



REPORTS FROM THE BOARD OF DIRECTORS AND ITS NOMINATION AND COMPENSATION COMMITTEE



REPORT FILED BY THE NOMINATION AND COMPENSATION COMMITTEE OF EUSKALTEL, S.A. REGARDING THE APPOINTMENT THROUGH CO-OPTION OF MR JAVIER FERNÁNDEZ ALONSO AS A DIRECTOR OF THE BOARD OF EUSKALTEL, S.A.

I. Introduction

This report has been prepared by the Nomination and Compensation Committee at Euskaltel, S.A. (“Euskaltel” or the “Company”) pursuant to the provisions in article 529 fifteen of the Spanish Capital Enterprises Act regarding the proposal of appointment through co-option of Mr Javier Fernández Alonso as a director of Euskaltel.

This report briefly describes the director's professional and biographic profile, and provides further information mentioned in article. 8.2 (vi) of the Regulations of the Board of Directors.

II. Professional and biographic profile

Born in Bilbao on August 15, 1977.

BA in Business from the Universidad de Deusto (La Comercial). He has worked as a mergers and acquisitions advisor at Goldman Sachs International (London) and ABN Amro Corporate Finance (Madrid), where he was appointed Associate Manager.

He is an Investment Manager and a member of the Steering Committee at Corporación Financiera Alba, S.A. He is also part of the Investment Committee and of the Investors Committee at Artá Capital SGEGR S.A.

III. Membership in other boards

He is currently a director of Acerinox, S.A., ACS Servicios y Concesiones, S.A., Dragados, S.A., and Clínica Baviera, S.A.

IV. Director category to which he is to be assigned

Mr Javier Fernández Alonso falls under the category of External Proprietary Director, appointed at the proposal of Corporación Financiera Alba, S.A., a significant shareholder in the Company.

V. Shares and options over company shares owned

Mr Javier Fernández Alonso owns no Company shares or options over Company shares, directly or indirectly.

VI. Proposal to the Board

Pursuant to the foregoing, we resolve to report favorably on the appointment of Mr Javier Fernández Alonso as a member of the Company's Board of Directors. His knowledge and experience in the field of mergers, acquisitions, and investments, thanks to his studies, career, and abilities, make him a suitable person to hold the position of director.

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In Derio (Biscay), September 30, 2015.





REPORT PREPARED BY THE BOARD OF DIRECTORS OF EUSKALTEL, S.A. REGARDING THE PROPOSAL FOR THE RATIFICATION OF THE APPOINTMENT THROUGH CO-OPTION AND ELECTION OF MR JAVIER FERNÁNDEZ ALONSO AS A PROPRIETARY DIRECTOR INCLUDED IN ITEM ONE OF THE AGENDA OF THE EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS TO BE HELD ON NOVEMBER 12 AND 13, 2015, ON FIRST AND SECOND CALL, RESPECTIVELY

I. Introduction

This supporting report has been prepared by the Board of Directors of Euskaltel, S.A. (“Euskaltel” or the “Company”) pursuant to the provisions in article 529 ten of the Capital Enterprises Act regarding the proposal for the ratification of the appointment through co-option and election as director of Mr Javier Fernández Alonso, which is submitted for approval by the Extraordinary General Meeting of Shareholders in item one of the agenda, assessing to this end the competence, experience, and merit of the person whose appointment is being proposed to the Board.

This report describes, for purposes of article 518.e) of the Capital Enterprises Act, the director's identity, professional and biographic profile, and further information mentioned in article. 8.2 (vi) of the Regulations of the Board of Directors.

The foregoing notwithstanding, it is hereby specified that, since the appointment through co-option of Mr Javier Fernández Alonso as director, his professional and biographic profile have been published on the Company website.

Likewise, this report includes the Board of Directors' assessment of Mr Javier Fernández Alonso's competence, experience, and merit, in view of the report prepared by the Nomination and Compensation Committee pursuant to the aforementioned article 529 ten of the Capital Enterprises Act at its meeting of September 30, 2015, which the Board has fully accepted.

II. Professional and biographic profile

Born in Bilbao on August 15, 1977.

BA in Business from the Universidad de Deusto (La Comercial). He has worked as a mergers and acquisitions advisor at Goldman Sachs International (London) and ABN Amro Corporate Finance (Madrid), where he was appointed Associate Manager.

He is an Investment Manager and a member of the Steering Committee at Corporación Financiera Alba, S.A. He is also part of the Investment Committee and of the Investors Committee at Artá Capital SGECR S.A.

III. Membership in other boards

He is currently a director of Acerinox, S.A., ACS Servicios y Concesiones, S.A., Dragados, S.A., and Clínica Baviera, S.A.

IV. Assessment and Director category to which he is to be assigned

The Board confirms the assessment made by the Nomination and Compensation Committee and believes that the professional and biographic profile of Mr Javier Fernández Alonso, who has experience in the field of mergers, acquisitions, and investment, certify that he has the suitable competences, capacity, and merit to hold the position of director.



