security Services (Cloud Firewall, AntiDDoS Service, Cloud Antivirus, and Internet of Things (Machine to Machine (M2M) Connectivity, Device Management)). Consequently, we are beginning to see a shift in customer focus from purely minimizing price towards maximizing services.

We expect that a rebound in this segment will lag a rebound in the residential segment as businesses were more greatly impacted during the recession. While this segment continues to face challenges, there are encouraging macroeconomic developments. The number of companies registered with the Social Security in the Basque Country has grown so far in 2015 with 624 new companies registered and the Harmonized Business Confidence Index is up 10% in the first quarter of 2015 year-over-year. This positive backdrop, coupled with the increasingly complex needs of our business clients should be positive for this segment of the market.

Technologies

The telecommunications and television needs of the consumers in the Spanish market are mainly addressed through PSTN (Public Switched Telephone Network), fiber/cable, mobile, satellite and DTT technologies.

PSTN

Telefónica has a PSTN that covers the majority of Spain for fixed-line services and fixed broadband (xDSL) services. As mentioned previously, Telefónica is also upgrading parts of its network to fiber to the node ("**FTTx**"), allowing it to offer higher speed broadband services.

As part of the regulation to increase competition in the sector, Telefónica was required to unbundle its PSTN local loops. Alternative telecommunications operators, such as Orange, Jazztel and Vodafone, are allowed to use Telefónica's copper-based network to provide their own services through a process referred to as "unbundling of the local loop" ("**ULL**"). ULL (ADSL) operators depend on Telefónica's network, which reduces their control over customer experience.

Telefónica uses it PSTN to provide voice and broadband services, as well as TV services via IPTV. IPTV is a technology through which digital TV services are delivered via internet protocol (IP) instead of traditional broadcasting methods like fiber or satellite. IPTV, as is the case with fiber, allows for interactivity, a difference that operators are focusing on when competing with satellite and DTT, both of which do not allow for interactive services.

Fiber/Cable

Fiber/cable allows operators to deliver the fastest speeds and most data to their customers. By bringing internet, phone services and TV into households through the same connection, fiber is key to success in a convergent market. Fiber operators are not dependent on using the footprint and can, therefore, directly influence the quality of service and the products offered to their customers. Furthermore, due to the use of hybrid fiber coaxial (HFC: fiber up to the terminal node and coaxial cable from the terminal node to the home), fiber operators are generally able to offer higher bandwidth broadband services than PSTN operators (twisted copper pair from central office to the home) and a greater choice of TV channels than offered via IPTV.

As mentioned previously, we have seen an increase in FTTH deployment by the main providers in Spain, in order to be able to compete with the speed and quality of services offered by existing fiber operators. We believe that there are a number of factors which could delay the fiber deployment plans of our competitors in Spain and in the Basque Country, including:

- the heavy capital investment required to deploy a fiber network;
- the typically lengthy administrative and regulatory process to obtain authorization to deploy the internal fiber optic cabling inside the buildings to the end-user premises (the "vertical access");
- the absence of a regulated framework to share the vertical access amongst fiber operators; and
- the associated uncertainties about the economics of investing in vertical access deployment.

Mobile

Mobile services on GSM standard (2G) 900 MHz frequency bands were introduced in Spain in 1995. In 2000, the Spanish regulator auctioned licenses for the next generation of mobile telephony at the time, UMTS (3G), operating in both the 900 MHz and 1,800 MHz bands.

In April 2011, the Ministry of Industry, Energy and Tourism (*Ministerio de Industria, Energía y Turismo*) ("**MIET**") announced three different public bidding procedures, including two tenders and one auction, in order to grant concessions in the 800 MHz, 900 MHz, 1800 MHz and 2.6 GHz bands, for the provision of next generation mobile services (LTE/4G). The license types offered were nationwide and regional (band 2.6 GHz).

According to the MIET's press release, a total of €1,647 million was raised for 51 frequency blocks. Through this process, we obtained a 4G/LTE license in the 2.6 GHz band for the provision of 4G services for a total price of €2.7 million (including taxes), and the rest of the mobile service providers were awarded concessions as follows:

- Telefónica invested €668 million for five blocks with a total of 70 MHz (2x10 MHz in the 800 MHz band; 2x5 MHz in the 900 MHz band; 2x20 MHz in the 2.6 GHz band).
- Vodafone invested €518 million for four blocks with a total of 60 MHz (2x10 MHz in the 800 MHz band and 2x20 MHz in the 2.6 GHz band).
- Orange invested €437 million for four blocks with a total of 60 MHz (2x10 MHz in the 800 MHz band and 2x20 MHz in the 2.6 GHz band).
- Other operators obtained mobile spectrum in the auction making limited investments (i.e., below €10 million), including ONO, Jazztel, R Cable and Telecable.

Spanish mobile network operators currently offer 4G, 3G, 3.5G services based on HSPA and HSPA+ technology and 2G services based on GSM and GPRS technology. 3G/3.5G and 4G allow for mobile data consumption, helping the mobile operators to offset the decline in revenue from traditional mobile voice and SMS services.

Satellite

Satellite (through a direct-to-home satellite multi-channel television service ("**DTH**")) has traditionally been the dominant alternative technology for Pay TV distribution in Spain. As of December 31, 2014, there were 1.6 million Spanish households subscribing to satellite Pay TV services, down from 2 million in 2008 (source: CNMC). After the 2003 merger of Vía Digital and Canal Satélite Digital, Prisa TV's Canal+ (formerly, Digital+) is the only participant in the market using satellite to distribute Pay TV services. DTS (which trades under the name Canal+) was acquired by Telefónica on May 6, 2014 and the acquisition was approved by the CNMC on April 23, 2015 and closed on April 30, 2015.

Digital Terrestrial Television

In its current form, Digital Terrestrial Television ("**DTT**") in Spain was launched in November 2005. The Spanish government supported the planned replacement of analog terrestrial television, which was previously the main form of free TV reception in the market. Furthermore, the government prepared a package of measures to prepare for an analog switch-off which was completed in April 2010. The government also required DTT operators to extend DTT coverage to 96% of the population by 2010 (98% for public TV networks) and required operators to use fully interoperable decoders in order to avoid the risk of customers being locked in. As a consequence of this transition process, customers now have a broader choice of channels they can access via DTT.

Pay DTT in Spain originated after the government passed legislation in August 2009 (Royal Decree-Law 11/2009) and March 2010 (Law 7/2010, of March 31, General on Audiovisual Communication). Under the legislation currently in force, national DTT broadcasters are allowed to provide total or partial Pay TV channels using up to 50% of the radio spectrum assigned.

Competition

There is significant competition in the Basque Country from established and new companies which provide broadband, Pay TV and telephony services to residential customers, data telecommunications and telephony services to SOHOs, SMEs and Large Accounts, as well as carrier services to other telecommunication operators.

The key considerations for consumers selecting a telecommunications provider include the ability to offer bundled services, the speed and reliability of broadband service and features such as interactive TV, as well as price. The table below outlines our estimated market share and the market share of other operators in the residential broadband, Pay TV and residential telephony markets in the Basque Country as of December 31, 2014:

	Euskaltel	Telefónica	Vodafone	Orange[(1)]	Yoigo
Residential					
Broadband	41%	35%	6%	18%	—
Pay TV	47%	47%[(5)]	—	5%	—
Fixed Telephony[(2)]	38%	43%	6%	13%	—
Mobile[(3)]	20%	34%	24%	15%	2%
Business[(4)]					
SOHO[(2)]	37%	~50%	~10%	~5%	—
Business	33%	~50%	~10%	~5%	—

Notes:

(1) Includes Jazztel market share (assumes successful completion of transaction).

(2) Based on homes/locations provisionable.

(3) Based on postpaid Mobile.

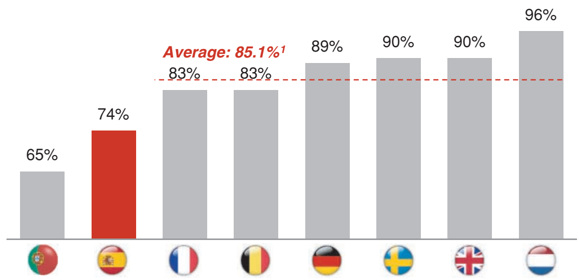
(4) Percentages represent estimated penetration of Euskaltel services in the Business segment.

(5) Including Canal+ market share as transaction has been approved by the CNMC, closing still pending.

Fixed Broadband Market

The total number of fixed broadband subscribers in Spain was 12.8 million in 2014 of which 10.4 million were residential and 2.5 million were businesses (source: CNMC). In the Basque Country, there were a total of 0.6 million broadband subscribers as at December 31, 2013. The fixed broadband penetration rate in Spain as of 2014 was approximately 74%, which was below the relevant cable market (i.e., Sweden, Belgium, Germany, UK, France, Netherlands and Portugal) average of 85%. The following table presents broadband penetration rates for selected European countries and the European Union average in 2014:

Fixed Broadband penetration 2014 (%)



Source: Eurostat.

(1) Average excluding Spain.

The Spanish market is primarily serviced by DSL-based technologies, which represent 70% of Spanish fixed-line broadband subscribers (as at December 31, 2014). Fiber (cable and FTTx) represented 29% of the Spanish market which has grown from 22% as at December 31, 2013. Within the fiber markets, FTTH has considerably increased in the 2012-2014 period, growing from 2.9% to 12.2% of the Spanish fixed-line broadband subscribers.

	Spanish fixed-line broadband subscribers development			
	Subscribers			Percent of total
	2012	2013	2014	
DSL	8,898,114	9,334,600	8,982,812	*70.0%*
Cable	2,161,514	2,141,822	2,205,492	*17.2%*
FTTx	336,719	626,678	1,564,413	*12.2%*
Other	120,650	138,966	81,340	*0.6%*
Total fixed broadband	**11,516,997**	**12,242,066**	**12,834,057**	***100.0%***

Source: CNMC.

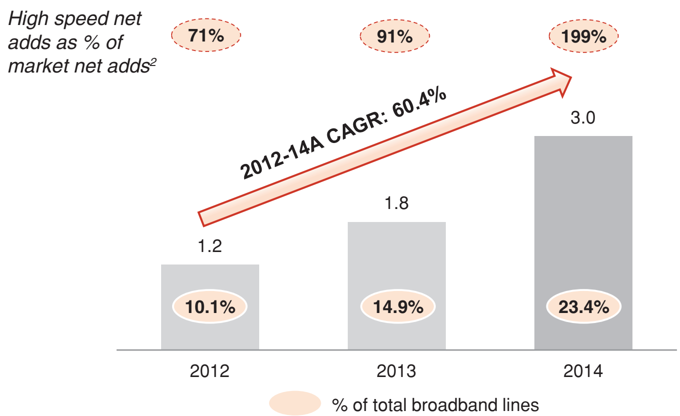
In the Basque Country, we see similar dynamics with ADSL representing 57% of total subscribers in 2013. From the broadband customers that we have lost, we have seen that the majority have switched to lower-priced and lower quality ADSL offerings. As market awareness regarding the benefits of fiber increases and consumer confidence rises on the back of improving macroeconomic dynamics, we expect to be well positioned to increase the share of total broadband subscribers in the region and reverse the trend vis-à-vis ADSL.

	Basque Country fixed-line broadband subscribers development		
	Subscribers		Percentage of total
	2012	2013	
DSL	334,612	362,132	*57.3%*
Cable	243,352	254,190	*40.2%*
FTTx	3,273	11,858	*1.9%*
Other	5,427	4,079	*0.6%*
Total fixed broadband	**586,664**	**632,259**	***100.0%***

Source: CNMC.

Another trend that we have observed relates to the increasing customer demand for higher speeds, as data consumption grows in the household. Penetration of high-speed broadband (lines capable of providing at least 30 Mbps) in Spain and in the Basque Country is still low compared to other European markets. This penetration rate is expected to increase rapidly in the coming years driven by the increasing demand for higher bandwidth at home and higher data consumption due to new uses (source: Cisco Visual Networking Index 2014-2019 White Paper). Increasing demand for more bandwidth and connectivity is expected to be driven by increasing penetration of connected devices (such as smartphones and tablets), growth in non-linear TV, including the rise in video-streaming services, boost of UHD and other trends such as online gaming, home security and smart home.

High speed (≥30Mbps) broadband lines evolution in Spain (millions)(1)



Source: CNMC.

(1) 2012 and 2013 data from CNMC 2012 and 2013 Annual Reports; 2014 from CNMC 4Q14 Quarterly Report.

(2) 30Mbps or higher; 2012: 0.4m high speed net adds over 0.6m total market net adds; 2013: 0.7m high speed net adds over 0.7m total market net adds; 2014: 1.2m high speed net adds over 0.6m total market net adds.

This is a positive trend for fiber operators, given their technological advantage over DSL participants. Following the deployment of Docsis 3.0 technology, fiber operators are now able to offer speeds well above 100 Mbps, which DSL providers will not be able to match without investing in FTTx. Our network allows us to offer differentiated products with ultra-high speeds currently up to 350 Mbps across the entire Basque Country, which cannot be matched by our DSL (due to lower speeds) and FTTH (due to lower coverage) competitors. The deployment and customer adoption of FTTH over a significant share of the Spanish territory is likely to be a lengthy process, giving us an important time-to-market advantage in the Basque Country compared to our main competitors.

Pay TV Market

The Spanish Pay TV market generated €1.7 billion in revenue and there were 5.1 million Pay TV subscribers in Spain as of December 31, 2014. In the Basque Country, there were 201,678 Pay TV subscribers in 2013, and Pay TV penetration was 9.3% (source: CNMC).

Our television services compete against Spain's free DTT nationwide, regional and local channels. In addition, in the Pay TV market, we compete against the combined Canal+/"Movistar TV", a combination of Telefónica's existing Pay TV platform offered over ADSL/fiber and Canal+ over satellite/DTH. The combined Canal+/"Movistar TV" Pay TV platforms have significant market presence and exclusive access to certain premium television content.

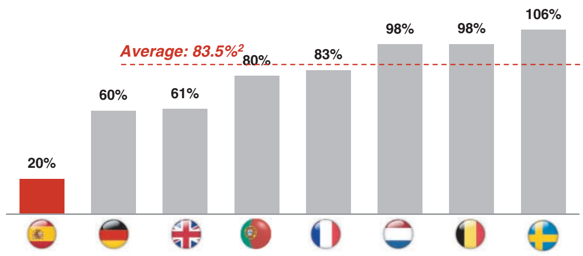
During 2014, IP technology has become the most subscribed Pay TV technology, increasing from 21% of subscribers in 2013 to 39% of subscribers in 2014. Satellite TV has historically been the most subscribed technology but has decreased from 48% in 2008 (peak year) to 31% of total Pay TV subscribers in Spain in 2014. In the Basque Country, approximately 50% of the Pay TV market is delivered through satellite (source: Company estimates based on CNMC data).

	Pay TV subscribers development			
	Spain			
	2012	2013	2014	Percent of total
Satellite (DTH)	1,719,919	1,620,632	1,553,010	*30.7%*
Cable	1,366,665	1,236,306	1,141,008	*22.5%*
IPTV (FTTH+DSL)	786,582	817,154	1,990,972	*39.3%*
DTT	290,246	237,178	231,406	*4.6%*
Other	14,191	28,399	143,575	*2.8%*
Total Pay TV	**4,177,603**	**3,939,669**	**5,059,977**	***100%***

Source: CNMC.

Pay TV penetration is significantly lower in Spain relative to other European countries, primarily as a result of the attractive content available over free DTT, the relatively high entry price points that made Pay TV a premium product and the lack of advanced TV functionality. Pay TV penetration in Spain was 20% in 2014 versus the relevant cable market (i.e., Sweden, Belgium, Germany, UK, France, Netherlands and Portugal) average of 84% as shown in the following table, which presents Pay TV penetration rates for relevant cable markets in selected European countries and the European Union average in 2014 (source: KNL Kagan, 2015). Going forward we expect Pay TV penetration levels in Spain to increase, primarily driven by the macroeconomic recovery, the lowering Pay TV entry price points embedded in convergent offerings and the enhancement of the TV customer experience through a combination of attractive Pay TV content and added functionality of next generation TV services.

European Pay TV penetration, 2014E(1)



Source: SNL Kagan 2015.

(1) Pay TB subscribers as % TV households as of 2014E.

(2) Average excluding Spain.

The most significant competitor in the Spanish Pay TV market is DTS, trading under the name Canal+, and which was owned by Prisa TV until recently. Prisa TV was however not able to offer interactive or bundled services tied to Canal+ using only satellite technology, although historically they established multiple commercial agreements with several market operators, such as Orange, Jazztel and Vodafone, to promote their platform. Following Telefónica's acquisition of Canal+, this hurdle is eliminated and Canal+ premium content can be more seamlessly integrated within bundle offerings by Telefónica. We believe that Telefónica's commercial push to offer attractively priced Pay TV offerings as part of its "Movistar Fusión" bundles is helping increase penetration and awareness of Pay TV services in the Spanish market, a trend we are benefiting from.

As a result of its acquisition of Canal+, Telefónica has significant market presence and concentrated ownership of premium television content rights. The CNMC consequently imposed certain conditions on Telefónica before approving the transaction to ensure access to its content to third-party providers of Pay TV services on fair, transparent and equitable terms. These conditions included wholesale access by other Pay TV operators to 50% of Telefónica's premium channels, as selected by each Pay TV operator from the whole of Telefónica's premium channels portfolio. The wholesale offer of premium channels would include first window for Majors' movies and premium sports such as the Spanish League, Spanish Cup, Champions League, Football World Cup, Formula 1, Moto GP, Olympic Games and Basketball World Cup. Wholesale prices would ensure that other Pay TV operators can replicate Telefónica's offerings, avoiding potential margin squeeze situations. Our ability to access 50% of Telefónica's premium content on a wholesale basis would offer us an opportunity to enrich the content we offer in our bundles, enhancing our overall commercial proposition with a resulting potential positive impact on our number of subscribers and potential ARPU increase and churn reduction. However, it cannot be ruled out that conditions imposed by the CNMC on Telefónica may not prove sufficient to avoid a significant increase in the acquisition cost of certain contents by us, although said contents are not to be considered key in the television service, in terms of number of customers and direct revenues.

At present, the other national operators do not have differentiated Pay TV offerings, although this situation could change following their ability to access 50% of Telefónica's premium content on a wholesale basis. Orange entered the Spanish IPTV market in July 2007 when Orange acquired Deutsche Telekom's internet service provider Ya.com, including its IPTV service, and is now pushing its Orange TV platform. Jazztel operated an IPTV service named "Jazztelia", which failed to gain traction in the market. As a result, Jazztel stopped offering the service to new customers in 2010, and reached an agreement with

Canal+ to offer its Pay TV product bundled with telephony and broadband services. Vodafone has adopted the Pay TV offering of ONO, which is based on the TiVo platform.

Mediapro and Al Jazeera also jointly announced that they would launch beIN Sports in Spain on August 1, 2015 featuring major international football competitions such as the UEFA Champions League and the Europa League, among other sports. We believe that content owners have an economic interest in monetizing their rights across as many platforms as possible.

Recently, the market has seen an increase in smaller over-the-top ("**OTT**") operators such as Wuaki or Filmin as well as national online TV providers (Telefónica and Orange). The entrance into the market from international online TV providers such as Netflix or Amazon could pose a threat to Telefónica as the incumbent provider, but we view this as a potential opportunity for Euskaltel given the intended flexibility of our new set top boxes and our current position as a content buyer. OTT providers will help drive demand for ultra-fast speed, higher data requirements and "open" TV platform.

Functionality is also increasingly important in the Spanish market and we offer a wide selection of services to our customers, including TV Everywhere, VoD and PVR functionalities. While our current offering is similar to those of our competitors, we plan to launch a new STB later this year or early next year, which aims to significantly enhance the consumer Pay TV experience and will be differentiated in the market.

Mobile Market

As of December 31, 2014, there were 50.8 million mobile telephony lines (excluding mobile broadband data cards) in Spain, implying a penetration rate of 109% of the population (source: CNMC). In the Basque Country, this penetration level was 75% in 2013, up from 73% in 2012.

The Spanish market is mainly served by five operators: Telefónica, Vodafone, Orange, Yoigo, and Jazztel. We operate as a full MVNO as a result of our agreement with Orange and have seen significant subscriber growth over the past few years: our mobile postpaid subscribers grew 20% and 22% in 2013 and 2014, respectively. The acquisition of ONO and proposed acquisition of Jazztel significantly decreases the size and number of operators in the MVNO market in Spain. This could have a number of impacts on our business as customers are faced with fewer mobile alternatives. Additionally, it is possible that the existing regulatory framework for network access for MVNOs may be altered given the loss of relevance from MVNOs in the context of the overall market.

According to CNMC, the Spanish retail mobile communications (voice and broadband) market generated revenues of approximately €9.8 billion in the year ended December 31, 2014, down from €12.3 billion in the year ended December 31, 2012. The decline in revenues was mainly due to competitive pressures (lower retail prices), subscribers moving towards Yoigo and MVNOs, perceived to have more affordable offers, and declines in regulated mobile termination rates ("**MTR**"). Further MTR reductions came into effect following the CNMC's approval in May 2012 of a timetable for the gradual decrease in MTR in line with the European Commission's applicable policies.

In mobile, despite not owning a network nor operating as a full MVNO, we are the #3 mobile services provider in the Basque Country, very close to the #2 provider, Vodafone. The importance of mobile to the convergent bundled offering has increased. Currently, 67% of bundled offerings in Spain have mobile included, up from 24% in 2012 (source: CNMC and note 1P only assumes fixed broadband to calculate total market). Mobile is a powerful customer loyalty and satisfaction tool and significantly reduces customer churn levels. Churn rates within our residential fixed subscribers are over three times lower when the customer subscribes to a mobile line. We have driven adoption of mobile by introducing attractive offerings such as the "Tarifa Family". As of March 31, 2015, 53% of our fixed subscribers have mobile services with Euskaltel, which is significantly lower than peers like Jazztel, with an 81% penetration of its fixed broadband customer base, Telefónica with 73% and Orange with 79%. We see this as a significant opportunity for us.

Mobile Broadband

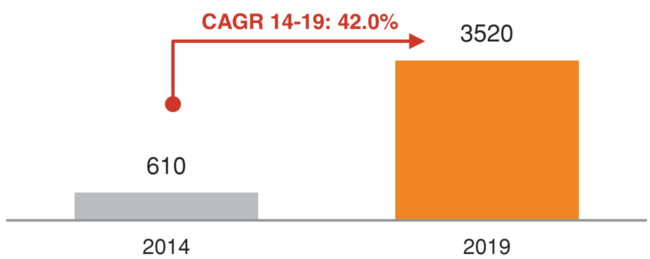
The Spanish mobile broadband market is relatively young. Orange, Telefónica and Vodafone all launched HSDPA (high-speed downlink packet access) services in 2006. The most widely used mobile broadband devices in Spain are smartphones (with 59% penetration in Spanish homes) and tablets (with 28% penetration).

Vodafone, Orange and Yoigo officially launched 4G services between May and July of 2013, and Telefónica followed suit in September of 2013. The four operators have continued to expand their 4G coverage since then and have also announced further investment plans in this respect.

Mobile operators are deploying aggressive campaigns to increase the uptake of this service in their customer base. Mobile broadband is mostly priced at flat rates. However, typically commercial offerings in Spain tend to include a cap on the maximum broadband consumption due to limited mobile network and spectrum capacity and speeds are lower than for fixed broadband.

Mobile broadband is expected to become increasingly prominent in the future as advanced mobile standards such as LTE/4G become mainstream and foster an increasing demand for mobile data services. We hope to use our frequencies in 4G to look for cost efficiencies and additional revenues. According to CISCO Visual Networking Index, overall mobile traffic demand in Spain is expected to increase by 6.6x from 2014 to 2019, with mobile traffic per user expected to grow at a CAGR of 42% over the same period.

Mobile traffic per user in Spain (Megabytes per month)



Source: Cisco Visual Networking Index 2014-2019 White Paper.

A number of telecommunications and cable operators across Europe have rolled out WiFi offerings to enhance their mobility proposition and address the increasing demand for mobile data. Companies such as Telenet, BT, Deutsche Telekom, and recently Vodafone have rolled out plans to provide their customers with WiFi hotspots outside the home. Users who share their home WiFi with other users are granted access to millions of hotspots worldwide and free of charge. This has allowed for offloading some mobile bandwidth needs to WiFi, which is proving an effective complement to mobile networks. This offering also improves the attractiveness of the providers' bundled offerings and increase customer loyalty as a result.

Residential Telephony

The Spanish retail fixed line telephony market generated revenues of approximately €3.5 billion in the year ended December 31, 2014, down from €4.8 billion in the year ended December 31, 2012 (source: CNMC). In line with the general trend across Western Europe, this largely saturated market is declining due to substitution with mobile communication and VoIP-based technology.

Fixed-line telephony in Spain is primarily based on the analog and digital access lines of the incumbent telephone network and the access lines of fiber operators. Telefónica is the primary provider of direct access telephony services to residential customers and the only infrastructure operator to widely offer direct access telecommunications services to residential customers in Spain.

Telefónica has a 43% market share position in the residential telephony segment in the Basque Country. We maintain a 38% market share position (source: Company estimates based on CNMC data). The other national providers are also present in the Basque Country but have minimal market share positions of 13% and 6% for Orange and Vodafone, respectively (source: CNMC).

There has been a shift throughout Spain and in the Basque Country among residential subscribers away from fixed-line telephony to mobile technology, causing residential fixed subscribers to fall. This shift has been driven by decreasing mobile prices and the introduction of technologies such as voice over IP ("**VoIP**"), voice over LTE and programs like Skype and Whatsapp.

SOHOs

SOHOs comprise a significant proportion of Basque companies so they are an important market as a whole. Telefónica is our principal competitor in the SOHO segment of the market. Other competitors include Vodafone and Orange however these providers have small market shares in this segment (10% and

5%, respectively) as it seems that the majority of SOHOs consider their offering to be insufficient for their needs. This segment is primarily driven by communication services, but SOHOs are increasingly demanding more sophisticated services driven by data. Our network allows us to deliver high quality services and we are focused on customer care. We have a dedicated salesforce that is proactive in sourcing business and specific SOHO dedicated call centers, both of which are differentiated in this market.

SMEs and Large Accounts

SMEs and Large Accounts require tailored solutions to meet their specific, highly technical and individual needs. In the Basque Country, this segment of the market is split between us and Telefónica as most SMEs and Large Accounts demand tailored data solutions that require proprietary fiber networks for their delivery. We have a long track-record of serving businesses in the Basque Country, given our history and differentiated infrastructure. Created by the Basque government and three savings banks to own and manage the Basque fiber network, we were the natural provider of services to Basque government entities and corporates. Our association with the Basque Country and our ability to deliver highly complex solutions over our superior network has allowed us to achieve 33% penetration within our SME and Large Account footprint (source: INE).

We believe that SMEs are underserved in our market. These customers tend to have a workforce of 10-40 employees and require more sophisticated offerings than the residential and SOHO segments. However, they seldom need solutions as vast as Large Accounts. Because the revenues generated by this segment are smaller than either the SOHO or Large Account segments of the business market, they often do not receive significant attention from our competitors.

Large Accounts tend to be smaller in the Basque Country (around €250,000 telecom spend per year) versus other, larger markets and government entities represent a significant portion of revenues in this segment. Telefónica is our principal competitor in providing data services to large corporations and public sector entities. These customers tend to be high quality and stable with a relatively large telecom spend, disciplined payments, long-term contracts. While the number of companies in this segment has remained relatively flat in the Basque Country, revenues have come under pressure over the last years as a result of aggressive price cuts by Telefónica and austerity measures implemented by the Spanish and regional governments.

Wholesale and Other

We provide communications services including leased lines, data and voice services to other telecommunications operators that use our facilities and infrastructure to provide services to their customers. We offer services to other operators aiming to use our excess data or voice capacity on our network. We provide Leased Lines services in SDH and Ethernet technologies, LDF, Voice Services (that allow carriers to complete their end-user calls that originate or terminate within our territory) and Enabling Services, based in our Business Support Systems (BSS) and Mobile Network. In addition, we offer services such as collocation and voice resale. This segment has been impacted by consolidation and regulatory changes. With fewer operators in the market unifying their networks and services, there is less demand to hire third-party services. The decline of termination rates in both fixed and mobile have been driven by European Union regulations and have seen meaningful reductions over the last few years. This had a significant impact on mobile network operators in particular. We face competition from Telefónica over communications services and from other telecommunications operators over Enabling Services. While pressures on wholesale prices in transit and termination do not impact us directly, we were required to lower prices to compete.

REASONS FOR THE OFFERING

The Offering is expected to provide the Company with a diversified base of international shareholders and improved access to public capital markets (including for debt instruments) that could make it easier for us to obtain financing to be used for the future growth of our Company. In addition, it is hoped that the Offering will further enhance our brand recognition, transparency and prestige as a result of being a listed company. The Offering will also provide an opportunity for the Selling Shareholders to recover all or part of their investment in the Company.

We believe that the Offering will enable us to expand the number of shareholders so as to reach a free float of between 62.2% (assuming no exercise of the Over-allotment Option) and 68.6% (assuming the Over-allotment Option is exercised in full) of the total issued share capital of the Company upon Admission (both calculated on the basis that the Offer Price is the mid-point of the Offer Price Range and excluding ordinary shares to be delivered by the Company to certain of its managers and employees), higher than the minimum threshold of distribution of the Company's ordinary shares required for their admission to trading on the Spanish Stock Exchanges and on the AQS (which, in accordance with Spanish Royal Decree 1310/2005, of November 4, and subject to certain exceptions, involves reaching a free float of at least 25% of the shares admitted to trading).

We will not receive any proceeds for the sale of the Shares by the Selling Shareholders in the Offering.

DIVIDENDS AND DIVIDEND POLICY

Dividends and Dividend Policy

Holders of ordinary shares will be entitled to receive future dividends which are declared on the basis set out in the bylaws.

The Company intends to commit to an attractive distribution policy following Admission whereby it will return excess cash to shareholders in order to remain within its target leverage ratio of 3.0x to 4.0x net debt to Adjusted EBITDA. Our Board of Directors may distribute capital to shareholders in the form of dividends and/or in other forms, including via share buy-backs, so that we remain in our target leverage ratio. Our ability to declare and pay dividends/distribute capital will depend, amongst other things, on potential acquisitions that the Company may undertake. While the Company is currently not involved in any acquisition process, it is possible that an acquisition could materialize in the next 12 to 18 months and, if so, this could have a material impact on our capital structure and leverage levels, interest expense and future shareholder remuneration and dividends. If the Company does not undertake acquisitions in the next 12 to 18 months, the Company intends to revisit the optimal leverage within its target leverage ratio. If the Company were to undertake acquisitions, our ability to distribute dividends would be affected by the restrictions contained in the Facilities Agreement, which contains a financial covenant (tested twice annually) which requires that the Leverage Ratio does not exceed 4.5:1.0, provided that such ratio will be automatically increased to 5.5:1.0 during any period commencing on the date on which the Company makes (and designates as such) a permitted acquisition for total consideration of at least €250,000,000 and ending on the date falling 18 months after the date of completion of such acquisition. See "*Material Contracts—Facilities Agreement*". In such case, the Board of Directors intends to revisit the above policy according to factors deemed relevant at the time.

As at the date of this Prospectus, other than as described in "*—Legal and regulatory requirements*" below, there are no legal and contractual obligations which may prevent the Company from executing this policy and an ordinary dividend of up to 100% of profit for the year may be distributed each year. However, our ability to distribute extraordinary dividends (meaning dividends paid other than out of our profit for the year arising from ordinary activities) or share buy-backs is subject to the limitations described in "*—Dividends and our financing arrangements*" below. Our ability to declare and pay dividends in the future will also depend on the performance and prospects of our business, our capital structure and financing needs, general and capital market conditions, and other factors that our Board of Directors and shareholders may deem relevant at the time, as well as the applicable legal restrictions and restrictions contained in our financing arrangements, as described below.

Our expectations in relation to dividends, distributable reserves, business performance and market conditions are subject to numerous assumptions, risks and uncertainties, which may be beyond our control. For a discussion of risks faced by our business, see "*Risk Factors*".

On December 14, 2011, the Board of Directors approved the distribution of an interim dividend of profits for 2011 in the amount of €5 million, equivalent to €0.92 per ordinary share (at the time the Company's share capital was represented by 5,420,000 ordinary shares). Such dividend was distributed to the shareholders as a combination of 28,898 ordinary shares valued at €4.4 million and a cash payment of €0.6 million.

As at the date of this Prospectus, the Company has not distributed any further dividends. However, as set forth above, the Company considers that an optimized capital structure for the Company would imply a leverage ratio of 3.0x to 4.0x net debt to Adjusted EBITDA. The Company further considers that the manner to achieve such optimized capital structure is to increase the Company's existing indebtedness as well as paying out an extraordinary dividend to its existing shareholders. Accordingly, with the aim of achieving a leverage ratio of approximately 3.0x net debt to Adjusted EBITDA (based on Adjusted EBITDA of €156.3 million for the twelve months ended March 31, 2015):

- on or about June 29, 2015 and in any event prior to Admission, the Company will incur €470 million of new debt under the Term Facilities (plus an additional €30 million will also be available to us under the Revolving Credit Facility) (see "*Material Contracts—Facilities Agreement*"); and
- on or about June 29, 2015 and in any event prior to Admission, the general shareholders' meeting of the Company will approve the distribution of an extraordinary dividend to the Selling Shareholders in an amount of between €193.3 million to €209.2 million, equivalent to between €1.53 and €1.65 per ordinary share (calculated on the basis of the Offer Price Range).

The Company expects that this extraordinary dividend will be paid out to the Selling Shareholders on or around June 29, 2015. Purchasers of ordinary shares in the Offering will not be entitled to any part of this extraordinary dividend. The final amount of this extraordinary dividend will depend, among other things, on the amount that the Company is required to pay in order to settle its obligations under the Management Incentive Plans (see "*Management and Board of Directors—Management Incentive Plans*") and the Investment Agreements (see "*Related Party Transactions*"). Such amount payable by the Company to settle the Management Incentive Plans and the Investment Agreements will be calculated on June 29, 2015 based on the Offer Price. Such amount will be deducted from a total of €247.9 million (representing the total amount to be applied by the Company to settle its obligations under the Management Incentive Plans and the Investment Agreements and to pay the extraordinary dividend and assuming the Offer Price is the mid-point of the Offer Price Range), with the resulting difference being the final amount to be distributed as an extraordinary dividend. For more information, see "*Capitalization and Indebtedness*".

Dividends and our financing arrangements

The Facilities Agreement contains covenants that impose restrictions on the Company's ability to pay extraordinary dividends (meaning the payment of a dividend other than out of our profit for the year arising from ordinary activities) or making share buy-backs (with extraordinary dividends permitted if the Leverage Ratio, calculated on a pro forma basis after giving effect to the payment of such dividend, is equal to or less than 4.0:1.0).

Legal and regulatory requirements

The Company's capacity to distribute dividends may be restricted under general Spanish corporate laws and regulations.

Our ability to pay dividends or repurchase our shares will depend on the availability of distributable reserves which in turn will depend on our results and other factors such as our profitability and cash flow generation. We expect that upon completion of the Offering we will have no significant distributable reserves. Accordingly, our ability to make a distribution to shareholders will depend on our ability to generate net profits in future periods in order to achieve sufficient distributable reserves. The conditions under which the Company may declare dividend distribution under Spanish law and our bylaws are described under "*Description of Share Capital—Dividend and Liquidation Rights*" and *"Description of Share Capital—Share Repurchases*".

Taxation on dividends under Spanish law

Under current tax legislation, any distributions made in the future will be subject to tax under Spanish law. See "*Taxation*" for a discussion of certain aspects of taxation of dividends.

CAPITALIZATION AND INDEBTEDNESS

The table below sets out our capitalization and net financial indebtedness as of March 31, 2015 and as of March 31, 2015 as adjusted for: (a) the incurrence of €470 million of debt under the Term Facilities (see "*Material Contracts—Facilities Agreement*"); and (b) the application of the proceeds of the Term Facilities, as further described below. This table should be read in conjunction with "*Operating and Financial Review*" and our Financial Statements included elsewhere in this Prospectus.

	As of March 31, 2015	Adjustments[1]	As of March 31, 2015 (as adjusted)[1]
		(unaudited) (€ in thousands)	
Total current debt[2]	**110,077**	**(53,204)**	**56,873**
Of which, guaranteed	—	—	—
Of which, secured	—	—	—
Of which, unguaranteed/unsecured	110,077	(53,204)	56,873
Total non-current debt (excluding current portion of long-term debt)[3]	**210,512**	**253,038**	**463,550**
Of which, guaranteed	—	—	—
Of which, secured	—	—	—
Of which, unguaranteed/unsecured	210,512	253,038	463,550
Shareholders' equity	**648,549**	**(233,194)**	**415,355**
Share capital	379,613	—	379,613
Legal reserve	32,534	—	32,534
Other reserves	236,402	(233,194)	3,208
Total	**969,138**	**(33,360)**	**935,778**
Cash	3,054	(3,054)	—
Cash equivalent	9,887	(9,887)	—
Trading securities	—	—	—
Total liquidity	**12,941**	(12,941)	—
Current financial receivable	—	—	—
Current bank debt	—	—	—
Current portion of non-current debt	50,000	(50,000)	—
Other current financial debt	3,204	(3,204)	—
Total current financial debt	**53,204**	**(53,204)**	**—**
Net current financial indebtedness	**40,263**	**(40,263)**	**—**
Non-current bank loans	181,667	288,333	470,000
Bonds issued	—	—	—
Other non-current loans	6,876	(6,876)	—
Total non-current financial indebtedness	**188,543**	**281,457**	**470,000**
Net financial indebtedness[4]	**228,806**	**241,194**	**470,000**
Net financial indebtedness/total equity and liabilities	23.61%	—	50.23%
Net financial indebtedness/shareholders' equity	35.28%	—	113.16%

Notes:

(1) Adjusted for the incurrence of €470m of debt under the Term Facilities and the application of the proceeds of the Term Facilities as well as €12.9 million of the total liquidity as of March 31, 2015 plus the cash that the Company has generated between April 1, 2015 and the date of this Prospectus, which, as of the date of this Prospectus, is estimated at €21.2 million, as follows:

(a) repayment of our current bank debt in the amount of €50.0 million (does not include formalization costs);

(b) repayment of our other current financial debt in the amount of €3.2 million;

(c) repayment of our non-current financial debt in the amount of €181.7 million (does not include formalization costs);

(d) repayment of our interest rate swaps in the amount of €6.9 million. This cost, net of a tax impact of 28%, would reduce the profit of the 2015 fiscal year and has been recognized in the adjusted Shareholders' Equity caption;

(e) payment of fees and expenses in connection with our entry into the Facilities Agreement in the amount of €3.8 million (calculation assumes full accounting impact of these expenses at the time of the Offering although, in practice, they will be capitalized and annually amortized (passed through our income statement) considering an amortization period in line with the average life of the Facilities). This cost, net of a tax impact of 28%, would reduce the profit of the 2015 fiscal year and has been recognized in the adjusted Shareholders' Equity caption;

(f) payment of advisory costs and expenses in connection with the Offering in the amount of €7.0 million. This cost, net of a tax impact of 28%, would reduce the profit of the 2015 fiscal year and has been recognized in the adjusted Shareholders' Equity caption;

(g) purchase of ordinary shares in the Offering for the purposes of the Employee Share Scheme in an amount of €3.7 million (assuming that the Offer Price is the mid-point of the Offer Price Range);

(h) payment of €247.9 million (the difference between (A) the proceeds of €470 million of the Term Facilities plus €12.9 million of the total liquidity as of March 31, 2015 plus the cash that the Company has generated between April 1, 2015 and the date of this Prospectus which, as of the date of this Prospectus, is estimated at €21.2 million and (B) the payments referred to in notes (a) to (g) above) as follows:

(x) payment of our obligations under the Management Incentive Plans and Investment Agreements (comprising a cash payment and the facilitating of the beneficiaries' reinvestment of part of the compensation due to them in ordinary shares of the Company, which the Company will arrange by acquiring Shares in the Offering) in an amount of €46.8 million (assuming that the Offer Price is the mid-point of the Offer Price Range). The Management Incentive Plans and Investment Agreements will be accounted as a cost, which net of a tax impact of 28%, would reduce the profit of the 2015 fiscal year and has been recognized in the adjusted Shareholders' Equity caption; and

(y) payment of an extraordinary dividend to our Selling Shareholders in an amount of €201.1 million on the basis of the amount referred to in note (x) above. This dividend will be paid against the existing distributable reserves.

The amounts payable under the Management Incentive Plans and the Investment Agreements on the one hand and as extraordinary dividend on the other hand are linked such that every additional euro paid under the Management Incentive Plans and the Investment Agreements will reduce the total amount to be paid as extraordinary dividend, and vice versa. However, payments under the Management Incentive Plans and the Investment Agreements are tax deductible while in the case of a dividend payment, such tax deduction would not apply.

The amount payable by the Company under the Management Incentive Plans and the Investment Agreements set forth in note (x) above has been calculated on the basis that, upon completion of the Offering, an "exit event" will occur under the Management Incentive Plans and the Investment Agreements, which means the Management Incentive Plans and the Investment Agreements will be liquidated in full. Conversely, at the time of formulating our 2015 Interim Financial Statements, an "exit event" under the Management Incentive Plans and the Investment Agreements upon completion of the Offering was merely considered to have a 50% probability based on the Company's expectations at the time of formulating our 2015 Interim Financial Statements. In our 2015 Interim Financial Statements, we already recognized €24.7 million under the caption "non-current liabilities" for our obligations under the Management Incentive Plans and the Investment Agreements. Such provision will be cancelled after the Management Incentive Plans and the Investment Agreements will be liquidated following the Offering. See Note 12 to our 2015 Interim Financial Statements and "*Management and Board of Directors—Management Incentive Plans*" for further information.

(2) Corresponds to the caption "current liabilities" in the balance sheet included in our 2015 Interim Financial Statements.

(3) Corresponds to the caption "non-current liabilities" in the balance sheet included in our 2015 Interim Financial Statements.

(4) Net financial indebtedness also includes €6.9 million of interest rate swaps.

Post-Offering capitalization and indebtedness

Upon completion of the Offering, our refinancing arrangements under the Facilities Agreement will become effective which will create total new bank debt of €470 million (comprising the Term Facilities) and enable us to releverage our business to approximately 3.0x net debt to Adjusted EBITDA (based on Adjusted EBITDA of €156.3 million for the twelve months ended March 31, 2015). In addition to the Term Facilities, we will have €30 million available under our new Revolving Credit Facility.

We expect to use this new debt as well as €12.9 million of the total liquidity as of March 31, 2015 plus the cash that the Company has generated between April 1, 2015 and the date of this Prospectus, which, as of the date of this Prospectus, is estimated at €21.2 million as follows:

- repayment of our outstanding bank debt (which amounted to €232 million as of March 31, 2015);
- payment of an extraordinary dividend to the Selling Shareholders in an amount of between €193.3 million and €209.2 million(1) (such extraordinary dividend includes €12.9 million of the total liquidity as of March 31, 2015 plus the cash that the Company has generated between April 1, 2015 and the date of this Prospectus which, as of the date of this Prospectus, is estimated at €21.2 million);

- payment of our obligations under the existing Management Incentive Plans and the Investment Agreements in an amount of between €39.1 million and €54.3 million(1) (comprising a cash payment and the facilitating of the beneficiaries' reinvestment of part of the compensation due to them in ordinary shares of the Company, which the Company will arrange by acquiring Shares in the Offering);
- purchase of ordinary shares in the Offering for the purposes of delivering ordinary shares to certain of the Company's employees under the Employee Share Scheme in an amount of between €3.3 million and €4.0(1) million;
- payment of advisory costs and expenses in connection with the Offering, which we estimate to amount to €7.0 million;
- repayment of our interest rate swaps (which amounted to €6.9 million as of March 31, 2015);
- repayment of our other current financial debt (which amounted to €3.2 million as of March 31, 2015); and
- payment of fees and expenses in connection with the entry into the Facilities Agreement, which we estimate to amount to €3.8 million.

Note:

(1) Range calculated on the basis that the Offer Price is (a) the low point of the Offer Price Range and (b) the high point of the Offer Price Range. The Offer Price Range is indicative only and the Offer Price may be set within, above or below the Offer Price Range.

SELECTED FINANCIAL AND OPERATING INFORMATION

The selected financial information as of and for the years ended December 31, 2014, 2013 and 2012 and as of and for the three months ended March 31, 2015 and 2014 prepared in accordance with IFRS-EU and presented below has been derived from, and should be read together with, our Financial Statements included elsewhere in this Prospectus. The selected financial information as of and for the years ended December 31, 2014, 2013, and 2012 and as of and for the three months ended March 31, 2015 and 2014 prepared in accordance with Spanish GAAP and presented below has been derived from, and should be read together with, our Spanish GAAP Financial Statements incorporated by reference in this Prospectus. See "*Presentation of Financial and Other Information*" for further information on our Financial Statements and our Spanish GAAP Financial Statements. In addition, the selected financial and unaudited operating information set out below is a summary only. It may not contain all the information that is important to prospective investors and, accordingly, should be read in conjunction with "*Presentation of Financial and Other Information*", "*Capitalization and Indebtedness*", "*Operating and Financial Review*", "*Risk Factors*", the Spanish GAAP Financial Statements incorporated by reference in this Prospectus and the Financial Statements included elsewhere in this Prospectus.

1. Income statement under IFRS-EU

	Three months ended March 31,		Year ended December 31,		
	2015	2014	2014	2013	2012
	(unaudited)				
	(€ thousands)				
Revenue	78,437	77,959	315,109	329,148	338,542
Other income	126	71	331	559	819
Work performed by the entity and capitalized	1,047	1,555	5,721	5,184	3,439
Supplies	(17,487)	(17,965)	(71,524)	(73,018)	(76,916)
Personnel expenses	(5,839)	(8,089)	(30,318)	(34,379)	(31,708)
Other operating expenses	(19,015)	(16,332)	(64,612)	(70,946)	(92,217)
Depreciation, amortization and impairment	(19,874)	(19,664)	(81,508)	(83,243)	(75,889)
Results from Operating Activities	**17,395**	**17,535**	**73,199**	**73,305**	**66,070**
Net Finance Cost	(15,906)	(6,226)	(23,264)	(15,939)	(12,725)
Income tax	(248)	(2,988)	(13,152)	(15,072)	(13,220)
Profit for the Period	**1,241**	**8,321**	**36,783**	**42,294**	**40,125**

2. Balance sheet under IFRS-EU

	As at March 31, 2015	As at December 31, 2014	2013	2012
	(unaudited)			
	(€ thousands)			
Assets				
Non-current assets	911,297	921,542	973,003	1,017,651
Current assets	57,841	56,785	48,759	45,664
Total assets	**969,138**	**978,327**	**1,021,762**	**1,063,315**
Equity and Liabilities				
Equity	648,549	647,490	614,613	572,896
Non-current liabilities	210,512	212,949	223,829	284,571
Current liabilities	110,077	117,888	183,320	205,848
Total Equity and Liabilities	**969,138**	**978,327**	**1,021,762**	**1,063,315**

3. Cash flow statement under IFRS-EU

	Three months ended March 31,		Year ended December 31,		
	2015	2014	2014	2013	2012
	(unaudited)				
			(€ thousands)		
Profit for the year before tax	1,489	11,309	49,935	57,366	53,345
Adjustments(1)	36,357	26,296	105,501	97,335	91,307
Changes in operating assets and liabilities	(8,686)	(9,997)	(12,581)	1,049	(226,170)
Other cash flows from operating activities	(652)	(1,809)	(16,497)	(14,173)	(12,335)
Net cash flows from/(used in) operating activities	**28,508**	**25,799**	**126,358**	**141,577**	**(93,853)**
Net cash used in investing activities	**(11,150)**	**(11,065)**	**(37,247)**	**(49,901)**	**(126,784)**
Net cash flows (used in)/from financing activities	**(15,067)**	**(19,829)**	**(84,750)**	**(85,614)**	**164,410**
Cash and cash equivalents at beginning of period	10,650	6,289	6,289	227	56,454
Cash and cash equivalents at end of period	12,941	1,194	10,650	6,289	227
Net cash increase/(decrease) in cash and cash equivalents	**2,291**	**(5,095)**	**4,361**	**6,062**	**(56,227)**

Note:

(1) Comprises adjustments for amortization and depreciation; allowances; impairment losses on property, plant and equipment and intangible assets; impairment losses on trade receivable and other financial assets; impairment loss/(gain) on inventory; gains/(losses) on disposal of property, plant and equipment; other income and expenses; finance income; finance costs; and exchange gains/(losses).

4. Selected financial information under IFRS-EU

The following table sets forth certain information regarding our financial performance for the dates indicated.

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)	Year ended December 31,		
			2014	2013	2012
Selected financial data					
€ millions unless otherwise stated					
Total Revenue(1)	79.6	79.6	321.2	334.9	342.8
Y-o-y change	0.0%		(4.1)%	(2.3)%	
o/w residential	49.0	48.0	196.2	195.4	201.3
Y-o-y change	2.1%		0.4%	(2.9)%	
o/w Business	22.8	23.9	93.4	101.2	102.8
Y-o-y change	(4.6)%		(7.7)%	(1.6)%	
o/w Wholesale and Other	5.6	6.1	24.7	29.7	28.9
Y-o-y change	(8.2)%		(16.8)%	2.8%	
o/w Others(2)	2.2	1.6	6.9	8.6	9.8
Y-o-y change	37.5%		(19.8)%	(12.2)%	
Adjusted EBITDA(3) *(unaudited)*	37.7	37.3	155.9	155.1	134.7
Y-o-y change	1.1%		0.5%	15.1%	
Margin	47.4%	46.8%	48.5%	46.3%	39.3%
Capital expenditures	(9.1)	(7.9)	(42.2)	(41.5)	(119.2)
Y-o-y change	15.2%		1.7%	(65.2)%	
% Total Revenue	(11.4)%	(9.9)%	(13.1)%	(12.4)%	(34.8)%
Operational Free Cash Flow(4) *(unaudited)*	28.6	29.3	113.6	113.6	15.5
Y-o-y change	(2.4)%		0.0%	632.9%	
% Adjusted EBITDA	75.9%	78.6%	72.9%	73.2%	11.5%

Notes:

(1) Comprises revenue, other income and work performed by the Company and capitalized.

(2) Operations with neutral impact on profitability.

(3) Defined as Total Revenue less direct costs, commercial costs and overhead costs.

(4) Defined as Adjusted EBITDA less capital expenditure.

5. Selected unaudited operating information

The following table sets forth certain information regarding our operating performance as of the dates indicated.

	As of March 31, 2015	As of March 31, 2014	As of December 31, 2014	As of December 31, 2013	As of December 31, 2012
		(unaudited)			
Residential					
Homes passed[(1)]	872,053	867,532	869,900	866,716	863,461
Household coverage[(2)]	85%	84%	85%	84%	84%
Residential customers	295,360	298,178	296,023	298,495	305,761
o/w fixed services[(3)]	278,051	283,507	279,212	284,105	287,457
as % of homes passed[(1)]	31.9%	32.7%	32.1%	32.8%	33.3%
o/w mobile only customers	17,309	14,671	16,811	14,390	18,304
o/w 1P (%)	17.6%	22.4%	17.8%	23.1%	26.5%
o/w 2P (%)	24.8%	34.2%	26.9%	35.8%	41.2%
o/w 3P (%)	35.5%	32.6%	35.0%	31.8%	26.4%
o/w 4P (%)	22.1%	10.8%	20.3%	9.4%	6.0%
Total RGUs[(4)]	918,120	784,713	896,077	769,036	719,033
RGUs/customer excluding mobile-only	3.2	2.7	3.1	2.7	2.4
Residential churn fixed-line customers[(5)]	14.8%	16.2%	14.8%	14.8%	17.2%
Global ARPU fixed-line customers (€/month)[(6)]	55.2	53.2	53.8	53.3	54.3
Other unaudited operating data					
Fixed voice RGUs	278,516	283,709	279,691	284,311	287,042
as % of fixed services customers	100.2%	100.1%	100.2%	100.1%	99.8%
Broadband RGUs	218,391	217,313	217,726	215,520	209,092
as % of fixed services customers	78.5%	76.7%	78.0%	75.9%	72.8%
Pay TV RGUs	124,729	61,390	124,754	56,992	50,177
as % of fixed services customers	44.9%	21.7%	44.7%	20.1%	17.4%
Postpaid Mobile RGUs[(7)]	296,484	222,301	273,906	212,213	172,722
Postpaid Mobile subs	165,411	132,538	153,939	126,016	104,801
as % of fixed services customers (excl. mobile only)	53.3%	41.6%	49.1%	39.3%	30.1%
Mobile lines per customer	1.8	1.8	1.8	1.7	1.6
SOHO[(8)]					
Customers	47,136	46,474	47,038	46,317	45,637
o/w 1P	32.1%	34.7%	32.7%	35.0%	37.8%
o/w 2P	23.9%	29.1%	26.1%	29.9%	31.0%
o/w 3P	32.9%	30.6%	31.1%	30.0%	27.2%
o/w 4P	11.1%	5.6%	10.2%	5.1%	3.9%
Total RGUs	147,585	134,317	143,472	133,079	125,772
RGUs/customer	3.1	2.9	3.1	2.9	2.8
Global ARPU Fixed-line customers (€/month)[(6)]	64.2	66.2	64.8	68.2	72.0
SME and Large Accounts					
Customers	5,041	5,198	5,094	5,251	5,291

Notes

(1) Homes Passed: homes passed are homes, residential multiple dwelling units or commercial units that can be connected to our network without materially extending the distribution plant.

(2) Coverage: calculated by dividing total homes passed by total households in the Basque Country.

(3) Fixed services: fixed services include fixed voice, fixed broadband and Pay TV.

(4) RGUs: each customer is counted as a revenue generating unit for each service for which such customer subscribes, regardless of the number of services that customer receives from us. Services include fixed voice, broadband, Pay TV and postpaid mobile.

(5) Residential churn fixed-line customers: a customer is considered a churning customer when all active products of that customer become inactive (disconnected); partial deactivations are considered internal migrations (downgrades). Given the conditions of our offerings, when a customer's voice service is disconnected it will be considered a churning customer as all other products will be automatically forced into deactivation.

(6) Global ARPU fixed-line customers: ARPU of a client of fixed services, which includes both the revenue derived from the fixed services and the revenue derived from mobile postpaid services (excluding "mobile only" customers).

(7) Postpaid Mobile RGUs: number of mobile postpaid lines (including mobile only). Hence one customer can account for more than one RGU if he has multiple postpaid lines registered.

(8) SOHOs: small office home office customers.

6. Income statement under Spanish GAAP/*Cuentas de pérdidas y ganancias*

	As of March 31, 2015	As of March 31, 2014	Year ended December 31, 2014	2013	2012
	(unaudited)				
		(€ thousands)			
Revenue/*Importe neto de la cifra de negocios*	78,437	77,959	315,109	329,148	338,542
Self-constructed assets/*Trabajos realizados por la empresa para su activo*	1,047	1,555	5,721	5,184	3,439
Supplies/*Aprovisionamientos*	(17,487)	(17,965)	(71,524)	(73,018)	(76,916)
Other operating income/*Otros ingresos de explotación*	126	71	331	559	819
Personnel expenses/*Gastos de personal*	(5,839)	(8,089)	(30,318)	(34,379)	(31,708)
Other operating expenses/*Otros gastos de explotación*	(18,584)	(16,162)	(63,469)	(72,361)	(99,519)
Depreciation and amortization/*Amortización del inmovilizado*	(19,874)	(19,664)	(81,508)	(83,243)	(74,088)
Impairment and gains/(losses) on disposal of fixed assets/*Deterioro y resultado por enajenaciones del inmovilizado*	—	—	289	—	(1,801)
Other gains/(losses)/*Otros resultados*	(431)	(170)	(1,432)	1,415	7,302
Results from Operating Activities/*Resultado de Explotación*	**17,395**	**17,535**	**73,199**	**73,305**	**66,070**
Net Finance Cost/*Resultado Financiero*	**(15,906)**	**(6,226)**	**(23,264)**	**(15,939)**	**(12,725)**
Profit Before Income Tax/*Resultado Antes de Impuestos*	**1,489**	**11,309**	**49,935**	**57,366**	**53,345**
Income tax/*Impuesto sobre beneficios*	(248)	(2,988)	(5,601)	(7,274)	(5,241)
Profit for the Period/*Resultado del Ejercicio*	**1,241**	**8,321**	**44,334**	**50,092**	**48,104**

7. Balance sheet under Spanish GAAP/*Balances*

	As of March 31, 2015	As at December 31, 2014	2013	2012
	(unaudited)			
		(€ thousands)		
Assets/*Activo*				
Non-current assets/*Activo no corriente*	911,297	921,542	973,003	1,017,651
Current assets/*Activo corriente*	57,841	56,785	48,759	45,664
Total assets/*Total activo*	**969,138**	**978,327**	**1,021,762**	**1,063,315**
Equity and Liabilities/*Patrimonio Neto y Pasivo*				
Equity/*Patrimonio Neto*	648,549	647,490	614,613	572,896
Non-current liabilities/*Pasivo no corriente*	210,512	212,949	223,829	284,571
Current liabilities/*Pasivo corriente*	110,077	117,888	183,320	205,848
Total Equity and Liabilities/*Total Patrimonio Neto y Pasivo*	**969,138**	**978,327**	**1,021,762**	**1,063,315**

8. Cash flow statement under Spanish GAAP/*Estados de flujos de efectivo*

	As of March 31, 2015	As of March 31, 2014	Year ended December 31, 2014	2013	2012
	(unaudited)				
			(€ thousands)		
Profit for the year before tax/*Resultado del ejercicio antes de impuestos*	1,489	11,309	49,935	57,366	53,345
Adjustments/*Ajustes del resultado*	36,357	26,296	105,501	97,335	91,307
Changes in operating assets and liabilities/*Cambios en el capital corriente*	(8,686)	(9,997)	(12,580)	1,049	(226,170)
Other cash flows from operating activities/*Otros flujos de efectivo de las actividades de explotación*	(652)	(1,809)	(16,497)	(14,173)	(12,335)
Cash flows from/(used in) operating activities/*Flujos de efectivo de las actividades de explotación*	**28,508**	**25,799**	**126,359**	**141,577**	**(93,853)**
Payments for investments/*Pagos por inversiones*	(15,071)	(11,178)	(37,582)	(49,908)	(127,038)
Proceeds from sale of investments/*Cobros por desinversiones*	3,921	113	335	7	254
Cash flows used in investing activities/*Flujos de efectivo de las actividades de inversión*	**(11,150)**	**(11,065)**	**(37,247)**	**(49,901)**	**(126,784)**
Proceeds from and payments for equity instruments/*Cobros y pagos por instrumentos de patrimonio*	—	—	—	—	68,000
Proceeds from and payments for financial liability instruments/*Cobros y pagos por instrumentos de pasivo financiero*	(15,067)	(19,829)	(84,751)	(85,614)	96,410
Cash flows (used in)/from financial activities/*Flujos de efectivo de las actividades de financiación*	**(15,067)**	**(19,829)**	**(84,751)**	**(85,614)**	**164,410**
Net cash increase/(decrease) in cash and cash equivalents/*Aumento/disminución neta del efectivo o equivalentes*	**2,291**	**(5,095)**	**4,361**	**6,062**	**(56,227)**

OPERATING AND FINANCIAL REVIEW

The discussion below is based on the Financial Statements, which have been prepared under IFRS-EU.

You should also read the following commentary together with the sections entitled "Risk Factors," "Presentation of Financial and Other Information", "Business", "Industry", "Reasons for the Offering", "Selected Financial and Operating Information", and the Financial Statements and the related notes thereto included elsewhere in this Prospectus. The following discussion contains forward-looking statements, including those described in "Forward-looking Statements", which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of, among others, the factors described below and elsewhere in this Prospectus, including in "Risk Factors". Except as may be required by applicable law, we will not publicly update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future. The Financial Statements included herein have been prepared under IFRS-EU. However, the Company has, in all prior financial years, prepared and filed its statutory annual accounts under Spanish GAAP. You should note that Spanish GAAP differs in certain significant respects from IFRS-EU. For a description of the impact of the first-time adoption of IFRS-EU and a reconciliation of the Company's shareholders' equity and income statement between Spanish GAAP and IFRS-EU, see Note 21 to the 2012 Financial Statements and Note 21 to the 2013-2014 Financial Statements. ***While the Spanish GAAP Financial Statements are incorporated by reference in this Prospectus, no Spanish GAAP financial information is included in the body of this Prospectus, except as set forth in the section "Selected Financial and Operating Information" and in B.7 of the section entitled "Summary".***

Overview

We are the Basque fiber and convergence leader (source: Company estimates based on CNMC data as of 2013 and 2014), and operate in one of the most affluent regions in Spain. We offer primarily bundled services comprised of high-speed broadband, Pay TV, mobile and fixed telephony services to residential and business customers. As of March 31, 2015, we enabled access to our services to approximately 872,053 homes passed and 146,784 business premises. We have a proprietary, fully-invested next generation fiber network of approximately 350,000 km and are the only operator with a fiber network covering most of the Basque Country.

We are 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) (source: Company estimates based on CNMC data as of 2013 and 2014). As of March 31, 2015, we provided 918,120 services (in terms of RGUs) to 295,360 residential customers. We also offer products and services to SOHOs, SMEs, Large Accounts and public sector entities as well as the wholesale market.

Our proprietary, fully-invested next generation fiber network (approximately €1.3 billion invested since 1999) gives us access to 85% of homes in the Basque Country, representing approximately 86% of the population in the Basque Country. Our network is fully upgraded to Docsis 3.0, with a capacity of 862MHz and a fully-owned backbone, currently capable of delivering speeds of up to 500 Mbps. We believe our network is one of the most advanced and competitive in Europe.

We have made substantial network investments compared to our sector peers, measured in terms of fixed assets (including property, plant and equipment and intangible assets, excluding goodwill and gross of depreciation) per cable customer and per homes provisionable (residential and SOHO fixed services customers only) as compared to ONO (based on its financial statements for the third quarter of 2014), Com Hem, Telenet, Tele Columbus and Numericable (based on their financial statements for the fourth quarter of 2014).

We provide mobile communications services through our MVNO agreement with Orange and also hold a 4G/LTE license in the 2.6GHz band in the Basque Country (expiring on December 31, 2030), which enables us to strategically deploy a proprietary 4G network in the future with limited investment, where and when we deem this to be economically attractive. We believe this is a unique advantage over most other fiber operators.

As a fiber convergent operator in one of the most convergent telecommunication markets in Europe, we believe we are well-positioned for future growth as we offer bundled and innovative services, delivered over a superior network, with a unique brand and unparalleled service quality.

For the year ended December 31, 2014, we generated Total Revenue of €321.2 million, Adjusted EBITDA of €155.9 million (representing an Adjusted EBITDA margin of 48.5%) and Operational Free Cash Flow of €113.6 million (representing an Operational Free Cash Flow Conversion of 72.9%).

Key Factors Affecting Our Results of Operations

Macroeconomic Environment

The Spanish economy has experienced a period of downturn in recent years, which has negatively impacted our financial results. In 2008, Spain entered a period of economic recession. From 2008 to 2012, Spain's GDP fell 6.2%, the fourth largest drop experienced by any of the European Union economies. The percentage of unemployed persons increased to 25.8% of the population. In addition, during this period, the Spanish government implemented a series of tax increases and austerity measures that pursued a reduction of the Spanish public deficit that, together with the contraction of GDP, led to a reduction in consumer disposable incomes and put pressure on business activity. Gross domestic income fell 7% from 2008 to 2012 (source: World Bank). These factors combined had a significant impact on our customers' propensity to spend on telecommunications services. Not only did our residential and business consumers reduce spend on our services but they also looked for price concessions, choosing lower priced services over higher quality but more expensive services.

Early signs of a potential macroeconomic turnaround are starting to appear after years of severe downturn in Spain. The Spanish economy returned to growth in the third quarter of 2013 and grew by 1.4% in 2014 (source: INE) and is expected to continue growing in 2015 and 2016 by 3.1% and 2.5%, respectively (source: IMF, June 2015). While GDP per capita remains behind the average for the European Union, Spain has seen improvements throughout 2014.

The Basque Country has experienced many of the same recent economic trends as Spain; however, given its highly industrialized economy, and the fact that it is one of the most affluent regions in Spain, it has proved to be more resilient than the broader country with Basque GDP outgrowing Spanish GDP in four out of the last five years. The Basque Country is showing signs of a rebound with GDP growing 1.1% in 2014 (source: INE). Moreover, the Basque Country corporate sector is showing signs of stabilization with the harmonized business confidence index increasing by 12% and 10% in the three months ended March 31, 2014 and the three months ended March 31, 2015, respectively, as compared to the prior periods. In addition, after a number of years of negative changes in the number of corporates registered in the Social Security register, the Basque Country has seen net additions of 620 corporates for the year ended December 31, 2014 and a further 624 new corporates in the three months ended March 31, 2015 (source: Spanish Ministry of Employment and Social Security).

Industry Environment

The Spanish Telecommunication Market has experienced a severe transformation in the period 2011 to 2014 in order to adjust to the challenging macroeconomic environment. The main trends that impacted the market are the following:

- *Convergence and pricing pressure:* The Spanish Telecommunications Market has most recently been characterized by a rapid transition to convergence of fixed and mobile services, with operators bundling services such as broadband, Pay TV, mobile and fixed-line telephony services into integrated offers. In October 2012, Telefónica introduced heavily discounted convergent offerings under the quadruple-play offer commercially known as "Movistar Fusión". Telefónica's goal was to lower churn of subscribers, particularly in mobile, at the expense of reducing ARPU in its customer base. As a result, the Spanish Telecommunications Market experienced a significant decrease in prices and a rapid shift to convergence as other operators followed Telefónica's example. The proportion of the market represented by 3P/4P bundles increased from 24% in 2012 to 67% in 2014 (source: CNMC). As of March 31, 2015, 58% of our customers had 3P/4P bundles.
- *Consolidation:* Over the past two years, the Spanish market has been characterized by consolidation, primarily driven by mobile-centric operators buying fiber operators. As a result, the top three operators represented 96% of revenue in 2014 as compared to 84% of revenue in 2012. The reduction in the number of operators is favoring investments and more rational competitive behavior, as infrastructure investments require price discipline to achieve target returns. We are already witnessing a shift to higher prices both at Euskaltel and across the broader market. We have successfully increased our residential ARPU by €2 in the three months ended March 31, 2015 as compared to the

three months ended March 31, 2014, and a number of our competitors have also announced price increases.

- *Increasing importance of high-speed internet:* Spain is one of the largest broadband markets in Europe, with approximately 12.8 million broadband subscriptions as of December 31, 2014 (source: CNMC). In terms of access to high-speed broadband (lines capable of providing at least 30 Mbps), the Spanish market is underpenetrated. However, the market has seen growth in recent years, with fiber, including cable and FTTx, representing 29% of the Spanish market in 2014 (as compared to 23% in 2013 and 22% in 2012), and FTTH increasing considerably between 2012 and 2014, from 2.9% to 12.2% of the Spanish fixed-line broadband subscribers (source: CNMC). We believe that there is an attractive growth opportunity for us as the market leader in the Basque Country in super high-speed broadband. As smartphones and tablets have proliferated and are used increasingly for multimedia functions, customers require both higher bandwidth and greater download speeds.
- *Regulatory changes:* The Spanish Telecommunications Market is subject to changes implemented by its regulatory body, the CNMC. In 2012, the CNMC proposed a new "glide path" (which implies a fall in prices) in Mobile Termination Rates ("**MTR**") which outlined a timetable to reach a call rate of €1.09 per minute in July 2013. This caused a reduction in prices and impacted revenue in the sector. While this regulatory change has not had a meaningful impact on our business during the period under review, it is unclear what the impact will be of similar regulatory changes going forward.

For more information, see "*Regulation—Recent developments—Principal Operators market definition and Operators with SMP*".

Our Commercial Strategy

Our strategy is to maximize customer lifetime value by leveraging our leadership positions in the Basque Country, loyal customer base, proprietary fully-invested next generation fiber network and brand to consolidate our market shares in broadband, Pay TV and fixed telephony and to continue to grow our mobile telephony market share and further strengthen our position in the business segment.

Cross-Selling and Up-Selling

Growth in RGUs per unique subscriber and ARPU are the main drivers of our Total Revenue and Adjusted EBITDA growth. Simultaneously with the upgrade of our network, we have broadened our offerings with a view to maintaining our position as the fiber convergent leader in the Basque Country. We have a strategic focus on offering bundled packages, which provide our customers with multiple services (broadband, Pay TV, mobile telephony and fixed telephony) charged in a single bill and at competitive prices. Following market trends and our own marketing efforts, there has been an increase in the popularity of our triple-play and quadruple-play packages with our new customers in this segment and because of cross-selling efforts on our existing customer base and, as a result, as of March 31, 2015, 82.4% (up from 77.6% when compared to March 31, 2014) of our residential customers subscribed to a bundled package (24.8% double-play (a decrease of 9.4%), 35.5% triple-play (an increase of 2.9%) and 22.1% quadruple-play (an increase of 11.3%)).

We plan to continue with our bundling strategy by offering additional products to our existing customers and to focus on cross-selling and up-selling initiatives. For example, our mobile family tariff ("Tarifa Family") offers additional mobile lines at competitive prices and we also actively promote our convergent packages to our broadband customers and continue to migrate customers to higher broadband speeds and promote higher value TV offerings. In addition, we have also proactively marketed higher broadband speeds to our customers as further described in "*—The Introduction of New Services*" below.

The Introduction of New Services

We regularly launch new product offerings, such as broadband services with higher download speeds, new Pay TV platform and STB functionalities, additional mobile lines through our "Tarifa Family" offering and other add-on services. Going forward, we will increasingly focus on offering competitive bundled services, including double-, triple- and quadruple-play bundles. We have plans to selectively launch our proprietary 4G network in the near term, which, if successfully deployed, would enable us to further improve the range of services we offer to customers and could achieve significant savings.

In March 2015, we launched "Euskaltel WiFi", the largest WiFi network every built in the Basque country, offering free internet access to all our broadband and mobile customers through over 128,000 access points across the Basque Country.

With respect to broadband services, our proprietary, fully-invested next generation fiber network allows us to offer our customers greater quality and higher internet speeds. Our network is fully upgraded to Docsis 3.0, with a capacity of 862MHz and a fully-owned backbone. With the deployment of this technology, our network is currently capable of delivering speeds of up to 500 Mbps and we currently offer ultra-high-speed broadband (i.e., 350 Mbps) across our footprint (which covers 85% of homes in the Basque Country, representing approximately 86% of the population in the Basque Country). The average monthly usage of our broadband customers has increased by approximately 74% from 30.5GB for month ended December 31, 2012 to 48.9GB for the month ended December 31, 2014 to 53.0GB for the month ended March 31, 2015.

With respect to our Pay TV offering, in 2014, we launched "Videoclub", a full VoD service which offers a catalogue of over 1,000 titles, and TV Everywhere (marketed under the name "Edonon"), a multi-device functionality whereby our customers can watch our TV offering across a number of different devices (including mobile handheld devices). We intend to continue improving our television offering in the near future with the development of new products and services. We believe this will help us to increase the number of our television customers and revenue going forward. For instance, later this year or early next year, we intend to launch our next generation of TV service, introducing the first UHD/4K STB service in Spain running Android TV 5.0, as described further in "*Business—Our Products and Services—Residential Segment—Pay TV*".

We offer an array of other value-added services, such as mobile insurance, smart home and home security, which we believe will help foster customer loyalty and growth. The addition of these value-added services has contributed €0.7 million of Total Revenue for the residential segment for the three months ended March 31, 2015, as compared to €0.5 million of Total Revenue for the residential segment for the three months ended March 31, 2014.

We believe this will enable us to improve our offering, especially for mobility, while potentially reducing our costs through the offload of mobile data traffic to our own fiber network. Additionally, we believe that the introduction of new services during the period under review also helped improve our churn rates for fixed services customers from 17.2% for the year ended December 31, 2012 to 14.8% for the year ended December 31, 2014 and 14.8% for the three months ended March 31, 2015.

Going forward, we intend to focus our strategy of broadening our range of service offerings and marketing such services given the opportunity for us to grow our ARPUs and RGUs while further increasing customer loyalty.

Pricing Strategy

During the period under review, the Spanish market was impacted by both macroeconomic factors and pricing pressures, including the severe re-pricing triggered by Telefonica's aggressive push of their bundled offering "Movistar Fusión". Despite such pricing pressures, our Total Revenue performance has demonstrated resilience in recent years: our Total Revenue for the residential segment increased by 0.4% in 2014, while revenue in the Spanish Telecommunications Market overall decreased by 6.8% during the same year (source: CNMC) reflecting the success of our bundling strategy which limited the decline in ARPU whilst increasing RGUs.

We regularly review our pricing policy to account for new developments in our services and changes in market pricing. We have a disciplined and selective approach to pricing and are proactive about monitoring the market and managing our pricing. We aim to continue to focus on responsibly increasing prices without adversely affecting churn—we believe our triple- and quadruple-play offerings present a further opportunity to employ this pricing strategy. In January 2015, we ceased heavy promotional offers linked to long-term contracts, and during the three months ended March 31, 2015, we successfully increased prices for certain customer segments and packages. As a result of our pricing strategy during the period under review, we saw an increase in our residential monthly Global ARPU from €53.7 for the three months ended December 31, 2013 to €55.2 for the three months ended March 31, 2015 (with a decrease between December 31, 2012 to 2013 of €1.0, primarily as a result of the severe re-pricing triggered by Telefonica's aggressive push of their bundled offering "Movistar Fusión", with prices for the "Movistar Fusión" offering decreasing substantially between 2012 and 2013). In January 2015, we successfully increased prices for certain customer segments and packages, which contributed in part to the 3.8% increase in residential Global ARPU between the three months ended March 31, 2014 and the three months ended March 31, 2015. We expect to further increase the value of our bundled offerings and provide a more attractive service at increased price levels. In line with our strategy to increase our penetration of customers subscribing for bundled services, we offer competitively priced bundle packages that provide customers with digital television, high-speed broadband and fixed line telephony services for a lower price than if they subscribed to each service individually. In June 2015, we reduced the number of promotional periods for TV bundles, in line with the strategy applied, in recent months, to our other bundles.

In terms of our Business segment, we saw significant pricing pressure during the period under review. In addition to Telefonica's "Movistar Fusión" offering, this has been the result of two factors specific to the Business segment. Firstly, as Business customers (particularly SOHOs and SMEs) have higher tariffs with more expensive handsets, the change in market preference towards cheaper mobile tariffs during the period under review has impacted more heavily on our Total Revenue for the business segment. Secondly, during this period of economic uncertainty, both private companies and governmental entities/public administrative bodies reduced their spend on telecommunications, asking for price and service reductions.

We have recently started to see signals of price easing and stabilization of pricing, as described in "*—Industry Environment*" above. In the Business segment, most of our customers have already migrated to new tariffs, and private companies and governmental entities/public administrative bodies are seeking new services and not only cost reductions. Furthermore, the consolidation of the industry in Spain as well as the focus on investments in 4G and FTTH should also support prices going forward and minimize the incentives of price wars in the medium term. We believe the recovery of the market coupled with a stabilization in prices should provide us with an attractive environment for the growth of our business.

Churn

We closely monitor churn and actively manage the churn behavior of our customers across all segments. As a result of our strong relationships with our customers, we have been able to retain a high quality customer base, with high and growing ARPUs and lower churn rates. We believe that our customer-centric strategy and focus on customer lifetime value help preempt churn by offering our customers simple, easy to understand packages centered on broadband speeds and add-ons. In January 2015, we ceased heavy promotional offers linked to long-term contracts; as a consequence, 3,000 to 4,000 customers are phasing out of these promotional offers each month. We believe that this measure will help us have a more protected customer base and improve our churn by removing the most volatile customers. We currently offer our mobile products fully bundled with our fixed line telephony services, a strategy we believe is helping us to reduce churn. We also experience lower churn levels on convergent offers (bundles with mobile have an average churn of 6.4% over the three months ended March 31, 2015) and our continued roll-out of such offers are expected to help manage churn. Our residential churn rate for fixed services customers improved substantially from 17.2% for the year ended December 31, 2012 to 14.8% for the year ended December 31, 2013, and we have continued to maintain a churn rate of 14.8% for the year ended December 31, 2014 and for the three months ended March 31, 2015. The decrease in churn during the period under review was also driven by a reduction in the number of alternative providers as a consequence of consolidation in the Spanish Telecommunications Market as described further in "*Industry—Spanish Telecommunications Market Overview—Consolidation*".

We believe that our strong track record of high customer satisfaction as well as our plans to further improve the customer experience are central to achieve further reductions in churn. For example, we have enhanced the customer interface on our website as part of our "Online First" Strategy, which makes it easier for our customers to resolve technical queries and to place orders, and we have achieved high satisfaction levels in terms of responding to both technical and information requests. In addition, we are the only company in our sector that provides bilingual call centers, enabling our customers to interact with our customer service and sales staff in the Spanish and Basque languages.

Investments in Network Upgrade, Platforms and Support Systems

Over the past few years, we have conducted an extensive network upgrade to improve the delivery of digital services, including digital TV, high-speed broadband and fixed telephony services. In 2012, we purchased the backbone for our network (the part which we did not previously own) for €68 million, which eliminated the need for us to pay ongoing rental costs for use of the network. Such rental costs for the year ended December 31, 2012, amounted to €3.3 million but were €0 for the year ended December 31, 2013 and subsequent periods. The €68 million payment for the backbone was funded in December 2012 by a share capital increase of €54.4 million with a share premium of €13.6 million.

During the period under review, we have focused on improving and enhancing our network, investing €80.1 million in 2012, €4.5 million in 2013 and €3.4 million in 2014 in network deployment. The table below shows a breakdown of these amounts.

	Year ended December 31,		
	2014	2013	2012
	(€ thousands)		
Network completion at Industrial Parks	100	34	351
New deployment	548	1,795	75,922[1]
Other work performed by the entity (deployment)	2,716	2,670	3,820
Activities capitalized	17	0	0
Total	**3,382**	**4,499**	**80,093**

Note:

(1) Includes €68 million relating to the purchase of the backbone for our network (the part which we did not previously own).

The majority of the increase in our network and quality enhancement capital expenditures between 2012 and 2014 related to our fixed voice platforms, upgrades for broadband re-positioning, our TV platform and platform obsolescence. A further €2.0 million of capital expenditures was incurred in the three months ended March 31, 2015, primarily related to the development of the IMS platform.

During the period under review, we also undertook an efficiency exercise of our internal operations, whereby we outsourced some of our IT and other operations. See "*—Cost Structure—Transformation Plan*".

Going forward, while we have identified additional network investments, such as the launch of our new STB, connection of up to 51,000 carefully selected and already identified additional provisionable homes and the implementation of our proprietary 4G network, we believe our capital expenditure levels will remain within approximately 13% to 14% of Total Revenue per year, and approximately €40 million to €45 million for the year ending December 31, 2015 (based on our expectations as at the date of this Prospectus), due to our disciplined investment approach. For more information on our capital expenditures going forward, see "*—Liquidity and Capital Resources—Capital Expenditures*" below.

We aim to finance future investments through cash generated by the Company and/or the entry into financing arrangements.

Transformation Plan

In 2012, faced with weakening economic conditions in the Basque Country, we began setting out a transformation plan with the objective of becoming a best-in-class European convergent operator. In 2013, we launched a two-year transformation plan ("**Transformation Plan**") designed along three main lines: (i) realizing cost efficiencies; (ii) rationalizing our organization; and (iii) positioning our business for future growth.

On the efficiencies side, a whole program of projects was put in place to achieve structural optimization of costs with a positive long lasting impact on margins and cash generation enhancement. Some of the key initiatives launched included: re-negotiation of contracts with suppliers (e.g., installers and technicians); change of sales channel mix (shifting sales from "push" channels such as direct sales force towards "pull", more cost efficient, channels such as online and inbound); shift from paper billing to e-billing, promotion of customer self-installation of equipment at home; and a new process for capital expenditures approval.

With regard to the rationalization of our organization, three main projects were implemented: (i) internalization of tasks conducted by external parties, such as the management of outsourced activities (e.g., activation of new customers and services); (ii) early retirements and other personnel voluntary redundancies; the streamlining of our organization has led to stable cost savings in addition to increasing organizational flexibility; and (iii) outsourcing of IT and network operations to two large multinational technological companies (GFI and ZTE, respectively), which enables us to focus on customers whilst ensuring that the outsourced operations benefit from the scale and technological advantages of these two partners.

In addition, we also implemented cost efficiencies across three main areas: (i) marketing and sales, focusing on e-billing, rationalization of sponsorships and shift of sales channels mix to a more economic structure; (ii) operations, focusing on optimization of post-sales processes, optimization of our end-to-end mass market installation process and rationalization of our network deployment; and (iii) other areas, focusing on renegotiation of prices with suppliers, introduction of new approval processes for capital expenditures and Large Accounts projects and other cost optimization initiatives.

Finally, we have launched several initiatives to improve the market position of our Company in the coming years. For example, we have:

- created an "Online First" unit to develop web sales and customer service;
- created a "TV" unit to increase our focus on TV products and services, which oversaw the launch of our TV Everywhere offering and introduced new functionalities such as VoD and a new PVR;
- created a "Customer Management" unit focused on managing our customer base, with the objective of reducing customer churn and increasing ARPU;
- launched WiFi services for our mobile and broadband customers (initially focused on bars and restaurants) and, since March 2015, our "Euskaltel WiFi" network with over 128,000 access points across the whole of the Basque Country; and
- defended and uplifted ARPU, fostering cross-selling and up-selling, targeted price increases and charging for services/products that were previously given for free.

From 2012 to 2014, covering the first phase of the Transformation Plan, our Adjusted EBITDA margins grew from 39.3% to 48.5% and our Operational Free Cash Flow Conversion rate increased from 11.5% to 72.9%. For the year ended December 31 2012, if we had capitalized the €11.6 million of Subscriber Acquisition Costs included in our commercial costs for 2012, our Adjusted EBITDA would have been €146.3 million (Adjusted EBITDA margin of 42.7%), in accordance with Spanish GAAP and with IFRS-EU. For a discussion of the change in our Adjusted EBITDA margins and Operational Free Cash Flow Conversion rate over the period of the Transformation Plan, see "*—Adjusted EBITDA Discussion*" and "*—Liquidity and Capital Resources—Operational Free Cash Flow Conversion*" below.

For more information, see "*Business—Our History*".

Cost Structure

In addition to the discussion of our results of operations for the years ended December 31, 2014, 2013 and 2012 and for the three months ended March 31, 2015 and 2014 under "*—Results of Operations*", we have also presented an additional discussion of our Adjusted EBITDA, which reflects how management views our cost structure. See "*—Adjusted EBITDA Discussion*".

The key components of this cost structure are set out below.

Direct Costs

Network Direct Costs

Our network costs comprise mainly interconnection costs, which is the payment we make for the use of other operators' networks in order to provide our services to end consumers. These costs include the payment to our suppliers for connection of mobile telephone services. Additionally, we have to pay for the traffic of fixed communications which use infrastructures of other communication operators.

TV Content Costs

Our cost of content, which consists primarily of license payments for programming, is largely variable and linked to digital television RGU numbers.

The renegotiation of supplier contracts of TV content in 2014 has allowed us to reduce content TV costs in 2014 while increasing the number of Pay TV customers and extending content rights (VoD, TV everywhere, catch-up, national territory, etc.).

Tax and Copyright Costs

Tax and copyright costs comprise costs relating to our use of frequencies pursuant to our spectrum concessions and local taxes applicable to telecommunications companies in each of the municipalities in which we operate.

Other Direct Costs

Other direct costs includes the costs derived from the purchase of mobile terminals which we sell to our customers, as well as all costs we incur from providing services to third parties, such as Telecable and distributors, such as RACC.

In the future, we believe our direct costs will be closely linked to our decision to selectively launch our proprietary 4G network in the near term as we expect a significant increase of data consumption once uptake of 4G in the market increases. Our future 4G network will, if successfully deployed, enable us to divert 4G data and voice traffic from the mobile host's network to our own network and thus potentially significantly reduce direct mobile costs in future years.

Commercial Costs

Subscriber Acquisition Costs

These costs comprise commercial costs (commissions) required to capture new customers, such as up-selling to our existing customer base, and are paid to our external channel distributors. Our sales costs depend largely on the mix of sales channels employed during a period and increase when we use more expensive "push" channels (such as retail, door-to-door and telemarketing) as compared to "pull" channels (such as our website and our customer service operation). We are investing in improving the capabilities and ease of use of our website with the goal of increasing online sales through several initiatives.

Marketing Costs

Marketing costs comprise costs relating to advertisements, campaigns and other marketing materials. These costs are incurred in connection with the launch of new services and offerings, and due to their discretionary nature, we are able to manage such costs in proportion to total income for a given period.

Customer Service Costs

The cost of our customer service operation is closely linked to customer service call volumes and the length of the calls. The level of customer service call volumes may fluctuate during any given period as a result of, among other things, the introduction of new services, the quality and reliability of our services and the quality of alternative customer service options.

Post Sales Costs

Costs related to maintaining the quality of services provided to our clients and resolving breakdowns in our services.

Overhead Costs

Personnel Expenses

Our staff related expenses consist of annual compensation for our employees, which are relatively fixed in nature. 10% of our personnel expenses on average are linked to achieving annual goals.

Network Maintenance

This item comprises costs relating to the maintenance and correction of our fiber network, as well as lease costs for the location of nodes and other network infrastructure. All of these costs correspond to work performed by outsourced third party service providers.

IT Systems

These are costs for the maintenance of infrastructure of hardware and software licenses, as well as preventive and corrective maintenance of IT systems.

Other Operating Costs

Our other operating costs consist of costs such as cost for sponsorship, electricity consumption, consulting and travel expenses.

Depreciation and Amortization Expenses

Our depreciation and amortization expenses depend on the useful life of different assets and capitalized costs.

Tax Expenses

We are subject to corporate taxes as set by the Basque Country who has its own autonomous tax regime, independent from Spain. The ordinary corporate tax rate in the Basque Country is 28%, however, our effective tax rate has been lower as we have benefitted from net operating losses incurred in the past. As of December 31, 2014, we had tax credits equal to €8.8 million as a result of €32 million of accumulated net operating losses in our business. Absent a change in the Corporate Income Tax Law of Biscay, in the fiscal year 2015 we expect to be able to apply these tax credits to offset our corporate income tax expense. Moreover, we have €139.6 million of accumulated deductible investments available that will provide additional tax credits for the next fifteen years (according to the current Corporate Tax regulation of Biscay). If we continue to benefit from the Basque tax regime which allows us to use our net operating losses incurred in the past as well as certain tax credits and tax assets, this translates into limited cash tax payments in 2015 and, subject to future changes in law and policy, a reduced effective cash tax rate of 15.4% in the medium term. In the future, we do not expect to benefit from further tax credits (in addition to the €139.6 million currently available) as we do not expect our investments to reach the required thresholds to qualify as deductible investments.

For further information, see "*Risk Factors—Risks Relating to Our Financial Profile—We may not be able to use all or a portion of our tax credits*".

France Telecom Settlement

In 2006, in a move to become a fixed and mobile convergent operator, we took the strategic decision to become a full MVNO, subject to regulatory approval. As we were unable to reach an agreement with Amena, which was in the process of being sold to France Telecom, we reached an agreement with Vodafone in 2006 which allowed us, from 2007 onwards, to offer mobile services as a full MVNO using Vodafone's mobile network and, in the same year, we completed the migration process of mobile telephone customers from France Telecom to our own network.

The agreement with Vodafone triggered France Telecom's legal claim filed against us in the International Arbitration Chamber of Paris ("CCI") in June 2008. France Telecom alleged breach of the non-compete obligations under the sale and purchase agreement governing the sale of Amena's parent company, Auna Operadores de Telecomunicaciones, S.A., dated July 29, 2005, to which we became a party on October 31, 2005, and a shareholders' agreement dated November 8, 2005. This dispute was finally settled on July 2, 2012, when we entered into a settlement agreement with France Telecom, under which France Telecom declared all outstanding obligations, liability and debts as extinguished, putting an end to all disputes between the parties. Pursuant to this settlement agreement, on July 2, 2012, we paid France Telecom a sum of €215 million in full and final settlement.

Impact of Refinancing

As of December 31, 2014, we had €247.5 million in outstanding indebtedness, comprising one Club Deal loan with a range of banks, one bilateral loan with Kutxabank and four bilateral loans with Banco Sabadell, CaixaBank, Caja Laboral and Bankoa-Crédit Agricole. In addition, we had an aggregate of €120 million in undrawn revolving credit facilities as of December 31, 2014, which included an €80 million credit facility maturing in 2018 to secure our working capital requirements.

Pursuant to our Facilities Agreement, we will have available new term loan bank debt of €470 million, which enables us to releverage our business. In addition, we will have €30 million available under our new Revolving Credit Facility. For more information on the impact of the Facilities, see "*Capitalization and Indebtedness*". For a description of the Facilities Agreement, including the repayment schedule under the Term Facilities and the term of the Revolving Credit Facility, see "*Material Contracts—Facilities Agreement*".

Although the principal amount of our indebtedness will be higher under the Facilities Agreement as compared to our existing arrangements, because of lower interest rates payable in respect of the Terms Facilities and the new Revolving Credit Facility, we expect our interest payments under the Term Facilities to be in line with what we have paid in the past (€14.1 million, €14.3 million and €12.5 million for the years ended December 31, 2014, 2013 and 2012). For more information, see "*—Liquidity and Capital Resources—Loans and Borrowings*".

The Company will not receive any of the proceeds from the Offering.

Recent Developments

Total Revenue for our residential segment has shown accelerating growth in the three months ended March 31, 2015, with month over month growth in January, February and March. Total Revenue for the residential segment in the three months ended March 31, 2015 was €49.0 million, an increase of 2.1% compared to the three months ended March 31, 2014. The increase was primarily the result of an improved monthly Global ARPU (€55.2), increasing mobile customer penetration rate, and lower churn ratio (14.8%, compared to 16.2% for the three months ended March 31, 2014). The acceleration in the residential segment is expected to continue.

Total Revenue for the business segment has amounted to €22.8 million in the three months ended March 31, 2015, a decrease of 4.6% compared to the three months ended March 31, 2014. The decrease was primarily due to pricing pressure in our SME and Large Account activities. Nevertheless, the trend has improved on a monthly basis with revenue per customer signaling a slowly improving outlook. Although we have observed similar positive trends in our SOHOs segment as in our residential segment for the three months ended March 31, 2015, growth in our SOHOs segment has remained largely flat (an increase of 0.2% as compared to the three months ended March 31, 2014). This was primarily due to pricing pressures in 2014 which reduced revenues and were not fully recovered as of March 31, 2015, reducing the impact of positive trends.

Total Revenue for the Wholesale and Other segment has amounted to €5.6 million for the three months ended March 31, 2015, a decrease of 8.2% compared to the three months ended March 31, 2014. The decrease was driven by regulatory changes which were implemented in November 2014 relating to the pricing of termination rates in our fixed telephony network. We expect a similar decline in Total Revenue in 2015 reflecting the full impact of this regulatory change, followed by stablization in subsequent years.

Total Revenue for the three months ended March 31, 2015 was €79.6 million, showing improvement month over month in January, February and March while remaining in line with Total Revenue for the three months ended March 31, 2014.

Our Adjusted EBITDA for the three months ended March 31, 2015 was €37.7 million, an increase of 1.2% compared to the three months ended March 31, 2014. Our Adjusted EBITDA margin for the same period was 47.4% compared to 46.8% for the three months ended March 31, 2014.

Our Operational Free Cash Flow amounted to €28.6 million, equivalent to Operational Free Cash Flow Conversion of 75.9%.

Our gross margin for the three months ended March 31, 2015, decreased by 1.6% to 75.4% from 77.0% for the three months ended March 31, 2014, impacted primarily by higher revenue from our Others segment (which is profit neutral at the gross profit level and therefore mathematically decreases our gross margin) as well as the increase in sale of mobile equipment on which we only realize a very modest margin, thereby contributing to the decrease in gross margin. We expect stable gross margins in the short term and some slight upside in the medium to long term due to mobile traffic offloading on our 4G and WiFi networks.

For a further discussion of our results of operations for the three months ended March 31, 2015, see "*—Results of Operations—Comparison of results of operations for the three months ended March 31, 2015 and 2014*", "*—Adjusted EBITDA Discussion*" and "*—Liquidity and Capital Resources—Operational Free Cash Flow*" below.

During April 2015, we saw the continuation of the commercial momentum that we have experienced over the previous financial periods in our management accounts, with a 0.6% increase in the number of residential customers to 297,019 (compared to 295,360 at the end of the prior month), the first net increase in residential customers since 2012, and residential monthly Global ARPU increasing to €55.7 (as compared to €55.2 at the end of the prior month). Of these 297,019 residential customers, 279,485 were fixed services customers and 17,534 were mobile-only customers. The percentage of 3P/4P customers also increased during the month to 59% as at April 30, 2015 from 58% as at March 31, 2015.

As a result of the foregoing, for the month ended April 30, 2015, Total Revenue from the residential segment grew by 3.6% for the month compared to the same period in the prior year, thereby supporting the accelerating growth momentum in the residential segment. No specific promotions were introduced during the month.

There has also been a stabilization of the Global ARPU trend in the SOHO sub-segment with a noticeable increase in April 2015, resulting in a 3.9% Total Revenue growth in the SOHO sub-segment year-on-year.

In June 2015, we launched an initiative in relation to our commercial strategy in both the residential and business segments, aiming to adjust our offering to current market conditions and to continue to benefit from strong commercial momentum by improving user experience in our medium and high value bundles in an effort. In particular, for medium and high value 3P and 4P bundles, we have improved and adjusted broadband download speeds in each package and we have also expanded our Pay TV service and functionality with the addition of PVR and additional Edonon TV services and other packages. Finally, we have reduced the number of promotional periods for TV bundles, in line with the strategy in recent months for our other bundles.

Operating Key Performance Indicators ("KPIs")

We use several operating KPIs, including number of homes passed, number of residential customers, RGUs, RGUs per unique residential subscriber, Residential Global ARPU and Residential churn to track the operating performance of our business. In the SOHO segment, we also consider number of customers as an operating KPI. None of these terms are measures of financial performance under IFRS-EU, nor have these measures been audited or reviewed by an auditor, consultant or expert. All of these measures are derived from our internal support and financial systems. As defined by our management, these terms may not be directly comparable to similar terms used by competitors or other companies.

The following table highlights certain of our operating KPIs during the period under review. A discussion of each of these operating KPIs is also included below. For more information on our other KPIs, including those related to SMEs and Large Accounts, see "*Selected Financial and Operating Information—Selected operating data*".

	As of March 31, 2015	As of December 31, 2014	2013	2012
Residential				
Homes passed	872,053	869,900	866,716	863,461
Residential customers	295,360	296,023	298,495	305,761
RGUs/customers	3.2	3.1	2.7	2.4
Residential churn fixed customers	14.8%	14.8%	14.8%	17.2%
Global ARPU fixed customers (€/month)	55.2	53.8	53.3	54.3
SOHO(1)				
Customers	47,136	47,038	46,317	45,637

Note:

(1) SOHOs: small office home office customers.

(i) Homes passed

Homes passed represent homes, residential multiple dwelling units or commercial units that are covered by an active node. The number of homes connected in our footprint has increased from 863,461 as of December 31, 2012 to 869,900 as of December 31, 2014 (866,716 as of December 31, 2013) and to 872,053 as of March 31, 2015. Between the year ended December 31, 2012 and the year ended December 31, 2014, we expanded our footprint by 6,439 homes. In the three months ended March 31, 2015, we have expanded our footprint by a further 2,153 homes.

There has been no material change in the number of homes passed as of April 30, 2015 since March 31, 2015.

(ii) Customers

Customers represent the number of individual end users who have subscribed for one or more of our upgraded digital fixed services as of the end of a specific period.

Residential customers

As of December 31, 2014, we had 296,023 residential customers (298,495 as of December 31, 2013), which represented a decrease of 9,738 residential customers compared to December 31, 2012. The decrease in the number of residential customers during the period under review was largely due to the following factors: pricing pressures, aggressive offers made by our competitors, and, most notably, austerity measures in Spain which resulted in consumers choosing lower priced products over higher quality products. As a consequence of these factors, demand in broadband services have shifted towards DSL offers, which has negatively affected cable-only providers, such as us.

As of March 31, 2015, we had 295,360 residential customers, representing a decrease in the first quarter of 0.2% compared to December 31, 2014. As of April 30, 2015, there were 297,019 residential customers, an increase of 0.6% since March 31, 2015. Of these 297,019 residential customers, 279,485 were fixed services customers and 17,534 were mobile-only customers.

SOHO customers

As of December 31, 2014, we had 47,038 SOHO customers (46,317 as of December 31, 2013), which represented an increase of 1,401 SOHO customers compared to December 31, 2012. The increase in the number of SOHO customers was largely due to the competitiveness of our offering and our proactivity in acquiring new customers during the period under review despite the fact that we face the same competitive pressures in this sub-segment as we do in the residential segment.

As of March 31, 2015, we had 47,136 SOHO customers, representing an increase in the first quarter of 0.2% compared to December 31, 2014. As of April 30, 2015, there were 47,251 SOHO customers, an increase of 0.2% since March 31, 2015, primarily due to the competitiveness of our offering and our proactivity in acquiring new customers.

(iii) RGUs

RGUs relate to sources of revenue, which may not always be the same as subscriber numbers. Each customer is counted as a revenue generating unit for each service for which such customer subscribes, regardless of the number of services that customer receives from us. For example, a single customer who receives broadband, Pay TV and fixed telephony services from us would account for three RGUs.

As of December 31, 2014, we had 279,691 fixed telephony RGUs (284,311 as of December 31, 2013), compared to 287,042 fixed telephony RGUs as of December 31, 2012. The decrease in fixed telephony RGUs over the period under review was a result of pricing pressures, aggressive offers made by our competitors, and, most notably, austerity measures in Spain which resulted in consumers choosing lower priced products over higher quality products. As of March 31, 2015, the number of fixed telephony RGUs was 278,516, representing no material change to the number of fixed telephony RGUs as of December 31, 2014.

As of December 31, 2014, we had 217,726 broadband RGUs (215,520 as of December 31, 2013), compared to 209,092 broadband RGUs as of December 31, 2012. The increase in broadband RGUs over the period under review was a result of the increase in penetration of broadband services across our customer base from 73% as of December 31, 2012 to 78% as of December 31, 2014. As of March 31, 2015, the number of broadband RGUs was 218,391. The increase in broadband RGUs during the three months ended March 31, 2015 was attributable to our new commercial offers which were rolled-out during the period.

As of December 31, 2014, we had 124,754 Pay TV RGUs (56,992 as of December 31, 2013), compared to 50,177 Pay TV RGUs as of December 31, 2012. The increase in Pay TV RGUs over the period under review was a result of transitioning our non-paying TV customers to Pay TV customers which had a limited impact on churn, as well as the introduction of new functionalities to our TV offering (e.g., TV Everywhere, VoD and PVR). As of March 31, 2015, the number of Pay TV RGUs was 124,729, which represents no significant change to the number of customers as of December 31, 2014.

As of December 31, 2014, we had 273,906 mobile RGUs (212,213 as of December 31, 2013), compared to 172,722 mobile RGUs as of December 31, 2012. The increase in mobile RGUs over the period under review was a result of the launch of competitive offers, in particular, the launch of "Tarifa Family". As of March 31, 2015, the number of mobile RGUs was 296,484. The increase in mobile RGUs during the three months ended March 31, 2015 was attributable to our competitive "Tarifa Family" offer, the improvement in the quality of our mobile coverage and the implementation of new innovative services such as Euskaltel WiFi which added incremental capacity to download data for our mobile customers.

As a result of the foregoing, total residential RGUs increased from 719,033 as of December 31, 2012 to 896,077 as of December 31, 2014 (769,036 as of December 31, 2013) to 918,120 as of March 31, 2015. The average number of RGUs per unique residential customer increased from 2.35 in the year ended December 31, 2012 to 3.03 in the year ended December 31, 2014 (2.58 in the year ended December 31, 2013) to 3.11 in the three months ended March 31, 2015. Our bundling and cross-selling strategy has yielded tangible results, with the percentage of 3P/4P customers increasing 4% during the three months ended March 31, 2015 (to 58% as at that date and 59% as at April 30, 2015) and the average number of RGUs per unique residential customer at its highest level as at April 30, 2015.

(iii) Residential churn

Residential churn is a measure of the number of churning customers as a percentage of our total fixed residential customers over a specific period of time. A customer is considered a churning customer when all active products of that subscriber becomes inactive (i.e., disconnected). Given the conditions of Euskaltel's offer, when a customer's fixed voice service is disconnected, it will be considered a churning customer as all other products will be automatically forced into deactivation.

Our residential churn rate for fixed services customers improved substantially from 17.2% for the year ended December 31, 2012 to 14.8% for the year ended December 31, 2013, and we have continued to maintain this lower churn rate for the year ended December 31, 2014 and for the three months ended March 31, 2015. The decrease in churn during the period under review was primarily driven by a reduction in the number of alternative providers as a consequence of consolidation in the Spanish Telecommunications Market as described further in "*Industry—Spanish Telecommunications Market Overview—Consolidation*".

We believe that our customer-centric strategy and focus on customer lifetime value help prevent churn by offering our customers simple, easy to understand packages centered around broadband speeds and add-ons. We currently offer our mobile products fully bundled with our fixed telephony services, a strategy we believe is helping us to reduce churn. We also experience lower churn levels on convergent offers, and our continued roll-out of such offers is expected to help manage churn.

(iv) Residential Global ARPU

Residential Global ARPU is an average monthly metric that we use to measure how effectively we are realizing revenue from a fixed residential customer. Residential Global ARPU is calculated by dividing revenue (including both revenue derived from fixed services, revenue derived from mobile postpaid services and revenues from applicable value-added services) for the relevant period by the average number of total residential customers for that period and further by the number of months in the period. The average number of total residential customers is calculated by aggregating the average number of residential customers in each month during the respective period and dividing the result by the number of months in the respective period.

Residential Global ARPU per residential customer decreased from €54.3 in the year ended December 31, 2012 to €53.8 in the year ended December 31, 2014. The decrease in residential Global ARPU per residential customer during the period under review was mainly driven by pricing pressures and aggressive offers made by our competitors, in particular the introduction of the "Movistar Fusión" offer by Telefónica in October 2012, driven by austerity measures in Spain which resulted in consumers choosing lower priced products over higher quality products. Monthly residential Global ARPU increased during the three months ended March 31, 2015 to €55.2 as a result of our bundling strategy and the successful increase in pricing across our products.

Description of Key Line Items

(i) Revenue

Revenue consists of income generated from the delivery of services to our residential, corporate and other customers. Revenue is recognized at the fair value of the consideration receivable and reflects the amounts to be collected for goods handed over and services rendered in the ordinary course of our activities, less returns, discounts and value added tax.

We monitor revenue generated from the following services: fixed-line network (voice and data), mobile network, TV, wholesale market and other. Seasonality does not affect revenue.

(ii) Other income

Other income comprises the government grants we receive, primarily for research and development projects as well as for training our employees, from the Basque Country's government, the Spanish government or the European Commission.

(iii) Work performed by the entity and capitalized

Work performed by the entity and capitalized comprises personnel expenses for tasks performed by our own staff relating to the roll-out of our network and innovation (such as new products and services and improvements in our negotiation procedures) which, if carried out by an external company, would be considered to be capital expenditures. From an accounting perspective, personnel charges are recorded and then capitalized as capital expenditures, and income is recorded under the heading "Work performed by the entity and capitalized".

(iv) Supplies

Our cost of supplies consists of network direct costs, the cost of TV content and the cost of purchasing mobile terminals which we sell to our customers, as well as the costs we incur from providing services to third parties, such as Telecable, or distributors, such as RACC.

(v) Personnel expenses

Personnel expenses comprise salaries and wages and other employee benefits and expenses paid to our directors, managers and other employees.

(vi) Other operating expenses

Other operating expenses comprise all the commercial costs, the network maintenance costs and costs relating to IT systems, sponsorship, advertising, utilities purchase, copyrights or bad debt provisions.

(vii) Net Finance Cost

Net finance cost comprises finance income less finance costs.

Finance income consists of income from: (i) investments in equity instruments; (ii) securities and other financial instruments; (iii) exchange gains; (iv) gains on disposal of financial instruments and (v) increases in fair value of financial instruments.

Finance costs consist of (i) loans and borrowings, (ii) impairment and loss on disposal of financial instruments, (iii) decreases in fair value of financial instruments, (iv) exchange losses and (v) other.

Results of Operations

Comparison of results of operations for the three months ended March 31, 2015 and 2014

	Three months ended March 31,	
	2015	2014
	(unaudited) (€ thousands)	
Revenue	78,437	77,959
Other income	126	71
Work performed by the entity and capitalized	1,047	1,555
Supplies	(17,487)	(17,965)
Personnel expenses	(5,839)	(8,089)
Other operating expenses	(19,015)	(16,332)
Depreciation, amortization and impairment	(19,874)	(19,664)
Results from Operating Activities	**17,395**	**17,535**
Net Finance Cost	(15,906)	(6,226)
Income tax	(248)	(2,988)
Profit for the period	**1,241**	**8,321**

(i) Revenue

Our revenue for the three months ended March 31, 2015 was €78.4 million, as compared to €78.0 million for the three months ended March 31, 2014, representing a €0.4 million, or 0.5%, increase. This increase was attributable mainly to the Residential segment which has shown accelerating growth as a consequence of lower churn ratio (14.8%, compared to 16.2% for the three months ended March 31, 2014) and improved residential monthly Global ARPU (€55.2) as well as a rising mobile customer penetration rate compared to the prior period. The revenue in our Residential segment increased 2.1% compared to the three months ended March 31, 2014, while our SOHO segment showed an additional growth of 0.2% compared to the prior period.

Our other segments (SMEs, Large Accounts, Wholesale and Other business) showed a slight recovery month to month, as compared to the three months ended March 31, 2014, but have decreased overall by 7.9% as compared to the prior period, due in part to the discounts agreed to in our contract with the Basque government following the renegotiation of such contract in December 2014, regulatory changes relating to the pricing of termination rates in our fixed telephony network, decreases in equipment sales and tougher competition from our competitors in the segment. See also "*—Key Factors Affecting Our Results of Operations—Industry Environment*" and "*Risks—Risks Relating to the Company and its Business and the Industry in which it operates—We operate in a highly regulated market as a result of which we may be required to make additional expenditures or limit our revenue*".

(ii) Other income

Our other income for the three months ended March 31, 2015 was €0.1 million, as compared to €0.1 million for the three months ended March 31, 2014. Such other income comprised the government grants we receive, primarily for research and development projects as well as for training our employees, from the Basque Country's government, the Spanish government or the European Commission.

(iii) Work performed by the entity and capitalized

Our work performed by the entity and capitalized for the three months ended March 31, 2015 was €1.0 million, as compared to €1.6 million for the three months ended March 31, 2014, representing a decrease of €0.6 million, or 37.5%. This decrease was attributable to a lower activity of deployment of new services in the three months ended March 31, 2015 and a lower employee headcount as compared to the prior period.

(iv) Supplies

Our supplies for the three months ended March 31, 2015 cost €17.5 million, as compared to €18.0 million for the three months ended March 31, 2014, representing a €0.5 million, or 2.8%, decrease. This decrease was attributable to lower interconnection costs in fixed services.

(v) Personnel expenses

Our personnel expenses for the three months ended March 31, 2015 were €5.8 million, as compared to €8.1 million for the three months ended March 31, 2014, representing a decrease of €2.3 million, or 28.4%. This decrease was attributable to the decrease in our headcount, from 531 as at March 31, 2014 to 346 as at March 31, 2015 relating to the reduction in headcount linked to the outsourcing process.

(vi) Other operating expenses

Our other operating expenses for the three months ended March 31, 2015 were €19.0 million, as compared to €16.3 million for the three months ended March 31, 2014, representing an increase of €2.7 million, or 16.6%. This increase was primarily attributable to the outsourcing of work relating to our network and IT systems (which were put in place during the second half of 2014 (related to the decrease in the personnel expenses as described above)).

(vii) Depreciation, amortization and impairment

Our depreciation, amortization and impairment for the three months ended March 31, 2015 was €19.9 million, as compared to €19.7 million for the three months ended March 31, 2014, representing an increase of €0.2 million, or 1.0%.

(viii) Results from Operating Activities

As a result of the foregoing, our results from operating activities decreased by €0.1 million or 0.6%, to €17.4 million for the three months ended March 31, 2015 from €17.5 million for the three months ended March 31, 2014.

(ix) Net Finance Cost

Our net finance cost for the three months ended March 31, 2015 were €15.9 million, as compared to €6.2 million for the three months ended March 31, 2014, representing a €9.7 million increase. This increase was attributable to an increase in the accrual for payment in cash derived from our Management Incentive Plans and Investment Agreements as of March 31, 2015 (as further described in "*Management and Board of Directors—Management Incentive Plans*").

(x) Income Tax

Our income tax expenses for the three months ended March 31, 2015 were €0.2 million, as compared to €3.0 million for the three months ended March 31, 2014, representing a €2.8 million, or 93.3%, decrease. This decrease was attributable to the decrease in our profit before corporate income tax.

(xi) Profit for the period

As a result of the foregoing, our profit for the period decreased by €7.1 million, or 85.5%, to €1.2 million for the three months ended March 31, 2015 from €8.3 million for the three months ended March 31, 2014.

Comparison of results of operations for the years ended December 31, 2014 and 2013

	Year ended December 31,	
	2014	2013
	(€ thousands)	
Revenue	315,109	329,148
Other income	331	559
Work performed by the entity and capitalized	5,721	5,184
Supplies	(71,524)	(73,018)
Personnel expenses	(30,318)	(34,379)
Other operating expenses	(64,612)	(70,946)
Depreciation, amortization and impairment	(81,508)	(83,243)
Results from Operating Activities	**73,199**	**73,305**
Net Finance Cost	**(23,264)**	**(15,939)**
Income tax	(13,152)	(15,072)
Profit for the year	**36,783**	**42,294**

(i) Revenue

Our revenue for the year ended December 31, 2014 was €315.1 million, as compared to €329.1 million for the year ended December 31, 2013, representing a €14.0 million, or 4.3%, decrease.

This decrease was mainly attributable to a decrease in revenue from our Business segment as well as several factors impacting revenue across our segments, including an erosion in mobile ARPU (which was greater in the Business segment than in the Residential segment); the pricing pressures driven by Telefónica; and governmental entities/public administrative bodies reducing their telecommunications spend during this period, seeking price and service reductions.

(ii) Other income

Our other income for the year ended December 31, 2014 was €0.3 million, as compared to €0.6 million for the year ended December 31, 2013, representing a €0.3 million, or 50.0%, decrease. This decrease was attributable to lower grants received relating to our research and development activity.

(iii) Work performed by the entity and capitalized

Our work performed by the entity and capitalized for the year ended December 31, 2014 was €5.7 million, as compared to €5.2 million for the year ended December 31, 2013, representing an increase of €0.5 million, or 9.6%. This increase was entirely attributable to the launching and developing of a greater volume of new services and products.

(iv) Supplies

Our supplies for the year ended December 31, 2014 cost €71.5 million, as compared to €73.0 million for the year ended December 31, 2013, representing a €1.5 million, or 2.1%, decrease in cost. This decrease was mainly attributable to the lower interconnection costs in fixed services, such interconnection costs amounting to €5.5 million for the year ended December 31, 2014, as compared to €7.8 million for the prior year.

(v) Personnel expenses

Our personnel expenses for the year ended December 31, 2014 were €30.3 million, as compared to €34.4 million for the year ended December 31, 2013, representing a decrease of €4.1 million, or 11.9% in expenses. This decrease was attributable to the reduction in headcount linked to the outsourcing of work to GFI as well as voluntary early retirement and rationalization in the organization.

(vi) Other operating expenses

Our other operating expenses for the year ended December 31, 2014 were €64.6 million, as compared to €70.9 million for the year ended December 31, 2013, representing a decrease of €6.3 million, or 8.9% in expenses. This decrease was attributable to optimization of commercial costs and reduction in sponsorships which offset the increase in expenses resulting from the outsourcing of IT.

(vii) Depreciation, amortization and impairment

Our depreciation, amortization and impairment for the year ended December 31, 2014 was €81.5 million, as compared to €83.2 million for the year ended December 31, 2013, representing a decrease of €1.7 million, or 2.0%. This decrease was attributable to the reduction in capital expenditures between the two periods.

(viii) Results from Operating Activities

As a result of the foregoing, our results from operating activities decreased by €0.1 million to €73.2 million for the year ended December 31, 2014 from €73.3 million for the year ended December 31, 2013.

(ix) Net Finance Cost

Our net finance cost for the year ended December 31, 2014 were €23.3 million, as compared to €15.9 million for the year ended December 31, 2013, representing an €7.4 million, or 46.5%, increase in cost. This increase was attributable to the expenses linked to the incentive plan for members of the management committee, the Board of Directors and other key employees, amounting to €7.8 million for the year ended December 31, 2014.

(x) Income Tax

Our income tax expenses for the year ended December 31, 2014 were €13.2 million, as compared to €15.1 million for the year ended December 31, 2013, representing a €1.9 million, or 12.6%, decrease. This decrease was attributable to a lower profit before taxes.

We have paid €0 and €2.4 million in income taxes for the years ended December 31, 2013 and 2014, respectively, benefiting from our ability to deduct previously accrued losses in those periods.

(xi) Profit for the Year

As a result of the foregoing, our profit for the year decreased by €5.5 million, or 13.0%, to €36.8 million for the year ended December 31, 2014 from €42.3 million for the year ended December 31, 2013.

Comparison of results of operations for the years ended December 31, 2013 and 2012

In 2013, in accordance with Spanish GAAP and with IFRS-EU, we capitalized sales commissions relating to our Subscriber Acquisition Costs if such sales commissions: (i) could be linked to an individual customer agreement with a binding period of twelve months or longer; (ii) were payable to a third-party agent; (iii) could be reliably determined (i.e., the inflow of the related benefit is deemed to be more probable than not); and (iv) corresponded to the definition of an asset and thus met the recognition criteria under IFRS-EU, which in the period subsequent to the year ended December 31, 2012 had the effect of reducing costs recorded on our income statement as well as our Adjusted EBITDA, as described below in "*—Adjusted EBITDA Discussion*".

	Year ended December 31,	
	2013	**2012**
	(€ thousands)	
Revenue	329,148	338,542
Other income	559	819
Work performed by the entity and capitalized	5,184	3,439
Supplies	(73,018)	(76,916)
Personnel expenses	(34,379)	(31,708)
Other operating expenses	(70,946)	(92,217)
Depreciation, amortization and impairment	(83,243)	(75,889)
Results from Operating Activities	**73,305**	**66,070**
Net Finance Cost	**(15,939)**	**(12,725)**
Income tax	(15,072)	(13,220)
Profit for the year	**42,294**	**40,125**

(i) Revenue

Our revenue for the year ended December 31, 2013 was €329.1 million, as compared to €338.5 million for the year ended December 31, 2012, representing a €9.4 million, or 2.8%, decrease.

This decrease was mainly attributable to a decrease in revenue from our Residential segment as a result of an erosion in Global ARPU, a decrease in residential customers and pricing pressures across the industry.

(ii) Other income

Our other income for the year ended December 31, 2013 was €0.6 million, as compared to €0.8 million for the year ended December 31, 2012, representing a €0.2 million, or 25%, decrease. This decrease was attributable to lower grants received relating to our research and development activity as a result of the weaker economic position of public entities during this period.

(iii) Work performed by the entity and capitalized

Our work performed by the entity and capitalized for the year ended December 31, 2013 was €5.2 million, as compared to €3.4 million for the year ended December 31, 2012, representing an increase of €1.8 million, or 52.9%. This increase was attributable to the internalization of activities related to the launch of new services and products, which contributed €2.7 million, partially offset by a €1.0 million decrease in activities related to the deployment of the network.

(iv) Supplies

Our supplies for the year ended December 31, 2013 cost €73.0 million, as compared to €76.9 million for the year ended December 31, 2012, representing a €3.9 million, or 5.1%, decrease in cost. This decrease was attributable to the decrease observed in other income, which itself caused a reduction in materials and equipment consumption, as well as a lower volume of financed mobile devices for our customers and the cost optimization of our TV content.

(v) Personnel expenses

Our personnel expenses for the year ended December 31, 2013 were €34.4 million, as compared to €31.7 million for the year ended December 31, 2012, representing an increase of €2.7 million, or 8.5% in expenses. This increase was attributable to a statutory increase in wages as well as an exceptional item relating to the bonus paid to employees following the change in shareholder structure.

(vi) Other operating expenses

Our other operating expenses for the year ended December 31, 2013 were €70.9 million, as compared to €92.2 million for the year ended December 31, 2012, representing a decrease of €21.3 million, or 23.1% in expenses. This decrease was attributable to the capitalization of Subscriber Acquisition Costs and a related decrease in costs for our customer care platforms and post sales services, resulting from the renegotiation of contracts and an improvement in our processes. The decrease was also the result of the elimination of costs paid to the Basque government relating to our network rental (as a consequence of our acquisition of the network's backbone).

(vii) Depreciation, amortization and impairment

Our depreciation, amortization and impairment for the year ended December 31, 2013 was €83.2 million, as compared to €75.9 million for the year ended December 31, 2012, representing an increase of €7.3 million, or 9.6%.

(viii) Results from Operating Activities

As a result of the foregoing, our results from operating activities increased by €7.2 million, or 10.9%, to €73.3 million for the year ended December 31, 2013 from €66.1 million for the year ended December 31, 2012.

(ix) Net Finance Cost

Our net finance costs for the year ended December 31, 2013 were €15.9 million, as compared to €12.7 million for the year ended December 31, 2012, representing an €3.2 million, or 25.2%, increase in cost. This increase was attributable to a higher net debt for the year ended December 31, 2013 as compared to the prior year as a result of the loan entered into by the Company in December 2012, as described further under "*—Liquidity and Capital Resources—Loans and Borrowings*" below.

(x) Income Tax

Our income tax expenses for the year ended December 31, 2013 were €15.1 million, as compared to €13.2 million for the year ended December 31, 2012, representing a €1.9 million, or 14.4%, increase in expenses. This increase was attributable to the higher profit before income tax for the year ended December 31, 2013 as compared to the prior year.

We have paid €0 million in income taxes for each of the years ended December 31, 2013 and 2012, benefiting from our ability to deduct previously accrued losses in those periods.

(xi) Profit for the Year

As a result of the foregoing, our profit for the year increased by €2.2 million, or 5.5%, to €42.3 million for the year ended December 31, 2013 from €40.1 million for the year ended December 31, 2012.

Segmental Discussion

Management considers the following operating segments:

- *Residential.* We provide our residential customers with a combination of fixed and mobile telecommunication services, as well as other value added services, primarily through our fiber network and our MVNO agreement with Orange. The main services we provide to our residential customers comprise bundles, broadband, Pay TV, mobile and fixed telephony.
- *Business.* We also provide fixed and mobile telecommunication services to SOHOs, SMEs and Large Accounts, leveraging our fiber network. For SMEs and Large Accounts, through our own sales force, we are able to offer integrated and tailor-made solutions to a sophisticated and demanding customer base, which includes financial institutions, large corporates, healthcare providers and public administration bodies.
- *Wholesale and Other.* We provide communications services to wholesale customers (most of whom are telecommunication companies who compete directly with us) including leased lines, data and voice services that use our facilities and infrastructure to provide services to their customers. We also provide Leased Lines services in SDH and Ethernet technologies, Dark Fiber, Voice Services (that allow carriers to complete their end-user calls that originate or terminate within our territory) and Enabling Services, based in our BSS and Mobile Core Network. In addition, we offer IT outsourcing and mobile services to third parties.

This segment also includes works performed by the entity and capitalized.

- *Others.* We sell installation material and electronics to third-party installation companies to be used in provisioning customers and deploying and maintaining our next generation fiber network. These operations are profit neutral.

For more information on our operating segments, see "*Business—Overview—Residential segment*", "*Business—Overview—Business segment*" and "*Business—Overview—Wholesale and Other*".

The below table sets out a breakdown of our Total Revenue by segment during the period under review as set out in Note 17 to each of the Financial Statements included elsewhere in the Prospectus.

	Three months ended March 31,		Year ended December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
			(€ thousands)		
	(unaudited)				
Residential	49,018	48,008	196,190	195,390	201,286
Business	22,775	23,920	93,383	101,214	102,830
o/w SOHOs	*9,044*	*9,027*	*35,551*	*36,756*	*37,112*
o/w SMEs	*4,476*	*4,886*	*18,537*	*18,203*	*18,032*
o/w LAs	*9,255*	*10,007*	*39,294*	*46,254*	*47,686*
Wholesale and Other	5,577	6,077	24,730	29,669	28,889
Others	2,241	1,580	6,858	8,618	9,795
Total Revenue	**79,611**	**79,585**	**321,161**	**334,891**	**342,800**

(i) Residential

Our Total Revenue for the residential segment increased by €0.8 million or 0.4% from €195.4 million in the year ended December 31, 2013 to €196.2 million in the year ended December 31, 2014. Total Revenue for the residential segment decreased by €5.9 million or 2.9% from €201.3 million in the year ended December 31, 2012 to €195.4 million in the year ended December 31, 2013. Total Revenue for the residential segment proved resilient despite pricing pressure from launch of Telefónica's "Movistar Fusión" offering and the challenging macro environment, reflecting the success of our bundling strategy which limited the decline in ARPU while increasing RGUs.

Our Total Revenue for the residential segment increased by €1.0 million or 2.1% from €48.0 million in the period ended March 31, 2014 to €49.0 million in the period ended March 31, 2015 as a consequence of lower churn and ARPU combined with continued strong mobile uptake as well as successful pricing increases in January 2015. We believe that we have reached an inflection point in our Total Revenue for the residential segment given the acceleration in our monthly Total Revenue growth over the period.

(ii) Business

Total Revenue for the business segment decreased by €7.8 million or 7.7% from €101.2 million in the year ended December 31, 2013 to €93.4 million in the year ended December 31, 2014. Total Revenue for the business segment decreased by €1.6 million or 1.6% from €102.8 million in the year ended December 31, 2012 to €101.2 million in the year ended December 31, 2013. While our performance in SOHOs remained stable, mirroring the trends in our Residential segment, our performance in SMEs and Large Accounts has been affected by the austerity measures in Spain as well as pricing pressures from our main competitor (Telefónica). In particular, in Large Accounts, we have experienced pressure from some of our main clients (including the Basque government) to reduce pricing during contract renegotiation which contributed to the decline in Total Revenue for the business segment in this sub-segment for the year ended December 31, 2014.

Our Total Revenue for the business segment decreased by €1.1 million or 4.6% from €23.9 million in the three months ended March 31, 2014 to €22.8 million in the three months ended March 31, 2015. The increase in Total Revenue for the business segment from our SOHOs sub-segment is consistent with the trends in our Residential segment, due primarily to an increase in both fixed and mobile subscribers. The SMEs and Large Accounts sub-segments remained under pressure but the trend has been improving since February as a result of improved pricing.

(iii) Wholesale and Other

Total Revenue for the wholesale and other segment decreased by €5.0 million or 16.8% from €29.7 million in the year ended December 31, 2013 to €24.7 million in the year ended December 31, 2014. Total Revenue for the wholesale and other segment increased by €0.8 million or 2.7% from €28.9 million in the year ended December 31, 2012 to €29.7 million in the year ended December 31, 2013. The majority of the decrease was driven by regulatory changes and the decrease in equipment sales and services delivered outside the Basque Country, such as RACC and Telecable.

Our Total Revenue for the wholesale and other segment decreased by €0.5 million or 8.2% from €6.1 million in the three months ended March 31, 2014 to €5.6 million in the three months ended March 31, 2015 as a result of regulatory changes during the period.

Overall there has been very limited impact on margins from this segment, similar to our Others segment which has profit neutral operations.

Adjusted EBITDA Discussion

In order to better understand how management assesses the performance of our operations as well as our cost structure, the below table sets out a breakdown of our Adjusted EBITDA and costs during the period under review as set out in Note 17 to each of the Financial Statements included elsewhere in the Prospectus. This breakdown reflects how management views the business' cost structure and the criteria management uses to make business decisions relating to our daily operations. Prospective investors should not consider Adjusted EBITDA, Adjusted EBIT or Adjusted Profit for the period in isolation, as a substitute for, or superior to, financial information prepared in accordance with IFRS-EU, or as an indication of operating performance.

	Three months ended March 31,		Year ended December 31,		
	2015	2014	2014	2013	2012
			(€ thousands)		
	(unaudited)				
Total Revenue[1]	**79,611**	**79,585**	**321,161**	**334,891**	**342,800**
Direct costs	(19,618)	(18,284)	(75,507)	(75,816)	(81,849)
Gross profit	**59,993**	**61,301**	**245,654**	**259,075**	**260,951**
% margin	*75.4%*	*77.0%*	*76.5%*	*77.4%*	*76.1%*
Commercial Costs[2]	(9,582)	(10,450)	(36,364)	(42,778)	(60,603)
Contribution margin	**50,410**	**50,851**	**209,290**	**216,298**	**200,348**
% margin	*63.3%*	*63.9%*	*65.2%*	*64.6%*	*58.4%*
Overhead Costs[2]	(12,710)	(13,594)	(53,441)	(61,164)	(65,691)
Adjusted EBITDA[3] *(unaudited)*	**37,700**	**37,257**	**155,850**	**155,134**	**134,657**
% margin[4] *(unaudited)*	*47.4%*	*46.8%*	*48.5%*	*46.3%*	*39.3%*
Depreciation, amortization and impairment	(19,874)	(19,664)	(81,508)	(83,243)	(75,889)
Adjusted EBIT *(unaudited)*	**17,826**	**17,593**	**74,342**	**71,891**	**58,768**
Other non-recurring (costs)/income	(431)	(58)	(1,143)	1,415	7,302
Net Finance Cost	(15,906)	(6,226)	(23,264)	(15,939)	(12,725)
Income tax	(248)	(2,988)	(13,152)	(15,072)	(13,220)
Profit[5]	**1,241**	**8,321**	**36,783**	**42,294**	**40,125**
Adjustments	(12,899)	(2,016)	(8,975)	1,415	7,302
Other non-recurring income/(cost)	*(431)*	*(58)*	*(1,143)*	*1,415*	*7,302*
Financial cost (incentive plan variation)	*(12,468)*	*(1,958)*	*(7,832)*	—	—
Net of tax effect[6]	**(9,287)**	**(1,452)**	**(6,462)**	**1,019**	**5,257**
Adjusted Profit for the period *(unaudited)*	**10,528**	**9,773**	**43,245**	**41,275**	**34,868**

Notes:

(1) In our Financial Statements which are prepared in accordance with IFRS-EU, Total Revenue comprises revenue, other income and work performed by the entity and capitalized.

(2) The Company's operational expenditures comprise commercial costs plus overhead costs.

(3) Adjusted EBITDA is defined as Total Revenue less direct costs, commercial costs and overhead costs.

(4) Adjusted EBITDA margin represents Adjusted EBITDA as a percentage of Total Revenue.

(5) Profit as set forth in our Financial Statements which are prepared in accordance with IFRS-EU.

(6) Adjustment at tax rate of 28%.

For the year ended December 31, 2014, we generated Adjusted EBITDA of €155.9 million (Adjusted EBITDA margin of 48.5%) compared to €155.1 million for the year ended December 31, 2013 (Adjusted EBITDA margin of 46.3%) and €134.7 million for the year ended December 31, 2012 (Adjusted EBITDA margin of 39.3%). In 2013, 2014 and 2015, the Company in accordance with Spanish GAAP and with IFRS-EU has capitalized costs related to contracts in which customers undertake to remain with the Company for a specified period of time, which had the impact of reducing costs recorded on our income statement and thereby increasing our Adjusted EBITDA during the period under review. For the year ended December 31 2012, in accordance with Spanish GAAP and with IFRS-EU, if we had capitalized the €11.6 million of Subscriber Acquisition Costs included in our commercial costs for 2012, our Adjusted EBITDA would have been €146.3 million (Adjusted EBITDA margin of 42.7%).

Despite difficult market conditions, we have managed to increase our Adjusted EBITDA margin by 6.2 percentage points between 2012 and 2014 (using 2012 Adjusted EBITDA, restated for capitalized commissions, of €146.3 million). This has been driven primarily by our efforts to improve our revenue generation through the implementation of our commercial strategy, including cross-selling and up-selling, the introduction of new services and our pricing strategy. Indeed, despite difficult market conditions we have managed to retain our customer base, limit ARPU decline and lower churn. Second, our continuous focus on efficiency through the implementation of the Transformation Plan has allowed us to reduce our operating costs base by €20 million over these two years. For more information, see "*—Key Factors Affecting Our Results of Operations—Transformation Plan*". Our Adjusted EBITDA tends to be homogeneous throughout the year although the third and fourth quarters tend to be stronger.

For the three months ended March 31, 2015, we generated Adjusted EBITDA of €37.7 million (Adjusted EBITDA margin of 47.4%) compared to €37.3 million for the three months ended March 31, 2014 (Adjusted EBITDA margin of 46.8%). For the three months ended March 31, 2015, our Adjusted EBITDA margin further increased by 0.6%, primarily due to the improvement in Total Revenue for the residential and SOHO segments and the continuing impact of the Transformation Plan on our cost structure.

Liquidity and Capital Resources

We maintain cash and cash equivalents to fund the day-to-day requirements of our business. We hold cash primarily in euro. We rely primarily on operating cash flows and drawings under our credit facilities to provide funds required for operations. Following the Offering, we expect to continue to rely on these sources of funding to provide the funds required for our operations.

As at March 31, 2015, our credit facilities had a total limit of €110 million (€120 million, €110 million and €117 million as at December 31, 2014, 2013 and 2012, respectively) of which €110 million remained undrawn at that date (€120 million, €87 million and €78 million as at December 31, 2014, 2013 and 2012, respectively). This limit includes a €80 million current account credit facility, which falls due on December 30, 2018, to ensure our working capital requirements, obtained from Kutxabank on December 19, 2012. For more information, see "*—Loans and Borrowings*" below.

Cash flow for the three months ended March 31, 2015 and 2014

	Three months ended March 31,	
	2015	**2014**
	(€ thousands) (unaudited)	
Net cash flows from operating activities	28,508	25,799
Net cash used in investing activities	(11,150)	(11,065)
Net cash flows used in financing activities	(15,067)	(19,829)
Net cash increase/(decrease) in cash and cash equivalents	**2,291**	**(5,095)**
Cash and cash equivalents at beginning of the period	10,650	6,289
Cash and cash equivalents at end of period	12,941	1,194

(i) Net cash flow from operating activities

Our net cash flow from operating activities for the three months ended March 31, 2015 was €28.5 million, representing an increase of €2.7 million as compared to €25.8 million for the three months ended March 31, 2014. This increase was mainly due to the decrease in trade payables and lower net finance costs.

(ii) Net cash used in investing activities

Our net cash used in investing activities for the three months ended March 31, 2015 was €11.2 million, mainly due to the acquisition of tangible assets, offset by the sale of some assets to ZTE, including as part of the outsourcing process. Our net cash used in investing activities for the three months ended March 31, 2014 was €11.1 million, primarily as a result of the acquisition of tangible and intangible assets.

(iii) Net cash flows used in financing activities

Our net cash flows used in financing activities for the three months ended March 31, 2015 was €15.1 million, mainly due to the repayment of loans and borrowing. Our net cash flows from financing activities for the three months ended March 31, 2014 was €19.8 million, primarily as a result of the repayment of loans and borrowings.

Cash flow for the years ended December 31, 2014, 2013 and 2012

	Year ended December 31,		
	2014	2013	2012
		(€ thousands)	
Net cash flows from/(used in) operating activities	126,358	141,577	(93,853)
Net cash used in investing activities	(37,247)	(49,901)	(126,784)
Net cash flows (used in)/from financing activities	(84,750)	(85,614)	164,410
Net cash increase/(decrease) in cash and cash equivalents	**4,361**	**6,062**	**(56,227)**
Cash and cash equivalents at beginning of the period	6,289	227	56,454
Cash and cash equivalents at end of period	10,650	6,289	227

(i) Net cash flows from/(used in) operating activities

Our net cash inflow from operating activities for the year ended December 31, 2014 was €126.4 million, representing a decrease of €15.2 million as compared to the prior year, as a result of the decrease in trade payables and corporate income tax paid.

Our net cash inflow from operating activities for the year ended December 31, 2013 was €141.6 million, representing an increase of €235.4 million compared to a net cash outflow of €93.9 million for the year ended December 31, 2012, primarily due to the impact of the payment relating to the France Telecom settlement as described under "*—Key Factors Affecting Our Results of Operations—France Telecom Settlement*".

(ii) Net cash used in investing activities

Our net cash used in investing activities for the year ended December 31, 2014 was €37.2 million, representing a decrease of €12.7 million as compared to the prior year, primarily attributable to the lower acquisition costs of property, plant and equipment.

Our net cash used in investing activities for the year ended December 31, 2013 was €49.9 million, representing a decrease of €76.9 million as compared to €126.8 million for the year ended December 31, 2012, which was primarily due to the lower acquisition costs of fixed assets for the latter period and the investments made during the prior period relating to the purchase of the remaining backbone of our network, costs relating to network deployment and our investment in the Large Accounts sub-segment.

(iii) Net cash flows (used in)/from financing activities

Our net cash outflow from financing activities for the year ended December 31, 2014 was €84.8 million, primarily attributable to the net repayment of loans and borrowings amounting to €108.0 million.

Our net cash outflow from financing activities for the year ended December 31, 2013 was €85.6 million, which was primarily due to the net repayment of loans and borrowings amounting to €168.8 million.

Our net cash inflow from financing activities for the year ended December 31, 2012 was €164.4 million, primarily as a result of an increase in our share capital by €54.4 million with a share premium of €13.6 million to acquire the remaining backbone of our network as described above. Our net cash inflow for the year ended December 31, 2012 also reflected costs associated with the €200 million loan entered into by the Company in December 2012, as described further in "*—Loans and Borrowing*" below.

Working Capital

	Three months ended March 31,		Year ended December 31,		
	2015	**2014**	**2014**	**2013**	**2012**
	(€ thousands)				
	(unaudited)				
Change in operating assets and liabilities	(8,686)	(9,997)	(12,581)	1,049	(226,170)
Change in suppliers of fixed assets	(5,802)	(3,057)	5,824	(6,720)	(8,259)
Allowances	577	406	1,018	1,435	2,693
o/w impairment of trade receivables	*577*	*406*	*2,014*	*1,848*	*3,057*
o/w impairment of inventories	—	—	*(996)*	*(413)*	*(364)*
Change in working capital	**(13,911)**	**(12,648)**	**(5,739)**	**(4,236)**	**(231,736)**

During the period under review, we have experienced limited variations from year to year in our working capital, with the exception of the year ended December 31, 2012 as described further below. For the year ended December 31, 2014, our change in working capital was negatively impacted by €2.9 million from the transfer of certain fixed assets to ZTE as part of an outsourcing contract. For more information, see "*Material Contracts—ZTE Contract*".

Our change in working capital for the years ended December 31, 2014 and 2013 have also been impacted by €4.0 million and €3.0 million, respectively, of exceptional items relating to the implementation of the Transformation Plan (such as the payment of early retirement indemnities).

Our change in working capital for the year ended December 31, 2012 was €(231.7) million, primarily as a result of the settlement payment to France Telecom, as described further under "*—Key Factors Affecting Our Results of Operations—France Telecom Settlement*" above.

Due to seasonality, our change in working capital is impacted during each first quarter of the financial year as a result of payments due to our suppliers during the Christmas period which are offset until January of the following year.

Capital Expenditures

We classify our capital expenditures in the below categories.

- Network deployment: internal and external costs associated with new deployments in homes, SOHOs and industrial parks
- Maintenance: costs relating to platform obsolescence or applications maintenance, efficiency and savings plans
- Success Base: costs relating to mass market provisioning (CPEs, STBs, installation on customers facilities); Large Accounts network deployment, equipment and installation; development of platforms for fixed voice, mobile, broadband, TV, backbone support or access; deployment and launch of new commercial services and products for our customers; Subscriber Acquisition Costs
- New projects: internal and external costs for new technology projects and research and development activities

Capital expenditures have fluctuated on annual basis during the period under review, largely due to our significant investment in our network during the year ended December 31, 2012, including the purchase of the backbone for our network (the part which we did not previously own) to the Basque government for €68 million, additional costs relating to the deployment of our network (totaling €7.9 million) and investment in the Large Accounts sub-segment (totaling €9.1 million). The table below sets forth our capital expenditures for the years ended December 31, 2012, 2013 and 2014 and for the three months ended March 31, 2014 and 2015.

	Three months ended March 31,		Year ended December 31,		
	2015	2014	2014	2013	2012
			(€ millions)		
	(unaudited)				
Intangible Assets—Additions	2.9	2.3	15.8	12.8	2.8
Property, Plant and Equipment—Additions	6.2	5.6	26.4	28.7	116.4
Capital expenditures	**9.1**	**7.9**	**42.2**	**41.5**	**119.2**
Network deployment	*0.8*	*1.2*	*3.4*	*4.5*	*80.1*
Maintenance	*2.8*	*0.5*	*5.6*	*7.5*	*8.9*
Success base	*4.9*	*5.7*	*29.8*	*26.7*	*29.8*
New projects	*0.6*	*0.5*	*3.4*	*2.8*	*0.4*

For the year ended December 31, 2012, our capital expenditures amounted to €119.2 million of which: (i) €7.0 million was for the deployment in new homes; (ii) €17.1 million was for mass market provisioning; (iii) €9.1 million was for new deployments and equipment relating to Large Accounts, as a result of the active acquisition of new contracts and (iv) the purchase of the backbone for our network (the part which we did not previously own) to the Basque government for €68 million.

For the year ended December 31, 2013, our capital expenditures amounted to €41.5 million of which there were no exceptional items to highlight.

For the year ended December 31, 2014, our capital expenditures amounted to €42.2 million of which €8.7 million was invested in new projects (such as our broadband re-positioning, new TV platform and capabilities and Euskaltel WiFi).

For the three months ended March 31, 2015, our capital expenditures amounted to €9.1 million of which €2 million was invested on maintenance was for the new IMS platform.

We finance our capital expenditures through operating cash flow and our loans and borrowings. While we do not have any material commitments for the future, we believe that any future capital expenditures, including the development of new products, will be mostly linked to our commercial success. We target capital expenditures of between €40 million and €45 million for the year ended December 31, 2015 and a capital expenditures to Total Revenue ratio of 13% to 14% for the longer term. We will continue to apply a disciplined approach to our investments, including in relation to any future deployment of our fixed and mobile networks.

Operational Free Cash Flow

	Three months ended March 31,		Year ended December 31,		
	2015	2014	2014	2013	2012
			(€ thousands)		
	(unaudited)				
Adjusted EBITDA (*unaudited*)	37,700	37,257	155,850	155,134	134,657
Capital expenditures	(9,080)	(7,926)	(42,210)	(41,532)	(119,192)
Operational Free Cash Flow (*unaudited*)	**28,620**	**29,331**	**113,640**	**113,602**	**15,465**
Operational Free Cash Flow Conversion (*unaudited*)	*75.9%*	*78.7%*	*72.9%*	*73.2%*	*11.5%*

Operational Free Cash Flow means Adjusted EBITDA less capital expenditures. Operational Free Cash Flow Conversion represents Operational Free Cash Flow as a percentage of total Adjusted EBITDA.

For the year ended December 31, 2014, we generated Operational Free Cash Flow of €113.6 million (Operational Free Cash Flow Conversion of 72.9%) compared to €113.6 million (Operational Cash Flow Conversion of 73.2%) for the year ended December 31, 2013 and €15.5 million (Operational Free Cash Flow Conversion of 11.5%) for the year ended December 31, 2012. The increase in Operational Free Cash Flow during the period under review was a result of our increase in Adjusted EBITDA as described above under "—*Adjusted EBITDA Discussion*".

For the year ended December 31, 2012, our Operational Cash Flow was impacted by the settlement payment to France Telecom (an impact of €215 million) as well as the capital expenditures related to the acquisition of the remaining part of the backbone of our network from the Basque government (an impact of €68 million)

For the three months ended March 31, 2015, we generated Operational Free Cash Flow of €28.6 million (Operational Free Cash Flow Conversion of 75.9%) compared to €29.3 million (Operational Free Cash Flow Conversion of 78.7%) for the three months ended March 31, 2014. The decrease in Operational Free Cash Flow during the three months ended March 31, 2015 was attributable to the impact of our investment in upgrading our fixed core network to IMS, under which all voice services will be serviced.

Loans and Borrowings

The table below shows our net financial debt for the period under review, calculated on the basis of the nominal amount of our loans and borrowings and our credit facilities and interest accrued, excluding capitalized fees and commissions. See Note 11 to the 2012 Financial Statements, the 2013-2014 Financial Statements and the 2015 Interim Financial Statements.

	Three months ended March 31, 2015	Year ended December 31,		
		2014	2013	2012
		(€ thousands)		
	(unaudited)			
Short-term bank debt	50,000	50,000	85,166	83,332
Long-term bank debt	181,667	197,500	224,167	290,168
Credit facilities and accrued interest	3,204	387	23,265	38,865
Financial debt	**234,871**	**247,887**	**332,598**	**412,365**
Cash and cash equivalents	(12,941)	(10,650)	(6,289)	(227)
Net financial debt	**221,930**	**237,237**	**326,309**	**412,138**

On December 19, 2012, we entered into a €200 million loan with Kutxabank (the "**Kutxabank Credit Facility**"), split into two tranches as follows:

- Tranche A, of €125 million, for the repayment of a short-term loan obtained in 2012 to cover cash requirements deriving from the resolution of a lawsuit involving France Telecom, which was repaid in 2012. The full amount of this loan has been drawn down since December 31, 2012.
- Tranche B, with a limit of €75 million. A drawdown schedule for this amount has been set until 2016, based on repayments corresponding to Kutxabank's share of the 2007 and 2009 loans. €23.3 million has been drawn down in 2014 and the total accumulated amount drawn down as at March 31, 2015 was €56.7 million (€47.5 million, €24.2 million and €5 million as at December 31, 2014, 2013 and 2012, respectively).

On March 22, 2013, we signed an addendum which modifies certain terms of the Kutxabank Credit Facility, particularly those referring to the loan principal (reducing it to €130.5 million by way of a €69.5 million reduction of tranche A) and, consequently, the repayment schedule. Under the amended repayment schedule, the loan will be repaid in six half-yearly installments beginning in December 2017, the first of which amounts to €5.5 million with the remaining installments amounting to €25 million each. The interest rate is pegged to Euribor plus a market spread payable in half-yearly installments at the end of each period due.

In conjunction with this addendum, on March 22, 2013, we entered into four long-term bilateral loans for a total of €69.5 million with the following entities: Banco Sabadell (€25 million), CaixaBank (€25 million), Caja Laboral (€12 million) and Bankoa-Crédit Agricole (€7.5 million). These bilateral loans will be repaid in three half-yearly installments beginning in December 2016. These loans and the Kutxabank Credit Facility share the same terms and conditions.

In relation and proportion to these contracts, in 2013 we contracted interest rate swaps on 75% of the loan limits, over the terms of the loans, at a cost in terms of margin of 25 basis points.

Under the new Facilities Agreement (as described above in "*Key Factors Affecting Our Results of Operations—Impact of Refinancing*"), we will be required to comply with, amongst other things, a leverage ratio financial covenant and restrictions on our ability to make dividend payments as described further in "*Dividends and Dividend Policy*" and "*Material Contracts—Facilities Agreement*".

For more information on our expected use of new debt under the Facilities, see "*Capitalization and Indebtedness*".

Quantitative and Qualitative Disclosures about Financial Risk

Our activities are exposed to various financial risks: credit risk, liquidity risk and market risk. Our global risk management program focuses on uncertainty in the financial markets and aims to minimize potential adverse effects on our performance.

Credit risk

Credit risk is the risk of financial loss that we face if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises mainly in our accounts receivable.

We consider customer credit risk to be mitigated by the application of different policies and specific practices to this effect, and the high level of dispersion of receivables. Among the different policies and specific practices implemented is the customer acceptance scoring policy, the long-term monitoring of customer credit, which reduces the possibility of default of significant receivables, and debt collection management.

We do not have significant concentrations of credit risk. Cash and cash equivalents are maintained with banks and financial institutions of high credit rating.

Liquidity risk

Liquidity risk is the risk that we would have difficulty meeting obligations associated with our financial liabilities that are settled by delivering cash or other financial assets. Our approach to managing liquidity is to ensure, to the greatest extent possible, that we would always have sufficient liquidity to meet our obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or putting our reputation at risk.

We adjust the maturities of our debts to our capacity to generate cash for settlement. To do this, we implement five-year financing plans, which are reviewed annually, and conduct analyses of our financial position every week, which include long-term projections, together with a daily monitoring of bank balances and transactions.

Therefore, although our working capital, defined as the difference between current assets and current liabilities, is negative, this is due to normal business activity, in which the average collection period is lower than the average payment period, which is normal for the sector in which we operate. For a table showing our working capital for the period under review, see "*—Liquidity and Capital Resources—Working Capital*" above.

Market risk

Market risk is the risk that changes in market prices would affect our income or the value of financial instruments held. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimizing the return.

Market risk also includes, *inter alia*, interest rate risk which arises mainly from the loans granted by banks and related parties at variable rates which expose us to variability on future cash flows.

We have managed interest rate risk on cash flows using rate swaps variable to fixed interest since 2013. These interest rate swaps have the economic effect of converting borrowings at floating rates into fixed rates. For the year ended December 31, 2014, an upturn in interest rates of 100 basis points, with other variables held constant, would have decreased the result (after tax) by €2.5 million (€3.1 million for the year ended December 31, 2013).

Critical Accounting Estimates

The preparation of the Financial Statements in accordance with IFRS-EU requires the use of certain critical accounting estimates and management judgments concerning the future. These are evaluated constantly and based on historical experience and other factors, including expectations of future events and, where applicable, the justified opinion of renowned experts.

To the extent the actual outcome of these estimates differ from the amounts initially recognized, or information that would modify these estimates becomes available, the effects of any changes in the initial estimates are accounted for in the year they are known.

The estimates and judgments that present significant risk of a material adjustment to the carrying amounts of assets and liabilities in subsequent reporting period are described in Note 2 to each of the Financial Statements included elsewhere in this Prospectus.

For more information, see Note 3 to each of the Financial Statements included elsewhere in this Prospectus.

REGULATION

Set forth below is a summary discussion of the current European and Spanish regulatory environments relating to telecommunications and audiovisual communication services. This discussion is intended to provide a general outline of the most relevant applicable regulations and is not intended as a comprehensive discussion of such regulations. You should consider the regulatory environment discussion below as it could have a material impact on our business and results of operations in the future.

Regulation of Electronic Communications Services

As a fiber and convergent digital telecommunications operator, we are subject to sector-specific telecommunications regulations, general competition law and a variety of other regulations, including privacy and security, which can have a direct and material effect on our business areas. The extent to which regulations apply to us depends largely on the nature of each activity, with traditional fixed telephony services and fixed broadband usually subject to stricter regulations. In certain cases, in order to provide services and operate the networks, and to use spectrum, we must obtain general authorizations, concessions and/or licenses from the pertinent authorities ("**NRAs**"). In this section we describe the legislative framework and the recent legislative key developments where we have significant interests. Many of the legislative changes and the adoption of regulatory measures by sectorial regulators, which are described in this section, are in the approval process and therefore have not concluded.

This discussion is intended to provide a general outline of the most relevant applicable regulations and is not intended as a comprehensive discussion of such regulations. You should consider the regulatory environment discussion below as it could have a material impact on our business and results of operations in the future.

European Union Overview

Over the past decade, the telecommunications market in the European Union ("**EU**") has gradually been liberalized. In March 2002, with the aim of adopting a harmonized regulatory framework among Member States, the EU approved a Regulatory Framework (the "**RF**") for electronic communications. The RF consists of five directives (the "**Directives**"):

- Directive 2002/21/EC of the European Parliament and of the Council of March 7, 2002 on a common regulatory framework for electronic communications networks and services (the *Framework Directive*): sets up the general principles of the RF as well as the procedure to be followed by national regulatory authorities in order to impose *ex ante* obligations on operators holding SMP;
- Directive 2002/22/EC of the European Parliament and of the Council of March 7, 2002 on universal service and users' rights relating to electronic communications networks and services (the *Universal Service Directive*): regulates universal service and users' rights relating to electronic communications networks and services;
- Directive 2002/19/EC of the European Parliament and of the Council of March 7, 2002 on access to, and interconnection of, electronic communications networks and associated facilities (the *Access Directive*): regulates access to, and interconnection of, electronic communications networks and associated facilities;
- Directive 2002/20/EC of the European Parliament and of the Council of March 7, 2002 on the authorization of electronic communications networks and services (the *Authorization Directive*): regulates authorization of electronic communications networks and services; and
- Directive 2002/58/EC of the European Parliament and of the Council of July 12, 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector (the *Directive on Privacy and Electronic Communications*): regulates the processing of personal data and privacy protection in electronic communications.

The European Union's legal framework for electronic communications services was developed with the aim of promoting competition and improving the harmonized functioning of the European market for electronic communications networks and services. The European Union's legal framework was last modified in 2009 (Directive 2009/136/EC and Directive 2009/140/CE), in response to market and technological changes in the industry. Rules promulgated pursuant to the European Union's Legal framework define user's rights and focus on access to networks, interconnection, privacy, data security, and protection and preservation of universal access, among other things. Recent EU measures have supplemented the EU framework with regulations focused on relevant markets: international roaming, spectrum, next generation fixed networks and call termination rates for fixed and mobile networks. In each Member State a national regulatory authority, or NRAs, is responsible for enforcing national telecommunications laws incorporating the EU framework. NRAs are subject to the supervision of the European Commission, which formally and informally influences their decisions in order to ensure harmonized application of the EU framework throughout the European Union. In particular, the European Commission has identified certain markets (relevant markets) that are susceptible of ex-ante regulation. These markets have to be analyzed by NRAs in order to see whether there are participants with significant market power. In these instances, NRAs are instructed to impose at least one obligation relating to price control, transparency, non-discrimination, accounting separation or access obligations on market participants with SMP. Companies may challenge the decisions of their national regulatory authorities before their domestic courts. Such legal proceedings may lead to a decision by the European Court of Justice or ECJ, which is the ultimate authority on the correct application of EU legislation.

In November 2009, Parliament and the Council Regulation created the Body of European Regulators for Electronic Communications ("**BEREC**"), a European body of national regulatory authorities acting as a high advisory board to the Commission. The BEREC came into force in January 2010.

EU competition law

The European Union's competition rules have the force of law in all EU Member States and are therefore applicable to our operations in Spain as well as to operations of our competitors. The Treaty of Rome prohibits "concerted practices" and all agreements between entities that may affect trade between Member States and which restrict or are intended to restrict, competition within the internal market. The Treaty also prohibits any abuse of a dominant competitive position within the common market of the EU, or any substantial part of it, that may affect trade between Member States.

The EU Merger Regulation requires that all mergers, acquisitions and joint ventures involving participants meeting certain turnover thresholds be submitted to the EU Commission for review, rather than to the national competition authorities. Under the amended EU Merger Regulation, market concentrations will be prohibited if they significantly impede effective competition in the EU common market.

The European Commission and the office of the European Competition Commissioner are granted the authority to apply the EU competition framework.

Similar competition rules are set forth in each EU Member State, with the corresponding national competition authorities overseeing compliance with these regulations.

Recent developments

Currently, the regulatory debate in the European Union is focused on the completion of the European Digital Single Market with a special attention on the harmonization of regulatory conditions across the EU, in particular about spectrum, the roll-out of ultra high-speed networks, the elimination of intra-EU roaming charges and net neutrality. All these issues are particularly important for the development of the European digital services markets and Information Society. This effort was started by the European Commission's September 2013 adoption of the Proposal for a Regulation of the European Parliament and of The Council laying down measures concerning the European single market for electronic communications and to achieve a Connected Continent ("**Proposal for a Connected Continent**") regulation proposal package, which covers the above-mentioned issues and is under discussion. The outcome of this process is still uncertain.

Of special importance to the provision of digital services, this package covers Net Neutrality focusing mainly on the prohibition of blocking, throttling and non-discrimination of internet traffic (except for a number of justified objective reasons), as well as on the transparency of retail broadband offers. The intention is to ensure that users are well informed about the traffic management practices of operators, so they can take this information into account when they choose their fixed or mobile broadband offer. Again the outcome of this discussion is open.

Also, as part of this effort, the European Commission adopted, in 2013, a new Recommendation intended to create a more favorable environment in Europe for fiber investment. This Recommendation provides more pricing flexibility for fiber at wholesale (by departing from the cost-orientation pricing), at the expense of stricter measures on the replicability of fiber based access services. In addition, the Commission is now bound to ensure copper price stability (around €9 on average for ULL on real terms).

Additionally, the EU legislator approved in 2014 a regulation that includes measures to reduce the cost of NGA roll-outs including sharing of ducts from utilities and smoother permitting processes. These proposals are expected to be approved by the EU legislator in 2015.

Also, during 2013, the European Union adopted its cyber security strategy, comprising a number of measures, among which is a new proposed Directive on Network and Information Security. The intention is to guarantee a reliable and trusted Information Society across the EU, where internet providers are also subject to security requirements. This Directive is expected to be finally adopted in the EU during 2015. Again at this stage, the outcome is largely uncertain.

In January 2012, the European Commission proposed to replace Directive 95/46/EC on the protection of personal data by a General Data Protection Regulation that would apply, among others, to those providers who process personal data in the context of the activities of their establishments in the Union (regardless of whether the processing takes place in the Union or not). The draft Regulation has been approved by the Committee on Civil Liberties, Justice and Home Affairs of the European Parliament (LIBE) in October 2013, prior to a vote in the European Parliament. The approval of the Regulation will have an impact on our privacy obligations related to activities as a telecommunications operator and as a provider of digital services. The Regulation aims to provide data subjects with a high level of protection of their privacy, and it will affect the ability and methods to process and use the personal data of our customers. The draft Regulation has been subject to many amendments and the outcome of the European debate is currently uncertain. The Regulation is planned to take legal effect after a *vacatio legis* of two years.

The European Union is also discussing a future Directive for Payment Services that might have influence on the type of financial obligations that could affect the services provided by us, in the area of premium rate services or mobile wallets.

In June 2012, the Commission approved Regulation (EU) N° 531/2012, on roaming on public mobile communications networks within the Union ("**Roaming III**"), which replaces previous Roaming regulations (Roaming I and II). This Roaming III Regulation contains, for the first time, structural measures to impulse competition in the market for international roaming, so that, from July 1, 2014, customers could, if they wish, sign a roaming agreement with another operator apart from their domestic mobile services without changing the phone number, terminal or SIM card to change countries. The proposal also would entitle mobile operators to use other operators' networks in other Member States at regulated wholesale prices, thereby encouraging more operators to compete on the roaming market. To cover the period until such structural measures are fully effective and competition pushes prices down, the proposal gradually reduces the limits of retail and wholesale prices for voice, text (SMS) and data. The price cuts were implemented by operators on July 1, 2014.

Although the EU Parliament has proposed that roaming prices are around home prices ("Roam like at home" proposal), on April 3, 2014, the European Parliament approved a resolution on the proposal for a regulation of the European Parliament and of the Council laying down measures concerning the European single market for electronic communications and to achieve a connected continent. Under this resolution, the European Parliament proposed to abolish outright retail roaming charges for all services regulated under Roaming III from December 15, 2015. This regulation may, however, change again depending on the outcome of the Legislative process related to the Digital Single Market package.

On March 14, 2012 the European Parliament and the Council adopted Decision 243/2012/EU which settles a multiannual program policy spectrum for the following four years. The Radio Spectrum Policy Program, among others, will identify 1200MHz spectrum for wireless data traffic, explore new approaches in spectrum licensing, identify long term spectrum needs and finally will look for additional harmonized bands for mobile broadband.

Finally, in its Digital Agenda, the EU has set some objectives for broadband development: of speed up to 30 Mbps for all European citizens by 2020 and 50% of European households connected to 100 Mbps by 2020.

National Regulatory Authorities in Spain

The Ministry of Industry, Energy and Tourism (*Ministerio de Industria, Energía y Turismo*) ("**MIET**"), in accordance with the distribution of competences set up in Section 149 of the Spanish Constitution, regulates and oversees electronic communication services and networks in addition to the audiovisual communication services in Spain. The MIET's principal role is to set policy, issue regulations and sanction electronic communications and audiovisual communications operators where necessary.

Under the General Law on Telecommunications, among other things, the MIET appoints the operator (or operators) in charge of providing universal service, monitors their compliance with public service obligations, approves certain standard contracts with users (such as those submitted to public services obligations and related to premium rate services), and holds certain powers on guaranteeing user's rights. It also manages equipment and device conformity and the public domain radio spectrum.

Pursuant to the law that created the CNMC, the MIET also receives notifications to provide nationwide audiovisual communication services, runs the Registry of providers of audiovisual communication services at the state level and verifies ownership restrictions between operators of audiovisual communication services.

Currently, the independent oversight body supervising electronic communications and audiovisual operators in Spain is the CNMC, which was created in June 2013. The purpose of the CNMC is to guarantee, preserve and promote the correct functioning, transparency and existence of effective competition in all markets, including the electronic communications and audiovisual markets, and productive sectors for the benefit of consumers and users. In addition to overseeing and monitoring specific markets, the CNMC holds the powers formerly held by the National Competition Commission on antitrust matters.

Primary powers of the CNMC in the electronic communications and audiovisual communications services market

In October 2013, the CNMC effectively assumed most of the powers of the former CMT regarding overseeing and monitoring electronic communications markets. Please note that references in this Prospectus to the "CNMC" are to be construed as to including both the former CMT and the current CNMC.

The CNMC carries out reviews of markets identified by the EU as susceptible to *ex ante* regulation. The CNMC establishes and supervises operators, promotes competition in the electronic communications market, solves conflicts between operators as well as between operators and other entities that would benefit from access and interconnection obligations and (as the case may be) arbitrates operator disputes at the request of the parties. The CNMC has certain additional powers regarding access to networks and network interconnection. The CNMC also holds powers of inspection and sanction in connection with matters such as prices, specific market definition and the declaration of SMP operators (upon whom the CNMC is entitled to impose obligations).

The CNMC promotes competition in the audiovisual communications market and supervises and monitors its correct functioning. It monitors compliance with obligations set forth in the Law General on Audiovisual Communication related to advertising, transparency, rights of minors and disabled people, advanced financing of European audiovisual works, annual broadcast of European audiovisual works and contracting audiovisual contents on an exclusive basis. It also supervises the adjustment of audiovisual contents to the law and the operators self-regulation codes, in the terms set forth in Law General on Audiovisual Communication.

The key regulators in the telecommunications sector in Spain are the MIET and the CNMC, who hold the main regulatory powers in connection with such telecommunications sector. In addition to them, the Basque government also holds a number of powers in areas such as urban planning and environmental law, among others.

General Law on Telecommunications of 2014

The EU RF Directives were first transposed into Spanish law on November 3, 2003 by Law 32/2003 on General Telecommunications. The revised electronic communications regulatory package was transposed into Spanish law by Royal Decree-Law 13/2012, of March 30, amending the General Law on Telecommunications in this regard.

At the present time, Law 9/2014, of May 9 (the "**General Law on Telecommunications**") establishes the regulatory framework for electronic communications services in accordance with applicable EU directives. This repealed and replaced the General Law on Telecommunications of 2003 as well as certain provisions which were still in force from the General Law on Telecommunications of 1998, which liberalized the provision of telecommunications services in Spain. It is the primary legislation governing the provision of electronic communications services and networks and transposes the European RF (see above). Please note that references in this Prospectus to the "General Law on Telecommunications" are to be construed as to including both the former General Law on Telecommunications and the current one, as the case may be.

The General Law on Telecommunications aims, among other things, to enhance effective competition in the telecommunications sector, safeguard operator compliance with public service obligations (especially those related to universal service), promote development of the telecommunications sector, ensure an efficient use of scarce resources (such as numbering and radio spectrum), defend users' rights, promote, to the extent possible, technological neutrality in regulations, promote the development of the industry of telecommunications products and services, guarantee integrity and security of electronic communications networks and services, facilitate access to terminal equipment for disabled users and contribute to the development of the internal electronic communications market within the EU.

According to the General Law on Telecommunications, telecommunications are considered services of general interest to be provided under free competition regardless of the fact that certain public service obligations are imposed upon the operators. Measures taken regarding end-users' access to, or use of, services and applications through electronic communications networks shall respect the fundamental rights and freedoms of natural persons, as guaranteed by the European Convention for the Protection of Human Rights and Fundamental Freedoms, general principles of Community law and the Spanish Constitution.

The General Law on Telecommunications establishes that the CNMC will define the relevant markets (following the European Commission's Market Recommendation and the Guidelines on market analysis), determine whether markets are competitive and, if they are deemed not competitive, impose proportional and appropriate obligations on SMP operators.

The General Law on Telecommunications grants universal rights of access to basic services and contains provisions with which an individual or legal entity must comply in order to be considered an electronic communications operator. It governs the occupation of the private and public domain, privacy of communications, the protection of personal data, the use of spectrum, public service obligations, users' protection, market definitions and SMP operators. Additionally, it provides rules and procedures for the certification of devices used for providing telecommunications services.

Its provisions are implemented through several regulations. The following are some of the most important approved regulations to date:

- Regulation of the electronic communications markets, network access and numbering (approved by means of Royal Decree 2296/2004, of December 10, as amended) ("**Markets and Access Regulation**");
- Regulation providing the conditions necessary for electronic communications services, universal service and user's protection (approved by means of Royal Decree 424/2005, of April 15, as amended) ("**Services Regulation**");
- Regulation of the use of the radio spectrum (approved by means of Royal Decree 863/2008, of May 23, as amended) ("**Spectrum Regulation**").
- User's rights and premium rate service regulation (approved by Ministerial Order PRE 361/2002, of October 14, as amended). In May 2009, the government approved the User's Rights Letter through Royal Decree 899/2009, of May 22; and
- Regulation which establishes the procedure for the evaluation of the approval of telecommunication devices (approved by Royal Decree 1890/2000 of November 20) and Regulation providing for conditions relating to the quality of electronic communication services (approved by means of Ministerial Order IET/1090/2014, of June 16);

Status of Electronic Communications Operator

Under the General Law on Telecommunications, EU individuals, EU legal entities, and nationals of other non-EU member states (if so established by the relevant international treaty signed by Spain or in other cases prior government authorization) are allowed to provide electronic communications services and to utilize electronic communications networks in Spain. The General Law on Telecommunications provides this right and a set form of notice to be delivered to the Registry of Operators, which is under the MIET. The MIET grants private rights for use of the radio spectrum.

The notification to the Registry of Operators must declare compliance with the applicable rules of the service or utilization of the network. The Registry of Operators has 15 days to oppose such notification if it does not comply with the requirements established in the General Law on Telecommunications and the

Services Regulation. If the requirements are met, the operator is recorded at the Registry of Operators. Operators can provide electronic communications services and install and utilize electronic communications networks after the notification takes place.

Pursuant to the General Law on Telecommunications approved in 2003, individual licenses and general authorizations granted under the former General Law on Telecommunications of 1998 were extinguished. Their holders were automatically authorized to render the same services under the new Law, provided that they met the requirements of the General Law on Telecommunications and are recorded at the Registry of Operators ex officio. These operators are now subject to the obligations and conditions established by the General Law on Telecommunications and the Services Regulation. The Services Regulation establishes general and specific obligations and conditions for operators utilizing public electronic communications networks and for operators providing fixed and mobile telephony services to the public.

The Company is duly registered at the Registry of Operators as operator entitled to provide certain electronic communications services and to install and utilize certain electronic communications networks in Spain.

Please find below a table summarizing the services and networks where the Company is entitled to operate, according to the record in the Registry of Operators and to the spectrum concessions awarded by the MIET.

	Scope
Registry of Operators	Fixed data communications
Registry of Operators	Internet access provider
Registry of Operators	Fixed network and fixed telephony
Registry of Operators	Fixed network
Registry of Operators	Full Virtual Mobile Network Operator
Registry of Operators	Audiovisual signal transport
Registry of Operators pending to be established by the Basque government (see "*General Law on Audiovisual Communication*")	Cable television services
Spectrum concession	2.6 GHZ frequency concession (E2 R16) awarded on December 12, 2011 and expiring on December 31, 2030
Spectrum concession	2.6 GHZ frequency concession (D1 R16) awarded on October 10, 2011 and expiring on December 31, 2030

The right to provide electronic communications services and to utilize electronic communications networks is extinguished upon occurrence of any of the following circumstances:

- Definitive suspension of activity;
- Extinction of the legal personality of the operator;
- Sanction imposed (after available appeals have been exhausted) by the relevant authority; or
- Failure to notify the relevant authority of the operator's intention to continue providing services or utilizing the network (the notification must take place every three years) prior to filing the relevant administrative procedure where the relevant authority obtains evidence that the operator is effectively not providing service or utilizing any network. In May 2014, we gave notice to the CNMC of our intention to continue providing the services and utilizing the network.

Principal Operators, market definition and Operators with SMP

According to Article 34 of Royal Decree-Law 6/2000 of June 23, on urgent measures to improve competition in the goods and services markets, individuals and legal entities holding (directly and indirectly) more than 3% of the total share capital or voting rights of two or more principal operator companies in, among other markets, the fixed-line and mobile-line telephony markets are not allowed to exercise their voting rights in excess of 3% of the total in more than one company, except with the prior authorization of the CNMC. Principal operators are defined as one of the five operators with the largest market share in the relevant market ("**Principal Operators**"). In addition, no individual or legal entity is allowed to appoint, directly or indirectly, members of the management body of more than one Principal Operator in, among others, the fixed-line or mobile-line telephony markets, except with the prior authorization of the CNMC. Additionally, individuals or legal entities considered Principal Operators are neither allowed to exercise more than 3% of the voting rights of another Principal Operator nor to appoint, directly or indirectly, members of the management body of any Principal Operator, except in both cases with the prior authorization of the CNMC.

In July 2002, June 2003, October 2004, September 2006, October 2007 and October 2008, the CNMC declared the Company as Principal Operator in fixed-line telephony. In September 2009 and October 2010, the CNMC declared us as Principal Operator in the fixed-line telephony market together with Telefónica, Orange Spain, Vodafone Spain and Cableuropa. Additionally, in October 2010, Telefónica Móviles España, S.A.U., Vodafone Spain, Orange Spain, Yoigo and Lebara Limited UK were declared the Principal Operators in the mobile market. In October 2011, the CNMC declared Telefónica, Vodafone Spain, Orange Spain, Jazztel and Cableuropa as Principal Operators in the fixed-line telephony market. Lastly, in October 2012, the CNMC declared Telefónica, Vodafone Spain, Orange Spain, Jazztel and Cableuropa as Principal Operators in the fixed-line telephony. Therefore, as of today, the Company has not been declared as Principal Operator and is not subject to the limitations set out in Article 34 of Royal Decree-Law 6/2000 of June 23.

The foregoing statements must be additionally understood in the context of the General Law on Telecommunications, under which an operator holds SMP when, individually or together with others, enjoys a position which is equivalent to that of a principal operator meaning that said operator or operators enjoy a position of economic strength that allow them to be independent of other competitors, clients and ultimately, consumers. Operators that, individually or together with others, are considered with SMP in a relevant market (primary market) may also be considered by the CNMC to have SMP in markets that are directly related to the relevant market (secondary markets) whenever as a consequence of the strong relationship between the relevant and such secondary market the operator is able to also exercise a significant influence in the secondary market.

Under these circumstances, additional obligations may be imposed on the relevant operator. The CNMC may also impose specific obligations on those operators that have been identified as to have SMP. Such specific obligations may be related to transparency, non-discrimination, separation of accounts, access to network-related resources and price control.

Since the last quarter of 2005 and during 2006, the CNMC concluded its first round of market reviews and adopted a substantial number of decisions which (in compliance with the RF and the General Law on Telecommunications) defined relevant markets and identified operators with SMP. The CNMC consequently imposed certain regulatory obligations both on the traditional fixed telecommunications incumbent (Telefónica), operating under the Movistar brand, mobile network operators and alternative fixed-line telecommunications operators (such as, among others, the Company).

In the second half of 2008, the CNMC undertook a second round of market analysis (see the outcome of these analyses for a number of relevant electronic communications markets below). Although the Commission's Market Recommendation of 2007 reduced the list of markets potentially subject to *ex ante* regulation, the CNMC concluded that due to lack of competition, some of the markets should still be subject to *ex ante* regulation. In 2012, the CNMC initiated a new round of market analysis. In October 2014, the CNMC carried out a market analysis in terminated fixed networks, and concluded that every single provider, including us, are dominants in terminating fixed networks and, as a consequence, are obliged to provide the terminating service applying cost-orientation and non-discrimination obligations to the rest of operators, according to a purely incremental costs model. Subsequently, the CNMC reduces the terminating fixed network tariff by 85%, on average. Noticeably, this decision implied the end of interconnection asymmetry (terminating fixed networks prices of alternative operators to Telefónica previously were 30% higher than the prices of Telefónica).

In the fixed call termination market on IP networks, Telefónica de España is required to submit an "Interconnection Reference Offer" ("**OIR**").

Finally, on May 13, 2015, the CNMC also initiated a new round of market analysis in relation to access and call origination in fixed networks, the outcome of which is uncertain at the date of this Prospectus.

Interconnection

In order for our customers to communicate with other operators' customers, we need to interconnect our networks with such other networks. The Access Directive, within the terms of the Framework Directive, harmonizes the way in which EU Member States regulate access to and interconnection with electronic communications networks and associated facilities. Its aim is to establish a regulatory framework (in accordance with internal market principles) to govern relationships between suppliers of networks and services that will result in sustainable competition, interoperability of electronic communications services and consumer benefits. This Access Directive and the General Law on Telecommunications establish rights and obligations for operators and undertakings seeking access to or interconnection with their networks or associated facilities. The Access Directive sets out national regulatory authority objectives for access and interconnection.

According to the General Law on Telecommunications, operators of public electronic communications networks have the right and (when so requested by other operators) obligation to negotiate mutual interconnection for the provision of electronic communications services to the public in order to guarantee the provision of services and their interoperability. The MIET is entitled, in justified cases and to the extent that is necessary, to impose obligations on undertakings that control access to end-users to make their services interoperable.

The Markets and Access Regulation governs interconnection, access to public networks and numbering. It establishes that, unless the parties agree otherwise, interconnection and access agreements must be reached within four months from the date of any request to start negotiations. There shall be no restrictions preventing operators from negotiating interconnection or access agreements among themselves. The CNMC will decide the terms of the interconnection or access agreement in the event that the parties do not reach an agreement. The CNMC is also entitled to solve other interconnection and access conflicts between operators and between operators and other entities that benefit from access and interconnection obligations, in the terms of the General Law on Telecommunications. Access and interconnection conditions or obligations imposed on operators must be objective, transparent, proportional and non-discriminatory.

As a result of the first market review process, envisaged by the RF and the General Law on Telecommunications, the CNMC approved a decision on call termination on individual public telephone networks provided at a fixed location according to which some fixed network operators (including the Company), in addition to Telefónica, were declared to have SMP. The CNMC distinguished the obligations to be imposed on Telefónica, as an operator with SMP, from those to be imposed on the rest of fixed network operators (including the Company). The CNMC imposed on alternative operators with SMP the obligation to set reasonable prices for call termination services offered to other operators (as opposed to Telefónica, subject to cost oriented prices). According to this decision, the CNMC construed "reasonable prices" to be up to 30% higher than those applied by Telefónica, the incumbent operator, for local call termination on a "per minute" basis, resulting from its approved reference interconnection offer ("**RIO**") or the relevant regulated prices that would replace them.

The second market review took place in 2008. Despite the EU Commission's opposition, the CNMC, in a decision adopted on December 18, 2008, maintained the same market position on call termination on individual public telephone networks provided at a fixed location. This review maintained the set price (maximum of 30% greater than Telefónica's) for alternative networks with SMP.

In October 2014, the CNMC carried out a market analysis in terminated fixed networks, and maintained that every single provider, including Telefónica and ourselves, are dominants in terminating fixed networks and, as a consequence, are obliged to provide the terminating service applying cost-orientation and non-discrimination obligations to the rest of operators, according to a purely incremental costs model. Subsequently, the CNMC reduces the terminating fixed network tariff by 85%, on average. Noticeably, this decision implied the overcome of interconnection asymmetry (as already explained above, terminating fixed networks prices of alternative operators to Telefónica previously were 30% higher than the prices of Telefónica).

Telefónica is obliged to publish a RIO. The last amendment to the RIO was approved by the CNMC on November 18, 2010. This RIO set up the charges for fixed network termination service. These charges were modified in order to reduce the prices of single transit and double transit termination and to increase the price corresponding to local termination. Other relevant changes apply to the structure of time periods (peak/off-peak) which have been phased out so that only an average cost is set up. In addition, changes relating to Intelligent Network services (901 and 902) have been introduced. In July 2011, the CNMC approved the consolidated version of Telefónica's standard interconnection agreement reflecting the amendments approved on November 18, 2010. Minor amendments have since been introduced by the CNMC.

In May 10, 2012, the CNMC approved the analysis of mobile wholesale termination markets and the new "glide path" (which meant a fall in prices) for termination rates and adopted a measure establishing the wholesale price at 0.0109 €/minute, as from July 2013. Certain MVNOs, like ourselves, are obliged to set cost oriented termination prices for call termination services offered to other operators. In order to implement this decision, the CNMC also approved a glide-path on mobile termination rates effective as of April 16, 2012. This new glide path had to reach a rate of 1.09 €cent per minute in July 2013, and that price will be maintained until it is revised by the CNMC. As of October 2012, the price for mobile termination was set at 3.16 €cent per minute (except Yoigo which maintained a higher price). As of March 2013, the price for mobile termination was set at 2.76 €cent per minute (also except Yoigo which maintained a higher price). In July 2013, the price for mobile termination reached 1.09 €cent per minute (including Yoigo). The CNMC has not yet approved a new analysis on wholesale market mobile voice call termination and no review of this market is expected for year 2015.

Network Access and Regulation of Next Generation Access Networks

Telefónica's wholesale bitstream access was introduced in 1999 and a regulation was enacted in 2000 through the incorporation of two new methods: shared access and local loop unbundling. On this basis, Telefónica had the obligation to publish an access reference offer which regulates the economic and technical conditions of these wholesale services. Under the RF and the General Telecommunications Law, the CNMC set up the regulatory regime for access to SMP operators, after carrying out a market analysis which took into account (among other things) the feasibility of alternative network deployments and the competition problems that may result from denying access.

In January 2009, the CNMC defined the market for wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location and the market for wholesale broadband access, declaring Telefónica as the operator with SMP in both markets and imposing specific obligations on Telefónica to operate in the same. The CNMC imposed an obligation on Telefónica to provide access to its copper local loops and infrastructure ducts (wholesale physical network infrastructure access) and a bitstream service (wholesale broadband access) of up to 30 MB in the whole national territory (no geographic segmentation) both at cost-oriented prices. In November 2009, the CNMC approved Telefónica's offer to provide alternative operators access to its civil infrastructure with respect to the market for wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location. Prices for the provision of unbundled access to the local loop (based on Telefónica's then-current costs) were approved in July 2013 by the CNMC.

In November 2011, the CNMC approved the new wholesale bitstream service that Telefónica started offering to alternative operators in January 2013. This wholesale services NEBA (new Ethernet Broadband Access), allows operators to contract this service to access all Telefónica's network and technologies, including ADSL, VDSL, FTTN and FITH. Prices for the provision of this service were temporarily approved by the CNMC in July 2012. Prices for the provision by Telefónica of NEBA services were approved by the CNMC in January 2014. The CNMC has also approved prices for wholesale broadband access of up to 30Mbp in January 2014. In March 2015, the CNMC has carried out a consultation over the prices for NEBA services.

In February 2009, the CNMC approved a decision to impose mutual obligations to provide third-party access to new in-building fiber optic infrastructure deployed by operators (not just the incumbent operator) as part of the next generation network roll-out. The obligations set forth in this decision only affect new fiber optic deployment and do not affect access to building existing common telecommunications infrastructure such as cable (coax and copper pair).

In December 2014, CNMC carried out a consultation about a new proposal of market analysis that eliminates the 30 Mbps limit and incorporates the need of applying different regulation on a geographical basis for the residential clients segment, so that Telefónica will no longer be obliged to offer wholesale broadband services access (bitstream) in that areas of greater competition. In that sense, Telefónica will be obliged to offer its wholesale broadband access services (bitstream) for the residential segment, in no-competitive areas. In this case, the wholesale service offered over the telephone copper network would have cost-oriented prices, unlike the fiber network service offered, which is subject only to the fulfilment of economic replicability criterion.

For the business segment, the consultation proposes to oblige Telefónica de España to offer its wholesale broadband access services throughout the national territory.

In February 2015, we have lodged statements within the consultation about a new proposal of market analysis, in order to oppose the proposal of imposing an obligation on Telefónica to offer wholesale broadband services access in non-competitive areas as we consider that this could damage the position of companies which, like us, have made a sizeable effort to invest in fiber optic infrastructure.

The proposal from December 2014 may be modified, in the final decision, which is expected for the last quarter of 2015.

Network Access for Virtual Mobile Network Operators

The Company is a MVNO. This implies that, in order for us to provide mobile telephony services to the public as a MVNO, we need to enter into a network access agreement with a mobile network operator. Our current MVNO agreement with Orange has an initial term of five years from the effective provision of services (January 2014), with automatic annual extensions.

Since February 2006, and pursuant to the 2003 Market Recommendation, Telefónica, Vodafone Spain and Orange Spain are considered operators with SMP in the access and call origination on public mobile telephone networks market. As such, among other obligations, they are obliged to offer reasonable prices for the provision of services to MVNOs. A regulatory review of this market, in particular, if operators with SMP are no longer obliged to offer network access agreements at reasonable prices, could impact our mobile services significantly. A review of this market by the CNMC is expected to take place in 2015.

Use of the Spectrum

In May 2008, Royal Decree 863/2008, developing the General Law on Telecommunications, set out the general regime of the use of the spectrum. Additionally, in April 2011, Royal Decree 458/2011 on actions related to the spectrum for the purposes of the information society development was approved by the Spanish Council of Ministers. The purpose of Royal Decree 458/2011 is (i) the introduction of the principle of technological neutrality in the 900 MHz and 1800 MHz bands; (ii) the granting of the relevant concessions to use the spectrum in the referred bands and in the bands of 800 MHz and 2.6 GHz, in which the principle of technological neutrality may also be applied; and (iii) the establishment of the relevant measures on spectrum intended to promote the development of the information society, such as the enlargement of the frequency bands where the transfer or assignment of rights and titles to use the spectrum may be allowed. The Spanish MIET awarded concessions in the 800 MHz, 900 MHz, 1800 MHz and 2.6 GHz bands, prior to calling the relevant public bidding procedures, pursuant to Royal Decree 458/2011. Telefónica, Vodafone Spain and Orange Spain obtained concessions of national scope in the 2.6 GHz band. We obtained concessions of regional scope in the same frequency band (for the Basque Country). Vodafone, Cableuropa, Jazztel and other cable operators also obtained concessions of regional scope in the 2.6 GHz band. Telefónica, Vodafone Spain and Orange Spain obtained concessions of national scope in the 800 MHz and Telefónica and Orange Spain in the 900 MHz bands.

Pursuant to Royal Decree 458/2011, holders of concessions in the 900MHz band providing broadband mobile electronic communications services using UMTS systems or other systems identified in Annex to EU Commission 2009/766/CE are obliged to offer wholesale services to operators (such as MVNOs) that cannot provide such services because they do not hold enough frequencies in this band, or because of total lack of frequencies in this band. This obligation was imposed until May 1, 2015. The CNMC is entitled to extend this term.

The concessions granted will enable us to (i) benefit from a concession on 4G that runs until 2030 for a limited cash consideration; (ii) potentially provide high-speed services for additional fixed-line residential and SOHO customers in areas close to our cable footprint; and (iii) potentially improve our mobile proposition reducing host dependence and increasing the quality of our quadruple-play services. The concessions allow the use of the frequencies through any type of technology, in compliance with the principal of technological neutrality. They must be used to provide, among other things, fixed-line and mobile electronic communication services. Prior to providing electronic communication services using these frequencies, we must inform the MIET about the technology that we will use. For any change of technology, the MIET must also receive advanced notice.

As holders of spectrum concessions we are mainly subject to specific obligations set forth in the General Law on Telecommunications, the Spectrum Regulation and the relevant concession documents. Among others, we are subject to the following obligations:

- to obtain the relevant functioning authorization for each of the radio stations installed prior to operating the spectrum network;
- to use the frequency right in the terms set forth in the concession documents and for the purpose identified in the same;
- not to cause interferences that would be considered harmful;
- not to exceed the radioelectrical emission levels set forth in the relevant laws and regulations and the concession document; and
- use the spectrum effectively and efficiently.

Spectrum concession is extinguished upon occurrence, among others, of any of the following circumstances:

- extinction of the legal personality of the operator;
- lost of the condition as electronic communication operator; and
- lack of concession renewal.

The revocation of the spectrum concession by the granting authority may occur, among others, in the following circumstances: breach of technical terms and conditions established for the use of the spectrum, failure to pay the stamp duty, and unauthorized use of the spectrum.

Our spectrum concessions expire on December 31, 2030 and may be transferred or assigned in the terms of the General Law on Telecommunications, the Spectrum Regulation and the corresponding concession documents. The spectrum concessions do not impose a specific time-line for them to be operational. However, the Spectrum Regulation and the corresponding concession documents lay down the obligation for the spectrum concessions to be used in an effective and efficient way. Therefore, it cannot be ruled out that the spectrum concessions may be revoked due to non-use in an effective and efficient way.

Wholesale Services

We are also a provider of wholesale terminating segments of leased lines and wholesale trunk segments of leased lines. Through these wholesale services, we provide telecommunication services to fixed and mobile carriers, traffic resellers and premium rate services providers. Telefónica was declared as an operator with SMP in both markets, as per resolutions dated July 23, 2009 and July 2, 2009. According to the same, Telefónica is obligated to publish a reference offer for the provision of these wholesale services, on terms established by the CNMC. This offer is known as ORLA. In December 2010, the CNMC approved the new ORLA regulating the wholesale terminating segments of leased lines. On July 18, 2013 the CNMC reviewed the markets for wholesale terminating segments of leased lines and wholesale trunk segments of leased lines. According to resolutions resulting from such review, Telefónica is still considered as the operator with SMP in those two markets. On March 9, 2015, the CNMC published the initiation of the consultative process within the administrative proceeding to modify the ORLA and its outcome is uncertain.

Numbering, Addressing and Denomination: Operator Selection

In order to provide telecommunications services, operators need to be furnished with public numbering resources, i.e., the ability to allocate phone numbers among subscribers or users of telephony services in accordance with the applicable, government-approved, National Plans of Numbering, Addressing and denomination (the "**National Plan**"). The MIET has the authority to grant the public rights regulated under the National Plans and is generally obliged to issue the relevant resolution allocating the numbers within a maximum period of three weeks from the date of submission of the relevant application (six weeks under concurrency proceedings). The lack of answer in the aforementioned terms implies the rejection of the corresponding applications.

The General Law on Telecommunications and the Markets and Access Regulation address operator selection. "**Operator Selection**" is the ability of the subscriber or user to select a given operator for all or certain calls and to access the services of any operator interconnected with the user's operator that provides access to the public telephony network. The operator can be chosen ahead of time or on a call-by-call basis. Operators with SMP in the provision of connection to and use of the public telephony network at fixed locations (currently Telefónica) are obliged to provide Operator Selection to operators of fixed telephony services to the public interconnected with them. The government is allowed to impose Operator Selection obligations on other types of networks.

Circular 2/2009, approved on June 18 by the CNMC, implements the General Law on Telecommunications and the Markets and Access Regulation with respect to Operator Selection, superseding past Circulars issued by the CNMC on this matter. It sets forth the instructions to implement the mechanisms necessary to provide Operator Selection in the fixed-line public telephony networks.

Number Portability

Under the General Law on Telecommunications and the Markets and Access Regulation, users or subscribers to telephony services have the right to keep their existing telephone numbers in the event of changing operators, service or physical location, or when any of these circumstances occur simultaneously. Operators of public telephony networks and those providing telephony services to the public are obliged to provide users with number portability right if so requested, in the terms of the applicable regulations. The General Law on Telecommunications and the Markets and Access Regulation require the operators to share some of the costs associated with this service. According to the Markets and Access Regulation the following types of number portability must be available:

- change of operator for the provision of fixed telephony services to the public, as long as the service and the geographical location do not change;
- change of operator for the provision of mobile telephony services to the public, even in the event of the type of mobile telephony service changing; and
- change of operator for special rate services and personal numbering, as long as the service does not change.

The CNMC has approved Circulars 1/2008 and 3/2009 establishing the principles intended to guarantee number portability to users. In December 2009, the CNMC began proceedings to modify portability operations with the objective of reducing the time for a customer to change its telephony operator. As of June 2012, the new portability term for mobile telephony is 24 hours instead of the former term of five days. In April 2012, the CNMC approved the new procedure for fixed telephony number portability establishing that the term must be 24 hours from November 11, 2013 onwards. The aforementioned provisions have been included under the General Law on Telecommunications as rights of users or subscribers to telephony services.

Occupancy Rights for the deploying of network

Operators deploying networks have the right to occupy the public domain, benefit from expropriation procedures and be granted rights of way or easements over the property of third parties, subject to certain conditions (such as the assumption of the occupation costs).

The General Law on Telecommunications also governs:

- the shared use of public and private property for the purposes of deploying public electronic communications networks and the shared use of infrastructure and associated resources, being the MIET entitled to impose it. The shared use of location or infrastructure shall be formalized through an agreement between the interested operators. Under the event of conflict between operators about the said shared use, the CNMC is entitled to solve the conflict; and
- the compulsory collaboration between the different Public Administrations in order to enable the occupation of the public and private domain. In this sense, the town planning regulation approved by the corresponding Administrations will have to take into account this fact in order to encourage and facilitate the deploying of the network.

Payments

Telecommunications operators are required to make certain payments. Most importantly, they are required to pay to the MIET an annual fee that cannot exceed 0.15% of their gross telecommunications revenue. The final amount of the fee for the relevant year per operator will be established by the MIET. This amount is the result of applying to the aggregate costs incurred by the Spanish telecommunications national regulatory authorities, in undertaking their obligations pursuant to the General Law on Telecommunications and its implementing regulations, the percentage that the gross telecommunications revenue corresponding to the relevant fiscal year for each operator individually represents with respect to the total amount of the gross telecommunications revenue obtained in that same fiscal year for all telecommunications operators.

The Company is under the obligation to pay specific taxes in substitution of the applicable local taxes in each of the municipalities. The Provincial Norm 31/1998 of the Provincial Council of Álava, the Provincial Norm 11/1998 of the Provincial Council of Vizcaya and the Provincial Norm 5/1998 of the Provincial Council of Guipúzcoa, about Local Taxes on Telecommunications Operators impose an obligation on telecommunications companies to pay 1.9% of their gross revenues in the territory of each municipality to the relevant city council and 0.1% of their total gross income to each of the Provincial Councils.

In addition, holders of spectrum concessions are required to pay on an annual basis to the MIET the spectrum fee in the terms set forth in the General Law on Telecommunications, implementing regulations on this matter and the Budget Act for the relevant year. As holders of the spectrum concessions in the 2.6 GHz. Frequency band in the region of País Vasco, we are subject to the spectrum fee. Furthermore, as holders of numbering resources, which are of a limited nature, the Company is also subject to the payment of annual fees for numbering, addressing and naming, regulated by the General Law on Telecommunications.

In connection with our users in Cataluña, the Company is under the obligation to pay certain taxes by virtue of Law 15/2014 of the Parliament of Cataluña, of 4th of December, of the Tax on Providing Contents by Electronic Telecommunications Providers and Encouragement of the Audiovisual Sector and Digital Cultural Diffusion. These taxes amount to a monthly payment of €0.25 for each of the users the Company provides contents to via electronic telecommunications services.

According to the Spanish public broadcasting entity (RTVE) Financing Law, since September 2009 pay television and audiovisual communication services operators are required to pay 0.9% of their revenues on a yearly basis for the financing of public broadcaster RTVE. This contribution cannot exceed 25% of the total income anticipated for the relevant year in RTVE. According to the Resolution of the CMT issued on 22 December 2010, the Company is not obliged to contribute to subsidize RTVE. In this sense, under Article 4 of Royal Decree 1004/2010 and Resolution of the CMT of 14 October 2010, telecommunications companies where a percentage higher than 75% of its revenues is obtained from a single Autonomous Community, are exempt from contributing to the above-mentioned subsidy. Therefore, because on 22 December 2010 the Company's revenues were originated, in a percentage higher than 75% from the Basque Country, the Company was exempted from said subsidy. As expressly set out as well in the Resolution of the CMT issued on 22 December 2010, any modification in the above circumstances, would imply the obligation to communicate it to the CNMC and, accordingly, that the Company would be subject to the obligation to contribute to subsidize the Spanish public broadcasting entity.

Telephony Customer Charges

Telephony operators, other than operators with SMP, are generally free to set end-user prices.

In its second round of market analysis, the CNMC issued a Decision in March 2009 defining the retail market for access to the public telephone network at a fixed location for residential and non-residential customers. It declared Telefónica an operator with SMP and imposed on Telefónica certain specific obligations. Among other things, the CNMC required Telefónica to provide line Operator Selection and retail access to users. Access prices were subject to control by the CNMC. In particular, Telefónica's line rental was regulated under an IPC-X mechanism whereby IPC refers to the consumer price index and X (a factor which will be set by the CNMC 12 months before implementation). Telefónica was not allowed to apply geographically differentiated line rental fees. Retail call prices were altogether deregulated, as was Telefónica's one-off connection fee.

In December 2012, the CNMC approved the third review of the market for retail access to the public switch telephone network from a fixed location. While maintaining some obligations concerning transparency and non-discrimination, the CNMC has removed former price controls on Telefónica's rental lines. This new market definition and the obligations imposed on Telefónica only apply to "mass market" offers (i.e., residential market). The review of the non-residential market was left for a further market analysis. Therefore, obligations imposed on Telefónica in the decision approved by the CNMC in March 2009 referred to in the paragraph above are still applicable with respect to the non-residential market. Insofar as the general provision against anti-competitive prices adopted by the CNMC in connection with Telefónica's retail offers when they include voice line rental and internet broadband access is maintained, the criteria and methodology adopted by the CNMC in a decision dated July 2007, updated in May 2013 (to assess when and under which conditions individual price offers, as well as double- and triple-play bundles, might be considered anticompetitive) are still applicable.

Universal Service, Public Service Obligations and Other Obligations of Public Character

The General Law on Telecommunications, coupled with the Service Regulation, provides that electronic communications operators may be requested to provide certain universal services or comply with other public service obligations to be imposed for general interest reasons or with obligations of public character.

Universal service covers a range of electronic communications services which must be provided to all users at a reasonable price and determined quality, regardless of their geographical location. This includes access to the fixed telephony network and to the provision of telephony services to the public (including functional access to the internet, allowing bandwidth communications at a downlink speed of 1 Mbps), availability of directory information (excluding telephone directory enquiry services), sufficient provision of public pay phones and access to fixed telephony for the disabled and those with special social needs (who will be offered different options or bundled tariffs than those offered under normal commercial conditions). The General Law on Telecommunications provides that the MIET shall designate the operator(s) entrusted to ensure the universal service. The operator(s) may be different in each region and different services included within the scope of the universal service may be provided by different operators. Should other operators be interested in rendering these services, the General Law on Telecommunications provides for a public bidding procedure to designate the operator(s) in charge.

Telefónica is still considered the sole operator providing universal service across the entire territory of Spain until December 31, 2016. Other operators, besides Telefónica, may be required to provide universal service in the future.

The CNMC may determine that providing universal service imposes a competitive disadvantage on the operators that provide these services and that the net cost of these services should be allocated among certain operators in accordance with criteria to be determined by the CNMC. The mechanism to compensate for these costs will be a National Universal Service Fund operated by the CNMC. Contributions to the National Universal Service Fund must be made by a burden-sharing mechanism under conditions of transparency and non-discrimination, for operators obtaining from networks operation or the provision of electronic communications services annual gross incomes higher than €100 million.

The CNMC is in charge of calculating the cost of the universal service provided by Telefónica and has also established the criteria that will be used to distribute this cost among electronic communications operators, including Telefónica itself.

It should be noted that the €100 million threshold was introduced in 2014, in Article 27 of the General Law on Telecommunications. Therefore, as of today and as refers to cost of universal service provided by Telefónica in 2011 (which is the latest review carried out by the CNMC by means of its Resolution of April, 30, 2015), the Company has not been obliged to share any of the cost of the universal service provided by Telefónica. The decisions of the CNMC on distribution of the cost of universal service do not preclude the regulator changing the terms of distribution in the future, including requiring other operators, like us, to finance the cost of universal service.

In addition to universal service, the government may impose other public service obligations on operators to assist with public safety or national defense. The government may impose other public service obligations (pending a report from the CNMC), among others, for the following reasons: territorial cohesion, extending the use of new technologies and services, facilitating communications for groups with special circumstances and increasing availability of message notification services.

Under the event of breach by the relevant operator of its public service obligations, the government is entitled to directly assume the provision of the relevant services or the utilization of the relevant networks as an exceptional temporary measure. Likewise, the State Administration is also entitled to directly assume (subject to prior government decision) the provision of certain electronic communications services or the utilization of certain electronic communications networks to guarantee public safety and national defense as an exceptional temporary measure.

Regulation of Audiovisual Communication Services

European Union Overview

The audiovisual regulatory framework in Europe has suffered a significant change since 1989 when the Television Without Frontiers Directive defined the first set of rules for television broadcasting in the European Union.

In November 2007, the European Parliament and the Council approved the revision of the EU Directive "Television Without Frontiers" of 1989 (the "**TV Directive**"). The new framework offers a solution that preserves the core principles of the existing European rules for television and adapts them to the new audiovisual environment. The TV Directive covers both traditional television broadcasting and new on-demand services like on-demand films and news. The distinction between the two depends on who decides when a specific program is transmitted and whether a schedule exists and is independent of the method of broadcasting. Television services are "linear" because they follow a schedule arranged by the broadcaster, while on-demand (or "non-linear") services leave users to decide when to watch a particular program. While these services differ in how they are made available, they are both addressed to the general public. The TV Directive treats linear and on-demand services differently, taking into account the degree of user control over the service. On-demand services are thus subject to lighter regulation. Additionally, the TV Directive extends to all audiovisual media services according to the country of origin principle. It means that each service must comply with the rules of the country in which its provider is located. The enforcement of the rules is the responsibility of that Member State. At the same time, the principle promotes media pluralism by opening up national markets to competition from other EU countries.

In March 2010, the European Parliament and the Council approved Directive 2010/13/UE, a consolidated version of the TV Directive called "Directive for Audiovisual Media Services" (the "**AMS Directive**") since the amendment approved in 2007. The AMS Directive repeals and replaces the TV Directive and its subsequent amendments of 1997 and 2007.

The AMS Directive has been implemented in Spain through the General Law on Audiovisual Communication (Act 7/2010, on Audiovisual Communication) that became effective in May 2010, save for certain provisions on audiovisual commercial communication, which came into force on August 1, 2010.

General Law on Audiovisual Communication

The General Law on Audiovisual Communication is the primary law governing the provision of audiovisual communication services, regardless of the technology used for broadcasting, without prejudice to the powers held by the Spanish Autonomous Communities on audiovisual matters within the boundaries of their corresponding territory.

Audiovisual communication services (including both linear and on-demand services) are considered to be services of general interest provided under competition and in the terms of the obligations corresponding to services of general interest.

The General Law defines audiovisual communication services as those over which editorial responsibility corresponds to a service provider and which have as their primary purpose the provision, through electronic communications networks, of programs and content in order to inform and entertain the general public and to broadcast commercial communications. The provider of audiovisual communication services is the individual or legal entity having effective control (editorial direction) over the selection of programs, content and their organization, either in a chronological schedule, in the case of television broadcasts, or in a catalogue, in the case of on-demand audiovisual communication services. These definitions are of utmost importance because electronic communications operators broadcasting television channels or providing on-demand audiovisual services over which they do not hold editorial responsibility will not be considered audiovisual communication providers pursuant to the General Law on Audiovisual Communication with respect to the relevant television channels or catalogues. We are not to be considered a provider of audiovisual communication services as we do not have effective control (editorial direction) over the selection of programs, content and their organization.

The General Law on Audiovisual Communication establishes the right to provide audiovisual communication services. Service providers only have to notify the relevant authority of their intention to provide services prior to the start of the activity and will have to be registered in the State or Autonomic Registry for Audiovisual Communication Services Providers in accordance to its coverage area. As an exception in the case of services rendered through hertzian terrestrial waves, the relevant operator needs to obtain from the MIET an audiovisual license which will include the corresponding frequency right.

According to the interim regime of the General Law on Audiovisual Communication, former administrative authorizations allowing the provision of cable radio and television services have been extinguished. Former title-holders are to be duly registered *ex officio* by the CNMC at the State or Autonomic Registry for Audiovisual Communication Service Providers.

The General Law on Audiovisual Communication on certain aspects of television commercial communication (self-promotion, telepromotion and sponsorship) was implemented by Royal Decree 1624/2011, recently amended by Royal Decree 21/2014.

We were granted a concession to provide cable television services under the former cable television regulatory framework. Following the General Law on Telecommunications of 2003, said concession was changed to an authorization of regional scope. After the General Law on Audiovisual Communication, the authorization is replaced by the record in the Audiovisual Communication Service Providers under the Basque government. In accordance with the General Law on Audiovisual Communication, the Basque government approved Decree 231/2011 on Audiovisual Communication which created the Basque Registry for Audiovisual Communication Services Providers, although, to date, such Registry is not yet operational.

Obligations

Although we are not to be considered provider of audiovisual communication services as we do not have effective control over the selection of programs, content and their organization, we are subject to several obligations according to the General Law on Audiovisual Communication and its implementing regulation such as the following:

- Must-carry obligations. Audiovisual media service providers have the right to access electronic communication services (like our electronic communication services) for broadcasting channels and program catalogs with the constraints imposed by the technical capabilities and in accordance with the provisions of sectoral regulations on telecommunications and electronic communications services. The terms and conditions of such access will be freely negotiated by the parties.
- To contribute on a yearly basis 5% of the total income accrued for the preceding fiscal year, according to its exploitation account, to the pre-financing of the production of certain audiovisual works such as, among others, full-length feature films, television films and series and documentaries and animated series and short movies, as long as operators (either in chronological schedule or in a catalogue) or the channels it broadcasts without bearing editorial responsibility over them include full-length feature films, television films and series, as well as documentaries and animated series and movies of recent productions, that are less than seven years old as of their production date. This 5% contribution has to comply with the following rules:
    - 60% out of the referred 5% must be devoted to works whose original language is one of the existing official languages in Spain (50% out of this 60% must be devoted to works whose original language is Basque, following Basque Decree 215/2007);
    - 50% out of the referred 5% must be devoted to works of independent producers;
    - 60% out of the referred 5% must be devoted to full-length feature films; and
    - 40% out of the referred 5% can be devoted to television films or television series or miniseries.

This 5% quota obligation was also included in the former Spanish Law on Television Without Frontiers (currently replaced by the General Law on Audiovisual Communication). In April 2010, the Spanish Constitutional Court accepted the filing of a constitutional claim against the 5% quota obligation set forth in the former Spanish Law on Television Without Frontiers. We believe that a final decision is still pending.

In January 2014, a Proposal on pre-financing of the production of certain European audiovisual works was approved in order to develop the aforementioned provisions. Such Proposal was under public consultation until February, 2015.

To comply with the rules regarding programming, advertising, teleshopping, sponsorships and programming legislation should be aimed at protecting children and people with vision and hearing disabilities and to comply with EU provisions and national legislation on intellectual property.

In order to maintain informational and audiovisual pluralism, the public broadcaster RTVE must provide cable, satellite and IPTV television operators with its radio and television channels for free broadcasting through their network. Nationwide private DTT operators must provide cable, satellite and IPTV television operators with their main free-to-air television channels for broadcasting through their network, subject to negotiating the relevant price to be paid by cable television operators for such carrier service.

On October 17, 2014, the economic concentration transaction consisting in the acquisition by Telefónica of the exclusive control over the Pay TV operator DTS was notified to the CNMC, as set out in Article 9 of the Competition Act 15/2007, of July 3. Said notification led to the file C/0612/14 Telefónica/DTS. The transaction refers to the acquisition by Telefónica of sole control of DTS, through the purchase of 56% of the share capital held by Prisa TV, SAU, which would add to the 44% share capital already controlled by Telefónica. The execution of the transaction was conditional upon obtaining authorization from the CNMC. We were recognized as an interested party within said authorization proceeding, together with other companies active in the sector, taking into account that such an acquisition could restrict competition in several markets, including that of pay TV, audio visual contents and electronic communications. The authorization from the CNMC was given on April 23, 2015 and it includes some conditions as regards to making exclusive content available to other operators (see "*Industry—Pay TV Market*"), but it could nevertheless entail a significant increase in the acquisition cost of certain contents by the Company, which are not to be considered key in the television service, in terms of number of customers and direct revenues.

On April 30, 2015, Royal Decree-Law 5/2015 on urgent measures in connection with marketing rights to exploit audiovisual contents of professional football competitions was enacted. Although the way in which such Royal Decree-Law will be implemented is not yet certain, this regulation sets out the rules for the commercialization of certain Spanish football contents and establishes the criteria to distribute the relevant incomes among organizers and participants in the various competitions (particularly, in the first and second football division, the "*Copa de S.M. el Rey*" and the "*Supercopa de España*").

The parties are free to negotiate their own terms governing this access, including pricing. Each party is entitled to submit a dispute over the access and terms to the CNMC, which, after hearing the parties, shall issue a binding resolution.

MANAGEMENT AND BOARD OF DIRECTORS

In order to adapt the Company to the recent amendments to the Spanish Companies Act and the corporate good governance requirements and practices of listed companies, the Company's Board of Directors, at its meeting held on June 1, 2015, amended the existing Board of Directors Regulations, together with the Appointments and Remuneration Regulations and the Audit and Control Regulations, and approved the Internal Code of Conduct, which will become effective upon Admission. Similarly, the general shareholders' meeting of the Company held on June 1, 2015: (i) amended the Company's bylaws and approved a new restated text thereof and the new general shareholders' meeting regulations; and (ii) acknowledged the amendments to the Board of Directors Regulations, the Appointments and Remuneration Regulations and the Audit and Control Regulations, as well as the Internal Code of Conduct approved by the Board of Directors.

Board of Directors

Spanish corporate law provides that a Spanish incorporated company's board of directors is responsible for the management, administration and representation of the company in all matters concerning its business, subject to the provisions of such company's bylaws (*estatutos*), except for those matters expressly reserved for the general shareholders' meetings.

Our bylaws and the regulations that govern our Board of Directors (the "**Board of Directors Regulations**") provide for a board of directors (the "**Board of Directors**") that consists of between five and fifteen members. Our Board of Directors currently consists of ten members in accordance with the resolution passed at our general shareholders' meeting on March 31, 2015. According to the bylaws and the Board of Directors Regulations, our directors are elected by the general shareholders' meeting (shareholders have the right to appoint a number of directors in proportion to their shareholding in the Company provided that vacancies exist) to serve for a maximum term of four years and may be re-elected to serve for an unlimited number of terms of the same duration (save that no independent director can serve for more than 12 years and still be considered as independent). If a director does not serve out his or her term, the Board of Directors may fill the vacancy by appointing a replacement director to serve until the next general shareholders' meeting. Any natural or legal person may serve on our Board of Directors, except for persons specifically prohibited by applicable law, our bylaws or our Board of Directors Regulations. A director may be removed from office by the shareholders at a general shareholders' meeting, even if such removal is not included on the agenda for that general shareholders' meeting.

Our Board of Directors is responsible for our management and establishes, among other things, our strategic, accounting, organizational and financing policies. According to Spanish law, the Board of Directors Regulations and our bylaws, the Chairman of the Board of Directors and, where appropriate, the Vice-Chairman, who acts as Chairman in the event of the Chairman's absence or incapacity, shall be elected from among the members of the Board of Directors. Pursuant to Article 529 septies of the Spanish Companies Act, applicable upon Admission, and to the Board of Directors Regulations, if the Chairman is an executive director, a coordinating director shall be appointed from among the independent directors. Since our Chairman is an executive director, Mr José Ángel Corres has been appointed from among the independent directors as the coordinating director. The coordinating director shall have the power to request the call of meetings of the Board of Directors and include new items on the agenda of the meetings, to coordinate non-executive directors and to lead, if necessary, the regular evaluation of the Chairman of the Board of Directors. The Secretary and, where appropriate, the Vice-Secretary of the Board of Directors do not need to be directors. According to Spanish law and the Board of Directors Regulations, the Board of Directors appoints our executive officers and supervises our operations. Moreover, the Board of Directors is entrusted with calling general shareholders' meetings and implementing, as the case may be, shareholders' resolutions.

Our bylaws and Board of Directors Regulations provide that the Chairman of the Board of Directors may call a meeting whenever he or she considers such a meeting necessary or suitable. The Chairman of the Board of Directors is also required to call a meeting at the request of at least two of the members of the Board of Directors or, where applicable, at the request of the coordinating independent director. According to our bylaws and the Board of Directors Regulations, our Board of Directors shall meet at least six times a year. Our bylaws and Board of Director Regulations provide that the majority (half plus one) of the members of the Board of Directors (represented in person or by proxy by another member of the Board of Directors) constitutes a quorum. Except as otherwise provided by law or specified in our bylaws, resolutions of the Board of Directors are passed by an absolute majority of the directors attending a meeting whether personally or by proxy. In case of a tie, the Chairman shall have a casting vote.

Our bylaws provide that the following resolutions (which cannot be delegated by the Board of Directors) may only be validly passed if approved by a supermajority of at least four fifths (4/5) of the members of the Board of Directors (whether attending personally or by proxy) (and provided that a reinforced quorum of four fifths (4/5) of the members of the Board of Directors are in attendance, whether personally or by proxy):

- The closure of any of our workplaces located in the Autonomous Community of the Basque Country, unless duly justified by reasons of efficiency in the development of our business.
- Any resolution proposed to the general shareholders' meeting with the purpose of not maintaining the effective administration and management of the Company in the Autonomous Community of the Basque Country.
- Any resolution proposed to the general shareholders' meeting to amend the trademark "Euskaltel" with regard to the exercise of our activities within the Autonomous Community of the Basque Country.
- Any decision concerning the vote of the Company in its capacity as shareholder (or member of the governing bodies) of any of its subsidiaries or affiliate companies, in relation to any resolution considered as a Board of Directors resolution subject to reinforced quorum and supermajority at the Company's level.
- The grant of delegations by the general shareholders' meeting in relation to the abovementioned resolutions.

Directors

The table below shows the composition of our Board of Directors as of the date of this Prospectus:

Name	Age	Title	Member of Board of Directors since	Terms Expires	Appointment proposed by	Category/status
Alberto García Erauzkin	54	Director and Chairman	11/28/2000	12/20/2016	Kutxabank, S.A.	Executive
Richard David Alden	51	Director and Vice-Chairman	12/20/2012	12/20/2016	N/A	Independent
Alicia Vivanco González	54	Director	12/17/2003	03/08/2017	Kutxabank, S.A.	Proprietary
Francisco Javier Bañón Treviño	51	Director	12/20/2012	12/20/2016	International Cable, B.V.	Proprietary
Mareblu Sarl(1)	54	Director	12/20/2012	12/20/2016	International Cable, B.V.	Proprietary
Alfonso Basagoiti Zavala	68	Director	03/08/2013	03/08/2017	Kutxabank, S.A.	Proprietary
José Ángel Corres Abasolo	56	Director	03/08/2013	03/08/2017	N/A	Independent
Bridget Patricia Cosgrave	53	Director	03/08/2013	03/08/2017	N/A	Independent
Jon Iñaki Alzaga Etxeita	54	Director	03/31/2015	03/31/2019	N/A	Independent
María Belén Amatriaín Corbi	56	Director	03/31/2015	03/31/2019	N/A	Independent

(1) Mareblu S.a.r.l, represented by Mr. John C. Mowinckel.

Since some of the Selling Shareholders may be exiting the Company as a result of the Offering, the composition of our Board of Directors and of the relevant Board Commissions, as well as the status of those directors representing such Selling Shareholders will be reviewed in view of the outcome of the Offering.

The Non-Director Secretary of the Board of Directors is Mr. Francisco Javier Allende Arias and the Non-Director Vice-Secretary is Mr. Javier Ruiz-Cámara Bayo.

All members of the Board of Directors designate the Company's registered address as their professional address for the purpose of this Prospectus.

Biographical information for each of the current members of our Board of Directors, including a brief description of each director's business experience and education, is presented below.

Alberto García Erauzkin. Mr. Erauzkin joined Euskaltel in 1998 as Chief Financial Officer and controller. He was appointed Chief Executive Officer ("**CEO**") in 2000 and promoted to Chairman of the Company in December 2011. His previous professional experience includes auditing and consulting at Arthur Andersen and Audihispana, as well as economic and financial management at Heraclio Fournier and Corporación Patricio Echeverría. His is a member of the Official Accounting Registry (*Registro Oficial de Auditores de Cuentas*) and Auditing Institute of Certified Public Accountants (*Instituto de Auditores-Censores Jurados de Cuentas*). Furthermore, he is also a member of the governing boards of various institutions. He has a degree in Economics and Business Administration from the University of Deusto.

Richard David Alden. Mr. Alden joined Euskaltel in 2012 as independent director and Vice-Chairman of the Company. He is also the CEO of Wananchi Group Holdings, LTD, a communications operator, providing pay television, internet and business services in East Africa, non-executive President and director of Blue Interactive, a cable television and broad band operator in Brazil and non-executive director of Fon Wireless Limited. From 1998 to 2009 he was the CEO and founding director of Grupo Corporativo Ono, S.A. He was also Chief Financial Officer ("**CFO**") of subsidiaries of the Videotron Group in the United States and the United Kingdom. He is a United Kingdom chartered accountant having qualified and previously worked for over ten years with Deloitte & Touche, London.

Francisco Javier Bañón Treviño. Mr. Bañón joined Euskaltel's Board of Directors in 2012. He is a founding partner of Trilantic Capital Partners and member of its executive committee. Between 2004 and 2008 he was Co-Head of Lehman Brothers Merchant Banking in Europe. Prior to joining Lehman Brothers Merchant Banking, he was Managing Director of DB Capital Partners and Bankers Trust Private Equity Group, in charge of the origin, performance, supervision and financing of private equity transactions in Latin America. Prior to DB Capital Partners, he was CFO of the industrial division of the IF Group, a privately owned group with industrial and financial operations throughout Spain, the United States and Latin America and formerly Deputy General Manager of the Serpeska Group, a Spanish group involved in food processing and distribution. He also practiced as an Attorney at Law. Mr. Bañón is currently a Director of Talgo, S. A. Mr. Bañón holds a Degree in Law and Business Administration from the *Instituto Católico de Administración y Dirección de Empresas* of the *Universidad Pontificia de Comillas* in Spain.

Alicia Vivanco González. Ms. Vivanco joined Euskaltel's Board of Directors in 2003, at the time as representative of Bilbao Bizkaia Kutxa ("**BBK**"). She has also been a managing director of Kutxabank, S.A. since 2012, where she leads Project Finance and Subsidiary Companies departments. She is also a director of other Kutxabank's subsidiaries including Deoleo, Ingeteam, IdE, Ibermática, Talde and Sociedad Promotora Bilbao Gas Hub (where she is also Chairman). Her previous professional experience was mainly developed in the financial entity BBK, which she joined in 1984, working in different departments: International Affairs, Portfolio Management and Capital Markets. She was named Managing Director of BBK in 2009. She has a degree in Economics from the University of the Basque Country.

Alfonso Basagoiti Zavala Mr. Basagoiti joined Euskaltel's Board of Directors in 2013, and is also a member of the Appointments and Remuneration Commission (as defined below). Currently, he is also Chairman of Corporación IBV, S.A., Clean Energy Investments LLC and Oil&Gas Capital, S.L., director and member of the executive commission of Prodol Meditec, S.A., and director of Inversiones Partnership, S.L. and 2049 Obra Contemporánea, S.A. In 1988 he was appointed Secretary of the Treasury of the Basque government. During his term of office, he was also a member of the State's Committee of Tax and Financing Policy. In 1991 he joined Banco Bilbao Vizcaya, S.A. as deputy to the Chairman. In 1997 he was appointed Vice-President of the Basque Entrepreneurs Association. In 2001, he was named Chairman of Gamesa, S.A., a position he held until 2006. From 2012 to 2014, he was appointed director and Chairman of the appointments and remuneration commission of BBK's banking foundation, amongst other offices.

José Ángel Corres Abasolo. Mr. Corres was appointed as independent director of Euskaltel in 2013. In 2010 he was named President of the Chamber of Commerce, Industry and Navigation of Bilbao, a position which he holds until this date. His previous professional experience includes positions in the Basque government as head of the group of "Ports of General Interest" and advisor to the Basque government representatives in the Port of Bilbao. In 1996 he was appointed President of the Port Authority of Bilbao and he held the position until 2009. In addition, he was a member of the Board of Directors of Bilbao Ría 2000 during thirteen years. He has a degree in Economics and Business from the Commercial University of Deusto and also studied in the Maritime Economics and Logistics Institute of Bremen.

Bridget Patricia Cosgrave. Ms. Cosgrave joined Euskaltel's Board of Directors in 2013 as an independent director. She is also a member of the Audit and Control Commission (as defined below). Furthermore, she is Chairman and founder of Every European Digital, Chairman of the Supervisory Board of Every European Digital Poland sp zo, an investor and advisor in Ukko Verkot OY, and an independent non-executive director and member of the audit and risk committee of SES. Her prior professional career has also been devoted to the telecommunication sector. From 2009 to 2011 she was public affairs lead spokesperson for the EU Digital Agenda representing a group of 60 global corporations and 40 national trade associations in the telecomunication sector. From 2001 to 2007, Ms. Cosgrave was a member of the executive committee of Belgacom Group, from 2003 to 2007 she was President, CEO and then Chairman of Belgacom International Carrier Services. Ms. Cosgrave was a board member of Belgacom Mobile From 2003 to 2007 and of the Telindus Group from 2006 to 2006. Belgacom Group is the leading telecoms/ICT solutions service provider in Belgium offering quadruple-play. Ms. Cosgrave is also active as non-executive director on the boards of publicly quoted companies including SES in 2008 and 2012, STERIA SA. Prior mandates include Essilor International SA from 2007 to 2010 and Eutelsat SA in 2005. She holds a Master in Business Administration from London Business School and a Bachelor of Arts from Queen's University at Kingston, Canada.

John C. Mowinckel. Mr. Mowinckel was appointed in 2012 as representative of the Company's director, Mareblu Sarl. Mr Mowinckel is Chairman of InvestIndustrial, Inc. America. Mr. Mowinckel started working at Investindustrial in January 1994, following a 19-year investment-banking career. First, he worked with Bankers Trust Company in various assignments including the buyout group and also as managing director of European Corporate Finance for First National Bank of Chicago. He holds a Bachelor of Arts from the University of Virginia in Foreign Affairs. Mr. Mowinckel is a non-executive board member in certain affiliates of funds managed by Investindustrial which have indirectly invested in Euskaltel.

Jon Iñaki Alzaga Etxeita. Mr. Alzaga was appointed as independent director of Euskaltel in March 2015. He joined the Company in 1998 and developed his career until 2005 holding positions as Business Manager, Manager of Strategy and Business Development and member of the Managers Committee. Since 2005 he has also been President and CEO of Grupo Noticias. His previous professional career includes a position as General Manager of Editorial Iparraguirre, S.A. and a 12-year career in PricewaterhouseCoopers (Birmingham and San Sebastian desks).

María Belén Amatriaín Corbi. Ms. Amatriaín was appointed non-executive director of Euskaltel in March 2015. Currently, she is also a non-executive director of EVO Banco, S.A.U. Her previous professional career includes positions as Corporate Chief Marketing Officer of 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 President and CEO of Telefónica Publicidad e Información. She has degrees in Law and Economics from ICADE of the *Universidad Pontificia de Comillas* in Spain.

The table below sets out all entities (except those family-owned asset-holding companies not relevant for Euskaltel or other merely instrumental non-operative companies not relevant for Euskaltel) in which the members of the Board of Directors have been appointed as members of the administrative, management or supervisory bodies or in which they have held shareholdings at any time during the five year period preceding the date of this document, indicating whether or not each person is still a member of such bodies or holds any shares in any such entities.

Director	Company	Office	Shareholding
Alberto García Erauzkin	Innobasque—Agencia Vasca de la Innovación	Director (Chaiman)	No
	BBK Fundación Bancaria	Director (Vice-Chaiman)	No
	Fundación Novia Salcedo	Member of the Board of Trustees	No
	Orkestra—Instituto Vasco de Competitividad	Director (Vice-Chairman)	No
	Fundación del Museo Guggenheim Bilbao	Euskaltel representative on the Board	No
	Mondragón Innovation & Knowledge (MIK)	Member of Advisory Board	No
	Ikerbasque Foundation	Innobasque representative on the Board	No
Richard David Alden	Wananchi Group Holdings, Ltd.	CEO	No
	Blue Interactive Group	Director (Chairman) and member of the Remuneration and Audit Commissions	No
	Toa Technologies, Inc.	Former European President (Management, non-Board)	Yes
	Mirada Plc	Former Director (Chairman)	No
	Fon Wireless Limited	Former Director (Non-executive)	No
	Grupo Corporativo Ono, S.A. and related companies	Former Chief Executive Officer and Executive Director	No
Alicia Vivanco González	Kutxabank, S.A.	Project Finance and Subsidiary Companies General Manager	No
		Member of the Presidency Committee	
		Member of the Assets and Liabilities Committee	
	Bilbao Bizkaia Kutxa (today, Kutxabank, S.A.)	Former General Manager/Former Director	No
	BBK Bank Cajasur, S.A.U.	Former Director	No
	Deoleo, S.A.	Director	No
		Member of the Audit Committee	
	Ekarpen SPE, S.A.	Director	No
	Ibermática, S.A.	Director	No
	Informática de Euskadi, S.L.	Director	No
	Ingeteam, S.A.	Director	No
	Sociedad Bilbao Gas Hub, S.A.	Chairman of the Board of Directors	No
	Talde Gestión SGECR, S.A.	Director	No
	Compañía Logística de Hidrocarburos, S.A.	Former Director	No
		Former Member of the Audit Committee	
	Arecibo Servicios y Gestión, S.L.	Former Director	No
	Binaria 21, S.L.	Former Director	No

Director	Company	Office	Shareholding
	General de Alquiler de Maquinaria, S.A.	Former Director Former Member of the Audit Committee	No
	Itinere Infraestructuras, S.A.	Former Director	No
	Natraceutical, S.A.	Former Director Former Member of the Audit Committee	No
Francisco Javier Bañón Treviño . . .	Advanced Risk Private Equity SICAR S.à.r.l	Chairman of the Board	No
	Invesmerchant AB	Chairman of the Board	No
	Trilantic Capital Management GP Ltd	Board Member	Yes
	Trilantic Capital Partners L.P. Inc.	Member	Yes (limited partner)
	Trilantic Capital Partners LLP	Member of the management Board	Yes
	Trilantic Capital Partners Management Ltd	Board Member	Yes
	Trilantic Capital Partners V Management Ltd	Board Member	Yes
	Trilantic Capital Partners IV Europe Lux GP S.à.r.l	Board Member	Yes
	Trilantic Capital Partners V Europe GP S.à.r.l	Manager	Yes
	Trilantic Capital Management LLP		
	Pegaso Transportation S.à.r.l. (in liquidation)	Class B Manager	Yes
	Patentes Talgo S.L.U.	Board Member	No
	International Hospitals Network (GP) Ltd	Board Member	No
	Trilantic Capital Partners Cable S.à.r.l	Director	No
	International Cable B.V.	Class A Director	No
	Talgo, S.A.	Director	No
	Pegaso Transport S.à.r.l	Former Manager	No
	LeYa Global S.A.	Former Director	No
	LeYa S.A.	Former Director	No
	Wing Aero S.à.r.l. (in liquidation)	Former Board Member	No
	Wing Turbo, S.L. (in liquidation)	Former Board Member	No
	Sener Aeronáutica, S.L.	Former Board Member	No
	LBMB Associates IV (Europe) S.à.r.l	Former Board Member	No
	LBMB Europe Capital Partners Management Ltd	Former Board Member	No
John C. Mowinckel	Bramgard Investment Company Ltd	Former Director	No
	Investindustrial General Partner Limited	Former Director	No
	Italmatch Chemicals S.p.A.	Former Director	No
	Mezzanove Capital Management S.à.r.l.	Director	No

Director	Company	Office	Shareholding
	Merlin Entertainment Group S.r.l.	Former Director	No
	AEB S.p.A	Former Director	No
	Stroili oro S.p.A	Former Director	No
	Waste Systems S.A.	Former Director	No
	World Chemicals S.A.	Former Director	No
	Bi-Invest S.à.r.l.	Former Director	No
	Bi-Invest Advisers S.A.	Former Director	No
	Bi-Invest Compartment S.à.r.l.	Former Director	No
	Contenur S.L.	Former Director	No
	Inaer Aviation Group S.L.	Former Director	No
	International Motorcycles S.p.A.	Former Director	No
	Investindustrial Partners Limited	Former Director	No
	Morris Profumi S.p.A.	Former Director	No
	Polimeri Speciali Holding S.p.A.	Former Director	No
	Polimeri Speciali S.p.A. (now Polynt S.p.A)	Former Director	No
	World Cosmetics S.A.	Former Director	No
	Cogemat S.p.A	Former Director	No
	Cogetech S.p.A.	Former Director	No
	Panda Software Internacional, S.L.	Former Director	No
	Selective Beauty Holdings S.a.s.	Former Director	No
	Investindustrial Inc.	Director	No
	PCCR Inc.	Director	No
Alfonso Basagoiti Zavala	Fundación BBK	Former Director	No
		Former Chairman of the Appointments Commission	
	Corporación IBV, S.A.	Chairman	No
	Clean Energy Investments, LLC	Chairman	No
	Oil&Gas Capital, S.L.	Chairman	No
	Prodol Meditec, S.A.	Director	No
		Member of the Executive Commission	
	Inversiones Partnership, S.L.	Director	No
	2049 Obra Contemporánea, S.A.	Director	No
	Museo Guggenheim Bilbao	President of the Artistic Commission	No
José Angel Corres Abasolo	Chamber of Commerce of Bilbao	Chairman	No
	Athletic Club	Vice-Chairman	No
	Depósito Franco de Bilbao	Managing Director	No
	AC Camerfirma, S.A.	Chairman	No
	Bilbao Air, Sociedad para la Promoción del Aeropuerto de Bilbao	Chairman	No
	Museo Marítimo Ría de Bilbao	Chairman	No
	Chamber of Commerce of Spain	Member of the Board	No
		Member of the Executive Committee	

Director	Company	Office	Shareholding
Bridget Patricia Cosgrave	Ses, S.A.	Independent Non-Executive Board Director	No
		Member of the Audit and Risk Commission	
	Steria, S.A.	Former Independent Non-Executive Board Director	No
		Former Member of the Audit & Risk Commission	
	Ukko Verkoy OY	Advisor	Yes
	Oceania Women's Network Satellites (OWNSAT) Limited	N/A	Yes
	Every European Digital Poland sp zoo	N/A	Yes (Founder and majority shareholder)
	Adimo sprl	N/A	Yes (Founder and sole shareholder)
Jon Iñaki Alzaga Etxeita	Compañía Multimedia del Norte, S.L.	Director (Chairman)	No
	Editorial Iparraguirre, S.A.	Director (Chairman)	No
	Zeroa Multimedia, S.A.	Former Chief Executive Officer	No
		Chairman	
	Urgull 2004, S.A.	Former Chief Executive Officer	No
		Chairman	
	Izoria 2004, S.L.	Former Chief Executive Officer	No
		Chairman	
	Euskomedia, S.L.,	Sole Director	No
	Itxartu Komunikabideak, S.A.,	Sole Director	No
	Noticias Irratia, S.L.	Sole Director	No
	Alta Seguridad, S.A.	Director	No
	Zosmamedia, S.A.	Director	No
María Belén Amatriaín Corbi	Telefónica S.A.	Former Director (Corporate Chief Marketing Officer)	No
	Amacor Gestión Inmobiliaria, S.L.	Board Member	Yes
	Evo Banco, S.A.U.	Director (Non-Executive)	No
		Risk Commission member	
		Appointment and Remuneration Commission Chairman	
	Capital Radio Economía, S.L.	Director (Non-Executive)	No
	SolidQ Global, S.A.	Director (Non-Executive)	No
		Appointment and Retribution Committee President	
	Carry on by Amacor, S.L.	Sole director	No
	Nudo Gama S.L.	Sole director	No

Independent Directors

In accordance with the resolution adopted by the general shareholders' meeting of the Company on March 31, 2015 and as reflected in this section, it is contemplated that upon Admission the Company's Board of Directors will be comprised of ten directors, five of whom will be independent directors.

Board Commissions

In compliance with our bylaws and Board of Directors Regulations, our Board of Directors has an audit and control commission (the "**Audit and Control Commission**") and an Appointments and Remuneration Commission (the "**Appointments and Remuneration Commission**"), which are governed by the "**Audit and Control Regulations**" and the "**Appointments and Remuneration Regulations**", respectively. The following is a brief description of the principal characteristics of the commissions of our Board of Directors, which conform with our Board of Directors Regulations, Audit and Control Regulations, Appointments and Remuneration Regulations and our bylaws.

Appointments and Remuneration Commission

Our Board of Directors has established an Appointments and Remuneration Commission. The members of our Appointments and Remuneration Commission are elected by our Board of Directors among its members. As required under our Appointments and Remuneration Regulations, the Appointments and Remuneration Commission consists of between three and five members, all of whom must be external directors and the majority of whom must be independent directors. The chairman of the Appointments and Remuneration Commission, who must be an independent director, is selected by the Appointments and Remuneration Commission from among its independent members for a maximum term of four years, and may only be re-elected as chairman at least one year after his or her removal, without prejudice to his or her continuation as member of the Appointments and Remuneration Commission. The secretary of the commission may be one of the commission's members or the Secretary or Vice-Secretary of the Board of Directors.

The members of the Appointments and Remuneration Commission following Admission will be as follows:

Name	Category	Title
Richard D. Alden	Independent	Chairman
María Belén Amatriaín Corbi	Independent	Member
Francisco Javier Bañón Treviño	Proprietary	Member
Alfonso Basagoiti	Proprietary	Member
José Angel Corres	Independent	Member
Francisco Javier Allende Arias	N/A	Secretary

The composition, responsibilities and rules of the Appointments and Remuneration Commission are to be governed by our Appointments and Remuneration Regulations. The primary purpose of this commission is to assist, inform and formulate proposals to our Board of Directors in relation to the matters assigned to it from time to time by the bylaws, the Board of Director Regulations and the Appointments and Remuneration Regulations. In particular, the Appointments and Remuneration Commission will be responsible for, among other things, the following:

- advising the Board of Directors in relation to the most convenient configuration of its commissions as regards size and equilibrium between the different kinds of directors existing from time to time;
- informing and reviewing the criteria to be followed for the composition of the Board of Directors and the selection of candidates, defining their functions and necessary skills, as well as evaluating the time and dedication required to correctly carry out their roles;
- establishing a goal for representation of women on the Board of Directors, and developing guidance on how to achieve that goal;
- ensuring that whoever may assume the position of director by any means shall fulfil the requirements of reputation, suitability, solvency, fitness, experience, qualification, training, availability and dedication with his or her role and that they are not affected, directly or indirectly by any incompatibility, prohibition, conflict or opposition of interests with respect to the interest of the Company provided for under general provisions;

- informing about proposals for appointment or removal of the members forming part of each of the Company's commissions, analysing the knowledge and experience required for the purposes of the relevant commission and, in particular, regarding the Audit and Control Commission;
- acknowledging, informing and formulating proposals for appointment or removal of the Chairman of the Board of Directors and, as the case may be, the chief executive and the general manager;
- examining or organising the succession of the Chairman of the Board of Directors and the chief executive and general manager of the Company and, as the case may be, formulating proposals to the Board of Directors to enable such succession to occur in an orderly and planned manner;
- informing and formulating proposals about the appointment or removal of the Vice-Chairman, Secretary and Vice-Secretary of the Board of Directors;
- informing about proposals in relation to the appointment, promotion or removal of our executive officers, as well as those proposals of reviewing and modification of the organisation chart and allocation of responsibilities within the Company;
- informing, as the case may be, the Board of Directors about the selection, appointment and remunerations of the directors and top executives of the Company;
- issuing reports and developing actions which, in the competency scope, are requested by the Board of Directors or its Chairman;
- periodically reviewing the remuneration policy of the top executives and proposing amendments and updates to the Board of Directors;
- proposing an individual remuneration policy for executive directors to the Board of Directors;
- informing and submitting to the Board of Directors the proposals made by the Chairman of the Board of Directors or the chief executive or the general manager regarding the remuneration of executive directors and the core terms of their contracts, including potential compensation or indemnification;
- informing and developing plans for incentives and supplements to pensions for all the employees of the Company;
- periodically reviewing the general remuneration policies for all the employees of the Company, checking whether they are adequate and their results, and developing proposals to amend or update them; and
- ensuring that the Company's remuneration policies are complied with and informing about the documents that need to be approved by the Board of Directors.

The Appointments and Remuneration Commission will meet between two and four times a year, and every time its chairman considers it necessary. In any case, the commission chairman will call a meeting of the Appointments and Remuneration Commission whenever the Board of Directors or its Chairman requests the preparation of a report or the adoption of a proposal, or whenever it is requested by a third of the members of the Appointments and Remuneration Commission.

Audit and Control Commission

The composition, responsibilities and rules of the Audit and Control Commission will be governed by our Audit and Control Regulations.

Our Audit and Control Regulations require the Audit and Control Commission to have at least three members, with a maximum of five members, all of whom must be external directors and the majority of whom must be independent directors and shall be appointed taking into account their knowledge and expertise in accounting, audit or both fields.

The chairman of our Audit and Control Commission is selected by the committee from among its independent members for a maximum term of four years, and may only be re-elected as chairman at least one year after his or her removal, without prejudice to his or her continuation as member of the Audit and Control Commission. The secretary of the commission may be one of the commission's members or the Secretary or Vice-Secretary of the Board of Directors.

The members of the Audit and Control Commission following Admission will be as follows:

Name	Category	Title
Iñaki Alzaga Etxeita	Independent	Chairman
Richard D. Alden	Independent	Member
Bridget Patricia Cosgrave	Independent	Member
Mareblu Sarl (represented by John C. Mowinckel)	Proprietary	Member
Alicia Vivanco González	Propietary	Member
Francisco Javier Allende Arias	N/A	Secretary

The Audit and Control Commission will be responsible for, among other things, the following:

- analysing the financial statements after the end of each year, examining the draft external auditors' opinion, discussing the content of the annual accounts and auditors' report with them, and presenting the recommendations to the Board of Directors with a view to formulating the same on the basis of the aforementioned functions;
- informing our general shareholders' meeting regarding the items proposed by the shareholders in the scope of their competence;
- proposing to the Board of Directors, for the consideration of the general shareholders' meeting, the appointment of external auditors in accordance with Spanish law;
- supervising the services of internal auditing and risk management, as well as analyzing together with the external auditors any significant weaknesses of the internal control systems;
- understanding and taking notice of the financial information processes and internal control systems of the Company;
- establishing appropriate relations with the external auditors for the purposes of receiving information regarding matters that may risk the independence thereof, for examination by the commission and any other information related to the development of the audit procedure, as well as such other communications as are provided in laws on auditing of accounts and in other provisions on auditing. In any event, it must receive written confirmation from the auditors, on an annual basis, of their independence vis-à-vis the entity or entities directly or indirectly related to the Company, as well as information on additional services of any kind provided to such entities by such external auditors or by the persons or entities related thereto pursuant to the laws on the auditing of accounts;
- issuing, on an annual basis, prior to the issuance of the audit report, a report which shall contain an opinion with regard to the auditors' independence. Such report will summarize the activities of the commission and must contain, in any case, the valuation of the provision of additional services referred to in the previous subsection, considered individually and as a whole, other than the legal audit, and which are not incompatible with the laws regulating the auditing of accounts;
- examining, prior to their presentation, the financial information which shall be submitted to the relevant market regulators;
- informing, in relation to operations which may imply conflicts of interest, especially, in relation to those which are related party transactions in accordance with applicable tax legislation in force from time to time. Without limitation, the commission shall report on transactions between the Company and (a) its shareholders, (b) its directors (provided always that such transactions consist in rendering and performing services for the benefit of the Company and which are services and functions which differ from the ones inherent to the office of director by the relevant director) and (c) the related parties of the aforementioned two points; and
- any other reporting or proposing function which has been assigned by the Board of Directors in general or in particular.

The Audit and Control Commission will meet between two and four times a year for the purposes of receiving, prior to its presentation, the financial and risk management information to be submitted to third parties, and every time its chairman considers it necessary. In any case, the commission chairman will call a meeting of the Audit and Control Commission whenever the Board of Directors or its Chairman requests the preparation of a report or the adoption of a proposal, or whenever it is requested by a third of the members of the Audit and Control Commission.

Internal Code of Conduct and Corporate Governance Recommendations

The Company has implemented a defined and transparent set of rules and regulations for corporate governance which is compliant with all applicable Spanish governance standards.

On June 1, 2015, our Board of Directors adopted the Securities Markets Code of Conduct (*Reglamento Interno de Conducta*) (the "**Internal Code of Conduct**"), to be effective upon Admission. The Internal Code of Conduct regulates, among other things, our directors' and managers' conduct with regard to the treatment, use and disclosure of our material non-public information. The Internal Code of Conduct applies to, among other persons, all members of the Board of Directors, senior management and employees who have access to material non-public information and to our external advisors when they handle such material non-public information.

The Internal Code of Conduct, among other things:

- establishes the restrictions on, and conditions for, the purchase or sale of our securities or our other financial instruments by persons subject to the Internal Code of Conduct and by those who possess material non-public information;
- provides that persons subject to the Internal Code of Conduct shall not engage in market manipulation with respect to our securities or our other financial instruments; and
- provides that persons report potential conflicts of interest to our regulatory compliance unit.

We believe that we substantially comply with the recommendations of the Corporate Governance Code (*Código de Buen Gobierno*), approved by the CNMV in February 2015 (the "**Corporate Governance Code**").

As of the date hereof, we comply with the guidelines, recommendations and corporate governance practices of the Corporate Governance Code, which will become applicable to us upon Admission, except as described below:

- according to Recommendation 25, the board of directors' regulations should lay down the maximum number of company boards on which directors can serve. This provision is not included in our Board of Directors Regulations so as not to restrain the best potential candidates from being appointed directors after the Offering;
- as regards recommendation 27 (under which directors' absences in board meetings should be kept to a strict minimum and quantified in the annual corporate governance report and, in the event of absence, directors should grant a proxy in favor of an attending director), its provisions have not been incorporated in our Board of Directors Regulations. The express inclusion of these provisions has been deemed unnecessary, even though the Company intends to: (i) monitor directors' attendance to board meetings and quantify the absences in the annual corporate governance report; and (ii) encourage attendance in person or representation by proxy if attendance in person proves to be impossible; and
- recommendation 31 is not complied with, since the Corporate Governance Code establishes that the chairman will need the express prior consent of a majority of directors in attendance to a meeting in order to submit decisions or resolutions which were not included in the agenda for board approval, and this provision has not been incorporated in our Board of Directors Regulations in order to provide the necessary flexibility to the Company's Chairman to include new items in the agenda of the Board of Directors after the Offering.

In addition, we partially comply with the following recommendations of the Corporate Governance Code:

- recommendation 4 sets forth that listed companies should approve a policy regarding communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and grants equitable treatment to shareholders in the same position. This recommendation is partially complied with, since such provision is included in the Board of Directors Regulations, but the communication and contacts policy has not been approved yet. The Company intends to approve the relevant communication and contracts policy as soon as reasonably possible within the next year;

- recommendation 14 sets forth that listed companies should approve a specific and verifiable policy regarding directors' selection and that a reference to its compliance must be included in the annual corporate governance report. This recommendation is partially complied with, since such provision is included in the Appointments and Remuneration Regulations, but the directors' selection policy has not been approved yet. The Company intends to approve the relevant directors' selection policy as soon as reasonably possible within the next year;
- recommendation 26 states that the board should meet with the necessary frequency to properly perform its functions, at least eight times a year. The Company does not foresee to comply with the second part of such recommendation since the Company's bylaws and the Board of Directors' Regulations establish that the Board of Directors shall hold at least six meetings a year, which is considered sufficient to meet the current needs of the Company. It has been considered that the proportion of eight meetings a year would overstrain the management team of a company of this size; and
- recommendation 58 establishes that in the case of variable remuneration, 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 similar circumstances. The Board of Directors Regulations include the abovementioned parameters, but not for variable remuneration, since it is currently not foreseen.

The Company is committed to observe strict corporate governance policies and adapt its practices to the Corporate Governance Code in a consistent manner. By no later than the time of the ordinary general shareholders' meeting to be held in 2016, the Company will assess the actual and effective compliance with the recommendations of the Corporate Governance Code.

Corporate social responsibility policy

In January 2013, the Company approved a corporate social responsibility policy, by virtue of which it specifically committed to:

- develop a sustainable business model, acting responsibly with the Company's stakeholders;
- maintain a strong commitment to social responsibility, based on the respect of universal rights and principles as well as on the general principles of social responsibility management, encouraging the professional development of its employees and developing, further to the analysis of the different stakeholders' expectations, products and services which may continuously add value and contribute to society; and
- protect the environment and reduce any negative impact which may arise from the Company's activities, in compliance with the environmental plans implemented from time to time.

Other commitments

Upon Admission, the Company's website will be adapted to the requirements imposed by the Spanish securities market regulations.

In addition, upon Admission, the Company intends to use its best efforts to comply with the recommendations and lines of action regarding control of financial information (*Sistema de Control Interno de Información Financiera* or *SCIIF*), which implementation is still pending as of the date of this Prospectus. The Company intends to implement the SCIIF as soon as reasonably possible within the next year.

Conflicts of Interest

Pursuant to Article 33 of our Board of Directors Regulations the Company will face a conflict of interest in situations where the interest of the Company or its subsidiaries' (if any) collides directly or indirectly with the personal interest of a director. There is a personal interest of a director in a matter when it affects him/

her or a related party, and, for proprietary directors, when it affects the shareholder or shareholders which appointed him/her or proposed his/her appointment or to persons directly or indirectly related to them.

Therefore, our directors are required to avoid situations which could give rise to a conflict between their duties to us and their private or other interests, unless they have obtained our consent.

In particular, pursuant to Article 229 of the Spanish Companies Act, our directors (and related parties to directors) should abstain from:

(a) carrying out transactions with the Company, excluding ordinary transactions, of limited amount and undertaken in standard conditions applicable to all customers;

(b) using the name of the Company or its condition as director to unduly influence private transactions;

(c) making use of corporate assets, including confidential information on the Company, for private use;

(d) taking advantage of business opportunities of the Company;

(e) obtaining advantages or compensations from third parties other than the Company associated with their post unless they are a mere compliment; and

(f) carrying out activities, on their own or on behalf of third parties, which may compete with the Company or which could put the director in a permanent conflict with the interests of the Company.

Each member of the Board of Directors is required to report to the Board of Directors any circumstances that may give rise to a conflict of interest, direct or indirect, with us.

All conflicts of interest involving directors will be disclosed in the annual accounts.

In any event, each member of the Board of Directors must refrain from attending and participating in deliberations and votes affecting matters including by way of proxy vote in which they (or a related party, as defined in applicable law) have a direct or indirect conflict of interest.

In case that a conflict of interest situation may reasonably create a structural and permanent conflict between the involved director and the Company or its subsidiaries (if any) such director will then lack the required suitability and capacity to remain in office.

To the best of the Company's knowledge, as at the date of this Prospectus, there are no actual or potential conflicts of interest amongst the directors of the Company and senior management and none are engaged in self-dealing or personally engaged in any business that could be deemed as part of the Company's operations, except as follows:

- Mr. Richard Alden works in and with telecommunications companies which are similar in nature with the Company but which do not compete with Euskaltel.

  As further described in section "*Related Party Transactions*", Mr. Richard Alden entered into a business advisory and consulting services agreement with the Company, which is no longer in force.

- Mr. Iñaki Alzaga works in Grupo Noticias. The companies within Grupo Noticias and the Company provide each other, respectively, advertisement and telecommunication services. However, the services are provided on an arms' length basis and are not significant in amount with respect to the global activities of the companies.

Senior Management

The following table lists certain members of our senior management team as of the date of this Prospectus.

Name	Age	Title	Member of Management since
Fernando Ojeda González-Posada	53	*Director General*	2013
Jon Ander de las Fuentes Inchausti	49	Chief Financial Officer	2014
Francisco Javier Allende Arias	56	General Counsel, External Relations & Secretary of the Board	1997
Manuel Salaverría Monfort	58	Director of Customer Management	1997
Manuel Arco Barreras	49	Director of Human Resources	2007
Aitor Markaida Zallo	48	Director of Business	2009
Alberto Santamaría Rubio	50	Director of Internal Audit	2009
Carlos Ávila Rivero	45	Director of Transformation	2013
Pedro Calvillo Arriazu	54	Chief Technology Officer	2015

Set forth below are the biographies of each of these senior managers, other than those provided above:

Fernando Ojeda González-Posada

Mr. Ojeda joined Euskaltel as *Director General* after having shown a large experience in the telecommunications sector across Spain, Portugal, Italy, Brazil and Benelux. His previous professional experience includes being General Manager at ONO, CEO of Dhalia Television as well as General Manager of Universal Pictures. He has a Degree in Economics and Business Administration from ESADE and MA in International Management from the Southwestern University in New Orleans.

Jon Ander de las Fuentes Inchausti

Mr. de las Fuentes joined Euskaltel in September 2014 as CFO. His previous experience includes being a CFO and member of the Executive board at Vidrala and Vice President at the Biotechnology Institute. He holds a degree in Economics from the University of the Basque Country.

Pedro Calvillo Arriazu

Mr. Calvillo joined Euskaltel in 1998 as Head of the Purchasing and Logistics departments. He has held several positions within Euskaltel, including Head of the Construction department and Head of the Operations and Maintenance department. His previous professional experience includes traction systems project management and being Head of the Purchasing department in ABB Traction. He has a degree in Electrical Engineering from the High Technical School of Engineers of Bilbao and an MBA from the European Business School.

Aitor Markaida Zallo

Mr. Markaida joined Euskaltel in 1999 as an assistant to the Chairman. He has held several positions within Euskaltel, including Business and Value Added services development and Head of the Marketing department. In 2009 he was promoted to Head of the Business segment division. His previous professional experience includes consulting at Accenture. He holds a degree in Economics from the University of Deusto.

Manuel Salaverría Monfort

Mr. Salaverría joined Euskaltel in 1997 as Head of the IT department. Mr. Salaverría was responsible for the Business Segment Division and the Strategy, Research and Development department and is currently responsible for the Customer Management and Marketing department. His previous experience includes being a professor at the University of the Basque Country, having responsibility for the Research and Development department at DYE and Head of IT systems and Logistics at ITP. He holds a degree in Physics from the University of Navarra and an MBA from the University of Deusto.

Alberto Santamaría Rubio

Mr. Santamaría joined Euskaltel in 1998 as Manager of the Financial Control department. He was responsible for the Finance and Control division from 2008 and 2014. He was promoted to Head of Internal Audit in 2014. His previous professional experience includes auditing at PricewaterhouseCoopers. He holds a degree in Economics from the University of the Basque Country. He is a member of the Official Accounting Registry (*Registro Oficial de Auditores de Cuentas*), of the Auditing Institute of Certified Public Accountants (*Instituto de Auditores-Censores Jurados de Cuentas*) and of the Spanish Institute of Internal Auditors (IAI).

Carlos Ávila Rivero

Mr. Ávila joined Euskaltel in 2013 as Director of Financial Control and Business Analysis. His previous experience includes being Executive Director and Head of the TMT Strategy at BBVA and Chief of Staff to the CEO at ONO. It also includes equity research of European telecoms at Citigroup and UBS in London, as well as several years as a telecommunications engineer in the UK and the US. He holds a degree in telecommunications engineering and a degree in physics, as well as an MBA from the London Business School.

Manuel Arco Barreras

Mr. Arco joined Euskaltel in 1999 as Manager of Technology and Infrastructure within the IT division. In 2001 he was promoted to Head of the IT department. Since 2007, he has been responsible for the Residential Segment department. His previous professional experience includes system analysis in ITP and Head of IT systems. He holds a degree in Physics from the Basque Country University.

Francisco Javier Allende Arias

Mr. Allende joined Euskaltel in 1995 as Chairman of the Company. His previous experience includes being the Chairman of the board of directors of Vital Savings Bank and a member of the board of directors of Gasnalsa, Norbolsa and Elkargi, among others. He holds a degree in Sociology and Politics.

The table below sets out all entities (except those family-owned asset-holding companies not relevant for Euskaltel) in which the members of the Senior Management have been appointed as members of the administrative, management or supervisory bodies or in which they have held shareholdings at any time during the five year period preceding the date of this document, indicating whether or not each person is still a member of such bodies or holds any shares in any such entities.

Manager	Company	Office	Shareholding
Francisco Javier Allende Arias	ELKARGI	Chairman Director	No
Manuel Salaverria Monfort	GAIA—Cluster de Industrias de las Tecnologías Electrónicas y de la Información del País Vasco	Chairman	No
	ICT—ICT—European Software Institute	Former Member of the division committee	No
	TECNALIA—Research & Innovation	Member of the executive committee (as Euskaltel's representative)	No
Jon Ander de las Fuentes Inchausti .	Vidrala, S.A.	Former Chief Finance Officer	Yes
	BTI Biotechnology Institute, S.A.	Former Vice-Chairman	No
	Hedatu Global Advisors, S.A.	Managing Partner	Yes
	Gallo Vidro, S.A.	Former Director	No
	Aiala Vidrio, S.A.	Former Director	No
	Castellar Vidrio, S.A.	Former Director	No
	La Manufacture du Verre, S.A.	Former Director	No
	Investverre, S.A.	Former Director	No

Share Ownership

None of our directors or members of our administrative, supervisory or management bodies directly holds any ordinary shares of the Company as of the date of this Prospectus. However, the beneficiaries under the Management Incentive Plans and the Investment Agreements have agreed to reinvest part of the compensation due to them under the Management Incentive Plans and the Investment Agreements in ordinary shares of the Company. See "*Plan of Distribution—Agreements to Acquire Shares*".

Compensation

Existing compensation scheme

The Company has not yet approved a remunerations' policy, but it intends to do so as soon as reasonably possible within the next year. Despite the lack of a remunerations' policy as such, and as explained in more detail below, the general shareholders' meeting of the Company has adopted the following resolutions in 2015 regarding the remuneration of the members of the Board of Directors:

- the extraordinary general shareholders' meeting held on March 31, 2015 decided to maintain the individual remuneration of four non-executive members of the Board of Directors in the year 2015, to be paid in four quarterly payments of €11,250 each, namely Mr. Richard Alden, Ms. Bridget Cosgrave, Mr. José Ángel Corres and Mr. Alfonso Basagoiti (without prejudice to the remuneration of the Chairman established below);
- also, in compliance with the Spanish Companies Act and in the context of the Offering, the general shareholders' meeting approved on June 1, 2015 the maximum aggregate amount that the Company may pay to all its directors in the year 2015 (€1,500,000 including all remuneration items and, in particular, the remuneration of the Chairman). This maximum amount will be allocated among the Company's directors as decided by the Board of Directors. The maximum amount of €1,500,000 has been set in view of the possible increase in the remuneration of the members of the Board of Directors as a result of the listed nature of the Company after the Offering. Provided that the applicable laws are complied with, all compensation received by directors in accordance with the Company's bylaws will consist of a fixed amount and, if so decided by the Board of Directors, an insurance premium of a maximum €8,000 per director, although, as of the date of this Prospectus, the Board of Directors has not taken any resolution concerning the payment of insurance premiums to its directors.

The compensation scheme of the members of the Board of Directors and senior management is completely independent from any payments under the Management Incentive Plans and the Investment Agreements described in the sub-section "*—Manangement Incentive Plans*" below.

Compensation of directors

2014

Chairman (executive director)

The remuneration received during the fiscal year ended December 31, 2014 by the Chairman of the Board of Directors (Mr. Alberto García Erauzkin) pursuant to the services agreement entered into with the Company, classified by item, was as follows (in euros):

	2014			
Chairman	**Salary**	**Pension Schemes**	**Insurance Premiums**	**Total**
Alberto García Erauzkin	462,514.79	—	5,837.29	468,352.08

The services agreement entered into with the Chairman complies with the provisions of article 249.3 of the Spanish Companies Act.

Non-executive directors

The extraordinary general shareholders' meeting of the Company held on October 21, 2014 decided to set at €45,000 the individual remuneration of the non-executive members of the Board of Directors holding remunerated offices. Remunerations were paid to the following Directors in four quarterly payments of €11,250 each:

Director	2014 Fixed remuneration (in euros)	2014 Pension Schemes/ Insurance Premiums/Allowances
Richard Alden	45,000	—
Bridget Patricia Cosgrave	45,000	—
José Ángel Corres Abasolo	45,000	—
Alfonso Basagoiti Zavala	45,000	—
Total	180,000	—

2015

Chairman (executive director)

During the three months ended March 31, 2015, remuneration received from the Company by the Chairman (Mr. Alberto García Erauzkin) pursuant to the services agreement entered into with the Company, classified by item, was as follows (in euros):

Chairman	Three months ended March 31, 2015 Salary	Pension Schemes	Insurance Premiums	Total
Alberto García Erauzkin	118,310.40	—	1,519.55	119,829.95

The estimated remuneration for the Chairman (Mr. Alberto García Erauzkin) the fiscal year ending December 31, 2015 classified by item, is as follows (in euros):

	Estimate for year ending December 31, 2015 Salary	Pension Schemes	Insurance Premiums	Total
Alberto García Erauzkin	473,241.60	—	6,078.20	479,319.80

Non-executive directors

The following amounts had already been paid to the members of the Board of Directors on March 31, 2015, and will therefore be deducted from the maximum amount approved by the general shareholders meeting of the Company held on June 1, 2015, without prejudice to the remuneration of the Chairman established above:

Director	Three months ended March 31, 2015 Fixed remuneration (in euros)	Pension Schemes/ Insurance Premiums/Allowances
Richard Alden	11,250	—
Bridget Patricia Cosgrave	11,250	—
José Ángel Corres Abasolo	11,250	—
Alfonso Basagoiti Zavala	11,250	—
Total	45,000	—

Compensation of senior management

2014

The remuneration received during the fiscal year ended December 31, 2014 by the members of the Senior Management, classified by item, was as follows (in euros):

	2014 Salary	Pension Schemes	Insurance Premiums	Total
Senior Management	1,638,417.23	—	36,357.96	**1,674,775.19**

2015

During the three months ended March 31, 2015, remuneration received from the Company by the members of our senior management, classified by item, was as follows (in euros):

	Three months ended March 31, 2015			
	Salary	**Pension Schemes**	**Insurance Premiums**	**Total**
Senior Management	444,626.41	—	2,559.65	447,186.06

The estimated remuneration for the senior management team during the fiscal year ending December 31, 2015 classified by item, is as follows (in euros):

	Estimate for year ending December 31, 2015			
	Salary	**Pension Schemes**	**Insurance Premiums**	**Total**
Senior Management	1,778,505.64	—	10,238.61	1,788,744.25

Agreements with directors including post-termination benefits

The contract entered into on April 1, 2013 with the Chairman of the Board of Directors (Mr. Alberto García Erauzkin) expressly regulates the amounts to be paid by the Company in the event of termination or dismissal. In such event, Mr. Alberto García Erauzkin may choose between terminating the previous common labor relationship, being entitled to receive compensation equal to 45 days' salary per year of work in the Company or to resume the common labor relationship that was suspended on November 28, 2000, as a consequence of his appointment as member of the Board.

Apart from the foregoing, the Company has not, as at the date of this Prospectus, entered into any agreement with a director or senior manager providing for benefits upon termination of office.

Management Incentive Plans

In July 2013 and in October 2014 the Company awarded certain incentives to members of the Company's senior management team, directors and other employees (together, the "**beneficiaries**"), pursuant to an "**Investment Plan**" and an "**Incentive Plan**" (together, the "**Management Incentive Plans**"). The Investment Plan was designed to encourage the fulfilment of the Company's business goals and to align the long-term interests of the beneficiaries with those of the shareholders of the Company. Those participating in the Investment Plan assumed a position equivalent in economic terms to those of a shareholder, acquiring a proportional investment in the revaluation of the Company and assuming the risk of losing their own investment in the event of downward trends in the Company's performance. The Incentive Plan's aim was to ensure the involvement and support of a motivated management team focused on fulfilling the Company's business plan, as well as motivating and retaining those considered to be key to the Company's progress. To benefit from the Incentive Plan, those invited to participate were also required to join the Investment Plan.

Under the Management Incentive Plans, the beneficiaries are entitled to participate in any appreciation (and suffer any depreciation) in the Company's share value between the grant date and December 31, 2025, with the possibility of extending the vesting date by another five years at the request of the Board of Directors. The beneficiaries' participation in the Management Incentive Plans was conditional upon payment of certain amounts in respect of an initial price partially financed through the granting of loans by the Company to the beneficiaries that accrue the statutory rate of interest (*interés legal*).

Upon the occurrence of an "exit event" under the Management Incentive Plans, the beneficiaries are entitled to receive remuneration based on the increase in value of the Company's shares. An "exit event" means, among other things, the public offering of over 50% of the Company's shares.

Therefore, the Offering will constitute an "exit event" and, upon completion of the Offering, the Management Incentive Plans will be liquidated.

The total amount of the compensation to be paid out under the Management Incentive Plans will be calculated on June 29, 2015 based on the Offer Price. While the beneficiaries are entitled to receive the compensation due to them under the Management Incentive Plans in cash, they have separately agreed with the Company to reinvest part of such compensation in ordinary shares of the Company. In order to facilitate such reinvestment, the Company will acquire Shares in the Offering at the Offer Price and will deliver them to the beneficiaries as soon as reasonably practicable following Admission.

The following table sets forth certain information with regard to the compensation due to the beneficiaries under the Management Incentive Plans.

Beneficiary	Initial investment (€)	Gross amount (€)(1)	Net cash payment (€)(1)(2)
Alberto García Erauzkin(3)	656,000	8,201,993	4,626,781.1
Senior Management(4)	2,324,100	30,298,817	16,532,063.1
Other managers(5)	451,500	5,840,024	3,355,672.4
Total	**3,431,600**	**44,340,834**	**24,514,516.7**

Notes:

(1) Calculated on the basis that the Offer Price is the mid-point of the Offer Price Range.

(2) Excluding the estimated taxes which have accrued under the Management Incentive Plans in respect of such beneficiary and which will be withheld by the Company. In addition, the beneficiaries have agreed to reinvest 50% of the net cash payment due to them under the Management Incentive Plans in ordinary shares of the Company. See "*Plan of Distribution—Agreements to Acquire Shares*".

(3) Please see also "*—Other compensations*" below as regards payments due under the Investment Agreements.

(4) Comprising nine members of our senior management team.

(5) Comprising 14 other employees.

Other compensations

The following table sets forth certain information with regard to the compensation due to the Chairman (Mr. Alberto García Erauzkin) and the Vice-Chairman (Mr. Richard Alden) to the Board of Directors under the Investment Agreements described in "*Related Party Transactions*":

Beneficiary	Initial investment (€)	Gross amount(1) (€)	Net cash payment(1)(2) (€)
Alberto García Erauzkin	319,000	996,465	562,110.2(3)
Richard Alden	250,000	1,483,764	n.a.(4)
Total	**569,000**	**2,480,229**	**562,110.2**

Notes:

(1) Calculated on the basis that the Offer Price is the mid-point of the Offer Price Range.

(2) Excluding the estimated taxes which have accrued under the Investment Agreements in respect of such beneficiary and which will be withheld by the Company.

(3) Mr Alberto García Erauzkin will reinvest 50% of the net cash payment to acquire ordinary shares of the Company as described in "*Plan of Distribution—Agreements to Acquire Shares*".

(4) No tax estimate available for calculation.

Under the Investment Agreements, which were offered to certain members of our Board of Directors and which work substantially in the same manner as the Management Incentive Plans save that the formulae used to calculate the compensation under the Investment Agreements is different (less attractive than that used under the Management Incentive Plans) the beneficiaries are entitled to receive remuneration based on the increase in value of the Company's shares. An "exit event" means, among other things, the public offering of over 50% of the Company's shares.

Therefore, the Offering will constitute an "exit event" and, upon completion of the Offering, the Investment Agreements will be liquidated. As is the case with the Management Incentive Plans described above under "*—Management Incentive Plans*", while the beneficiaries are entitled to receive the compensation due to them under the Investment Agreements in cash, Mr. Alberto García Erauzkin has separately agreed with the Company to reinvest part of such compensation in ordinary shares of the Company. See "*Plan of Distribution—Agreements to Acquire Shares*".

Estimated financial impact

As of March 31, 2015, the liabilities relating to the amounts to be paid to the beneficiaries of the Management Incentive Plans and the Investment Agreements amounted to €24.7 million, the result of adding the €4.4 million contributed by the beneficiaries to the €20.3 million expense accrued and recognized up to such date (€12.2 million at December 31, 2014). As of March 31, 2015, loans extended in relation to the Management Incentive Plans and the Investment Agreements amounted to €2.8 million (€2.7 million at December 31, 2014). These calculations were based on the Company's expectations at the time of authorising for issue the 2015 Interim Financial Statements, which included merely a 50% probability that an "exit event" would occur in July 2015.

Since, as a result of the Offering, an "exit event" will occur, the Company expects that the aggregate liabilities related to the amounts to be paid to the beneficiaries of the Management Incentive Plans and the Investment Agreements will amount to €46.8 million (based on the mid-point of the Offer Price Range) and will have the following impact on our profit or loss account:

	(€ in millions)
Total liabilities accrued and recognized as at December 31, 2014	12.2
Expenditure recognized for the three-month period ended March 31, 2015	12.5
Total liabilities accrued and recognized as at March 31, 2015	24.7
Estimated expenditure[(1)]	51.2
Difference	26.5

Note:

(1) Comprises (i) €46.8 million of expenditure on the basis of an "exit event" occurring upon completion of the Offering and based on the mid-point of the Offer Price Range and (ii) €4.4 million originally contributed by the beneficiaries under the Management Incentive Plans and the Investment Agreements.

As a consequence of the above and taking into account that (1) for the year ended December 31, 2014, we had recognized a liability of €12.2 million for the Management Incentive Plans and the Investment Agreements (which includes €4.4 million originally contributed by the beneficiaries thereunder) and (2) the estimated total liability upon the occurrence of an "exit event" as a result of the Offering will be €51.2 million (including the €4.4 million originally contributed by the beneficiaries and calculated on the basis that the Offer Price is the mid-point of the Offer Price Range), we expect that the impact of the liquidation of the Management Incentive Plans and the Investment Agreements on our income statement for the year ended December 31, 2015 will amount to an expense of €26.5 million in addition to the €12.5 million expense that has already been recognized during the three month period ended March 31, 2015 (€39.0 million in total).

Management incentive plan post-Offering

As at the date of this Prospectus, the Company has not yet approved a post-Offering incentive plan for its management team. However, the Company will consider to approve a long-term compensation plan for its management team that will be submitted for approval to the administration and governing bodies of the Company. The Company currently expects that such new long-term incentive plan will be linked to the Company's share price performance and the achievement of certain financial objectives, and will be in line with market standards for comparable companies. A post-Offering management incentive plan is still being considered and has not yet been approved by the corporate bodies of the Company.

Should the post-Offering incentive plan entail the remuneration of the members of the Board of Directors, the bylaws of the Company will have to be amended accordingly to authorize variable remuneration for directors.

D&O insurance policy

We maintain an insurance policy that protects the members of the Board of Directors from liabilities incurred as a result of actions taken in their official capacity as directors, up to an aggregate limit of €10 million.

Family relationships

There are no family relationships and no "close relatives" (as this term is defined in applicable regulations for related party transactions and, in particular, in Order EHA/3050/2004, of September 15, 2004, on information to be disclosed by listed companies regarding related party transactions) amongst the directors, the directors and other members of the Company's senior management or the members of the Company's senior management.

No convictions and other negative statements

To the best of the Company's knowledge, none of its directors or members of its senior management have, in the five years preceding the date of this Prospectus: (i) been convicted in relation to fraudulent offences; (ii) acted as directors of entities affected by bankruptcy, receivership or liquidation; (iii) been publicly incriminated and/or sanctioned by statutory or regulatory authorities (including designated professional bodies); or (iv) been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer of securities or from acting in the management or conduct of the affairs of any issuer.

PRINCIPAL AND SELLING SHAREHOLDERS

As of the date of this Prospectus, the Company's share capital is €379,613,400, consisting of 126,537,800 ordinary shares of €3.00 par value each. The following table sets forth certain information with respect to the beneficial ownership of the ordinary shares in the Company held by Kutxabank, S.A., International Cable, B.V. and Iberdrola, S.A. prior to and after the Offering. For a description of certain transactions between us and our principal shareholders see "*Related Party Transactions*".

	Prior to the Offering		After the Offering			
Owner	**Number of shares beneficially owned**	**Percent**	**Number of shares beneficially owned (assuming no exercise of the Over-allotment Option)**	**Percent**	**Number of shares beneficially owned (assuming full exercise of the Over-allotment Option)**	**Percent**
Kutxabank, S.A.(1)	63,142,360	49.90%	40,595,717	32.08%	38,087,977	30.10%
International Cable B.V.(2)	60,864,680	48.10%	5,533,153	4.37%	—	—
Iberdrola, S.A.	2,530,760	2.00%	—	—	—	—
Management(3)	—	—	1,269,702	1.00%	1,269,702	1.00%
Employees(4)	—	—	379,613	0.30%	379,613	0.30%
Free float	—	—	78,759,615	62.24%	86,800,508	68.60%
Total	**126,537,800**	**100.00%**	**126,537,800**	**100.00%**	**126,537,800**	**100.00%**

Notes:

(1) Kutxabank, S.A. holds 42.83% directly and the remaining 7.07% through its subsidiary Araba Gertu, S.A.U. Following completion of the Offering, Araba Gertu, S.A.U. will no longer hold any shares in our Company.

(2) This company is held by TCP Cable S.a.r.l (50.00%) and International Cable Holdings S.a.r.l (50.00%). International Cable Holdings S.a.r.l is participated by Investindustrial IV L.P. and other co-investors. TCP Cable S.a.r.l is participated by Trilantic Capital Partners IV (Europe) L.P. and other co-investors.

(3) Comprises the beneficiaries under the Management Incentive Plans who have agreed to reinvest part of the compensation due to them under the Management Incentive Plans in ordinary shares of the Company. In addition, Mr. Alberto García Erauzkin has agreed to reinvest part of the compensation due to him under the Investment Agreements in ordinary shares of the Company. The number of shares is calculated on the basis that the Offer Price is the mid-point of the Offer Price Range. It should be noted that the calculation of the compensation due under the Management Incentive Plans and the Investment Agreements, and therefore the amount the beneficiaries will reinvest in ordinary shares, is not linearly correlated to the Offer Price (i.e., changes in the Offer Price do not necessarily produce equal changes in the reinvestment amount).

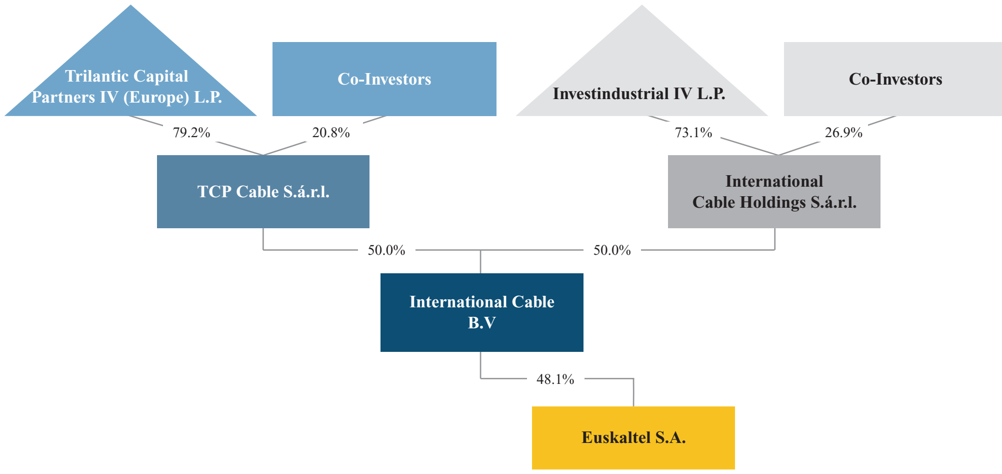
(4) Comprises the employees who will receive shares for free (at no cost) under the Employee Share Scheme. The number of shares is calculated on the basis that the Offer Price is the mid-point of the Offer Price Range.

The amounts and percentages of shares beneficially owned by each shareholder are reported on the basis of CNMV rules governing the determination of beneficial ownership, and the information is not necessarily indicative of beneficial ownership for other purposes. The Company's capital is represented by a single class of shares, with the same voting rights. Each share gives the right to one vote. Consequently, shareholders have no different voting rights. Further details relating our ordinary shares are set out in "*Description of Share Capital*".

Kutxabank, S.A., whose registered office is at Calle Gran Via, 30-32, 48009 Bilbao, Spain, will sell between 22,546,643 ordinary shares (assuming no exercise of the Over-allotment Option) and 25,054,383 ordinary shares (assuming full exercise of the Over-allotment Option) in the Offering.

International Cable B.V., a private limited liability company, having its statutory seat in Amsterdam and its business seat at Herikerbergweg 126, 1101 CM Amsterdam, the Netherlands, was incorporated under the laws of the Netherlands on 29 November 2012. The current shareholders are TCP Cable S.a.r.l. and International Cable Holdings S.a.r.l., Luxembourg. International Cable B.V. will sell between 55,331,527 ordinary shares (assuming no exercise of the Over-allotment Option) and 60,864,680 ordinary shares (assuming full exercise of the Over-allotment Option) in the Offering.

The following chart shows the shareholding structure of International Cable B.V. as at the date of this Prospectus:



Iberdrola, S.A., whose registered office is at Torre Iberdrola, Plaza Euskadi, 5, 48009 Bilbao, Spain, will sell 2,530,760 ordinary shares in the Offering.

As of the date of this Prospectus, the Selling Shareholders are party to two shareholders' agreements. However, these shareholders' agreements will automatically terminate upon Admission. Therefore, with effect from Admission, there will be no shareholders' agreements in place and none of the Selling Shareholders, whether individually or together, will control the Company. However, the Company's bylaws do contain supermajority rights for certain board and shareholders' resolutions as described further in "*Description of Share Capital*". In order to be validly passed, such resolutions will need the approval of our major shareholder, Kutxabank, S.A.

Save as described in "*Plan of Distribution—Agreements to Acquire Shares*", the Company is not aware of (i) any intention of its principal shareholders and/or members of its management to acquire any Shares in the Offering or (ii) any intention of a particular person to acquire more than 5% of the Shares in the Offering.

RELATED PARTY TRANSACTIONS

We enter into transactions with certain related parties or our affiliates from time to time and in the ordinary course of our business. Material related party transactions entered into during the period covered by the Financial Statements and up to the date of this Prospectus are set out below.

For additional information on our related party transactions, see Note 19 to the 2012 Financial Statements, the 2013-2014 Financial Statements and to the 2015 Interim Financial Statements and Note 19 to the 2012 Spanish GAAP Financial Statements, the 2013 Spanish GAAP Financial Statements, the 2014 Spanish GAAP Financial Statements and to the 2015 Interim Spanish GAAP Financial Statements.

As provided for in the Board of Directors Regulations, any transactions that the Company enters into with members of the Board of Directors or shareholders, who hold, individually or together with others, a significant holding, or with persons related thereto, must be approved by the Board of Directors, following a report from, as the case may be and as applicable, either the Audit and Compliance Commission or the Remuneration and Appointments Commission.

All related party transactions carried out during the years ended December 31, 2014, 2013 and 2012 and the three month period ended March 31, 2015 have been carried out at arm's length within the ordinary course of our business.

Related party transactions with our shareholders

During the year ended December 31, 2012, the Company was a party to related party transactions with Kutxabank, S.A. The transaction values for the services rendered amounted to €6,916 thousand.

Additionally, during 2012, we purchased the backbone for our network (the part which we did not previously own) from the Basque government, a former shareholder of the Company. The transfer of the backbone to the Company was carried out for a sale price of €68 million, based on the appraisal of an independent expert. This backbone network, which mainly comprised underground channels, had been leased to us since our incorporation, and represented a rental cost of €3.3 million in 2012.

During the years ended December 31, 2013 and December 31, 2014, the Company was a party to related party transactions with each of Kutxabank, S.A. and Cajasur Banco, S.A. (which forms part of the Kutxabank group), for an amount of €7,084,000 and €2,414,000, respectively, relating to the provision by the Company of fixed telephony, mobile and data transfer services. In the three months ended March 31, 2015, the Company received €1,657,000 from Kutxabank, S.A. and €654,000 Cajasur Banco, S.A. The price lists for non-related third parties are applied to the aforementioned transactions.

The financial expenses incurred by the Company with respect to Kutxabank, S.A. in the year ended December 31, 2014 amounted to €8,654,000 and amounted to €1,972,000 in the three months ended March 31, 2015.

Additionally, International Cable B.V. and Kutxabank, S.A. provided advisory and business consulting services to the Company in consideration for an amount of €355,000 in 2014 and €400,000 in 2013 and additional "other costs" for an amount of €55,000 in 2014 and €74,000 in 2013. In the three months ended March 31, 2015, International Cable B.V. and and Kutxabank, S.A. each received €50,000 for these services, and International Cable B.V. received €11,250 for "other costs" in this period.

In addition, on or around June 29, 2015 and in any event prior to Admission, the general shareholders' meeting of the Company will approve the distribution of an extraordinary dividend to the Selling Shareholders in an amount of between €193.3 million and €209.2 million (calculated on the basis of the Offer Price Range). See "*Dividends and Dividend Policy*".

Other than the following transactions, there have been no material related party transactions between the Company and our shareholders between March 31, 2015 and the date of this Prospectus:

- We have continued to provide Kutxabank, S.A. with fixed telephony, mobile and data transfer services.
- Kutxabank, S.A. is also a lender under the Facilities Agreement granted to the Company with an aggregate exposure of €112 million (see "*Material Contracts—Facilities Agreement*").
- International Cable B.V. and Kutxabank, S.A. have continued to provide advisory and business consulting services to the Company. Following Admission, such services will cease to be provided to the Company.

Related party transactions with managers and/or directors

On January 1, 2013, the Company entered into a business advisory and consulting services agreement regarding strategic matters of the Company with director and Vice-Chairman Richard Alden for a total amount of €200,000 (€100,000 in 2013 and €100,000 in 2014) which was approved in 2013 by our Board of Directors, following a favorable report issued by the Audit and Compliance Commission. This agreement is no longer in force following the Board of Director's decision to terminate it in December 2014.

Also, in July 2013, the Company entered into two investment agreements (the "**Investment Agreements**") as follows:

- On 10 July 2013, the Company entered into an investment agreement with director and chairman Alberto García Erauzkin, according to which he was entitled to participate in any appreciation (and suffer any depreciation) in the Company's equity value between the execution date and December 31, 2025. The initial investment of Mr. García Erauzkin under the investment agreement was €319,000.
- On 31 July 2013, the Company entered into an investment agreement with director and vicechairman Richard Alden, according to which he was entitled to participate in any appreciation (and suffer any depreciation) in the Company's equity value between the execution date and December 31, 2025. The initial investment of Mr. Alden under the investment agreement was €250,000.

Upon the occurrence of an "exit event" under the Investment Agreements, the beneficiaries are entitled to receive remuneration based on the increase in value of the Company's shares. An "exit event" means, among other things, the public offering of over 50% of the Company's shares. Therefore, the Offering will constitute an "exit event" and, upon completion of the Offering, the Management Incentive Plans will be liquidated. See "*Management and Board of Directors—Other compensations*".

In the context of the Management Incentive Plans and the Investment Agreements, the Company granted loans to certain members of the senior management during 2013 and 2014, which amounted to €2.7 million at December 31, 2014 (€2.8 million as of March 31, 2015). The aforementioned loans accrue an annual interest rate equal to the statutory rate ("*interés legal*") corresponding to each year. Among other things, these loans are repayable on the admission to trading, on a national or international official secondary securities market, of more than the 50% of the share capital of the Company. Therefore, these loans will be repayable upon completion of the Offering.

Other than the Management Incentive Plans and the Investment Agreements and the related loans, which all remained in place, there were no material related party transactions between the Company and our directors and managers between March 31, 2015 and the date of this Prospectus.

DESCRIPTION OF SHARE CAPITAL

The following summary provides information concerning our share capital and briefly describes certain significant provisions of our bylaws (*estatutos sociales*) and Spanish corporate law, including Royal Legislative Decree 1/2010 approving the restated text of the Spanish Companies Act (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*) (the "**Spanish Companies Act**"), Spanish Act 3/2009 on Structural Amendments of Private Companies (*Ley 3/2009, de 3 de abril, sobre modificaciones estructurales de las sociedades mercantiles*), the LMV and Royal Decree 116/1992 on the representation of securities in book -entry form and the settlement of transaction in the Stock Exchanges (*Real Decreto 116/1992, de 14 de febrero, sobre la regulación de valores por medio de anotaciones en cuenta y compensación y liquidación de operaciones bursátiles*).

This summary does not purport to be complete and is qualified in its entirety by reference to our bylaws, the Spanish Companies Act and other applicable laws and regulations. Copies of our bylaws are available (in Spanish with an English translation for information purposes) at our principal headquarters and on our website (www.euskaltel.com) and from Admission, at CNMV's offices.

General

The Company was incorporated as a corporation for an indefinite term under the public deed executed before the Notary Public of Bilbao, Mr. José Ignacio Uranga Otaegui, on July 3, 1995, number 2,567 of his records, and its corporate purpose is the provision, management, development, implementation, operation and marketing of telecommunications networks and services according to the applicable legislation, together with the marketing of goods which are necessary for the development of such services.

At the date of this Prospectus, our issued share capital consists of €379,613,400 divided into a single series of 126,537,800 ordinary shares, with a par value of €3 each and each with an ISIN code ES0105075008 allocated by the Spanish National Agency for the Codification of Securities (*Agencia Nacional de Codificación de Valores Mobiliarios*), an entity dependent upon the CNMV. All of our ordinary shares are fully subscribed and paid-up. Non-residents of Spain may hold shares and vote, subject to the restrictions described under "*—Restrictions on Foreign Investment*".

Our shares are represented by book entries, the entity responsible for maintaining the corresponding accounting records being *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.* ("**Iberclear**"), with registered office at Plaza de la Lealtad, 1, 28014 Madrid, Spain.

On December 20, 2012 the Company increased its share capital by €54,413,400 by issuing 906,890 shares of €60 par value each, with a share premium of €13,586,600. Immediately following such increase, the subscribed capital of the Company was represented by 6,326,890 registered shares of €60 par value each, with the same rights and obligations, subscribed and fully paid (5,420,000 shares in 2011 and 2010).

At the general shareholders' meeting held on June 1, 2015, the Company passed a resolution to carry out a 20-for-1 share split by virtue of which the par value of its shares became €3 per share and the total number of ordinary shares was set at 126,537,800.

The summary table below outlines these main changes in the Company's share capital during the last three years:

Date	Corporate action	Nominal value	Share premium	Number of issued/ redeemed shares	Number of resulting shares	Total shares	Resulting nominal value	Resulting share capital
December 20, 2012 . . .	Capital increase	€60	€13,586,600	906,890	6,326,890	6,326,890	€60	379,613,400
June 1, 2015	Split	€3	—	—	—	126,537,800	€ 3	379,613,400

Dividend and Liquidation Rights

Holders of our ordinary shares have the right to participate in distributions of our profits and proceeds from a liquidation, proportionally to their paid-up share capital. However, there is no right to receive a minimum dividend.

Payment of dividends is proposed by the Board of Directors and must be authorized by our shareholders at a general shareholders' meeting. Holders of ordinary shares participate in such dividends from the date agreed by a general shareholders' meeting. Additionally, interim dividends (*dividendo a cuenta*) may also be distributed among shareholders directly upon approval by the Board of Directors provided that: (i) there is sufficient liquidity to pay the interim dividend; and (ii) the amount distributed does not exceed the amount resulting from deducting from the earnings booked since the end of the previous year, the sum of previous years' losses, the amounts earmarked for the legal or bylaws' reserves, and the estimated tax due on the aforesaid earnings. The Spanish Companies Act requires each company to allocate at least 10.0% of its net income each year to a legal reserve until the balance of such reserve is equivalent to at least 20.0% of such company's issued share capital. A company's legal reserve is not available for distribution to its shareholders except upon such company's liquidation. As of December 31, 2014, our legal reserve amounted to €32,534,000 equivalent to 8.6% of our share capital.

According to the Spanish Companies Act, dividends may only be paid out of profits or distributable reserves (after the compulsory allocation to mandatory reserves, including the legal reserve, and only if the value of our net worth is not, and as a result of distribution would not be, less than our share capital).

In addition, no profits may be distributed unless the amount of distributable reserves is at least equal to the amount of the research and development expenses recorded as an asset on our balance sheet.

The Spanish Companies Act also requires the creation of a non-distributable reserve equal to the amount of goodwill recorded as an asset on our balance sheet, and that an amount at least equal to 5.0% of such goodwill be allocated from the net income from each year to such non-distributable reserve until such time as the non-distributable reserve is of an amount at least equal to the goodwill recorded on our balance sheet. If, in any given year, there are no profits or there are insufficient profits to transfer an amount equal to 5.0% of the goodwill recorded on the balance sheet, the Spanish Companies Act requires that the shortfall be transferred from freely distributable reserves to the non-distributable reserve, without prejudice to the contractual restrictions included, where applicable, in our financing agreements. See "*Dividends and Dividend Policy*".

In accordance with Article 947 of the Spanish Commercial Code, the right to a dividend lapses and reverts to us if it is not claimed within five years after it becomes payable.

We are not aware of any restriction on the collection of dividends by non-resident shareholders. All holders will receive dividends through Iberclear and its member entities, without prejudice to potential withholdings on account of the Non-Resident Income Tax that may apply. See "*Taxation*".

In the event of our liquidation, our shareholders would be entitled to receive proportionately any assets remaining after payment of our debts and all applicable taxes and expenses.

Upon Admission, our ability to pay dividends or repurchase our shares will depend on the availability of distributable reserves which in turn will depend on our results and other factors such as our profitability and cash flow generation. We expect that upon completion of the Offering we will not have any distributable reserves. Accordingly, our ability to make a distribution to shareholders will depend on our ability to generate net profits in future periods in order to achieve sufficient distributable reserves. See "*Capitalization and Indebtedness*".

Our ability to distribute dividends in the near future will depend on a number of factors, including (but not limited to) the amount of our distributable profits and reserves and our investment plans, earnings, level of profitability, cash flow generation, restrictions on payment of dividends under applicable laws, compliance with covenants in our debt instruments (see details set out in "*Dividends and Dividend Policy*"), the level of dividends paid or shares repurchased by other comparable listed companies doing business in Spain and such other factors as the Board of Directors or the shareholders may deem relevant from time to time.

Shareholders' Meetings and Voting Rights

Pursuant to our bylaws, the regulations of our general shareholders' meeting and the Spanish Companies Act, ordinary annual general shareholders' meetings shall be held during the first six months of each fiscal year on a date fixed by the Board of Directors. Extraordinary general shareholders' meetings may be called by the Board of Directors whenever it deems appropriate, or at the request of shareholders representing at least 3.0% of our issued share capital. Following Admission, notices of all general shareholders' meetings will be published in the Commercial Registry's Official Gazette or in one of the main newspapers of Spain, on our corporate website and on the website of CNMV, at least one month's prior to the date when the meeting is to be held, except as discussed in the following paragraph.

In addition, once our ordinary shares are trading, if we offer our shareholders the ability to vote by electronic means accessible to all of them, extraordinary general shareholders' meetings may be called on 15 days' notice. The decision to permit such reduction of the call period should be taken by a majority of not less than two thirds of the voting capital represented in an ordinary annual general shareholders' meeting, and the authorization shall be granted for a term which shall not exceed the date of the subsequent annual ordinary general shareholders' meeting.

Action is taken at ordinary general shareholders' meetings on the following matters: (i) the approval of the management of the Company carried out by the Board of Directors during the previous fiscal year, (ii) the approval of the annual accounts from the previous fiscal year, and (iii) the application of the previous fiscal year's income or loss. All other matters can be considered at either an extraordinary or an ordinary general shareholders' meeting if the matter is within the authority of the meeting and is included on the agenda (with certain exceptional items which do not need to be included on the agenda to be validly passed, like dismissal of directors and the decision to bring the liability action against directors of the Company).

Each ordinary share entitles the holder to one vote and there is no limit as to the maximum number of voting rights that may be held by each shareholder or by companies of the same group. Shareholders duly registered in the book-entry records maintained by Iberclear, and its member entities, five days prior to the day on which a general shareholders' meeting is scheduled and in the manner provided in the notice for such meeting, are entitled to attend and vote at such meeting. The notice calling the general shareholders' meeting shall indicate the date on which our ordinary shares must be held by a shareholder in order for the latter to participate in a general shareholders' meeting and to vote in respect of his/her ordinary shares.

Any ordinary share may be voted by proxy. Proxies must be in writing or in electronic form acceptable under our bylaws, and are valid for a single general shareholders' meeting. Proxies may be given to any person, whether or not a shareholder. Proxies must specifically refer to the general shareholders' meeting. A proxy may be revoked by giving notice to us prior to the meeting or by the shareholder attending the meeting in person.

Proxy holders will be required to disclose any conflict of interest prior to their appointment. In the event a conflict of interest arises after the proxy holder's appointment, such conflict of interest must be immediately disclosed to the relevant shareholder. In both cases, the proxy holder shall not exercise the shareholder's rights unless the latter has given specific voting instructions for each resolution in respect of which the proxy holder is to vote on behalf of the shareholder. A conflict of interest in this context may in particular arise where the proxy holder is: (i) our controlling shareholder, or another entity controlled by such shareholder; (ii) a member of the Board of Directors, management or supervisory body of the Company, or of a controlling shareholder or another entity controlled by such shareholder; (iii) our employee or auditor, or employee or auditor of a controlling shareholder or another entity controlled by such shareholder; (iv) a natural person related to those mentioned in (i) to (iii) above.

A person acting as a proxy holder may hold a proxy from more than one shareholder without limitation as to the number of shareholders so represented. Where a proxy holder holds proxies from several shareholders, he/she will be able to cast votes for a shareholder differently from votes cast for another shareholder.

Entities appearing as holders of ordinary shares in the book-entry records but acting on behalf of different persons shall always be entitled to exercise voting rights in a divergent manner in order to comply with conflicting voting instructions received from their clients. These entities may also delegate voting rights to each of the indirect holders or their nominees, without limits on the number of delegations.

The Spanish Companies Act provides that, on the first call of an ordinary or extraordinary general shareholders' meeting, attendance in person or by proxy of shareholders representing at least 25.0% of our voting capital will constitute a quorum. If the meeting is not quorate on the first call, the meeting can be reconvened in second call (provided the meeting notice included both first and second call), which according to the Spanish Companies Act requires no quorum. However, according to the Spanish Companies Act, a resolution in a general shareholders' meeting to increase or decrease our share capital, issue bonds, suppress or limit the pre-emptive subscription right over new shares, transform, merge, spin-off, globally assign our assets and liabilities, transfer our registered address abroad or otherwise modify our bylaws, requires attendance in person or by proxy of shareholders representing at least 50.0% of our voting capital on first call, and attendance in person or by proxy of shareholders representing at least 25.0% of our voting capital on second call. In the case of attendance in person or by proxy of shareholders representing more than 50.0% of our voting capital, an absolute majority shall suffice to pass the aforementioned resolutions. On second call, and in the event that less than 50.0% of our voting capital attends in person or by proxy, such resolutions may only be passed upon the vote of shareholders representing two-thirds of the attending share capital. The interval between the first and the second call for a general shareholders' meeting must be at least 24 hours. Resolutions in all other cases are passed by a simple majority of the votes corresponding to the capital stock present or represented at such meeting.

Our bylaws provide that the following shareholders' resolutions may only be validly passed if approved by a reinforced majority of 75% of the voting rights in attendance:

- Amendment of our bylaws affecting our corporate address, corporate name and corporate purpose, the regime of approval of resolutions by the general shareholders' meeting or the Board of Directors, as well as the change of the trademark "Euskaltel" for the operations of the Company within the Autonomous Community of the Basque Country.
- Any resolution with the purpose of not maintaining the effective administration and management of the Company in the Autonomous Community of the Basque Country.
- The delegation of faculties for the approval of the aforementioned resolutions by the Board of Directors, in those cases permitted by the applicable law.

Under the Spanish Companies Act, shareholders who voluntarily aggregate their shares so that the share capital so aggregated is equal to or greater than the result of dividing the total share capital by the number of directors have the right, provided there are vacancies on the Board of Directors, to appoint a corresponding proportion of the members of the Board of Directors (disregarding fractions). Shareholders who exercise this right may not vote on the appointment of other directors.

A resolution passed at a general shareholders' meeting is binding on all shareholders, although a resolution which is (i) contrary to law or the bylaws or the internal regulations of the Company, or (ii) prejudicial to the interest of the Company and beneficial to one or more shareholders or third parties, may be contested. In the case of listed companies, the required fraction of the Company's share capital needed to be able to contest is 1/1000. The right to contest would apply to those who were shareholders at the time when the resolution was taken (provided they hold at least 0.1% of the share capital), directors and interested third parties. In the event of resolutions contrary to public order, the right to contest would apply to any shareholders (even if they acquired such condition after the resolution was taken), and any director or third party. In certain circumstances (such as change or significant amendment of the corporate purpose, transformation or transfer of registered address abroad), the Spanish Companies Act gives dissenting or absent shareholders (including non-voting shareholders) the right to withdraw from the Company. If this right were exercised, the Company would be obliged to purchase the relevant shares at the average market price of the shares in the last quarter in accordance with the procedures established under the Spanish Companies Act.

Pre-emptive rights and Increases of Share Capital

Pursuant to the Spanish Companies Act and our bylaws, shareholders have pre-emptive rights to subscribe for any new shares issued against monetary contributions and for any new bonds convertible into shares. Such pre-emptive rights may be excluded when so required by the corporate interest under special circumstances by a resolution passed at a general shareholders' meeting or by the board of directors (when the company is listed and the general shareholders' meeting delegates to the board of directors the right to increase the capital stock or issue convertible bonds and exclude pre-emptive rights), in accordance with Articles 308, 417, 504, 505, 506 and 511 of the Spanish Companies Act. As of the date hereof, we have neither convertible or exchangeable bonds outstanding nor there is any delegation on the Board of Directors to resolve on a capital increase or issue convertible bonds.

Also, holders of shares have the right of free allotment recognized in the Spanish Companies Act in the event of capital increase against reserves.

Furthermore, the pre-emptive rights, in any event, will not be available in an increase in share capital against non-cash contribution, by means of capitalization of credit rights, or to honor the conversion into shares of convertible bonds or in a merger in which shares are issued as consideration. Pre-emptive rights are transferable, may be traded on the AQS and may be of value to existing shareholders because new shares may be offered for subscription at prices lower than prevailing market prices.

Shareholder Actions

Under the Spanish Companies Act, directors are liable to the company, shareholders and creditors for their acts or omissions that are illegal or violate the bylaws and for failure to carry out their legal duties with diligence.

Under Spanish law, shareholders must generally bring actions against the directors as well as any other actions against us or challenging corporate resolutions before the courts of the judicial district of our registered address (currently Bilbao, Spain).

Registration and Transfers

Our ordinary shares are in registered book-entry form and are indivisible. Joint holders of one share must designate a single person to exercise their shareholders' rights, but they are jointly and severally (*solidariamente*) liable to us for all the obligations arising from their status as shareholders . Iberclear, which manages the Spanish clearance and settlement system of the Spanish Stock Exchanges, maintains the central registry reflecting the number of shares held by each of its member entities (*entidades participantes*). Each member entity, in turn, maintains a registry of the owners of such shares.

Our ordinary shares are freely transferable in accordance with the Spanish Companies Act, the LMV and any implementing regulation.

As a general rule, transfers of shares quoted on the Spanish Stock Exchanges must be made through or with the participation of a member of a Stock Exchange. Brokerage firms, or dealer firms, Spanish credit entities, investment services entities authorized in other EU member states and investment services entities authorized by their relevant authorities and in compliance with the Spanish regulations are eligible to be members of the Spanish Stock Exchanges. See "*Market Information*." Transfer of shares quoted on the Spanish Stock Exchanges may be subject to certain fees and expenses.

Restrictions on Foreign Investment

Exchange controls and foreign investments were, with certain exceptions, completely liberalized by Royal Decree 664/1999, of April 23 (*Real Decreto 664/1999, de 23 de abril*), which was approved in conjunction with Law 18/1992, of July 1 (the "**Spanish Foreign Investment Law**"), bringing the existing legal framework on foreign investments in line with the provisions of the Treaty of the European Union.

According to regulations adopted under the Spanish Foreign Investment Law, and subject to the restrictions described below, foreign investors may freely invest in shares of Spanish companies as well as transfer invested capital, capital gains and dividends out of Spain without limitation (subject to applicable taxes and exchange controls). Foreign investors who are not resident in a tax haven are only required to file a notification with the Spanish Registry of Foreign Investments maintained by the General Bureau of Commerce and Investments (*Dirección General de Comercio e Inversiones*) within the Ministry of Economy and Competitiveness *(Ministerio de Economía y Competitividad*) following an investment or divestiture, if any, solely for statistical, economic and administrative purposes. Where the investment or divestiture is made in shares of Spanish companies listed on any of the Spanish Stock Exchanges, the duty to provide notice of a foreign investment or divestiture lies with the relevant entity with whom the shares (in book-entry form) have been deposited or which has acted as an intermediary in connection with the investment or divestiture.

If the foreign investor is a resident of a tax haven, as defined under Spanish law (Royal Decree 1080/1991, of July 5), notice must be provided to the Registry of Foreign Investments prior to making the investment, as well as after consummating the transaction. However, prior notification is not necessary in the following cases:

- investments in listed securities, whether or not trading on an official secondary market;
- investments in participations in investment funds registered with the CNMV; and
- foreign shareholdings that do not exceed 50.0% of the capital of the Spanish company in which the investment is made.

Additional regulations to those described above apply to investments in some specific industries, including air transportation, mining, manufacturing and sales of weapons and explosives for civil use and national defense, radio, television, telecommunications and gambling. These restrictions do not apply to investments made by EU residents, other than investments by EU residents in activities relating to the Spanish defense sector or the manufacturing and sale of weapons and explosives for non-military use.

The Spanish Council of Ministers (*Consejo de Ministros*), acting on the recommendation of the Ministry of Economy and Competitiveness, may suspend the aforementioned provisions relating to foreign investments for reasons of public policy, health or safety, either generally or in respect of investments in specified industries, in which case any proposed foreign investments falling within the scope of such a suspension would be subject to prior authorization from the Spanish government, acting on the recommendation of the Ministry of Economy and Competitiveness.

Law 19/2003, of July 4, on the establishment of a regulatory regime relating to capital flows to and from legal or natural persons abroad and the prevention of money laundering ("**Law 19/2003**"), generally provides for the liberalization of the regulatory environment with respect to acts, businesses, transactions and other operations between Spanish residents and non-residents in respect of which charges or payments abroad will occur, as well as money transfers, variations in accounts or financial debit or credits abroad. These operations must be reported to the Ministry of the Economy and Competitiveness and the Bank of Spain only for informational and statistical purposes. The most important developments resulting from Law 19/2003 are the obligations on financial intermediaries to provide to the Spanish Ministry of Economy and Competitiveness and the Bank of Spain information corresponding to client transactions.

Exchange Control Regulations

Pursuant to Royal Decree 1816/1991, of December 20, relating to economic transactions with non-residents as amended by Royal Decree 1360/2011 of October, 7, and EC Directive 88/361/EEC, charges, payments or transfers between non-residents and residents of Spain must be made through a registered entity, such as a bank or another financial institution registered with the Bank of Spain and/or the CNMV (*entidades registradas*), through bank accounts opened abroad with a foreign bank or a foreign branch of a registered entity, in cash or by check payable to bearer. All charges, payments or transfers which exceed €6,010 (or its equivalent in another currency), if made in cash or by check payable to bearer, must be notified to the Spanish exchange control authorities.

Reporting Requirements

Pursuant to Royal Decree 1362/2007, of October 19, any individual or legal entity which, by whatever means, purchases or transfers shares which grant voting rights in our Company, must notify us and the CNMV, if, as a result of such transaction, the proportion of voting rights held by that individual or legal entity reaches, exceeds or falls below a threshold of 3.0%, 5.0%, 10.0%, 15.0%, 20.0%, 25.0%, 30.0%, 35.0%, 40.0%, 45.0%, 50.0%, 60.0%, 70.0%, 75.0%, 80.0% and 90.0% of our total voting rights.

The individual or legal entity obliged to carry out the notification must serve the notification by means of the form approved by the CNMV from time to time for such purpose, within four (4) trading days from the date on which the transaction is acknowledged (Royal Decree 1362/2007 deems a transaction to be acknowledged within two (2) trading days from the date on which such transaction is entered into).

The reporting requirements apply not only to the purchase or transfer of shares, but also to those transactions in which, without a purchase or transfer, the proportion of voting rights of an individual or legal entity reaches, exceeds or falls below the threshold that triggers the obligation to report as a consequence of a change in the total number of voting rights of a company on the basis of the information reported to the CNMV and disclosed by it. In such a case, the transaction is deemed to be acknowledged within two (2) trading days from the date of publication of the relevant fact disclosure ("*hecho relevante*") regarding such transaction.

Regardless of the actual ownership of the shares, any individual or legal entity with a right to acquire, transfer or exercise voting rights granted by the shares, and any individual or legal entity which acquires, transfers or holds, whether directly or indirectly, other securities or financial instruments which grant a right to acquire shares with voting rights, will also have an obligation to notify us and the CNMV of the holding of a significant stake in accordance with applicable regulations.

Should the person or group effecting the transaction be resident in a tax haven (as defined in Royal Decree 1080/1991, of July 5), the threshold that triggers the obligation to disclose the acquisition or transfer of our ordinary shares is reduced to 1.0% (and successive multiples thereof).

All members of the Board of Directors must report to both us and the CNMV any percentage or number of voting rights in the Company held by them at the time of becoming or ceasing to be a member of the Board of Directors within five (5) trading days. Furthermore, all members of the Board of Directors must report any change in the percentage of voting rights they hold, regardless of the amount, as a result of any acquisition or disposition of our shares or voting rights, or financial instruments which carry a right to acquire or dispose of shares which have voting rights attached, including any stock-based compensation that they may receive pursuant to any of our compensation plans. Members of our senior management must also report any stock-based compensation that they may receive pursuant to any of our compensation plans or any subsequent amendment to such plans

In addition, pursuant to Royal Decree 1333/2005, of November 11 (implementing European Directive 2004/72/EC), any member of our Board of Directors or our senior managers, as defined therein and any persons having a close link (*vínculo estrecho*) with any of them must similarly report to the CNMV any acquisition or disposal of our shares, derivative or financial instruments linked to our shares regardless of the size, within five (5) business days. The notification of the transaction must include particulars of, among others, the type of transaction, the date of the transaction and the market in which the transactions were carried out, the number of shares traded and the price paid.

Royal Decree 1362/2007 refers to the definition given by Royal Decree 1333/2005, developing the LMV, regarding market abuse, which defines senior management (*directivos*) as those "high-level employees in positions of responsibility with regular access to insider information (*información privilegiada*) related, directly or indirectly, to the issuer and that, furthermore, are empowered to adopt management decisions affecting the future development and business perspectives of the issuer".

In certain circumstances established by Royal Decree 1362/2007, the notification requirements on the acquisition or transfer of shares also apply to any person or legal entity that, independently of the ownership of the shares, may acquire, transmit or exercise the voting rights granted by those shares, provided that the proportion of voting rights reaches, increases above or decreases below, the percentages set forth by Spanish law.

Moreover, pursuant to Article 30.6 of Royal Decree 1362/2007, in the context of a takeover bid, the following transactions should be notified to the CNMV: (i) any acquisition reaching or exceeding 1.0% of the voting rights of the Company, and (ii) any increase or decrease in the percentage of voting rights held by holders of 3.0% or more of the voting rights in the Company. The CNMV will immediately make public this information.

Shareholders' Agreements

The LMV and Articles 531, 533 and 535 of the Spanish Companies Act require parties to disclose certain types of shareholders' agreements that affect the exercise of voting rights at a general shareholders' meeting or contain restrictions or conditions on the transferability of shares or bonds that are convertible or exchangeable into shares of listed companies.

If our shareholders enter into such agreements with respect to our ordinary shares, they must disclose the execution, amendment or extension of such agreements to us and to the CNMV, file such agreements with the appropriate commercial registry and publish them through a relevant fact disclosure (*hecho relevante*). Failure to comply with these disclosure obligations renders any such shareholders' agreement unenforceable and constitutes a violation of the LMV.

Such a shareholders' agreement will have no effect with respect to the regulation of the right to vote in general shareholders' meetings and restrictions or conditions on the free transferability of shares and bonds convertible into shares until such time as the aforementioned notifications, deposits and publications are made.

Upon request by the interested parties, the CNMV may waive the requirement to report, deposit and publish the agreement when publishing the shareholders' agreement could cause harm to the affected company.

Net Short Positions

In accordance with Regulation (EU) No 236/2012 of the European Parliament and of the Council of March 14, 2012 on short selling and certain aspects of credit default swaps (as further supplemented by several delegated regulations regulating technical aspects necessary for its effective enforceability and to ensure compliance with its provisions), net short positions on shares listed on the Spanish Stock Exchanges equal to, or in excess of, 0.2% of the relevant issuer's share capital and any increases or reductions thereof by 0.1% are required to be disclosed to the CNMV. If the net short position reaches 0.5%, and also at every 0.1% above that, the CNMV will disclose the net short position to the public.

The notification or disclosure mentioned above shall be made not later than at 15.30 (CET) on the following trading day.

Notification is mandatory even if the same position has been already notified to the CNMV in compliance with transparency obligations previously in force in that jurisdiction.

The information to be disclosed is set out in Table 1 of Annex I of Delegated Regulation 826/2012, according to the format approved as Annex II of this Regulation. The information will be published, where appropriate, on a web page operated or supervised by the CNMV.

Moreover, pursuant to Regulation 236/2012, where the CNMV considers that (i) there are adverse events or developments that constitute a serious threat to financial stability or to market confidence (serious financial, monetary or budgetary problems, which may lead to financial instability, unusual volatility causing significant downward spirals in any financial instrument, etc.); and (ii) the measure is necessary and will not be disproportionately detrimental to the efficiency of financial markets in view of the advantages sought, it may, following consultation with the European Securities and Markets Authority ("**ESMA**"), take any one or more of the following measures:

- impose additional notification obligations by either (a) reducing the thresholds for the notification of net short positions in relation to one or several specific financial instruments; and/or (b) requesting the parties involved in the lending of a specific financial instrument to notify any change in the fees requested for such lending; and
- restrict short selling activity by either prohibiting or imposing conditions on short selling.

In addition, according to Regulation 236/2012, where the price of a financial instrument has fallen significantly during a single day in relation to the closing price on the previous trading day (10.0% or more in the case of a liquid share), the CNMV may prohibit or restrict short selling of financial instruments for a period not exceeding the end of the trading day following the trading day on which the fall in price occurs.

Finally, Regulation 236/2012 also vests powers to ESMA in order to take measures similar to the ones described above in exceptional circumstances, when the purpose of these measures is to deal with a threat affecting several EU member states and the competent authorities of these member states have not taken adequate measures to address it.

Share Repurchases

Pursuant to the Spanish Companies Act, we may only repurchase our own shares within certain limits and in compliance with the following requirements:

- the repurchase must be authorized by the general shareholders' meeting in a resolution establishing the maximum number of shares to be acquired, the titles for the acquisition, the minimum and maximum acquisition price and the duration of the authorization, which may not exceed five (5) years from the date of the resolution;
- the repurchase, including the shares already acquired and currently held by us, or any person or company acting in its own name but on our behalf, must not bring our net worth below the aggregate amount of our share capital and legal or non-distributable bylaws' reserves. For these purposes, net worth means the amount resulting from the application of the criteria used to draw up the financial statements, subtracting the amount of profits directly allocated to such net worth, and adding the amount of share capital subscribed but not called and the share capital par value and issue premium recorded in our accounts as liabilities;

- the aggregate value of the ordinary shares directly or indirectly repurchased, together with the aggregate par value of the ordinary shares already held by us, must not exceed 10.0% of our share capital; and
- ordinary shares repurchased for valuable consideration must be fully paid-up. A repurchase shall be considered null and void if (i) the shares are partially paid-up, except in the case of free repurchase, or (ii) the shares entail ancillary obligations.

Treasury shares do not have voting rights or economic rights (for example, the right to receive dividends and other distributions and liquidation rights). Such economic rights except the right to receive bonus shares, will accrue proportionately to all of our shareholders. Treasury shares are counted for purposes of establishing the quorum for general shareholders' meetings as well as majority voting requirements to pass resolutions at general shareholders' meetings.

- Regulation 596/2014 of April 16, repealing, among others, Directive 2003/6/EC of the European Parliament and the European Council of January 28, on insider dealing and market manipulation, establishes rules in order to ensure the integrity of European Community financial markets and to enhance investor confidence in those markets. This regulation maintains an exemption from the market manipulation rules regarding share buy-back programs by companies listed on a stock exchange in an EU Member State. EC Regulation No. 2273/2003, of December 22, implemented the aforementioned directive with regard to exemptions for buy-back programs. Article 5 of this Regulation states that in order to benefit from the exemption, a buy-back program must comply with certain requirements established under such Regulation and the sole purpose of the buy-back program must be to reduce the share capital of an issuer (in value or in number of shares) or to meet obligations arising from either of the following:debt financial instruments exchangeable into equity instruments; or
- employee share option programs or other allocations of shares to employees of the issuer or an associated company.

On December 19, 2007 the CNMV issued Circular 3/2007 setting out the requirements to be met by liquidity contracts entered into by issuers with financial institutions for the management of its treasury shares to constitute an accepted market practice and, therefore, be able to rely on a safe harbor for the purposes of market abuse regulations.

If an acquisition or series of acquisitions of our ordinary shares reaches or exceeds or causes our and our affiliates' holdings to reach or exceed 1.0% of the voting shares, we must notify our final holding of treasury shares to the CNMV. If such threshold is reached as a result of a series of acquisitions, such reporting obligation will only arise after the closing of the acquisition which, taken together with all acquisitions made since the last of any such notifications, causes our and our affiliates' holdings to exceed 1.0% of the voting shares. Sales and other transfers of our treasury shares will not be deducted in the calculation of such threshold. This requirement would also apply if the shares were acquired by one of our majority-owned subsidiaries.

Moreover, pursuant to Spanish Companies Act, the audited financial statements of a company must include a reference to any treasury shares.

In addition, on July 18, 2013, the CNMV published certain guidelines for securities issuers and financial intermediaries acting on their behalf regarding the "discretionary transactions with treasury shares" (outside of the buy-back program regulation). These guidelines are in line with the buy-back program regulation in respect of price, limits and volumes and include certain restricted periods and a rule of separated management of the trading activity.

MATERIAL CONTRACTS

The contracts set out below (not being contracts entered into in the ordinary course of business) have (a) been entered into by the Company within the two years immediately preceding the date of this Prospectus and are, or may be, material to the Company; or (b) been entered into at any time and contain provisions under which the Company has an obligation or entitlement which is, or may be, material to the Company as of the date of this Prospectus.

Orange Contract

On July 2, 2012, we entered into an MVNO contract with France Telecom España, S.A.U. (today, Orange Espagne, S.A.) ("**Orange**"), by virtue of which Orange undertook to provide us with wholesale electronic mobile communication services in order for us to be able to provide mobile services as a full MVNO for an initial term that expires in June 2019 and which will be automatically extended upon expiration by successive 12-month periods, unless terminated by either party (the "**Orange Contract**").

Operators owning licenses for the 900 MHz frequency band like Orange are under the obligation to provide wholesale services to operators who are unable to provide such services themselves because they lack these licenses (Article 4.6 Spanish Royal Decree 458/2011). Furthermore, Mobile Network Operators ("**MNOs**") are under a general obligation to provide MVNOs with all necessary elements for the provision of access services and the origination of retail mobile services.

Pursuant to the Orange Contract, Orange provides us with wholesale services and mobile traffic required to develop and commercialize our mobile telephony offers as a full MVNO in existing, as well as in future, modes and technologies (e.g., LTE 800 MHz), and both at a national and international level. The Orange Contract also allows us to provide third-party operators with wholesale access without Orange having the right to deny its authorization, unless third-party operators' brands do not comply with the spirit of the Orange Contract or damage Orange's image or reputation.

The Orange Contract states that we are free to commercialize all services we deem appropriate, even those which are in direct competition with those from Orange. However, we have also undertaken to refrain from carrying out business actions aimed at actively soliciting Orange's customers. Conversely, Orange has undertaken to refrain from carrying out business actions aiming at actively soliciting our customers.

The wholesale services provided under the Orange Contract comprise all the services that we require in order to provide our customers with the same services as those offered by Orange to its own customers. In the event we were to need new specific access wholesale services (including, for example, geographical location services) to cover a demand from our customers, we would need to reach an agreement on price and other terms, with Orange.

Under the Orange Contract, Orange is our exclusive provider in Spain of mobile telephony access and ending, as well as of roaming services. Notwithstanding this, should we decide to develop our own mobile telephony access network in the future, Orange has committed to facilitate the handover between its network and ours (including the 4G network), and to enter into a specific contract for this purpose, which must be negotiated in good faith.

Orange guarantees the network coverage that is at its disposal by serving Euskaltel with its state-level general network and at the same time providing customer specific coverage based on existing customer equipment at specific sites. Orange authorizes us to implement customer equipment in order to improve the indoor coverage for our customers. The Orange Contract provides for a cumulative annual minimum purchase requirement. Should this requirement not be complied with, a penalty consisting of a percentage of the difference between the minimum requirement and the actual amount purchased shall apply. This penalty will be reimbursed by Orange if there is a surplus in subsequent years. Also, in the event that Euskaltel meets the cumulative minimum purchase requirement and there is a surplus over such requirement, Orange shall give back any penalties previously received. In the event that a certain amount is reached, Orange will regularize the price meaning that the price will be reduced or a specific volume discount (*rappel*) shall be applied.

A global bank guarantee has been granted by Euskaltel in favor of Orange, which must be available until June 30, 2019 or earlier if the aforementioned cumulative minimum purchase requirements have been met before such date. Additionally, we must provide Orange annually with a bank guarantee for an amount which is calculated on an annual basis based on part of the wholesale billing (*facturación mayorista*) forecast which is agreed mutually by both parties.

Finally, pursuant to the Orange Contract, if a competitor of Orange were to acquire the majority of voting rights or a majority stake in Euskaltel, Orange would be entitled to terminate the Orange Contract as well as to enforce the bank guarantee. Additionally, if one of our competitors were to acquire the majority of voting rights or a majority stake in Orange, we would be entitled to terminate the Orange Contract. In any such case, we would be entitled, during the six months from the execution of the corresponding sale and purchase agreement or, as the case may be, the termination of the Orange Contract, to migrate our customer base to another operator's network. During such period both parties would be required to fulfil their contractual obligations under the Orange Contract.

On May 27, 2015, we entered into an annex to the Orange Contract pursuant to which Orange provides us 4G services and we agreed pricing for these services. We also agreed the initial terms surrounding the interoperability of Orange's 4G network with Euskaltel's 4G network.

GFI Contract

On June 20, 2014, we entered into a framework contract (the "**GFI Contract**") with the Spanish company Grupo Corporativo GFI Norte, S.L. ("**GFI**") and its parent company, GFI Informatique, S.A. ("**GFI Informatique**"), which is listed in France and heads an international technological consultancy and IT services group in France and Southern Europe, pursuant to which we have outsourced our IT systems for a term of seven years, unless it is terminated by either party.

GFI specializes in the provision of technology consulting services and has agreed to maintain and develop applications and infrastructure relating to our IT systems, as well as to the execution of specific projects relating to such applications, which we request, subject to certain commitments of minimum orders relating to such projects. Additionally, GFI has agreed to update the applications and infrastructures pursuant to market standards in such a way that upon termination of the GFI Contract, we may choose any other existing technological option in the market for the proper running of our IT systems. In consideration for GFI's services, we pay a price agreed between the parties annually based on estimates of annual volumes calculated by GFI, adjustable in the event of fluctuations, which is revised through a benchmarking mechanism. Specific projects bear a fixed price per day. There are various service levels that apply and the GFI Contract can be terminated by us if a specific amount of penalties for non-compliance have accrued.

As part of the GFI Contract, we transferred to GFI certain assets forming an autonomous productive unit, including tangible and intangible assets, as well as personnel resources. Regarding the latter, the GFI Contract includes a labor agreement dated April 17, 2014, assumed by GFI by virtue of the GFI Contract, pursuant to which GFI guarantees the employment conditions of the transferred personnel as agreed between us and the employees' representative body. The referred labor guarantees agreement will remain in force for the entire term of the GFI Contract.

Under the GFI Contract, GFI is our exclusive provider of maintenance services, the exceptions to such exclusivity being GFI's failure to provide such services or whenever the costs of such services exceed the estimated amount by over 25% for six consecutive months in accordance with the GFI Contract.

The GFI Contract may be terminated by us (and GFI has no reciprocal right) upon, among other events, a change of control in GFI or a change in our shareholder structure that affects more than half of our share capital.

The GFI Contract also establishes minimum annual volumes. We have agreed to revise the pricing details to adjust it to market standards by carrying out a benchmarking of tariffs. Services are billed by GFI on a monthly basis.

As a guarantee of the correct and adequate provision of the services, GFI has undertaken to remain in the Basque Country, i.e. to keep its corporate and tax domicile, as well as the work center of the transferred personnel mentioned above, in the Basque Country.

ZTE Contract

On November 17, 2014, we entered into a contract with ZTE Managed Services Southern Europe, S.L.U. ("**ZTE**"), a subsidiary of the Chinese company ZTE Corporation, a global provider of telecommunications equipment and network solutions publicly listed on both the Hong Kong and Shenzhen Stock Exchanges, in connection with the construction, operation, maintenance and service assurance of our network (the

"**ZTE Contract**"), for a term of ten years, which may be extended by mutual written agreement in the six months before expiration, unless it is terminated by either party.

ZTE specializes in the provision of network solutions and has agreed to carry out network construction, operations, maintenance and service assurance services for us. As part of the agreement, we transferred to ZTE certain assets forming an autonomous productive unit, including tangible and intangible assets, as well as personnel resources. The ZTE Contract includes a labor agreement dated April 17, 2014, assumed by ZTE by virtue of the ZTE Contract, pursuant to which ZTE guarantees the employment conditions of the transferred personnel as agreed between us and the employees' representative body. The referred labor guarantees agreement will remain in force for the entire term of the ZTE Contract.

The ZTE Contract may be terminated by us (and ZTE has no reciprocal right), among other events, upon a change of control in ZTE or a change in our shareholder structure that affects more than half of our share capital.

The network maintenance and operation services rendered are two-fold: (i) recurring services for which ZTE receives a fixed price; and (ii) services which are priced and executed by unit, according to the specific project orders.

Under the ZTE Contract, ZTE is our exclusive provider of recurring services, regarding specific projects which have unit sale prices (*precios unitarios de venta*), these are provided under the ZTE Contract on an exclusive basis with the exception of certain specific services provided outside of the Basque Country or customer projects with special economic or technical requirements.

ZTE is also required to identify to us the need to make changes to the network when performing the services and it must give prior notice of these changes, except in case of emergency.

The total price payable by us for the recurring maintenance services is fixed and payable each year. For the services performed by units, a variable price is established. The variable price is determined by monthly certifications.

ZTE has undertaken to keep the company's premises in the Basque Country and to create a research and development center of technological excellence, as well as to continue to invest in its subsidiary located in the Basque Country.

Facilities Agreement

On June 3, 2015, we entered into a Facilities Agreement (as defined below) with Kutxabank S.A. ("**Kutxabank**") and Banco Bilbao Vizcaya Argentaria, S.A. ("**BBVA**") as mandated lead arrangers (the "**Mandated Lead Arrangers**"), Banco Santander, S.A., Crédit Agricole Corporate and Investment Bank, Sucursal en España, Caixabank, S.A., ING Bank NV, Sucursal en España, BNP Paribas Fortis SA/NV, Société Générale, Sucursal en España, Caja Laboral Popular Coop. de Crédito, Bankoa, S.A., Banco de Sabadell, S.A. and Bankinter, S.A. as arrangers (the "**Arrangers**"), the entities named as the Mandated Lead Arrangers and the Arrangers as original lenders (the "**Lenders**"), Kutxabank and BBVA as facility agent (the "**Facility Agent**") and BBVA as security agent (the "**Security Agent**") (the "**Facilities Agreement**").

Under the Facilities Agreement, the following facilities are made available, conditional upon the Company confirming to the Lenders that the final pricing for the Offering has been agreed with the Joint Global Coordinators (such date currently expected to be on or around June 29, 2015):

- a term loan A facility of €235,000,000 ("**Facility A**");
- a term loan B facility of €235,000,000 ("**Facility B**" and together with Facility A, the "**Term Facilities**"); and
- a revolving credit facility of €30,000,000 (the "**Revolving Credit Facility**" and together with the Term Facilities, the "**Facilities**").

The Term Facilities may be utilized by way of loans for the purpose of paying a dividend or making another distribution to shareholders, making payments to management of the Company in connection with an existing Management Incentive Plan or employee benefit scheme, refinancing existing indebtedness of the Company (see details set out in "*Capitalization and Indebtedness*"), closing out or terminating existing hedging arrangements of the Company, paying costs and expenses relating to the foregoing and to the Offering and for the general corporate purposes of the Company. The Revolving Credit Facility may be utilized by way of loans and/or letters of credit for the purpose of financing or refinancing the general corporate purposes and/or working capital requirements of the Company. The Revolving Credit Facility may also be utilized by way of ancillary facilities provided by the lenders of the Revolving Credit Facility on a bilateral basis.

Facility A is required to be repaid in semi-annual instalments from June 30, 2017 as follows, with the final instalment due on the date (the "**Facility A Termination Date**") which falls six years from the date of first drawdown under the Facilities Agreement (the "**First Utilisation Date**"), such First Utilisation Date currently expected to occur on or around June 29, 2015, which would imply that the Facility A Terminate Date would occur on or around June 29, 2021:

Facility A Repayment Date	Repayment Instalment
June 30, 2017	5%
December 31, 2017	5%
June 30, 2018	5%
December 31, 2018	5%
June 30, 2019	10%
December 31, 2019	10%
June 30, 2020	15%
December 31, 2020	15%
Facility A Termination Date	30%

Facility B is required to be repaid in one single repayment due on the date which falls seven years after the First Utilisation Date. Each loan made under the Revolving Credit Facility is repayable on the last day of its interest period. The interest period of a loan made under the Revolving Credit Facility can be one, two, three or six months or any such period as agreed by the Facility Agent (acting on the instructions of all lenders participating in the relevant loan). The scheduled final maturity date of the Revolving Credit Facility is the date which falls five years after the First Utilisation Date.

Interest is payable on amounts drawn by way of loans under the Facilities Agreement at a percentage rate per annum, which is the aggregate of the applicable (i) margin, and (ii) the euro interbank offered rate administered by the European Money Markets Institute ("**EURIBOR**") and is fixed for the first six months following the First Utilisation Date at 1.50% for Facility A and the Revolving Credit Facility and 1.90% for Facility B and thereafter subject to the following margin ratchet, which is calculated with reference to the Leverage Ratio (with "**Leverage Ratio**" meaning the ratio of net financial debt to consolidated pro forma EBITDA (which is calculated in a similar manner to, and does not differ materially from, Adjusted EBITDA, as described under "*Operating and Financial Review—Adjusted EBITDA Discussion*" with certain pro forma adjustments customary for facilities of this nature) and tested semi-annually on a rolling basis with reference to the previous four financial quarters as shown in the latest annual financial statements or semi-annual financial statements delivered to the Lenders together with the related compliance certificate. If there is an increase or decrease in the margin following a Designated Acquisition (defined below) then the margin is calculated by reference to the Leverage Ratio of the most recently ended "relevant period", being a period ending on 30 June or 31 December (as applicable).

Relevant Ratio	Facility A Margin % p.a.	Revolving Facility Margin % p.a.	Facility B Margin % p.a.
Less than or equal to 2.5:1	1.25%	1.25%	1.65%
Less than or equal to 3.0:1 but greater than 2.5:1	1.50%	1.50%	1.90%
Less than or equal to 3.5:1 but greater than 3.0:1	1.75%	1.75%	2.15%
Less than or equal to 4.0:1 but greater than 3.5:1	2.00%	2.00%	2.40%
Less than or equal to 4.5:1 but greater than 4.0:1	2.25%	2.25%	2.65%
Greater than 4.5:1	2.50%	2.50%	2.90%

Any increase or decrease in the margin for a loan (other than any increase or decrease following a Designated Acquisition (defined below)) shall take effect on the date which is three business days following receipt by the Facility Agent of the compliance certificate in connection with the relevant test period. Any increase or decrease in the margin for a loan following a Designated Acquisition shall take effect on the date which is the later of (i) three business days following the date of completion of the Designated Acquisition and (ii) the date that is the first day of the interest period commencing after the date of completion of the Designated Acquisition. If an event of default is continuing, the margin shall be the highest percentage per annum set out above for a loan under that facility.

Additionally, a commitment fee is payable on unutilized amounts under the Revolving Credit Facility at a rate of:

- 30% of the applicable margin for so long as the aggregate principal amount of outstanding loans under the Revolving Credit Facility is equal to or less than 50% of the commitments in respect of the Revolving Credit Facility; and
- 25% of the applicable margin for so long as the aggregate principal amount of outstanding loans under the Revolving Credit Facility is more than 50% of the commitments in respect of the Revolving Credit Facility.

Customary fees are payable to the Facility Agent and Security Agent and to the issuing bank in respect of any letters of credit or bank guarantees in issue.

The Facilities Agreement is initially unsecured and the Lenders do not initially benefit from guarantees. However, if the Company, whether due to one or more acquisitions or a corporate reorganisation of Euskaltel or otherwise, acquires or forms any subsidiaries, or itself becomes wholly owned by a direct holding company (the Company or such other direct holding company and any subsidiaries it may have from time to time, the "**Group**"), the Company will be required to ensure that material companies in the Group accede to and guarantee the Facilities and that the Facilities are secured by first ranking security over all shares in each material company in the Group. Additionally, if certain other indebtedness is secured by assets of any member of the Group, security over such assets must also be provided to secure the Facilities on a *pari passu* basis. The requirement to provide security will not apply, and any security must be released by the Security Agent if requested by the Company, so long as: (i) the Leverage Ratio is equal to or less than 4.0:1; or (ii) the long term corporate credit rating of the Company (or certain of its affiliates) is equal to or better than Baa3 or BBB- (as applicable) according to Moody's or Standard & Poor's. The Company has not made an application to Moody's or Standard & Poor's for a long term corporate credit rating, nor has it made any decision regarding whether to apply for such a rating in the future.

The Facilities Agreement contains a financial covenant (tested twice annually) which requires that the Leverage Ratio does not exceed 4.5:1.0, provided that such ratio will be automatically increased to 5.5:1.0 during any period commencing on the date on which the Company makes (and designates as such) an acquisition for total consideration of at least €250,000,000 (a "**Designated Acquisition**") and ending on the date falling 18 months after the date of completion of such Designated Acquisition. The Company may not make more than three Designated Acquisitions over the life of the Facilities.

The Facilities Agreement also contains customary prepayment, cancellation and default provisions and customary representations and warranties (subject to certain exceptions and qualifications) and operational covenants.

The Facilities Agreement contains the following mandatory prepayment provisions:

- mandatory prepayment of the Facilities in full upon the sale of all or substantially all of the business and assets of the Group or any person or group of persons acting in concert (other than or with the Selling Shareholders, management or other persons approved by the Lenders and any person directly or indirectly controlled by any of them) acquiring (directly or indirectly) beneficially more than 50% of the issued voting share capital of the Company);
- mandatory prepayment of the Term Facilities with the net cash proceeds of any disposals, provided that the mandatory prepayment requirement only applies if the Leverage Ratio after giving pro forma effect to the relevant disposal and the receipt of such disposal proceeds exceeds 4.0 to 1.0. This excludes disposal proceeds received in respect of certain permitted disposals including disposals in the ordinary course of business, disposals of cash and cash equivalent investments not otherwise prohibited, intra-group disposals (subject to any existing security and maximum amounts), disposals in connection with replacement or obsolete assets, permitted reorganizations, expropriations, letting activity in the ordinary course of business, pre-existing contractual arrangements, permitted factoring, permitted reverse factoring, permitted sale and leaseback, permitted finance leases, treasury transactions and the granting of permitted security, disposals of assets relating to any mobile service

provider used by the group, disposals to a special purpose vehicle which are otherwise permitted, other disposals to the extent the proceeds are, within twelve months or receipt, applied to purchase assets useful in the business of Group (or committed to be so applied within twelve months, and actually applied within six months thereafter) and disposals the consideration of which does not exceed the greater of EUR 30,000,000 and 20% of LTM EBITDA whether individually or in aggregate during a financial year;

- mandatory prepayment of the Term Facilities with the net cash proceeds of insurance claims relating to loss or destruction of assets in the Group, provided that the mandatory prepayment requirement only applies if the Leverage Ratio after giving pro forma effect to the relevant disposal and the receipt of such disposal proceeds exceeds 4.0 to 1.0. This excludes insurance proceeds received in respect of third party, public liability, directors' liability, business interruption, loss of earnings or other similar claims, the loss or destruction of assets to the extent the net cash proceeds are, within twelve months of receipt, applied in the replacement, reinstatement and/or repair of the relevant asset (or committed to be so applied and actually applied within 6 months thereafter) and claims the net cash proceeds of which do not exceed the greater of EUR 30,000,000 and 20% of LTM EBITDA whether individually or in aggregate during a financial year.

The Facilities Agreement contains customary voluntary prepayment and cancellation provisions whereby the Company has the right to make voluntary prepayments of loans or letters of credit (subject to minimum amounts and prior notice).

The Facilities Agreement contains customary restrictive covenants which, subject to exceptions, restrict the activities of the members of the Group and include restrictions on:

- granting licenses to any person to use intellectual property required to conduct the business of an obligor or its subsidiaries which could reasonably be expected to have a material adverse effect;
- entering into amalgamations and mergers (except in connection with any solvent reorgnisations where the business and assets of the Group continue to be held within the Group) or materially changing the general nature or scope of the business of the Group;
- making disposals including sales, transfers, leasing out, lending or other disposals of any assets or undertaking (except as permitted pursuant to a transaction or disposal permitted under the terms of the Facilities Agreement) (the exceptions include disposals where the proceeds are, within twelve months of receipt, applied or committed to be applied to purchase assets useful in the business of the Group (or committed to be so applied, and actually applied within 6 months thereafter) and a per annum general basket in respect of disposals not exceeding EUR 30,000,000 and 20% of the last twelve months' ("**LTM**") EBITDA);
- incurring financial indebtedness other than as permitted by the terms of the Facilities Agreement (the exceptions include (a) the ability to establish additional facilities (subject to obtaining commitments from one or more Lenders or other financial institutions) subject to pro forma compliance with the Leverage Ratio and (b) baskets for: (i) local working capital, bilateral financing lines and overdraft facilities provided to members of the Group in an aggregate principal outstanding amount of up to the greater of EUR 30,000,000 and 20% of LTM EBITDA; (ii) indebtedness incurred within 270 days of the acquisition, construction or improvement of fixed or capital assets to finance the acquisition, construction or improvement thereof which in aggregate does not exceed the greater of EUR 25,000,000 and 17.5% of LTM EBITDA; (iii) indebtedness incurred, provided that on the date of incurrence and after giving pro forma effect, the Leverage Ratio does not exceed 4.5 to 1.0; and (iv) any other financial indebtedness not otherwise permitted which in aggregate does not exceed EUR 12,000,000);
- providing guarantees (the exceptions include a basket for guarantees provided the aggregate principal outstanding amount guaranteed does not exceed the greater of EUR 30,000,000 and 20% of LTM EBITDA);
- creating or permitting to subsist any security on or over the whole or any part of the undertaking or assets of any obligor or its subsidiaries (the exceptions include a basket for security securing indebtedness in an aggregate principal amount outstanding which does not exceed 10% of the consolidated total assets of the Group);

- entering into factoring and sale and leaseback arrangements within the Group (unless the maximum aggregate amount outstanding under such arrangements does not exceed the greater of EUR 20,000,000 and 15% of LTM EBITDA at any time);
- entering into receivables factoring, invoice discounting or similar transactions or committing any payable as part of a reverse factoring or similar transaction to any person who is not a member of the Group (unless the maximum aggregate amount outstanding under such arrangement does not exceed the greater of EUR 20,000,000 and 15% of LTM EBITDA at any time);
- making any loans (the exceptions include a basket in respect of loans provided the aggregate outstanding principal of all such loans does not exceed the greater of EUR 30,000,000 and 20% of LTM EBITDA);
- entering into finance leases without the prior written consent of the majority of the lenders (the exceptions include a basket for finance leases provided the aggregate of the capital element of all rentals under such finance leases does not exceed the greater of EUR 20,000,000 and 15% of LTM EBITDA at any time);
- entering into hedging transactions (the exceptions include hedging entered into for the purpose of hedging interest rate liabilities under any of the Facilities and any hedging transactions entered into in the ordinary course of business not for speculative purposes);
- entering into joint ventures and joint venture investments (the exceptions include a basket for joint venture investments not exceeding the greater of EUR 15,000,000 and 10% of LTM EBITDA);
- making acquisitions of any business or any shares or equivalent ownership interests in (or making capital contributions to) any entity by any obligor and its subsidiaries (unless such acquisition is permitted under the terms of the Facilities Agreement); and
- paying extraordinary dividends (for this purpose "**extraordinary dividend**" means the payment of a dividend other than out of the consolidated profits of the Group arising from ordinary activities) or making share buy-backs (provided extraordinary dividends of share buy-backs are permitted if the Leverage Ratio, calculated on a pro forma basis after giving effect to the payment of such dividend, is equal to or less than 4.0:1.0).

Certain covenants (including the restrictions on disposals, financial indebtedness, guarantees and indemnities, loans, acquisitions and extraordinary dividends) and the requirement to make mandatory prepayments with disposal proceeds, will be suspended upon: (i) the Leverage Ratio being equal to or less than 3.0:1; or (ii) the long term corporate credit rating of the Company (or certain of its affiliates) is equal to or better than Baa3 or BBB- (as applicable) according to Moody's or Standard & Poor's. The Company has not made an application to Moody's or Standard & Poor's for a long term corporate credit rating, nor has it made any decision regarding whether to apply for such a rating in the future. Based on the Leverage Ratio at the time of the Offering, such convenants and requirements may be suspended at the time of the Offering. However, the Leverage Ratio may increase over time, in which case the suspension will cease to apply.

The Facilities Agreement contains customary events of default including in relation to non-payment, failure to comply with financial covenant (subject to equity cure provisions), breaches of representation, covenants and other obligations, insolvency and cross default in relation to other financial indebtedness the Group may incur from time to time, subject to a €10,000,000 *de minimis* threshold, in each case, subject to customary grace periods and thresholds).

The Facilities Agreement contains customary representations and warranties (subject to certain exceptions and qualifications). The Facilities Agreement contains customary affirmative covenants relating to authorizations and consents, maintenance of status, *pari passu* ranking of obligations, payment of taxes, pensions, intellectual property, the provision of guarantees and share security (if the Group expands beyond the Company), environmental matters, preservation of assets and compliance with law. The Facilities Agreement also contains certain ongoing financial information provisions.

TAXATION

The following summary describes certain Spanish and U.S. federal income tax consequences of the purchase, ownership and disposition of the Shares. It is not a complete description of all the possible tax consequences of such purchase, ownership or disposition. This summary is based on the laws as of the date of this Prospectus and is subject to changes to those laws subsequent to the date of this Prospectus. You should consult your own advisers as to the tax consequences of the acquisition, ownership and disposition of the Shares in light of your particular circumstances, including, in particular, the effect of any state, regional or local tax laws.

Spanish Tax Considerations

General

The following is a summary of certain Spanish tax implications of the acquisition, ownership and disposition of our Shares by investors that are resident in Spain for tax purposes ("**Spanish Holders**") or by non-residents in Spain for tax purposes that do not operate in Spain through a permanent establishment to which the Shares are allocated to ("**Non-Spanish Holders**").

This summary is not intended to be, nor should it be construed to be legal or tax advice. This summary is not a complete analysis or description of all the possible Spanish tax implications of such transactions and does not address all tax considerations that may be relevant to all categories of potential investors, some of whom may be subject to special rules (for instance, EU pension funds and EU harmonized collective investment institutions). In particular, this tax section does not address the Spanish tax consequences applicable to partnerships or other entities that are taxed as "look through" entities (such as trusts or estates).

Similarly, this information does not take into account specific regulations established in Navarra or in the historic territories of the Basque Country or the specialties in place in other autonomous communities of Spain (including the cities of Ceuta and Melilla).

Accordingly, prospective investors in the Shares should consult their own tax advisers as to the applicable tax consequences of their purchase, ownership and disposition of our Shares, including the effect of tax laws of any other jurisdiction, based on their particular circumstances.

The description of Spanish tax laws set forth below is based on law currently in effect in Spain as of the date of this Prospectus, and on administrative interpretations of Spanish law. As a result, this description is subject to any changes in such laws or interpretations occurring after the date of this Prospectus, including changes having retrospective effect.

As used in this particular section "*Spanish Tax Considerations*," the term "**Spanish Holder**" means a beneficial owner of our Shares who is an individual resident for tax purposes in Spain, and who does not acquire the Shares by reason of his/her employment, or a corporation resident in Spain for tax purposes.

As used in this particular section "*Spanish Tax Considerations*," the term "**Non-Spanish Holder**" means a beneficial owner of our Shares:

(a) who is an individual or corporation resident for tax purposes in any country other than Spain; and

(b) whose ownership of Shares is not effectively connected with a permanent establishment in Spain through which such holder carries on or has carried on business or with a fixed base in Spain from which such holder performs or has performed independent personal services.

Spanish Holders

Taxation on Ownership and Transfer of Shares

Indirect taxation

The acquisition or subscription of the Shares and any subsequent transfer thereof are exempt from Transfer Tax, Stamp Duty and Value Added Tax.

Direct taxation

Individuals; Income Tax on Individuals

Taxation of dividends.

According to the Spanish Income Tax on Individuals (Impuesto sobre la Renta de las Personas Físicas) ("**IIT**") Law (Ley 35/2006, de 28 de noviembre, del Impuesto sobre la Renta de las Personas Físicas y de modificación parcial de las leyes de los Impuestos sobre Sociedades, sobre la Renta de no Residentes y sobre el Patrimonio) ("**IIT Law**"), income received by a Spanish Holder in the form of dividends, shares in profits, consideration paid for attendance at shareholders' meetings, income from the creation or assignment of rights of use or enjoyment of the Shares and any other income received in his or her capacity as shareholder are considered, inter alia, gross capital income.

Administration and custody expenses are deductible for IIT, except those incurred in individualized portfolio management. Capital income is allocated to the Spanish Holder's savings IIT taxable base. Savings IIT taxable base is taxed during 2015 at a flat rate of 20% for the first €6,000, 22% between €6,001 and €50,000, and 24% for any amount in excess of €50,000, without any dividend tax credit being applicable. Furthermore, as from tax period 2016, the fixed applicable rate shall be 19% for the first €6,000, 21% between €6,001 and €50,000, and 23% for any amount in excess of €50,000.

Any amount received as a consequence of a share premium distribution by companies listed on a regulated market as defined under the Directive 2004/39EC of April 21, will reduce the acquisition cost of the Shares in respect of such share premium received. Any share premium in excess of the basis is treated as a dividend for IIT purposes, being taxed as described in the preceding paragraph.

The payment to Spanish Holders of dividends or any other distribution is generally subject to a withholding tax (such withholding to be carried out by the Company) on account of final IIT at the rate of 20% (19% as from 2016 onwards) on its gross amount. Such withholding tax is fully creditable from the net IIT due (*cuota líquida*); any amount withheld in excess of the amount of the IIT payable is refundable by the Spanish tax authorities.

Taxation of capital gains.

Transfer of the Shares may trigger capital gains or losses. The taxable amount equals the difference between the Shares' tax basis and their transfer value; Spanish IIT Law considers as transfer value the listed value of the Shares as of the transfer date or, if higher, the agreed transfer price. Costs and expenses effectively borne on the acquisition and disposal of the Shares are taken into account for the calculation.

Capital gains or losses arising from the transfer of Shares are included in the individual's savings IIT taxable base corresponding to the period when the transfer takes place. Savings IIT taxable base is taxed, during tax year 2015, at a flat rate of 20% for the first €6,000, 22% between €6,001 and €50,000 and 24% for any amount in excess of €50,000. As from tax period 2016, the fixed applicable rate shall be 19% for the first €6,000, 21% between €6,001 and €50,000, and 23% for any amount in excess of €50,000.

Where the taxpayer owns other equivalent securities, the acquisition price of the transferred shares is based on the principle that those acquired first are sold first (FIFO).

Capital gains deriving from the transfer of Shares are not subject to withholding tax on account of IIT.

Please note that losses deriving from the transfer of Shares admitted to trading on certain official stock exchanges are disregarded if securities of the same kind (Shares) have been acquired during the period between two months before and two months after the date of the transfer which originated the loss. In these cases, capital losses will be included in the IIT taxable base when the transfer of the remaining Shares of the taxpayer takes place.

Subscription Rights.

Until 31 December 2016, if a Spanish Holder sells any rights received, the sale proceeds reduce the tax basis of the Shares to which they pertain. Any excess over the tax basis is treated as a capital gain for IIT purposes without being subject to withholding in Spain.

However, as from 1 January 2017, if a Spanish Holder sells any rights received, the sale proceeds will be treated (in full) as capital gain for IIT purposes and should be subject to withholding tax.

In any case such capital gains should be allocated to the Spanish Holder's savings IIT taxable base (to be sheltered only with income allocated to such savings IIT taxable base) and would be subject to the flat rate of 20% for the first €6,000, 22% between €6,001 and €50,000 and 24% for any amount in excess of €50,000. As from tax period 2016, the fixed applicable rate shall be 19% for the first €6,000, 21% between €6,001 and €50,000, and 23% for any amount in excess of €50,000.

The exercise of the rights generally is not a taxable event under Spanish law.

Spanish Wealth Tax.

Individual Spanish Holders are subject to Spanish Wealth Tax (*Impuesto sobre el Patrimonio*) on all their assets (such as the Shares) owned every 31 December irrespective of where the assets are located.

Spanish Wealth Tax Law (*Ley 19/1991, de 6 de junio, del Impuesto sobre el Patrimonio*) exempts from taxation the first €700,000 of net wealth owned by an individual Spanish Holder (some additional exemptions may apply on specific assets; those exemptions do not generally apply to the Shares); the rest of the net wealth is taxed at rates ranging between 0.2% to 2.5%. However, this taxation may vary depending on the Spanish autonomous community of residence of the corresponding Spanish Holder.

Spanish individual Holders subject to Spanish Wealth Tax filing obligations will be obliged to include reference (in the corresponding tax form) to the Shares yearly owned at 31 December. These Shares should be reported at their average market value of the Shares during the last quarter of the year. The Spanish Ministry of Finance and Taxation publishes annually such market value for the purposes of the Spanish Wealth Tax.

Furthermore, in accordance with article 61 of the Law 36/2014, of December 26, on Spanish General Budget for year 2015 (*Ley de Presupuestos Generales del Estado para el año 2015*), as from year 2016, a full exemption on Spanish Wealth Tax would apply (*bonificación del 100%*), and therefore from year 2016 Spanish individual Holders will be released from formal and filing obligations in relation to this Spanish Wealth Tax, unless the derogation of the exemptions is extended again.

Spanish Inheritance and Gift Tax.

Individuals resident in Spain for tax purposes who acquire Shares by inheritance or gift are subject to Spanish Inheritance and Gift Tax (*"Impuesto sobre Sucesiones y Donaciones"*) ("**IGT**") in accordance with the IGT Law (*Ley 29/1987, de 18 de diciembre, del Impuesto sobre Sucesiones y Donaciones*; "**IGT Law**"), without prejudice to the specific legislation applicable in each autonomous community. The effective tax rate, after applying all relevant factors, ranges from 7.65% to 81.6%. Some tax benefits may reduce the effective tax rate.

Corporations; Corporate Income Tax

Taxation of Dividends.

According to the Corporate Income Tax (*Impuesto sobre Sociedades*) ("**CIT**") Law (*Ley 27/2014, de 27 de noviembre, del Impuesto sobre Sociedades*) ("**CIT Law**") dividends deriving from the Shares or a share of our profits received by corporate Spanish Holders reduced by any expenses inherent to holding the Shares, are included in the CIT taxable base in accordance with article 10 of the CIT Law. The general CIT tax rate is currently 28% although it will be reduced to 25% for tax periods commencing as from 1 January 2016.

However, pursuant to the provisions set forth under article 21 of the CIT Law, corporate Spanish Holders (i) holding at least 5% in the share capital of the Company or with an acquisition value of at least €20 million; and (ii) whose participation is held during at least one year (either prior or after the dividend deriving from the Shares is received), may benefit from an exemption from CIT in Spain on dividends deriving from the Shares, provided the rest of conditions or article 21 CIT Law are met.

Spanish Holders that are CIT taxpayers are generally subject to withholding (such withholding to be carried out by the Company) on account of final CIT liability at a rate of 20% (19% as from January 2016) on the gross amount of the distributed profits. Such withholding tax is fully creditable from the CIT payable, and if the amount of tax withheld exceeds the final CIT payable, the taxpayer is entitled to a refund in accordance with article 127 of the CIT Law.

In those cases where the CIT exemption provided for under article 21 of the CIT Law applies, dividends would not be subject to withholding tax.

Share premium distribution

Any amount received as a consequence of a share premium distribution by companies listed on a regulated market under the Directive 2004/39/EC of April 21, will reduce the acquisition cost of the Shares in respect of such share premium received. Any share premium in excess of the basis is treated as a dividend for CIT purposes, being taxed as described in the preceding paragraph.

Share premium distributions will not be subject to withholding tax on account of CIT.

Income deriving from transfers of the Shares.

The gain or loss deriving from the transfer of the Shares is included in the tax base of CIT taxpayers, being taxed generally at a rate of 28% (25% as from January 2016).

However, should the requirements set forth under article 21 of the CIT Law be fulfilled, any gain deriving from the transfer of the Shares would be exempt from Spanish CIT. Notwithstanding the aforementioned, the participation requirement must be met when the transfer of the shares takes place.

Please note that if the acquirer of the Shares is an entity within the same group of companies of the transferor, any losses triggered are not CIT deductible until (i) the Shares are transferred to a third party, alien to the corresponding group of companies; or (ii) the acquirer or the transferor leaves the corresponding group of companies.

The impairment of the Shares is not deductible for CIT purposes. Gains deriving from the transfer of the Shares are not subject to withholding on account of CIT.

Other Spanish Taxes.

Spanish Holders that are subject to CIT are not subject to Spanish Net Wealth Tax, nor to IGT. However, Spanish Holders that are subject to CIT should include the fair market value of the Shares received by inheritance or gift in their taxable CIT income.

Non-Spanish Holders

Taxation on Ownership and Transfer of Shares

Indirect taxation

The acquisition or subscription of the Shares and any subsequent transfer thereof is exempt from Transfer Tax, Stamp Duty and Value Added Tax.

Direct taxation

Non-Residents Income Tax

Taxation of Dividends

According to Royal Legislative Decree 5/2004, of 5 March, approving the consolidated text of the Non-Residents Income Tax (*Impuesto sobre la Renta de No Residentes*) ("**NRIT**") Law (*Texto refundido de la Ley del Impuesto sobre la Renta de no Residentes aprobado por el Real Decreto Legislativo 5/2004, de 5 de marzo*) ("**NRIT Law**"), dividends paid by a Spanish resident company to a Non-Spanish Holder are subject to NRIT, withheld at the source (such withholding to be carried out by the Company) on the gross amount of dividends, currently at a tax rate of 20% (19% as from January 2016). In respect of any Spanish source dividends received annually by individuals (who do not have a permanent establishment in Spain and who are not acting through a tax haven) who are resident in an EU Member State or in the European Economic Area and have an effective agreement for the exchange of fiscal information with Spain will be entitled to deduct administration and custody expenses.

However, dividends distributed by the Company to a Non-Spanish Holder resident in a EU Member or to a permanent establishment of the latter located in a EU Member (i) holding a participation of at least 5% in the share capital of the Company or with an acquisition value of at least €20 million; and (ii) whose participation is held during at least one year (either prior or after the dividend deriving from the Shares is received) would generally be exempt from NRIT. This exemption would be subject to certain requirements, among others, (i) an anti abuse provision where the exemption would as a general rule not be applicable, if the EU Non-Spanish Holder is controlled by persons not resident in a EU Member State or (ii) the recipient of the dividends being a company listed in the relevant Annex of companies and subject to and not exempt from taxation of profits under any of the taxes mentioned under article 2.c of the Council Directive 2011/96/EU.

Share premium distribution

Any amount received as a consequence of a share premium distribution by companies listed on a regulated market under the Directive 2004/39/EC of April 21, will reduce the acquisition cost of the Shares in respect of such share premium received. Any share premium in excess of the basis is treated as a dividend for NRIT purposes, being taxed as described in the preceding paragraph.

Application of the benefits of convention for the avoidance of double taxation

In addition, Non-Spanish Holders resident in certain countries may be entitled to the benefits of a convention for the avoidance of double taxation ("**DTC**"), in effect between Spain and their country of tax residence. Such Non-Spanish Holders may benefit from a reduced tax rate or an exemption under an applicable DTC with Spain, subject to the satisfaction of any conditions specified in the relevant DTC, including providing evidence of the tax residence of the Non-Spanish Holder by means of a valid certificate of tax residence duly issued by the tax authorities of the country of tax residence of the Non-Spanish Holder or, as the case may be, the equivalent document specified in the Spanish Order which further supplements the applicable DTC. The DTC between the United States and Spain generally limits the tax rate on dividends to 15%.

In accordance with the Order of the Ministry of Finance and Taxation of April 13, 2000, upon distribution of a dividend, we or our paying agent will withhold an amount equal to the tax amount required to be withheld according to the general rules set forth above (at a rate of 20% for 2015 and 19% for 2016 onwards), transferring the resulting net amount to the depositary. For this purpose, the depositary is the financial institution with which the Non-Spanish Holder has entered into a contract of deposit or management with respect to our Shares held by such Non-Spanish Holder. If the depositary of the Non-Spanish Holder is resident, domiciled or represented in Spain and it provides timely evidence (a certificate of tax residence issued by the relevant tax authorities of the Non-Spanish Holder's country of residence stating that, for the records of such authorities, the Non-Spanish Holder is a resident of such country within the meaning of the relevant DTC, or, as the case may be, the equivalent document regulated in the Order which further develops the applicable DTC) of the Non-Spanish Holder's right to obtain the DTC reduced rate or an exemption, it will immediately receive the surplus amount withheld, which will be credited to the Non-Spanish Holder. For these purposes, the relevant certificate of residence must be provided before the tenth day following the end of the month in which the dividends were paid. The tax certificate is generally valid only for a period of one year from the date of issuance.

If this certificate of tax residence, or, as the case may be, the equivalent document referred to above, is not provided within this time period or if the depositary of the Non-Spanish Holder is not resident, domiciled or represented in Spain, the Non-Spanish Holder may subsequently obtain a refund of the amount withheld in excess from the Spanish tax authorities, following the standard refund procedure established by the Royal Decree 1776/2004, dated July 30, 2004, and the Order EHA/3316/2010 dated December 17, 2010, as amended.

Spanish Refund Procedure

According to Spanish regulations on NRIT, approved by Royal Decree 1776/2004 and the Order dated December 17, 2010, a refund of the amount withheld in excess of any applicable DTC reduced rate can be obtained from the relevant Spanish tax authorities. To pursue the refund claim, the Non-Spanish Holder is required to file:

(a) the corresponding Spanish tax form (currently, Form 210);

(b) the certificate of tax residence or equivalent document referred to above under "Taxation of dividends," which in the case of a U.S. Holder is provided on IRS Form 6166;

(c) a certificate from us stating that Spanish NRIT was withheld with respect to such Non-Spanish Holder; and

(d) documentary evidence of the bank account in which the excess amount withheld should be paid.

For further details, prospective Non-Spanish Holders should consult their tax advisors.

Taxation of Capital Gains

Capital gains derived from the transfer or sale of our Shares will be deemed to be income arising in Spain, and, therefore, are taxable in Spain at a general tax rate of 20% for 2015 and 19% for 2016 onwards. Capital gains and losses will be calculated separately for each transaction. It is not possible to offset losses against capital gains.

However, capital gains derived from our Shares will be exempt from taxation in Spain in either of the following cases:

(a) Capital gains derived from the transfer of the Shares on an official Spanish secondary stock market (such as the Madrid, Barcelona, Bilbao or Valencia stock exchanges) by any Non-Spanish Holder who is tax resident of a country that has entered into a DTC with Spain containing an "exchange of information" clause, such as the U.S.-Spain DTC. This exemption is not applicable to capital gains obtained by a Non-Spanish Holder through a country or territory that is classified as a tax haven by Spanish regulations.

(b) Capital gains obtained directly by any Non-Spanish Holder resident of another EU Member State or indirectly through a permanent establishment of such Holder in a EU Member State other than Spain, *provided that*:

- our assets do not mainly consist of, directly or indirectly, Spanish real estate (which is expected to be the case for our Company);
- during the preceding twelve months the Non-Spanish Holder individual has not held a direct or indirect interest of at least 25% in our capital or net equity;
- the gain is not obtained through a country or territory defined as a tax haven under applicable Spanish regulations; and
- in connection with non-resident companies, the sale of shares complies with the requirements of article 21 of the CIT Law in order to apply the participation exemption.

(c) Capital gains realized by non-residents of Spain for tax purposes who benefit from a DTC that provides for taxation only in the Non-Spanish Holder's country of residence (as is generally the case under the DTC between the United States and Spain), unless the Non-Spanish Holder has held a participation of at least 25% in our capital or net equity during the twelve months preceding the transfer of the Shares; this exception is excluded in the bill of protocol amending the DTC between the United States and Spain.

Non-Spanish Holders must submit a Spanish tax form (currently, Form 210) within the time periods set out in the applicable Spanish regulations to pay the corresponding tax or qualify for an exemption. In order for the exemptions mentioned above to apply, a Non-Spanish Holder must provide a certificate of tax residence issued by the tax authority of its country of residence (which, if applicable, must state that, to the best knowledge of such authority, the Non-Spanish Holder is resident of such country within the meaning of the relevant DTC) or equivalent document meeting the requirements of the Order which further develops the applicable DTC, together with the Spanish tax form. In the case of a U.S. holder the certificate is provided on IRS Form 6166. The Non-Spanish Holder's tax representative in Spain and the depositary of the Shares are also entitled to carry out such filing.

The certificate of tax residence mentioned above will be generally valid for a period of one year after its date of issuance.

Subscription Rights

Until 31 December 2016, if a Non-Spanish Holder sells any rights received, the sale proceeds reduce the acquisition cost of the Shares to which they pertain. Any excess over the acquisition cost generally is deemed as a capital gain for NRIT purposes, subject to the NRIT implications in the manner described under "—Taxation of Capital Gains" above. The exercise of the rights generally is not a taxable event under Spanish law.

However, as from 1 January 2017, if a Non-Spanish Holder sells any rights received, the sale proceeds will be treated (in full) as capital gain for NRIT purposes.

Pursuant to the NRIT Law, capital gains obtained by Non-Spanish Holders will not be subject to withholding in Spain. The Non-Spanish Holder will therefore be obliged to submit the relevant tax form and, if applicable pay the corresponding liability (such filing and payment obligation may also be fulfilled by the Non-Spanish Holder's tax representative or by the custodian of the Shares in accordance with the proceeding and tax form provided for under Order EHA/3316/2010, of December 17).

Spanish Wealth Tax

For tax year 2015, and unless an applicable DTC provides otherwise (the U.S.-Spain DTC does not provide otherwise), individual Non-Spanish Holders are subject to Spanish Wealth Tax (Spanish Law 19/1991), which imposes a tax on property and rights in excess of €700,000 that are located in Spain, or can be exercised within the Spanish territory, on the last day of any year (the Spanish tax authorities have consistently considered that shares issued by Spanish companies must be treated as assets located in Spain for Spanish tax purposes). Non-Spanish tax resident individuals whose net worth is above €700,000 and who hold Shares on the last day of any year would therefore be subject to Spanish Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the average market value of the Shares during the last quarter of such year.

Each year the Ministry of Finance and Taxation will publish such average market value of the Shares. Non-Spanish Holders who benefit from a DTC that provides for taxation only in the Holder's country of residence will not be subject to Spanish Wealth Tax.

In accordance with article 61 of the Law 36/2014, of December 26, on Spanish General Budget for year 2015 (*Ley de Presupuestos Generales del Estado para el año 2015*), as from year 2016, a full exemption on Spanish Wealth Tax would apply (*bonificación del 100%*), and therefore from year 2016 Non-Spanish individual Holders will be released from formal and filing obligations in relation to this Spanish Wealth Tax unless the derogation of the exemption is extended again.

Non-Spanish individual holders tax resident in a State of the European Union or of the European Economic Area will be entitled to apply the specific regulation of the autonomous community where their most valuable assets are located and which trigger this Spanish Wealth Tax due to the fact that they are located or are to be exercised within the Spanish territory. We recommend investors to consult their own advisers in this regard.

Spanish Inheritance and Gift Tax

Unless otherwise provided under an applicable DTC, transfers of Shares upon death and by gift to individuals not resident in Spain for tax purposes are subject to Spanish IGT (as per the Spanish IGT Law) if the shares are located in Spain (as is the case with our Shares) or the rights attached to such shares are exercisable in Spain, regardless of the residence of the heir or the beneficiary. The applicable tax rate, after applying all relevant factors, ranges between 7.65% and 81.6% for individuals. Gifts granted to non-Spanish tax resident corporations will be generally subject to Spanish NRIT as capital gains for both the donor and the donee, without prejudice to the exemptions referred to above under "*Taxation of capital gains*." There is no inheritance or gift DTC between Spain and the United States.

However, if the deceased, heir or the donee are resident in an EU or European Economic Area member State, depending on the specific situation, the applicable rules will be those corresponding to the relevant autonomous regions according to the law. Accordingly, prospective shareholders should consult their tax advisers.

Certain U.S. Federal Income Tax Considerations

The following discussion is a general summary based on present law of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Shares. The discussion is not a complete description of all tax considerations that may be relevant to prospective investors. This discussion only addresses U.S. Holders (as defined below) that purchase Shares in the Offering, hold Shares as capital assets and use the U.S. dollar as their functional currency. The discussion is a general summary; it is not a substitute for tax advice. The discussion does not consider all of the tax considerations that may be relevant to investors subject to special tax rules, such as banks and other financial institutions, insurance companies, regulated investment companies, dealers, traders in securities that elect to mark-to-market, regulated investment companies, real estate investment trusts, tax-exempt entities, investors liable for alternative minimum tax, U.S. expatriates, individual retirement accounts and other tax-deferred accounts, persons that own (directly, indirectly or constructively) 10% or more by vote or value of the Company's equity interests, persons that hold Shares in connection with a permanent establishment or fixed base outside the United States or that hold Shares as part of a hedge, straddle, conversion, constructive sale or other integrated financial transaction. This summary also does not address U.S. federal taxes other than the income tax (such as estate or gift taxes), U.S. state and local, or non-U.S. tax laws or matters.

As used here, a "**U.S. Holder**" means a beneficial owner of the Company's Shares that is for U.S. federal income tax purposes (i) a citizen or individual resident of the United States, (ii) a corporation or other business entity treated as a corporation created or organised under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of one or more U.S. persons and the primary supervision of a U.S. court and (iv) an estate the income of which is subject to U.S. federal income tax without regard to its source.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes acquires, holds or disposes of Shares, the U.S. federal income tax treatment of a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their own tax advisors concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Shares.

U.S. Holders should review the discussion of Spanish taxation of Non-Spanish Holders above under "*Spanish Tax Considerations—Non-Spanish Holders*" for information relevant to their U.S. tax treatment of Spanish tax imposed on dividends.

Dividends

Subject to the discussion of the passive foreign investment company ("**PFIC**") rules below under *"—Passive Foreign Investment Company Rules*," the gross amount of any distribution of cash or property with respect to the Shares (other than certain distributions, if any, of the Company's shares distributed pro rata to all shareholders), including any Spanish tax withheld therefrom, will be included in a U.S. Holder's gross income as dividend income from foreign sources when received. The dividends will not be eligible for the dividends-received deduction generally available to U.S. corporations. Dividends received by eligible non-corporate U.S. Holders, however, should be taxed at the preferential rate applicable to qualified dividend income if the Company qualifies for the benefits of the income tax treaty between the United States and Spain (the "**U.S.-Spain Treaty**"), which the Company believes it does, and the Company is not a PFIC in the year of distribution or the preceding year.

Dividends paid in a currency other than U.S. dollars will be included in income in a U.S. dollar amount determined by reference to the exchange rate in effect on the date of actual or constructive receipt, whether or not the non-U.S. currency is converted into U.S. dollars at that time. A U.S. Holder's tax basis in the non-U.S. currency received will equal the U.S. dollar amount included in income. Any gain or loss realised on a subsequent conversion or other disposition of the non-U.S. currency for a different U.S. dollar amount will be exchange gain or loss and generally will be treated as U.S. source ordinary income or loss for foreign tax credit limitation purposes. If a dividend paid in non-U.S. currency is converted into U.S. dollars on the day the dividend is received, the U.S. Holder generally will not be required to recognise non-U.S. currency gain or loss in respect of the dividend.

Subject to generally applicable limitations, a U.S. Holder may claim a deduction or a foreign tax credit only for Spanish tax withheld at a rate not in excess of the maximum rate applicable to such U.S. Holder after any reduction in rates available to such U.S. Holder under the U.S.-Spain Treaty and not refundable to it by the Spanish tax authorities. A U.S. Holder generally should be entitled to claim a reduction of Spanish withholding tax to 15% under the U.S.-Spain Treaty. The reduced rate will be applied by the Company when dividends are paid if the depositary of the U.S. Holder is resident, domiciled or represented in Spain and the depositary has provided to the Company a current certificate of the U.S. Holder's residence on IRS Form 6166 or successor form. Otherwise, the Company will withhold tax at a 20% rate and the U.S. Holder may obtain a refund of the overpayment by filing the certificate of residence and the appropriate refund form with the Spanish tax authorities. U.S. Holders should review the discussion above under "*Spanish Tax Considerations—Non-Spanish Holders—Non-Residents Income Tax—Taxation of Dividends*". In computing foreign tax credit limitations, non-corporate U.S. Holders may take into account only a portion of any qualified dividend income that is effectively taxed at the highest applicable marginal rate. U.S. Holders should consult their own tax advisors regarding the tax consequences to it if Spanish tax is withheld from dividends on the Shares, including the availability of the foreign tax credit under its particular circumstances.

Dispositions

Subject to the discussion of the PFIC below, a U.S. Holder generally will recognise capital gain or loss on the sale or other disposition of Shares equal to the difference, if any, between the amount realised and the U.S. Holder's adjusted tax basis in the Shares, each determined in U.S. dollars. Any gain or loss generally will be treated as arising from U.S. sources and will be long-term capital gain or loss if the U.S. Holder's holding period in the Shares exceeds one year. Deductions for capital loss are subject to significant limitations.

A U.S. Holder's tax basis in the Shares generally will be the U.S. dollar value of the non-U.S. currency amount paid to purchase the Shares determined by reference to the exchange rate on the date of purchase. If the Shares are treated as traded on an "established securities market," a cash basis U.S. Holder (or, if it elects, an accrual basis U.S. Holder) will determine the U.S. dollar value of the cost of such Shares by translating the amount paid at the spot rate of exchange on the settlement date of the purchase.

A U.S. Holder that receives a currency other than U.S. dollars on the sale or other disposition of the Shares generally will realise an amount equal to the U.S. dollar value of the non-U.S. currency received determined by reference to the exchange rate on the date of sale or other disposition (or in the case of Shares traded on an "established securities market" that are sold by a cash basis or electing accrual basis taxpayer, the settlement date). A U.S. Holder will recognise currency gain or loss if the U.S. dollar value of the currency received at the spot rate on the settlement date differs from the amount realised. A U.S. Holder will have a tax basis in the currency received equal to the U.S. dollar value of the currency on the settlement date. Any gain or loss realised on a subsequent conversion or other disposition of the non-U.S. currency for a different U.S. dollar amount will be exchange gain or loss and generally will be treated as U.S. source ordinary income or loss for foreign tax credit limitation purposes.

Medicare Tax on Net Investment Income

Non-corporate U.S. Holders whose income exceeds certain thresholds generally will be subject to an additional 3.8% tax on their "net investment income" (which generally includes, among other things, dividends on, and capital gain from the sale or other taxable disposition of, the Shares). U.S. Holders should consult their own tax advisors regarding the possible effect of such tax on their ownership and disposition of the Shares.

Passive Foreign Investment Company Rules

The Company believes that it was not classified as a passive foreign investment company, or PFIC, for its most recent taxable year ending December 31, 2014 and that, based on the composition of Company's current gross assets and income (including the income and assets of the Group) and the manner in which the Company expects the Group to operate its business in future years, it should not be classified as a PFIC for the Company's current taxable year or in the foreseeable future. In general, a non-U.S. corporation is a PFIC for any taxable year in which, taking into account a pro rata portion of the income and assets of 25% or more owned subsidiaries, (1) at least 75% of its gross income consists of passive income, or (2) at least 50% of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income. For this purposes, cash is considered a passive asset and passive income generally includes, among other things, dividends, rents, royalties and gains from the disposition of investment assets (subject to various exceptions) and other property that produces passive income. Whether the Company is classified as a PFIC for any taxable year is a factual determination made annually, and the Company's status could change depending upon, among other things, changes in the composition and relative value of its gross receipts and assets, which may be dependent on the market value of the Shares, and the manner in which the Company otherwise conducts its business. Accordingly, no assurance can be given that the Company will not be a PFIC in the current or any future taxable year.

If the Company were a PFIC for any taxable year during which a U.S. Holder owned Shares, gain recognised by a U.S. Holder on a sale or other taxable disposition of the Shares (including certain pledges) generally would be allocated rateably over the U.S. Holder's holding period for the Shares. The amounts allocated to the taxable year of the sale or other taxable disposition and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations for that year, as appropriate, and an interest charge would be imposed. Further, to the extent that any distribution received by a U.S. Holder on its Shares exceeds 125% of the average of the annual distributions on the Shares received during the preceding three years or the U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain, as described immediately above.

If the Company were a PFIC, a U.S. Holder might be able to avoid some of the adverse impacts of the PFIC rules described above by electing to mark the Shares to market annually. The election is available only if the Shares are considered "marketable stock," which generally includes stock that is regularly traded in more than de minimis quantities on a qualifying exchange. If a U.S. Holder makes the mark-to-market election, any gain from marking the Shares to market or from disposing of them would be ordinary income. Any loss from marking the Shares to market would be recognised only to the extent of unreversed gains previously included in income. Loss from marking the Shares to market would be ordinary, but loss on disposing of them would be capital loss except to the extent of mark-to-market gains previously included in income. No assurance can be given that the Shares will be traded in sufficient frequency and quantity to be considered "marketable stock" or whether the Spanish Stock Exchanges are or will continue to be considered qualifying exchanges for purposes of the PFIC mark-to-market election. A valid mark-to-market election cannot be revoked without the consent of the IRS unless the Shares cease to be marketable stock.

Each U.S. Holder is encouraged to consult its own tax advisor as to the Company's possible status as a PFIC and, if the Company were a PFIC, the consequences to them and whether a mark-to-market election is available or desirable in their particular circumstances.

Information Reporting and Backup Withholding

Dividends on Shares and proceeds from the sale or other disposition of Shares, by a U.S. paying agent or other U.S. intermediary, or made into the United States, generally will be reported to the IRS unless the holder is a corporation or otherwise establishes a basis for exemption. Backup withholding generally will apply to amounts subject to reporting if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status. Any amount withheld may be credited against the holder's U.S. federal income tax liability, if any, or refunded to the extent it exceeds the holder's liability provided the required information is furnished to the IRS. Prospective investors should consult their own tax advisors as to their qualification for exemption from backup withholding and the procedure for establishing an exemption.

Certain non-corporate U.S. Holders will be required to report to the IRS certain information with respect to an investment in Shares not held through an account with a domestic financial institution. U.S. Holders that fail to report required information could become subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors about these and any other information reporting obligations arising from an investment in Shares.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN SHARES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

MARKET INFORMATION

Prior to the Offering, there has been no public market for our ordinary shares. We will apply to list our ordinary shares on the Spanish Stock Exchanges and to have the ordinary shares quoted through the Automated Quotation System or *Mercado Continuo* of the Spanish Stock Exchanges.

Automated Quotation System

The Automated Quotation System links the four Spanish Stock Exchanges, providing those securities listed on it with a uniform continuous market that eliminates certain of the differences between the local exchanges. The principal feature of the system is the computerized matching of bid and offer orders at the time of entry of the relevant order. Each order is executed as soon as a matching order is entered, but can be modified or canceled until it is executed. The activity of the market can be continuously monitored by investors and brokers. The Automated Quotation System is operated and regulated by Sociedad de Bolsas, S.A. ("**Sociedad de Bolsas**"). All trades on the Automated Quotation System must be placed through a brokerage firm, a dealer firm or a credit entity that is a member of a Spanish Stock Exchange.

In a pre-opening session held from 8:30 a.m. to 9:00 a.m. (CET) each trading day, an opening price is established for each security traded on the Automated Quotation System based on a real-time auction in which orders can be entered, modified or cancelled but not executed. During this pre-opening session, the system continuously displays the price at which orders would be executed if trading were to begin at that moment. Market participants only receive information relating to the auction price (if applicable) and trading volume permitted at the current bid and offer price. If an auction price does not exist, the best bid and offer price and associated volumes are shown. The auction terminates with a random period of 30 seconds in which share allocation takes place. Until the allocation process has finished, orders cannot be entered, modified or cancelled. In exceptional circumstances (including the inclusion of new securities on the Automated Quotation System) and after giving notice to the CNMV, Sociedad de Bolsas may establish an opening price without regard to the reference price (the previous trading day's closing price), alter the price range for permitted orders with respect to the reference price or modify the reference price.

The computerized trading hours are from 9:00 a.m. to 5:30 p.m. (CET). During the trading session, the trading price of a security is permitted to vary up to a maximum so-called "static" range of the reference price, provided that the trading price for each trade of such security is not permitted to vary in excess of a maximum so-called "dynamic" range with respect to the trading price of the immediately preceding trade of the same security. If, during the trading session, there are matching bid and offer orders for a security within the computerized system which exceed any of the above "static" and/or "dynamic" ranges, trading on the security is automatically suspended and a new auction is held where a new reference price is set, and the "static" and "dynamic" ranges will apply over such new reference price. The "static" and "dynamic" ranges applicable to each particular security are set up and reviewed periodically by *Sociedad de Bolsas*. From 5:30 p.m. to 5:35 p.m. (CET), known as the closing auction, orders can be entered, modified and cancelled, but no trades can be made.

Between 5:30 p.m. and 8:00 p.m. (CET), trades may occur outside the computerized matching system without prior authorization of *Sociedad de Bolsas* (provided that such trades are communicated to *Sociedad de Bolsas*), at a price within the range of 5% above the higher of the average price and closing price for the day and 5% below the lower of the average price and closing price for the day if (i) there are no outstanding bids or offers, respectively, on the system matching or bettering the terms of the proposed off-system transaction, and (ii) if, among other things, the trade involves more than €300,000 and more than 20% of the average daily trading volume of the stock during the preceding three months. These trades must also relate to individual orders from the same person or entity and be reported to *Sociedad de Bolsas* before 8:00 p.m. (CET).

At any time trades may take place (with the prior authorization of *Sociedad de Bolsas*) at any price if:

- the trade involves more than €1.5 million and more than 40% of the average daily trading volume of the stock during the preceding three months;
- the transaction derives from a merger or spin-off, or from the reorganization of a group of companies;
- the transaction is executed for the purpose of settling litigation or completing a complex set of contracts; or
- *Sociedad de Bolsas* finds another appropriate cause.

Information with respect to the computerized trades which take place between 9:00 a.m. and 5:30 p.m. (CET) is made public immediately, and information with respect to trades which occur outside the computerized matching system is reported to the *Sociedad de Bolsas* by the end of the trading day and is also published in the Stock Exchange Official Gazette (*Boletín de Cotización*) and on the computer system by the beginning of the next trading day.

Clearance and Settlement System

Transactions carried out on the Automated Quotation System are cleared and settled through the *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, Unipersonal, S.A.* ("**Iberclear**"). Only those entities participating in Iberclear are entitled to use it, and participation is restricted to authorized members of the Spanish Stock Exchanges, the Bank of Spain (when an agreement, approved by the Spanish Ministry of Economy and Competitiveness, is reached with Iberclear) and, with the approval of the CNMV, other brokers who are not members of the Spanish Stock Exchanges, banks, savings banks and foreign settlement and clearing systems. Iberclear is owned by *Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.*, a holding company which holds a 100% interest in each of the Spanish official secondary markets and settlement systems. The clearance and settlement system and its participating entities are responsible for maintaining records of purchases and sales under the book-entry system. Shares of listed Spanish companies are held in book-entry form. Iberclear, which manages the clearance and settlement system, maintains a registry reflecting the number of shares held by each of its participating entities on its own behalf as well as the number of shares held on behalf of third parties. Each participating entity, in turn, maintains a registry of the owners of such shares. Spanish law considers the legal owner of the shares to be:

- the participating entity appearing in the records of Iberclear as holding the relevant shares in its own name; or
- the investor appearing in the records of the participating entity as holding the shares.

Iberclear has approved regulations introducing the so-called "T+3 Settlement System" by which the settlement of any transactions must be made within the three business days following the date on which the transaction was carried out.

Obtaining legal title to shares of a company listed on a Spanish Stock Exchange requires the participation of a Spanish official stockbroker, broker-dealer or other entity authorized under Spanish law to record the transfer of shares. In order to evidence title to shares, the relevant participating entity must, at the owner's request, issue a certificate of ownership. If the owner is a participating entity, Iberclear is in charge of the issuance of the certificate with respect to the shares held in the participating entity's name.

Notwithstanding the foregoing, it should be noted that Law 32/2011, of October 4, which amends LMV (*Ley 32/2011, de 4 de octubre, por la que se modifica la Ley 24/1988, de 28 julio, del Mercado de Valores*), anticipates some changes yet to be implemented in the Spanish clearing, settlement and registry procedures of securities transactions that will substantially modify the abovementioned system and will allow the connection of the post—trading Spanish systems to the European system Target-2 Securities, which is scheduled to be fully implemented in February 2017.

In particular, Regulation (EU) No. 909/2014 of the European Parliament and of the Council of July 23, 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 provides that the maximum settlement period shall be no later than on the second business day after the relevant trade takes place. On September 24, 2014, the CNMV issued a release on the status of the reform of the Spanish securities settlement system in which it stated that it expects that the new T+2 settlement standard will be introduced in the fourth quarter of 2015.

Euroclear and Clearstream

Shares deposited with depositories for Euroclear Bank, S.A./N.V., as operator of the Euroclear System ("**Euroclear**"), and Clearstream Banking, société anonyme ("**Clearstream**") and credited to the respective securities clearance account of purchasers in Euroclear or Clearstream against payment to Euroclear or Clearstream will be held in accordance with the Terms and Conditions Governing Use of Euroclear and Clearstream, the operating procedures of the Euroclear System, as amended from time to time, the Management Regulations of Clearstream and the Instructions to Participants of Clearstream as amended from time to time, as applicable. Persons on whose behalf accounts at Euroclear or Clearstream are maintained and to which shares have been credited ("**investors**") shall have the right to receive the number of shares equal to the number of shares so credited, upon compliance with the foregoing regulations and procedures of Euroclear or Clearstream.

With respect to the shares that are deposited with depositories for Euroclear or Clearstream, such shares will be initially recorded in the name of Euroclear or one of its nominees or in the name of Clearstream or one of its nominees, as the case may be. Thereafter, investors may withdraw shares credited to their respective accounts if they wish to do so, upon payment of the applicable fees described below, if any, and upon obtaining the relevant recording in the book-entry registries kept by the members of lberclear.

Under Spanish law, only the record holder of the shares according to the registry kept by Iberclear is entitled to receive dividends and other distributions and to exercise voting, pre-emptive and other rights in respect of such shares. Euroclear or its nominee or Clearstream or its nominee will be the sole record holder of the shares that are deposited with the depositories for Euroclear and Clearstream, respectively, until such time as investors exercise their rights to withdraw such shares and cause them to obtain the recording of the investor's ownership of the shares in the book-entry registries kept by the members of Iberclear.

Cash dividends or cash distributions, as well as stock dividends or other distributions of securities, received in respect of the shares that are deposited with the depositories for Euroclear and Clearstream will be credited to the cash accounts maintained on behalf of the investors at Euroclear and Clearstream, as the case may be, after deduction for applicable withholding taxes, in accordance with the applicable regulations and procedures of Euroclear and Clearstream. See "*Taxation*."

Each of Euroclear and Clearstream will endeavor to inform investors of any significant events of which they have notice affecting the shares recorded in the name of Euroclear or its nominees and Clearstream or its nominees and requiring action to be taken by investors. Each of Euroclear and Clearstream may, at its discretion, take such action as it shall deem appropriate in order to assist investors to direct the exercise of voting rights in respect of the shares. Such actions may include (i) acceptance of instructions from investors to execute or to arrange for the execution of, proxies, powers of attorney or other similar certificates for delivery to us, or our agent or (ii) voting of such shares by Euroclear or its nominees and Clearstream or its nominees in accordance with the instructions of investors.

If we offer or cause to be offered to Euroclear or its nominees and Clearstream or its nominees, as the record holders of the shares that are deposited with the depositories for Euroclear and Clearstream, respectively, any rights to subscribe for additional shares or rights of any other nature, each of Euroclear and Clearstream will endeavor to inform investors of the terms of any such rights issue of which it has notice in accordance with the provisions of its regulations and procedures referred to above. Such rights will be exercised, insofar as practicable and permitted by applicable law, according to written instructions received from investors, or such rights may be sold and, in such event, the net proceeds will be credited to the cash account maintained on behalf of the investor with Euroclear or Clearstream.

Tender Offers

Tender offers are governed in Spain by the LMV and Royal Decree 1066/2007, of 27 July (the "**Regulations**"), which have implemented Directive 2004/25/EC of the European Parliament and of the European Council of April 21, 2004.

Tender offers in Spain may qualify as either mandatory or voluntary offers.

Mandatory public tender offers must be launched for all the shares of the target company or other securities that might directly or indirectly give the right to subscription thereto or acquisition thereof (including convertible and exchangeable bonds) at an equitable price when any person acquires control of a Spanish listed company, whether such control is obtained:

- by means of the acquisition of shares or other securities that directly or indirectly give voting rights in such company;
- through agreements with shareholders or other holders of said securities; or
- as a result of other situations of equivalent nature as provided in the Regulations (i.e., indirect control acquired through mergers, share capital decreases, target's treasury stock variations or securities exchange or conversion, etc.).

A person is deemed to have obtained the control of a target company, individually or jointly with concerted parties, whenever:

- it acquires directly or indirectly a percentage of voting rights equal to or greater than 30%; or
- it has acquired a percentage of less than 30% of the voting rights and appoints, in the 24 months following the date of acquisition of said percentage, a number of directors that, together with those already appointed, if any, represent more than one-half of the members of the target company's board of directors. The Regulations also set forth certain situations where directors are deemed to have been appointed by the bidder or persons acting in concert therewith unless evidence to the contrary is provided.

Notwithstanding the above, Spanish regulations establish certain exceptional situations where control is obtained but no mandatory tender offer is required, including, among others, subject to the CNMV's approval:

- acquisitions or other transactions resulting from the conversion or capitalization of credit rights into shares of listed companies the financial feasibility of which is subject to serious and imminent danger, even if the company is not undergoing bankruptcy proceedings, provided that such transactions are intended to ensure the company's financial recovery in the long-term; or
- in the event of a merger, provided that those acquiring control did not vote in favor of the merger at the relevant general shareholders' meeting of the offeree company and provided also that it can be shown that the primary purpose of the transaction is not the takeover but an industrial or corporate purpose; and
- when control has been obtained after a voluntary bid for all of the securities, if either the bid has been made at an equitable price or has been accepted by holders of securities representing at least 50% of the voting rights to which the bid was directed.

For the purposes of calculating the percentages of voting rights acquired, the Regulations establish the following rules:

- percentages of voting rights corresponding to (i) companies belonging to the same group of the bidder; (ii) members of the board of directors of the bidder or of companies of its group; (iii) persons acting in concert with or for the account of the bidder; (iv) voting rights which may be exercised freely and over an extended period by the bidder under proxy granted by the actual holders or owners of such rights, in the absence of their specific instructions with respect thereto; and (v) shares held by a nominee, such nominee being understood as a third party whom the bidder totally or partially covers against the risks inherent in acquisitions or transfers of the shares or the possession thereof, will be deemed to be held by the bidder (including the voting rights attaching to shares that constitute the underlying asset or the subject matter of financial contracts or swaps when such contracts or swaps cover, in whole or in part, against the risks inherent in ownership of the securities and have, as a result, an effect similar to that of holding shares through a nominee);
- both the voting rights arising from the ownership of shares and those enjoyed under a usufruct or pledge or under any other title of a contractual nature will be counted towards establishing the number of voting rights held;
- the percentage of voting rights shall be calculated based on the entire number of shares carrying voting rights, even if the exercise of such rights has been suspended; treasury shares held directly or indirectly by the target company as per the information available on the date of calculation of the percentage of voting rights shall be excluded; and non-voting shares shall be taken into consideration only when they carry voting rights pursuant to applicable law; and
- acquisitions of securities or other financial instruments giving the right to the subscription, conversion, exchange or acquisition of shares which carry voting rights will not result in the obligation to launch a tender offer until such subscription, conversion, exchange or acquisition occurs.

Notwithstanding the foregoing, upon the terms established in the Regulations, the CNMV will conditionally dispense the person who, directly or indirectly, has acquired a percentage of voting rights equal to, or greater than, 30% from the obligation to launch a mandatory bid when another person or entity not concerted with the potential bidder directly or indirectly holds an equal or greater voting percentage in the target company.

The price of the mandatory tender offer is deemed equitable when it is at least equal to the highest price paid or agreed to be paid by the bidder or by any person acting in concert therewith for the same securities during the 12 months prior to the announcement of the tender offer. When the mandatory tender offer must be made without the bidder having previously acquired the shares over the above—mentioned 12—month period, the equitable price shall not be less than the price calculated in accordance with other rules set forth in the regulations. In any case, the CNMV may change the price so calculated in certain circumstances (extraordinary events affecting the price, evidence of market manipulation, etc.).

Mandatory offers must be launched as soon as possible and at any event within one month from the acquisition of the control of the target company.

Voluntary tender offers may be launched when a mandatory offer is not required. Voluntary offers are subject to the same rules established for mandatory offers except for the following:

- they might be subject to certain conditions (such as amendments to the bylaws or adoption of certain resolutions by the general shareholders' meeting of the target company, acceptance of the offer by a minimum number of securities, approval of the offer by the general shareholders' meeting of the bidder; and any other condition deemed by the CNMV to be in accordance with law), provided that such conditions can be met and this fact may be verified before the end of the acceptance period of the offer; and
- they must not be launched at an equitable price.

The Regulations set forth further provisions, including:

- subject to shareholder approval within 18 months from the date of announcement of the tender offer, the board of directors of a target company will be exempt from the rule prohibiting frustrating action against a foreign bidder whose board of directors is not subject to an equivalent passivity rule;
- defensive measures included in a listed company's bylaws and transfer and voting restrictions included in agreements among a listed company's shareholders will remain in place whenever the company is the target of a tender offer, unless the shareholders resolve otherwise (in which case any shareholders whose rights are diluted or otherwise adversely affected will be entitled to compensation at the target company's expense); and
- squeeze-out and sell-out rights will apply provided that following a mandatory tender offer (or as a result of a voluntary offer for all the target's share capital) the bidder holds securities representing at least 90% of the target company's voting capital and the tender offer has been accepted by the holders of securities representing at least 90% of the voting rights over which the offer was launched.

PLAN OF DISTRIBUTION

The Underwriting Agreement

Upon finalization of the book-building period (expected to be on or about June 29, 2015), the Company, Iberdrola, S.A., International Cable B.V. and Kutxabank, S.A. (on its own behalf and on behalf of Araba Gertu S.A.U.) (together, the "**Selling Shareholders**") and the Managers expect to enter into an underwriting agreement (the "**Underwriting Agreement**") with respect to the Initial Offer Shares and the Additional Shares. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement and the Underwriting Agreement not having been terminated in accordance with its terms, each entity listed in the following table (the "**Underwriters**") will agree, severally but not jointly, to procure purchasers for or failing which to purchase itself the Underwritten Shares (as defined below) set forth opposite its name in the following table:

Underwriters	Percentage of Underwritten Shares(1)
J.P. Morgan Securities plc	34.0%
UBS Limited	34.0%
Banco Bilbao Vizcaya Argentaria, S.A	10.0%
Citigroup Global Markets Limited	10.0%
Banco Santander, S.A	3.0%
Caixabank, S.A	3.0%
JB Capital Markets, S.V., S.A.U	3.0%
Norbolsa Sociedad de Valores, S.A	3.0%
TOTAL	**100%**

Note:

(1) Excluding between 1,587,145 and 1,680,740 Initial Offer Shares (between 1.97% and 2.09% of the Initial Offer Shares; calculated on the basis of the Offer Price Range) to be acquired by the Company in the Offering to (i) deliver ordinary shares to certain of the Company's employees under the Employee Share Scheme and (ii) to facilitate the reinvestment of part of the compensation due to beneficiaries under the Management Incentive Plans and the Investment Agreements (in the case of Mr. Alberto García Erauzkin) in ordinary shares. Such Initial Offer Shares to be acquired by the Company will not be taken into consideration for the book-building process to set the Offer Price referred to below. Therefore, the Initial Offer Shares subject to the underwriting commitment will be those addressed to institutional investors and will amount to between 62.29% and 62.22% of the share capital of the Company (calculated on the basis of the Offer Price Range) (the "**Underwritten Shares**").

Additionally, it is expected that Nmás1 Equities Sociedad de Valores S.A. will enter into the Underwriting Agreement but exclusively as a manager and placement agent (i.e., with no underwriting commitment).

In any event, the identity and number of Underwriters and/or placement agents and the exact number of Underwritten Shares to be underwritten by each of them shall be fixed if and when the Underwriting Agreement is entered into. The Company will inform the market of any amendment of the number or identity of Managers, or of the percentage of Underwritten Shares underwritten by any of them which may occur through publication of a relevant fact disclosure ("*hecho relevante*").

If one or more of the Managers shall fail at the Transaction Date (expected to be on or about June 30, 2015) to procure purchasers for or to purchase the Underwritten Shares which it or they are obliged to purchase under the Underwriting Agreement (the "**Defaulted Shares**"), the Joint Global Coordinators shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting Managers (excluding Nmás1 Equities Sociedad de Valores S.A.) or any other Manager (excluding Nmás1 Equities Sociedad de Valores S.A.) to procure purchasers for, or itself to purchase all, but not less than all, of the Defaulted Shares in such amounts as may be agreed upon and upon the terms set out in the Underwriting Agreement. However, if the Joint Global Coordinators shall not have completed such arrangements within such 24 hour period, then: (i) if the number of Defaulted Shares does not exceed 20% of the number of Underwritten Shares to be purchased on such date, each of the non-defaulting Managers (excluding Nmás1 Equities Sociedad de Valores S.A.) shall be obliged, severally and not jointly, to procure purchasers for, or to itself purchase, the full amount thereof in the same proportion that their respective underwriting commitments bear to the underwriting obligations of the all of the non-defaulting Managers and either the Joint Global Coordinators or the Company and the Selling Shareholders shall have the right to postpone the Transaction Date, for a period not exceeding five days in order to effect any required changes to any documents or arrangements as a consequence of the relevant default (any such postponement will be published through a relevant fact disclosure ("*hecho relevante*"));

or (ii) if the number of Defaulted Shares exceeds 20% of the number of Underwritten Shares to be purchased on such date, the Underwriting Agreement shall terminate without liability on the part of any non-defaulting Manager.

Under the Underwriting Agreement, Kutxabank, S.A. and International Cable B.V., will grant the Joint Global Coordinators, on behalf of the Managers, acting severally and not jointly, an option, exercisable in whole or in part on one occasion only for 30 days after Admission to purchase up to 8,040,893 Additional Shares (representing 10% of the Initial Offer Shares) at the Offer Price to cover over-allotments, if any. See "*—Over-allotment Option*" below.

In consideration of the agreement by the Managers to purchase the Underwritten Shares (or in the case of Nmás1 Equities Sociedad de Valores S.A., its agreement to act as a manager and placement agent) and, if and to the extent the Over-allotment Option is exercised, the Additional Shares, each Selling Shareholder will pay to the Managers commissions amounting to a total of 1.75% of the aggregate Offer Price of the Underwritten Shares sold in the Offering *pro rata* to their underwriting commitments. Nmás1 Equities Sociedad de Valores S.A., has agreed to use its best endeavors to procure purchasers for 3% of the Underwritten Shares, in consideration for which it will be entitled to receive commissions amounting to a total of 1.75% of the aggregate Offer Price of such Underwritten Shares. The percentage of Underwritten Shares set forth opposite the names of the Joint Global Coordinators in the table above includes a pro rata share of the Underwritten Shares that are the subject of this best endeavors commitment. In consideration of this underwriting commitment, the Joint Global Coordinators will receive an underwriting fee equal to 20% of the aggregate base fee payable to Nmás1 Equities Sociedad de Valores S.A. In addition, the Selling Shareholders may, in their sole discretion, pay to the Managers a discretionary commission of up to 1.25% of the aggregate Offer Price of the Underwritten Shares sold in the Offering to be distributed among the Managers as determined by the Selling Shareholders. Furthermore, the Company will agree to reimburse the Managers for certain expenses in connection with the Offering. For the avoidance of doubt, none of the Selling Shareholders will receive any fees or commissions for selling Shares in the Offering.

The Company will give the Managers customary representations and warranties under the Underwriting Agreement, including in relation to the Company's business, the Shares and the contents of this Prospectus. The Selling Shareholders will also give the Managers customary representations and warranties under the Underwriting Agreement in relation to, among other matters, their title to the Shares.

The Underwriting Agreement will also provide that (i) the Company will, subject to certain exceptions, indemnify the Managers against certain liabilities, including liabilities under applicable securities laws that may arise in connection with the Offering; and (ii) the Managers will, subject to certain exceptions, indemnify the Company and the Selling Shareholders against certain liabilities.

The Offering

We expect that the Offering will take place according to the calendar set out at "*Expected Timetable of Principal Events*".

In particular, the closing date of the Offering or the "**Transaction Date**" ("*fecha de operación bursátil*") is expected to be on or about June 30, 2015. We will publish the Offer Price through a relevant fact disclosure ("*hecho relevante*") as described in "*—Offer Price*" below. Under Spanish law, on the Transaction Date, investors become unconditionally bound to pay for, and entitled to receive, the Initial Offer Shares purchased in the Offering.

Payment by the final investors for the Initial Offer Shares will be made no later than the third business day after the Transaction Date against delivery through the facilities of Iberclear of the Initial Offer Shares to final investors, which is expected to take place on or about July 3, 2015 (the "**Settlement Date**"). Our shares are expected to be listed on the Spanish Stock Exchanges and quoted on the AQS on or about July 1, 2015, under the symbol "EKT".

The Offering will be conducted through a book-building process. During the book-building period, which is expected to start on June 19, 2015 and end on June 29, 2015 (both inclusive), the Managers will market the Underwritten Shares among investors in accordance with, and subject to, the selling restrictions set forth in this Prospectus. Investors may make their purchase proposals during this period, indicating the number of Underwritten Shares they would be interested to acquire.

The book-building period may be reduced or extended by agreement of the Selling Shareholders and the Joint Global Coordinators if, in the first case, the book of demand is sufficiently covered in their view before the end of the book-building period or, in the second case, if they understand that an extension of the book-building period for up to one additional week is convenient to ensure the success of the Offering. In the event there is such a reduction or extension of the book-building period, the Company will inform the market through the publication of a relevant fact disclosure ("*hecho relevante*").

The purchase proposals made by investors during the book-building period will constitute only an indication of interest of the investors in the Initial Offer Shares and shall accordingly not be binding either for the investors or the Selling Shareholders. Confirmation of the purchase proposals once the Offer Price has been fixed will be irrevocable.

Other than the Shares that will be sold by the Selling Shareholders, no other shares or classes of shares of the Company will be simultaneously created for admission to trading or offered for purchase or subscription by investors.

The Offering consists of a placement to institutional investors, including into the United States only to QIBs ("qualified institutional buyers" as defined in and in reliance upon Rule 144A) and outside the United States in "offshore transactions" as defined in, and in reliance upon, Regulation S. The Shares have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Any offer or sale of Shares in reliance on Rule 144A under the Securities Act will be made by brokers or dealers that are registered as such under the Exchange Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Shares within the United States by a dealer that is not participating in the Offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Banco Bilbao Vizcaya Argentaria, S.A., Norbolsa Sociedad de Valores, S.A., Caixabank, S.A. and Nmás1 Equities Sociedad de Valores, S.A. are only participating in the offering of Shares outside the United States under Regulation S of the Securities Act. Banco Bilbao Vizcaya Argentaria, S.A., Norbolsa Sociedad de Valores, S.A., Caixabank, S.A. and Nmás1 Equities Sociedad de Valores, S.A. are not broker-dealers registered with the SEC and will not be offering or selling securities in the United States or to U.S. nationals or residents.

Pricing of the Offering

Prior to the Offering, there has been no public market for our ordinary shares.

Offer Price Range

The indicative Offer Price Range is €8.70 to €11.05 per Share. The Offer Price Range implies a market capitalization of the Company of between €1,100.9 million to €1,398.2 million and a Price Earnings Ratio (calculated as of December 31, 2014) of between 29.9x and 38.0x.

The Offer Price Range has been determined by negotiations between the Selling Shareholders and the Joint Global Coordinators, and no independent experts were consulted in determining the Offer Price Range. The Offer Price Range is indicative only and the Offer Price may be higher or lower than the Offer Price Range. There can be no assurance that the prices at which the Shares will sell in the public market after the Offering will not be lower than the Offer Price Range or that an active trading market in our ordinary shares will develop and continue after the Offering.

Among the factors considered in determining the Offer Price Range were the Company's future prospects and the prospects of its industry in general, the Company's revenue, Adjusted EBITDA and profit, Operational Free Cash Flow and certain other financial and operating information in recent periods, and the financial ratios, market prices of securities and certain financial and operating information of companies engaged in activities similar to the Company's activities.

Offer Price

The Offer Price will be determined by negotiations among the Selling Shareholders and the Joint Global Coordinators upon the finalization of the book-building period (expected to occur on or about June 29, 2015) and it will be announced through the publication of a relevant fact disclosure ("*hecho relevante*") reported to the CNMV as soon as practicable after execution of the Underwriting Agreement.

The Offer Price may be outside the Offer Price Range, as the Offer Price Range is indicative only.

Expenses and taxes charged to investors

Purchasers of the Shares may be required to pay stamp taxes and other charges in accordance with the practices of the country of purchase in addition to the Offer Price. In addition, purchasers will have to bear the commissions payable to the financial intermediaries through which they will hold the Shares.

As commented in section "*Taxation—Spanish Tax Consideration—Spanish Transfer Tax*" the acquisition of the Shares and any subsequent transfer thereof will be exempt from Transfer Tax, Stamp Duty and Value Added Tax.

Agent

Norbolsa Sociedad de Valores, S.A. acts as agent of the Offering (the "**Agent**"). In such condition, the Agent will be responsible for, among other things: maintaining the Initial Offer Shares deposited in the securities accounts held with it by the Selling Shareholders until settlement of the Offering, instructing the entities participating in the Offering on the procedures applicable to its execution, receiving and processing information on the selection and confirmation of purchase proposals and collaborating in the allocation of the Initial Offer Shares to final investors, arranging the allocation of the corresponding registration references ("*referencias de registro*") by Iberclear, through the Spanish Stock Exchanges, and cooperating with the Company in the Admission process.

Authorizations of the Offering

On June 1, 2015, the general shareholders' meeting of the Company determined and the Board of Directors resolved to apply for the Admission. Also, on June 16, 2015 the general shareholders' meeting of the Company agreed on the implementation of an offer for the sale of the Shares as contemplated in the Offering to which the Selling Shareholders have adhered. For the avoidance of doubt, no application has been made or is currently intended to be made for our ordinary shares to be admitted to listing or trading on any exchange other than the Spanish Stock Exchanges and the AQS.

No pre-emptive acquisition rights are applicable to the transfer of the Initial Offer Shares and the Additional Shares in the context of the Offering.

The Offering shall not be subject to any administrative approval or authorization besides the regime applicable to the approval by the CNMV of this Prospectus as a "prospectus" for the purposes of the Offering and the subsequent Admission in accordance with the Prospectus Directive, the Spanish Securities Market Act and related regulation.

Withdrawal and Revocation of the Offering

Withdrawal of the Offering

The Selling Shareholders expressly reserve the right to withdraw the Offering, postpone it, defer it, or suspend it temporarily or indefinitely for any reason at any time before the setting of the Offer Price.

In case of withdrawal, the Selling Shareholders will notify such circumstance to the CNMV, the Agent and the Joint Global Coordinators on behalf of the Managers, on the date on which the withdrawal takes place or as soon as practicable.

Revocation of the Offering

The Offering will be revoked: (A) if the Underwriting Agreement is not executed on or before 11.59 p.m. (CET) on the date the Offer Price is set (expected to be on or about June 29, 2015) or any postponement thereof duly notified to the CNMV; (B) if the Underwriting Agreement is terminated before 7.30 p.m. (CET) on the Transaction Date (expected to be on or about June 30, 2015) at the discretion of the Joint Global Coordinators (acting jointly and in good faith and, to the extent reasonably practicable, following consultation with the Company and the Selling Shareholders): (i) if there has been any Material Adverse Effect (defined as a material adverse change, or any development reasonably likely to involve a material adverse change, in the business financial condition, results of operations or assets of the Company, whether or not arising in the ordinary course of business); or (ii) if there has occurred any material adverse change in the financial markets in Spain, the United States, the United Kingdom, or the international financial markets, any outbreak of hostilities or escalation thereof or other calamity or crisis or any adverse change or development involving a prospective adverse change in national or international political, financial or economic conditions, or currency exchange rates, in each case the effect of which is such as to make it, in the sole judgement of the Joint Global Coordinators, acting in good faith and, to the extent reasonably practicable, following consultation with the Company and the Selling Shareholders, impracticable or inadvisable to market the Shares or to enforce contracts for the sale of the Shares; or (iii) if admission to listing of the Company' ordinary shares on the Spanish Stock Exchanges has been withdrawn, or if trading generally on the Spanish Stock Exchanges, the London Stock Exchange, the New York Stock Exchange or in the NASDAQ System has been suspended or materially limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of said exchanges or by such system or by order of the regulatory authorities of Spain, the United States, the United Kingdom or any other governmental or self-regulatory authority, or a material disruption has occurred in commercial banking or shares settlement or clearance services in Spain, the United Kingdom, the United States or any member state of the EEA; or (iv) if a banking moratorium has been declared by the authorities of any of the United Kingdom, the United States, Spain or the State of New York or any other member state of the EEA; or (v) if there has been any breach by the Company or a Selling Shareholder of any provision of the Underwriting Agreement (including any breach of a representation or warranty by the Company or a Selling Shareholder); or (vi) if any new law or regulation or any change in existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting Spain, any other relevant member state of the EEA and/or the United States and which, in the judgement of the Joint Global Coordinators, acting in good faith and, to the extent reasonably practicable, following consultation with the Company and the Selling Shareholders: (1) is materially adverse to, or is likely to materially and prejudicially affect, the business or financial or trading position or prospects of the Company; or (2) makes, or is likely to make it, impracticable or inadvisable to proceed with the Offering or the delivery of Shares at the Settlement Date; or (3) is likely to result in the successful completion of the Offering being materially prejudiced or (C) if our ordinary shares are not admitted to listing on the Spanish Stock Exchanges before 11.59 p.m. (CET) on July 15, 2015.

In addition, in the event that the CNMV suspends or revokes any necessary approval for the Offering on or before the Transaction Date (expected to be on or about June 30, 2015), the Offering will be revoked and the Underwriting Agreement will terminate automatically.

Consequences of withdrawal or revocation

In case of withdrawal or revocation of the Offering, all offers to purchase shall be cancelled and all purchase orders related to the Offering of the Shares shall be terminated. Additionally, the Selling Shareholders shall have no obligation to deliver the Shares and the investors (including for the purposes of this section, the Managers) shall have no obligation to purchase the Shares.

In the event that the Shares have already been delivered by the Selling Shareholders and the purchase price has been paid by the investors, the investors would be required to return title to the Shares to the Selling Shareholders and the Selling Shareholders will repurchase the Shares from the holders of the Shares for an amount equal to moneys paid by the investors in respect of the sale of the Shares in the Offering, together with interest calculated at the statutory rate ("*interés legal*", currently set at 3.5%) from the date on which the investors paid for the Shares until the date on which they repay the purchase price.

Simultaneously to the issuance of purchase proposals, the investors purchasing Shares shall be deemed to have consented to the aforementioned repurchase of Shares. The Managers will expressly consent to such repurchase under the Underwriting Agreement.

Lock-Up Agreements

The Company has agreed that, without the prior written consent of the Joint Global Coordinators (not to be unreasonably withheld or delayed), it will not (nor will any of its subsidiaries (if any)), during the period commencing on the signing of the Underwriting Agreement and ending 180 days after the date of listing of the ordinary shares of the Company on the Spanish Stock Exchanges: (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell or lend or otherwise transfer or dispose of any ordinary shares in the Company or other equity securities of the Company or any securities convertible into or exercisable or exchangeable for ordinary shares in the Company or other equity securities of the Company or file any prospectus under the Prospectus Directive and the prospectus rules thereunder or any similar document with any other securities regulator, stock exchange, or listing authority with respect to any of the foregoing; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any ordinary shares of the Company or other equity securities of the Company, whether any such transaction described in sub-clause (i) or (ii) above is to be settled by delivery of ordinary shares of the Company or other securities, in cash or otherwise; or (iii) publicly announce such an intention to effect any such transaction. These restrictions will not apply to (A) the filing of any prospectus under the Prospectus Directive and the Prospectus Rules or any similar document with any other securities regulator, stock exchange, or listing authority in connection with the Offering; (B) any ordinary shares issued, sold or transferred or options granted to purchase ordinary shares pursuant to any employee benefit or incentive plan of the Company, details of which have been disclosed in the Prospectus; and (C) for the purpose of executing any strategic acquisitions or transactions by the Company provided that, in the event of any such strategic acquisitions or transactions, each recipient of such shares shall agree in favor of any of the Joint Global Coordinators to be bound by restrictions substantially similar to those assumed by the Selling Shareholders for the remainder of the 180-day period.

The Selling Shareholders (and their affiliates) have each agreed to similar restrictions for the period commencing on the date of the signing of the Underwriting Agreement until 180 days after the date of listing of the ordinary shares of the Company on the Spanish Stock Exchanges; provided however, that these restrictions shall not apply to: (i) the sale of Shares pursuant to the Offering (including the Initial Offer Shares and the Additional Shares, in case the Over-allotment Option is exercised); (ii) the lending of Shares by the Selling Shareholders to the Managers in connection therewith; (iii) the transfer of ordinary shares to any affiliates of the Selling Shareholders (within the meaning of article 4 of the Spanish Securities Markets Law (*Ley 24/1988, del Mercado de Valores*)) or to any person or entity that is managed or advised by such Selling Shareholder or any of its affiliates, provided that the transferees of such shares agree to be bound by restrictions, in favor of any of the Joint Global Coordinators, substantially similar to those assumed by the Selling Shareholder for the remainder of the 180-day period; or (iv) pursuant to any pledge of Shares in favor of any of the Joint Global Coordinators or their affiliates, provided that if such pledge is enforced, each transferee to whom the pledge seeks to transfer the Shares must enter into restrictions, in favor of any of the Joint Global Coordinators, substantially similar to those assumed by the Selling Shareholders for the remainder of the 180-day period.

The persons receiving ordinary shares as a result of their reinvestment of part of the compensation due to them under the Management Incentive Plans and the Investment Agreements in ordinary shares of the Company have each agreed to similar restrictions, subject to customary exceptions, for the period commencing on the date of the signing of the Underwriting Agreement until the date which is 360 days after the date of listing of the ordinary shares of the Company on the Spanish Stock Exchanges.

Agreements to Acquire Shares

As a result of the Offering, an "exit event" will occur under the Management Incentive Plans referred to in "*Management and Board of Directors—Management Incentive Plans*" and the Investment Agreements referred to in "*Related Party Transactions*". Accordingly, both the Management Incentive Plans and Investment Agreements will be liquidated. The beneficiaries of the Management Incentive Plans as well as Mr. Alberto García Erauzkin under his Investment Agreement have agreed with the Company that they will reinvest (at the Offer Price) part of the compensation due to them thereunder in ordinary shares of the Company.

The Company estimates that, for the purposes of facilitating the beneficiaries' reinvestment of part of their compensation under the Management Incentive Plans and the Investment Agreements (in the case of Mr. Alberto García Erauzkin) in ordinary shares of the Company, the Company will acquire between 1,207,532 and 1,318,750 Initial Offer Shares at the Offer Price, which will represent between 0.95% and 1.04% of the share capital of the Company and with a value of between €10.5 million and €14.6 million (based on the Offer Price Range). The following table sets forth the number of ordinary shares that the Company will acquire in the Offering at the Offer Price for the purposes of facilitating such reinvestment.

	Investment amount (€)(1)	**Number of ordinary shares(1)**
Alberto García Erauzkin	2,594,446	262,729
Senior Management(2)	8,266,032	837,066
Other managers(3)	1,677,836	169,907
Total	**12,538,313**	**1,269,702**

Notes:

(1) Assuming the Offer Price is the mid-point of the Offer Price Range. Investment Amount comprises 50% of the net cash payments to which the beneficiaries under the Management Incentive Plans (and, in the case of Mr. García Erauzkin, also under the Investment Agreements) are entitled.

(2) Comprising nine members of our senior management team.

(3) Comprising 14 other employees.

In addition, the general shareholders' meeting of the Company on June 16, 2015 and the Board of Directors on June 17, 2015 approved the granting of a package of ordinary shares at no cost (for free) to the employees of the Company (excluding those employees who are also beneficiaries under the Management Incentive Plans), equivalent to the value of two monthly salaries per employee (the "**Employee Share Scheme**"). The Company estimates that, for the purposes of the Employee Share Scheme, it will acquire between 361,990 and 379,613 ordinary shares in the Offering at the Offer Price, which will represent between 0.29% and 0.30% of the share capital of the Company and with a value of between €3.3 million and €4.0 million (based on the Offer Price Range and an estimate that the aggregate amount of two monthly salaries of the employees amounts to €4.0 million which the Company considers to be the highest potential amount of such aggregate salaries). Accordingly, the financial impact of the Employee Share Scheme in our 2015 annual accounts will be an expense in our income statement of between €3.3 million and €4.0 million (based on the Offer Price Range and without considering any potential tax impact).

Such ordinary shares to be acquired by the Company in the Offering will not be taken into consideration for the book-building process referred to below. The Company expects that such ordinary shares will be delivered to the beneficiaries of the Management Incentive Plans and the Investment Agreements (at the Offer Price) immediately following settlement of the Offering and, in the case of the Employee Share Scheme to the employees (at no cost) as soon as possible after settlement of the Offering and, in any event, within three months after their acquisition.

Stabilization

In connection with the Offering, UBS Limited, or any of its agents, as Stabilizing Manager, acting on behalf of the Managers, may (but will be under no obligation to), to the extent permitted by applicable law, engage in transactions that stabilize, support, maintain or otherwise affect the price, as well as over-allot Shares or effect other transactions with a view to supporting the market price of our ordinary shares at a level higher than that which might otherwise prevail in an open market. Any stabilization transaction shall be undertaken in accordance with applicable laws and regulations, in particular, Commission Regulation (EC) No 2273/2003 of 22 December 2003 as regards exemptions for buy-back programs and stabilization of financial instruments.

The stabilization transactions shall be carried out for a maximum period of 30 calendar days from the date of the commencement of trading of our ordinary shares on the Spanish Stock Exchanges (the "**Stabilization Period**"), provided that such trading is carried out in compliance with the applicable rules, including any rules concerning public disclosure and trade reporting. The Stabilization Period is expected to commence on July 1, 2015 and end on July 31, 2015

For this purpose, the Stabilizing Manager may carry out an over-allotment of Shares in the Offering, which may be covered by the Managers pursuant to one or several securities loans granted by the Selling Shareholders. The Stabilizing Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be taken at any time during the Stabilization Period. However, there is no obligation that the Stabilizing Manager or any of its agents effect stabilizing transactions and there is no assurance that the stabilizing transactions will be undertaken. Such stabilization, if commenced, may be discontinued at any time without prior notice, without prejudice of the duty to give notice to the CNMV of the details of the transactions carried out under Commission Regulation (EC) No 2273/2003 of December 22, 2013. In no event will measures be taken to stabilize the market price of our ordinary shares above the Offer Price. In accordance with Article 9.2 of Commission Regulation (EC) No 2273/2003 of December, 22 2013, the details of all stabilization transactions will be notified by the Stabilizing Manager to the CNMV no later than closing of the seventh daily market session following the date of execution of such stabilization transactions.

Additionally, in accordance with Article 9.3 of Commission Regulation (EC) No 2273/2003 of December 22, 2013, the following information will be disclosed to the CNMV by the Stabilizing Manager within one week of the end of the Stabilization Period: (i) whether or not stabilization transactions were undertaken; (ii) the date at which stabilization transactions started; (iii) the date at which stabilization transactions last occurred; and (iv) the price range within which the stabilization transaction was carried out, for each of the dates during which stabilization transactions were carried out.

Liquidity providers

There are no entities which have a firm commitment to act as intermediaries in secondary trading providing liquidity through bid and offer rates.

Over-allotment Option

In connection with the Offering, Kutxabank, S.A. and International Cable B.V. will grant to the Joint Global Coordinators, on behalf of the Managers, acting severally but not jointly, an option to purchase up to 8,040,893 Additional Shares at the Offer Price. The Over-allotment Option is exercisable by the Joint Global Coordinators, upon notice to the Selling Shareholders, on one occasion only in whole or in part, only for the purpose of covering over-allotments (if any) and to cover any short positions resulting from stabilization transactions, at any time on or before the 30th calendar day after Admission. This period is expected to commence on July 1, 2015 and end on July 31, 2015. Any Additional Shares made available pursuant to the Over-allotment Option will rank *pari passu* in all respects with the Initial Offer Shares, including for all dividends and other distributions declared, made or paid on the Initial Offer Shares, will be purchased on the same terms and conditions as the Initial Offer Shares being sold in the Offering and will form a single class for all purposes with all other ordinary shares of the Company.

The exercise of the Over-allotment Option is not subject to any conditions.

Other Relationships

The Managers and their respective affiliates may have engaged in transactions with and may have performed various investment banking, commercial banking, financial advisory and other services for the Company and the Selling Shareholders and their respective affiliates, for which they received customary fees, and they and certain of their respective affiliates are currently providing and may, in the future provide, such services for the Company and the Selling Shareholders and its respective affiliates. With respect to certain of these transactions and services, the sharing of information is generally restricted for reasons of confidentiality, internal procedures or applicable rules and regulations. The Managers and their respective affiliates may come to have interests that may not be aligned or could potentially conflict with potential investors' or our interests.

Moreover, in the ordinary course of their business activities, the Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments, including corporate debt facilities, of the Company and the Selling Shareholders.

Certain of the Managers are lenders (either directly or through their affiliates) under certain of the Company's and/or the Selling Shareholders' debt facilities. As described in "*Capitalization and Indebtedness*", the Company intends to use the debt incurred under the Facilities Agreement to repay its existing debt:

- Banco Bilbao Vizcaya Argentaria S.A. is a Mandated Lead Arranger and Facility & Security Agent under the Facilities Agreement as described further in "*Material Contracts—Facilities Agreement*" with an aggregate exposure of €102 million. Additionally, it is a lender under a bilateral credit line due March 2016 (€10 million) and a confirming line (€8 million). Banco Bilbao Vizcaya Argentaria S.A. and its subsidiaries have had, and may have in the future, investment banking and commercial banking activities in favour of the Company and its Selling Shareholders for which they have received and are likely continue to receive fees;

- certain of Citigroup Global Markets Limited's affiliates are lenders to Iberdrola, S.A. and/or certain of its affiliates under various syndicated credit facilities. The original aggregate amount under these facilities, where Citi participates together with other financial institutions, amounted to US$2,100 million under US dollar-denominated facilities and €5,000 million under Euro-denominated facilities;
- Caixabank, S.A. is a lender under the Facilities Agreement as described further in *"Material Contracts—Facilities Agreement"* and has furnished the Company with other debt facilities with an aggregate exposure of €38 million. Furthermore, Caixabank, S.A. has furnished certain Selling Shareholders and/or certain of its affiliates with certain debt facilities with an aggregate exposure of €1.8 billon. CaixaBank, S.A. and its subsidiaries has and may have in the future, investment banking and commercial banking activities in favour of the Company and its Selling Shareholders and its respective affiliates for which they receive and will receive fees;
- Banco Santander, S.A. has entered into a number of financing agreements with the Company, for a total aggregate authorized amount of €73 million (€12.7 million drawn) (including the Facilities Agreement as described further in *"Material Contracts—Facilities Agreement"*), and with Kutxabank S.A. for a total aggregate authorized amount of €600 million (€92 million drawn). These agreements include corporate debt, technical and financial guarantees, credit derivatives and covered bonds;
- J.P. Morgan Securities plc and/or certain of its affiliates are lenders to Iberdrola S.A and to Kutxabank, S.A. and/or members of their respective groups of companies with an aggregate exposure of US$600 million and US$7.5 million respectively.

As at the date of this Prospectus, Kutxabank, S.A., one of the Selling Shareholders, legally and beneficially owns 85% of Norbolsa, Sociedad de Valores, S.A.'s issued share capital.

Offering expenses

Due to the difficulty to determine the expenses incurred as of the date of this document, for purely informational purposes, the following table sets forth the estimated expenses payable by the Selling Shareholders and the Company related to the Offering (value added tax (or other equivalent sales taxes) excluded, which shall be added where applicable):

Expenses	**Thousand €**
Underwriting commissions(1)	25,715
Base commission	15,000
Discretionary commission	10,714
Publishing, legal and financial advice, audit(2)	7,003
Iberclear fee(2)(3)	30
Spanish Stock Exchanges fee(2)(3)	126
CNMV fee(2)(3)	70
Legal expenses and others (notary public, registration with the Commercial Registry, legal)(2)	50
TOTAL	32,693

Notes:

(1) Assuming that (i) the Offer Price is the mid-point price of the Offer Price Range, €9.875 per Offer Share; (ii) all the Shares have been underwritten by each of the Underwriters and the Over-allotment Option has been exercised in full; and (iii) the discretionary commission is paid in full. Underwriting commissions will be paid by the Selling Shareholders.

(2) To be paid by the Company.

(3) Assuming that the Offer Price is the mid-point of the Offer Price Range.

SELLING AND TRANSFER RESTRICTIONS

No action has been or will be taken in any jurisdiction that would permit a public offering of the Shares, or possession or distribution of this Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this Prospectus, nor any other offering material or advertisement in connection with the Shares, may be distributed or published, in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the Offering. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer of, or the solicitation of an offer to buy or subscribe for, any of the Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction. There will be no public offering in the United States.

No Shares have been marketed to, or are available for purchase in whole or in part by, the public in Spain or elsewhere in conjunction with the Offering. This Prospectus does not constitute a public offer or the solicitation of a public offer in Spain or elsewhere to subscribe for or to buy any securities in the Company or any other entity.

Because of the following restrictions, purchasers of Shares are advised to consult legal counsel prior to making any offer for, or resale, pledge or other transfer of, Shares.

Restrictions under the Securities Act

The Shares are being offered in accordance with Rule 144A and Regulation S under the Securities Act. Terms used in this Section that are defined in Rule 144A or in Regulation S under the Securities Act shall have the meaning given to them under the Securities Act. The Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction within the United States and, accordingly, may not be offered, sold or delivered within the United States except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or pursuant to another available exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and may only be offered, sold or delivered outside the United States in accordance with Regulation S.

In addition, until 40 days after the Transaction Date, any offer or sale of the Shares originally distributed outside the United States in accordance with Regulation S that is made within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another exemption from registration under the Securities Act.

Transfer restrictions on US purchasers

Each purchaser of the Shares that is located in the United States, in reliance on Rule 144A, will be deemed to have represented and agreed as follows:

- it is: (i) a QIB; (ii) aware, and each beneficial owner of the Shares has been advised, that the sale of Shares to it is being made in reliance on Rule 144A; and (iii) acquiring Shares for its own account or for the account of a QIB;
- it understands that the Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be reoffered, resold, pledged or otherwise transferred except: (i) (A) to a person whom the purchaser and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A; (B) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S; or (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available); and (ii) in accordance with all applicable securities laws of the states of the United States;
- the Company, the Managers and their respective directors, officers, agents, employees, advisers and others will rely upon the truth and accuracy of the foregoing representations and agreements; and
- if any of the representations or agreements made by it are no longer accurate or have not been complied with, it will immediately notify the Company and the Joint Global Coordinators, and if it is

acquiring any Shares as a fiduciary or agent for one or more accounts, it has sole investment discretion with respect to each such account and it has full power to make such foregoing representations and agreements on behalf of each such account.

Such purchaser acknowledges that the Shares offered and sold in accordance with Rule 144A are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of the Shares.

European Economic Area

In relation to each Relevant Member State, an offer to the public of any Shares may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to any legal entity which is a qualified investor as defined under the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) per Relevant Member State, subject to obtaining the Joint Global Coordinators prior consent for such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the Company, any Selling Shareholder or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or a supplemental prospectus pursuant to Article 16 of the Prospectus Directive and each person who initially acquires any Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to and with each of the Managers, each of the Selling Shareholders and the Company that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and any Shares to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied for that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

United Kingdom

In the United Kingdom, this Prospectus is only addressed to and directed to qualified investors, as that term is defined in the Prospectus Directive: (i) who have professional experience in matters relating to investments falling within Article 19(5) of the UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the **"Order"**); and/or (ii) who are high net worth entities falling within Article 49(2)(a) to (d) of the Order, and other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as **"Relevant Persons"**). The securities described herein are only available in the United Kingdom, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities in the United Kingdom will be engaged in only with Relevant Persons. Any person in the United Kingdom who is not a Relevant Person should not act or rely on this Prospectus or any of its contents.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the UK Financial Services and Markets Act 2000, as amended (the **"FSMA"**)) in connection with the issue or sale of any Shares will be communicated or caused to be communicated and will only be communicated or caused to be communicated to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Order or in circumstances in which section 21(1) of the FSMA does not apply to the Selling Shareholders or the Company.

Australia

This Prospectus: (a) does not constitute a prospectus or a product disclosure statement under the Corporations Act 2001 of the Commonwealth of Australia (**"Corporations Act"**); (b) does not purport to include the information required of a prospectus under Part 6D.2 of the Corporations Act or a product disclosure statement under Part 7.9 of the Corporations Act; (c) has not been, nor will it be, lodged as a disclosure document with the Australian Securities and Investments Commission (**"ASIC"**), the Australian Securities Exchange operated by ASX Limited or any other regulatory body or agency in Australia; and (d) may not be provided in Australia other than to select investors (**"Exempt Investors"**) who are able to demonstrate that they: (i) fall within one or more of the categories of investors under section 708 of the Corporations Act to whom an offer may be made without disclosure under Part 6D.2 of the Corporations Act; and (ii) are "wholesale clients" for the purpose of section 761G of the Corporations Act.

The Shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for, or buy, the Shares may be issued, and no draft or definitive prospectus, advertisement or other offering material relating to any Shares may be distributed, received or published in Australia, except where disclosure to investors is not required under Chapters 6D and 7 of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the Shares, each purchaser or subscriber of Shares represents and warrants to the Company, the Selling Shareholders, the Joint Global Coordinators and their affiliates that such purchaser or subscriber is an Exempt Investor.

As any offer of Shares under this Prospectus, any supplement or other document will be made without disclosure in Australia under Parts 6D.2 and 7.9 of the Corporations Act, the offer of those Shares for resale in Australia within 12 months may, under the Corporations Act, requires disclosure to investors if none of the exemptions in the Corporations Act applies to that resale. By applying for the Shares each purchaser of Shares undertakes to the Company, the Selling Shareholders and the Managers that such purchaser will not, for a period of 12 months from the date of purchase of the Shares, offer, transfer, assign or otherwise alienate those Shares to investors in Australia except in circumstances where disclosure to investors is not required under the Corporations Act or where a compliant disclosure document is prepared and lodged with ASIC.

Japan

The Shares have not been, and will not be, registered under the Financial Instruments and Exchange Law of Japan (Act No. 25 of 1948, as amended, the **"FIEL"**) and disclosure under the FIEL has not been, and will not be, made with respect to the Shares. Neither the Shares nor any interest therein may be offered, sold, resold, or otherwise transferred, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and all other applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities. As used in this paragraph, a resident of Japan is any person that is resident in Japan, including any corporation or other entity organised under the laws of Japan.

Switzerland

The Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (**"SIX"**) or on any other stock exchange or regulated trading facility in Switzerland. This Prospectus has been prepared without regard to the disclosure standards for issuance of prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the Offering, the Company or the Shares has been or will be filed with or approved by any Swiss regulatory authority. In particular, this Prospectus will not be filed with, and the offer of Shares will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of Shares has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes (**"CISA"**). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Shares.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Shares may not be circulated or distributed, nor may Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor as defined under

Section 275(2) and under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (**"SFA"**); (ii) to a relevant person as defined under Section 275(2) and under Section 275(1), or any person under Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise under, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Shares purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited Investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor; and

(c) shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Shares under an offer made under Section 275 of the SFA except:

   (i) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person under an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than US$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

   (ii) where no consideration is or will be given for the transfer; or

   (iii) where the transfer is by operation of law.

Hong Kong

The Shares have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than: (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and no advertisement, invitation or document relating to the Shares, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance has been or will be issued, whether in Hong Kong or elsewhere.

Kuwait

The Shares have not been registered, authorised or approved for offering, marketing or sale in the State of Kuwait pursuant to Securities and Investment Funds Act of Kuwait No. 31/1990, as amended, and its executive bylaw, and as such the Shares shall not be offered or sold in the State of Kuwait. Interested investors from the State of Kuwait who approach the Selling Shareholders, the Company, or any of the Managers acknowledge this restriction and that this Offering and any related materials shall be subject to all applicable foreign laws and rules; therefore, such investors must not disclose or distribute such materials to any other person.

Qatar

This Prospectus has not been filed with, reviewed or approved by the Qatar Central Bank, any other relevant Qatar governmental body or securities exchange. This Prospectus is being issued to a limited number of sophisticated investors and should not be provided to any person other than the original recipient. It is not for general circulation in the State of Qatar and should not be reproduced or used for any other purpose.

UAE (excluding the Dubai International Financial Centre)

The Offering has not been approved or licensed by the UAE Central Bank or any other relevant licensing authority in the United Arab Emirates, and does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Act, Federal Law No. 8 of 1984 of the United Arab Emirates (as amended) or otherwise. Accordingly, the Shares may not be offered to the public in the United Arab Emirates.

The Shares may be offered, and this Prospectus may be issued, only to a limited number of investors in the United Arab Emirates who qualify as sophisticated investors under the relevant laws of the United Arab Emirates.

Nothing contained in this Prospectus is intended to constitute investment, legal, tax, accounting or other professional advice. This Prospectus is for your information only and nothing in this Prospectus is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

Dubai International Financial Centre

This Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority. This Prospectus is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The Dubai Financial Services Authority has not approved this Prospectus nor taken steps to verify the information set out in it, and has no responsibility for it.

The Shares to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Shares offered should conduct their own due diligence on the Shares. If you do not understand the contents of this Prospectus you should consult an authorised financial adviser. The Shares have not been and will not be offered, sold or publicly promoted or advertised in the Dubai International Financial Centre other than in compliance with laws applicable in the Dubai International Financial Centre, governing the issue, offering or the sale of securities.

Purchaser's Representation

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any Shares pursuant to the Offering will be deemed to have represented, warranted and agreed to and with each Manager, each Selling Shareholder and the Company that:

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive: (i) the Shares acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Global Coordinators has been given to the offer or resale; or (ii) where Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Shares to it is not treated under the Prospectus Directive as having been made to such persons.

VALIDITY OF THE SHARES AND LEGAL MATTERS

The validity of the Shares offered and certain matters relating to the Offering will be passed upon for the Company by Freshfields Bruckhaus Deringer LLP (with respect to United States Federal law, English law and Spanish law). Certain legal matters relating to the Offering will be passed upon for the Managers by Mayer Brown International LLP (with respect to United States Federal law and English law) and Cuatrecasas, Gonçalves Pereira, S.L.P. (with respect to Spanish law).

INDEPENDENT AUDITORS

PricewaterhouseCoopers Auditores, S.L. domiciled at Madrid, Torre PwC, Paseo de la Castellana, 259 B, holder of tax identification number (CIF) number B-79031290 and registered in the R.O.A.C. (*Registro Oficial de Auditores de Cuentas*—Official Registry of Auditors) with number S0242 and in the Madrid Commercial Registry at Sheet 87250-1, *Folio* 75, Volume 9267, Book 8054, Section 3ª, has audited the 2012 Financial Statements, included elsewhere in this Prospectus, as stated in its unqualified report also included in this Prospectus and the 2012 Spanish GAAP Financial Statements, incorporated by reference in this Prospectus, as stated in its unqualified report.

KPMG Auditores, S.L. domiciled at Madrid, Paseo de la Castellana, 95, Edificio Torre Europa, holder of tax identification number (CIF) number B-78510153 and registered in the R.O.A.C. (*Registro Oficial de Auditores de Cuentas*—Official Registry of Auditors) with number S0702 and in the Madrid Commercial Registry at Sheet M-188007, Volume 11961, has audited the 2013-2014 Financial Statements, included elsewhere in this Prospectus, as stated in its unqualified report also included in this Prospectus, as well as the 2014 Spanish GAAP Financial Statements and the 2013 Spanish GAAP Financial Statements, both incorporated by reference in this Prospectus, as stated in its unqualified reports.

The 2015 Interim Financial Statements have not been audited but have been subject to a limited review.

In connection with the period covered by the Financial Statements, PricewaterhouseCoopers Auditores, S.L. were not re-appointed as auditors of the Company after year 2012 as KPMG Auditores, S.L. was appointed as auditor for the years 2013, 2014 and 2015. KPMG Auditores, S.L. has not resigned, been removed or not reappointed as auditors of the Company for years 2013 and 2014 or otherwise, prior to the date of this Prospectus.

ADDITIONAL INFORMATION

Corporate Structure

Euskaltel is a Spanish *sociedad anónima* incorporated on June 3, 1995 and registered with the Biscay Commercial Registry. Euskaltel's registered office is at Parque Tecnologico de Bizkaia, Edificio 809, 48160 Derio, Bizkaia, Spain. Euskaltel does not have any subsidiary or subsidiary undertakings.

The Company is currently neither subject to Section 12 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. For so long as this remains the case, the Company will furnish, upon written request, to any shareholder, any owner of any beneficial interest in any of the Shares or any prospective purchaser designated by such a shareholder or such an owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act, if at the time of such request any of the Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

Documents on display

Copies of the following documents will be available for inspection in physical form until Admission during business hours on weekdays at Euskaltel's offices at Parque Tecnologico de Bizkaia, Edificio 809, 48160 Derio, Bizkaia, Spain:

(a) deed of incorporation of the Company;

(b) the bylaws of the Company (which, following Admission, will also be available on Euskaltel's website at www.euskaltel.com);

(c) Board of Directors Regulations, general shareholders' meeting regulations, Internal Code of Conduct (which, following Admission, will also be available on the CNMV's website at www.cnmv.es and on Euskaltel's website at www.euskaltel.com);

(d) the 2012 Spanish GAAP Financial Statements, the 2013 Spanish GAAP Financial Statements, the 2014 Spanish GAAP Financial Statements and the 2015 Interim Spanish GAAP Financial Statements (which are also available on the CNMV's website at www.cnmv.es (with the exception of the 2015 Interim Spanish GAAP Financial Statements) and on Euskaltel's website at www.euskaltel.com) and the 2012 Financial Statements, the 2013-2014 Financial Statements and the 2015 Interim Financial Statements (which are also available on Euskaltel's website at www.euskaltel.com);

(e) this Prospectus (which, following Admission, will also be available on the CNMV's website at www.cnmv.es and on Euskaltel's website at www.euskaltel.com); and

(f) certificate of the resolutions approved by the general shareholders meeting and Board of Directors in connection with the Offering.

The documents referred to in (a) to (f) above will also be available for inspection in physical form at the CNMV's premises at: Edison 4, 28006 Madrid, Spain.

Enforcement of civil liabilities

Euskaltel is a Spanish company, and its assets are located within Spain. In addition, most of Euskaltel's directors, as well as its principal shareholders, reside or are located outside the United States, mainly in Spain. As a result, investors may not be able to effect service of process upon Euskaltel or these persons or to enforce judgments obtained against it or these persons in foreign courts predicated solely upon the civil liability provisions of U.S. securities laws.

Euskaltel has been advised by Freshfields Bruckhaus Deringer LLP, the Company's Spanish counsel, that there is doubt that a lawsuit based upon U.S. federal or state securities laws could be brought in an original action in Spain and that a foreign judgment based upon U.S. securities laws would be enforced in Spain.

Working capital

In the opinion of the Company, the working capital available to the Company is sufficient for the Company's present requirements and, in particular, is sufficient for at least the next 12 months from the date of this Prospectus. This will continue to be the case following completion of the Offering, the availability of funds under the Facilities Agreement and the expected application of the proceeds under the Facilities Agreement as described under "*Capitalization and Indebtedness—Post-Offering capitalization and indebtedness*".

GLOSSARY OF SELECTED TERMS

Abbreviation or term	Definitions
"3G"	Third Generation Mobile System, which is based on the UMTS universal standard.
"4G"	Fourth Generation Mobile System, which is based on the LTE universal standard.
"4K TV"	Television with 4,000 pixels which has resolution four times that of high definition television.
"Adjusted EBITDA"	Total Revenue less direct costs, commercial costs and overhead costs.
"ADSL"	Asymmetric Digital Subscriber Line, a data communications technology that enables faster data transmission over copper telephone lines than a conventional voiceband modem can provide by utilizing frequencies not used by a voice telephone call.
"ARPU"	Average Revenue Per Unit is a measure of the revenue generated by a product line (fixed, broadband, Pay TV or mobile) divided by the average number of lines per unit time, typically per month.
"BSS"	Business Support Systems.
"Bundles"	The products considered when referring to bundles as fixed telephony, fixed broadband, Pay TV and postpaid mobile.
"Churn"	Measure of the number of individuals terminating their contract with a telecom operator over a specific period of time.
"Cloud Collaboration Tools"	Cloud collaboration Tools are software pieces that enable employees to work together on a project that is hosted in the cloud, can be accessed at any time and can be edited by multiple users at once.
"CMT"	The Spanish Telecommunications Market Commission (*Comisión del Mercado de Telecomunicaciones*).
"CNMC"	The Spanish Markets and Competition Commission (*Comisión Nacional de los Mercados y la Competencia*) (into which the CMT was integrated).
"Dark Fiber"	Dark fiber is optical fiber infrastructure (cabling and repeaters) that is currently in place but is not being used and can be leased to third parties.
"Docsis"	Data Over Cable Service Interface Specification is an international telecommunications standard that allows the addition of high-speed data transfer to an existing cable TV (CATV) system. It is employed by many cable television operators to provide internet access over their existing hybrid fiber-coaxial (HFC) infrastructure.
"Double-play"	Double-play is the bundling of two telecommunication services (mobile, fixed telephony, pay television or broadband) into one contract.
"DSL"	Digital Subscriber Line is a technology enabling a local loop copper pair to transport high-speed data between a central office and the customers' premises.
"DTH"	Direct-to-Home: the transmission of satellite services and functionality with reception through a satellite dish.
"DTT"	Digital Terrestrial Television, is digital television broadcast entirely over earthbound circuits. A satellite is not used for any part of the link between the broadcaster and the end user.

Abbreviation or term	Definitions
"Enabling Services"	Wholesale Services provided to third operators to enable running a single or several business processes (i.e., billing, Customer Relationship Management) over third-parties' platforms.
"EoP"	End of period.
"Ethernet"	Ethernet is the most widely-installed standard local area network technology.
"Facilities Agreement"	the facilities agreement entered into by the Company with, amongst others, Kutxabank S.A. and Banco Bilbao Vizcaya Argentaria, S.A. as mandated lead arrangers and the other parties named therein on June 3, 2015.
"Fixed services"	Fixed services includes Fiber, ADSL and Indirect access.
"FMC"	Fixed mobile convergent.
"FTTH"	Fiber to the Home is a generic term for a broadband network architecture that uses optical fiber to replace all or part of the usual metal loop used for last mile communications.
"FTTx"	Fiber to the x, a generic term for any broadband network architecture using optical fiber to provide all or part of the local loop used for last mile telecommunications. The term is a generalization for several configurations of fiber deployment.
"Gbps"	A gigabit per second.
"GHz"	Gigahertz is one billion hertz (a unit of frequency).
"GPRS"	General Packet Radio Service is a packet-switching technology that enables data transfers through cellular networks.
"Global ARPU"	Total ARPU of a fixed-line customer comprising all contracted services (both fixed and mobile).
"GSM"	A comprehensive digital network for the operation of all aspects of a cellular telephone system.
"HD"	High Definition.
"HFC"	Hybrid Fiber-Coaxial refers to a broadband network that combines optical fiber and coaxial fiber. This type of network has been commonly used by cable operators since the early 90s.
"High-speed broadband"	Broadband using download speed higher than 30 Mbps.
"Homes passed"	Homes passed are homes, residential multiple dwelling units or commercial units that are covered by an active node.
"Hosting and Housing"	The business of housing, serving, and maintaining IT servers for other companies.
"Household coverage"	Household coverage calculated by dividing total homes passed by total households in the Basque Country.
"HSPA" or "High Speed Packet Access".	A mix of two mobile telephony protocols, High Speed Download Packet Access (HSDPA) and High Speed Uplink Packet Access (HSUPA) that extends and improves the performance of existing protocols.
"HRTM" or "Homes released to marketing"	Homes passed that can be connected to our networks without materially extending the distribution plant.

Abbreviation or term	Definitions
"IP" or "Internet Protocol"	Internet protocol is a method or protocol by which data is sent from one computer to another on the internet. Each computer or host on the internet has at least one IP address that uniquely identifies it from all other computers.
"IPTV" or "Internet Protocol Television"	IPTV is a system through which television services are delivered using the internet protocol suite over a packet-switched network such as the internet.
"ISP"	Internet Service Provider.
"Large Accounts"	Large companies demanding complex and tailored telecommunication services.
"Leverage Ratio"	as defined in the Facilities Agreement and meaning the ratio of net financial debt to consolidated pro forma EBITDA (which is calculated in a similar manner to, and does not differ materially from, Adjusted EBITDA, as described under "*Operating and Financial Review—Adjusted EBITDA Discussion*" with certain pro forma adjustments customary for facilities of this nature).
"LDF"	Leased Dark Fiber.
"Leased Lines Services"	Provision of a dedicated communication channel (using SDH or Ethernet technologies, Dark Fiber) that interconnects two or more sites.
"LTE"	Long Term Evolution, a new mobile telephony technology that succeeds 3G. 3GPP (Third Generation Partnership Project) Long-Term Evolution, is a new high performance air interface for cellular mobile communication systems. LTE is the last step toward the fourth generation (4G) of radio technologies designed to increase the capacity and speed of mobile telephone networks.
"M2M"	Machine to Machine refers to technologies that allow both wireless and wired systems to communicate with other devices placed remotely.
"Mbps"	Megabits per second, a unit of data transfer rate equal to 1,000,000 bits per second. The bandwidths of broadband networks are often indicated in Mbps.
"(Mobile) Access Layer"	GSM/GPRS/UMTS/3.5G+ (including HSDPA and HSUPA) access from Orange's network.
"MHz"	Megahertz, one million hertz (a unit of frequency).
"Mobile Core Network"	Telecommunication network's core part, which offers numerous services to the customers who are interconnected by the mobile access network.
"Mobile penetration"	Number of total mobile customers excluding "mobile only" customers divided by total number of fixed services customers.
"Mobile RGUs"	Total number of mobile postpaid lines (including mobile only).
"MPLS" or "Multi-Protocol Label Switching"	A method used to speed up data communication over combined IP /ATM networks.
"MTR"	Mobile termination rates.

Abbreviation or term	Definitions
"MVNO"	Mobile Virtual Network Operator is a company providing mobile phone services directly to their customers without owning key network assets such as a licensed frequency allocation of radio spectrum and the cell tower infrastructure. These assets are leased from another operator known as MNO (Mobile Network Operator).
"New Projects capex"	Includes network deployment capex and capital expenditures related to the launch of new products/services.
"NGA".	New Generation Access, refers to latest technology networks.
"NGN"	Next Generation Network.
"NOC"	Network Operation Center.
"Operational Free Cash Flow" .	Operational Free Cash Flow means Adjusted EBITDA less capital expenditures.
"OTT".	Over-the-top.
"Penetration"	Percentage of customers over homes passed in our areas of operation, and with respect to any particular service, penetration is the percentage of homes contracting that service over total homes existing in a specific area.
"PSTN"	Public Switched Telephone Network, the traditional telephone system that runs through copper cables (voice up to 64 Kbps, data up to 56 Kbps).
"PVR".	Personal Video Recorder.
"quadruple-play"	Quadruple-play is the bundling of four telecom services (mobile, fixed telephony, broadband and pay television services) into one contract.
"Residential churn"	A customer is considered a churning customer when all active products of that customer become inactive (disconnected), partial deactivations are considered internal migrations (downgrades). Given the conditions of our offer, when a customer's voice service is disconnected it will be considered a churning customer and all other products will be automatically forced into deactivation.
"RGUs"	Revenue Generating Unit where each customer is counted as a revenue generating unit for each service for which such customer subscribes, regardless of the number of services that customer receives from us. Thus a single customer who receives internet, television and telephony services from us would account for three RGUs.
"SD"	Standard Definition.
"SDH".	Synchronous Digital Hierarchy, standardized protocol that transfers multiple digital bit streams over optical fiber using lasers or highly coherent light from light-emitting diodes (LEDs).
"Security Services"	Includes services such as: Cloud Firewall, AntiDDoS Service, Antivirus, and Device Management among others.
"SIM"	A SIM is a chip card inserted into a mobile phone, which contains information such as telephone numbers and memory for storing a directory.
"SMEs"	Small and medium-sized enterprises. SMEs are ranked a notch above SOHOs.
"SMP".	Significant Market Power.
"SMS".	Short Message Service, a text message service which enables users to send short messages (160 characters or less) to other users.

Abbreviation or term	Definitions
"SOHO"	Small Office, Home Office is a business operated out of a business owner's residence and that can be located in an established office within the residence. Considered a microenterprise as it involves less than ten employees. SOHOs are categorized one notch bellow SMEs.
"Spanish Telecommunications Market"	Comprises the markets in which the Company operates and which includes the following segments as defined by the CNMC: wholesale ("*servicios mayoristas*"), fixed telephony ("*telefonía fija*"), fixed broadband ("*banda ancha fija*"), business communications ("*comunicaciones de empresa*"), telephony information services ("*servicios de información telefónica*"), mobile telephony ("*telefonía móvil*"), mobile broadband "*banda ancha móvil*", audiovisual services ("*servicios audiovisuales*"), sale and lease of equipment ("*venta y alquiler de equipos*") and others ("*otros (incl. serv. univ.")*.
"STB"	Set-top-box.
"Transformation Plan"	The transformation plan of the Company carried out over 2013 and 2014 with the objective of reaching sustainable efficiencies and including, among other things, rationalization and outsourcing, refocusing of the Company's sales channels mix to more economic channels and acquiring from the Basque government the remaining part of the backbone of the Company's network not previously owned by the Company.
"triple-play"	Triple-play is the bundling of three telecom services (mobile, fixed telephony and, pay television or broadband services) into one contract.
"TV Everywhere"	System whereby TV content is accessible online via a variety of display devices, including PC, mobile phones, tablets or laptops.
"UHD"	Ultra-high-definition.
"ULL"	Unbundling of the local loop.
"UMTS"	UMTS is one of the major third generation mobile communications systems being developed. UMTS is suited to deliver voice, text, music and animated images. Data can be sent via UMTS at approximately six times the speed of ISDN.
"VDSL" or "Very-high bitrate Digital Subscriber Line"	VDSL is a DSL technology providing faster data transmission over a single flat untwisted or twisted pair of copper wires. VDSL is capable of supporting high bandwidth applications such as HDTV, as well as telephony services (VoIP) and general internet access, over a single connection.
"Virtual Data Centers"	A Virtual Data Center is a pool of cloud IT infrastructure resources designed specifically for covering enterprise business needs including compute, memory, storage and bandwidth.
"VoD"	Video on Demand, a system that allows customers to select and watch video content on demand.
"Voice Services"	Services that allow carriers to complete their end-user calls that originate or terminate within our territory. Includes the provision of local and long-distance services related to voice (calling charges, line rental/subscription and connection fees are included in this category), enhanced voice services, data and fax transmission over the circuit-switched PSTN, and retail voice over IP.

Abbreviation or term	Definitions
"VoIP" or "Voice over IP"	A telephone service via internet, or via transmission control/Internet Protocol, which can be accessed using a computer, a sound card, adequate software and a modem.
"VPLS"	Virtual Private LAN Service, enables the provision of multiple services, such as voice, video and data over a single access circuit.
"VPN" or "Virtual Private Network"	Virtual Private Network is a network that uses primarily public telecommunication infrastructure such as the internet to provide remote offices or travelling users access to a central organizational network. It often requires remote users of the network to be authenticated, and often secure data with encryption technologies to prevent disclosure of private information to unauthorized parties.
"Wimax"	Worldwide Interoperability for Microwave Access is a telecommunications technology aimed at providing wireless data over long distances in a variety of ways, from point-to-point links to full mobile cellular type access.
"xDSL"	Group of technologies that provides data transmission over the wires of local telephone network. ADSL is the most commonly installed DSL technology.

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Interim Financial Statements
for the three-month period ended
31 March 2015

KPMG Auditores S.L.
Torre Iberdrola
Plaza Euskadi, 5
Planta 7ª
48009 Bilbao

Independent Auditor's Report on Review of Interim Financial Statements

To the Shareholders of
Euskaltel, S.A. as requested by the Board of Directors

Introduction

We have reviewed the accompanying interim balance sheet of Euskaltel, S.A. ("the Company") as at 31 March 2015, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the three month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information ("the interim financial statements"). The Directors are responsible for the preparation of interim financial statements that give a true and fair view in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not give a true and fair view, in all material respects, of the financial position of Euskaltel, S.A as at 31 March 2015, and its financial performance and its cash flows for the three month period then ended in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

KPMG Auditores, S.L.

Enrique Asla García

1 June 2015

EUSKALTEL, S.A.

Balance Sheet at 31 March 2015

(Expressed in thousands of Euros)

ASSETS	Notes	31.03.15	31.12.14
NON-CURRENT ASSETS		**911,297**	**921,542**
Intangible assets	5	21,919	22,552
Property, plant and equipment	6	733,576	743,737
Financial assets		6,522	6,332
Deferred tax assets	14	149,280	148,921
CURRENT ASSETS		**57,841**	**56,785**
Inventories	8	3,026	2,313
Trade receivables	4, 7	40,313	39,329
Other current assets		1,561	4,493
Cash and cash equivalents	9	12,941	10,650
TOTAL ASSETS		**969,138**	**978,327**

EQUITY AND LIABILITIES	Notes	31.03.15	31.12.14
EQUITY	**10**	**648,549**	**647,490**
Capital		379,613	379,613
Share premium		79,390	79,390
Retained earnings		194,275	193,034
Other comprehensive income		(4,729)	(4,547)
NON-CURRENT LIABILITIES		**210,512**	**212,949**
Long-term borrowings and other	4, 11	178,967	194,554
Derivative financial instruments	4, 11	6,876	6,226
Other non-current liabilities	12	24,669	12,169
CURRENT LIABILITIES		**110,077**	**117,888**
Short-term borrowings	4, 11	52,072	49,206
Trade and other payables	4, 13	51,947	58,749
Current income tax payable		536	—
Other current liabilities		5,522	9,933
TOTAL EQUITY AND LIABILITIES		**969,138**	**978,327**

Derio, 1 June 2015

Notes 1 to 21 are an integral part of these interim financial statements

EUSKALTEL, S.A.

Income Statement

for the three month period ended 31 March 2015

(Expressed in thousands of Euros)

	Notes	2015	2014
Revenues	15	78,437	77,959
Other income		126	71
Work performed by the entity and capitalized	5	1,047	1,555
Supplies	15	(17,487)	(17,965)
Personnel expenses	15	(5,839)	(8,089)
Other operating expenses	15	(19,015)	(16,332)
Depreciation, amortisation and impairment	5, 6	(19,874)	(19,664)
RESULTS FROM OPERATING ACTIVITIES		**17,395**	**17,535**
Finance income	15	24	1
Finance costs	15	(15,930)	(6,227)
NET FINANCE COST		**(15,906)**	**(6,226)**
PROFIT BEFORE INCOME TAX		**1,489**	**11,309**
Income tax	14	(248)	(2,988)
PROFIT FOR THE PERIOD	10	**1,241**	**8,321**
Earnings per share:	16		
Basic earnings per share in €		0.20	1.32
Diluted earnings per share in €		0.20	1.32

Derio, 1 June 2015

Notes 1 to 21 are an integral part of these interim financial statements

EUSKALTEL, S.A.

Statement of Comprehensive Income

for the three month period ended 31 March 2015

(Expressed in thousands of Euros)

	Notes	2015	2014
Profit for the period	**10**	**1,241**	**8,321**
Items that are or may be reclassified to profit and loss :			
Total income and expense recognised directly in equity		**(468)**	**(620)**
Cash flow hedges		(650)	(861)
Tax effect		182	241
Total amounts transferred to the income statement		**286**	**195**
Cash flow hedges		397	271
Tax effect		(111)	(76)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1,059**	**7,896**

Derio, 1 June 2015

Notes 1 to 21 are an integral part of these interim financial statements

EUSKALTEL, S.A.

Statement of Changes in Equity

for the three month period ended 31 March 2015

(Expressed in thousands of Euros)

	Capital	Share premium	Retained earnings	Other comprehensive income	TOTAL
Opening balance 2014	**379,613**	**79,390**	**156,251**	**(641)**	**614,613**
Total recognised income expense	—	—	8,321	(425)	7,896
Closing balance 31.03.2014	**379,613**	**79,390**	**164,572**	**(1,066)**	**622,509**
Opening balance 2015	**379,613**	**79,390**	**193,034**	**(4,547)**	**647,490**
Total recognised income expense	—	—	1,241	(182)	1,059
Closing balance 31.03.2015	**379,613**	**79,390**	**194,275**	**(4,729)**	**648,549**

Derio, 1 June 2015

Notes 1 to 21 are an integral part of these interim financial statements

EUSKALTEL, S.A.

Statement of Cash Flows

for the three month period ended 31 March 2015

(Expressed in thousands of Euros)

	Notes	2015	2014
Profit for the period before tax		**1,489**	**11,309**
Cash flows from operating activities			
Adjustments for:		**36,357**	**26,296**
Amortisation and depreciation	5, 6	19,874	19,664
Allowances	4.2	577	406
Finance income	15	(24)	(1)
Finance costs	15	15,919	6,233
Exchange gains/(losses)		11	(6)
Changes in operating assets and liabilities		**(8,686)**	**(9,997)**
(Increase)/Decrease in inventories		(713)	280
(Increase)/Decrease in trade and other receivables		(2,550)	109
Decrease in trade and other payables		(5,423)	(10,386)
Other cash flows from operating activities		**(652)**	**(1,809)**
Interest paid		(676)	(1,810)
Dividends received		23	—
Interest received		1	1
Net flows from operating activities		**28,508**	**25,799**
Cash flows from investing activities			
Acquisition of other investments		(190)	(202)
Acquisition of intangible assets		(2,849)	(2,373)
Acquisition of property, plant and equipment		(12,032)	(8,603)
Proceeds from sale of other investments		3,921	113
Net cash used in investing activities		**(11,150)**	**(11,065)**
Cash flows from financing activities			
Proceeds from issue of loans and borrowings		9,901	8,963
Repayment of loans and borrowings		(25,000)	(28,792)
Other		32	—
Net cash used in financing activities		**(15,067)**	**(19,829)**
Cash and cash equivalents at beginning of year		10,650	6,289
Cash and cash equivalents at period end		12,941	1,194
NET CASH INCREASE IN CASH AND CASH EQUIVALENTS		**2,291**	**(5,095)**

Derio, 1 June 2015

Notes 1 to 21 are an integral part of these interim financial statements

NOTE 1.—General Information

Euskaltel, S.A. (hereinafter the Company) was incorporated with limited liability on 3 July 1995. Its first product was launched in the market on 23 January 1998. Its registered office is located in Derio (Bizkaia) and its products are mainly sold in the Autonomous Region of the Basque Country.

The Company's statutory and principal activity since its incorporation consists of the rendering, management, installation, operation and marketing of telecommunications networks and services in accordance with prevailing legislation, as well as the marketing and sale of goods required to carry out these services. The Company's main facilities are located at the Bizkaia technology park.

NOTE 2.—Basis of Presentation

2.1 Fair presentation

The accompanying interim financial statements have been prepared on the basis of the accounting records of Euskaltel, S.A. The interim financial statements for the three month period ended 31 March 2015 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), in particular those stated in IAS 34 Interim Financial Statements, and IFRIC interpretations, to present fairly the equity and financial position of Euskaltel, S.A. at 31 March 2015 and the results of operations and changes in equity and cash flows of the Company for the three month period then ended. First application of IFRS-EU was carried out at 1 January 2011 in the 2012 Financial Statements prepared under IFRS-EU.

The directors have prepared the accompanying interim financial statements for the purpose of a potential listing on the Madrid stock exchange. Interim financial statements for the three month period ended 31 March 2015 have been also prepared under accounting principles applicable in Spain in the context of this process.

2.2 Critical issues regarding the valuation and estimation of uncertainties

Preparation of the interim financial statements in accordance with IFRS-EU requires the use of certain critical accounting estimates and management judgements concerning the future. These are evaluated constantly and based on historical experience and other factors, including expectations of future events and, where applicable, the justified opinion of renowned experts.

In the event that the final outcome of the estimates differed from the amounts initially recognised, or information that would modify these estimates became available, the effects of any changes in the initial estimates are accounted for in the year they are known.

The estimates and judgements that present significant risk of a material adjustment to the carrying amounts of assets and liabilities in the subsequent reporting period are as follows:

a) Corporate income tax and deferred tax assets

A major degree of judgement is required to determine the provision for income tax. There are many transactions and calculations for which the ultimate determination of the tax is uncertain during the ordinary course of business. Tax is calculated based on Management's best estimates in accordance with the current situation as regards tax legislation and taking into account expected developments in this area in the different legislations applied to the Company.

Deferred tax assets are recognised for all unused tax loss carryforwards, deductible temporary differences and available deductions to the extent that it is probable that sufficient taxable income will be available against which these assets can be utilised. In order to determine the amount of the deferred tax assets to be recognised, estimates are made of the amounts and dates on which future taxable profits will be obtained and the reversal period of temporary differences.

NOTE 2.—Basis of Presentation (Continued)

b) Useful lives and impairment of assets

The Company determines the estimated useful lives and related amortisation and depreciation charges of assets based on the actual decline in value due to operation and use. The Company increases amortisation and depreciation charges if the useful lives are shorter than previously estimated and writes down or writes off technically obsolete or non-strategic assets that have been abandoned or sold, or when circumstances indicate that their carrying amount might not be recoverable.

c) Measurements of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair value, both for financial and non-financial assets and liabilities. When measuring the fair value of an asset or liability, the Company uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the fair value techniques, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For further information about the assumptions made in measuring fair values please refer to Note 4.1.

d) Share based payments

As stated in note 12, Euskaltel, S.A. has granted their key management employees a share based payment, the calculation of which is based on the appreciation of the Company's shares and the length of the vesting period. Expenses relating to share-based payments are recognised in the income statement during the period between the concession date and the exit event date, which is subject to an important degree of judgment. The Company is in a process of stock flotation circumstance that could affect the length of this period.

NOTE 3.—Accounting Principles

3.1 Intangible assets

a) Computer software

Computer software mainly reflects the acquisition and development of software applications, which are recognised at cost and amortised on a straight-line basis over their estimated useful life of between three and five years.

Computer software maintenance costs are charged as expenses when incurred.

b) Licences

Licences are carried at cost less accumulated amortisation and any recognised impairment.

Licences are amortised on a straight-line basis over the term they are granted.

If the favourable situation that enabled expenses required to obtain the licence to be capitalised were to change, the portion pending amortisation is taken to profit or loss in the year the situation changed.

NOTE 3.—Accounting Principles (Continued)

c) Other intangible assets

Other intangible assets include incremental and specific costs incurred and related to contracts in which customers undertake to remain with the Company for a specified period of time, and which are amortised on a straight-line basis over the specified period.

3.2 Property, plant and equipment

Property, plant and equipment are recognised at cost of acquisition or production, less accumulated depreciation and recognised accumulated impairment losses, where applicable.

Costs incurred to extend, modernise or improve property, plant and equipment are only recorded as an increase in the value of the asset when the capacity, productivity or useful life of the asset is increased, and provided that the carrying amounts of the items that are being replaced are known or can be reasonably estimated.

Recurring maintenance costs are charged to the income statement during the period in which they are incurred.

Depreciation of property, plant and equipment, with the exception of land, which is not depreciated, is calculated systematically on a straight-line basis over the estimated useful lives of the assets based on the actual decline in value due to operation and use.

The estimated useful lives of property, plant and equipment are as follows:

	Years
Buildings	50
Civil engineering	50
Cablings	18 - 40
Network equipment	10 - 18
Client equipment	2 - 15
Other installations, equipment and furniture	6 - 7
Other assets	5 - 8

The Company reviews the useful lives of the assets, as well as their classification as under construction, and makes any necessary adjustments at each reporting date. However, taking into consideration the projected utilisation of the Company's fixed assets, the residual value is not expected to be significant at the closing date.

Finance costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

3.3 Impairment losses on non-financial assets

The Company evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation in order to verify whether the carrying amounts of these assets exceed their recoverable amounts. The recoverable amount is the higher of the fair value less costs to sell and the value in use.

Impairment losses are recognized in the income statement.

The recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

NOTE 3.—Accounting Principles (Continued)

At the end of each reporting period, the Company assesses whether there is any indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. Impairment losses are only reversed if there has been a change in the estimates used to calculate the recoverable amount of the asset.

A reversal of an impairment loss is recognized in the income statement. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

A reversal of an impairment loss for a cash-generating-unit is allocated to the non-current assets of each unit, pro rata with the carrying amounts of those assets. An assets' carrying amount may not be increased above the lower of its recoverable amount and the carrying amount that would have been disclosed, net of amortisation or depreciation, had no impairment loss been recognised.

After an impairment loss or reversal of an impairment loss is recognised, the depreciation/amortisation charge for the asset is adjusted in future periods based on its new carrying amount.

However, if the specific circumstances of the assets indicate an irreversible loss, this is recognised directly in losses on the disposal of fixed assets in the income statement.

3.4 Inventories

Inventories are initially measured at the lower of cost (whether cost of acquisition or production) and net realisable value, and any related impairment losses or reversals are recognised in the income statement.

Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

3.5 Financial assets

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

These financial assets are initially carried at fair value, including directly attributable transaction costs, and are subsequently measured at amortised cost, recognising accrued interest at the effective interest rate, which is the discount rate that matches the instrument's carrying amount to all estimated cash flows to maturity. Nevertheless, trade receivables falling due in less than one year are carried at their face value at both initial recognition and subsequent measurement, provided the effect of discounting is immaterial.

An impairment loss is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate upon initial recognition. Impairment losses are recognised and reversed in profit or loss. Amounts covered by the allowance account are derecognised when their recovery is no longer expected by the Company.

b) Derecognition of financial assets

A financial asset is derecognised from the balance sheet if all the risks and rewards of ownership are substantially transferred.

3.6 Cash and cash equivalents

This heading includes cash, current bank accounts and deposits, and if appropriate, deposits and temporary acquisitions of assets which meet the following requirements:

- They are convertible into cash.

NOTE 3.—Accounting Principles (Continued)

- On acquisition, they mature in less than three months.
- They are not subject to significant value fluctuation risk.
- They form part of the Company's normal cash management policy.

Bank overdrafts, if they arise, are included in borrowings in current liabilities on the balance sheet.

3.7 Financial liabilities

Debts and payables are initially recognised at fair value, adjusted for directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method. The effective interest rate is the discount rate that matches the instrument's carrying amount with the expected future flow of payments to the maturity date of the liability.

Nevertheless, trade payables falling due in less than one year without a contractual interest rate are carried at their face value on both initial recognition and subsequent measurement, provided the effect of discounting is not significant.

3.8 Hedge accounting

Derivative financial instruments which qualify for hedge accounting are initially measured at fair value, plus any transaction costs that are directly attributable to the acquisition.

At the inception of the hedge the Company formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges. Hedge accounting is only applicable when the hedge is expected to be highly effective at the inception of the hedge and throughout the period for which the hedge was designated. A hedge is considered to be highly effective if at inception and during its life, changes in fair value or cash flows attributable to the hedged risk are prospectively expected to be offset almost entirely by changes in the fair value or cash flows of the hedging instrument, and that, retrospectively, gains or losses on the hedging transaction have been within the range of 80% and 125% with respect to those of the hedged item.

The Company provisionally recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in income and expense recognised in equity, which is then transferred to the income statement in the period or periods in which the hedge affects profit or loss. Cash flows from the hedging instrument are recognised under the same income statement heading as the hedged item. The ineffective portion of the hedge is recognised under change in fair value of financial instruments.

3.9 Current and deferred taxes

The income tax expense or tax income is recognised in the income statement, calculated based on the pre-tax profits disclosed in the financial statements, adjusted for permanent differences with tax criteria. If the tax income or expense is related with an income or expense recognised directly in equity, it is also recognised against equity. Deferred tax assets and liabilities arising from temporary differences deriving from the application of tax criteria in the recognition of income and expenses, are recognised in the balance sheet until they are reversed.

Deferred tax assets and unused tax credits in respect of loss carryforwards are only capitalised when their future realisation is considered probable.

Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reversed, using tax rates enacted or substantively enacted at the reporting date.

NOTE 3.—Accounting Principles (Continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same or different taxable entities where there is an intention to settle the balances on a net basis.

Tax expense for the period is recognised based on management´s best estimate of the weighted-average annual income tax rate expected for the full financial year multiplied by the pre-tax income of the interim reporting period.

3.10 Share-based payment transactions

Services received in cash-settled share-based payment transactions which require compliance with a certain service condition, are recognised in the income statement during that period. These services are initially measured at fair value of the liability at the date the requirements for their recognition are met.

The liability is subsequently measured until settlement at its fair value at each year-end, and any changes in value taking place during the year are taken to profit or loss. Accrued expenses arising from share-based payment obligations are recognised in accordance with the nature of the expense, whereas adjustments arising from revaluations are recognised as finance costs. The appreciation in the value of the shares that has determined the need to recognise the expenses relating to the plans awarded in 2013 and 2014 (see note 12) comes mainly from revaluations brought about by the situation of the telecommunications sector; consequently, these expenses have been recognised under finance costs.

3.11 Provisions and contingent liabilities

Provisions are recognised, where applicable, when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions expiring in one year or less, the financial effect of which is immaterial, are not discounted.

3.12 Revenue recognition

a) Revenue

Revenue is recognised at the fair value of the consideration receivable and reflects the amounts to be collected for goods delivered and services rendered in the ordinary course of the Company's activities, less an allowance for estimated returns, discounts and value added tax.

The Company's main source of revenue comes from the individual or combined rendering of fixed telephony services, pay television, broad-band internet services and mobile telephony services to retail customers and large accounts and corporations.

Commercial packages that combine different elements are analysed to determine whether it is necessary to separate the different elements identified. Revenue is allocated to the different components in accordance with their fair value.

Both fixed and mobile traffic is recognised as revenue as the service is provided. Tariffs are based on an initial call establishment fee, plus a variable fee based on call length and distance.

If traffic or other services are sold at a fixed rate for a determined time period (flat rate), revenue is recognised on a straight-line basis over the time period covered.

Periodic charges for use of the network (telephony, internet and television) are credited to the income statement on a straight-line basis over the period to which they relate.

NOTE 3.—Accounting Principles (Continued)

In the case of prepaid mobile telephony, the amount of unused credit is recognised as deferred income until it is consumed or, where applicable, ultimately cancelled.

Rentals and other services are credited to the income statement as the service is provided.

Revenue from sale of handsets and set top boxes is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery date.

Costs of acquiring customers, such as handsets provided at no cost to customer or heavily discounted in order to attract and retain customers, are recognised as an expense when the handset is delivered to the customer.

b) Interest income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

3.13 Leases

Leases in which the lessor retains substantially all the risks and rewards incidental to ownership are classified as operating leases. Operating lease payments are recognised in profit or loss on a straight basis during the lease term.

3.14 Foreign currency transactions

a) Functional and presentation currency

Except where otherwise stated, the figures disclosed in the interim financial statements are expressed in thousands of Euros, the Company's functional currency.

b) Foreign currency transactions and balances

Transactions in foreign currency are translated at the foreign exchange rate prevailing at the date of the transaction. Foreign currency gains and losses resulting from the settlement of transactions and translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement as finance income or cost.

3.15 Standards issued but not yet adopted

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017 with early adoption permitted.

3.16 Cash Flow Statement

The following terms are used in the cash flow statement with the meanings specified:

- Cash flows. Inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities. The principal revenue-producing activities of Euskaltel and other activities that are not investing or financing activities.
- Investing activities. Activities of acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities. Activities that result in changes in the size and composition of the equity and borrowings that are not operating activities.

(Expressed in thousands of Euros)

NOTE 3.—Accounting Principles (Continued)

3.17 Segment reporting

The operating segments are presented consistent with a management approach, in accordance with the information used internally at the highest decision-making level. The maximum authority for decision making is responsible for assigning resources to operating segments and evaluating the segments' performance. Segment reporting can be found in Note 17.

NOTE 4.—Financial Instruments—Fair Values and Risk Management

4.1 Accounting classification and fair value

The main financial assets held by the Company comprise trade receivables and cash and cash equivalents. Trade receivables, which are valued at amortised cost, fall due in the short term, so there are no significant differences between their carrying amount and their fair value. Furthermore, the table below shows the carrying amounts and fair values of financial liabilities, including their levels in the fair value hierarchy.

	Level	31.03.15	31.12.14
Financial liabilities measured at amortized costs			
Loans and borrowing	2	231,002	243,723
Other financial liabilities		37	37
Trade and other payables		51,947	58.749
		282,986	302,509
Financial liabilities measured at fair value			
Hedging instruments	2	6,876	6,226

The fair value of loans and borrowings is estimated by discounting contractual future cash flows at the current market interest rate available to the Company for similar financial instruments. The carrying amounts of trade and other payables are assumed to be similar to their fair values.

Fair value of hedging instruments which mainly consist of interest rate swaps is determined using discounted cash flow techniques and future interest rate curves determined using observable market data.

4.2 Financial risk management

The Company's activities are exposed to various financial risks: credit risk, liquidity risk and market risk (including currency risk and fair value interest rate risk). The Company's global risk management programme focuses on uncertainty in the financial markets and aims to minimise potential adverse effects on the Company's performance.

The Company uses financial risk evaluation and mitigation methods suited to its activity and scope of operations, which are sufficient for the adequate management of risks.

A summary of the main financial risks affecting the Company, as well as the measures in place to mitigate these risks, is as follows:

- Credit risk
- Liquidity risk
- Market risk, currency risk and interest rate risk

This note presents information about the Company's exposure to each of the above risks, objectives, policies and procedures of the Company for measuring and managing risk and capital management by the Company.

NOTE 4.—Financial Instruments—Fair Values and Risk Management (Continued)

Risk management framework

It is the responsibility of the Board of Directors to establish and oversee the risk management structure of the Company.

Compliance with the budget is reviewed periodically, analyzing the degree of implementation, evaluating deviations and proposing corrective measures. In this process, the managers of the various business units are involved.

The risk management policy of the Company is established in order to identify and analyze the risks assumed by the Company, set limits and appropriate risk controls, and to monitor risks and adherence to limits. Regularly, policies and risk management systems are reviewed in order to reflect changes in market conditions and the activities of the Company. The Company, through its rules and administrative procedures, aims to develop an environment of disciplined and constructive control in which all employees understand their roles and obligations.

For the development and control of the risks of the business processes, the Company has appointed an Internal Audit Manager to centralise the coordination of the teams that perform analysis and monitoring of business performance and operational problems of the different business units.

Internal Audit management reports directly to the Audit and Control Committee within the Board of Directors. This committee establishes the policies for the management and control of business risks.

To mitigate the above mentioned risks, the Company, at all times, has an active attitude to exogenous factors. The various departments of the Company may be affected by these factors produce specific action programs, such as those to comply with changes in national or international regulations.

The evolution of markets and changes in consumer habits are factors to which special attention is given, with departments in charge of relevant studies and analysis, relying on external collaborations in the field of market research.

The program's overall risk management of the Company is focused on minimizing the uncertainty in financial markets and the potential adverse effects on the financial performance of the Company. The Company uses derivatives to hedge certain risks.

a) Credit risk

Credit risk is the risk of financial loss that the Company faces if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises mainly in accounts receivable of the Company.

The Company considers customer credit risk to be mitigated by the application of different policies and specific practices to this effect, and the high level of dispersion of receivables. Among the different policies and specific practices implemented is the customer acceptance scoring policy, the long-term monitoring of customer credit, which reduces the possibility of default of significant receivables, and debt collection management.

(Expressed in thousands of Euros)

NOTE 4.—Financial Instruments—Fair Values and Risk Management (Continued)

Details of the Company's ageing analysis of trade receivable past-due but not impaired at 31 March 2015 and 31 December 2014 is as follows:

	31.03.15	31.12.14
Neither past due nor impaired	25,578	21,741
From 0-30 days	13,257	15,807
From 31-90 days	1,029	959
From 91-180 days	272	274
From 181-365 days	153	548
More than 365 days	24	—
Total	**40,313**	**39,329**

The Company records an impairment of trade and other receivables by adding to the total amount of balances that have exceeded a minimum period determined in accordance with pertinent legislation applicable to the sector, a percentage of past-due balances that do not exceed the aforementioned minimum period, estimated using historical data on the recovery of Company balances, as it considers that the application of this criterion represents a reasonable estimate of the impairment of the aforementioned financial assets.

Movement in the allowance account of trade and other receivables is as follows:

	31.03.15	31.12.14
Opening balance	**13,695**	**16,383**
Allowance account for impairment of trade receivables	577	406
Bad debts written off	(1,162)	(1,235)
Closing balance (Note 7)	**13,110**	**15,554**

Impairment of trade receivables is recognised and reversed under other operating expenses in the income statement. Management believes that the unimpaired amounts that are past due are still collectible based on historical payment behaviour and extensive analysis of customer credit risk. The Company does not have significant concentrations of credit risk.

The Company has cash and cash equivalents at 31 March, 2015 of Euros 12,941 thousand (Euros 10,650 thousand Euros at 31 December 2014). Cash and cash equivalents are maintained with banks and financial institutions of high credit rating.

b) Liquidity risk

Liquidity risk is the risk that the Company would have difficulty meeting its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Company's approach to managing liquidity is to ensure, to the greatest extent possible, that it would always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or putting the reputation of the Company at risk.

The Company adjusts the maturities of its debts to its capacity to generate cash for settlement.

To do this, the Company implements three-year financing plans, which are reviewed annually, and analyses of financial position every week, which include long-term projections, together with a daily monitoring of bank balances and transactions.

Therefore, although the Company's working capital, defined as the difference between current assets and current liabilities (maturing in less than 12 months in both cases), is negative, this is due to the normal

(Expressed in thousands of Euros)

NOTE 4.—Financial Instruments—Fair Values and Risk Management (Continued)

business activity, in which the average collection period is lower than the average payment period, which is normal for the sector in which the Company operates.

The following are the contractual maturities of long term financial liabilities, including estimated interest:

	31 March 2015						
	Book value	2 years	3 years	4 years	5 years	Thereafter	Total
Long-term borrowings	**178,967**	**34,025**	**57,554**	**54,513**	**52,259**	**25,425**	**223,776**
Third parties	68,797	28,136	46,227	—	—	—	**74,363**
Related parties	110,133	5,889	11,327	54,513	52,259	25,388	**149,376**
Other	37	—	—	—	—	37	**37**
Hedging instruments	**6,876**	**1,864**	**1,635**	**1,061**	**531**	**92**	**5,183**
Third parties	1,221	479	264	—	—	—	**743**
Related parties	5,655	1,385	1,371	1,061	531	92	**4,440**
Total	**185,843**	**35,889**	**59,189**	**55,574**	**52,790**	**25,517**	**228,959**

	31 December 2014						
	Book value	2 years	3 years	4 years	5 years	Thereafter	Total
Long-term borrowings	**194,554**	**58,573**	**56,769**	**54,513**	**52,256**	**25,601**	**247,712**
Third parties	84,513	43,599	45,504	—	—	—	**89,103**
Related parties	110,004	14,974	11,265	54,513	52,256	25,564	**158,572**
Other	37	—	—	—	—	37	**37**
Hedging instruments	**6,226**	**2,380**	**1,907**	**1,245**	**622**	**156**	**6,310**
Third parties	1,105	813	317	—	—	—	**1,130**
Related parties	5,121	1,567	1,590	1,245	622	156	**5,180**
Total	**200,780**	**60,953**	**58,676**	**55,758**	**52,878**	**25,757**	**254,022**

The Company has a bank loan (note 11) which contains a covenant, the breaching of which would require repayment earlier than indicated in the above tables. Furthermore, the interest payments on variable interest rate loans in the tables above have been calculated on the basis of conditions existing at the end of each reporting period.

The Company's credit facilities have a total limit of Euros 110 million at 31 March 2015 (Euros 120 million at 31 December 2014), of which Euros 110 million remain undrawn at that date (Euros 120 million at 31 December 2014). This limit includes a Euros 80 million current account credit facility obtained from Kutxabank on 19 December 2012 to ensure the Company working capital requirements, and which falls due on 30 December 2018.

c) Market risk, currency risk and interest rate risk

Market risk is the risk that changes in market prices would affect the Company's income or the value of financial instruments held. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimizing the return.

The Company's ambit of operations barely exposes it to currency or price risks, which may arise from occasional purchases in foreign currency of insignificant amounts.

Interest rate risk arises mainly from the loans granted by banks and related parties at variable rates which expose the Company to variability on future cash flows.

(Expressed in thousands of Euros)

NOTE 4.—Financial Instruments—Fair Values and Risk Management (Continued)

The Company manages interest rate risk on cash flows using rate swaps variable to fixed interest. These interest rate swaps have the economic effect of converting borrowings at floating rates into fixed rates.

The interest rate profile of long-term borrowings, measured at their outstanding principals due, is as follows:

	31.03.15	31.12.14
Fixed interest rate instruments	—	—
Variable interest rate instruments	231,667	247,500
	231,667	**247,500**

At 31 March 2015 an upturn in interest rates of 100 basis points, with other variables held constant, would have decreased the result after tax Euros 2,317 thousands (Euros 2,475 thousand in the period ended 31 March 2014).

NOTE 5.—Intangible Assets

Details of intangible assets and movement are as follows:

	Industrial property	Computer software	Licences	Others	Total
GROSS AMOUNT					
Balance at 31.12.14	**103**	**58,617**	**2,674**	**10,764**	**72,158**
Additions	1	941	—	1,907	2,849
Balance at 31.03.15	**104**	**59,558**	**2,674**	**12,671**	**75,007**
ACCUMULATED AMORTISATION					
Balance at 31.12.14	**(87)**	**(41,025)**	**—**	**(5,820)**	**(46,932)**
Additions	(4)	(1,663)	—	(1,815)	(3,482)
Balance at 31.03.15	**(91)**	**(42,688)**	**—**	**(7,635)**	**(50,414)**
PROVISION FOR IMPAIRMENT					
Balance at 31.12.14	**—**	**—**	**(2,674)**	**—**	**(2,674)**
Balance at 31.03.15	**—**	**—**	**(2,674)**	**—**	**(2,674)**
NET VALUE					
Balance at 31.12.14	**16**	**17,592**	**—**	**4,944**	**22,552**
Balance at 31.03.15	**13**	**16,870**	**—**	**5,036**	**21,919**

(Expressed in thousands of Euros)

NOTE 5.—Intangible Assets (Continued)

	Industrial property	Computer software	Licences	Others	Total
GROSS AMOUNT					
Balance at 31.12.13	**97**	**50,907**	**2,674**	**10,330**	**64,008**
Additions	—	480	—	1,893	2,373
Balance at 31.03.14	**97**	**51,387**	**2,674**	**12,223**	**66,381**
ACCUMULATED AMORTISATION					
Balance at 31.12.13	**(73)**	**(35,886)**	**—**	**(4,993)**	**(40,952)**
Additions	(3)	(1,342)	—	(2,005)	(3,350)
Balance at 31.03.14	**(76)**	**(37,228)**	**—**	**(6,998)**	**(44,302)**
PROVISION FOR IMPAIRMENT					
Balance at 31.12.13	**—**	**—**	**(2,674)**	**—**	**(2,674)**
Balance at 31.03.14	**—**	**—**	**(2,674)**	**—**	**(2,674)**
NET VALUE					
Balance at 31.12.13	**24**	**15,021**	**—**	**5,337**	**20,382**
Balance at 31.03.14	**21**	**14,159**	**—**	**5,225**	**19,405**

The cost of fully amortised intangible assets in use at 31 March 2015 totals Euros 27.6 million (Euros 27.6 million as at 31 December 2014).

The Company has contracted sufficient insurance policies to cover the risk of damage to its intangible assets.

During the three month period ended 31 March 2015 costs of Euros 0.6 million relating to own staff costs have been capitalised (Euros 0.5 million in the comparative period).

NOTE 6.—Property, Plant and Equipment

Details of property, plant and equipment and movement are as follows:

	Land and buildings	Civil engineering	Cabling	Network equipment	Client equipment	Other installations, equipment and furniture	Under construction and advances	Other property, plant and equipment	Total
GROSS AMOUNT									
Balance at 31.12.14	**133,757**	**259,654**	**271,973**	**355,260**	**262,548**	**147,241**	**6,354**	**21,990**	**1,458,777**
Additions	—	—	—	—	—	—	6,231	—	6,231
Balance at 31.03.15	**133,757**	**259,654**	**271,973**	**355,260**	**262,548**	**147,241**	**12,585**	**21,990**	**1,465,008**
ACCUMULATED AMORTISATION									
Balance at 31.12.14	**(20,498)**	**(57,941)**	**(134,572)**	**(242,192)**	**(168,034)**	**(74,717)**	**—**	**(17,086)**	**(715,040)**
Additions	(1,165)	(1,335)	(2,437)	(5,373)	(3,431)	(2,366)		(285)	(16,392)
Balance at 31.03.15	**(21,663)**	**(59,276)**	**(137,009)**	**(247,565)**	**(171,465)**	**(77,083)**	**—**	**(17,371)**	**(731,432)**
NET VALUE									
Balance at 31.12.14	**113,259**	**201,713**	**137,401**	**113,068**	**94,514**	**72,524**	**6,354**	**4,904**	**743,737**
Balance at 31.03.15	**112,094**	**200,378**	**134,964**	**107,695**	**91,083**	**70,158**	**12,585**	**4,619**	**733,576**

(Expressed in thousands of Euros)

NOTE 6.—Property, Plant and Equipment (Continued)

	Land and buildings	Civil engineering	Cabling	Network equipment	Client equipment	Other installations, equipment and furniture	Under construction and advances	Other property, plant and equipment	Total
GROSS AMOUNT									
Balance at 31.12.13	**133,576**	**258,302**	**268,876**	**345,903**	**251,640**	**145,702**	**10,415**	**25,585**	**1,439,999**
Additions	—	—	—	—	—	—	5,553	—	5,553
Balance at 31.03.14	**133,576**	**258,302**	**268,876**	**345,903**	**251,640**	**145,702**	**15,968**	**25,585**	**1,445,552**
ACCUMULATED AMORTISATION									
Balance at 31.12.13	**(15,842)**	**(52,614)**	**(123,877)**	**(219,703)**	**(154,446)**	**(65,557)**	**—**	**(19,962)**	**(652,001)**
Additions	(1,115)	(1,302)	(2,548)	(5,608)	(3,232)	(2,218)		(291)	(16,314)
Balance at 31.03.14	**(16,957)**	**(53,916)**	**(126,425)**	**(225,311)**	**(157,678)**	**(67,775)**	**—**	**(20,253)**	**(668,315)**
NET VALUE									
Balance at 31.12.13	**117,734**	**205,688**	**144,999**	**126,200**	**97,194**	**80,145**	**10,415**	**5,623**	**787,998**
Balance at 31.03.14	**116,619**	**204,386**	**142,451**	**120,592**	**93,962**	**77,927**	**15,968**	**5,332**	**777,237**

During the three month period ended 31 March 2015 costs of Euros 0.5 million relating to network roll-out activities have been capitalised (Euros 1.1 million in the comparative period).

The cost of fully depreciated property, plant and equipment in use at 31 March 2015 is Euros 248.6 million (Euros 248.6 million as at 31 December 2014).

At 31 March 2015 and 31 December 2014 there are no items of property, plant and equipment pledged to secure financial liabilities and sufficient insurance policies have been taken out to cover the risk of damage to property, plant and equipment.

NOTE 7.—Financial Assets and Trade Receivables

7.1 Financial assets

Breakdown of financial asserts is shown below:

	31.03.15	31.12.14
Equity investments	7	8
Loans to key management personnel (Note 12)	2,810	2,686
Loans granted to third parties	2,570	2,506
Other long-term investments	1,135	1,132
	6,522	**6,332**

7.2 Trade receivables

Details of the amounts included under this caption are shown below:

	31.03.15	31.12.14
Gross amount	53,423	53,024
Impairment	(13,110)	(13,695)
Total	**40,313**	**39,329**

The accounts receivable are stated at their nominal value, which does not differ significantly from their fair value, based on the related cash flows discounted at market rates.

(Expressed in thousands of Euros)

NOTE 8.—Inventories

	31.03.15	31.12.14
Customer terminals and equipment	**2,030**	**1,627**
Mobile phones	1,702	1,421
Digital television decoders	328	206
Contract materials	**2,020**	**1,716**
Other inventories	**86**	**80**
Total gross amount	**4,136**	**3,423**
Impairment losses on inventories	**(1,110)**	**(1,110)**
Total	**3,026**	**2,313**

The Company has contracted sufficient insurance coverage for the risk of damage to inventories.

NOTE 9.—Cash and Cash Equivalents

	31.03.15	31.12.14
Cash	3,054	1,739
Cash equivalents	9,887	8,911
Total	**12,941**	**10,650**

At 31 March 2015 and 31 December 2014, the balances of cash equivalents reflect the Company's financial instruments convertible to cash with a maturity of less than three months since their acquisition.

NOTE 10.—Equity

10.1 Capital

At 31 March 2015 and 31 December 2014, the subscribed capital of the Company is represented by 6,326,890 registered shares of Euros 60 par value each, with the same rights and obligations, subscribed and fully paid.

Companies which hold an interest in the capital of the Company and their percentage ownership, are as follows:

	31.03.15	31.12.14
	Percentage ownership	Percentage ownership
Kutxabank S.A.	42.83%	42.83%
Araba Gertu S.A.	7.07%	7.07%
Grupo Kutxabank	**49.90%**	**49.90%**
International Cable B.V.	48.10%	48.10%
Iberdrola S.A.	2.00%	2.00%
Total	**100.00%**	**100.00%**

The Company manages its capital with the aim of safeguarding its capacity to continue operating as a going concern, so as to continue providing shareholder remuneration and benefiting other stakeholders, while maintaining an optimum capital structure to reduce the cost of capital.

To maintain and adjust the capital structure, the Company can adjust the amount of dividends payable to shareholders, reimburse capital, issue shares or dispose of assets to reduce debt.

(Expressed in thousands of Euros)

NOTE 10.—Equity (Continued)

Like other groups in the sector, Euskaltel controls its capital structure on a leverage ratio basis. This ratio is calculated as net financial liabilities divided by total invested capital. Net financial liability is the sum of borrowings plus, derivatives, trade and other payables, plus other current liabilities and, less cash and cash equivalents. Total invested capital is the sum of equity plus net debt.

During the three month period ended 31 March 2015, the strategy remained the same as in the year 2014: The ratios are calculated as follows:

	31.03.15	31.12.14
Total Financial liabilities	295,384	318,668
Less: Cash and cash equivalents	(12,941)	(10,650)
Net financial liabilities	282,443	308,018
Equity	648,459	647,490
Total invested capital	930,902	955,508
Debt ratio	0.30	0.32

The decrease in the debt ratio is mainly due to the positive results of the Company (Profit for the three month period: Euros 1.2 million) and the cash generation (Free cash flow for debt service, understood as net flow from operating activities and investing activities, for the three month period: Euros 17.3 million).

10.2 Share premium

In accordance with prevailing legislation, the share premium is a freely-distributable reserve, provided that equity exceeds capital.

10.3 Retained earnings

Details of this caption are as follows:

	31.03.15	31.12.14
Legal reserve	32,534	32,534
Voluntary reserves	152,972	152,972
Prior years'— losses	(29,255)	(29,255)
Profits pending distribution	36,783	—
Profit for the period	1,241	36,783
Total	**194,275**	**193,034**

The legal reserve has been appropriated in compliance with article 274 of the Spanish Companies Act, which requires that companies transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of capital. Until the legal reserve exceeds the above limit, it may only be applied to offset losses if no other reserves are available.

NOTE 11.—Interest Bearing Liabilities and Derivatives

11.1 Interest bearing liabilities

Details of the amounts accounted for under long and short-term borrowings are shown below:

	31.03.15	31.12.14
Loans and borrowings	**227,798**	**243,336**
Nominal amounts	231,667	247,500
Fees and commissions	(3,869)	(4,164)
Credit facilities and interest accrued	3,204	387
Other items	37	37
Total	**231,039**	**243,760**

The carrying amount of the loans and borrowings and the other financial liabilities does not differ from their fair value, since they were arranged at market rates.

Details of bank loans and borrowings at 31 March 2015 and 31 December 2014 are as follows:

	Loan 2007	Loan 2012	Bilateral loan 2013	Total
Entity	7 banks, including 3 banks of Katxabank Group	Kutxabank	Sabadell Caixabank Caja Laboral Bankoa	—
Contract date	25/07/2007	19/12/2012	22/03/2013	—
Amount (in thousands of Euros)	150,000	130,500	69,500	—
Term (years)	8.5	8	4	—
Grace period (years)	6	4	3	—
Repayment	6 equal half-yearly instalments as of 25/07/2013	6 equal half-yearly instalments as of 30/12/2017	3 equal half-yearly instalments as of 30/12/2016	—
Guarantees	—	—	—	—
Maturity date	25/01/2016	30/06/2020	30/12/2017	—
Interest rate	Variable pegged to Euribor	25% variable pegged to Euribor and 25% pegged to hedge 1.525%	25% variable pegged to Euribor and 25% pegged to hedge 1.051%	—
Average interest rate three month period				
31.03.14	2.78%	5.21%	5.21%	—
31.03.15	2.50%	5.84%	5.44%	—
Outstanding principal due 31.12.14	**75,000**	**103,000**	**69,500**	**247,500**
Short term	50,000	—	—	50,000
Long term	25,000	103,000	69,500	197,500
Outstanding principal due 31.03.15	**50,000**	**112,167**	**69,500**	**231,667**
Short term	50,000	—	—	50,000
Long term	—	112,167	69,500	181,667

(Expressed in thousands of Euros)

NOTE 11.—Interest Bearing Liabilities and Derivatives (Continued)

On 19 December 2012 the Company signed a Euros 200 million loan contract with Kutxabank, which was broken down in two tranches as follows:

- Tranche A, of Euros 125 million, for the repayment of a short-term loan obtained in 2012 to cover cash requirements deriving from the resolution of a lawsuit involving France Telecom. The full amount of this loan has been drawn down since 31 December 2012.
- Tranche B, with a limit of Euros 75 million. A drawdown schedule for this amount has been set until 2016, based on repayments corresponding to Kutxabank's share of the 2007 and 2009 loans. Euros 9,2 million has been drawn down on this tranche at 31 March 2015 (Euros 47.5 million at 31 December 2014).

The combined repayment of tranches A and B will be made in six half-yearly instalments starting in December 2016.

On 22 March 2013, the Company signed a non-extinguishing novation addendum to the aforementioned contract entered into with Kutxabank on 19 December 2012, which modified certain terms of the aforementioned contract, particularly those referring to the loan principal (down from Euros 200 million to Euros 130.5 million by reducing tranche A by Euros 69.5 million) and, consequently, the repayment schedule, according to which the loan will be repaid in six half-yearly instalments starting in December 2017, the first of which amounts to Euros 5.5 million and the remaining instalments Euros 25 million each.

The interest rate is pegged to Euribor plus a market spread payable in half-yearly instalments at the end of each period due.

In conjunction with this addendum, on 22 March 2013 the Company signed four long-term bilateral loans for a total of Euros 69.5 million with the following entities: Banco Sabadell (Euros 25 million), Caixabank (Euros 25 million), Caja Laboral (Euros 12 million) and Bankoa (Euros 7.5 million). These bilateral loans will be repaid in three half-yearly instalments starting in December 2016. These loans and the aforementioned long-term credit facility signed on 19 December 2012 share the same terms and conditions.

In addition to these loans, the Company has no other drawn credit facilities 31 March 2015 (undrawn at 31 December 2014) with a total limit of Euros 110 million (120 million at 31 December 2014).

In relation and proportion to these contracts, in 2013 the Company contracted interest rate swaps on 75% of the loan limits, over the terms of the loans, at a cost in terms of margin of 25 basis points.

11.2 Derivatives

Details of cash flow hedges at 31 March 2015 and 31 December 2014, comprising interest rate swaps, are as follows:

			Fair values	
			31.03.15	31.12.14
Start date	End date	Notional	Liabilities	Liabilities
30/06/2013	30/06/2020	97,875	(207)	(192)
22/03/2013	29/12/2017	37,500	(882)	(794)
22/03/2013	29/12/2017	14,625	(5,787)	(5,240)
		150,000	**(6,876)**	**(6,226)**

This contract also provides that any surplus cash generated during the term of the loan and calculated in accordance with the terms of the aforementioned contract be used to settle the amount drawn down on the credit facility.

NOTE 12.—Share-based Payment Transactions

On July 2013 and on October 2014 the Company awarded certain incentives (the Plans) to members of the management committee, board members and other key employees. These incentives have materialised in an Investment Plan and an Incentive Plan. The goal of the Investment Plan is to encourage the fulfilment of the Company's business goals and to align the long-term interests of the beneficiaries with those of the shareholders. Those participating in the Investment Plan assume a position equivalent in economic terms to those of a shareholder, acquiring a proportional investment in the revaluation of the Company and assuming the risk of losing their own investment in the event of downward trends in the Company's performance. The Incentive Plan aims to ensure the involvement and support of a motivated management team focused on fulfilling the Company's business plan, as well as motivating and retaining those considered to be key to the Company's progress. To benefit from the Incentive Plan, those invited to participate must also join the Investment Plan. The Plan will entitle them to participate in any appreciation in the Company's share value between the grant date and 31 December 2025, with the possibility of extending the vesting date by another five years at the request of the board of directors. The beneficiaries' participation in the Plan is conditional upon payment of certain amounts in respect of an initial price partially financed through the granting of loans that accrue the legal rate of interest. At 31 March 2015 the liabilities related to the amounts to be paid to the beneficiaries of the Plan amount to Euros 24.7 million, the result of adding the Euros 4.4 million contributed by the beneficiaries to the Euros 20.3 million expense accrued and recognised to date (Euros 12.2 million at 31 December 2014). At 31 March 2015 loans extended in relation to share-based payments amount to Euros 2.8 million (Euros 2.7 million at 31 December 2014).

Upon expiration of the Plan, the beneficiaries who remain in service will receive the difference between the application of a percentage based on the underlying net book value of the Company, adjusted for any dividends distributed, transaction costs and other items stipulated in the agreements signed by the parties, and the amounts paid by the beneficiaries at the grant date. Furthermore, if an exit event occurs during the term of the Plan, the beneficiaries will receive remuneration based on the increase in value of the Company's shares. In this regard, an exit event is understood to be:

- The transfer of shares by shareholders with more than a 5% interest that would represent over 50% of their interest in the Company, provided that the cash consideration agreed were over 50%; or
- The public offering of over 50% of traded shares.

The accrued expense relating to acquired commitments was calculated using the formulae contained in the plans' regulations, the main assumptions for which are the appreciation of shares and the duration of the accrual period, both of which are subject to an important degree of judgment. In this regard, at their meeting held on 3 February 2015 the directors took the decision to explore a possible stock exchange flotation, something which is estimated will take place prior to mid-July 2015. In accordance with the established schedule, the percentage of shares to be floated will probably be determined on 10 June 2015, i.e. subsequent to the approval of these interim financial statements. The expected listing on the stock exchange has given rise to a re-estimation of the total expense to be accrued and the expense accrued at the close of the first quarter, having recognised with a charge to the income statement for that period an amount of Euros 12.46 million, in addition to the Euros 7.83 million recognised in 2014 in respect of assumed commitments.

The recognition of additional expenses in the first quarter of the year is a result new information made available after the reporting date, information that did not match the Company's expectations at the close of the year ended 31 December 2014. Therefore, in accordance with prevailing accounting principles, the accumulated effect of the expenses necessary to recognise the obligations existing at the close of the interim period was recognised with a charge to profit or loss for the first quarter.

The appreciation of the shares has been calculated in reference to the valuation of comparable entities. The following table shows, in millions of Euros, a sensitivity analysis for three different scenarios to

NOTE 12.—Share-based Payment Transactions (Continued)

illustrate the effect of the variations in the accrued expense, in accordance with the latest information available, that would arise in the event that the valuation of the Company deviated from the estimated valuation.

	Scenario 1	Base scenario	Scenario 2
Estimate of total expenditure to accrue	11.99	31.95	64.06
Estimate of accrued expenditure	8.57	20.29	39.15
Expenditure recognised			
Prior years	(7.83)	(7.83)	(7.83)
1st quarter 2015	(12.46)	(12.46)	(12.46)
Difference	**(11.72)**	**—**	**18.86**

In this regard:

- Base scenario: represents the valuation of the Company based on the average for comparable entities;
- Scenario 1: represents the valuation of the Company based on minimum values for comparable entities, which would reflect a valuation 27% lower than that considered in the base scenario;
- Scenario 2: represents the valuation of the Company based on maximum values for comparable entities, which would reflect a valuation 44% higher than that considered in the base scenario.

The estimation of the total expense to be accrued is equivalent to the amount that would result from applying the formulae established in the plans' regulations, taking into consideration the valuations of the Company assigned in the different scenarios, and the eventual occurrence of an exit event, which could take place as a result of the flotation of the Company's shares. This could lead to an acceleration of the expense accrual period or an increase in the total expense to be accrued, bearing in mind that, in accordance with the formulae included in the plans, the amount to be paid increases in line with the reduction of the exit event occurrence period.

If the exit event happens in 2018, the assumption used in preparing the Company's financial statements for the year ended 31 December 2014, the behaviour of the expense in the different scenarios would be as follows (in millions of Euros):

	Scenario 1	Base scenario	Scenario 2
Estimate of total expenditure to accrue	6.74	26.70	58.81
Estimate of accrued expenditure	2.34	8.81	19.21
Expenditure recognised			
Prior years	(7.83)	(7.83)	(7.83)
1st quarter 2015	(12.46)	(12.46)	(12.46)
Difference	**(17.95)**	**(11.48)**	**(1.08)**

NOTE 12.—Share-based Payment Transactions (Continued)

The table below shows, in millions of Euros, the effect on the income statement that would arise if the exit event occurred on the date the Company's shares were listed on the stock exchange (mid-July):

	Scenario 1	Base scenario	Scenario 2
Estimate of total expenditure to accrue	17.25	37.21	69.32
Estimate of accrued expenditure	14.81	31.78	59.08
Expenditure recognised			
Prior years	(7.83)	(7.83)	(7.83)
1st quarter 2015	(12.46)	(12.46)	(12.46)
Difference	**(5.48)**	**11.49**	**38.79**

NOTE 13.—Trade and Other Payables

Details of the amounts included under this caption are shown below:

	31.03.15	31.12.14
Trade payables	37,670	38,670
Suppliers of fixed assets	14,277	20,079
Total	**51,947**	**58,749**

NOTE 14.—Taxation

14.1 Income tax and taxation

A reconciliation of net income and expenses to taxable income is as follows:

	2015			2014		
	Increases	Decreases	Total	Increases	Decreases	Total
Profit before tax			**1,489**			**11,309**
Permanent differences	24	—	24	24	—	24
Temporary differences	12,948	(2,255)	10,693	—	(277)	(277)
Operating losses carryforwards			(7,589)			(9,851)
Taxable income			**4,617**			**1,205**

Current income tax expense calculation for the three month periods ended 31 March 2015 and 2014 is as follows:

	2015	2014
Taxable income at 28%	1,293	337
Deductions	(757)	(337)
Total	**536**	**—**

Income tax for the three month period ended 31 March 2015 and 2014 is calculated as follows:

	2015	2014
Current tax	536	—
Deferred tax	(288)	2,988
Total	**248**	**2,988**

(Expressed in thousands of Euros)

NOTE 14.—Taxation (Continued)

At 31 March 2015 and 31 December 2014 the Company has unused limited and unlimited income tax deductions for investments and other items as follows:

Year of origin	Million Euros
1999	1,577
2000	17,265
2001	23,002
2002	10,399
2003	17,310
2004	16,388
2005	12,512
2006	9,927
2007	12,760
2008	13,920
2009	773
2010	949
2011	1,063
2012	832
2013	951
Total	**139,628**

Euros 136.2 million of the aforementioned deductions have been capitalised at 31 March 2015 (Euros 136.8 million at 31 December 2014). The Company has also capitalised amounts relating to tax loss carryforwards of Euros 24.0 million, which were incurred in 2011. At 31 December 2014 and 2013 there are no tax loss carryforwards pending recognition.

Estimates made by the company indicate that the Company will avail of sufficient future taxable profit to offset the tax credits capitalised at the closing date.

The tax law applicable to the corporate income tax returns for the year for the Company is Regional Law 11/2013, of 5 December, applicable in the Territory of Biscay. Due to modification in the tax legislation, tax credits in respect of loss carryforwards and deductions expire in 15 years from 1 January 2014 onwards.

14.2 Deferred tax

Movement of deferred tax assets is show below:

	31.12.14	Additions	Reversals	31.03.15
Deferred tax assets				
Share based payment	2,193	3,491	—	5,684
Hedging instruments	1,741	182	(111)	1,812
Other	1,447	—	—	1,447
	5,381	3,673	(111)	8,943
Operating losses carryforward	8,837	—	(2,125)	6,712
Investment tax credits	136,782	—	(581)	136,201
	151,000	3,673	(2,817)	151,856
Deferred tax liabilities				
Installment sales	(2.079)	(497)	—	(2.576)
	148,921	**3,176**	**(2,817)**	**149,280**

(Expressed in thousands of Euros)

NOTE 14.—Taxation (Continued)

	31.12.13	Additions	Reversals	31.03.14
Deferred tax assets				
Share based payment	—	548	—	548
Hedging instruments	249	241	(76)	414
Other	1,828	—	—	1,828
	2,077	789	(76)	2,790
Operating losses carryforward	21,194	—	(2,758)	18,436
Investment tax credits	137,388	—	(152)	137,236
	160,659	789	(3,612)	158,462
Deferred tax liabilities	(26)	—	—	(26)
Installment sales	—	(626)	—	(626)
Other	(26)	—	—	(26)
	160,633	**789**	**(3,612)**	**157,810**

Changes in deferred tax assets accounted for against other comprehensive income amounts to Euros 0.07 million for the three month period ended 31 March 2015 (Euros 0.16 million for the three month period ended 31 March 2014).

The amount of deferred taxes estimated to be reversed in more than one year amounts to Euros 137.5 million.

NOTE 15.—Income and Expenses

15.1 Revenues and other income

Revenues total Euros 78,437 thousand for the three month period, all generated in the domestic market (Euros 77,959 thousand in 2014).

For "Revenue, other income & work performed by the entity and capitalized" distributed by segments please refer to note 17.

15.2 Supplies

	2015	2014
Merchandise used	**4,698**	**4,187**
Purchases	5,411	3,908
Change in inventories	(713)	279
Subcobtracted work	**12,789**	**13,778**
Interconnection costs	9,773	10,769
Other supplies	3,016	3,009
Total	**17,487**	**17,965**

15.3 Personnel expenses

	2015	2014
Salaries and wages	4,778	6,506
Other employee benefits expense	1,061	1,583
Total	**5,839**	**8,089**

(Expressed in thousands of Euros)

NOTE 15.—Income and Expenses (Continued)

The average headcount, distributed by category, is as follows:

	2015	2014
Directors	33	34
Managers	35	44
Other professionals	277	451
Total	**345**	**529**

During 2014 agreements were reached with strategic partners in the areas of information technology (with the French multinational GFI) and network management and maintenance (with the Chinese multinational ZTE). Through these agreements Euskaltel, S.A. has shared know-how and completed two externalisation projects that involved the transfer of Company's employees from these areas of activity to these companies.

As a result at 31 March 2015, the Company's headcount is 185 employees less than in 31 March 2014, of which 28 were voluntary redundancies and 166 which were transferred to the two aforementioned multinationals. These latter employees continue to avail of the same working conditions as in Euskaltel and with the assurance that their job security will not be jeopardised.

15.4 Other operating expenses/(income)

	2015	2014
Advertising	2,048	1,175
Repairs and maintenance	6,434	5,100
Services provided by third	5,640	6,102
Other external services	2,537	2,495
Taxes	1,348	884
Losses, impairment and changes in trade provisions	577	406
Other results	431	170
Total	**19,015**	**16,332**

15.5 Net finance cost/income

Details are as follows:

	2015	2014
Finance income	**24**	**1**
Investments in equity instruments	23	—
Marketable securities and other financial instruments	1	1
Finance costs	**(15,930)**	**(6,227)**
Loans and borrowings	(3,451)	(4,275)
Exchange losses/(income)	(11)	6
Other (note 12)	(12,468)	(1,958)

NOTE 16.—Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares outstanding during the year.

NOTE 16.—Earnings per share (Continued)

Details of the calculation of basic earnings per share are as follows:

	2015	2014
Profit for the period (in thousands of Euros)	1,241	8,321
Weighted average number of ordinary shares outstanding (in thousands)	6,327	6,327
Basic and diluted earnings per share (in Euros)	0.20	1.32

There are no dilutive effects and consequently there is no difference between basic and diluted earnings per share.

NOTE 17.—Segment Information

We are the Basque fibre and convergence leader and operate in one of the most affluent regions in Spain. We offer primarily bundled services comprised of high-speed broadband, Pay TV, mobile and fixed telephony services to residential and business customers ("Small Office/Home Office—SOHOs", "Small and Medium-sized Enterprises—SMEs", large accounts and public sector entities), as well as the wholesale market.

The Company considers the operating segments listed below:

Residential segment

We provide our residential customers with a combination of fixed and mobile telecommunication services, as well as other value added services, primarily through our fiber network and our MVNO (Mobile Virtual Network Operator) agreement. We mainly offer bundles to our residential customers. We offer customers the opportunity to subscribe to a variety of "bundled" packages, which provide them with multiple services (broadband internet, Pay TV, mobile telephony and fixed telephony) charged in a single bill and at competitive prices.

Business segment

We also provide fixed and mobile telecommunication services to SOHOs, SMEs and large corporate accounts, leveraging our fibre network. For SMEs and large accounts, through our own salesforce, we are able to offer integrated and tailor-made solutions to a sophisticated and demanding customer base, which includes financial institutions, large companies, healthcare providers and public administration bodies.

- *SOHOs:* We have a specific product offering for small businesses (under ten employees), which includes premium technical support, online presence and email services. As with the residential segment, we offer customers the opportunity to subscribe to a variety of "bundled" packages, which provide them with multiple services (broadband internet, Pay TV, mobile telephony and fixed telephony).
- *SMEs:* We provide a range of customized solutions for medium-sized businesses (ten to 40 employees) with relatively high technological requirements. These services include broadband access of up to 250Mbps, fibre access of up to 1Gbps symmetric, MPLS Network, fixed-mobile convergence ("FMC"), IP Switch and advanced IT services.
- *Large accounts:* Our large accounts customers comprise both public administration bodies and large companies. Our large accounts customers have high technological requirements and we devise tailor-made solutions according to each customer's specific needs. These include fibre access of up to 1Gbps symmetric, FMC, SIP Trunking, MLPS networks, cloud firewall and virtual data centres. We sell these services directly through our own large accounts salesforce, which includes highly-qualified engineers, across the life cycle of a project (pre-sale, implementation and post-sale).

NOTE 17.—Segment Information (Continued)

Wholesale and Other

We provide communications services including leased lines, data and voice services to other telecommunications operators that use our facilities and infrastructure to provide services to their customers. A portion of our wholesale segment revenues is generated by a number of large telecommunication companies, most of who compete directly with us. We provide Leased Lines services in SDH (Synchronous Digital Hierarchy) and Ethernet technologies, Dark Fiber, Voice Services (that allow carriers to complete their end-user calls that originate or terminate within our territory) and Enabling Services, based in our BSS and Mobile Core Network. In addition, we offer services such as collocation and voice resale. Finally, by virtue of our agreement with RACC, we also offer mobile services in Catalonia using the "RACC Móvil" brand.

Others

We sell installation material and electronics to third-party installation companies to be used in provisioning customers and deploying and maintaining our next generation fibre network.

The information contained in this note describes how the Company is organised in terms of decision-making and takes into consideration the business parameters that general management and the executive committee (person/body responsible for decision-making) use when making management decisions.

This segmentation, in terms of the income statement, refers exclusively to income, as the structure of operating assets and expenses generally applies indistinctly to the different sectors of activity. For this

(Expressed in thousands of Euros)

NOTE 17.—Segment Information (Continued)

reason, the Company analyses business margins as a whole. Details of the management profit and loss account broken down by segments are as follows:

	2015	2014
Revenue, other income & work performed by the entity and cappitalized breakdown		
Residential	49,018	48,008
Business	22,775	23,920
o/w SoHos	*9,044*	*9,027*
o/w SMEs	*4,476*	*4,886*
o/w Large Accounts	*9,255*	*10,007*
Wholesale and Other	5,577	6,077
Others*	2,241	1,580
Total	**79,611**	**79,585**
Costs breakdown		
Direct costs	(19,618)	(18,284)
Gross profit	**59,993**	**61,301**
% margin	*75.4%*	*77.0%*
Commercial Costs	(9,582)	(10,450)
Contribution margin	**50,411**	**50,851**
% margin	*63.3%*	*63.9%*
Overhead Costs	(12,711)	(13,594)
EBITDA	**37,700**	**37,257**
% margin	*47.4%*	*46.8%*
Depreciation and amortisation	(19,874)	(19,664)
Othernon recurring (costs)/income	(431)	(58)
Results from operating activities	**17,395**	**17,535**
Net Finance Cost	(15,906)	(6,226)
Profit before income tax	**1,489**	**11,309**
Income tax	(248)	(2,988)
Profit for the year	**1,241**	**8,321**

* Operations with neutral impact on profitability.

Direct costs includes concepts such us network costs, mainly interconnection costs, TV content costs which consists primarily of license payments for programming, costs relating to our use of frequencies pursuant to our spectrum concessions and local taxes applicable to telecommunications companies in each of the municipalities in which we operate, the costs derived from the purchase of mobile terminals, as well as all costs we incur from providing services to third parties.

Commercial costs comprise commissions related to capture new customers paid to our external channel distributors (subscriber acquisition costs), costs relating to advertisements, campaigns and other marketing materials the cost of our customer service operation and costs related to maintaining the quality of services provided to our clients and resolving breakdowns in our services.

Overhead costs are made up of wages and salaries, costs relating to the maintenance and correction of our fibre network, costs for the lease of nodes and other network infrastructure, costs for the maintenance of infrastructure of hardware and software licenses, as well as preventive and corrective maintenance of IT systems, cost for sponsorship, electricity consumption and consulting and travel expenses.

(Expressed in thousands of Euros)

NOTE 18.—Commitments

18.1 Sale/purchase commitments

At the reporting date, the Company has signed sale-purchase contracts for the following items and amounts, all of which are related to current operations:

	31.03.15	31.12.14
Intangible assets	461	182
Property, plant and equipment	6,464	8,800
Inventories	3,114	1,697
Total	**10,039**	**10,679**

The Company has no commitments to sell assets.

18.2 Operating lease commitments

The Company mainly rents locations for its node equipment under operating leases. These contracts have a term of between 10 and 30 years, which is considered to be significantly less than the economic life of the buildings in which the aforementioned equipment is located.

Future minimum payments under operating leases are as follows:

	31.03.15	31.12.14
Less than 1 year	2,120	2,140
1-5 years	9,795	9,844
Over 5 years	14,285	14,666
Total	**26,200**	**26,650**

Operating lease instalments of Euros 1,159 thousand have been recognised as an expense for the three month period ended 31 March 2015 (Euros 1,129 thousand for the same period in 2014).

NOTE 19.—Related Parties

19.1. Key management personnel compensation

Key management personnel compensation comprises the following:

	Board of Directors		Other key management	
	2015	2014	2015	2014
Short-term employee benefits	165	166	1,146	1,477
Share based payments	3,721	548	8,748	1,410
	3,886	**714**	**9,894**	**2,887**

The board of directors have also received Euros 0.7 million in repayable loans (Euros 0.7 million at 31 December 2014) in relation with the share-based payment transaction mentioned in note 12 which are accounted for under the caption other non-current liabilities. Repayable loans granted to other key management personnel in relation with these transactions amounted to Euros 2.0 million (Euros 1.3 million at 31 December 2014).

The Company has no pension or life insurance commitments with key management personnel.

(Expressed in thousands of Euros)

NOTE 19.—Related Parties (Continued)

19.2 Other related party transactions and balances

During the three month periods ended 31 March 2015 and 2014 the Company carried out the following transactions with their shareholders:

	Transaction value		Balance outstanding	
	2015	2014	31.03.15	31.03.14
Service rendered	2,311	2,262	173	8
Other operating expenses	(111)	(100)	(100)	50
Finance expense	(1,972)	(1,919)	(1,641)	387

Balances payable in relation with the borrowings granted by the Company's shareholders are as follows:

	31.03.15		31.12.14	
	Current	Non-current	Current	Non-current
Kutxabank Group	17,763	115,788	17,744	115,125
Total	**17,763**	**115,788**	**17,744**	**115,125**

Cash equivalents include an amount of Euros 9.8 million in relation with short-term investments held with Company's shareholders (Euros 8.9 million as December 31, 2014).

NOTE 20.—Guarantees

The Company is required to extend certain guarantees as part of its normal activity as well as to public entities for participating in invitations to tender and spectrum auctions as a result of legal obligations deriving from its participation in the telecommunications sector and for the licences to roll out its networks, as well as to comply with its long-term contract commitments with service providers.

During 2014 the Company provided guarantees to safeguard the working conditions of the employees included in the personnel transfer agreements mentioned in note 15.3.

The Company considers that no additional liabilities will arise as a result of the aforementioned guarantees.

NOTE 21.—Events after the reporting period

The Board of Directors at their meeting held on February 3, 2015 agreed, among others, to explore the possibility of carrying out a public offering of the company's shares on the Spanish stock market. The Board therefore agreed to contract an external advisor to help the company and coordinate all the actions required to prepare the Initial Public Offering (IPO).

The key milestones in the company since then have been the following:

- Lawyers and financial advisors have been contracted for the company
- Selection and appointment of the banks to coordinate and placement of the shares among the interested potential investors
- Adaptation of the Company to the new requirements of Corporate Government and the Stock Market regulator
- Presentations of the Company to the banks involved in the IPO and financial analysts
- Preparing the share offer explanatory leaflet

NOTE 21.—Events after the reporting period (Continued)

- Exploring the interest in the investment market, holding meetings with possible leading institutional investors
- Converting and preparing the financial statements of the Company for the financial years ended as of 31 December 2012, 2013 and 2014, along with those for the first quarter of 2015 (as of 31 March 2015), pursuant to international accounting standards, in order to make it easier for international investors to understand them.

It is forecast that the process that will lead to the Company's shares being traded on the stock exchange will conclude prior to mid-July 2015. In the event the stock exchange flotation goes ahead, and with the prior authorization of the Board of Directors, the Company intends to refinance its bank debt. The estimated amount of the refinancing is Euros 470 million, which would be used to cancel the financial debt existing at the time of the flotation, amounting to approximately Euros 232 million, with the remainder being used to cover certain payments relating to the public listing and refinancing expenses (between Euros 16 and 65 millions) and the possible payment of an extraordinary dividend (between Euros 173 and 223 millions, with a charge to freely-available reserves).

Derio, 1 June 2015

In the context of a potential listing on the Madrid stock exchange, and to comply with requests of information by third parties, the directors of Euskaltel, S.A. have prepared for issue the Interim Financial Statements comprising the balance sheet, income statement, statement of changes in equity, statement of comprehensive income, statement of cash flows and the notes thereto of the Company for the three month period ended 31 March 2015, at the board of directors meeting held at the above date.

The directors declare that they have signed each of the above-mentioned documents in their own hand, and in witness thereof sign below.

Signed:

Mr. Alberto García Erauzkin
(Chairman)

Mr. Richard David Alden

Ms. Alicia Vivanco González

Mr. Alfonso Basagoiti Zavala

Mr. Javier Bañón Treviño

Mareblu, Sá.r.l.
(Represented by Mr. John C. Mowinckel)

Ms. Bridget Cosgrave

Mr. José Ángel Corres Abasolo

Ms. Belén Amatriain Corbi

Mr. Iñaki Alzaga Etxeita

Financial Statements

for the years ended

31 December 2013 and 2014

Independent Auditors' Report in accordance with International Standards on Auditing

To the Shareholders of
Euskaltel, S.A. as requested by the Board of Directors

We have audited the accompanying financial statements of Euskaltel, S.A. ("the Company"), which comprise the balance sheets as at 31 December 2014 and 2013, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Director's Responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-UE), and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give, in all material respects, a true and fair view of the financial position of Euskaltel, S.A. as at 31 December 2014 and 2013, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Matter

As indicated in notes 2.1 and 21, the accompanying financial statements have been prepared on a voluntary basis within the context of an eventual public listing of Euskaltel, S.A. and have been audited in accordance with International Standards on Auditing. The preparation of individual financial statements in accordance with International Financial Reporting Standards adopted by the European Union is not contemplated in company law in force in Spain, and therefore this report is not to be understood, in any case, as an audit report subject to the Spanish Revised Audit Law approved by Royal Legislative Decree 1/2011 of 1 July 2011. On 1 June 2015 and 28 April 2014 we issued our audit reports on the annual accounts of Euskaltel, S.A. prepared as required by Spanish company law, for each of the years ended 31 December 2014 and 2013, respectively, in which we expressed unqualified opinions.

KPMG Auditores, S.L.

Enrique Asla García

1 June 2015

EUSKALTEL, S.A.

Balance Sheets

at 31 December 2013 and 2014

(Expressed in thousands of Euros)

ASSETS	Notes	31.12.14	31.12.13
NON-CURRENT ASSETS		**921,542**	**973,003**
Intangible assets	5	22,552	20,382
Property, plant and equipment	6	743,737	787,998
Financial assets	7	6,332	3,872
Derivative financial instruments	11	—	92
Deferred tax assets	14	148,921	160,659
CURRENT ASSETS		**56,785**	**48,759**
Inventories	8	2,313	2,202
Trade receivables	7	39,329	39,395
Other current assets		4,493	873
Cash and cash equivalents	9	10,650	6,289
TOTAL ASSETS		**978,327**	**1,021,762**

EQUITY AND LIABILITIES	Notes	31.12.2014	31.12.2013
EQUITY	10	**647,490**	**614,613**
Capital		379,613	379,613
Share premium		79,390	79,390
Retained earnings		193,034	156,251
Other comprehensive income/(loss)		(4,547)	(641)
NON-CURRENT LIABILITIES		**212,949**	**223,829**
Long-term borrowings and other	4,11	194,554	220,073
Derivative financial instruments	4,11	6,226	893
Other non-current liabilities	12	12,169	2,837
Deferred tax liabilities	14	—	26
CURRENT LIABILITIES		**117,888**	**183,320**
Short-term borrowings	4,11	49,206	106,977
Trade and other payables	4,13	58,749	60,989
Current income tax payable		—	2,463
Other current liabilities		9,933	12,891
TOTAL		**978,327**	**1,021,762**

Derio, 1 June 2015

Notes 1 to 22 are an integral part of these financial statements

EUSKALTEL, S.A.

Income Statements

for the years ended 31 December 2013 and 2014

(Expressed in thousands of Euros)

	Notes	2014	2013
Revenues	15	315,109	329,148
Other income		331	559
Work performed by the entity and capitalized	5, 6	5,721	5,184
Supplies	15	(71,524)	(73,018)
Personnel expenses	15	(30,318)	(34,379)
Other operating expenses	15	(64,612)	(70,946)
Depreciation, amortisation and impairment	5, 6	(81,508)	(83,243)
RESULTS FROM OPERATING ACTIVITIES		**73,199**	**73,305**
Finance income	15	179	234
Finance costs	15	(23,443)	(16,173)
NET FINANCE COST		**(23,264)**	**(15,939)**
PROFIT BEFORE INCOME TAX		**49,935**	**57,366**
Income tax	14	(13,152)	(15,072)
PROFIT FOR THE YEAR	**10**	**36,783**	**42,294**
Earnings per share:	**16**		
Basic earnings per share in €		5.81	6.68
Diluted earnings per share in €		5.81	6.68

Derio, 1 June 2015

Notes 1 to 22 are an integral part of these financial statements

EUSKALTEL, S.A.

Statements of Comprehensive Income

for the years ended 31 December 2013 and 2014

(Expressed in thousands of Euros)

	Notes	2014	2013
Profit for the year	**10**	**36,783**	**42,294**
Items that are or may be reclassified to profit and loss :			
Total income and expense recognised directly in equity		**(4,787)**	**(995)**
Cash flow hedges		(6,649)	(1,381)
Tax effect		1,862	386
Total amounts transferred to the income statement		**881**	**418**
Cash flow hedges		1,224	580
Tax effect		(343)	(162)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**32,877**	**41,717**

Derio, 1 June 2015

Notes 1 to 22 are an integral part of these financial statements

EUSKALTEL, S.A.

Statements of Changes in Equity

for the years ended 31 December 2013 and 2014

(Expressed in thousands of Euros)

	Capital	Share premium	Retained earnings	Other comprehensive income/(loss)	TOTAL
Opening balance 2013	**379,613**	**79,390**	**113,957**	**(64)**	**572,896**
Total recognised income/(expense)	—	—	42,294	(577)	41,717
Closing balance 2013	**379,613**	**79,390**	**156,251**	**(641)**	**614,613**
Total recognised income/(expense)	—	—	36,783	(3,906)	32,877
Closing balance 2014	**379,613**	**79,390**	**193,034**	**(4,547)**	**647,490**

Derio, 1 June 2015

Notes 1 to 22 are an integral part of these financial statements

EUSKALTEL, S.A.

Statements of Cash Flows

for the years ended 31 December 2013 and 2014

(Expressed in thousands of Euros)

	Notes	2014	2013
Profit for the year before tax		**49,935**	**57,366**
Cash flows from operating activities			
Adjustments		**105,501**	**97,335**
Amortisation and depreciation	5,6	81,508	83,243
Allowances	4.2,8	1,018	1,435
Gains on disposal of property plant and equipment		(289)	(178)
Other income and expenses	15	—	(3,064)
Finance income	15	(179)	(224)
Finance costs	15	23,434	16,133
Exchange gains/(losses)		9	(10)
Changes in operating assets and liabilities		**(12,581)**	**1,049**
Decrease in inventories		886	2,037
Increase in trade and other receivables		(3,863)	(1,198)
Increase/(decrease) in trade and other payables		(9,604)	210
Other cash flows from operating activities		**(16,497)**	**(14,173)**
Interest paid		(14,148)	(14,317)
Dividends received		—	129
Interest received		36	15
Income tax paid		(2,385)	—
Net cash flows from operating activities		**126,358**	**141,577**
Cash flows from investing activities			
Acquisition of other investments		(1,196)	(1,981)
Acquisition of intangible assets		(15,786)	(12,805)
Acquisition of property, plant and equipment		(20,600)	(35,122)
Proceeds from sale of other investments		335	7
Net cash used in investing activities		**(37,247)**	**(49,901)**
Cash flows from financing activities			
Proceeds from issue of loans and borrowings		23,353	83,167
Repayment of loans and borrowings		(108,033)	(168,781)
Other		(70)	—
Net cash used in financing activities		**(84,750)**	**(85,614)**
Cash and cash equivalents at beginning of year		6,289	227
Cash and cash equivalents at year end		10,650	6,289
NET CASH INCREASE IN CASH AND CASH EQUIVALENTS		**4,361**	**6,062**

Derio, 1 June 2015

Notes 1 to 22 are an integral part of these financial statements

EUSKALTEL, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR 2013 AND 2014

(Expressed in thousands of Euros)

NOTE 1.—General Information

Euskaltel, S.A. (hereinafter the Company) was incorporated with limited liability on 3 July 1995. Its first product was launched in the market on 23 January 1998. Its registered office is located in Derio (Bizkaia) and its products are mainly sold in the Autonomous Region of the Basque Country.

The Company's statutory and principal activity since its incorporation consists of the rendering, management, installation, operation and marketing of telecommunications networks and services in accordance with prevailing legislation, as well as the marketing and sale of goods required to carry out these services. The Company's main facilities are located at the Bizkaia technology park.

NOTE 2.—Basis of Presentation

2.1 Fair presentation

The accompanying financial statements have been prepared on the basis of the accounting records of Euskaltel, S.A. The financial statements for the years 2013 and 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and IFRIC interpretations, to present fairly the equity and financial position of Euskaltel, S.A. at 31 December 2013 and 2014 and the results of operations and changes in equity and cash flows of the Company for the years then ended. First application of IFRS-EU was carried out at 1 January 2011 in the 2012 Financial Statements prepared under IFRS-EU.

The directors have prepared the accompanying financial statements for the purpose of a potential listing on the Madrid stock exchange. Annual accounts for each of the years ended 31 December 2013 and 2014 have been also prepared under accounting principles applicable in Spain as required for statutory purposes by prevailing legislation.

2.2 Critical issues regarding the valuation and estimation of uncertainties

Preparation of the financial statements in accordance with IFRS-EU requires the use of certain critical accounting estimates and management judgements concerning the future. These are evaluated constantly and based on historical experience and other factors, including expectations of future events and, where applicable, the justified opinion of renowned experts.

In the event that the final outcome of the estimates differed from the amounts initially recognised, or information that would modify these estimates became available, the effects of any changes in the initial estimates are accounted for in the year they are known.

The estimates and judgements that present significant risk of a material adjustment to the carrying amounts of assets and liabilities in the subsequent reporting period are as follows:

a) Corporate income tax and deferred tax assets

A major degree of judgement is required to determine the provision for income tax. There are many transactions and calculations for which the ultimate determination of the tax is uncertain during the ordinary course of business. Tax is calculated based on Management's best estimates in accordance with the current situation as regards tax legislation and taking into account expected developments in this area in the different legislations applied to the Company.

Deferred tax assets are recognised for all unused tax loss carryforwards, deductible temporary differences and available deductions to the extent that it is probable that sufficient taxable income will be available against which these assets can be utilised. In order to determine the amount of the deferred tax assets to be recognised, estimates are made of the amounts and dates on which future taxable profits will be obtained and the reversal period of temporary differences.

NOTE 2.—Basis of Presentation (Continued)

b) Useful lives and impairment of assets

The Company determines the estimated useful lives and related amortisation and depreciation charges of assets based on the actual decline in value due to operation and use. The Company increases amortisation and depreciation charges if the useful lives are shorter than previously estimated and writes down or writes off technically obsolete or non-strategic assets that have been abandoned or sold, or when circumstances indicate that their carrying amount might not be recoverable.

c) Measurements of fair values

A number of the Company´s accounting policies and disclosures require the measurement of fair value, both for financial and non-financial assets and liabilities. When measuring the fair value of an asset or liability, the Company uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the fair value techniques, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For further information about the assumptions made in measuring fair values please refer to Note 4.1.

d) Share based payments

As stated in note 12, Euskaltel, S.A. has granted to their key management employees a share based payment, the calculation of which is based on the appreciation of the Company's shares and the length of the vesting period. Expenses relating to share-based payments are recognised in the income statement during the period between the concession date and the exit event date, which is subject to an important degree of judgment. The Company is in a process of stock flotation circumstance that could affect the length of this period.

NOTE 3.—Accounting Principles

3.1 Intangible assets

a) Computer software

Computer software mainly reflects the acquisition and development of software applications, which are recognised at cost and amortised on a straight-line basis over their estimated useful life of between three and five years.

Computer software maintenance costs are charged as expenses when incurred.

b) Licences

Licences are carried at cost less accumulated amortisation and any recognised impairment.

Licences are amortised on a straight-line basis over the term they are granted.

If the favourable situation that enabled expenses required to obtain the licence to be capitalised were to change, the portion pending amortisation is taken to profit or loss in the year the situation changed.

NOTE 3.—Accounting Principles (Continued)

c) Other intangible assets

Other intangible assets include incremental and specific costs incurred and related to contracts in which customers undertake to remain with the Company for a specified period of time, and which are amortised on a straight-line basis over the specified period.

3.2 Property, plant and equipment

Property, plant and equipment are recognised at cost of acquisition or production, less accumulated depreciation and recognised accumulated impairment losses, where applicable.

Costs incurred to extend, modernise or improve property, plant and equipment are only recorded as an increase in the value of the asset when the capacity, productivity or useful life of the asset is increased, and provided that the carrying amounts of the items that are being replaced are known or can be reasonably estimated.

Recurring maintenance costs are charged to the income statement during the year in which they are incurred.

Depreciation of property, plant and equipment, with the exception of land, which is not depreciated, is calculated systematically on a straight-line basis over the estimated useful lives of the assets based on the actual decline in value due to operation and use.

The estimated useful lives of property, plant and equipment are as follows:

	Years
Buildings	50
Civil engineering	50
Cablings	18 - 40
Network equipment	10 - 18
Client equipment	2 - 15
Other installations, equipment and furniture	6 - 7
Other assets	5 - 8

The Company reviews the useful lives of the assets, as well as their classification as under construction, and makes any necessary adjustments at each reporting date. However, taking into consideration the projected utilization of the Company's fixed assets, the residual value is not expected to be significant at the closing date.

Finance costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

3.3 Impairment losses on non-financial assets

The Company evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation in order to verify whether the carrying amounts of these assets exceed their recoverable amounts. The recoverable amount is the higher of the fair value less costs to sell and the value in use.

Impairment losses are recognized in the income statement.

The recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

At the end of each reporting period, the Company assesses whether there is any indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. Impairment losses

NOTE 3.—Accounting Principles (Continued)

are only reversed if there has been a change in the estimates used to calculate the recoverable amount of the asset.

A reversal of an impairment loss is recognized in the income statement. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

A reversal of an impairment loss for a cash-generating-unit is allocated to the non-current assets of each unit, pro rata with the carrying amounts of those assets. An assets' carrying amount may not be increased above the lower of its recoverable amount and the carrying amount that would have been disclosed, net of amortisation or depreciation, had no impairment loss been recognised.

After an impairment loss or reversal of an impairment loss is recognised, the depreciation/amortisation charge for the asset is adjusted in future periods based on its new carrying amount.

However, if the specific circumstances of the assets indicate an irreversible loss, this is recognised directly in losses on the disposal of fixed assets in the income statement.

3.4 Inventories

Inventories are initially measured at the lower of cost (whether cost of acquisition or production) and net realisable value, and any related impairment losses or reversals are recognised in the income statement.

Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

3.5 Financial assets

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

These financial assets are initially carried at fair value, including directly attributable transaction costs, and are subsequently measured at amortised cost, recognising accrued interest at the effective interest rate, which is the discount rate that matches the instrument's carrying amount to all estimated cash flows to maturity. Nevertheless, trade receivables falling due in less than one year are carried at their face value at both initial recognition and subsequent measurement, provided the effect of discounting is immaterial.

An impairment loss is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate upon initial recognition. Impairment losses are recognised and reversed in profit or loss. Amounts covered by the allowance account are derecognised when their recovery is no longer expected by the Company.

b) Derecognition of financial assets

A financial asset is derecognised from the balance sheet if all the risks and rewards of ownership are substantially transferred.

3.6 Cash and cash equivalents

This heading includes cash, current bank accounts and deposits, and if appropriate, deposits and temporary acquisitions of assets which meet the following requirements:

- They are convertible into cash.
- On acquisition, they mature in less than three months.
- They are not subject to significant value fluctuation risk.

NOTE 3.—Accounting Principles (Continued)

- They form part of the Company's normal cash management policy.

Bank overdrafts, if they arise, are included in borrowings in current liabilities on the balance sheet.

3.7 Financial liabilities

Debts and payables are initially recognised at fair value, adjusted for directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method. The effective interest rate is the discount rate that matches the instrument's carrying amount with the expected future flow of payments to the maturity date of the liability.

Nevertheless, trade payables falling due in less than one year without a contractual interest rate are carried at their face value on both initial recognition and subsequent measurement, provided the effect of discounting is not significant.

3.8 Hedge accounting

Derivative financial instruments which qualify for hedge accounting are initially measured at fair value, plus any transaction costs that are directly attributable to the acquisition.

At the inception of the hedge the Company formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges. Hedge accounting is only applicable when the hedge is expected to be highly effective at the inception of the hedge and throughout the period for which the hedge was designated. A hedge is considered to be highly effective if at inception and during its life, changes in fair value or cash flows attributable to the hedged risk are prospectively expected to be offset almost entirely by changes in the fair value or cash flows of the hedging instrument, and that, retrospectively, gains or losses on the hedging transaction have been within the range of 80% and 125% with respect to those of the hedged item.

The Company provisionally recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in income and expense recognised in equity, which is then transferred to the income statement in the year or years in which the hedge affects profit or loss. Cash flows from the hedging instrument are recognised under the same income statement heading as the hedged item. The ineffective portion of the hedge is recognised under change in fair value of financial instruments.

3.9 Current and deferred taxes

The income tax expense or tax income is recognised in the income statement each year, calculated based on the pre-tax profits disclosed in the financial statements, adjusted for permanent differences with tax criteria. If the tax income or expense is related with an income or expense recognised directly in equity, it is also recognised against equity. Deferred tax assets and liabilities arising from temporary differences deriving from the application of tax criteria in the recognition of income and expenses, are recognised in the balance sheet until they are reversed.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets and unused tax credits in respect of loss carryforwards are only capitalised when their future realisation is considered probable.

Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reversed, using tax rates enacted or substantively enacted at the reporting date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities

NOTE 3.—Accounting Principles (Continued)

relate to income taxes levied by the same taxation authority on either the same or different taxable entities where there is an intention to settle the balances on a net basis.

3.10 Share-based payment transactions

Services received in cash-settled share-based payment transactions which require compliance with a certain service condition, are recognised in the income statement during that period. These services are initially measured at fair value of the liability at the date the requirements for their recognition are met.

The liability is subsequently measured until settlement at its fair value at each year-end, and any changes in value taking place during the year are taken to profit or loss. Accrued expenses arising from share-based payment obligations are recognised in accordance with the nature of the expense, whereas adjustments arising from revaluations are recognised as finance costs. The appreciation in the value of the shares that has determined the need to recognise the expenses relating to the plans awarded in 2013 and 2014 (see note 12) comes mainly from revaluations brought about by the situation of the telecommunications sector; consequently, these expenses have been recognised under finance costs.

3.11 Provisions and contingent liabilities

Provisions are recognised, where applicable, when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions expiring in one year or less, the financial effect of which is immaterial, are not discounted.

3.12 Revenue recognition

a) Revenue

The Company's main source of revenue comes from the individual or combined rendering of fixed telephony services, pay television, broad-band internet services and mobile telephony services to retail customers and large accounts and corporations.

Commercial packages that combine different elements are analysed to determine whether it is necessary to separate the different elements identified. Revenue is allocated to the different components in accordance with their fair value.

Both fixed and mobile traffic is recognised as revenue as the service is provided. Tariffs are based on an initial call establishment fee, plus a variable fee based on call length and distance.

If traffic or other services are sold at a fixed rate for a determined time period (flat rate), revenue is recognised on a straight-line basis over the time period covered.

Periodic charges for use of the network (telephony, internet and television) are credited to the income statement on a straight-line basis over the period to which they relate.

In the case of prepaid mobile telephony, the amount of unused credit is recognised as deferred income until it is consumed or, where applicable, ultimately cancelled.

Rentals and other services are credited to the income statement as the service is provided.

Revenue from sale of handsets and set top boxes is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery date.

Costs of acquiring customers, such as handsets provided at no cost to the customer or heavily discounted in order to attract and retain customers, are recognised as an expense when the handset is delivered to the customer.

NOTE 3.—Accounting Principles (Continued)

b) Interest income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

3.13 Leases

Leases in which the lessor retains substantially all the risks and rewards incidental to ownership are classified as operating leases. Operating lease payments are recognised in profit or loss on a straight basis during the lease term.

3.14 Foreign currency transactions

a) Functional and presentation currency

Except where otherwise stated, the figures disclosed in the financial statements are expressed in thousands of Euros, the Company's functional currency.

b) Foreign currency transactions and balances

Transactions in foreign currency are translated at the foreign exchange rate prevailing at the date of the transaction. Foreign currency gains and losses resulting from the settlement of transactions and translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement as finance income or cost.

3.15 Standards issued but not yet adopted

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017 with early adoption permitted.

3.16 Cash Flow Statement

The following terms are used in the cash flow statement with the meanings specified:

- Cash flows. Inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities. The principal revenue-producing activities of Euskaltel and other activities that are not investing or financing activities.
- Investing activities. Activities of acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities. Activities that result in changes in the size and composition of the equity and borrowings that are not operating activities.

3.17 Segment reporting

The operating segments are presented consistent with a management approach, in accordance with the information used internally at the highest decision-making level. The maximum authority for decision making is responsible for assigning resources to operating segments and evaluating the segments' performance. Segment reporting can be found in Note 17.

(Expressed in thousands of Euros)

NOTE 4.—Financial Instruments—Fair Values and Risk Management

4.1 Accounting classification and fair value

The main financial assets held by the Company comprise trade receivables and cash and cash equivalents. Trade receivables, which are valued at amortised cost, fall due in the short term, so there are no significant differences between their carrying amount and their fair value. Furthermore, the table below shows the carrying amounts and fair values of financial liabilities, including their levels in the fair value hierarchy.

	Level	31.12.14	31.12.13
Financial liabilities measured at amortized costs			
Loans and borrowing	2	243,723	326,980
Other financial liabilities		37	70
Trade and other payables		58.749	60.989
		302,509	388,039
Financial liabilities measured at fair value			
Hedging instruments	2	6,226	893

The fair value of loans and borrowings is estimated by discounting contractual future cash flows at the current market interest rate available to the Company for similar financial instruments. The carrying amounts of trade and other payables are assumed to be similar to their fair values.

Fair value of hedging instruments which mainly consist of interest rate swaps is determined using discounted cash flow techniques and future interest rate curves determined using observable market data.

4.2 Financial risk management

The Company's activities are exposed to various financial risks: credit risk, liquidity risk and market risk (including currency risk and fair value interest rate risk). The Company's global risk management programme focuses on uncertainty in the financial markets and aims to minimise potential adverse effects on the Company's performance.

The Company uses financial risk evaluation and mitigation methods suited to its activity and scope of operations, which are sufficient for the adequate management of risks.

A summary of the main financial risks affecting the Company, as well as the measures in place to mitigate these risks, is as follows:

- Credit risk
- Liquidity risk
- Market risk, currency risk and interest rate risk

This note presents information about the Company's exposure to each of the above risks, objectives, policies and procedures of the Company for measuring and managing risk and capital management by the Company.

Risk management framework

It is the responsibility of the Board of Directors to establish and oversee the risk management structure of the Company.

Compliance with the budget is reviewed periodically, analyzing the degree of implementation, evaluating deviations and proposing corrective measures. In this process, the managers of the various business units are involved.

The risk management policy of the Company is established in order to identify and analyze the risks assumed by the Company, set limits and appropriate risk controls, and to monitor risks and adherence to

(Expressed in thousands of Euros)

NOTE 4.—Financial Instruments—Fair Values and Risk Management (Continued)

limits. Regularly, policies and risk management systems are reviewed in order to reflect changes in market conditions and the activities of the Company. The Company, through its rules and administrative procedures, aims to develop an environment of disciplined and constructive control in which all employees understand their roles and obligations.

For the development and control of the risks of the business processes, the Company has appointed an Internal Audit Manager to centralise the coordination of the teams that perform analysis and monitoring of business performance and operational problems of the different business units.

Internal Audit management reports directly to the Audit and Control Committee within the Board of Directors. This committee establishes the policies for the management and control of business risks.

To mitigate the above mentioned risks, the Company, at all times, has an active attitude to exogenous factors. The various departments of the Company may be affected by these factors produce specific action programs, such as those to comply with changes in national or international regulations.

The evolution of markets and changes in consumer habits are factors to which special attention is given, with departments in charge of relevant studies and analysis, relying on external collaborations in the field of market research.

The program's overall risk management of the Company is focused on minimizing the uncertainty in financial markets and the potential adverse effects on the financial performance of the Company. The Company uses derivatives to hedge certain risks.

a) Credit risk

Credit risk is the risk of financial loss that the Company faces if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises mainly in accounts receivable of the Company.

The Company considers customer credit risk to be mitigated by the application of different policies and specific practices to this effect, and the high level of dispersion of receivables. Among the different policies and specific practices implemented is the customer acceptance scoring policy, the long-term monitoring of customer credit, which reduces the possibility of default of significant receivables, and debt collection management.

Details of the Company's ageing analysis of trade receivable past-due but not impaired at 31 December 2014 and 2013 is as follows:

	31.12.14	31.12.13
Neither past due nor impaired	21,741	23,837
Past due 1-30 days	15,807	11,771
Past due 31-90 days	959	1,014
Past due 91-180 days	274	507
Past due 181-365 days	548	2,266
Total	**39,329**	**39,395**

The Company records an impairment of trade and other receivables by adding to the total amount of balances that have exceeded a minimum period determined in accordance with pertinent legislation applicable to the sector, a percentage of past-due balances that do not exceed the aforementioned minimum period, estimated using historical data on the recovery of Company balances, as it considers that the application of this criterion represents a reasonable estimate of the impairment of the aforementioned financial assets.

(Expressed in thousands of Euros)

NOTE 4.—Financial Instruments—Fair Values and Risk Management (Continued)

Movement in the allowance account of trade and other receivables is as follows:

	31.12.14	31.12.13
Opening balance	**16,383**	**21,679**
Allowance account for impairment of trade receivables	2,014	1,848
Bad debts written off	(4,702)	(7,144)
Closing balance (Note 7)	**13,695**	**16,383**

Impairment of trade receivables is recognised and reversed under other operating expenses in the income statement. Management believes that the unimpaired amounts that are past due are still collectible based on historical payment behaviour and extensive analysis of customer credit risk. The Company does not have significant concentrations of credit risk.

The Company has cash and cash equivalents at 31 December, 2014 of Euros 10,650 thousand (Euros 6,289 thousand euros at December 31, 2013). Cash and cash equivalents are maintained with banks and financial institutions of high credit rating.

b) Liquidity risk

Liquidity risk is the risk that the Company would have difficulty meeting its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Company's approach to managing liquidity is to ensure, to the greatest extent possible, that it would always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or putting the reputation of the Company at risk.

The Company adjusts the maturities of its debts to its capacity to generate cash for settlement.

To do this, the Company implements three-year financing plans, which are reviewed annually, and analyses of financial position every week, which include long-term projections, together with a daily monitoring of bank balances and transactions.

Therefore, although the Company's working capital, defined as the difference between current assets and current liabilities (maturing in less than 12 months in both cases), is negative, this is due to the normal business activity, in which the average collection period is lower than the average payment period, which is normal for the sector in which the Company operates.

The following are the contractual maturities of long term financial liabilities, including estimated interest:

	31 December 2014						
	Book value	2016	2017	2018	2019	Thereafter	Total
Long-term borrowings	**194,554**	**58,573**	**56,769**	**54,513**	**52,256**	**25,601**	**247,712**
Third parties	84,513	43,599	45,504	—	—	—	**89,103**
Related parties	110,004	14,974	11,265	54,513	52,256	25,564	**158,572**
Other	37	—	—	—	—	37	**37**
Hedging instruments	**6,226**	**2,380**	**1,907**	**1,245**	**622**	**156**	**6,310**
Third parties	1,105	813	317	—	—	—	**1,130**
Related parties	5,121	1,567	1,590	1,245	622	156	**5,180**
Total	**200,780**	**60,953**	**58,676**	**55,758**	**52,878**	**25,757**	**254,022**

(Expressed in thousands of Euros)

NOTE 4.—Financial Instruments—Fair Values and Risk Management (Continued)

	31 December 2013						
	Book value	**2015**	**2016**	**2017**	**2018**	**Thereafter**	**Total**
Long-term borrowings	**220,073**	**59,678**	**58,735**	**56,890**	**54,597**	**77,906**	**307,806**
Third parties	115,587	35,687	43,652	45,520	—	—	**124,859**
Related parties	104,416	23,987	15,074	11,361	54,588	77,867	**182,877**
Other	70	4	9	9	9	39	**70**
Hedging instruments	**893**	**255**	**246**	**180**	**106**	**66**	**853**
Third parties	331	136	112	44	—	—	**292**
Related parties	562	119	134	136	106	66	**561**
Total	**220,966**	**59,933**	**58,981**	**57,070**	**54,703**	**77,972**	**308,659**

The Company has a bank loan (note 11) which contains a covenant, the breaching of which would require repayment earlier than indicated in the above tables. Furthermore, the interest payments on variable interest rate loans in the tables above have been calculated on the basis of conditions existing at the end of each reporting period.

The Company's credit facilities have a total limit of Euros 120 million at 31 December 2014 (Euros 110 million in 2013), of which Euros 120 million remains undrawn at that date (Euros 87 million in 2013). This limit includes a Euros 80 million current account credit facility obtained from Kutxabank on 19 December 2012 to ensure the Company working capital requirements, and which falls due on 30 December 2018.

c) Market risk, currency risk and interest rate risk

Market risk is the risk that changes in market prices would affect the Company's income or the value of financial instruments held. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimizing the return.

The Company's ambit of operations barely exposes it to currency or price risks, which may arise from occasional purchases in foreign currency of insignificant amounts.

Interest rate risk arises mainly from the loans granted by banks and related parties at variable rates which expose the Company to variability on future cash flows.

The Company manages interest rate risk on cash flows using rate swaps variable to fixed interest. These interest rate swaps have the economic effect of converting borrowings at floating rates into fixed rates.

The interest rate profile of long-term borrowings, measured at their outstanding principals due, is as follows:

	31.12.14	**31.12.13**
Fixed interest rate instruments	—	—
Variable interest rate instruments	247,500	309,332
	247,500	**309,332**

At 31 December 2014 an upturn in interest rates of 100 basis points, with other variables held constant, would have decreased the result after tax Euros 2,475 thousands (Euros 3,093 thousand in the year ended December 31, 2013).

(Expressed in thousands of Euros)

NOTE 5.—Intangible Assets

Details of intangible assets and movement are as follows:

	Industrial property	Computer software	Licences	Other	Total
GROSS AMOUNT					
Balance at 31.12.12	**91**	**46,507**	**2,674**	**905**	**50,177**
Additions	6	4,400	—	8,399	12,805
Retirements	—	—	—	(12,403)	(12,403)
Transfers	—	—	—	13,429	13,429
Balance at 31.12.13	**97**	**50,907**	**2,674**	**10,330**	**64,008**
Additions	6	7,895	—	7,885	15,786
Retirements	—	(185)	—	(7,451)	(7,636)
Balance at 31.12.14	**103**	**58,617**	**2,674**	**10,764**	**72,158**
ACCUMULATED AMORTISATION					
Balance at 31.12.12	**(59)**	**(30,970)**	**—**	**(596)**	**(31,625)**
Additions	(14)	(4,916)		(9,982)	(14,912)
Retirements	—	—	—	12,403	12,403
Transfers	—	—	—	(6,818)	(6,818)
Balance at 31.12.13	**(73)**	**(35,886)**	**—**	**(4,993)**	**(40,952)**
Additions	(14)	(5,324)	—	(8,278)	(13,616)
Retirements	—	185	—	7,451	7,636
Balance at 31.12.14	**(87)**	**(41,025)**	**—**	**(5,820)**	**(46,932)**
PROVISION FOR IMPAIRMENT					
Balance at 31.12.12	**—**	**—**	**(2,674)**	**—**	**(2,674)**
Additions	—	—	—	—	—
Balance at 31.12.13	**—**	**—**	**(2,674)**	**—**	**(2,674)**
Additions	—	—	—	—	—
Balance at 31.12.14	**—**	**—**	**(2,674)**	**—**	**(2,674)**
NET VALUE					
Balance at 31.12.12	**32**	**15,537**	**—**	**309**	**15,878**
Balance at 31.12.13	**24**	**15,021**	**—**	**5,337**	**20,382**
Balance at 31.12.14	**16**	**17,592**	**—**	**4,944**	**22,552**

The cost of fully amortised intangible assets in use at 31 December 2014 totals Euros 27.6 million (Euros 23.7 million in 2013).

In 2014, Euros 3.2 million related to software development activities have been capitalised (2013 Euro 2.7 million).

The Company has contracted sufficient insurance policies to cover the risk of damage to its intangible assets.

In 2014 costs of Euros 3.2 million relating to own staff costs have been capitalised (Euros 2.7 million in 2013).

(Expressed in thousands of Euros)

NOTE 6.—Property, Plant and Equipment

Details of property, plant and equipment and movement are as follows:

	Land and buildings	Civil engineering	Cabling	Network equipment	Client equipment	Other installations, equipment and furniture	Under construction and advances	Other property, plant and equipment	Total
GROSS AMOUNT									
Balance at 31.12.12	**133,540**	**253,504**	**263,939**	**337,804**	**236,511**	**143,861**	**17,071**	**25,042**	**1,411,272**
Additions	—	—	—	—	—	—	28,727	—	28,727
Transfers	36	4,798	4,937	8,099	15,129	1,841	(35,383)	543	—
Balance at 31.12.13	**133,576**	**258,302**	**268,876**	**345,903**	**251,640**	**145,702**	**10,415**	**25,585**	**1,439,999**
Additions	—	—	—	—	—	—	26,424	—	26,424
Disposals	(9)	—	(4)	(669)	(52)	(193)	(2,629)	(4,090)	(7,646)
Transfers	190	1,352	3,101	10,026	10,960	1,732	(27,856)	495	—
Balance at 31.12.14	**133,757**	**259,654**	**271,973**	**355,260**	**262,548**	**147,241**	**6,354**	**21,990**	**1,458,777**
ACCUMULATED AMORTISATION									
Balance at 31.12.12	**(11,185)**	**(47,402)**	**(112,842)**	**(196,255)**	**(141,349)**	**(56,342)**	**—**	**(18,295)**	**(583,670)**
Additions	(4,657)	(5,212)	(11,035)	(23,448)	(13,097)	(9,215)		(1,667)	(68,331)
Balance at 31.12.13	**(15,842)**	**(52,614)**	**(123,877)**	**(219,703)**	**(154,446)**	**(65,557)**	**—**	**(19,962)**	**(652,001)**
Additions	(4,658)	(5,327)	(10,696)	(23,103)	(13,599)	(9,353)	—	(1,156)	(67,892)
Disposals	2	—	1	614	11	193	—	4,032	4,853
Balance at 31.12.14	**(20,498)**	**(57,941)**	**(134,572)**	**(242,192)**	**(168,034)**	**(74,717)**	**—**	**(17,086)**	**(715,040)**
NET VALUE									
Balance at 31.12.12	**122,355**	**206,102**	**151,097**	**141,549**	**95,162**	**87,519**	**17,071**	**6,747**	**827,602**
Balance at 31.12.13	**117,734**	**205,688**	**144,999**	**126,200**	**97,194**	**80,145**	**10,415**	**5,623**	**787,998**
Balance at 31.12.14	**113,259**	**201,713**	**137,401**	**113,068**	**94,514**	**72,524**	**6,354**	**4,904**	**743,737**

(Expressed in thousands of Euros)

NOTE 6.—Property, Plant and Equipment (Continued)

In 2014 the Company has capitalised Euros 215 thousand in finance costs (Euros 147 thousand in 2013) deriving from external financing obtained to roll-out the network, calculated using a capitalisation rate of 4.05% in 2014 (2013: 3.35%), equivalent to the average effective cost of the external financing during the year.

In 2014 costs of Euros 2.5 million relating to network roll-out activities have been capitalised (Euros 2.4 million in 2013).

The cost of fully depreciated property, plant and equipment in use at 31 December 2014 is Euros 248.6 million (Euros 221.6 million in 2013).

At 31 December 2013 and 2014 there are no items of property, plant and equipment pledged to secure financial liabilities and sufficient insurance policies have been taken out to cover the risk of damage to property, plant and equipment.

In 2014, certain assets with a net cost of Euros 2.8 million have been disposed of, generating profits of Euros 0.3 million on the sale (no gains/losses in 2013).

NOTE 7.—Financial Assets and Trade Receivables

7.1 Financial assets

Breakdown of financial asserts is shown below:

	31.12.14	31.12.13
Equity investments	8	32
Loans to key management personnel (note 12)	2,686	1,941
Loans granted to third parties	2,506	781
Other long-term investments	1,132	1,118
	6,332	**3,872**

7.2 Trade receivables

Details of the amounts included under this caption are shown below:

	31.12.14	31.12.13
Gross amount	53,024	55,778
Impairment	(13,695)	(16,383)
Total	**39,329**	**39,395**

The accounts receivable are stated at their nominal value, which does not differ significantly from their fair value, based on the related cash flows discounted at market rates.

(Expressed in thousands of Euros)

NOTE 8.—Inventories

	31.12.14	31.12.13
Customer terminals and equipment	1,627	2,314
Mobile phones	1,421	985
Digital television decoders	206	1,329
Contract materials	1,716	1,754
Other inventories	80	241
Total gross amount	**3,423**	**4,309**
Impairment losses on inventories	(1,110)	(2,107)
Total	**2,313**	**2,202**

The Company has contracted sufficient insurance coverage for the risk of damage to inventories.

NOTE 9.—Cash and Cash Equivalents

	31.12.14	31.12.13
Cash	1,739	1,292
Cash equivalents	8,911	4,997
Total	**10,650**	**6,289**

At 31 December 2014 and 2013 the balances of cash equivalents reflect the Company's financial instruments convertible to cash with a maturity of less than three months since their acquisition.

NOTE 10.—Equity

10.1 Capital

At 31 December 2014 and at 31 December 2013 the subscribed capital of the Company is represented by 6,326,890 registered shares of Euros 60 par value each, with the same rights and obligations, subscribed and fully paid.

Companies which hold an interest in the capital of the Company and their percentage ownership, are as follows:

	31.12.14	31.12.13
	Percentage ownership	Percentage ownership
Kutxabank S.A.	42.83%	42.83%
Araba Gertu S.A.	7.07%	7.07%
Grupo Kutxabank	**49.90%**	**49.90%**
International Cable B.V.	48.10%	48.10%
Iberdrola S.A.	2.00%	2.00%
Total	**100.00%**	**100.00%**

The Company manages its capital with the aim of safeguarding its capacity to continue operating as a going concern, so as to continue providing shareholder remuneration and benefiting other stakeholders, while maintaining an optimum capital structure to reduce the cost of capital.

To maintain and adjust the capital structure, the Company can adjust the amount of dividends payable to shareholders, reimburse capital, issue shares or dispose of assets to reduce debt.

(Expressed in thousands of Euros)

NOTE 10.—Equity (Continued)

Like other groups in the sector, Euskaltel controls its capital structure on a leverage ratio basis. This ratio is calculated as net financial liabilities divided by total invested capital. Net financial liability is the sum of borrowings plus trade and other payables, plus other current liabilities and, less cash and cash equivalents. Total invested capital is the sum of equity plus net debt.

During 2014 the strategy remained the same as in 2013: The ratios are calculated as follows:

	2014	2013
Total Financial liabilities	318,668	401,823
Less: Cash and cash equivalents	(10,650)	(6,289)
Net financial liabilities	308,018	395,534
Equity	647,490	614,613
Total invested capital	955,508	1,010,147
Debt ratio	0,3	0,4

The decrease in the debt ratio is mainly due to the positive results of the Company (Profit for the year: Euros 40.6 million) and the cash generation (Free cash flow for debt service, understood as net cash flow from operating activities and investing activities : Euros 89.1 million).

10.2 Share premium

In accordance with prevailing legislation, the share premium is a freely-distributable reserve, provided that equity exceeds capital.

10.3 Retained earnings

Details of this caption are as follows:

	31.12.14	31.12.13
Legal reserve	32,534	27,524
Voluntary reserves	152,972	152,972
Prior years' losses	(29,255)	(66,539)
Profit for the year	36,783	42,294
Total	**193,034**	**156,251**

The legal reserve has been appropriated in compliance with article 274 of the Spanish Companies Act, which requires that companies transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of capital. Until the legal reserve exceeds the above limit, it may only be applied to offset losses if no other reserves are available.

NOTE 11.—Interest Bearing Liabilities and Derivatives

11.1 Interest bearing liabilities

Details of the amounts accounted for under long and short-term borrowings are shown below:

	31.12.14	31.12.13
Loans and borrowings	243,336	303,715
Nominal amounts	247,500	309,333
Fees and commissions	(4,164)	(5,618)
Credit facilities and interest accrued	387	23,265
Other items	37	70
Total	**243,760**	**327,050**

The carrying amount of the loans and borrowings and the other financial liabilities does not differ from their fair value, since they were arranged at market rates.

Details of bank loans and borrowings at 31 December 2014 are as follows:

	Loan 2007	Loan 2012	Bilateral loan 2013	Total
Entity	7 banks, including 3 banks of Kutxabank Group	Kutxabank	Sabadell Caixabank Caja Laboral Bankoa	
Contract date	25/07/2007	19/12/2012	22/03/2013	
Amount (in thousands of Euros)	150.000	130.500	69.500	
Term (years)	8,5	8	4	
Grace period (years)	6	5	3	
Repayment	6 equal half-yearly instalments as of 25/07/2013	6 equal half-yearly instalments as of 30/12/2017	3 equal half-yearly instalments as of 30/12/2016	
Maturity date	25/01/2016	30/06/2020	30/12/2017	
Interest rate	Variable pegged to Euribor	25% variable pegged to Euribor and 25% pegged to hedge 1.525%	25% variable pegged to Euribor and 25% pegged to hedge 1.051%	
Average interest 2013	2,68%	5,15%	5,15%	
Average interest 2014	2,70%	5,21%	5,21%	
Outstanding principal due	**75,500**	**103,000**	**69,500**	**247,500**
Short term	50,000	—	—	**50,000**
Long term	25,000	103,000	69,500	**197,500**

NOTE 11.—Interest Bearing Liabilities and Derivatives (Continued)

Details of bank loans at 31 December 2013 are as follows:

	EIB loan 1999	Loan 2007	Loan 2009	Bilateral loan 2009	Bilateral loan 2010	Loan 2012	Bilateral loan 2013	Total
Entity	European Investment Bank	5 banks, including Kutxabank Group	9 banks, including Kutxabank Group	Banco Santander	Banesto	Kutxabank	Sabadell Caixabank Caja Laboral Bankoa	
Contract date	17/12/1999	25/07/2007	30/06/2009	30/09/2009	18/12/2009	19/12/2012	22/03/2013	
Amount (in thousands of Euros)	120.000	150.000	130.000	4.000	5.000	130.500	69.500	
Term (years)	15	8,5	5	5	5	8	4	
Grace period (years)	5	6	2	2	2	4	3	
Repayment	10 equal annual instalments as of 15/12/2005	6 equal half-yearly instalments as of 25/07/2013	6 equal half-yearly instalments as of 30/12/2011	6 equal half-yearly instalments as of 30/12/2011	6 equal half-yearly instalments as of 30/12/2011	6 equal half-yearly instalments as of 30/12/2017	3 equal half-yearly instalments as of 30/12/2016	
Guarantees	Guarantee syndicated by 9 banks, including Katxabank Group	—	—	—	—	—	—	
Maturity date	15/12/2014	25/01/2016	30/06/2014	30/06/2014	30/06/2014	30/06/2020	30/12/2017	
Interest rate	Variables at each repayment	Variable pegged to Euribor	Variable pegged to Euribor	Variable pegged to Euribor	Variable pegged to Euribor	25% variable pegged to Euribor and 25% pegged to hedge 1.525%	25% variable pegged to Euribor and 25% pegged to hedge 1.051%	
Average interest 2012	0,85%	2,93%	2,18%	2,14%	2,18%	n/a	n/a	
Average interest 2013	0,34%	2,69%	1,90%	1,88%	1,90%	5,15%	5,15%	
Outstanding principal due	**12,000**	**125,000**	**21,667**	**666**	**833**	**79,667**	**69,500**	**309,333**
Short term	**12,000**	**50,000**	**21,667**	**666**	**833**	**—**	**—**	**85,166**
Long term	**—**	**75,000**	**—**	**—**	**—**	**79,667**	**69,500**	**224,167**

(Expressed in thousands of Euros)

NOTE 11.—Interest Bearing Liabilities and Derivatives (Continued)

On 19 December 2012 the Company signed a Euros 200 million loan contract with Kutxabank, which was broken down in two tranches as follows:

- Tranche A, of Euros 125 million, for the repayment of a short-term loan obtained in 2012 to cover cash requirements deriving from the resolution of a lawsuit involving France Telecom. The full amount of this loan has been drawn down since 31 December 2012.
- Tranche B, with a limit of Euros 75 million. A drawdown schedule for this amount has been set until 2016, based on repayments corresponding to Kutxabank's share of the 2007 and 2009 loans. Euros 47.5 million have been drawn down on this tranche at 31 December 2014 (Euros 24.5 million at 31 December 2013).

The combined repayment of tranches A and B will be made in six half-yearly instalments starting in December 2016.

On 22 March 2013, the Company signed a non-extinguishing novation addendum to the aforementioned contract entered into with Kutxabank on 19 December 2012, which modified certain terms of the aforementioned contract, particularly those referring to the loan principal (down from Euros 200 million to Euros 130.5 million by reducing tranche A by Euros 69.5 million) and, consequently, the repayment schedule, according to which the loan will be repaid in six half-yearly instalments starting in December 2017, the first of which amounts to Euros 5.5 million and the remaining instalments Euros 25 million each.

The interest rate is pegged to Euribor plus a market spread payable in half-yearly instalments at the end of each period due.

In conjunction with this addendum, on 22 March 2013 the Company signed four long-term bilateral loans for a total of Euros 69.5 million with the following entities: Banco Sabadell (Euros 25 million), Caixabank (Euros 25 million), Caja Laboral (Euros 12 million) and Bankoa (Euros 7.5 million). These bilateral loans will be repaid in three half-yearly instalments starting in December 2016. These loans and the aforementioned long-term credit facility signed on 19 December 2012 share the same terms and conditions.

In addition to these loans, the Company has other undrawn credit facilities as at 31 December 2014 (drawn by Euros 22.848 Thousand in 2013) with a total limit of Euros 120 million (110 million in 2013).

In relation and proportion to these contracts, in 2013 the Company contracted interest rate swaps on 75% of the loan limits, over the terms of the loans, at a cost in terms of margin of 25 basis points.

11.2 Derivatives

Details of cash flow hedges at 31 December 2014 and 2013, comprising interest rate swaps, are as follows:

			Fair values			
			2014		2013	
Start date	Maturity date	Notional	Assets	Liabilitie	Assets	Liabilitie
30/06/2013	30/06/2020	97,875	—	−192	—	−562
22/03/2013	29/12/2017	37,500	—	−794	—	−331
22/03/2013	29/12/2017	14,625	—	−5,240	92	—
		150,000	**—**	**(6,226)**	**92**	**(893)**

This contract also provides that any surplus cash generated during the term of the loan and calculated in accordance with the terms of the aforementioned contract be used to settle the amount drawn down on the credit facility.

NOTE 12.—Share-based Payment Transactions

On July 2013 and on October 2014 the Company awarded certain incentives (the Plans) to members of the management committee, board members and other key employees. These incentives have materialised in an Investment Plan and an Incentive Plan. The goal of the Investment Plan is to encourage the fulfilment of the Company's business goals and to align the long-term interests of the beneficiaries with those of the shareholders. Those participating in the Investment Plan assume a position equivalent in economic terms to those of a shareholder, acquiring a proportional investment in the revaluation of the Company and assuming the risk of losing their own investment in the event of downward trends in the Company's performance. The Incentive Plan aims to ensure the involvement and support of a motivated management team focused on fulfilling the Company's business plan, as well as motivating and retaining those considered to be key to the Company's progress. To benefit from the Incentive Plan, those invited to participate must also join the Investment Plan. The Plan will entitle them to participate in any appreciation in the Company's share value between the grant date and 31 December 2025, with the possibility of extending the vesting date by another five years at the request of the board of directors. The beneficiaries' participation in the Plan is conditional upon payment of certain amounts in respect of an initial price partially financed through the granting of loans that accrue the legal rate of interest. At 31 December 2014 the liabilities related to the amounts to be paid to the beneficiaries of the Plan amount to Euros 12.2 million, the result of adding the Euros 4.4 million contributed by the beneficiaries to the Euros 7.8 million expense accrued and recognised to date. The beneficiaries of the 2013 Plan paid an amount of Euros 2.8 million. However, at the end of 2013 period, the fair value of the liability to be recognised did not differ substantially from the aforementioned amount, and it was therefore not necessary to recognise any expense in the year ended 31 December 2013.

At 31 December 2014 the loans granted in relation with share-based payment transactions amount to Euros 2.7 million (Euros 1.9 million in 2013) and have been booked under non-current financial assets.

Upon expiration of the Plan, the beneficiaries who remain in service will receive the difference between the application of a percentage based on the underlying net book value of the Company, adjusted for any dividends distributed, transaction costs and other items stipulated in the agreements signed by the parties, and the amounts paid by the beneficiaries at the grant date. Furthermore, if an exit event occurs during the term of the Plan, the beneficiaries will receive remuneration based on the increase in value of the Company's shares. In this regard, an exit event is understood to be:

- The transfer of shares by shareholders with more than a 5% interest that would represent over 50% of their interest in the Company, provided that the cash consideration agreed were over 50%; or
- The public offering of over 50% of traded shares.

The accrued expense relating to acquired commitments was calculated using the formulae contained in the plans' regulations, the main assumptions for which are the appreciation of shares and the duration of the accrual period, both of which are subject to an important degree of judgment. In this regard, the Company's directors considered that, according to the information available at the reporting date, the exit event would occur in 2018. The appreciation of the shares has been calculated by reference to the valuation of comparable entities. The following table, in millions of Euros, shows a sensitivity analysis for three different scenarios to illustrate the effect of the variations in the accrued expense that would arise in the event that the valuation of the Company deviated from the estimated valuation.

	Scenario 1	Base scenario	Scenario 2
Estimate of total expenditure to accrue	6.74	26.70	58.81
Estimate of accrued expenditure	2.00	7.83	16.17
Expenditure recognised (note 17.7)	(7.83)	(7.83)	(7.83)
Difference	**(5.83)**	**—**	**8.34**

(Expressed in thousands of Euros)

NOTE 12.—Share-based Payment Transactions (Continued)

In this regard:

- Base scenario: represents the valuation of the Company based on the average for comparable entities;
- Scenario 1: represents the valuation of the Company based on minimum values for comparable entities, which would reflect a valuation 27% lower than that considered in the base scenario;
- Scenario 2: represents the valuation of the Company based on maximum values for comparable entities, which would reflect a valuation 44% higher than that considered in the base scenario.

The estimate of the total expense to be accrued is equivalent to the amount that would result from applying the formulae contained in the plan's regulations, taking into account the Company's valuations assigned to the different scenarios. The estimate of the accrued expense corresponds to the accrual of the total expense attributable to the plans awarded during 2013 and 2014, taking into account that from the award date to the reporting date, a total of 18 months and 3 months, respectively, have elapsed.

As disclosed in note 22, at their meeting held on 3 February 2015 the directors took the decision to explore a possible stock exchange flotation, something which is estimated will take place prior to mid-July 2015. In accordance with the established schedule, the percentage of shares to be floated will probably be determined on 10 June 2015, i.e. subsequent to the approval of these annual accounts by the shareholders at their annual general meeting, which will be held immediately after these annual accounts are authorised for issue.

Considering the decision adopted by the Company in the first quarter of 2015, a re-estimation has been made of the potential impact of the above circumstance on the total estimated expense to be accrued and the estimated accumulated expense that should be recognised at the end the first quarter of 2015 (estimated expense accrued), which has resulted in the recognition of an additional expense of Euros 12.46 million in 2015 to the Euros 7.83 million already recognised in the income statement for 2014. The recognition of additional expenses in the first quarter of 2015 is a result of new information made available after the reporting date, information that did not match the Company's expectations at the close of the year ended 31 December 2014. Therefore, in accordance with prevailing accounting principles, the accumulated effect of the expenses necessary to recognise the obligations existing at the close of the mentioned interim period was recognised with a charge to income statement for the first quarter of 2015.

NOTE 13.—Trade and Other Payables

Details of the amounts included under this caption are shown below:

	31.12.14	31.12.13
Trade payables	38,670	46,734
Suppliers of fixed assets	20,079	14,255
Total	**58,749**	**60,989**

(Expressed in thousands of Euros)

NOTE 14.—Taxation

14.1 Income tax and taxation

A reconciliation of net income and expenses to taxable income is as follows:

	31.12.14			31.12.13		
	Increases	Decreases	Total	Increases	Decreases	Total
Profit before tax			**49,935**			**57,366**
Permanent differences	94	—	94	211	—	211
Temporary differences	7,832	(8.940)	(1,108)	453	(435)	18
Operating losses carryforwards			(44,102)			(40,315)
Taxable income			**4,819**			**17,280**

Current income tax expense calculation for 2014 and 2013 is as follows:

	2014	2013
Taxable income at 28%	1,349	4,838
Deductions	(1,349)	(2,373)
Total	**—**	**2,465**

Income tax for the year is calculated as follows:

	2014	2013
Current tax	—	2,465
Deferred tax	13,205	12,630
Other adjustments	(53)	(23)
Total	**13,152**	**15,072**

At 31 December 2014 and 2013 the Company has unused limited and unlimited income tax deductions for investments and other items as follows:

Year of origin	31.12.14	31.12.13
1999	1,577	2,184
2000	17,265	17,265
2001	23,002	23,002
2002	10,399	10,399
2003	17,310	17,310
2004	16,388	16,388
2005	12,512	12,512
2006	9,927	9,927
2007	12,760	12,760
2008	13,920	13,920
2009	773	773
2010	949	949
2011	1,063	1,063
2012	832	832
2013	951	—
Total	**139,628**	**139,284**

Euros 136.8 million of the aforementioned deductions have been capitalised at 31 December 2014 (Euros 137.4 million in 2013). The Company has also capitalised amounts relating to tax loss carryforwards

(Expressed in thousands of Euros)

NOTE 14.—Taxation (Continued)

of Euros 31.6 million, which were incurred in 2011. At 31 December 2014 and 2013 there are no tax loss carryforwards pending recognition

Capitalization is based on the Company's annual recoverability analyses, considering estimated future tax profits. Estimates made by the company indicate that the Company will avail of sufficient future taxable profit to offset the tax credits capitalised at the closing date.

The tax law applicable to the corporate income tax returns for the year for the Company is Regional Law 11/2013, of 5 December, applicable in the Territory of Biscay. Due to modification in the tax legislation, tax credits in respect of loss carryforwards and deductions expire in 15 years from 1 January 2014 onwards.

14.2 Deferred tax

Movement of deferred tax assets is show below:

	31.12.12	Additions	Reversals	31.12.13	Additions	Reversals	31.12.14
Deferred tax assets							
Share based payment	**—**	—	—	**—**	2,193	—	**2,193**
Hedging instruments	**—**	249	—	**249**	1,492	—	**1,741**
Other	**1,804**	146	(122)	**1,828**	392	(774)	**1,446**
	1,804	395	(122)	**2,077**	4,077	(774)	**5,380**
Operating losses carryforward	**31,934**		(10,740)	**21,194**		(12,357)	**8,837**
Investment tax credits	**139,276**		(1,888)	**137,388**		(605)	**136,783**
	173,014	**395**	**(12,750)**	**160,659**	**4,077**	**(13,736)**	**151,000**
Deferred tax liabilities							
Other	**—**	(26)	—	**(26)**	—	26	**—**
Installment sales	**—**	—	—	**—**	(2,079)	—	**(2,079)**
	173,014	369	(12,750)	**160,633**	1,998	(13,710)	**148,921**

Changes in deferred tax assets accounted for against other comprehensive income amounts to Euros 1.5 million (Euros 0.2 million in 2013).

The amount of deferred taxes estimated to be reversed in more than one year amounts to Euros 137.5 million.

NOTE 15.—Income and Expenses

15.1 Revenues and other income

Revenues total Euros 315,109 thousand, all generated in the domestic market (Euros 329,148 thousand in 2013).

For "Revenue, other income & work performed by the entity and capitalized" distributed by segments please refer to note 17.

(Expressed in thousands of Euros)

NOTE 15.—Income and Expenses (Continued)

15.2 Supplies

	31.12.14	31.12.13
Merchandise used	**19,784**	**19,218**
Purchases	18,967	17,181
Change in inventories	817	2,037
Subcobtracted work	**52,737**	**54,213**
Interconnection costs	41,501	42,690
Other supplies	11,236	11,523
Impairment of mechandise	**(997)**	**(413)**
Total	**71,524**	**73,018**

15.3 Personnel expenses

	31.12.14	31.12.13
Salaries and wages	24,352	27,885
Other employee benefits expense	5,966	6,494
Total	**30,318**	**34,379**

The average headcount, distributed by category, is as follows:

	2014	2013
Directors	35	32
Managers	41	45
Other professionals	424	470
Total	**500**	**547**

During 2014 agreements have been reached with strategic partners in the areas of information technology (with the French multinational GFI) and network management and maintenance (with the Chinese multinational ZTE). Through these agreements Euskaltel, S.A. have shared know-how and completed two externalization projects that involved the transfer of Company's employees from these areas of activity to these companies.

As a result at 31 December 2014, the Company's headcount stands at 352 employees, 194 less than in 2013, of which 28 were voluntary redundancies and 166 which were transferred to the two aforementioned multinationals. These latter employees continue to avail of the same working conditions as in Euskaltel and with the assurance that their job security will not be jeopardized.

15.4 Other operating expenses/(income)

	31.12.14	31.12.13
Advertising	7,196	11,416
Repairs and maintenance	18,955	21,612
Services provided by third	22,322	23,738
Other external services	9,954	10,534
Taxes	3,028	3,213
Losses, impairment and changes in trade provisions	2,014	1,848
Other results	1,143	(1,415)
Total	**64,612**	**70,946**

NOTE 15.—Income and Expenses (Continued)

15.5 Net finance cost/income

Details are as follows:

	31.12.14	31.12.13
Finance income	**179**	**234**
Investments in equity instruments	—	129
Marketable securities and other financial instruments	36	95
Exchange gains	—	10
Gains on disposal of financial instruments	143	—
Finance costs	**23,443**	**16,173**
Loans and borrowings	14,378	15,553
Impairment and loss on disposal of financial instruments	—	40
Changes in fair value of financial instruments	1,224	580
Exchange losses	9	—
Other (note 12)	7,832	—

NOTE 16.—Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares outstanding during the year.

Details of the calculation of basic earnings per share are as follows:

	2014	2013
Profit for the year (in thousands of euros)	36,783	42,294
Weighted average number of ordinary shares outstanding (in thousands)	6,327	6,327
Basic and diluted earnings per share	5.81	6.68

There are no dilutive effects and consequently there is no difference between basic and diluted earnings per share.

NOTE 17.—Segment Information

We are the Basque fiber and convergence leader and operate in one of the most affluent regions in Spain. We offer primarily bundled services comprised of high-speed broadband, Pay TV, mobile and fixed telephony services to residential and business customers (“Small Office/Home Office—SOHOs”, “Small and Medium-sized Enterprises—SMEs”, large accounts and public sector entities), as well as the wholesale market.

The Company considers the operating segments listed below:

Residential segment

We provide our residential customers with a combination of fixed and mobile telecommunication services, as well as other value added services, primarily through our fiber network and our MVNO (Mobile Virtual Network Operator) agreement. We mainly offer bundles to our residential customers. We offer customers the opportunity to subscribe to a variety of “bundled” packages, which provide them with multiple services (broadband internet, Pay TV, mobile telephony and fixed telephony) charged in a single bill and at competitive prices.

NOTE 17.—Segment Information (Continued)

Business segment

We also provide fixed and mobile telecommunication services to SOHOs, SMEs and large corporate accounts, leveraging our fiber network. For SMEs and large accounts, through our own salesforce, we are able to offer integrated and tailor-made solutions to a sophisticated and demanding customer base, which includes financial institutions, large companies, healthcare providers and public administration bodies.

- *SOHOs:* We have a specific product offering for small businesses (under ten employees), which includes premium technical support, online presence and email services. As with the residential segment, we offer customers the opportunity to subscribe to a variety of "bundled" packages, which provide them with multiple services (broadband internet, Pay TV, mobile telephony and fixed telephony).
- *SMEs:* We provide a range of customized solutions for medium-sized businesses (ten to 40 employees) with relatively high technological requirements. These services include broadband access of up to 250Mbps, fiber access of up to 1Gbps symmetric, MPLS Network, fixed-mobile convergence ("**FMC**"), IP Switch and advanced IT services.
- *Large accounts:* Our large accounts customers comprise both public administration bodies and large companies. Our large accounts customers have high technological requirements and we devise tailor-made solutions according to each customer's specific needs. These include fiber access of up to 1Gbps symmetric, FMC, SIP Trunking, MLPS networks, cloud firewall and virtual data centers. We sell these services directly through our own large accounts salesforce, which includes highly-qualified engineers, across the life cycle of a project (pre-sale, implementation and post-sale).

Wholesale and Other

We provide communications services including leased lines, data and voice services to other telecommunications operators that use our facilities and infrastructure to provide services to their customers. A portion of our wholesale segment revenues is generated by a number of large telecommunication companies, most of who compete directly with us. We provide Leased Lines services in SDH (Synchronous Digital Hierarchy) and Ethernet technologies, Dark Fiber, Voice Services (that allow carriers to complete their end-user calls that originate or terminate within our territory) and Enabling Services, based in our BSS and Mobile Core Network. In addition, we offer services such as collocation and voice resale. Finally, by virtue of our agreement with RACC, we also offer mobile services in Catalonia using the "RACC Móvil" brand.

Others

We sell installation material and electronics to third-party installation companies to be used in provisioning customers and deploying and maintaining our next generation fiber network.

The information contained in this note describes how the Company is organised in terms of decision-making and takes into consideration the business parameters that general management and the executive committee (person/body responsible for decision-making) use when making management decisions.

This segmentation, in terms of the income statement, refers exclusively to income, as the structure of operating assets and expenses generally applies indistinctly to the different sectors of activity. For this reason, the Company analyses business margins as a whole.

(Expressed in thousands of Euros)

NOTE 17.—Segment Information (Continued)

A detail of the management profit and loss account broken by segments is as follows:

	2014	2013
Revenue, other income & work performed by the entity and capitalised breakdown		
Residential	196,190	195,390
Business	93,383	101,214
o/w SoHos	*35,551*	*36,756*
o/w SMEs	*18,537*	*18,203*
o/w Large Accounts	*39,294*	*46,254*
Wholesale and Other	24,730	29,669
Others*	6,858	8,618
Total	**321,161**	**334,891**
Costs breakdown		
Direct costs	(75,507)	(75,816)
Gross profit	**245,654**	**259,075**
% margin	*76,5%*	*77,4%*
Commercial Costs	(36,364)	(42,778)
Contribution margin	**209,290**	**216,298**
% margin	*65,2%*	*64,6%*
Overhead Costs	(53,441)	(61,164)
EBITDA	**155,850**	**155,134**
% margin	*48,5%*	*46,3%*
Depreciation, amortisation and impairment	(81,508)	(83,243)
Other non recurring (costs)/income	(1,143)	1,415
Results from operating activities	**73,199**	**73,305**
Net Finance Cost	(23,264)	(15,939)
Profit before income tax	**49,935**	**57,366**
Income tax	(13,152)	(15,072)
Profit for the year	**36,783**	**42,294**

* Operations with neutral impact on profitability.

Direct costs includes concepts such us network costs, mainly interconnection costs, TV content costs which consists primarily of license payments for programming, costs relating to our use of frequencies pursuant to our spectrum concessions and local taxes applicable to telecommunications companies in each of the municipalities in which we operate, the costs derived from the purchase of mobile terminals, as well as all costs we incur from providing services to third parties.

Commercial costs comprise commissions related to capture new customers paid to our external channel distributors (subscriber acquisition costs), costs relating to advertisements, campaigns and other marketing materials the cost of our customer service operation and costs related to maintaining the quality of services provided to our clients and resolving breakdowns in our services.

Overhead costs are made up of wages and salaries, costs relating to the maintenance and correction of our fiber network, costs for the lease of nodes and other network infrastructure, costs for the maintenance of infrastructure of hardware and software licenses, as well as preventive and corrective maintenance of IT systems, cost for sponsorship, electricity consumption and consulting and travel expenses.

(Expressed in thousands of Euros)

NOTE 18.—Commitments

18.1 Sale/purchase commitments

At the reporting date, the Company has signed sale-purchase contracts for the following items and amounts, all of which are related to current operations:

	31.12.14	31.12.13
Intangible assets	182	275
Property, plant and equipment	8,800	3,541
Inventories	1,697	407
Total	**10,679**	**4,223**

The Company has no commitments to sell assets.

18.2 Operating lease commitments

The Company mainly rents locations for its node equipment under operating leases. These contracts have a term of between 10 and 30 years, which is considered to be significantly less than the economic life of the buildings in which the aforementioned equipment is located.

Future minimum payments under operating leases are as follows:

	31.12.14	31.12.13
Less than 1 year	2,140	2,265
1-5 years	9,844	10,202
Over 5 years	14,666	17,528
Total	**26,650**	**29,995**

Operating lease instalments of Euros 4.266 thousand have been recognised as an expense for the year (Euros 4,411 thousand in 2013).

NOTE 19.—Related Parties

19.1. Key management personnel compensation

Key management personnel compensation comprises the following:

	Board of Directors		Other key management	
	2014	2013	2014	2013
Short-term employee benefits	663	500	5,909	4,935
Share based payments	2,194	—	5,638	—
	2,856	**500**	**11,547**	**4,935**

The board of directors have also received Euros 0.7 million in repayable loans (Euros 0.7 million in 2013) in relation with the share based payment transaction mentioned in note 12 which are accounted for under the caption financial assets non-current. Repayable loans granted to other key management personnel in relation with these transactions amounted to Euros 2.0 million (Euros 1.3 million in 2013).

The Company has no pension or life insurance commitments with key management personnel.

(Expressed in thousands of Euros)

NOTE 19.—Related Parties (Continued)

19.2 Other related party transactions and balances

During the years ended 31 December 2013 and 2014 the Company carried out the following transactions with their shareholders:

	Transaction value		Balance outstanding	
	2014	2013	2014	2013
Revenues	9,498	9,993	8	261
Fees	(355)	(400)	(50)	(185)
Otros expenses	(55)	(74)	—	—
Finance income	1	—	—	—
Finance expense	8,564	7,684	(387)	(417)

Balances payable in relation with the borrowings granted by the Company's shareholders are as follows:

	2014		2013	
	Current	Non-current	Current	Non-current
Kutxabank Group	17,744	115,125	22,682	104,978
Total	**17,744**	**115,125**	**22,682**	**104,978**

Cash equivalents include an amount of Euros 8.9 million in relation with short-term investments held with Company' s shareholders (Euros 5.7 million in 2013).

NOTE 20.—Guarantees

The Company is required to extend certain guarantees as part of its normal activity as well as to public entities for participating in invitations to tender and spectrum auctions as a result of legal obligations deriving from its participation in the telecommunications sector and for the licences to roll out its networks, as well as to comply with its long-term contract commitments with service providers.

During 2014 the Company has provided guarantees to safeguard the working conditions of the employees included in the personnel transfer agreements mentioned in note 15.3.

The Company considers that no additional liabilities will arise as a result of the aforementioned guarantees.

NOTE 21.—Reconciliation of IFRS to Local GAAP

Pursuant to prevailing Spanish legislation, the Company is obliged to prepare individual financial statements in accordance with the accounting principles established in the Spanish General Chart of Accounts and other applicable regulations. In this regard, on 1 June 2015 and 31 March 2014, the directors of the Company authorised for issue the annual accounts for the periods ended 31 December 2014 and 2013, respectively. Furthermore, within the context of the stock exchange flotation mentioned in Note 2, on 1 June 2015 the directors of the Company authorised for issue the financial statements for the year ended 31 December 2012 in accordance with IFRS-EU, with 1 January 2011 being considered the date of first application.

(Expressed in thousands of Euros)

NOTE 21.—Reconciliation of IFRS to Local GAAP (Continued)

A reconciliation between equity in accordance with prevailing Spanish accounting principles and the equity recognised in the accompanying balance sheets for the years ended 31 December 2014 and 2013 is shown in the following table:

	31.12.14	31.12.13
Equity (local GAAP)	**647,490**	**614,613**
Reserves	64,381	72,179
Other comprehensive income	(56,830)	(64,381)
Profit for the year		
Investment tax credits	(7,551)	(7,798)
Equity IFRS-EU	**647,490**	**614,613**

In accordance with Spanish accounting principles, the investment tax credits stipulated in tax legislation can be recognised as a reduction in the current income tax expense. Alternatively, the amount of investment tax credits can be initially recorded with a charge to other comprehensive income and subsequently recognised in the income statement as a reduction in the current income tax expense. The directors of the Company used this latter criteria when preparing the annual accounts for local GAAP purposes. The accounting treatment of investment tax credits is not defined in IFRS-EU. Nevertheless, taking into account that the aforementioned tax credits are available to all entities and not associated with fulfilling additional requirements other than the investment itself, the directors of the Company consider that investments tax credits are in substance a reduction in income tax more in line with IAS 12 (Income Taxes) than with IAS 20 (Capital Grants). Consequently, reserves have been increased and other comprehensive income and income tax decreased by amounts of Euros 64.4 million, Euros 56.8 million and Euros 7.6 million, respectively (Euros 72.2 million, Euros 64.4 million and Euros 7.8 million, respectively, in 2013).

NOTE 22.—Events after the reporting period

The Board of Directors at their meeting held on February 3, 2015 agreed, among others, to explore the possibility of carrying out a public offering of the company's shares on the Spanish stock market. The Board therefore agreed to contract an external advisor to help the company and coordinate all the actions required to prepare the Initial Public Offering (IPO).

The key milestones in the company since then have been the following:

- Lawyers and financial advisors have been contracted for the company
- Selection and appointment of the banks to coordinate and placement of the shares among the interested potential investors
- Adaptation of the Company to the new requirements of Corporate Government and the Stock Market regulator
- Presentations of the Company to the banks involved in the IPO and financial analysts
- Preparing the share offer explanatory leaflet
- Exploring the interest in the investment market, holding meetings with possible leading institutional investors
- Converting and preparing the financial statements of the Company for the financial years ended as of 31 December 2012, 2013 and 2014, along with those for the first quarter of 2015 (as of 31 March 2015), pursuant to international accounting standards, in order to make it easier for international investors to understand them.

NOTE 22.—Events after the reporting period (Continued)

It is forecast that the process that will lead to the Company's shares being traded on the stock exchange will conclude prior to mid-July 2015. In the event the stock exchange flotation goes ahead, and with the prior authorization of the Board of Directors the Company intends to refinance its bank debt. The estimated amount of the refinancing is Euros 470 million, which would be used to cancel the financial debt existing at the time of the flotation, amounting to approximately Euros 232 million, with the remainder being used to cover certain payments relating to the public listing and refinancing expenses (between Euros 16 and 65 millions) and the possible payment of an extraordinary dividend (between Euros 173 and 223 millions, with a charge to freely-available reserves).

Derio, 1 June 2015

In the context of a potential listing on the Madrid stock exchange, and to comply with requests of information by third parties, the directors of Euskaltel, S.A. have prepared for issue the Financial Statements comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes thereto of the Company for the years ended 31 December 2014 and 2013, at the board of directors meeting held at the above date.

The directors declare that they have signed each of the above-mentioned documents in their own hand, and in witness thereof sign below.

Signed:

Mr. Alberto García Erauzkin
(Chairman)

Mr. Richard David Alden

Ms. Alicia Vivanco González

Mr. Alfonso Basagoiti Zavala

Mr. Javier Bañón Treviño

Mareblu, Sá.r.l.
(Represented by Mr. John C. Mowinckel)

Ms. D.ª Bridget Cosgrave

Mr. José Ángel Corres Abasolo

Ms. D.ª Belén Amatriain Corbi

Mr. Iñaki Alzaga Etxeita

Financial Statements

for the year ended

31 December 2012

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Euskaltel, S.A.

We have audited the accompanying financial statements of Euskaltel, S.A., which comprise the balance sheet as at 31 December 2012, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Euskaltel, S.A. as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

We draw attention to Notes 2.1 and 21 of the accompanying financial statements, which state that the financial statements for 2012 are the first financial statements prepared by the company's directors in accordance with International Financial Reporting Standards as adopted by the European Union, effective as at 31 December 2012, and include, for comparative purposes in each of the statements of the 2012 financial statements, the figures relating to 2011. For the purposes of a potential stock exchange listing, the Company has voluntarily prepared these financial statements under International Financial Reporting Standards as adopted by the European Union, with a transition date of 1 January 2011. Note 21 of the accompanying financial statements includes information on the criteria applied and accounting effects of the aforementioned transition. Our opinion is not qualified in respect of this matter.

Other Matters

The accompanying financial statements have been audited in accordance with International Standards on Auditing. Therefore, this report may not, under any circumstances, be understood to be an audit report issued in accordance with legislation governing the audit practice in Spain. No audit report has been issued on the comparative information as at 1 January 2011, 31 December 2011, and for the year ended 31 December 2011 prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Euskaltel S.A. has prepared a separate set of statutory annual accounts for the year ended 31 December 2012 in accordance with accounting principles generally accepted in Spain and other provisions of the financial reporting framework applicable in Spain, in respect of which we issued a separate auditor's report to the shareholders of Euskaltel, S.A. on 7 March 2013, in accordance with legislation governing the audit practice in Spain.

PricewaterhouseCoopers Auditores, S.L.

Ricardo Celada

4 June 2015

EUSKALTEL, S.A.

Balance Sheets

at 31 December 2012 and 2011 and at 1 January 2011

(Expressed in thousands of Euros)

ASSETS	Notes	31.12.2012	31.12.2011	01.01.2011
NON-CURRENT ASSETS		**1,017,651**	**988,705**	**969,249**
Intangible assets	5	15,878	20,465	17,337
Property, plant and equipment	6	827,602	780,585	807,765
Financial assets		1,157	1,356	1,384
Deferred tax assets	13	173,014	186,299	142,763
CURRENT ASSETS		**45,664**	**133,723**	**122,201**
Inventories	8	3,826	5,455	4,219
Trade receivables	7	40,724	70,263	71,588
Other current assets		887	1,551	1,135
Cash and cash equivalents	9	227	56,454	45,259
TOTAL ASSETS		**1,063,315**	**1,122,428**	**1,091,450**

EQUITY AND LIABILITIES	Notes	31.12.2012	31.12.2011	01.01.2011
EQUITY	**10**	**572,896**	**464,835**	**567,290**
Capital		379,613	325,200	325,200
Share premium		79,390	65,803	65,803
Retained earnings		113,957	73,832	176,287
Other comprehensive income		(64)	—	—
NON-CURRENT LIABILITIES		**284,571**	**241,837**	**314,291**
Long-term borrowings	11	284,571	241,837	314,291
CURRENT LIABILITIES		**205,848**	**415,756**	**209,869**
Short-term borrowings	11	126,130	72,454	48,891
Trade and other payables	4, 12	70,000	115,747	151,577
Other current liabilities	12	9,718	227,555	9,401
TOTAL EQUITY AND LIABILITIES		**1,063,315**	**1,122,428**	**1,091,450**

Derio, 1 June 2015

Notes 1 to 22 are an integral part of these financial statements

EUSKALTEL, S.A.

Income Statements

for the years ended 31 December 2012 and 2011

(Expressed in thousands of Euros)

	Notes	2012	2011
Revenues	14	338,542	350,520
Other income		819	772
Work performed by the entity and capitalized	6	3,439	3,856
Supplies	14	(76,916)	(87,064)
Personnel expenses	14	(31,708)	(32,039)
Other operating expenses	14	(92,217)	(290,145)
Depreciation, amortization and impairment	5, 6	(75,889)	(83,762)
RESULTS FROM OPERATING ACTIVITIES		**66,070**	**(137,862)**
Finance income	14	136	1,283
Finance costs	14	(12,861)	(12,264)
NET FINANCE COST		**(12,725)**	**(10,981)**
PROFIT BEFORE INCOME TAX		**53,345**	**(148,843)**
Income tax	13	(13,220)	46,989
PROFIT FOR THE YEAR	10	**40,125**	**(101,854)**
Earnings per share:	15		
Basic earnings per share in €		7.36	(18.79)
Diluted earnings per share in €		7.36	(18.79)

Derio, 1 June 2015

Notes 1 to 22 are an integral part of these financial statements

EUSKALTEL, S.A.

Statement of Comprehensive Income

for the years ended 31 December 2012 and 2011

(Expressed in thousands of Euros)

	Notes	2012	2011
Profit for the year	**10**	**40,125**	**(101,854)**
Items that may be reclassified subsequently to profit and loss		**(64)**	**—**
Available for sale financial assets		(64)	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**40,061**	**(101,854)**

Derio, 1 June 2015

Notes 1 to 22 are an integral part of these financial statements

EUSKALTEL, S.A.

Statements of Changes in Equity

for the years ended 31 December 2012 and 2011

(Expressed in thousands of Euros)

			Retained earnings					
	Share capital	**Share premium**	**Reserves and prior years' profit and loss**	**Treasury shares**	**Profit/(loss) for the year**	**Interim dividend**	**Other comprehensive income**	**TOTAL**
Opening balance 2011	**325,200**	**65,803**	**178,037**	**(1,672)**	**24,922**	**(25,000)**	**—**	**567,290**
Total recognised income expense	—	—	—	—	(101,854)		—	(101,854)
Transactions with shareholders								
Distribution of dividends	—	—	2,727	1,672	—	(5,000)	—	(601)
Other changes in equity	—	—	(78)	—	(24,922)	25,000	—	—
Closing balance 2011	**325,200**	**65,803**	**180,686**	**—**	**(101,854)**	**(5,000)**	**—**	**464,835**
Total recognised income expense	—	—	—		40,125		(64)	40,061
Transactions with shareholders								
Distribution of dividends	—	—	(5,000)	—	—	5,000	—	—
Share capital increase	54,413	13,587						68,000
Other changes in equity	—	—	(101,854)	—	101,854	—	—	—
Closing balance 2012	**379,613**	**79,390**	**73,832**	**—**	**40,125**	**—**	**(64)**	**572,896**

Derio, 1 June 2015

Notes 1 to 22 are an integral part of these financial statements

EUSKALTEL, S.A.

Statements of Cash Flows

for the years ended 31 December 2012 and 2011

(Expressed in thousands of Euros)

	31.12.2012	31.12.2011
Profit for the year before tax	**53,345**	**(148,843)**
Adjustments for:	**91,307**	**97,818**
Amortization and depreciation	74,088	83,762
Impairment losses on property plan and equipment and intangible assets	2,674	—
Impairment loss on trade receivable and other financial assets	3,057	4,257
Impairment loss/(gain) on inventory	(364)	—
Gains/(losses) on disposal of property plant and equipment	(873)	—
Other income and expenses	437	(1,511)
Finance income	(132)	(902)
Finance costs	12,424	12,264
Exchange gains/(losses)	(4)	(52)
Changes in operating assets and liabilities	**(226,170)**	**180,417**
Increase in inventories	1,993	(1,236)
Increase in trade and other receivables	27,114	(3,662)
Decrease in trade payables	(255,277)	185,315
Other cash flows from operating activities	**(12,335)**	**(11,374)**
Interest paid	(12,467)	(12,221)
Dividends received	—	163
Interest received	132	739
Income tax expense	—	(55)
Cash flows from operating activities	**(93,853)**	**118,018**
Cash flows from investing activities		
Acquisition of other investments	(460)	(54)
Acquisition of intangible assets	(2,820)	(8,487)
Acquisition of property, plant and equipment	(123,758)	(49,449)
Proceeds from sale of other investments	254	101
Proceeds from sale of property, plant and equipment	—	—
Other	—	—
Net cash used in investing activities	**(126,784)**	**(57,889)**
Cash flows from financing activities		
Proceeds from issue of capital	68,000	—
Proceeds from issue of loans and borrowings	168,865	—
Repayment of loans and borrowings	(72,455)	(48,934)
Other	—	—
Net cash flows from financing activities	**164,410**	**(48,934)**
Cash and cash equivalents at beginning of year	56,454	45,259
Cash and cash equivalents at year end	227	56,454
NET CASH INCREASE IN CASH AND CASH EQUIVALENTS	**(56,227)**	**11,195**

Derio, 1 June 2015

Notes 1 to 22 are an integral part of these financial statements

EUSKALTEL, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR 2012

(Expressed in thousands of Euros)

NOTE 1.—General Information

Euskaltel, S.A. (hereinafter the Company) was incorporated with limited liability on 3 July 1995. Its first product was launched on the market on 23 January 1998. Its registered office is located in Derio (Biscay) and its products are mainly sold in the Autonomous Region of the Basque Country.

The Company's statutory and principal activity since its incorporation consists of the rendering, management, installation, operation and marketing of telecommunications networks and services in accordance with prevailing legislation, as well as the marketing and sale of goods required to carry out these services. The Company's main facilities are located at the Bizkaia technology park.

NOTE 2.—Basis of Presentation

2.1 Fair presentation

The accompanying financial statements have been prepared on the basis of the accounting records of Euskaltel, S.A. The financial statements for 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and IFRIC interpretations, to present fairly the equity and financial position of Euskaltel, S.A. at 31 December 2012 and results of operations and changes in equity and cash flows of the Company for the year then ended.

These are the first financial statements prepared under IFRS-EU and IFRS 1, "First-time adoption of International Financial Reporting Standards" is therefore applicable. The date of first-time adoption is 31 December 2012, being 1 January 2011 the date of transition to IFRS-EU (Note 21).

Pursuant to prevailing Spanish legislation, the Company authorized for issue the statutory annual accounts for year 2012 prepared in accordance with accounting principles generally accepted in Spain and other provisions of the financial reporting framework applicable in Spain on 6 March 2013, and they were subject to audit in accordance with legislation governing the audit practice in Spain. An unqualified report was issued, on those statutory annual accounts on 7 March 2013.

The accompanying financial statements include comparative information as at 1 January 2011, 31 December 2011, and for the year ended 31 December 2011, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, that are not subject to audit. The annual accounts for the year ended 31 December 2011 prepared in accordance with accounting principles generally accepted in Spain and other provisions of the financial reporting framework applicable in Spain were authorized for issue on 17 May 2012, and they were subject to audit in accordance with legislation governing the audit practice in Spain. An unqualified report was issued, on those statutory annual accounts on 31 May 2012.

The directors have prepared the accompanying financial statements for the year 2012 for the purpose of a potential listing on the stock exchange.

These financial statements were authorized for issue on 1 June 2015.

2.2 Critical issues regarding the valuation and estimation of uncertainties

Preparation of the financial statements in accordance with EU IFRS requires the use of certain critical accounting estimates and management judgements concerning the future. These are evaluated constantly and based on historical experience and other factors, including expectations of future events and, where applicable, the justified opinion of renowned experts.

In the event that the final outcome of the estimates differed from the amounts initially recognised, or information that would modify these estimates became available, the effects of any changes in the initial estimates are accounted for in the year they are known.

NOTE 2.—Basis of Presentation (Continued)

The estimates and judgements that present significant risk of a material adjustment to the carrying amounts of assets and liabilities in the subsequent reporting period are as follows:

a) Corporate income tax and deferred tax assets

A major degree of judgement is required to determine the provision for income tax. There are many transactions and calculations for which the ultimate determination of the tax is uncertain during the ordinary course of business. Tax is calculated based on Management's best estimates in accordance with the current situation as regards tax legislation and taking into account expected developments in this area in the different legislations applied to the Company.

Deferred tax assets are recognised for all unused tax loss carryforwards, deductible temporary differences and available deductions to the extent that it is probable that sufficient taxable income will be available against which these assets can be utilised. In order to determine the amount of the deferred tax assets to be recognised, estimates are made of the amounts and dates on which future taxable profits will be obtained and the reversal period of temporary differences.

b) Useful lives and impairment of assets

The Company determines the estimated useful lives and related amortisation and depreciation charges of assets based on the actual decline in value due to operation and use. The Company increases amortisation and depreciation charges if the useful lives are shorter than previously estimated and writes down or writes off technically obsolete or non-strategic assets that have been abandoned or sold, or when circumstances indicate that their carrying amount might not be recoverable.

c) Provisions

The nature of the business and operations of the Company make necessary the recognition of provisions whose balances are determined according to the best estimate performed by the Society.

Provisions are subject to financial discount whenever feasible to calculate an estimate of the time that it is probable its liquidation

d) Measurements of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair value, both financial and non-financial assets and liabilities. When measuring the fair value of an asset or liability, the Company uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the fair value techniques, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For further information about the assumptions made in measuring fair values we refer to Note 4.1.

NOTE 3.—Accounting Principles

3.1 Intangible assets

a) Computer software

Computer software mainly reflects the acquisition and development of software applications, which are recognised at cost and amortised on a straight-line basis over their estimated useful life of between three and five years.

Computer software maintenance costs are charged as expenses when incurred.

b) Other intangible assets

Licences are carried at cost less accumulated amortisation and any recognised impairment.

Licences are amortised on a straight-line basis over the term they are granted.

If the favourable situation that enabled expenses required to obtain the licence to be capitalised were to change, the portion pending amortisation is taken to profit or loss in the year the situation changed.

3.2 Property, plant and equipment

Property, plant and equipment are recognised at cost of acquisition or production, less accumulated depreciation and recognised accumulated impairment losses, where applicable.

Costs incurred to extend, modernise or improve property, plant and equipment are only recorded as an increase in the value of the asset when the capacity, productivity or useful life of the asset is increased, and provided that the carrying amounts of the items that are being replaced are known or can be reasonably estimated.

Recurring maintenance costs are charged to the income statement during the year in which they are incurred.

Depreciation of property, plant and equipment, with the exception of land that is not depreciated, is calculated systematically on a straight-line basis over the estimated useful lives of the assets based on the actual decline in value due to operation and use.

The estimated useful lives of property, plant and equipment are as follows:

	Years
Buildings	50
Civil engineering	50
Cablings	18 - 40
Network equipment	10 - 18
Client equipment	2 - 15
Other installations, equipment and furniture	6 - 7
Other assets	5 - 8

The Company reviews the useful lives of the assets, as well as their classification as under construction, and makes any necessary adjustments at each reporting date. However, taking into consideration the projected utilization of the Company's fixed assets, the residual value is not expected to be significant at the closing date.

Finance costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

NOTE 3.—Accounting Principles (Continued)

3.3 Impairment losses on non-financial assets

The Company evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation in order to verify whether the carrying amounts of these assets exceed their recoverable amounts. The recoverable amount is the higher of the fair value less costs to sell and the value in use.

Impairment losses are recognized in the income statement.

The recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

At the end of each reporting period, the Company assesses whether there is any indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. Impairment losses are only reversed if there has been a change in the estimates used to calculate the recoverable amount of the asset.

A reversal of an impairment loss is recognized in the income statement. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

A reversal of an impairment loss for a cash-generating-unit is allocated to the non-current assets of each unit, pro rata with the carrying amounts of those assets. An assets' carrying amount may not be increased above the lower of its recoverable amount and the carrying amount that would have been disclosed, net of amortisation or depreciation, had no impairment loss been recognised.

After an impairment loss or reversal of an impairment loss is recognised, the depreciation/amortisation charge for the asset is adjusted in future periods based on its new carrying amount.

However, if the specific circumstances of the assets indicate an irreversible loss, this is recognised directly in losses on the disposal of fixed assets in the income statement.

3.4 Inventories

Inventories are initially measured at the lower of cost (whether cost of acquisition or production) and net realisable value, and any related impairment losses or reversals are recognised in the income statement.

Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

3.5 Financial assets

In accordance with the classification criteria established by IAS 39, Euskaltel classifies its current and non-current financial assets in the following categories:

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

These financial assets are initially carried at fair value, including directly attributable transaction costs, and are subsequently measured at amortised cost, recognising accrued interest at the effective interest rate, which is the discount rate that matches the instrument's carrying amount to all estimated cash flows to maturity. Nevertheless, trade receivables falling due in less than one year are carried at their face value at both initial recognition and subsequent measurement, provided the effect of not updating is immaterial.

The impairment loss is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate upon initial

NOTE 3.—Accounting Principles (Continued)

recognition. Impairment losses are recognised and reversed in profit or loss. Amounts covered by the provision for impairment are derecognised when their recovery is no longer expected by the Company.

b) Available-for-sale financial assets.

These are financial assets not classified in any of the aforementioned categories, nearly all of which relate to equity investments. These assets are also presented in the balance sheet at fair value which, in the case of unlisted companies, is obtained using alternative methods, such as comparison with similar transactions or, if sufficient information is available, by discounting expected future cash flows. Changes in this market value are recognised with a charge or credit to "Unrealised Asset and Liability Revaluation Reserve" in the balance sheet until these investments are disposed of, when the accumulated balance of this heading relating to these investments is allocated in full to the income statement.

Equity investments in unlisted companies, the fair value of which cannot be measured reliably using alternative methods such as those indicated in the preceding paragraph, are measured at cost, less recognized impairments.

Management of Euskaltel decides on the most appropriate classification for each asset on acquisition and reviews the classification at each balance sheet date.

c) Derecognition of financial assets

A financial asset is derecognised from the balance sheet if all the risks and rewards of ownership are substantially transferred. In the case of receivables, this is generally understood to be when insolvency and default risks have been transferred.

3.6 Cash and cash equivalents

This heading includes cash, current bank accounts and deposits, and if appropriate, deposits and temporary acquisitions of assets which meet the following requirements:

- They are convertible into cash.
- On acquisition, they mature in less than three months.
- They are not subject to significant value fluctuation risk.
- They form part of the Company's normal cash management policy.

Bank overdrafts, if they arise, are included in borrowings in current liabilities on the balance sheet

3.7 Financial liabilities

In accordance with the classification criteria established by IAS 39, Euskaltel classifies its current and non-current financial liabilities in the following category:

Trades and other payables

Debts and payables are initially recognised at fair value, adjusted for directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method. The effective interest rate is the discount rate that matches the instrument's carrying amount with the expected future flow of payments to the maturity date of the liability.

Nevertheless, trade payables falling due in less than one year without a contractual interest rate are carried at their face value on both initial recognition and subsequent measurement, provided the effect of not discounting flows is not significant.

NOTE 3.—Accounting Principles (Continued)

3.8 Current and deferred taxes

The income tax expense or tax income is recognised in the income statement each year, calculated based on the pre-tax profits disclosed in the financial statements, adjusted for permanent differences with fiscal criteria. If the profit is associated with an income or expense recognised directly in equity, the tax expense or tax income is also recognised against equity. Deferred tax assets and liabilities arising from temporary differences deriving from the application of fiscal criteria in the recognition of income and expenses, are recognised in the balance sheet until they are reversed.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets and unused tax credits in respect of loss carryforwards are only capitalised when their future realisation is reasonably assured.

Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reversed, using tax rates enacted or substantively enacted at the reporting date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.9 Provisions and contingent liabilities

Provisions are recognised, where applicable, when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions expiring in one year or less, the financial effect of which is immaterial, are not discounted.

3.10 Revenue recognition

Revenue

Revenue is recognised at the fair value of the consideration receivable and reflects the amounts to be collected for goods handed over and services rendered in the ordinary course of the Company's activities, less returns, discounts and value added tax.

The Company main source of revenue comes from the individual or combined provision of fixed telephony services, pay television, broad-band internet services and mobile telephony services to retail customers and large accounts and corporations.

Commercial packages that combine different elements are analysed to determine whether it is necessary to separate the different elements identified, applying the appropriate revenue recognition policy in each specific case.

Both fixed and mobile traffic is recognised as revenue as service is provided.

If traffic or other services are sold at a fixed rate for a determined time period (flat rate), revenue is recognised on a straight-line basis over the time period covered by the rate paid by the customer.

The periodic charges for use of the network (telephony, internet and television) are credited to the income statement on a straight-line basis over the period to which they relate.

In the case of prepaid mobile telephony, the amount of unused credit is recognised as a deferred income until it is consumed or, where applicable, ultimately cancelled.

Rentals and other services are credited to the income statement as the service is provided.

NOTE 3.—Accounting Principles (Continued)

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery date.

Costs of acquiring customer, such as commissions owed to sales agents and third-party dealers, or such as handsets provided freely or heavily discounted to attract and retain customers, are recognised as an expense when the performance obligation is satisfied (the commission is rendered or the handset is delivered to the customer).

Interest income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

3.11 Leases

a) Finance leases

Leases of property, plant and equipment where the Company has substantially assumed all the risks and rewards of ownership of leased assets are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Present value is calculated using the interest rate implicit in the lease agreement and, if this rate cannot be determined, the interest rate applied by the Company in similar transactions.

Each lease payment is distributed between the liability and finance charges. The total finance charge is apportioned over the lease term and taken to the income statement in the period of accrual, using the effective interest method. Contingent rents are expensed in the year they are incurred. Lease obligations, net of finance charges, are recognised in finance lease payables. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

b) Operating leases

Leases in which the lessor retains substantially all the risks and rewards incidental to ownership are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognised in profit or loss.

3.12 Foreign currency transactions

a) Functional and presentation currency

Except where otherwise stated, the figures disclosed in the financial statements are expressed in thousands of Euros, the Company's functional currency.

b) Foreign currency transactions and balances

Transactions in foreign currency are translated at the foreign exchange rate prevailing at the date of the transaction. Foreign currency gains and losses resulting from the settlement of transactions and translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

3.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are presented in equity as a deduction, net of taxes, from revenue obtained.

(Expressed in thousands of Euros)

NOTE 3.—Accounting Principles (Continued)

Where the Company purchases the own Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to equity holders of the Company until the shares are cancelled, reissued or disposed of. Where such shares are subsequently disposed of or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to equity holders of the Company.

3.14 Cash Flow Statement

The following terms are used in the cash flow statement with the meanings specified:

- Cash flows. Inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities. The principal revenue-producing activities of Euskaltel and other activities that are not investing or financing activities.
- Investing activities. Activities of acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities. Activities that result in changes in the size and composition of the equity and borrowings that are not operating activities.

3.15 Segment reporting

The operating segments are presented consistently with the management approach, in accordance with the information used internally at the highest decision-making level. The maximum authority for decision making is responsible for assigning resources to operating segments and evaluating the segments' performance. Segment reporting is in Note 16.

NOTE 4.—Financial instruments—Fair values and Risk Management

4.1 Accounting classification and Fair value

The main financial assets held by the Company comprise trade receivables and cash and cash equivalents. These assets are classified under assets at amortised cost and the receivables fall due in the short term, so there are no significant differences between their carrying amount and their fair value. Furthermore, the table below shows the carrying amounts and fair values of financial liabilities, including their levels in the fair value hierarchy.

	Level	31.12.12	31.12.11	01.01.11
Financial liabilities measured at amortized costs				
Loans and borrowing	2	410,631	314,291	363,182
Other financial liabilities		70	—	—
Trade and other payables & Other current liabilities		79,718	343,302	160,978
		490,419	657,593	524,160

The fair value of loans and borrowings is estimated by discounting contractual future cash flows at the current market interest rate available to the Company for similar financial instruments. The carrying amounts of trade and other payables are assumed to be similar to their fair values.

4.2 Financial risk management

The Company activities are exposed to various financial risks: credit risk, liquidity risk and market risk (including currency risk and fair value interest rate risk). The Companie's global risk management

NOTE 4.—Financial instruments—Fair values and Risk Management (Continued)

programme focuses on uncertainty in the financial markets and aims to minimise potential adverse effects on the Companie's profits.

The Company uses financial risk evaluation and mitigation methods suited to its activity and scope of operations, which are sufficient for the adequate management of risks.

A summary of the main financial risks affecting the Company, as well as the measures in place to mitigate these risks, is as follows:

- Credit risk
- Liquidity risk
- Market risk, currency risk and interest rate risk

This note presents information about the Company's exposure to each of the above risks, objectives, policies and procedures of the Company for measuring and managing risk and capital management by the Company.

Risk management framework

It is the responsibility of the Board of Directors to establish and oversee the risk management structure of the Company.

Compliance with the budget is reviewed periodically, analyzing the degree of implementation, evaluating deviations and proposing corrective measures. In this process, the managers of the various business units are involved.

The risk management policy of the Company is established in order to identify and analyze the risks assumed by the Company, set limits and appropriate risk controls, and to monitor risks and adherence to limits. Regularly, policies and risk management systems are reviewed in order to reflect changes in market conditions and the activities of the Company. The Company through its rules and administrative procedures, aims to develop an environment of disciplined and constructive control in which all employees understand their roles and obligations.

To mitigate these risks, the Company has at all times an active attitude to exogenous factors. The various departments of the Company may be affected by these factors produce specific action programs, such as those to comply with changes in national or international regulations.

The evolution of markets and changes in consumer habits are factors to which special attention is given, with departments in charge of relevant studies and analysis, relying on external collaborations in the field of market research.

The program's overall risk management of the Company is focused on minimizing the uncertainty in financial markets and the potential adverse effects on the financial performance of the Company.

a) Credit risk

Credit risk is the risk of financial loss that the Company faces if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises mainly in accounts receivable of the Company.

The Company considers customer credit risk to be mitigated by the application of different policies and specific practices to this effect, and the high level of dispersion of receivables. Among the different policies and specific practices implemented is the customer acceptance scoring policy, the long-term monitoring of customer credit, which reduces the possibility of default of significant receivables, and debt collection management

(Expressed in thousands of Euros)

NOTE 4.—Financial instruments—Fair values and Risk Management (Continued)

Details of the Company's ageing analysis of trade receivable are past-due but not impaired at 31 December 2012 and 2011 is as follows:

	31.12.12	31.12.11	01.01.11
Neither past due nor impaired	25,488	26,638	28,849
From 0-30 days	12,653	16,185	17,358
From 31-90 days	1,881	3,574	7,279
From 91-180 days	702	3,062	4,413
From 181-365 days	—	1,577	1,284
More than 365 days	—	19,227	12,405
Total	**40,724**	**70,263**	**71,588**

At 31 December 2011 and at 1 January 2011 there were relevant trade receivables matured from more than one year. They were, basically, related to pending amounts with France Telecom, which were cancelled with the final agreement with this entity in 2012 (Note 17).

The Company makes provision for impairment of trade and other receivables adding, to the total amount of balances that have exceeded a minimum period determined in accordance with pertinent legislation applicable to the sector, a percentage of past-due balances that do not exceed the aforementioned minimum period, estimated using historical data on the recovery of Company balances, as it considers that the application of this criterion represents a reasonable estimate of the impairment of the aforementioned financial assets.

Movement in the provision for impairment of trade and other receivables is as follows:

	31.12.12	31.12.11	01.01.11
Opening balance	**28,440**	**30,588**	**28,873**
Allowance account for impairment of trade receivables	3,057	4,586	7,620
Bad debts written off	(9,818)	(6,734)	(5,905)
Closing balance (Note 7)	**21,679**	**28,440**	**30,588**

Impairment of trade receivables is recognised and reversed under other operating expenses in the income statement, and totals Euros 3 million. Additionally, the Company has reversed provision in an amount of Euros 6.8 million as a consequence of the agreement described in Note 17. Management believes that the unimpaired amounts that are past due are still collectable based on historical payment behaviour and extensive analysis of customer credit risk. Management believes that the unimpaired amounts that are past due are still collectable based on historical payment behaviour and extensive analysis of customer credit risk. The Company does not have significant concentrations of credit risk.

The Company has cash and cash equivalents at December 31, 2012 by Euros 227 thousand (Euros 56,454 thousand Euros at December 31, 2011). Cash and cash equivalents are maintained with banks and financial institutions of high credit rating.

b) Liquidity risk

Liquidity risk is the risk that the Company would have difficulty meeting its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Company's approach to managing liquidity is to ensure, to the greatest extent possible, that it would always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking the reputation of the Company.

The Company adjusts the maturities of its debts to its capacity to generate cash for settlement.

(Expressed in thousands of Euros)

NOTE 4.—Financial instruments—Fair values and Risk Management (Continued)

To do this, the Company implements three-year financing plans, which are reviewed annually, and analyses of financial position every two weeks, which include long-term projections, together with a daily monitoring of bank balances and transactions.

Therefore, although the Company's working capital, defined as the difference between current assets and current liabilities (maturing in less than 12 months in both cases), is slightly negative, it is mainly because of normal business activity, in which the average collection period is lower than the average payment period, which is normal for the Company's activity.

The following are the contractual maturities of financial liabilities, including estimated interest:

	31.12.12						
	Book value	2014	2015	2016	2017	Thereafter	Total
Long-term borrowings							
Third parties	**108,706**	63,916	32,577	16,057	—	—	**112,550**
Related parties	**175,795**	31,894	27,258	17,737	11,911	132,487	**221,287**
Other	**70**	—	4	9	9	48	**70**
Total	**284,571**	**95,810**	**59,839**	**33,803**	**11,920**	**132,535**	**333,907**

	31.12.11						
	Book value	2013	2014	2015	2016	Thereafter	Total
Long-term borrowings							
Third parties	**179,094**	68,721	64,522	48,652	16,119	—	**198,014**
Related parties	**62,743**	21,356	24,793	28,208	9,346	—	**83,703**
Other	**—**	—	—	—	—	—	**—**
Total	**241,837**	**90,077**	**89,315**	**76,860**	**25,465**	**—**	**281,717**

	01.01.11						
	Book value	2012	2013	2014	2015	Thereafter	Total
Long-term borrowings							
Third parties	**242,946**	69,542	67,754	63,768	32,505	16,027	**249,596**
Related parties	**71,345**	12,646	20,880	24,385	18,845	9,292	**86,048**
Other	**—**	—	—	—	—	—	**—**
Total	**314,291**	**82,188**	**88,634**	**88,153**	**51,350**	**25,319**	**335,644**

The Company has a bank loan that contains a loan covenant the breaching of which may require repayment earlier than indicated in the above tables. That covenant was related to net bank debt in comparison to share capital and share premium. As at 31 December 2012, 31 December 2011 and 1 January 2011 the Company was compliant with the required covenants. Furthermore, the interest payments on variable interest rate loans in the tables above have been calculated on the basis of conditions existing at the end of each reporting period.

The Company's credit facilities have a total limit of Euros 117 million at 31 December 2012 (Euros 89.5 million in 2011), of which Euros 78 million remains undrawn at that date (Euros 89.5 million in 2011).

On December 19, 2012 the Company signed a credit facility amounting to Euros 80 million, maturing on December 30, 2018, to secure working capital requirements of the Company. The amount is included in the limit of Euros 117 million above.

(Expressed in thousands of Euros)

NOTE 4.—Financial instruments—Fair values and Risk Management (Continued)

c) Market risk, currency risk and interest rate risk

Market risk is the risk that changes in market prices affect the Company's income or the value of financial instruments held. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimizing the return.

The Company's ambit of operations barely exposes it to currency or price risks, which may arise from occasional purchases in foreign currency of insignificant amounts.

The interest rate risk arises mainly from the Company loans granted by banks and related parties at variable rates which expose the Company variability on future cash flows.

The interest rate profile of the interest-bearing for long term debt, measured at their outstanding principals due, is as follows:

	31.12.12	31.12.11	01.01.11
Fixed interest rate instruments	—	—	—
Variable interest rate instruments	373,500	316,833	367,000
	373,500	**316,833**	**367,000**

At December 31, 2012 an upturn in interest rates of 100 basis points, with other variables held constant, would have decreased the result after tax Euros 3,735 thousands (Euros 3,168 thousand in the year ended December 31, 2011).

(Expressed in thousands of Euros)

NOTE 5.—Intangible Assets

Details of intangible assets and movement are as follows:

	Computer software	Other	Total
GROSS AMOUNT			
Balance at 01.01.11	**37,893**	**977**	**38,870**
Additions	5,812	2,675	8,487
Balance at 31.12.11	**43,705**	**3,652**	**47,357**
Additions	2,802	18	2,820
Balance at 31.12.12	**46,507**	**3,670**	**50,177**
ACCUMULATED AMORTISATION			
Balance at 01.01.11	**(21,012)**	**(521)**	**(21,533)**
Additions	(5,283)	(76)	(5,359)
Balance at 31.12.11	**(26,295)**	**(597)**	**(26,892)**
Additions	(4,675)	(58)	(4,733)
Balance at 31.12.12	**(30,970)**	**(655)**	**(31,625)**
PROVISION FOR IMPAIRMENT			
Balance at 01.01.11	**—**	**—**	**—**
Additions	—	—	—
Balance at 31.12.11	**—**	**—**	**—**
Additions	—	(2,674)	(2,674)
Balance at 31.12.12	**—**	**(2,674)**	**(2,674)**
NET VALUE			
Balance at 01.01.11	**16,881**	**456**	**17,337**
Balance at 31.12.11	**17,410**	**3,055**	**20,465**
Balance at 31.12.12	**15,537**	**341**	**15,878**

Licences, included in other intangible assets, relate to the acquisition in 2011 of two blocks of frequencies in the 2.6 GHz bandwidth (10 + 10 MHz and 5 MHz TDD) in order to be able to provide, in a future, broadband mobility last generation services (LTE) with its own network, with which complement the offer on the own fiber optic network and mobility services rendered as a mobile virtual network operator (OMV).

In 2012, the Company recognised impairment losses on licences of Euros 2.7 million, since business trends in particular and the macroeconomic climate in general meant their capacity to generate income was not reasonably ensured.

The cost of fully amortised intangible assets in use at 31 December 2012 totals Euros 19.4 million (Euros 16.3 million in 2011).

The Company has contracted sufficient insurance policies to cover the risk of damage to its intangible assets.

(Expressed in thousands of Euros)

NOTE 6.—Property, Plant and Equipment

Details of property, plant and equipment and movement are as follows:

	Land and buildings	Civil engineering	Cabling	Network equipment	Client equipment	Other installations, equipment and furniture	Under construction and advances	Other property, plant and equipment	Total
GROSS AMOUNT									
Balance at 01.01.11	**65,269**	**238,805**	**241,865**	**308,726**	**199,337**	**136,319**	**31,787**	**21,569**	**1,243,677**
Additions	—	—	—	—	—	111	51,112	—	51,223
Transfers	81	4,788	9,318	14,070	22,341	3,773	(56,257)	1,886	—
Balance at 31.12.11	**65,350**	**243,593**	**251,183**	**322,796**	**221,678**	**140,203**	**26,642**	**23,455**	**1,294,900**
Additions	68,000	—	—	—	—	7	47,815	550	116,372
Transfers	190	9,911	12,756	15,008	14,833	3,651	(57,386)	1,037	—
Balance at 31.12.12	**133,540**	**253,504**	**263,939**	**337,804**	**236,511**	**143,861**	**17,071**	**25,042**	**1,411,272**
ACCUMULATED AMORTISATION									
Balance at 01.01.11	**(8,678)**	**(35,083)**	**(84,560)**	**(138,719)**	**(114,435)**	**(38,715)**	**—**	**(15,722)**	**(435,912)**
Additions	(1,253)	(6,484)	(15,541)	(29,348)	(15,715)	(8,642)		(1,420)	(78,403)
Balance at 31.12.11	**(9,931)**	**(41,567)**	**(100,101)**	**(168,067)**	**(130,150)**	**(47,357)**	**—**	**(17,142)**	**(514,315)**
Additions	(1,254)	(5,835)	(12,741)	(28,188)	(11,199)	(8,985)	—	(1,153)	(69,355)
Balance at 31.12.12	**(11,185)**	**(47,402)**	**(112,842)**	**(196,255)**	**(141,349)**	**(56,342)**	**—**	**(18,295)**	**(583,670)**
NET VALUE									
Balance at 01.01.11	**56,591**	**203,722**	**157,305**	**170,007**	**84,902**	**97,604**	**31,787**	**5,847**	**807,765**
Balance at 31.12.11	**55,419**	**202,026**	**151,082**	**154,729**	**91,528**	**92,846**	**26,642**	**6,313**	**780,585**
Balance at 31.12.12	**122,355**	**206,102**	**151,097**	**141,549**	**95,162**	**87,519**	**17,071**	**6,747**	**827,602**

The Basque Government-Eusko Jaurlaritza, at a session held on 17 July 2012 and in compliance with the revised Equity Law of Euskadi, approved by Decree Law 2/2007 of 6 November 2007, agreed to seek the Basque Parliament's authorisation to transfer the excess telecommunications network and infrastructure owned by the Basque regional government to the Company for a sale price of Euros 68,000 thousand, based on the appraisal of an independent expert. This network, which mainly comprises underground channels, had been leased to the Company since its incorporation, and represented a rental cost of approximately Euros 3.3 million in 2012 (3.4 million in 2011).

On 13 August 2012, the Basque Parliament's Commission on Economy, Finance and Budget authorised this transfer, after which, the corresponding order for divestiture was issued by the Minister of Economy and Finance on 21 September 2012. The Company finally acquired the aforementioned telecommunications network through a deed of sale and purchase signed by both parties on 20 December 2012. This purchase was paid in full upon signing of the deed of sale and purchase, for which the Company increased its capital by Euros 54,413 thousand, with a share premium of Euros 13,587 thousand.

In 2012 the Company has capitalised Euros 259 thousand in finance costs (Euros 369 thousand in 2011) deriving from external financing obtained to roll-out the network, calculated using a capitalisation rate of 2.41% in 2012 (2011: 3.19%, equivalent to the average effective cost of the external financing during the year.

In 2012 costs of Euros 3.4 million relating to network roll-out activities have been capitalised (Euros 3.9 million in 2011).

The cost of fully depreciated property, plant and equipment in use at 31 December 2012 is Euros 202.1 million (Euros 140.2 million in 2011).

At 31 December 2012 and 2011 there are no items of property, plant and equipment pledged to secure financial liabilities and sufficient insurance policies have been taken out to cover the risk of damage to property, plant and equipment.

The heading of Under construction and advances balance included Spare parts, amounting to 4,316 thousand Euros (2011: 3,589 thousand Euros) is included, net of provision for impairment estimated based on the rotation of the elements included in this balance amounting to 8,515 thousand Euros (2011: 9,817 thousand Euros) (Note 16). In 2012 were reversed EUR 0.8 million of this provision, based on the analysis of rotation performed. In 2011 no amount was doted or reversed in this provision concepts.

(Expressed in thousands of Euros)

NOTE 7.—Financial assets

Financial assets by category are as follows:

	31.12.12	31.12.11	01.01.11
Long term financial assets	**1,157**	**1,356**	**1,384**
Equity instruments in related entities	24	21	21
Loans and receivables	278	372	400
Available-for-sale financial assets	855	963	963
Short term financial assets			
Loans and receivables	**40,776**	**70,347**	**71,657**
Trade receivables (Note 7.1)	40,724	70,263	71,588
Credits and other financial assets	52	84	69
Prepayments for current assets	**835**	**1,467**	**1,066**

Financial assets in the long term have no defined maturity date. Long term loans and receivables are deposits due to, mainly, lease contracts, which do not have defined maturity date as the corresponding contracts have automatic renovation clauses.

At 31 December 2012 the Company held an investment in several companies, comprising eight limited liability subsidiaries (seven of which were dormant) with no material effect. At the current date, the liquidation of six of these companies had been filed at the Mercantile Registry, while the other two companies were in the process of being liquidated.

In addition, the Company held investments in associates, none of which are listed on the stock exchange, represent a 25% direct interest in Andornet, domiciled in Andorra and engaged in the transfer of data to third parties via electronic networks, and a 20% direct interest in Hamaika Telebista, domiciled in Bilbao and engaged in promoting the creation of local television stations that broadcast in the Basque language (Euskera).

7.1 Trade receivables

Details of the amounts included under this caption are shown below:

	31.12.12	31.12.11	01.01.11
Gross amount	62,403	98,703	102,176
Impairment	(21,679)	(28,440)	(30,588)
Total	**40,724**	**70,263**	**71,588**

The accounts receivable are stated at their nominal value, which does not differ significantly from their fair value, based on the cash flows there from discounted at market rates.

(Expressed in thousands of Euros)

NOTE 8.—Inventories

	31.12.12	31.12.11	01.01.11
Customer terminals and equipment	3,264	4,585	3,861
Mobile phones	676	2,886	3,286
Digital television decoders	2,588	1,699	575
Consumables	2,593	3,219	2,711
Other inventories	489	535	531
Total gross amount	**6,346**	**8,339**	**7,103**
Impairment losses on inventories	**(2,520)**	**(2,884)**	**(2,884)**
Total	**3,826**	**5,455**	**4,219**

The Company has contracted sufficient insurance coverage for the risk of damage to inventories.

NOTE 9.—Cash and Cash Equivalents

	31.12.12	31.12.11	01.01.11
Cash	227	1,071	32
Cash equivalents—third parties	—	6,646	5,678
Cash equivalents—related parties	—	48,737	39,549
Total	**227**	**56,454**	**45,259**

In 2011 the heading Other cash equivalents correspond to the balances subscription assignment of public debt, bank loans and bank borrowings of the Group, with repurchase agreement on original maturity less than 3 months and with an average yield of market.

The heading of Other cash equivalents amounting to 6,646 thousand Euros at December 31, 2011 (5,678 thousand Euros at January 1, 2011) included underwriting assignment of public debt with Caja Vital, since January 1, 2012 part of Kutxabank Group.

NOTE 10.—Equity

10.1 Capital

At 31 December 2012 the subscribed capital of the Company is represented by 6,326,890 registered shares of Euros 60 par value each, with the same rights and obligations, subscribed and fully paid (5,420,000 shares in 2011 and 2010).

(Expressed in thousands of Euros)

NOTE 10.—Equity (Continued)

Companies which hold an interest in the share capital of the Company and their percentage ownership, are as follows:

	31.12.12 Percentage ownership	31.12.11 Percentage ownership	01.01.11 Percentage ownership
Kutxabank S.A.	30.19%	—	—
Bilbao Bizkaia Kutxa Aurrezki Kutxa eta Bahitetxea	—	35.24%	35.05%
CK Corporación Kutxa-Kutxa Korporazioa S.L.	12.64%	24.44%	24.31%
Araba Gertu S.A.	7.07%	8.25%	8.20%
Grupo Kutxabank	**49.90%**	**67.93%**	**67.56%**
International Cable B.V.	48.10%	—	—
Iberdrola S.A.	2.00%	11.85%	11.79%
Endesa S.A.	—	10.64%	10.58%
Euskal Irrati Telebista Herri Erakundea	—	5.32%	5.29%
Ente Vasco de la Energía	—	2.13%	2.12%
Mondragón Inversiones S.P.E. S.Coop.	—	2.13%	2.12%
Teasury Shares	—	—	0.54%
Total	**100.00%**	**100.00%**	**100.00%**

The Universal Extraordinary General Shareholders Meeting dated October 26, 2005 agreed unanimously, the derivative acquisition of own shares as treasury shares.

Since 1 January 2012, as a result of the spin-off of the financial businesses of Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea (BBK), Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián—Gipuzkoa eta Donostiako Aurrezki Kutxa (Kutxa) and Caja de Ahorros de Vitoria y Álava—Araba eta Gasteizko Aurrezki Kutxa (Vital) to Kutxabank, S.A., the latter (Kutxabank) has assumed all obligations and all the rights and shares comprising the equity of BBK, Kutxa and Vital.

Consequently, since January 1, 2012, the 1,919,038 shares of the Company of which it owner BBK as of December 31, 2011 have become owned by Kutxabank and, likewise, companies CK-Kutxa Kutxa Corporation Korporazioa, S.L. and Araba Gertu, S.A. have, fully, passed belong to Kutxabank, resulting therefore that, as of January 1, 2012, shares of the Company belonging to the group are Kutxabank 3,681,931, equivalent to 67.93% of total capital.

At a meeting held on 6 March 2012, the cabinet of the Basque Government-Eusko Jaurlaritza agreed to authorise the addition of the investment held by the public entities Ente Vasco de la Energía and Euskal Irrati Telebista Herri Erakundea in the share capital of Euskaltel, S.A. to the business asset portfolio of the General Administration of the Autonomous Community of Euskadi. Consequently, as of that date, the shares held by both companies became fully owned by the Basque Government-Eusko Jaurlaritza, with the General Administration of the Autonomous Community of Euskadi assuming the legal relations, rights and obligations of the aforementioned public entities with the Company.

In December 2012 the Company increased its share capital by Euros 54,413 thousand by issuing 906,890 shares of Euros 60 par value each, with a share premium of Euros 13,587 thousand. After the shareholders renounced their preferential right to subscription, International Cable, B.V. subscribed and fully paid the aforementioned share capital increase with share premium.

In addition, International Cable, B.V. closed individual agreements for the sale-purchase of the Company's shares with different shareholders, as a result of which, International Cable, B.V. held a 48.10% interest in the Company at 31 December 2012.

(Expressed in thousands of Euros)

NOTE 10.—Equity (Continued)

The Company manages its capital with the aim of safeguarding its capacity to continue operating as a going concern, so as to continue providing shareholder remuneration and benefiting other stakeholders, while maintaining an optimum capital structure to reduce the cost of capital.

To maintain and adjust the capital structure, the Company can adjust the amount of dividends payable to shareholders, reimburse capital, issue shares or dispose of assets to reduce debt.

Like other groups in the sector, Euskaltel controls its capital structure on a leverage ratio basis. This ratio is calculated as net debt divided by total capital. Net debt is the sum of financial debt plus trade and other payables, less cash and cash equivalents. Total capital is the sum of equity plus net debt.

During 2012 the strategy remained the same as in 2011, the ratios are calculated as follows:

	2012	2011	2010
Total debt	490,419	657,593	524,160
Less: Cash and cash equivalents	(227)	(56,454)	(45,259)
Net debt	490,192	601,139	478,901
Equity	572,896	464,835	567,290
Total capital	1,063,088	1,065,974	1,046,191
Debt ratio	0.5	0.6	0.5

The financial situation in December 2011 was affected by the resolution of the proceedings against Euskaltel, S.A. by the France Telecom Group. During 2012 there has been a positive evolution both in the results of the Company (Profit for the year: Euros 40.1 million) and the cash generation. Additionally, in December 2012 the Company increased its share capital by Euros 54.4 million with a share premium of Euros 13.6 million.

10.2 Share premium

In accordance with prevailing legislation, the share premium is a freely-distributable reserve, provided that equity exceeds share capital.

10.3 Retained earnings

Details of this caption are as follows:

	31.12.12	31.12.11	01.01.11
Legal reserve	22,714	22,714	19,440
Voluntary reserves	152,972	157,972	158,597
Treasury shares	—	—	(1,672)
Prior years' losses	(101,854)	—	—
Profit for the year	40,125	(101,854)	24,922
Interim dividend	—	(5,000)	(25,000)
Total	**113,957**	**73,832**	**176,287**

The legal reserve has been appropriated in compliance with article 274 of the Spanish Companies Act, which requires that companies transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of share capital. Until the legal reserve exceeds the above limit, it may only be applied to offset losses if no other reserves are available.

(Expressed in thousands of Euros)

NOTE 10.—Equity (Continued)

10.4 Dividends

On December 14, 2011, the Board of Directors of the Company approved the distribution of an interim dividend of profits for 2011 in the amount of 5 million Euros equivalent to 0.92 Euros per share. On the same date, all of the Company's shareholders agreed in Universal General Meeting to the materialization of such dividend in the distribution to shareholders of 28.898 own shares valued at Euros 4.4 million, together with a payment in cash of Euros 0.6 million. The acquisition cost of these treasury shares amounted to Euros 1,672 thousand and its market value was established based on the valuation of an independent expert.

NOTE 11.—Financial liabilities

The Company includes all its financial liabilities in the category of Trade and Accounts payable and financial liabilities at amortised cost. This category includes Interest bearing liabilities (Note 11.1), Trade and other payables (Note 12) and Other current liabilities (Note 12).

The Company's financial liabilities have their maturity date in the short-term, except for the interest bearing liabilities. The dates of maturity of those liabilities are detailed in Note 11.1

11.1 Interest bearing liabilities

	31.12.12	31.12.11	01.01.11
Loans and borrowings	**366,336**	**314,291**	**363,579**
Nominal amounts	373,500	316,834	367,000
Fees and commissions	(7,164)	(2,543)	(3,421)
Credit facilities and interest accrued	38,865	—	(397)
Arrangement expenses pending to be paid	5,500	—	—
Total	**410,701**	**314,291**	**363,182**

The carrying amount of the loans and borrowings and the other financial liabilities does not differ from their fair value, since they were arranged at market rates.

NOTE 11.—Financial liabilities (Continued)

Details of bank loans and borrowings at 31 December 2012 are as follows:

	EIB loan 1999	Loan 2007	Loan 2009	Bilateral loan 2009	Bilateral loan 2010	Loan 2012	Thousands of Euro
Entity	European Investment Bank	7 banks, including 3 banks of Katxabank Group	11 banks, including 3 banks of Katxabank Group	Banco Santander	Banesto	Kutxabank	—
Contract date	17/12/1999	25/07/2007	30/06/2009	30/09/2009	18/12/2009	19/12/2012	—
Amount (in thousands of Euros)	120	150	130	4	5	130	—
Term (years)	15	8.5	5	5	5	8	—
Grace period (years)	5	6	2	2	2	4	—
Repayment	10 equal annual instalments as of 15/12/2005	6 equal half-yearly instalments as of 25/07/2013	6 equal half-yearly instalments as of 30/12/2011	6 equal half-yearly instalments as of 30/12/2011	6 equal half-yearly instalments as of 30/12/2011	8 equal half-yearly instalments as of 30/12/2016	—
Guarantees	Guarantee syndicated by 11 banks, including 3 banks of Katxabank Group	—	—	—	—	—	—
Maturity date	15/12/2014	25/01/2016	30/06/2014	30/06/2014	30/06/2014	30/06/2020	—
Interest rate	Variables at each repayment	Variable pegged to Euribor	Variable pegged to Euribor	Variable pegged to Euribor	Variable pegged to Euribor	Variable pegged to Euribor	—
Average interest 2011	1.45%	3.72%	2.95%	2.94%	2.94%	n/a	—
Average interest 2012	0.85%	2.93%	2.18%	2.14%	2.18%	n/a	—
Outstanding principal due	**24,000**	**150,000**	**65,000**	**2,000**	**2,500**	**130,000**	**373,500**
Short term	12,000	25,000	43,333	1,333	1,666	—	83,332
Long term	12,000	125,000	21,667	667	834	130,000	290,168

NOTE 11.—Financial liabilities (Continued)

Details of bank loans at 31 December 2011 are as follows:

	EIB loan 1999	EIB loan 2001	Loan 2007	Loan 2009	Bilateral loan 2009	Bilateral loan 2010	Thousands of Euros
Entity	European Investment Bank	European Investment Bank	7 banks, including 2 banks of Katxabank Group	11 banks, including 2 banks of Katxabank Group	Banco Santander	Banesto	—
Contract date	17/12/1999	22/06/2001	25/07/2007	30/06/2009	30/09/2009	18/12/2009	—
Amount (in thousands of Euros)	120	120	150	130	4	5	—
Term (years)	15	12	8.5	5	5	5	—
Grace period (years)	5	4	6	2	2	2	—
Repayment	10 equal annual instalments as of 15/12/2005	8 equal annual instalments as of 15/12/2005	6 equal half-yearly instalments as of 25/07/2013	6 equal half-yearly instalments as of 30/12/2011	6 equal half-yearly instalments as of 30/12/2011	6 equal half-yearly instalments as of 30/12/2011	—
Guarantees	Guarantee syndicated by 11 banks, including 2 banks of Katxabank Group	Guarantee syndicated by 14 banks, including 2 banks of Katxabank Group	—	—	—	—	—
Maturity date	15/12/2014	15/12/2012	25/01/2016	30/06/2014	30/06/2014	30/06/2014	—
Interest rate	Variables at each repayement	Variables at each repayement	Variable pegged to Euribor	Variable pegged to Euribor	Variable pegged to Euribor	Variable pegged to Euribor	—
Average interest 2011	0.89%	0.89%	1.12%	2.33%	2.31%	2.40%	—
Average interest 2012	1.45%	1.42%	3.72%	2.95%	2.94%	2.94%	—
Outstanding principal due	**36,000**	**15,000**	**150,000**	**108,333**	**3,333**	**4,168**	**316,834**
Short term	12,000	15,000	—	43,333	1,333	1,667	73,333
Long term	24,000	—	150,000	65,000	2,000	2,501	243,501

NOTE 11.—Financial liabilities (Continued)

Details of bank loans at 1 January 2011 are as follows:

	EIB loan 1999	EIB loan 2001	Loan 2007	Loan 2009	Bilateral loan 2009	Bilateral loan 2010	Thousands of Euros
Entity	European Investment Bank	European Investment Bank	7 banks, including 2 banks of Katxabank Group	11 banks, including 2 banks of Katxabank Group	Banco Santander	Banesto	—
Contract date	17/12/1999	22/06/2001	25/07/2007	30/06/2009	30/09/2009	18/12/2009	—
Amount (in thousands of Euros)	120	120	150	130	4	5	—
Term (years)	15	12	8.5	5	5	5	—
Grace period (years)	5	4	6	2	2	2	—
Repayment	10 equal annual instalments as of 15/12/2005	8 equal annual instalments as of 15/12/2005	6 equal half-yearly instalments as of 25/07/2013	6 equal half-yearly instalments as of 30/12/2011	6 equal half-yearly instalments as of 30/12/2011	6 equal half-yearly instalments as of 30/12/2011	—
Guarantees	Guarantee syndicated by 11 banks, including 2 banks of Katxabank Group	Guarantee syndicated by 14 banks, including 2 banks of Katxabank Group	—	—	—	—	—
Maturity date	15/12/2014	15/12/2012	25/01/2016	30/06/2014	30/06/2014	30/06/2014	—
Interest rate	Variables at each repayement	Variables at each repayement	Variable pegged to Euribor	Variable pegged to Euribor	Variable pegged to Euribor	Variable pegged to Euribor	—
Average interest 2009	2,26%	2,28%	2,37%	2,24%	2,19%	—	—
Average interest 2010	0,89%	0,89%	1,12%	2,33%	2,31%	2,40%	—
Outstanding principal due	**48,000**	**30,000**	**150,000**	**130,000**	**4,000**	**5,000**	**367,000**
Short term	12,000	15,000	—	21,667	667	833	50,167
Long term	36,000	15,000	150,000	108,333	3,333	4,167	316,833

On 19 December 2012 the Company signed a Euros 200 million loan contract with Kutxabank, which was broken down in two tranches as follows:

- Tranche A, of Euros 125 million, for the repayment of a short-term loan obtained in 2012 to cover cash requirements deriving from the resolution of the lawsuit involving France Telecom. The full amount of this loan has been drawn down since 31 December 2012.
- Tranche B, with a limit of Euros 75 million. A drawdown schedule for this amount has been set until 2016, based on repayments corresponding to Kutxabank's share of the 2007 and 2009 loans. Euros 5 million has been drawn down on this tranche at 31 December 2012.

The combined repayment of tranches A and B will be made in six half-yearly instalments starting in December 2016.

The contract provides for the signing in 2013 of a hedge interest rate representing 75% of the credit limit during the term hereof, the margin is at least 25 basis points. This contract also provides that any surplus cash, generated during the term of the loan and calculated in accordance with the terms of the aforementioned contract, be used to settle the amount drawn down on the credit facility.

(Expressed in thousands of Euros)

NOTE 12.—Trade and other payables and Other current liabilities

Details of the amounts included under this caption are shown below:

	31.12.12	31.12.11	01.01.11
Trade payables	49,025	86,513	124,117
Suppliers of fixed assets	20,975	29,234	27,460
Total	**70,000**	**115,747**	**151,577**

Details of the amounts included under Other current liabilities are shown below:

	31.12.12	31.12.11	01.01.11
Accrued wages and salaries	1,863	2,287	1,962
Payable to Public Administrations	6,860	2,470	3,342
Current tax liabilities	—	—	3,508
Other payables (Note 17)	—	221,903	—
Accrual accounts	995	895	589
	9,718	**227,555**	**9,401**

NOTE 13.—Taxation

13.1 Income Tax and Taxation

A reconciliation of net income and expenses for 2012 with the taxable income is as follows:

	31.12.12			31.12.11		
	Increases	Decreases	Total	Increases	Decreases	Total
Profit before tax			**53,345**			**(148,843)**
Permanent differences	22	—	22	—	—	—
Temporary differences	475	(6,772)	(6,297)	2,107	(265)	1,842
Taxable income			**47,070**			**(147,001)**

Temporary differences originate mainly from differences in the accrual of expenses between the tax and accounting treatments of allowancess for impairment of receivables.

The income tax expense for 2012 and 2011 reflects the following items and amounts:

	31.12.12	31.12.11
Accrued income tax expense	**14,943**	**(41,676)**
Unlimited deductions for the year	(963)	(911)
Unlimited deductions for the previous years	(695)	(3,453)
Other adjustments	(1)	(949)
Total income transferred to profit of the year	(64)	—
Total	**13,220**	**(46,989)**

(Expressed in thousands of Euros)

NOTE 13.—Taxation (Continued)

Income tax (expense)/income is analysed below:

	31.12.12	31.12.11
Current tax	—	—
Deferred tax	(13,285)	43,536
Other	65	3,453
Total	**(13,220)**	**46,989**

The accrued income tax expense is the result of applying the prevailing tax rate of 28% to the sum of pre-tax profits and the amount of permanent differences originating during the year.

In 2012 the Company has used loss carryforwards of Euros 32.9 million (capitalised loss carryforwards of Euros 147.0 million in 2011). At 31 December 2012, unused loss carryforwards, incurred in 2011, amount to Euros 114.1 million (Euros 147.0 million in 2011).

In 2012 the Company has applied limited income tax deductions of Euros 3.9 million. At 31 December 2012 and 2011 the Company has unused limited on tax basis and unlimited on tax basis income tax deductions for investments and other items as follows:

Year of origin	31.12.12	31.12.11	01.01.11
1998	—	—	434
1999	4,072	5,456	5,022
2000	17,265	17,265	17,265
2001	23,002	23,002	23,002
2002	10,399	10,399	10,399
2003	17,310	17,310	17,310
2004	16,388	16,388	16,388
2005	12,512	12,512	12,512
2006	9,927	9,927	9,927
2007	12,760	12,760	12,760
2008	13,920	13,920	13,920
2009	773	773	773
2010	949	949	—
2011	1,063	911	—
Total	**140,340**	**141,572**	**139,712**

Euros 139.3 million of the aforementioned deductions have been capitalised at 31 December 2012 (Euros 141.6 million at 31 December 2011, Euros 139.7 million at 1 January 2011).

Estimates made by the company indicate that the Company will avail of sufficient future taxable profit to offset the tax credits capitalised at the closing date.

The tax law applicable to the corporate income returns for the year for the Company is Regional Law 11/2013, of 5 December, applicable in the Territory of Biscay. Due to that modification in the tax legislation, tax credits in respect of loss carryforwards and deductions expire in 15 years from 1 January 2014 onwards.

The Company has open to inspection all main applicable taxes for the years still open to inspection.

(Expressed in thousands of Euros)

NOTE 13.—Taxation (Continued)

13.2 Deferred tax

Details of deferred taxes, which are all deferred tax assets, and movement are as follows:

	Temporary differences	Tax credits for loss carryforwards	Tax deductions	Total deferred taxes
Balance at 01.01.11	**3,051**	**—**	**139,712**	**142,763**
Application of accrued income tax	516	41,160	—	41,676
Unlimited deductions from the prior year	—	—	949	949
Other adjustments	—	—	911	911
Balance at 31.12.11	**3,567**	**41,160**	**141,572**	**186,299**
Application of accrued income tax	(1,763)	(9,226)	(3,954)	(14,943)
Unlimited deductions from the prior year	—	—	695	695
Other adjustments	—	—	963	963
				—
Balance at 31.12.12	**1,804**	**31,934**	**139,276**	**173,014**

NOTE 14.—Income and Expenses

14.1 Revenues

Revenues total Euros 338,542 thousand, all generated in the domestic market (Euros 350,520 thousand in 2011).

For "Revenue, other income & work performed by the entity and capitalized" distributed by segments please refer to Note 16.

14.2 Supplies

	31.12.12	31.12.11
Merchandise used	**23,064**	**28,525**
Purchases	21,071	29,761
Change in inventories	1,993	(1,236)
Subcontracted work	**54,216**	**58,539**
Interconnection costs	41,589	46,839
Other supplies	12,627	11,700
Impairment of merchandise	**(364)**	**—**
Total	**76,916**	**87,064**

14.3 Personnel expenses

	31.12.12	31.12.11
Salaries and wages	25,737	25,565
Other employee benefits expense	5,971	6,474
Total	**31,708**	**32,039**

(Expressed in thousands of Euros)

NOTE 14.—Income and Expenses (Continued)

The average headcount, distributed by category, is as follows:

	2012	2011
Directors	30	31
Managers	45	45
Other professionals	473	472
Total	**548**	**548**

14.4 Other operating expenses/income

	31.12.12	31.12.11
Advertising	13,695	15,800
Repairs and maintenance	27,686	28,257
Services provided by third	36,700	36,540
Other external services	14,283	14,847
Taxes	4,098	5,440
Losses, impairment and changes in trade provisions	3,057	4,586
Other losses/(gains)	(7,302)	184,675
Total	**92,217**	**290,145**

14.5 Net finance cost/income

	31.12.12	31.12.11
Finance income	**136**	**1,283**
Investments in equity instruments	—	163
Marketable securities and other financial instruments	132	739
Exchange gains	4	52
Gains on disposal of financial instruments	—	329
Finance costs	**12,861**	**12,264**
Loans and borrowings	12,424	12,264
Impairment and loss on disposal of financial instruments	437	—

NOTE 15.—Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares outstanding during the year, excluding own shares.

Details of the calculation of basic earnings/(loss) per share are as follows (thousands):

	2012	2011
Profit/(loss) for the year	40,125	(101,854)
Weighted average number of ordinary shares outstanding	5,450	5,420
Basic and diluted earnings/(loss) per share (in Euros)	7.36	(18.79)

(Expressed in thousands of Euros)

NOTE 15.—Earnings per share (Continued)

The weighted average number of ordinary shares outstanding is determined as follows (thousands):

	2012	2011
Ordinary shares outstanding at 1 January	5,420	5,420
Effect of own shares	—	—
Effect of shares issued on Dec. 20th 2012	907	—
Weighted average number of ordinary shares outstanding at 31 December	5,450	5,420

There are no dilutive effects, consequently basic and dilutive earning per share are equal.

NOTE 16.—Segment information

We are the Basque fiber and convergence leader and operate in one of the most affluent regions in Spain. We offer primarily bundled services comprised of high-speed broadband, Pay TV, mobile and fixed telephony services to residential and business customers (Small Office/Home Office "SOHOs", Small and Medium-sized Enterprises "SMEs", large accounts and public sector entities), as well as the wholesale market.

The Company comprises the operating segments listed below:

Residential segment

We provide our residential customers with a combination of fixed and mobile telecommunication services, as well as other value added services, primarily through our fiber network and our MVNO (Mobile Virtual Network Operator) agreement.

We offer customers the opportunity to subscribe to a variety of "bundled" packages, which provide them with multiple services (broadband internet, Pay TV, mobile telephony and fixed telephony) charged in a single bill and at competitive prices.

Business segment

We also provide fixed and mobile telecommunication services to SOHOs, SMEs and large corporate accounts, leveraging our fiber network. For SMEs and large accounts, through our own salesforce, we are able to offer integrated and tailor-made solutions to a sophisticated and demanding customer base, which includes financial institutions, large corporates, healthcare providers and public administration bodies.

- *SOHOs:* We have a specific product offering for small businesses (under ten employees), which includes premium technical support, online presence and email services. As on the residential segment, we offer customers the opportunity to subscribe to a variety of "bundled" packages, which provide them with multiple services (broadband internet, Pay TV, mobile telephony and fixed telephony).
- *SMEs:* We provide a range of customized solutions for medium-sized businesses (ten to 40 employees) with relatively high technological requirements. These services include broadband access of up to 250Mbps, fiber access of up to 1Gbps symmetric, MPLS Network, fixed-mobile convergence ("**FMC**"), IP Switch and advanced IT services.
- *Large accounts:* Our large accounts customers comprise both public administration bodies and large corporates. Our large accounts customers have high technological requirements and we devise tailor-made solutions according to each customer's specific needs. These include fiber access of up to 1Gbps symmetric, FMC, SIP Trunking, MLPS networks, cloud firewall and virtual data centers. We sell these services directly through our own large accounts salesforce, which includes highly-qualified engineers across the life cycle of a project (pre-sale, implementation and post-sale).

NOTE 16.—Segment information (Continued)

Wholesale and Other

We provide communications services including leased lines, data and voice services to other telecommunications operators that use our facilities and infrastructure to provide services to their customers. A portion of our wholesale segment revenues is generated by a number of large telecommunication companies, most of who compete directly with us. We provide Leased Lines services in SDH (Synchronous Digital Hierarchy)and Ethernet technologies, Dark Fiber, Voice Services (that allow carriers to complete their end-user calls that originate or terminate within our territory) and Enabling Services, based in our BSS and Mobile Core Network. In addition, we offer services such as collocation and voice resale. Finally, by virtue of our agreement with RACC, we also offer mobile services in Catalonia using the "RACC Móvil" brand.

Others

We sell installation material and electronics to third-party installation companies to be used in provisioning customers and deploying and maintaining our next generation fiber network.

The Company's Senior Leadership Team reviews the internal management reports for each segment on a monthly basis. Segment performance is measured based on the income generated by each segment. The global profit generated is used as a measure of its performance because the Company considers that this is the most relevant information in the assessment of the profits generated by specific segments in relation to other groups which operate in these businesses. This information is reported from figures obtained from the accounting books. In the following table it is shown those figures, once reconciliated to NIIF, according to impacts detailed in Note 21.

(Expressed in thousands of Euros)

NOTE 16.—Segment information (Continued)

A detail of the management profit and loss account broken by segments is as follows:

Revenue, other income & work performed by the entity and cappitalized breakdown	2012	2011
Residential	201,286	204,079
Business	102,830	102,950
o/w SoHos	*37,112*	*36,945*
o/w SMEs	*18,032*	*18,174*
o/w Large Accounts	*47,686*	*47,831*
Wholesale and Other	28,889	30,603
Others*	9,795	17,516
Total	**342,800**	**355,148**
Costs breakdown		
Direct costs	(81,849)	(90,224)
Gross profit	**260,951**	**264,924**
% margin	*76.1%*	*74.6%*
Commercial Costs	(60,603)	(67,084)
Contribution margin	**200,348**	**197,840**
% margin	*58.4%*	*55.7%*
Overhead Costs	(65,691)	(67,265)
EBITDA	**134,657**	**130,575**
% margin	*39.3%*	*36.8%*
Depreciation and amortization	(75,889)	(83,762)
Other non recurring (costs)/income	7,302	(184,675)
Results from operating activities	**66,070**	**(137,862)**
Net Finance Cost	(12,725)	(10,981)
Profit before income tax	**53,345**	**(148,843)**
Income tax	(13,220)	46,989
Profit for the year	**40,125**	**(101,854)**

* Operations with neutral impact on profitability.

Assets are not managed by segment, See information regarding intangible and tangible assets in Notes 5 and 6.

NOTE 17.—Contingences

On April 19, 2012, the Board of Civil and Criminal Superior Court of the Basque Country (hereinafter TSJPV) issued indictment with the dissenting opinion of the Chairman, for which Euskaltel, S.A. is sentenced to pay the full amount of the Award concerning the "Cease No. 15635 JRF", i.e. Euros 221.9 million, the Award is the result of proceedings against Euskaltel, S.A. dated June 2, 2008, by the France Telecom Group (hereinafter GFT) before the International Chamber of Commerce, based in Paris (hereinafter ICC), considering that the beginning of its activity Mobile Virtual Network Operator (hereinafter, OMV) was a violation of the non-competition agreement stipulated in the agreement of sale of shares of Auna Operadores de Telecomunicaciones, S.A. by Euskaltel, S.A. and other societies, GTF, the July 29, 2005, which Euskaltel accede to on October 31, 2005, and the Shareholders Agreement dated December 8, 2005.

The complaint concerning this award (named by the ICC itself as "Case No. 15653 JRF"), which, by the vote of the majority, but with a dissenting opinion diametrically opposite thereto by the only component of

(Expressed in thousands of Euros)

NOTE 17.—Contingences (Continued)

the Arbitral Tribunal prestige recognized and proven knowledge of Spanish law, which estimated a substantial part of the benefits of the plaintiffs, namely Euros 221.9 million (Euros 159.8 million net of tax effect) was notified to Euskaltel, SA dated July 12, 2010.

On 9 September 2010 Euskaltel raised a proceeding for annulment of that resolution on the Federal Court of Laussane, Switzerland. On 24 February 2011 it was received the dismissal of that annulment. That resolution could not be in force under Spanish legislation unless TSJPV issued the application of the same.

The reason that the intervention was necessary in the process of TSJPV is because in the Spanish legal system does not operate the automatic recognition of the effectiveness of foreign arbitral awards, but they require for their recognition and effectiveness prior judicial declaration of nature homogeneous by the competent courts, through the so-called exequatur procedure.

As a result of that Order, the accounting recognition of amounts by Euskaltel, S.A. was performed in 2011, by reformulating their financial statements, although the aforementioned order has been issued subsequent to year end, given the very significant effect posed to such financial statements and, to that date, were pending approval by the General Meeting.

On July 2, 2012, the Company signed a Settlement Agreement by which declared extinct and settled all the duties, responsibilities and liabilities in relation to this matter and other particles with GFT, accrued prior to 30 April 2012, under which the total amount payable by the Company remained minus Euros 10 million, income which is recognized under Other results of the statement of income, resulting settled and liquidated all the debts between these entities by paying Euros 215 million by Euskaltel, S.A., carried out at the signature of the Settlement Agreement.

At December 31, 2012 there are no balances with GTF arising from this litigation, or outstanding balances that do not correspond to the normal operations of the Company.

NOTE 18.—Commitments

18.1 Sale/purchase commitments

At the reporting date, the Company has signed sale-purchase contracts for the following items and amounts, all of which are related to current operations:

	31.12.12	31.12.11	01.01.11
Intangible assets	740	302	1,270
Property, plant and equipment	7,799	9,174	11,127
Inventories	2,330	5,868	4,812
Total	**10,869**	**15,344**	**17,209**

The Company has no firm commitments to sell assets.

18.2 Operating lease commitments

The Company mainly rents locations for its node equipment under operating leases. These contracts have a term of between 10 and 30 years, which is considered to be significantly less than the economic life of the buildings in which the aforementioned equipment is located.

(Expressed in thousands of Euros)

NOTE 18.—Commitments (Continued)

Future minimum payments under operating leases are as follows:

	31.12.12	31.12.11	01.01.11
Less than 1 year	3,422	4,307	4,390
1-5 years	12,322	15,493	14,812
Over 5 years	24,023	25,822	24,502
Total	**39,767**	**45,622**	**43,704**

Operating lease instalments of Euros 8,287 thousand have been recognised as an expense for the year (Euros 8,653 thousand in 2011).

NOTE 19.—Related parties

19.1. Key management personnel compensation

Key management personnel compensation comprises the following:

	Board of Directors		Other key management	
	2012	2011	2012	2011
Short-term employee benefits	622	1,112	3,483	3,024
Termination payments				
Share based payments				
	622	**1,112**	**3,483**	**3,024**

The members of The Board of Directors of the Company have not received any remuneration as a share of profit or bonuses. Neither any shares nor share options in 2012 or 2011, and they did not exercise options or have any options to exercise. Furthermore, members of the Board of Directors of the Company have not received advances or loans during the year.

The Company has no pension or life insurance obligations with the board members.

Furthermore, the Company has no pension or life insurance commitments with its management personnel.

19.2 Other related party transactions and balances

During the years ended 31 December 2012 and 2011 the Company carried out the following transactions with their main shareholders:

	Transaction value		Balance outstanding	
	2012	2011	31.12.12	31.12.11
Service rendered	6,916	6,541	—	—
Finance income	119	652	—	—
Finance expense	6,229	3,144	51	11

The aforementioned transactions were performed with Kutxabank Group.

In addition, in 2012 a telecommunication network was acquired to the Basque Government, former Company's shareholder, as detailed in Notes 6 and 10.

(Expressed in thousands of Euros)

NOTE 19.—Related parties (Continued)

Balances payable in relation with the borrowings granted by the Company's shareholders are as follows:

	2012		2011		01.01.11	
	Current	Non-current	Current	Non-current	Current	Non-current
Kutxabank Group	35,005	175,795	8,601	62,743	3,937	71,345
Total	**35,005**	**175,795**	**8,601**	**62,743**	**3,937**	**71,345**

The balances and transactions with related parties are performed on an arm's length basis.

NOTE 20.—Guarantees

The Company has extended guarantees totalling Euros 41.3 million (Euros 13.4 million in 2011), in addition to the guarantees extended to public entities for financing contracts signed as a result of legal obligations deriving from its participation in the development of the telecommunications business and for the licences to roll-out the networks.

NOTE 21.—Impact of first-time adoption

Pursuant to prevailing Spanish legislation, the Company is obliged to prepare individual financial statements in accordance with the accounting principles established in the Spanish General Chart of Accounts and other applicable regulations. In this regard, on 6 March 2013, the directors of the Company authorised for issue the annual accounts for the year ended 31 December 2012. Furthermore, within the context of the stock exchange flotation mentioned in note 2, the financial statements for the year ended 31 December 2012 were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU). The date of first-time adoption is 31 December 2012, being 1 January 2011 the date of transition to IFRS-EU.

These financial statements have been prepared on a historical cost basis, as modified by the revaluation of financial assets and financial assets and liabilities at fair value through profit and loss.

The preparation of these financial statements in accordance with IFRS-EU requires the application of certain significant accounting estimates. The application of IFRS also requires that management exercise judgment in the process of applying the accounting policies. In Note 2.2, the areas that require a higher level of judgment or entail greater complexity are disclosed, and the areas where assumptions and estimates are significant for the financial statements.

21.1 Application of IFRS 1

As described in note 2.1 these financial statements represent the first financial statements prepared under IFRS-EU, with 1 January 2011 as the transition date.

In accordance with IFRS 1, the Company has retrospectively applied throughout the opening balance and all periods presented all effective IFRS standards as of December 31, 2012 with the exemptions permitted by IFRS The Company has applied the following exemptions:

- Investments in separate financial statements
- Non controlling interests
- Borrowing costs
- Disclosure about financial instruments
- Business combinations

NOTE 21.—Impact of first-time adoption (Continued)

The Company was also subject to mandatory exceptions to IFRS 1, which prohibit the retrospective application of other IFRSs relating to:

- Accounting estimates
- Derecognition of financial assets and liabilities
- Classification and measurement of previously recognized financial instruments

Investments in separate financial statements

IAS 27 Allows first time adopters to use deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. This is the option chosen by the company

Non-controlling interests

A first-time adopter shall apply the following requirements of NIC 27 prospectively from the date of transition to IFRSs:

a) the requirement in paragraph 28 that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;

b) the requirements in paragraphs 30 and 31 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and

c) the requirements in paragraphs 34-37 for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

However, if a first-time adopter elects to apply IFRS 3 retrospectively to past business combinations, it also shall apply NIC27 in accordance with paragraph C1 of IFRS 1.

Borrowing costs

A first-time adopter can elect to apply the requirements of IAS 23 from the date of transition or from an earlier date as permitted by paragraph 28 of IAS 23. From the date on which an entity that applies this exemption begins to apply IAS 23, the entity:

(a) shall not restate the borrowing cost component that was capitalized under previous GAAP and that was included in the carrying amount of assets at that date; and

(b) shall account for borrowing costs incurred on or after that date in accordance with IAS 23, including those borrowing costs incurred on or after that date on qualifying assets already under construction.

The Company applies IAS 23 from the date of transition onwards.

Disclosures about financial instruments

A first-time adopter may apply the transition provisions in paragraph 44 of IFRS 7:

Disclosures—Transfers of Financial Assets (Amendments to IFRS 7), issued in October 2010, deleted paragraph 13 and added paragraphs 42A-42H and B29-B39. An entity shall apply those amendments for annual periods beginning on or after 1 July 2011. Earlier application is permitted. If an entity applies the amendments from an earlier date, it shall disclose that fact. An entity need not provide the disclosures required by those amendments for any period presented that begins before the date of initial application of the amendments.

NOTE 21.—Impact of first-time adoption (Continued)

Business combinations

The exemption provided by IFRS 1 for business combinations has been applied. As a result, it has not restated the business combinations that existed prior to the transition date of 1 January 2011.

Accounting Estimates

An entity's estimates in accordance with IFRSs at the date of transition to IFRSs shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

All estimates are compliant with IFRS.

Derecognition of financial assets and liabilities

The mandatory exception from full retrospective application of the derecognition rules in IAS 39 applies to all financial assets and liabilities derecognized before the date of transition to IFRS. The exception requires first-time adopters to prospectively apply the derecognition criteria for non-derivative financial assets and liabilities per IAS 39 from the date of transition to IFRS onwards. This means that: (i) non-derivative financial assets and liabilities that were derecognized under previous GAAP before the date of transition to IFRS will remain derecognized; therefore, those transactions would not have to be reconstructed; and (ii) non-derivative financial assets and liabilities that were derecognized under previous GAAP after the date of transition to IFRS will be recognized again in the financial statements of first-time adopters, if they do not qualify for derecognition under IAS 39. Therefore, those transactions would have to be reconstructed using available information.

The Company has applied the derecognition criteria for all non-derivative financial assets and liabilities from the date of transition to onwards.

Classification and measurement of previously recognized financial instruments

IAS 39 allows a financial instrument to be designated as a financial asset or financial liability at 'fair value through profit or loss' (where permitted) or as 'available-for-sale' on initial recognition. Paragraph D19 in Appendix D of IFRS 1 allowed this designation to be made at the date of transition.

There are no changes in the classification between the previous Gaap and IFRS.

- **Assets held for sale and discontinued operations**

None of the Company's assets or discontinued activities meet the criteria for classification as held for sale during the period covered by these accounts. Therefore, no adjustment has been required.

21.2 List and summary of the standards, amended standards and interpretations published to date

a) Standards, amended standards and interpretations that are not yet effective but can be early applied in years beginning on or after 1 January 2013

At the date of authorising the financial statements for issue, the IASB and IFRS Interpretations Committee had published the following standards, amended standards and interpretations that are mandatorily applicable from 2013 and which the Company has not early applied.

- **IFRS 1 (amendment), 'Severe hyperinflation and removal of fixed dates for first-time adopters'**

Although this amendment was mandatorily applicable in annual periods beginning on or after 1 July 2011 according to the date of effectiveness established by the IASB, for European Union purposes, the amendment is effective for annual periods beginning on or after 1 January 2013.

This amendment has been early adopted and do not have an impact on the Company's financial statements.

NOTE 21.—Impact of first-time adoption (Continued)

- **IAS 1 (amendment), 'Presentation of financial statements'.**

It has been applied in advance the modifications to IAS 1 regarding the presentation of the statement of comprehensive income, in force for periods after 1 July 2012.

This amendment changes the presentation of the statement of comprehensive income, requiring that the items presented in other comprehensive income (OCI) be grouped into two categories depending on whether they are potentially reclassifiable to profit or loss subsequently.

This standard is effective for annual periods beginning on or after 1 July 2012. Early application is permitted.

This amendment has been early adopted by the Company in the current financial statements.

- **IAS 19 (amendment), 'Employee benefits'**

The amended IAS 19 significantly changes how defined benefit pension and termination expenses are recognised and measured, as well as changing disclosure requirements for all employee benefits.

The amended IAS 19 is mandatorily applicable for annual periods beginning on or after 1 January 2013. Early application is allowed.

The Company is analysing the potential effects of this amendment on its financial statements.

- **IFRS 12, 'Disclosures of interests in other entities'**

IFRS 12 includes the disclosure requirements for all entities reporting under the new IFRS 10, 'Consolidated financial statements', and the new IFRS 11, 'Joint arrangements'. It additionally replaces the disclosure requirements formerly included in the old IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures'. Under IFRS 12, reporting entities must disclose information that allows financial statement users to assess the nature, risks and financial consequences associated with its interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

Although this amendment was mandatorily applicable in annual periods beginning on or after 1 January 2013 according to the date of effectiveness established by the IASB, for European Union purposes, the amendment is effective for annual periods beginning on or after 1 January 2014.

Early adoption is permitted.

No impact is identified on these financial statements due to the aforementioned IFRS 12.

- **IAS 27 (amendment), 'Separate financial statements'**

The requirements previously established in IAS 27 with respect to the preparation of the financial statements are included in the new IFRS 10 and therefore the former scope of application is reduced to the accounting for investments in subsidiaries, joint ventures and associates in the individual financial statements prepared under IFRS by the investing company, which have not changed with respect to existing rules (i.e. recognition at cost or fair value as per IFRS 9).

Although the amended IAS 27 was mandatorily applicable in annual periods beginning on or after 1 January 2013 according to the date of effectiveness established by the IASB, for European Union purposes, the amendment is effective for annual periods beginning on or after 1 January 2014.

It may be applied early under certain conditions.

The Company accounts its investments by the same criteria considered in the Spanish Gaap, at cost

- **IAS 28 (amendment), 'Investments in associates and joint ventures'**

IAS 28 has been updated basically to make reference to the joint ventures which under the new IFRS 11, 'Joint arrangements', must be accounted for using the equity method of consolidation.

NOTE 21.—Impact of first-time adoption (Continued)

Although the amended IAS 28 was mandatorily applicable in annual periods beginning on or after 1 January 2013 according to the date of effectiveness established by the IASB, for European Union purposes, the amendment is effective for annual periods beginning on or after 1 January 2014.

It may be applied early under certain conditions.

This amendment does not have a material impact on the Company's financial statements.

- **IFRS 13, 'Fair value measurement'**

IFRS 13 is the outcome of a joint initiative by the IASB and the FASB (the US Financial Accounting Standards Board) and is intended to explain how to value items at fair value, all with a view to improving and expanding fair value disclosures. This standard does not establish which items must be measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). It is based on the perspective of market participants rather than simply that of the reporting entity. It introduces a three-level fair value hierarchy, equivalent to that established in IFRS 7, for fair value measurement.

This standard is mandatorily applicable for annual periods beginning on or after 1 January 2013. The new standard will be applied gradually from the beginning of the fiscal year in which it is applied for the first time. The disclosure requirements do not apply to the comparative information presented in respect of fiscal years prior to that of first-time application of IFRS 13.

No significant differences are identified by the Company in the application of the aforementioned IFRS13.

- **IAS 32 (amendment) and IFRS 7 (amendment), 'Offsetting financial assets and financial liabilities'**

The IASB issued an amended IAS 32, 'Offsetting financial assets and financial liabilities', and an amended IFRS 7, 'Disclosures—'Offsetting financial assets and financial liabilities' in December 2011.

The so-amended IFRS 7 is mandatorily applicable for annual periods beginning on or after 1 January 2013 and must be applied retroactively. Early adoption is permitted.

These new standards, amended standards and interpretations do not have a material impact on the Company's financial statements.

- **Annual improvements to IFRSs, the 2009-2011 Cycle**

  - **IAS 1, 'Presentation of financial statements'**

    IAS 1 has been amended to clarify that the comparative information required under IAS 1 is that of a complete set of financial statements. It further clarifies the minimum comparative disclosure requirements when an entity changes accounting policy or makes retrospective restatements or reclassifications: in this instance, the reporting entity is required to present an opening statement of financial position (known as the third balance sheet); however it is not required to accompany the third balance sheet with the related notes.

    This amendment must be applied retroactively and is mandatorily applicable for annual periods beginning on or after 1 January 2013. Early application is allowed.This new standard does not have a material impact on the Company's financial statements.

  - **IAS 16, 'Property, plant and equipment'**

    This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. In the wake of this amendment, servicing equipment expected to be used for more than one year will be classified as part of property, plant and equipment rather than as inventories.

NOTE 21.—Impact of first-time adoption (Continued)

This amendment must be applied retroactively and is mandatorily applicable for annual periods beginning on or after 1 January 2013. Early application is allowed. The Company early adopted this rule.

- **IFRS 32, 'Financial instruments: Presentation'**

This amendment resolves a conflict perceived to exist between IAS 32 and IAS 12, 'Income Taxes'. It clarifies that tax credits related to distributions to equity holders and to transaction costs corresponding to any equity item must be accounted for in accordance with IAS 12. As a result, the tax incentives related to distributions to equity holders are recognised in profit or loss and the tax credits relating to transaction costs corresponding to equity instruments are recognised in equity.

This amendment must be applied retroactively and is mandatorily applicable for annual periods beginning on or after 1 January 2013. Early application is allowed. This new standard does not have a material impact on the Company's financial statements.

- **IAS 34, 'Interim financial reporting'**

IAS 34 has been amended to align the disclosure requirements stipulated by IAS 34 and IFRS 8, 'Operating segments'. The amendment clarifies that an entity that reports interim information under IAS 34 need only disclose information regarding total assets and liabilities for a particular reportable segment when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements.

This amendment must be applied retroactively and is mandatorily applicable for annual periods beginning on or after 1 January 2013. Early application is allowed. This new standard does not have a material impact on the Company's financial statements.

- **Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance (amendments to IFRS 10, IFRS 11 and IFRS 12)**

The IASB has amended the transitional provisions contained in IFRS 10, 'Consolidated financial statements', IFRS 11, 'Joint arrangements', and IFRS 12, 'Disclosure of interests in other entities', in order to clarify that the date of first-time application is the first day of the first annual period in which IFRS 10 is applied for the first time.

The amendments to the above-listed standards are mandatorily applicable for annual periods beginning on or after 1 January 2013, in keeping with the dates of effectiveness of the standards so amended. Early adoption is required if the related standards (IFRS 10, IFRS 11 and IFRS 12) are also early adopted.

- **IAS 36 (Amendment) "Recoverable Amount Disclosures for Non-Financial Assets"**

This introduces a limited-scope amendment to IAS 36 "Impairment of Assets". The amendment requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognised or reversed.

This amendment does not have any impact on the current Company's financial statements.

- **Annual IFRS Improvements 2011-2013 Cycle**

In December 2013 the IASB issued Annual Improvements to IFRSs 2011-2013 Cycle. The amendments are effective for annual periods beginning on or after 1 January 2015, although entities are permitted to apply them earlier. The main amendments are:

- IFRS 3 "Business Combinations": Scope exceptions for joint ventures. Not applicable to the Company.
- IFRS 13 "Fair Value Measurement": Scope of the "portfolio exception" in IFRS 13.

NOTE 21.—Impact of first-time adoption (Continued)

- IAS 40 "Investment Property": Interrelationship of IAS 40 and IFRS 3 when classifying property as investment property or owner-occupied property.

These improvements do not have a material impact on the Company's financial statements.

- **Annual IFRS Improvements, 2010 - 2012**

In December 2013 the IASB issued Annual Improvements to IFRSs 2010-2012 Cycle. The amendments are effective for annual periods beginning on or after 1 February 2015, although entities are permitted to apply them earlier. The main amendments are:

- IFRS 2 "Share-Based Payment": Definition of "vesting conditions". Not applicable for the Company in 2012.
- IFRS 3 "Business Combinations": Accounting for a contingent consideration in a business combination. Not applicable to the Company.
- IFRS 8 "Operating Segments": Information to be disclosed concerning the aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets. These improvements do not have a material impact on the Company's financial statements.
- IFRS 13 "Fair Value Measurement": References to the capacity for measurement of short-term receivables and payables at nominal value when the impact of discount is not material. These improvements do not have a material impact on the Company's financial statements.
- IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets": Proportionate restatement of accumulated depreciation when using the revaluation model. Not applicable for the Company.
- IAS 24 "Related-Party Disclosures": Entities providing key management personnel services in the capacity of a related party. Not applicable for the Company.

- **IAS 19 (Amendment) "Employee Benefits: Employee contributions"**

IAS 19 (as revised in 2011) distinguishes between employee contributions related to service and those not linked to service. The current amendment further distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions linked to service that vary according to the length of service must be spread over the service period using the same attribution method that is applied to the benefits. The amendment is effective for annual periods beginning on or after 1 February 2015 and retrospective application is required. Early adoption is permitted. Not applicable for the Company in 2012.

b) New standards and amendments to and interpretations of existing standards that cannot be early adopted or have not yet been adopted by the European Union

At the date of authorising the accompanying financial statements for issue, the IASB and IFRS Interpretations Committee had published the following standards, amendments and interpretations that have not yet been adopted by the European Union.

- **IFRS 9, 'Financial instruments'**

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was published in July 2014, replacing the IAS 39 guideline to the classification and measurement of financial instruments. IFRS 9 maintains a simplified format of the combined measurement model, and establishes three main measurement categories for financial assets:

(Expressed in thousands of Euros)

NOTE 21.—Impact of first-time adoption (Continued)

amortised cost, at fair value through profit or loss, and at fair value through other comprehensive income. The classification basis depends on the entity's business model and the characteristics of the financial asset's contractual cash flows. Investments in equity instruments must be measured at fair value through profit or loss, with the irrevocable option of presenting changes to fair value through other comprehensive non-recyclable income, provided the instrument is not held for trading. IFRS9 introduces a new impairment loss model, the expected loss model, which replaces the impairment loss model in IAS 39 and will entail timely recognition of losses, as the practice was in IAS 39. IFRS 9 relaxes the requirements for effectiveness of hedges. Under IAS 39, a hedge must be highly effective, both prospectively and retrospectively. IFRS 9 requires an economic relationship between the hedged item and the hedging instrument, and for the hedged ratio to be the same as that used by the entity for risk management purposes.

IFRS 9 applies for annual periods beginning on or after 1 January 2018. Earlier application is permitted. It will be applied retrospectively, albeit with no requirement to restate the comparative figures.

This standard is applicable for annual periods beginning on or after 1 January 2015; early application is permitted.

The Company is analyzing the potential impact of this standard.

- **IFRS 15 Revenue from contracts with customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. As informed in note 2, this financial statements has been formulated under IFRS as adopted by the EU in the context of the potential listing of company shares, consequently the analysis of the potential impact resulting from the application of IFRS 15 will depend on the successful completion of said process.

21.3. Reconciliation of IFRS to local GAAP

A reconciliation between equity in accordance with prevailing Spanish accounting principles and the equity recognised in the accompanying balance sheets for the years ended 31 December 2012 and 2011 is shown in the following table:

	31.12.12	31.12.11	01.01.11
Equity (SP GAAP)	572,896	464,835	56,729
Reserves	80,158	87,535	87,535
Other comprehensive income	(72,179)	(80,158)	(87,535)
Profit for the year			
Investment tax credits	(7,979)	(7,377)	—
Equity IFRS-EU	**572,896**	**464,835**	**56,729**

(Expressed in thousands of Euros)

NOTE 21.—Impact of first-time adoption (Continued)

When preparing its first financial statements under IFRS, the Company adjusted the amounts previously recognized in its annual accounts prepared under generally accepted accounting principles in Spain. The explanation of the effects of the conversion on the balance sheet, the income statement and the statement of cash flows for the three years mentioned are detailed in the following tables and notes:

A) Balance Sheet at 31 December 2012, 2011 and 1 January 2011

	31.12.2012		
	Equity final SP Gaap	Transition Effect	Equity final IFRS
Capital and reserves	452,677	80,158	**532,835**
Valuation adjustments	72,115	(72,179)	**(64)**
Profit for the year	48,104	(7,979)	**40,125**
Equity	**572,896**	—	**572,896**

	31.12.2011		
	Equity final SP Gaap	Transition Effect	Equity final IFRS
Capital and reserves	479,154	87,535	**566,689**
Valuation adjustments	80,158	(80,158)	**—**
Profit for the year	(94,477)	(7,377)	**(101,854)**
Equity	**464,835**	—	**464,835**

	01.01.2011		
	Equity final SP Gaap	Transition Effect	Equity final IFRS
Capital and reserves	479,755	87,535	**567,290**
Valuation adjustments	87,535	(87,535)	**—**
Equity	**567,290**	—	**567,290**

B) Income Statements for the year ended 31 December 2012 and 2011

	2012		
	SP Gaap	Transition Effect	IFRS
RESULTS FROM OPERATING ACTIVITIES	66,070	—	66,070
NET FINANCE COST	(12,725)	—	(12,725)
PROFIT BEFORE INCOME TAX	53,345	—	53,345
Income tax	(5,241)	(7,979)	(13,220)
PROFIT FOR THE YEAR	**48,104**	**(7,979)**	**40,125**

	2011		
	SP Gaap	Transition Effect	IFRS
RESULTS FROM OPERATING ACTIVITIES	(137,862)	—	(137,862)
NET FINANCE COST	(10,981)	—	(10,981)
PROFIT BEFORE INCOME TAX	(148,843)	—	(148,843)
Income tax	54,366	(7,377)	46,989
PROFIT FOR THE YEAR	**(94,477)**	**(7,377)**	**(101,854)**

The other comprehensive income is also impacted in those periods in the same amount that the one shown in the Income statements in those periods.

NOTE 21.—Impact of first-time adoption (Continued)

In accordance with Spanish accounting principles, the investment tax credits stipulated in tax legislation can be recognised as a reduction in the current income tax expense. Alternatively, the amount of investment tax credits can be initially recorded with a charge to other comprehensive income and subsequently recognised in the income statement as a reduction in the current income tax expense. The directors of the Company used this latter criteria when preparing the annual accounts for local GAAP purposes. The accounting treatment of investment tax credits is not defined in IFRS-EU. Nevertheless, taking into account that the aforementioned tax credits are available to all entities and not associated with fulfilling additional requirements other than the investment itself, the directors of the Company consider that investments tax credits are in substance a reduction in income tax more in line with IAS 12 (Income Taxes) than with IAS 20 (Capital Grants). Consequently, reserves have been increased and other comprehensive income and income tax have been reduced by amounts of Euros 80.2 million, Euros 72.2 million and Euros 8 million, respectively (Euros 87.6 million, Euros 80.2 million and Euros 7.4 million, respectively, in 2011; Euros 87.5 million, Euros 87.5 million and zero, respectively, at 1 January 2011).

NOTE 22.—Subsequent events

The main subsequent events after the end of the year and till the date of preparation of these financial statements, which have been properly reflected in the annual accounts for the years 2013 and 2014, are as follows:

- Share-based payments Plan: The Company has awarded certain incentives to members of the management committee, board members and other key employees, which will entitle them to participate in any appreciation in the Company's share value between 10 July 2013 and 31 December 2025, with the possibility of extending the vesting date by another five years upon the request of the board of directors.
- Financing plan: On 22 March 2013, the Company signed a non-extinguishing novation addendum to the contract entered into with Kutxabank on 19 December 2012, which modifies the terms referring to the loan principal (down from Euros 200 million to Euros 130.5 million). In conjunction with this addendum, on 22 March 2013 the Company signed four long-term bilateral loans for a total of Euros 69.5 million.

  In this two year period, the Company has met with the payments schudle related to the financial debt.
- Strategic alliances: large-scale agreements have been reached with strategic partners in the areas of information technology (with the French multinational GFI) and network management and maintenance (with the Chinese multinational ZTE). Through these agreements the Company has shared know-how and completed two externalization projects that involved the transfer of Euskaltel employees from these areas of activity, a decision that reflects the close collaboration between the companies and which will enable us to access new developments and technologies and strengthen our objective to provide innovative services of the utmost quality to our customers.
- Business performance: the company is the Basque Country fiber and convergence leader. It's the market leader in broadband and pay TV services, in terms of customers, and the fastest growing provider of mobile telephony services in the Basque Country.

  The revenue evolution, though the decrease in the period, has been better than the market.

  EBITDA performance, as well, has been better than the competition, which has improved the profitability of the Company.

  In terms of cash generation, the Company has generated an amount of cash in the last 2 years, that has set the financial net debt in the year 2000 levels.
- The Board of Directors at their meeting held on February 3, 2015 agreed, among others, to explore the possibility of carrying out a public offering of the company's shares on the Spanish stock market.

NOTE 22.—Subsequent events (Continued)

The Board therefore agreed to contract an external advisor to help the company and coordinate all the actions required to prepare the Initial Public Offering (IPO).

The key milestones in the company since then have been the following:

- Lawyers and financial advisors have been contracted for the company
- Selection and appointment of the banks to coordinate and placement of the shares among the interested potential investors
- Adaptation of the Company to the new requirements of Corporate Government and the Stock Market regulator
- Presentations of the Company to the banks involved in the IPO and financial analysts
- Preparing the share offer explanatory leaflet
- Exploring the interest in the investment market, holding meetings with possible leading institutional investors
- Converting and preparing the financial statements of the Company for the financial years ended as of 31 December 2012, 2013 and 2014, along with those for the first quarter of 2015 (as of 31 March 2015), pursuant to international accounting standards, in order to make it easier for international investors to understand them.

It is forecast that the process that will lead to the Company's shares being traded on the stock exchange will conclude prior to mid-July 2015. In the event the stock exchange flotation goes ahead, and with the prior authorization of the Board of Directors, the Company intends to refinance its bank debt. The estimated amount of the refinancing is Euros 470 million, which would be used to cancel the financial debt existing at the time of the flotation, amounting to approximately Euros 232 million, with the remainder being used to cover certain payments relating to the public listing and refinancing expenses (between Euros 16 and 65 millions) and the possible payment of an extraordinary dividend (between Euros 173 and 223 millions, with a charge to freely-available reserves).

Derio, 1 June 2015

In the context of a potential listing on the Madrid stock exchange, and to comply with requests of information by third parties, the directors of Euskaltel, S.A. have prepared for issue the Financial Statements comprising the balance sheet, income statement, statement of changes in equity, statement of comprehensive income, statement of cash flows and the notes thereto of the Company for the year ended 31 December 2012, at the board of directors meeting held at the above date.

The directors declare that they have signed each of the above-mentioned documents in their own hand, and in witness thereof sign below.

Signed:

	Mr. Alberto García Erauzkin *(President)*
Mr. Richard David Alden	Ms. Alicia Vivanco González
Mr. Alfonso Basagoiti Zavala	Mr. Javier Bañón Treviño
Mareblu, Sá.r.l. (Represented by Mr. John C. Mowinckel)	Ms. Bridget Cosgrave
Mr. José Ángel Corres Abasolo	Ms. Belén Amatriain Corbi
Mr. Iñaki Alzaga Etxeita	

DOCUMENTS INCORPORATED BY REFERENCE

All of the Spanish GAAP Financial Statements are available on Euskaltel's website at www.euskaltel.com and (with the exception of the Unaudited Interim Spanish GAAP Financial Statements of Euskaltel, S.A. as of and for the three-month period ended March 31, 2015) on the CNMV's website at www.cnmv.es.

SPANISH TRANSLATION OF THE SUMMARY

Sección A—Introducción y advertencias		
A.1	**Advertencia a los inversores**	**ESTE RESUMEN DEBE LEERSE COMO INTRODUCCIÓN AL FOLLETO. TODA DECISIÓN DE INVERTIR EN LAS NUEVAS ACCIONES DE EUSKALTEL, S.A. (LA "SOCIEDAD") DEBE ESTAR BASADA EN LA CONSIDERACIÓN POR PARTE DEL INVERSOR DEL FOLLETO EN SU CONJUNTO.** **Cuando se presente ante un tribunal una demanda sobre la información contenida en el Folleto, el inversor demandante podría, en virtud del derecho nacional de los Estados miembros de la Unión Europea tener que soportar los gastos de la traducción del Folleto antes de que dé comienzo el procedimiento judicial.** Bajo derecho español, sólo se exigirá responsabilidad civil a las personas que hayan presentado la nota de síntesis, incluida cualquier traducción de la misma, y únicamente cuando la nota de síntesis resultase engañosa, inexacta o incoherente en relación con las demás partes del Folleto, o no aporte, leída junto con las otras partes del Folleto, información fundamental para ayudar a los inversores a la hora de determinar si invierten o no en las Acciones.
A.2	**Información sobre intermediarios financieros**	No aplicable. La Sociedad no contratará ningún intermediario financiero para proceder a una venta posterior o a la colocación final de los valores que requiera la publicación de un folleto después de la publicación de este documento y no ha dado su consentimiento a dicha venta posterior.

Sección B—Emisor		
B.1	**Nombre legal y comercial**	El emisor tiene la denominación social de Euskaltel, S.A. El nombre comercial del emisor es "Euskaltel".
B.2	**Domicilio y forma jurídica**	La Sociedad se constituyó como sociedad anónima en España bajo la Ley de Sociedades de Capital. Euskaltel tiene su domicilio social en Parque Tecnológico de Bizkaia, Edificio 809, 48160 Derio, Bizkaia. La Sociedad se constituyó por un plazo ilimitado.

B.3	**Factores clave relativos al carácter de las operaciones en curso del emisor y de sus principales actividades.**	Somos líderes en el mercado en el País Vasco de la fibra óptica y en el de convergencia (fuente: estimaciones de la Sociedad según datos de la CNMC de 2013 y 2014), y operamos en una de las regiones más prósperas de España. Nuestra oferta consiste fundamentalmente en paquetes que incluyen servicios de banda ancha de alta velocidad, televisión de pago, telefonía fija y telefonía móvil a clientes particulares y empresas. Contamos con nuestra propia red de fibra óptica de nueva generación, que no precisa de inversiones significativas adicionales, que tiene una longitud aproximada de 350.000 km y somos el único operador que dispone de una red de fibra óptica que cubra la mayoría del País Vasco. **Segmento de clientes particulares** Proporcionamos a nuestros clientes particulares una combinación de servicios de telecomunicación fijos y móviles, así como otros servicios de valor añadido, principalmente a través de nuestra red de fibra y el contrato MVNO (*Mobile Virtual Network Operator*, Operador de Red Móvil Virtual) con Orange. A continuación se encuentra un resumen de los principales servicios que prestamos a nuestros clientes particulares. Paquetes: ofrecemos a nuestros clientes la oportunidad de contratar una serie de paquetes que les permiten obtener múltiples servicios a la vez (banda ancha de alta velocidad, televisión de pago, telefonía móvil y telefonía fija) reflejado en una sola factura a precios competitivos. Los paquetes "double-play" o "2P" incluyen dos de nuestros servicios, los paquetes "triple-play" or"3P" incluyen tres de nuestros servicios y los paquetes "quadruple-play" or "4P" incluyen nuestros cuatro servicios a la vez. Siguiendo las tendencias del mercado y nuestra propia estrategia de marketing, se ha incrementado la popularidad entre nuestros nuevos clientes particulares de los paquetes 3P y 4P, debido asimismo a las ventas cruzadas realizadas entre nuestros clientes ya existentes. Como resultado, a día de 31 de marzo de 2015, 82,4% (en comparación con el 77,6% a día de 31 de marzo de 2014) de nuestros clientes particulares contrataron los servicios en paquetes (24,8% 2P (un descenso del 9,4% respecto de 31 de marzo de 2014) 35,5% 3P (un incremento del 2,9% respecto de 31 de marzo de 2014) y 22,1% 4P (un incremento del 11,3% respecto de 31 de marzo de 2014)). Asimismo, se produjo un incremento de las unidades generadoras de ingresos (UGIs) desde 719.033 a día de 31 de diciembre de 2012 hasta 896.077 a día de 31 de diciembre de 2014, y una reducción en nuestra tasa de pérdida de clientes anual desde el 17,2% correspondiente al año finalizado el 31 de diciembre de 2012 hasta el 14,8% para el año finalizado el 31 de diciembre de 2014, que creemos que es el menor en el mercado.

		Banda ancha: somos el proveedor líder de servicios de banda ancha de alta velocidad en el País Vasco, con una cuota de mercado estimada de aproximadamente 41% (fuente: estimaciones de la Sociedad según datos de la CNMC de 2013 y 2014). Nuestra red de fibra óptica de última generación, que no precisa de inversiones significativas adicionales, nos permite ofrecer productos diferenciados con velocidades ultra-rápidas de hasta a 350 Mbps actualmente que nuestros competidores de DSL no pueden alcanzar. A fecha de 31 de marzo de 2015, prestamos servicios de banda ancha a 216.846 clientes particulares y servicios de alta velocidad de banda ancha a 181.193 (velocidades de 30 Mbps y superiores) (un incremento del 150,2% desde el 31 de marzo de 2014). Televisión de pago: somos los proveedores líderes (junto con Telefónica) de servicios de televisión de pago en el País Vasco con una cuota de mercado estimada en aproximadamente 47% (fuente: estimaciones de la Sociedad según datos de la CNMC de 2013 y 2014). Ofrecemos una amplia gama de programación digital con paquetes diferenciados, desde básico a premium, junto con las funciones de televisión portátil (*TV Everywhere*), que comercializamos bajo la marca de "Edonon", de *Video on Demand* (VoD) o televisión a la carta y de *Personal View Recorder* (PVR) o grabador personal de contenidos. Nuestra oferta incluye el acceso al contenido Premium local con más demanda. A día de 31 de marzo de 2015, 115.554 clientes particulares utilizaron nuestros servicios de televisión de pago (un incremento del 89,4% respecto de 31 de marzo de 2014). Telefonía móvil: somos el proveedor de servicios de telefonía móvil que más rápido está creciendo en el País Vasco con una cuota de mercado estimada de aproximadamente 20% (fuente: estimaciones de la Sociedad en base a datos de la CNMC de 2013 y 2014). A día de 31 de marzo de 2015, 165.411 clientes particulares utilizaron nuestros servicios de telefonía móvil (un incremento del 24,8% respecto de 31 de marzo de 2014). En la actualidad, ofrecemos nuestros productos de telefonía móvil junto con los de telefonía fija en paquetes, una estrategia que creemos que está mejorando la rentabilidad global por usuario (ARPU) y reducir la tasa de pérdida de clientes. El segmento de telefonía móvil es una herramienta importante de fidelización y de satisfacción del cliente, como muestran los bajos niveles de pérdida de clientes en las ofertas convergentes que incluyen móvil. Las tasas de pérdida de clientes respecto de los clientes particulares de telefonía fija son más de tres veces inferiores cuando el cliente también es suscriptor de una línea de telefonía móvil. Nuestra tasa de pérdida de clientes durante el primer trimestre de 2015 para paquetes sin servicios de telefonía móvil fue del 19,6% en comparación con la tasa de pérdida de clientes que incluyen servicios de telefonía móvil, que fue solamente del 6,4% Servicios de telefonía fija: somos proveedores líderes (segunda cuota de mercado más alta, tras Telefónica) de servicios de telefonía fija en el País Vasco con una cuota de mercado estimada del 38% (fuente: estimaciones de la Sociedad según datos de la CNMC de 2013 y 2014). Ofrecemos este servicio principalmente en paquetes junto con otros servicios y, a fecha de 31 de marzo de 2015, 87,9% de nuestros clientes de telefonía fija contrataron servicios en paquetes (un incremento del 7,1% respecto del 31 de marzo de 2014). Nuestros servicios de telefonía fija incluyen llamadas ilimitadas a números fijos nacionales así como una amplia gama de tarifas para llamadas de fijo a móvil y de fijo a fijos internacionales.

		A fin de mejorar la experiencia de nuestros clientes, reducir costes y reducir asimismo la tasa de pérdida de clientes, en marzo de 2015 se lanzó "Euskaltel WiFi", la red WiFi propia más extensa jamás construida en el País Vasco, con más de 128.000 puntos de acceso. Creemos que "Euskaltel WiFi" nos permitirá mejorar nuestra oferta, especialmente en términos de movilidad, al mismo tiempo que reducir costes a través del desvío del tráfico de datos móviles de Orange, nuestro proveedor de red móvil, hacia nuestra propia red de fibra. **Segmento de clientes empresas** Asimismo, proporcionamos servicios de telecomunicaciones fijos y móviles a pequeñas (SOHOs), medianas (pymes) y grandes empresas o cuentas. Gracias al esfuerzo y dedicación de nuestro departamento comercial, podemos ofrecer soluciones integradas y personalizadas a nuestra base de clientes, que constituye una clientela sofisticada y exigente entre la que se incluyen instituciones financieras, grandes compañías, empresas del sector de la salud y entidades de la administración pública. A día de 31 de marzo de 2015, 52.177 empresas tenían contratados servicios con nosotros (un incremento del 1,0% respecto del 31 de marzo de 2014) y durante el año finalizado el 31 de diciembre de 2014, el segmento de clientes empresas generó unos ingresos de €93,4 millones (lo que representa un 29,1% de nuestros ingresos totales). SOHOs: tenemos una oferta específica para las pequeñas empresas (menos de diez trabajadores), que incluye un soporte técnico premium, atención al cliente en línea y servicios de correo electrónico. Tenemos una unidad comercial externalizada dedicada a este segmento y acabamos de lanzar nuestra plataforma en línea de ventas para SOHOs. A día de 31 de marzo de 2015, proporcionamos servicios a 47.136 clientes SOHO (un incremento del 1,4% respecto del 31 de marzo de 2014 y nuestros servicios para SOHOs generaron €35,6 millones en el año finalizado el 31 de diciembre de 2014 (lo que representa un 38,1% de los ingresos totales en el segmento de los clientes empresas en dicho año). Pymes: disponemos de una amplia gama de soluciones para pymes (de 10 a 40 trabajadores) con exigencias tecnológicas relativamente altas. Estos servicios incluyen accesos de banda ancha de hasta 350 Mbps, acceso de fibra de hasta 1 Gbps simétrico, red MPLS, convergencia de telefonía fija-móvil, cambio de IP (*IP switch*) y servicios de informática avanzada. A fecha de 31 de marzo de 2015, proporcionamos nuestros servicios para pymes a 4.686 empresas (un descenso del 3,5% respecto del 31 de marzo de 2014). Dichos servicios generaron un ingreso de €18,5 millones en el año finalizado el 31 de diciembre de 2014 (que representa un 19,8% de los ingresos totales en el segmento de los clientes empresas en dicho año). Estos servicios se comercializan directamente a través de nuestro propio departamento comercial, lo que nos permite ofrecer a las pymes soluciones estandarizadas de acuerdo con las necesidades específicas de nuestros clientes pymes, aprovechando la innovación y conocimientos técnicos en nuestro segmento de grandes cuentas.

Grandes cuentas: nuestra base de clientes de grandes cuentas incluye tanto entidades de la administración pública como grandes compañías. Estas entidades tienen su sede en el País Vasco, si bien una parte de nuestros clientes de grandes cuentas tiene parte de su negocio fuera del País Vasco (a día de 31 de marzo de 2015, un 26% de nuestros servicios de grandes cuentas se proporcionaron fuera del País Vasco). Nuestros clientes de grandes cuentas tienen grandes exigencias tecnológicas, por lo que les proveemos soluciones personalizadas de acuerdo con sus necesidades específicas entre las que se incluyen acceso de fibra óptica de hasta 1 Gbps simétrico, FMC, SIP Trunking, redes MLPS, firewall en la nube y centros de almacenamiento de datos virtuales. Estos servicios de grandes cuentas generaron un ingreso de €39,3 millones en el año finalizado el 31 de diciembre de 2014 (que representa un 42,1% de los ingresos totales en el segmento de los clientes empresas en dicho año). Estos servicios se comercializan directamente a través de nuestro propio departamento comercial de grandes cuentas, que implementamos con un enfoque de equipos de proyectos con, directores con gran dedicación e ingenieros con alta cualificación en cada proyecto (pre-venta, implementación y post-venta).

Venta al por mayor y otros

A 31 de marzo de 2015, proporcionamos servicios de comunicaciones a 27 clientes al por mayor (la mayoría de los cuales son compañías en el sector de telecomunicaciones y en competencia directa con nosotros), incluidos los arrendamientos de líneas y servicios de datos y voz, que utilizan nuestras instalaciones e infraestructuras para proporcionar servicios a sus clientes, además de tecnología Ethernet, *Dark Fiber*, servicios de voz (que permiten a los operadores completar las llamadas de sus clientes finales que tienen origen o destino en nuestro territorio) y servicios habilitadores, que se basan en nuestra red core móvil (*Mobile Core Network*) y BSS.

Además, ofrecemos servicios informáticos externalizados a Telecable y, gracias a nuestro contrato de distribución con RACC, ofrecemos servicios móviles en Cataluña haciendo uso de la marca "RACC Telefonía móvil". Asimismo, ofrecemos servicios habilitadores móviles y de sistema y de reventa de colocación y voz.

También vendemos material para instalaciones y de electrónica a empresas de instalaciones para terceros para su uso en aprovisionamiento de clientes y extender y mantener nuestra red de fibra de nueva generación. Estas operaciones han tenido un impacto neutro en nuestra rentabilidad.

Nuestro segmento de venta al por mayor y otros generó un ingreso de €24,7 millones en el año finalizado el 31 de diciembre de 2014, lo que representa un 7,7% de nuestros ingresos totales.

Nuestros puntos fuertes

Creemos que nos beneficiamos de los siguientes puntos fuertes, que nos permitirán llevar a cabo nuestro plan de negocio:

- Operamos en una zona geográfica muy atractiva con magnitudes macroeconómicas favorables;

- el sector de telecomunicaciones está mostrando señas de gran potencial de penetración y dinámicas de rebote, lo que nos permite tener oportunidades de mejores precios, mayores ventas y de venta cruzada, así como potencial para crecimiento en el futuro;
- somos líderes en el mercado de fibra óptica y en convergencia en el País Vasco;
- tenemos una red de fibra de última generación, que no precisa inversiones adicionales significativas, y eficiencia en costes, así como con capacidad móvil flexible;
- nos beneficiamos significativamente de la marca comercial Euskaltel, nuestra oferta innovadora y diferenciada de productos y nuestra estrategia centrada en el cliente;
- tenemos una generación de ingresos resistente y con inercia de crecimiento derivada de una rentabilidad superior y conversión del flujo de caja; y
- nos beneficiamos de la experiencia del equipo gestor con una trayectoria profesional probada con resultados de ejecución.

Nuestra estrategia

Nuestra estrategia consiste en maximizar el valor a largo plazo del cliente, apoyándonos en nuestra posición líder en el País Vasco, clientela fiel, red de fibra de última generación, que no precisa inversiones adicionales significativas, y nuestra marca comercial para consolidar nuestras cuotas de mercado en banda ancha, televisión de pago, y telefonía fija, así cono seguir aumentando nuestra cuota en el mercado de telefonía móvil y fortalecer nuestra posición en el segmento de clientes empresas. Creemos que, haciendo uso de nuestras ventajas competitivas únicas, nuestra estrategia comercial basada en los clientes nos sitúa en una posición sin igual para beneficiarnos del incremento generalizado en el consumo de datos en los mercados de clientes particulares y empresas tanto en el hogar como en movilidad.

Contamos con los siguientes pilares estratégicos para poder alcanzar dichos objetivos:

- Continuar centrándonos en maximizar el valor a largo plazo de nuestros clientes mediante incrementos de ventas y de ventas cruzadas en nuestra base de clientes existente y consiguiendo nuevos clientes que contraten paquetes de alto valor para incrementar el ARPU y reducir la tasa de pérdida de clientes, así como promover la movilidad y atraer a los usuarios de ADSL;
- mejorar la experiencia del consumidor y la innovación de los productos a fin de mantener nuestro liderazgo en el País Vasco;
- continuar con nuestro enfoque disciplinado en las inversiones de infraestructura que sostienen nuestra exitosa estrategia comercial;
- continuar optimizando eficiencias en el proceso y promoviendo la digitalización para aumentar la rentabilidad; y
- nuestra posición estratégica para llevar a cabo la consolidación del cable a nivel regional.

Nuestras áreas de operaciones

Nuestra red de fibra óptica propia de última generación, que no precisa inversiones significativas adicionales, nos proporciona acceso a aproximadamente 872.053 hogares (85% de los hogares en el País Vasco, lo que representa aproximadamente el 86% de la población en el País Vasco) y 146.784 locales de negocio. Tenemos acceso al mercado que representa el 100% de la población en el País Vasco mediante satélites ad hoc y WiMAX.

Disponemos de una gran cobertura en las zonas con mayor densidad de población en el País Vasco. La siguiente tabla contiene información acerca de la cobertura de nuestra red a día de 30 de abril de 2015:

Las 3 ciudades más pobladas en el País Vasco	Hogares con fibra	% total de hogares
Bilbao (incluye Getxo, Barakaldo y Portugalete)	255.936	98%
Vitoria	104.133	91%
San Sebastián	72.421	81%

Arquitectura de la red

Nuestra red propia de última generación, que no precisa inversiones significativas adicionales, tiene una longitud aproximada de 350.000 km y está totalmente actualizada con el Docsis 3.0, con una capacidad de 862 MHz y un *back-bone* propio, actualmente capaz de alcanzar velocidades de hasta 500 Mbps y, si se llevaran a cabo pequeñas mejoras, nuestra red podría llegar a alcanzar velocidades de hasta 800 Mbps a un coste de incremento marginal y de tiempo limitado hasta su comercialización. Creemos que nuestra red es de las más avanzadas y competitivas en toda Europa.

Red WiFi propia

A fin de mejorar nuestra oferta móvil, reducir costes operativos y mejorar la tasa de pérdida de clientes, en marzo de 2015 lanzamos la mayor red propia de WiFi jamás construida en el País Vasco, con más de 128.000 puntos de acceso, "Euskaltel WiFi". Creemos que nuestros competidores no pueden replicar este concepto a corto plazo dada su falta de cobertura en el País Vasco.

Pese a su reciente salida al mercado, aproximadamente 125.000 usuarios han descargado ya la aplicación y se han registrado en este servicio en el primer mes (a día de 26 de abril de 2015), lo que representa aproximadamente un tercio de los destinatarios, usuarios de paquetes de banda ancha y móvil (particulares y SOHOs). Además, en menos de un mes tras el lanzamiento, se transmitieron más de 21 TB de datos a través de nuestra red WiFi propia.

B.4a	**Descripción de las tendencias recientes más significativas que afecten al emisor y a los sectores en los que ejerce su actividad**	El mercado de las telecomunicaciones en España es muy competitivo y ha pasado por una serie de fases evolutivas desde su liberalización en 1997. Antes de la recesión económica, en 2007, el mercado español de telecomunicaciones estaba caracterizado por tener precios altos y por la competencia de los nuevos operadores en el mercado, que llevaron al incremento de promociones y descuentos en las tarifas. A principios de 2008, el mercado español de las telecomunicaciones experimentó una contracción significativa en sus ingresos como resultado de la recesión y de estas presiones del mercado. En 2012, Telefónica, el operador dominante en el mercado español, introdujo el concepto de los paquetes de servicios conjuntos y altos descuentos a través del producto "Movistar Fusión". Ello conllevó una bajada generalizada de precios y un cambio de estrategias comerciales hacia una mayor convergencia. En consecuencia, el mercado ha experimentado una consolidación significativa a lo largo de los últimos dos años, impulsado por la compra de los operadores de cable por parte de los operadores móviles. El mercado de telecomunicaciones y la televisión en España generó un volumen de negocios de €301.000 millones a lo largo del año finalizado el 31 de diciembre de 2014 (fuente: CNMC). El mayor sector dentro de las telecomunicaciones por ingresos es el de las telecomunicaciones móviles (voz y banda ancha) con €9.800 millones (32%), seguido del de las comunicaciones fijas (voz y banda ancha) con €7.100 millones (23%). Nuestras operaciones se desarrollan en su mayoría en seis segmentos de los mercados de telecomunicaciones y televisión: banda ancha, televisión de pago, telefonía móvil y fija, empresas y venta al por mayor fija. Estos sectores generaron un total de ingresos de €22.600 millones en el año finalizado el 31 de diciembre de 2014, representando aproximadamente un 75% del total del mercado las telecomunicaciones en España. Los ingresos totales generados por dichos sectores disminuyeron un 5,8% al año (calculado como tasa de crecimiento compuesta o *compound anual growth rate*, CAGR) desde 2008 hasta 2014, debido principalmente a una caída de los ingresos en los sectores de voz móvil y fijo y como resultado de la tendencia de los mercados a la convergencia introducida por "Movistar Fusión". Se espera que los mercados de televisión y comunicación crezcan debido a un incremento en el consumo de datos, especialmente dada la demanda de un mayor ancho de banda y una mayor velocidad por parte de los consumidores, así como la mayor recepción de la televisión de pago en el mercado y el incierto del consumo de servicios móviles, particularmente en dados móviles. Las tendencias del mercado en el País Vasco son reflejo de las del mercado español. **Convergencia** Los mercados de telecomunicación y televisión en España se han caracterizado en los últimos tiempos por una rápida transición hacia la convergencia entre los servicios móviles y fijos, mediante la creación de paquetes por parte de los operadores en los que se incluyen simultáneamente varios servicios como la banda ancha, televisión, telefonía móvil y fija en ofertas integradas (2P, 3P y 4P), haciendo de España uno de los mercados más convergentes en Europa.

		Desarrollo de la red de fibra Algunos de los operadores en España han anunciado planes de desarrollo de FTTH, realizando la transición desde la tecnología de accesos ADSL ULL a NGN. La expansión de la FTTH a nivel nacional es relativamente limitada, dado que el proceso para instalar los accesos verticales necesarios es largo y costoso. A fecha de 31 de diciembre de 2014, la red de fibra de Telefónica se extendía a 10,3 millones de fincas (clientes particulares y empresas), lo cual representa un 55% de los hogares con conexión en España (primeras viviendas únicamente, excluyendo locales de negocio) y esperan alcanzar un 75% de los hogares con conexión en España (primeras viviendas únicamente, excluyendo locales de negocio) en 2016, sujeto a la regulación correspondiente. La estrategia de Telefónica se compone de un desarrollo en solitario de la red, complementado con un acuerdo de acceso vertical a la infraestructura con Jazztel a fin de compartir el desarrollo de las redes FTTH en España. Telefónica se ha centrado principalmente en las ciudades más grandes de España, donde la competencia es generalmente mayor, ya que todos los operadores principales buscan obtener una mayor cuota de mercado. Actualmente, la CNMC está llevando a cabo un estudio de mercados de acceso a la red de fibra que podría resulta en la imposición de una obligación a Telefónica de ofrecer a sus competidores acceso a su red FTTH en un futuro próximo, en las áreas donde considere que no existe suficiente competencia. Telefónica ha anunciado en consecuencia una ralentización del desarrollo de su red FTTH si la CNMC fuerza la apertura de su red FTTH a sus competidores. En el País Vasco, estimamos que la cobertura de la red FTTH de Telefónica alcanza aproximadamente el 30% de los hogares con conexión (a fecha de 31 de marzo de 2015). Telefónica ha mostrado un interés limitado en el desarrollo de la red en el País Vasco hasta la fecha. **Consolidación** La tendencia del mercado en España hacia la convergencia entre fijo y móvil ha llevado a la consolidación del mismo, derivada principalmente la compra de operadores de cable por parte de operadores móviles. La convergencia y la competencia en el mercado conllevaron una caída en los ingresos del segmento de la telefonía móvil y los operadores centrados en la telefonía móvil tenían cada vez menos capacidad de competir sin una red comparable de banda ancha y una oferta de televisión de pago. Una consolidación similar está teniendo lugar en el sector de telecomunicaciones del resto de Europa.
B.5	**Descripción del grupo**	No aplicable. A fecha de este Folleto, la Sociedad no posee ninguna filial.
B.6	**Accionistas principales**	A fecha de este Folleto, el capital social de la Sociedad asciende a €379.613.400 dividido en 126.537.800 acciones de la misma clase representadas por anotaciones en cuenta con €3,00 de valor nominal. Todas estas acciones están íntegramente desembolsadas. A fecha de este Folleto los Accionistas Vendedores poseen el 100% del capital social y derechos de voto y, por lo tanto, el control de la Sociedad.

La tabla siguiente contiene cierta información referente a los titulares reales de las acciones ordinarias que Kutxabank, S.A., International Cable, B.V. e Iberdrola, S.A. poseen antes y después de la Oferta.

	Antes de la Oferta		Después de la Oferta			
Propietario	**Núm. de acciones**	**%**	**Núm. de acciones(1)**	**%**	**Núm. de acciones(2)**	**%**
Kutxabank, S.A.(3)	63.142.360	49,90%	40.595.717	32,08%	38.087.977	30,1%
International Cable, B.V.(4)	60.864.680	48,10%	5.333.123	4,37%	—	—
Iberdrola, S.A.	2.530.760	2,00%	—	—	—	—
Directivos(5)	—	—	1.269.702	1,00%	1.269.702	1,00%
Empleados(6)	—	—	379.613	0,30%	379.613	0,30%
Capital flotante	—	—	78.759.615	62,24%	86.800.508	68,60%
Total	**126.537.800**	**100,0%**	**126.537.800**	**100,0%**	**126.537.800**	**100,0%**

Notas:

(1) Asumiendo que la opción de compra greenshoe no se ejercita.

(2) Asumiendo el ejercicio pleno de la opción de compra greenshoe.

(3) Kutxabank,S.A. tiene 42,83% directamente y el 7,07% restante a través de su filial Araba Gertu, S.A.U. Tras la Oferta, Araba Gertu, SA.U. no poseerá ninguna acción de la Sociedad.

(4) Esta sociedad es propiedad de TCP Cable S.a.r.l (50.00%) e International Cable Holdings S.a.r.l (50.00%). International Cable Holdings S.a.r.l está participada por Investindustrial IV L.P y otros coinversores. TCP Cable S.a.r.l. está participada por Trilantic Capital Partners IV (Europe) L.P. y otros coinversores.

(5) Incluye los beneficiarios bajo los planes de Incentivos de los Directivos que hayan acordado reinvertir parte de la compensación debida bajo dicho plan en forma de acciones ordinarias de la Sociedad. Además, D. Alberto García Erauzkin ha acordado reinvertir parte de la compensación a él debida bajo los Acuerdos de Inversión en forma de acciones ordinarias de la Sociedad. El número de acciones se calcula en base a que el precio de la Oferta sea el punto medio del rango de precios de la Oferta.

(6) Incluye los empleados que recibirán acciones de forma gratuita (sin coste alguno) bajo el Plan de Acciones de los Empleados. El número de acciones se calcula en base a que el precio de la Oferta sea el punto medio del rango de precios de la Oferta.

A fecha de este Folleto, los accionistas vendedores han suscrito dos pactos de accionistas. No obstante, estos pactos de accionistas quedarán sin efecto automáticamente partir de la admisión a cotización. Por lo tanto, con efectos desde la admisión a cotización, no habrá pactos de accionistas en vigor y, completada la Oferta asumiendo el ejercicio pleno de la opción de sobreadjudicación, ninguno de los accionistas vendedores, sea individual o conjuntamente, controlarán en la Sociedad y la Sociedad no tiene conocimiento de que persona alguna tendrá, de forma directa o indirecta, la propiedad de la Sociedad o el control de la misma. No obstante, los estatutos sociales de la Sociedad contienen cláusulas de supermayorías, descritas en detalle a continuación.

		Nuestros estatutos sociales prevén que los siguientes acuerdos de la junta general de accionistas sólo pueden ser válidamente aprobados por una mayoría reforzada del 75% de los derechos de votos asistentes: • Modificación de los estatutos sociales en lo relativo al domicilio social, denominación y objeto social, procedimiento de aprobación de acuerdos de la junta general de accionistas o del consejo de administración, así como cualquier cambio en la marca comercial "Euskaltel" en las operaciones de la Sociedad en la comunidad autónoma del País Vasco. • Acuerdos que tengan como objetivo mover la sede de gestión y administración efectiva de la Sociedad fuera de la comunidad autónoma del País Vasco. • La delegación de facultades para la aprobación de los acuerdos mencionados anteriormente por parte del consejo de administración, en los casos permitidos por la ley. Además, los estatutos sociales establecen que los siguientes acuerdos, indelegables por parte del consejo de administración, sólo pueden aprobarse válidamente por una supermayoría de al menos cuatro quintos (4/5) de los miembros del consejo de administración (presentes en la reunión o presentes por medio de representante) (siempre y cuando concurra un quórum reforzado de cuatro quintos (4/5) de los miembros del consejo de administración, por sí mismos o mediante representante): • El cierre de cualquiera de los centros de trabajo que se encuentre en el País Vasco, salvo que esté debidamente justificado por razones de eficiencia en el desarollo del negocio. • Acuerdos propuestos para su aprobación en la junta general de accionistas que tengan como como objeto el traslado de la sede de gestión y administración efectiva de la Sociedad fuera de la comunidad autónoma del País Vasco. • Acuerdos propuestos para su aprobación en la junta general de accionistas que tengan como objeto la marca comercial "Euskaltel" en lo referente al ejercicio de nuestras actividades en la comunidad autónoma del País Vasco. • Acuerdos que versen sobre el ejercicio del derecho de voto por parte de la Sociedad como accionista (o miembro de los órganos de gobierno) de sus filiales o filiales parciales, en lo referente a acuerdos cuyo objeto pueda considerarse como materia de acuerdo del consejo de administración sujeta a supermayoría y quórum reforzado a nivel de la Sociedad. • La delegación de facultades de la junta general de accionistas en relación con los acuerdos mencionados anteriormente.

B.7	Información financiera fundamental histórica	La información financiera histórica a fecha de y para los años finalizados el día 31 de diciembre de 2014, 2013 y 2012 y a fecha de y para el trimestre finalizado el 31 de marzo de 2015, presentada a continuación ha sido elaborada de conformidad con las normas contables IFRS-EU:

1. Cuentas de pérdidas y ganancias según IFRS-EU

	Trimestre finalizado el 31 de marzo de		Año finalizado el 31 de diciembre de		
	2015	**2014**	**2014**	**2013**	**2012**
	(no auditado)				
			(miles de €)		
Cifra de negocios	78.437	77.959	315.109	329.148	338.542
Otros ingresos	126	71	331	559	819
Trabajos realizados por la empresa para su activo	1.047	1.555	5.721	5.184	3.439
Aprovisionamientos	(17.487)	(17.965)	(71.524)	(73.018)	(76.916)
Gastos de personal	(5.839)	(8.089)	(30.318)	(34.379)	(31.708)
Otros gastos operativos	(19.015)	(16.332)	(64.612)	(70.946)	(92.217)
Amortización y deterioro del inmovilizado	(19.874)	(19.664)	(81.508)	(83.243)	(75.889)
Resultados de explotación	**17.395**	**17.535**	**73.199**	**73.305**	**66.070**
Gastos financieros netos	(15.906)	(6.226)	(23.264)	(15.939)	(12.725)
Impuesto sobre beneficios	(248)	(2.988)	(13.152)	(15.072)	(13.220)
Resultado del ejercicio	**1.241**	**8.321**	**36.783**	**42.294**	**40.125**

La cifra de ingresos obtenida en el trimestre finalizado el 31 de marzo de 2015 fueron de €78,4 millones, frente a los €78 millones obtenidos en el trimestre finalizado el 31 de marzo de 2014, lo que representa un incremento de €0,4 millones, o del 0,5%. Este incremento se debe principalmente al segmento de clientes particulares, en el que se puede observar un crecimiento acelerado como consecuencia de una tasa de pérdida de clientes inferior (14,8% frente al 16,2% para el trimestre finalizado el 31 de marzo de 2014) y una mejoría en el ARPU global mensual (€55,2), así como un incremento en la tasa de penetración de los clientes en el sector móvil en comparación con el periodo anterior. Los ingresos en el segmento de los clientes particulares aumentaron en un 2,1% frente a los ingresos del trimestre finalizado el 31 de marzo 2014, mientras que en el segmento SOHO se observó un crecimiento adicional del 0,2% en comparación con el periodo anterior.

Los otros segmentos (Pymes, Grandes Cuentas, Ventas al por mayor y Otros Negocios) mostraron una ligera recuperación, en comparación con el trimestre finalizado el 31 de marzo de 2014; no obstante, los ingresos han descendido en un total de 7,9% frente al periodo anterior, debido en parte a los descuentos acordados en el contrato con el gobierno del País Vasco, cambios regulatorios en materia de precios en los pagos por terminación de contratos en redes de telefonía fija, descenso en las ventas de equipos y una fuerte competencia por parte de nuestros competidores en el segmento.

La Sociedad tuvo un descenso en beneficios de €7,3 millones, u 85,5%, hasta los €1,2 millones, en el trimestre finalizado el 31 de marzo de 2015, con respecto a los €8,3 millones del trimestre finalizado el 31 de marzo de 2014. Ello se debe principalmente a la estimación cuantitativa de las obligaciones adquiridas bajo el Plan de Incentivos para Directivos y Acuerdos de Inversión.

Los ingresos en el año finalizado el 31 de diciembre de 2014 fueron de €315,1 millones frente a los €329,1 millones obtenidos en el año finalizado el 31 de diciembre de 2013, lo que representa un incremento de €14,0 millones, o del €4,3%.

Dicho incremento se debe fundamentalmente al descenso en los ingresos obtenidos en el segmento de empresas, así como varios factores que afectan a los ingresos en todos los segmentos, como la caída en el ARPU en el sector móvil (que fue mayor en el segmento de empresas que en el segmento de clientes particulares), presiones para bajar precios ejercidas por Telefónica, y la reducción de gastos por parte de las entidades públicas y las administraciones, que buscan reducciones en precios y servicios. Los beneficios anuales cayeron €5,5 millones, o un 13,0%, desde los €42,3 millones obtenidos en el año finalizado el 31 de diciembre de 2013 hasta los €36,8 millones obtenidos en el año finalizado el 31 de diciembre de 2014.

Los ingresos en el año finalizado el 31 de diciembre de 2013 fueron de €329,1 millones, en comparación con los ingresos obtenidos en el año finalizado el 31 de diciembre de 2012, lo que representa €9,4 millones, o un descenso del 2,8%. Los beneficios anuales se incrementaron en €2,2 millones, o en un 5,5%, desde los €40,1 millones obtenidos en el año finalizado el 31 de diciembre de 2012 hasta los €42,3 millones obtenidos en el año finalizado el 31 de diciembre de 2013.

Este descenso fue debido, principalmente, a un descenso en nuestros ingresos en el segmento de clientes particulares como resultado de una caída en el ARPU global, un descenso en los clientes particulares y presiones para bajar precios en la industria. Los beneficios anuales se incrementaron en €2,2 millones, o en un 5,5%, desde los €40,1 millones obtenidos en el año finalizado el 31 de diciembre de 2012 hasta los €42,3 millones obtenidos en el año finalizado el 31 de diciembre de 2013.

En el mes finalizado el 30 de abril de 2015, los ingresos totales en el segmento de clientes particulares se incrementaron en un 3,6% mensual en comparación con el mismo mes en el año anterior, lo que sirve de impulso para el crecimiento que se acelera en el segmento de clientes particulares. Asimismo, se ha producido una estabilización de la tendencia en el ARPU global en el sub-segmento SOHO con un aumento notable en abril de 2015, resultando en un aumento del 3,9% interanual del crecimiento en ingresos totales en el sub-segmento SOHO.

2. Balance según IFRS-EU

	A fecha de 31 de marzo de 2015	A fecha de 31 de diciembre de		
		2014	2013	2012
	(no auditado)	(miles de €)		
Activo				
Activo no corriente	911.297	921.542	973.003	1.017.651
Activo corriente	57.841	56.785	48.759	45.664
Total activo	**969.138**	**978.327**	**1.021.762**	**1.063.315**
Patrimonio neto y pasivo				
Patrimonio neto	648.549	647.490	614.613	572.896
Pasivo no corriente	210.512	212.949	223.829	284.571
Pasivo corriente	110.077	117.888	183.320	205.848
Total patrimonio neto y pasivo	**969.138**	**978.327**	**1.021.762**	**1.063.315**

		El 3 de junio de 2015 suscribimos un contrato de financiación (*facilities agreement*) con Kutxabank, S.A. y Banco Bilbao Vizcaya Argentaria, S.A. como entidades coordinadoras y demás partes mencionadas en el contrato de financiación. De acuerdo con este contrato, se ponen a disposición de la Sociedad los siguientes medios financieros, a condición de que, entre otras cuestiones, la Sociedad confirme a los prestamistas que el precio final de la Oferta ha sido acordado con las Entidades Globales Coordinadores (lo cual se espera que ocurra en el día, o sobre la fecha de 29 de junio de 2015): • un préstamo financiero de tramo A de €235.000.000; • un préstamo financiero de tramo B de €235.000.000; • una línea de crédito renovable de €30.000.000. Tras la finalización de la Oferta, nuestros acuerdos de refinanciación bajo el contrato de financiación o *Facilities Agreement* entrarán en vigor, lo que dará lugar a una deuda bancaria de €470 millones aproximadamente (incluyendo los *Term Facilities*) y permitirá a la Sociedad un apalancamiento de aproximadamente un 3.0x de deuda neta sobre EBITDA ajustado (en base a un EBITDA ajustado de €156,3 millones para el año finalizado el 31 de marzo de 2015). Se espera utilizar dicha nueva deuda como sigue: • repago de nuestra deuda bancaria actual (que asciende a €232 millones a fecha de 31 de marzo de 2015); • pago de un dividendo extraordinario a los accionistas vendedores por una cantidad de entre €193,3 millones y €209,2(1) millones (dicho dividendo extraordinario incluye €12,9 millones de la liquidez total a fecha de 31 de marzo de 2015 además del efectivo que la Sociedad haya generado entre el 1 de abril de 2015 y la fecha de este Folleto , lo cual, a fecha de este Folleto, se estima en €21,2 millones); • pago de nuestras obligaciones contraídas en virtud del Plan de Incentivos de Directivos y los Acuerdos de Inversión por una cantidad de entre €39,1 millones y €54,3 millones (incluyendo, entre otras cosas, un pago en efectivo y facilidades a los beneficiarios para la reinversión de la parte de la compensación de los beneficiarios a ellos debida en forma de acciones ordinarias de la Sociedad, para lo que la Sociedad adquirirá dichas Acciones en la Oferta); • compra de acciones ordinarias en la Oferta para la entrega de acciones ordinarias a ciertos empleados de la Sociedad bajo en Plan de Acciones de Empleados por una cantidad de entre €3,3 y €4,0 millones. • pago de gastos de asesoría y otros gastos en relación con la Oferta, estimados en €7 millones; • repago de los *interest rate swaps* (que a fecha de 31 de marzo de 2015 ascendían a €6,9 millones); Nota: (1) El rango se calcula sobre la base de que el precio de la Oferta está (a) en el extremo inferior del rango de precios de la Oferta y (b) en el extremo superior del rango de precios de la Oferta. El rango de precios de la Oferta es meramente indicativo, y el precio de la Oferta podrá fijarse en una cantidad inferior o superior al rango de precios de la Oferta.

- repago de nuestra deuda financiera actual (que a fecha de 31 de marzo de 2015 ascendían a €3,2 millones);
- pago de gastos y honorarios en relación con la firma del contrato de financiación o *Facilities Agreement*, estimados en €3,8 millones.

En total, estimamos que la capitalización y endeudamiento de la Sociedad quedaría afectada de la siguiente forma:

- un descenso en nuestro pasivo corriente actual de €110,1 millones (a fecha de 31 de marzo de 2015) hasta €56,9 millones (a fecha de 31 de marzo de 2015, y así ajustado);
- un incremento en nuestro pasivo no-corriente (excluyendo la parte de la deuda corriente a largo plazo) desde €210,5 millones (a fecha de 31 de marzo de 2015) hasta €436,6 millones (a fecha de 31 de marzo de 2015, y así ajustado);
- un descenso en el patrimonio neto desde los €648,5 (a fecha de 31 de marzo de 2015) hasta los €415,4 millones (a fecha de 31 de marzo de 2015, y así ajustado); y
- un incremento en nuestro pasivo financiero neto desde €228,8 millones (a fecha de 31 de marzo de 2015) hasta €470 millones (a fecha de 31 de marzo de 2015, y así ajustado).

3. Información financiera seleccionada según IFRS-EU

	Trimestre finalizado el 31 de marzo de 2015	Trimestre finalizado el 31 de marzo de 2014	Año finalizado el 31 de diciembre de 2014	2013	2012
	(no auditado)				
Información financiera seleccionada					
€ millones salvo indicación					
Ingresos totales[1]	79,6	79,6	321,2	334,9	342,8
Cambio interanual	0,0%		(4,1)%	(2,3)%	
o/w particulares	49,0	48,0	196,2	195,4	201,3
Cambio interanual	2,1%		0,4%	(2,9)%	
o/w empresas	22,8	23,9	93,4	101,2	102,8
Cambio interanual	(4,6)%		(7,7)%	(1,6)%	
o/w venta al por mayor y otros	5,6	6,1	24,7	29,7	28,9
Cambio interanual	(8,2)%		(16,8)%	2,8%	
o/w otros[2]	2,2	1,6	6,9	8,6	9,8
Cambio interanual	37,5%		(19,8)%	(12,2)%	
EBITDA ajustado[3] *(no auditado))*	37,7	37,3	155,9	155,1	134,7
Cambio interanual	1,1%		0,5%	15,1%	
Margen	47,4%	46,8%	48,5%	46,3%	39,3%
Gastos de capital	(9,1)	(7,9)	(42,2)	(41,5)	(119,2)
Cambio interanual	15,2%		1,7%	(65,2)%	
% ingresos totales	(11,4)%	(9,9)%	(13,1)%	(12,4)%	(34,8)%
Flujo de caja libre operacional[4] *(no auditado)*	28,6	29,3	113,6	113,6	15,5
Cambio interanual	(2,4)%		0,0%	632,9%	
% EBITDA ajustado	75,9%	78,6%	72,9%	73,2%	11,5%

Nota:

(1) Incluye ingresos, otros ingresos y trabajos realizados por la empresa para su activo.

(2) Operaciones con efecto neutro en el rendimiento de la Sociedad

(3) Definido como ingresos totales, menos costes directos, costes comerciales y gastos generales.

(4) Definido como EBITDA ajustado menos gastos de capital.

		La información financiera seleccionada a fecha de y para el año finalizado el día 31 de diciembre de 2014, 2013 y 2012 y a fecha de y para el trimestre finalizado el 31 de marzo de 2015 y 2014, indicada en la parte inferior, se ha preparado de acuerdo con las indicaciones contenidas en el PGC.

4. Cuentas de pérdidas y ganancias según PGC

	Trimestre 31 de marzo de 2015	Trimestre 31 de marzo de 2014	Año finalizado el 31 de diciembre de 2014	2013	2012
	(no auditado)		(€ miles)		
Importe neto de la cifra de negocios	78.437	77.959	315.109	329.148	338.542
Trabajos realizados por la empresa para su activo	1.047	1.555	5.721	5.184	3.439
Aprovisionamientos	(17.487)	(17.965)	(71.524)	(73.018)	(76.916)
Otros ingresos de explotación	126	71	331	559	819
Gastos de personal	(5.839)	(8.089)	(30.318)	(34.379)	(31.708)
Otros gastos de explotación	(18.584)	(16.162)	(63.469)	(72.361)	(99.519)
Amortización del inmovilizado	(19.874)	(19.664)	(81.508)	(83.243)	(74.088)
Deterioro y resultado por enajenaciones del inmovilizado	—	—	289	—	(1.801)
Otros resultados	(431)	(170)	(1.432)	1.415	7.302
Resultado de explotación	**17.395**	**17.535**	**73.199**	**73.305**	**66.070**
Resultado financiero	**(15.906)**	**(6.226)**	**(23.264)**	**(15.939)**	**(12.725)**
Resultado antes de impuestos	**1.489**	**11.309**	**49.935**	**57.366**	**53.345**
Impuestos sobre beneficios	(248)	(2.988)	(5.601)	(7.274)	(5.241)
Resultado del ejercicio	**1.241**	**8.321**	**44.334**	**50.092**	**48.104**

5. Balance según PGC

	A 31 de marzo de 2015	A 31 de diciembre de 2014	2013	2012
	(no auditado)	(€ miles)		
Activo				
Activo no corriente	911,297	921,542	973,003	1,017,651
Activo corriente	57,841	56,785	48,759	45,664
Total activo	**969,138**	**978,327**	**1,021,762**	**1,063,315**
Patrimonio neto y pasivo				
Patrimonio neto	648,549	647,490	614,613	572,896
Pasivo no corriente	210,512	212,949	223,829	284,571
Pasivo corriente	110,077	117,888	183,320	205,848
Total patrimonio neto y pasivo	**969,138**	**978,327**	**1,021,762**	**1,063,315**

		No ha habido cambios significativos en la posición financiera o comercial de la Sociedad a partir del 31 de marzo de 2015 (fecha en la que se preparó la información financiera contenida en el informe de los auditores respecto de la Sociedad), salvo los incluidos en este resumen.
B.8	**Información financiera seleccionada pro forma**	No aplicable. Este Folleto no contiene información financiera pro forma.
B.9	**Estimación de beneficios**	No aplicable. Este Folleto no contiene estimaciones o previsiones de beneficios.

B.10	**Descripción de la naturaleza de cualquier salvedad en el informe de auditoría sobre la información financiera histórica**	Los informes de auditoría correspondientes a las cuentas anuales de 2012 (IFRS-EU) y las cuentas de 2012 según el Plan General de Contabilidad (PGC) español realizados por PricewaterhouseCoopers Auditores, S.L. y las cuentas anuales de 2013-2014, así como las cuentas anuales de 2013 y las de 2014 según el PGC español elaboradas por KPMG Auditores, S.L. no contienen ninguna salvedad.
B.11	**Capital de explotación cualificado**	No aplicable. En opinión de la Sociedad, el capital de explotación disponible para la Sociedad es suficiente para lo requerido en este momento por la misma y, en particular, es suficiente para al menos los 12 meses siguientes a la fecha de este Folleto. Ello continuará siendo así al finalizar la Oferta y la disponibilidad de los fondos bajo el nuevo acuerdo de financiación.

Sección C—Valores		
C.1	**Tipo y clase de valor**	El código ISIN que ha sido asignado por la Agencia Nacional de Codificación de Valores Mobiliarios (entidad dependiente de la CNMV) a las acciones ordinarias es el ES0105075008. Las acciones ordinarias se negociarán en las Bolsas de Valores de Madrid, Barcelona, Bilbao y Valencia (las "las Bolsas de Valores Españolas") y estarán representadas en el Sistema de Interonexión Bursátil Español ("SIBE") mercado continuo mediante el símbolo *ticker* "EKT".
C.2	**Divisa de emisión de los valores**	Las acciones ordinarias se emitirán en euros.
C.3	**Número de acciones emitidas**	A fecha de este Folleto, el capital social de la Sociedad asciende a €379.613.400 dividido en 126.537.800 acciones de la misma clase representadas por anotaciones en cuenta con €3,00 de valor nominal y representa un derecho de voto. Todas nuestras acciones están íntegramente suscritas y desembolsadas.
C.4	**Derechos vinculados a los valores**	Las acciones ordinarias tendrán igualdad de rango entre sí, incluso a efectos de voto y con respecto a toda distribución de beneficios y a la cuota correspondiente en caso de liquidación. Las acciones ordinarias confieren a sus propietarios los derechos recogidos en los estatutos sociales y en la legislación mercantil española, como son, entre otros, (i) el derecho de asistencia a las juntas de la Sociedad y el derecho a tomar la palabra y votar en ellas, (ii) el derecho a percibir dividendos en proporción al capital social desembolsado en la Sociedad, (iii) el derecho de suscripción preferente en la emisión de nuevas Acciones Ordinarias en aumento de capital por aportaciones dinerarias, y (iv) el derecho a recibir los activos que resten en proporción a la participación en el capital social en caso de que se liquide la Sociedad.
C.5	**Cualquier restricción sobre la libre transmisibilidad**	No existen restricciones a la libre transmisibilidad de las acciones ordinarias de la Sociedad.
C.6	**Admisión a cotización en un mercado regulado**	Se solicitará la admisión a negociación de las acciones ordinarias en las Bolsas de Valores Españolas, así como su incorporación al mercado continuo. No se ha realizado solicitud de admisión a negociación a ninguna otra bolsa de valores, ni se prevé que se realice dicha solicitud.

C.7	**Política de dividendos**	Los accionistas ordinarios tienen derecho a percibir los dividendos futuros, los cuales se repartirán de acuerdo con los estatutos sociales. La Sociedad tiene intención de mantener una política de dividendos atractiva tras la admisión a cotización de los valores, según la cual repartirá a los accionistas el exceso de caja a fin de mantener el objetivo fijado de apalancamiento de 3.0x a 4.0x de deuda neta respecto del EBITDA ajustado. El consejo de administración de la Sociedad puede distribuir el capital en favor de los accionistas en forma de dividendos y/o de otras formas, entre las que se incluye la recompra de acciones, a fin de poder mantener nuestro objetivo de ratio de apalancamiento. La capacidad de la Sociedad de declarar dividendos y distribuir capital dependerá, entre otras cosas, de las potenciales adquisiciones que la Sociedad lleve a cabo. Si bien la Sociedad no forma parte de ningún proceso de adquisición en este momento, es posible que dicha adquisición pueda materializarse en los próximos 12 o 18 meses y, si ello ocurriera, ello podría tener un impacto material en nuestra estructura de capital y ratios de apalancamiento, gastos por intereses y futuras remuneraciones a accionistas y dividendos. Si la Sociedad no lleva a cabo adquisiciones en los próximos 12 o 18 meses, la Sociedad tiene la intención de revisar el apalancamiento óptimo dentro de los límites del objetivo de ratio de apalancamiento. Si la Sociedad realizara adquisiciones, la capacidad de distribución de dividendos quedaría afectada por las restricciones contenidas en los acuerdos de financiación, los cuales establecen un compromiso financiero (que se comprueba semestralmente), que requiere que el ratio de apalancamiento (definido en los acuerdos de financiación como el ratio entre nuestra deuda financiera al EBITDA *pro forma* consolidado (que es similar en su forma de cálculo, y no difiere significativamente, del EBITDA ajustado, con algunos ajustes *pro forma* habituales en los acuerdos financieros de esta naturaleza) no exceda de 4,5:1,0, teniendo en cuenta que dicho ratio aumentará automáticamente al 5,5:1,0 durante el periodo comenzado en la fecha en que la Sociedad realice la adquisición permitida (y que la denomine como tal) por un precio de al menos €250.000.000 y que finaliza en la fecha en que se cumplan 18 meses tras el cierre de dicha operación. En tal caso, el consejo de administración tiene la intención de revisitar la política arriba explicada de acuerdo con los factores que sean relevantes en ese momento determinado.

		Sujeto a las normas españolas de derecho imperativo, a la fecha de este Folleto, no existen obligaciones contractuales o legales que impidan que la Sociedad lleve a cabo esta política, por lo que podrá distribuirse cada año un dividendo ordinario de hasta el 100% de los beneficios netos anuales. No obstante, la capacidad de la Sociedad para distribuir dividendos extraordinarios (entendiendo como tales dividendos a pagar que no provengan de los beneficios anuales del negocio habitual) o recompra de acciones están sujetas a los términos y condiciones de los contratos de financiación. La capacidad de la Sociedad para distribuir dividendos en el futuro depende asimismo de su rendimiento y las futuras perspectivas del negocio, la estructura de capital de la Sociedad y de sus necesidades de financiación de la misma, las condiciones generales y de los mercados de capital, otros factores que el consejo de administración y los accionistas de la Sociedad consideren relevantes en su momento, y de las las restricciones legales y las contenidas en nuestros contratos de financiación que mantiene la Sociedad.

Sección D—Riesgos		
D.1	**Información fundamental sobre los principales riesgos específicos del emisor o de su sector de actividad**	Antes de invertir en las Acciones, los potenciales inversores deberán tener en cuenta los siguientes riesgos asociados. <u>1. Riesgos en relación con la Sociedad y su negocio, así como de la industria en la que opera</u> • Las posibles condiciones adversas en la economía española, vasca y la eurozona pueden afectar a nuestro negocio. • Operamos en una industria muy competitiva. • Los planes de desarrollo de las redes de fibra anunciados por algunos de nuestros competidores pueden hacer aún más competitivo el mercado de las telecomunicaciones en el País Vasco, lo que conllevaría unos precios inferiores para nuestros productos y la pérdida de nuevos clientes y clientes existentes. • Nuestro negocio está sujeto a cambios tecnológicos rápidos y significativos, que son difíciles de predecir. • Nuestro éxito depende de la futura demanda de nuestros servicios y productos, la cual es difícil de predecir. • Corremos el riesgo de que disminuya el uso de la telefonía fija a causa de la migración de clientes a la telefonía móvil y de los servicios fijos de banda ancha hacia la banda ancha móvil. • El proceso de consolidación que está teniendo lugar en la industria de las telecomunicaciones en España puede afectar a nuestro negocio. • En caso de pérdida o de no obtención de ciertos permisos, licencias o autorizaciones necesarias para nuestras operaciones y expansión, parte de nuestro negocio actual o futuro podría no ser llevado a cabo.

		• Operamos en un mercado muy regulado, lo que podría suponernos la necesidad de incurrir en ciertos costes adicionales o la limitación de nuestros ingresos. • El impacto negativo en nuestra reputación y valor asociado a nuestra marca comercial puede afectar de forma negativa a nuestro negocio y perspectivas de negocio, así como a nuestras condiciones de financiación y resultados de operaciones. • Los riesgos asociados a la salud, sean reales o simplemente percibidos como riesgos, u otros problemas en relación con los dispositivos móviles o sus estaciones base y otras tecnologías utilizadas en nuestro negocio, podrían resultar en un menor uso de las telecomunicaciones móviles. • Nuestros ingresos y márgenes pueden ser inferiores a lo esperado si no somos capaces de introducir con éxito nuevos o mejorados productos y servicios en el mercado. • La pérdida de control sobre la tasa de pérdida de clientes puede afectar negativamente nuestro rendimiento financiero. • Existe el riesgo de que no podamos mantener los contratos de grandes cuentas en condiciones atractivas comercialmente, o simplemente mantenerlos, o no poder concluir nuevos contratos con nuestros clientes de grandes cuentas. • Estamos sujetos al incremento de costes operativos (entre los cuales se incluye normalmente el riesgo de inflación), que pueden afectar de forma negativa a nuestras ganancias. • Dependemos de terceras personas para proporcionar programación premium para nuestros servicios de televisión de pago. • Dependemos de Orange para el tráfico relativo a nuestros servicios de telecomunicación móvil. • Dependemos de terceros proveedores. • Dependemos de contratos de arrendamiento para tener el acceso a los nodos, claves en la operativa de una parte notable de nuestra red propia. • Las interrupciones imprevistas en la red y ciertos eventos que escapan a nuestro control pueden afectar de forma negativa a nuestra capacidad de entrega de productos y servicios. • Nuestro negocio puede verse afectado negativamente si no llevamos a cabo tareas continuas de mantenimiento y mejora necesarias para nuestra red, sistemas y operaciones. • La operativa de nuestros sistemas de acceso condicional depende de tecnologías obtenidas mediante licencias y está sujeta a riesgos de piratería ilegal. • Dependemos de nuestra capacidad para atraer y retener al personal clave, sin el cual puede que no seamos capaces de llevar a cabo nuestro negocio de manera efectiva. • Las huelgas y otras acciones industriales colectivas, así como la negociación de nuevos convenios colectivos, pueden producir disrupciones en nuestras operaciones o hacer que el coste de la operativa de nuestras instalaciones sea más elevado.

		• Puede que no generemos el flujo efectivo necesario para financiar nuestras operaciones o inversiones de capital o que nuestras inversiones de capital no generen un rendimiento positivo. • Los objetivos que se incluyen en este Folleto pueden diferenciarse sustancialmente de los resultados reales obtenidos y los inversores no deberían tener confianza indebida en ellos. • Nuestro tratamiento, almacenamiento, uso y divulgación de datos personales, y cualquier acceso no autorizado a, o divulgación de dichos datos personales o el incumplimiento de los estándares legales o de la industria, pueden afectar de forma negativa a nuestro negocio y perspectivas de negocio, así como a nuestras condiciones de financiación y resultados de operaciones. • Existen riesgos derivados de procedimientos arbitrales y judiciales. • Si se decide la expansión del negocio a través de adquisiciones o alianzas y asociaciones con terceras partes, existe el riesgo de que las mismas fracasen o que distraigan nuestro equipo gestor. Dichas adquisiciones o alianzas podrían tener un impacto significativo en nuestra estructura financiera o política de dividendos. • Puede que no tengamos la capacidad de implementar nuestra estrategia de negocio con éxito, ni de alcanzar nuestros objetivos de crecimiento. 2. Riesgos relacionados con nuestro perfil financiero • Puede que no tengamos la capacidad de generar el suficiente flujo de caja para satisfacer nuestras obligaciones financieras en su fecha de vencimiento y, en la medida en que no se produzca dicho repago, puede que no seamos capaces de refinanciar nuestra deuda o seamos únicamente capaces de refinanciarla en términos que hagan que nuestros costes financieros aumenten. • Existe el riesgo de que los tipos de interés fluctúen como resultado del interés variable de la deuda. • Las restricciones impuestas por nuestras obligaciones de deuda limitan nuestra capacidad de actuactión. • En caso de incumplimiento de las obligaciones financieras contenidas en el *Facilities Agreement*, se desencadenatía un supuesto de incumplimiento y el vencimiento anticipado de todas las cantidades debidas en su virtud. • Existe el riesgo de que las bonificaciones fiscales no puedan ser utilizadas.
D.3	**Información fundamental sobre los principales riesgos específicos de los valores**	• El accionista principal tiene la capacidad de ejercer una influencia significativa en la Sociedad, por lo que existe un riesgo en relación con los conflictos de interés que pudieran existir entre el accionista principal y la Sociedad. • No puede garantizarse que se vaya a desarrollar un mercado de negociación activo para las acciones ordinarias ni que existirá una liquidez suficiente para dichas acciones.

		• La venta de acciones ordinarias tras la Oferta puede conllevar un descenso en el precio de mercado de las acciones ordinarias. • La Sociedad podrá emitir en el futuro nuevas acciones, deuda u otros valores, lo cual podría diluir la participación de los inversores en el accionariado de la sociedad. • El precio de las acciones ordinarias puede resultar volátil y estar sujeto a un descenso súbito y notable. • Puede que no se produzca una distribución de dividendos y, en consecuencia, el inversor sólo pueda obtener rendimiento de las acciones si éstas suben de precio. • Los accionistas no residentes en España pueden encontrar dificultades a la hora de iniciar procedimientos judiciales o ejecutar sentencias contra la Sociedad o los administradores, por ejemplo, los accionistas pueden encontrar dificultades a la hora de defender sus intereses dadas las diferencias existentes entre los derechos de los accionistas y los deberes fiduciarios en el ordenamiento jurídico español y el de otros países, incluida la mayoría de los estados en Estados Unidos. • Los accionistas residentes en jurisdicciones que no sean la jurisdicción española pueden ser incapaces de ejercitar sus derechos de suscripción preferente de nuevas acciones o participar en recompras. • Las acciones no serán libremente transmisibles en Estados Unidos. • Las fluctuaciones de los tipos de cambio pueden exponer a un inversor cuya divisa no sea el euro al riesgo de tipo de cambio. • La Oferta puede ser revocada o aplazada.

Sección E—Oferta		
E.1	**Ingresos netos totales y cálculo de los gastos totales de la emisión/oferta**	De conformidad con la Oferta, los accionistas vendedores esperan obtener unos ingresos brutos de entre €794,0 millones (en el caso de que no se ejercite la opción de sobreadjudicación) y €873,4 milliones (en el supuesto de pleno ejercicio de la opción de sobreadjudicación), calculado sobre la base de que el precio de la Oferta es aquél del punto medio del rango de precios de la Oferta. La Sociedad no recibirá ingreso alguno procedente de la venta de las acciones por parte de los accionistas vendedores en la Oferta. Los accionistas vendedores no asumirán otros costes o gastos relacionados con la Oferta. De esta forma, los accionistas vendedores esperan obtener unos ingresos netos de entre €770,7 millones (en el caso de que lo se ejercite la opcion de sobreadjudicación) y €847,7 milliones (en el supuesto de pleno ejercicio de la opción de sobreadjudicación). La comisiones máximas a pagar por parte de los accionistas vendedores en relación con la Oferta (asumiendo el pago completo de la tasa discrecional pero excluyendo impuesto sobre valor añadido (o impuestos equivalentes sobre enajenaciones), que se añadirán según apliquen) ascienden a una cantidad entre €23,3 millones (en el caso de que no se ejercite la opción de sobreadjudicación) y €25,7 millones (en el supuesto de pleno ejercicio de la opción de sobreadjudicación), calculado sobre la base de que el precio de la Oferta es aquél del punto medio del rango de precios de la Oferta. Véase el punto E.7 de este Resumen apara más detalles sobre gasto que corren por cuenta de los inversores.

E.2	**Motivos de la oferta y destino de los ingresos**	Se espera que la Oferta proporcione a la Sociedad una base accionarial diversificada de accionistas internacionales y un mejor acceso a los mercados públicos de capital (incluidos los instrumentos de deuda) que harán más fácil la obtención de financiación utilizada para el crecimiento de la Sociedad en el futuro. Además, se espera que la Oferta mejore aún más el reconocimiento de nuestra marca, la transparencia y su prestigio al ser una sociedad cuyas acciones cotizan en bolsa. La Oferta permitirá asimismo a los accionistas vendedores recuperar toda o parte de su inversión en la Sociedad. La Sociedad no recibirá ingreso alguno procedente de la venta de las acciones por parte de los accionistas vendedores en la Oferta.
E.3	**Descripción de las condiciones de la oferta**	Kutxabank, S.A. (en nombre propio y de Araba Gertu, S.A.U.), International Cable B.V. e Iberdrola, S.A., como accionistas vendedores, ofrecen 80.408.930 acciones ordinarias de la Sociedad en la oferta, con un valor nominal de €3,00 cada una (las "**Acciones Iniciales**"). Estas Acciones Iniciales constituyen el 63,55% del capital de la Sociedad a fecha de este Folleto. A fin de poder entregar acciones ordinarias a algunos directivos y empleados, la Sociedad estima que habrá de adquirir entre 1.587.145 y 1.680.740 Acciones iniciales en la Oferta (entre 1,97% y 2,09% de las Acciones Iniciales) , calculado sobre la base de que el precio de la Oferta es aquél del punto medio del rango de precios de la Oferta. Además, los accionistas vendedores otorgan una opción a los Coordinadores Globales, en nombre de las Entidades Aseguradoras, de compra de hasta 8.040.893 de acciones adicionales de la Sociedad (lo que representa un 10% de las Acciones Iniciales) (las "**Acciones Adicionales**", y junto con las Acciones Iniciales, las "**Acciones**") al precio de la Oferta para cubrir la sobreadjudicación de acciones en la Oferta, si existieran, y las posiciones en corto resultantes de las operaciones de estabilización. El rango indicativo de precios de la Oferta es de entre €8,70 a €11,05 por Acción. Este rango de precios ha sido determinado mediante las negociaciones entre los accionistas vendedores y los Coordinadores Globales, sin haber consultado a ningún experto independiente al determinar el rango de precios de la Oferta. El precio de la Oferta, que puede ser inferior o superior a los extremos del rango de precios de la Oferta, se determinará durante las negociaciones entre los accionistas vendedores y los Coordinadores Globales tras la finalización del periodo de prospección de la demanda (que se estima ocurrirá en o sobre el 29 de junio de 2015) y será comunicado a la CNMV mediante el hecho relevante correspondiente. El rango indicativo de precios conlleva una capitalización bursátil de la Sociedad de entre €1.100,9 millones hasta €1.398,2 millones y una relación precio-beneficio (calculada a 31 de diciembre de 2014) de entre €29,9x y €38,0x.

Tras la finalización del periodo de prospección de la demanda que se estima ocurrirá en o sobre el 29 de junio de 2015), la Sociedad, los accionistas vendedores y las Entidades Aseguradoras concluirán un *underwriting agreement* o contrato de aseguramiento (el "**Contrato de Aseguramiento**") en relación con las Acciones. Siempre y cuando se satisfagan ciertas condiciones contenidas en el Contrato de Aseguramiento y que este último no haya sido resuelto de acuerdo con sus términos, cada una de las entidades contenidas en la tabla siguiente (las "**Entidades Aseguradoras**") acuerdan, mancomunadamente, obtener compradores o, en su defecto, comprar ellas mismas el porcentaje de Acciones Aseguradas (definidas más abajo) que se señala en la tabla junto con su nombre:

Entidades Aseguradoras	**Porcentaje de Acciones Aseguradas***
J.P. Morgan plc	34,0%
UBS Limited	34,0%
Banco Bilbao Vizcaya Argentaria, S.A.	10,0%
Citigroup Global Markets Limited	10,0%
Banco Santander, S.A.	3,0%
Caixabank, S.A.	3,0%
JB Capital Markets, S.V., S.A.U.	3,0%
Norbolsa Sociedad de Valores, S.A.U.	3,0%
TOTAL	100%

* Se excluyen entre 1.587.145 y 1.680.740 Acciones Iniciales (entre un 2,09% y un 1,97% de las Acciones Iniciales; calculado sobre la base de que el precio de la Oferta es aquél del punto medio del rango de precios de la Oferta) que adquirirá la Sociedad en la Oferta para (i) entregar acciones ordinarias a algunos de los empleados de la Sociedad bajo el Plan de Acciones de los Empleados y (ii) facilitar la reinversión de parte de la compensación debida a los beneficiarios del Plan de Incentivos de Directivos y los Acuerdos de Inversión (en el caso de D. Alberto García Erauzkin) en acciones ordinarias. Dichas Acciones Iniciales adquiridas por la Sociedad no se tendrán en cuenta en el proceso de prospección de la demanda en la fijación del precio referido anteriormente. Por los tanto, las Acciones Iniciales sujetas al compromiso de aseguramiento serán aquellas dirigidas a los inversores institucionales y ascenderán entre un 62,22% y un 62,29% del capital social de la Sociedad (calculado sobre la base del rango de precios de la Oferta) (las "**Acciones Aseguradas**").

Se espera asimismo que Nmás1 Equities Sociedad de Valores S.A. sea parte del Contrato de Aseguramiento pero únicamente como parte del sindicato y agente colocador (es decir, sin compromiso de aseguramiento por su parte).

Se estima que la fecha de cierre de la Oferta o "**Fecha de Operación Bursátil**" sea el 30 de junio de 2015. Los resultados de la Oferta se comunicarán mediante la publicación de un hecho relevante a través de la CNMV en la Fecha de Operación Bursátil o al siguiente día hábil. De acuerdo con la ley española, en la Fecha de Operación Bursátil, los inversores adquieren la obligación incondicional de pagar el precio por, y el derecho de adquirir, las Acciones Iniciales compradas durante la Oferta.

El pago de los inversores finales de las Acciones Iniciales ser realizará antes de los tres días hábiles siguientes a la Fecha de Operación Bursátil contra la entrega a través de los sistemas de Iberclear de las Acciones Iniciales a los inversores finales, lo que se espera tenga lugar el día 3 de julio de 2015 (la "**Fecha de Liquidación**"). Nuestras acciones cotizarán en las Bolsas de Valores de Madrid, Valencia, Barcelona y Bilbao y en el mercado continuo en o sobre el día 1 de julio de 2015, bajo el símbolo *ticker* "EKT".

		La oferta consiste en la colocación de los valores a inversores institucionales, incluyendo en los Estados Unidos únicamente a inversores institucionales cualificados (QIBs, tal y como se definen en la *Rule 144A*) y fuera de los Estados Unidos en operaciones *offshores*, tal y como se definen en la *Regulation S*. Las Acciones no están ni estarán registradas bajo la *Securities Act* ni bajo ninguna de las regulaciones de valores de cada estado y no pueden ser objeto de oferta ni de venta en los Estados Unidos excepto respecto de las operaciones exentas o no sujetas a los requisitos de registro bajo la *Securities Act*. Cualquier oferta o venta de las Acciones bajo la *Rule 144A* y la *Securities Act* será realizada por *brokers* o *dealers* que estén registrados como tales bajo la *Exchange Act*. En caso de retirada o revocación de la Oferta, todas las ofertas de compra serán canceladas y las órdenes de compra en relación con la Oferta se rescindirán. Además, los accionistas vendedores no estarán bajo la obligación de entregar las Acciones y los inversores (incluyendo a efectos de esta sección, las Entidades Aseguradoras) no estarán bajo la obligación de adquirir las Acciones. En el caso de que las acciones ya hayan sido entregadas por los accionistas vendedores y el precio haya sido pagado por los inversores, se podrá requerir a los inversores que devuelvan el título de las Acciones a los accionistas vendedores, y los accionistas vendedores recomprarán las acciones a los tenedores de las misma por un importe igual al importe pagado por los inversores respecto de la venta de las Acciones en esta Oferta, junto con el interés legal devengado (actualmente el 3,5%) desde la fecha en la que los inversores pagaron el precio de las acciones hasta la fecha en la que se repaga el precio de compra. Como resultado de la Oferta, tendrá lugar un "evento de liquidez" bajo el Plan de Incentivos de Directivos y de los Acuerdos de Inversión. Por lo tanto se liquidarán tanto el Plan de Incentivos de Directivos como los Acuerdos de Inversión. Los beneficiarios del Plan de Incentivos de Directivos y D. Alberto García Erauzkin, bajo el Acuerdo de Inversión, han acordado con la Sociedad que reinvertirán la compensación a ellos debida en acciones ordinarias de la Sociedad.

		La Sociedad estima que, a los efectos de facilitar la reinversión de parte de la compensación de los beneficiarios en virtud del Plan de Incentivos de los Directivos y D. Alberto García Erauzkin (bajo el Acuerdo de Inversión) en acciones ordinarias de la Sociedad, la Sociedad adquirirá entre 1.207.532 y 1.318.750 Acciones Iniciales en la Oferta al precio de la Oferta, lo que representa entre un 0,95% y un 1,04% del capital social de la Sociedad y con un valor de entre €10,5 millones y €14,6 millones (en base al rango de precios de la Oferta). La siguiente tabla contiene el número de acciones ordinarias que adquirirá la Sociedad a fin de facilitar dicha reinversión:

	Cantidad de inversión (€)[1]	Núm. de acciones ordinarias[1]
Alberto García Erauzkin	2,594,446	262,729
Senior Management[2]	8,266,032	837,066
Other managers[3]	1,677,836	169,907
Total	12,538,313	1,269,702

Note:

(1) Asumiendo que el precio de la Oferta se encuentra en el punto medio del rango de precios de la Oferta.

(2) Nueve miembros de nuestro equipo de alta dirección.

(3) Catorce empleados más.

Además, la junta general de accionistas de la Sociedad, el día 16 de junio de 2015, y el consejo de administración, el día 17 de junio de 2015, han aprobado la entrega de un paquete de acciones ordinarias sin coste alguno (gratis) a los empleados de la Sociedad (excluyendo a los empleados que a su vez sean beneficiarios del Plan de Incentivos de los directivos), equivalente al valor de dos salarios mensuales por empleado. La Sociedad estima que, a estos efectos, adquirirá entre 379.613 y 361.990 Acciones Iniciales en la Oferta al precio inicial de la oferta, lo que representa entre un 0,30% y un 0,29% del capital social de la Sociedad y con un valor de entre €3,3 millones y €4,0 millones (en base al rango de precios de la Oferta). En consecuencia, el impacto financiero del plan de Acciones de los empleados en las cuentas anuales de 2015 será de entre €3,3 millones y €4,0 millones (en base al rango de precios de la Oferta) y sin tener en cuenta el potencial impacto impositivo.

Las acciones ordinarias adquiridas por la Sociedad a los efectos indicados no se tendrán en cuenta para la formación del libro de demanda referido a continuación. La Sociedad espera que dichas acciones ordinarias sean entregadas a los beneficiarios del Plan de Incentivos de los directivos, los Acuerdos de Inversión y el Plan de Acciones inmediatamente tras la liquidación de la Oferta y, en el caso de la entrega gratuita de acciones a empleados, tan pronto como resulte posible tras la liquidación de la Oferta y en todo caso en el plazo de tres meses desde su adquisición.

E.4	**Descripción de cualquier interés que sea importante para la emisión/oferta, incluidos los conflictivos**	A fecha de este Folleto, los accionistas vendedores poseen el 100% del capital social y derechos de votos y, por los tanto, el control de la Sociedad. Kutxabank, S.A. posee directamente el 42,83% y el 7,07% restante a través de su filial Araba Gertu, S.A.U. International Cable, B.V es propiedad de TCP Cable S.a.r.l (50,00%) e International Cable Holdings S.a.r.l (50,00%). International Cable Holdings S.a.r.l está participada por Investindustrial IV L.P y otros coinversores. TCP Cable S.a.r.l está participada por Trilantic Capital Partners IV (Europe) L.P y otros coinversores. Kutxabank S.A. es prestamista bajo el acuerdo de financiación (*Facilities Agreement*) con una exposición total de €112 millones.

E.5	**Nombre de la persona o de la entidad que se ofrece a vender el valor** **Acuerdos de no enajenación**	**A) Entidades que ofrecen las Acciones** Los accionistas vendedores son las entidades que ofrecen las Acciones. Las Acciones se colocarán por las Entidades Aseguradoras (definidas en el apartado E.3) y Nmás1 Equities Sociedad de valores, S.A. **B) Compromisos** Según el Contrato de Aseguramiento, las entidades siguientes están sujetas a compromiso de no enajenación durante el periodo señalado. La Sociedad . . . . 180 días Loa Accionistas Vendedores . . . . 180 días Beneficiarios bajo los planes de incentivos(1) . . . . 360 días Nota: (1) Ver punto 3.4 de este resumen. Las excepciones habituales en materia de acuerdos de no enajenación resultan de aplicación, entre las que se incluye la venta de acciones en relación con la Oferta o, en el caso de la Sociedad, acciones ordinarias de la Sociedad emitidas, vendidas o transferidas, así como las opciones de compra de acciones ordinarias en relación con planes de incentivos o de remuneración en especie. Además en el caso de la Sociedad, el compromiso no resultara de aplicación, en el caso de ejecución de adquisiciones u operaciones estratégicas de la Sociedad siempre y cuando, en el caso de dichas adquisiciones u operaciones estratégicas, el comprador de dichas acciones acuerde, en favor de cualquier de las Entidades Globales Coordinadores, estar obligado a unas restricciones similares a las asumidas por los accionistas vendedores por el periodo que reste a los 180 días. En el caso de los accionistas vendedores, el compromiso no resultará de aplicación en el caso de que se pignoren las Acciones en favor de alguna de las Entidades Globales Coordinadoras o sus filiales, siempre y cuando que, en el caso de que se ejecute dicha prenda, el adquirente de las acciones ha de asumir restricciones, en favor de alguna de las Entidades Globales Coordinadoras, sustancialmente similares a las asumidas por los accionistas vendedores por el periodo que reste a los 180 días.
E.6	**Dilución**	Dado el carácter secundario de la Oferta, no se producirá efecto de dilución alguno. Si ese ejercita plenamente la opción de sobreadjudicación tras la Oferta, Kutxabank, S.A. poseerá el 30,1% del capital social de la Sociedad y derechos de voto, algunos de los directivos y empleados de la Sociedad tendrán entre 1,3% y 68,6% del capital social y los derechos de voto en la Sociedad conformará el capital flotante (calculado sobre la base de que el precio de la Oferta es aquél del punto medio del rango de precios de la Oferta).
E.7	**Gastos estimados aplicados al inversor por el emisor o el oferente**	A los efectos de la transmisión de las acciones, la Sociedad no cobrará a los inversores ningún gasto aparte del precio de la Oferta. Se podrá requerir a los compradores de las acciones el pago de tasas y recargos que sean acordes con la práctica de mercado en el país correspondiente además del precio de la Oferta. Los compradores habrán de satisfacer asimismo las comisiones debidas a los depositarios de las Acciones.

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