Mr Javier Fernández Alonso is approved by the Nomination and Compensation Committee and by the Board, which has accepted the former's considerations, as an external proprietary director, after his designation by proposal of Corporación Financiera Alba, S.A., a significant Company shareholder.

V. Date of his appointment as a Company director

The proposal for his appointment was approved by the Nomination and Compensation Committee, at its meeting of September 30, 2015, and he was appointed a director through co-option, by virtue of the decision of the Board of Directors in its meeting held on the same day.

VI. Shares and options over company shares owned

Mr Javier Fernández Alonso owns no Company shares or options over Company shares, directly or indirectly.

VII. Proposed decision

In accordance with the foregoing, the following decision has been agreed to be proposed to the Company's General Meeting of Shareholders:

“One. - Ratification of the appointment through co-option and election of Mr Javier Fernández Alonso as a proprietary director.

We have resolved to ratify Mr Javier Fernández Alonso's appointment as a director designated through co-option by resolution of the Board of Directors, adopted in the meeting held on September 30, 2013, and appoint him, in accordance with the report by the Nomination and Compensation Committee, for the period set forth in the articles of association of four years, in the category of external proprietary director, upon proposal for his appointment by Corporación Financiera Alba, S.A., a significant shareholder in Euskaltel.”

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In Derio (Biscay), October 2, 2015.



REPORT PREPARED BY THE BOARD OF DIRECTORS OF EUSKALTEL, S.A. REGARDING THE PURCHASE OF R CABLE Y TELECOMUNICACIONES GALICIA, S.A., WHICH IS SUBMITTED FOR APPROVAL BY THE EXTRAORDINARY GENERAL MEETING OF THE COMPANY, TO BE HELD ON NOVEMBER 12 AND 13, 2015, ON FIRST AND SECOND CALL, RESPECTIVELY, AS ITEM TWO OF THE AGENDA.

I. Purpose of the report

The Board of Directors of Euskaltel, S.A. (hereinafter “Euskaltel” or the “Company”) has prepared this report (the “Report”) to provide the Company shareholders with the information required to reach a well-supported conclusion regarding the acquisition by Euskaltel of 100% of the R Cable y Telecomunicaciones Galicia, S.A. (“R” or “R Cable”) business, through the direct and indirect purchase of 100% of shares in R (the “Transaction”) The Board of Directors submits this report for approval by the Extraordinary General Meeting of Shareholders of the Company, pursuant to the provisions of article 160.f) of the Capital Enterprises Act, as item two of the agenda.

The Transaction will be performed through the acquisition of the shares in R owned by Abanca Corporación Industrial y Empresarial, S.L.U. (“Abanca”) and through the acquisition of all the shares into which the equity of Rede Brigantium, S.L. (“Rede”) is divided. Rege Brigantium, S.L. is the majority shareholder in R, and is the property of Venini Netherlands B.V. (“Venini”) and Ninive International B.V. (“Ninive”).

To this end, the Report describes: (i) the basic terms and conditions of the Transaction for the purchase of the R Cable business by the Company; (ii) R Cable's history and its current situation; and (iii) the basis for the Transaction.

The Report will be made available to the Company shareholders as of the call for the Extraordinary General Meeting of Shareholders at which the proposal for the approval of the Transaction will be submitted. We will now provide a more detailed description of the Transaction.

II. Report

1. Background

On July 23, 2015, Euskaltel reported to the Spanish National Securities Market Commission, as a relevant event, the initial agreement for the integration of Euskaltel and R Cable as a telecommunications operator that would be a leader in converged services in the geographic areas in which it operates in Northern Spain. R Cable was initially valued at EUR 1.155 billion.

2. Description of the transaction

By virtue of the Transaction, and subject to its terms and conditions, Euskaltel will acquire 100% of the share capital of Rede (which in turn is the owner of shares amounting to 70% of the R share capital), which is the property of Venini and Ninive, and the shares amounting to 30% of the R share capital owned by Abanca.

The final price of the Transaction has been set at EUR 1.19 billion, including approximately EUR 300 million of R Cable's estimated debt as of September 30, 2015 (which will be refinanced by Euskaltel). The consideration payable will be paid entirely in cash, and interest will be accrued beginning October 1, 2015.



This consideration will be financed by Euskaltel through the extension of existing bank financing lines by EUR 600 million, the contracting of a tranche of institutional debt for EUR 300 million, insured by four financial institutions, the issue of new shares, and available cash funds, while honoring the commitments assumed by Euskaltel as part of its recent floating.

In particular, and for purposes of the issue of new shares, the Company has signed a standby underwriting agreement with Citigroup Global Markets Limited and UBS Limited for EUR 255 million, in the usual terms and conditions for this kind of agreement.

In addition, any changes in the terms and conditions of the Transaction with respect to those that were announced by virtue of the relevant event of July 23, 2015, are mainly due to the improvement in R Cable's operational prospects and to Euskaltel's strong intention of including long-term partners as shareholders who will add strategic value to the Company.

In this respect, Abanca has notified Euskaltel of its intention of subscribing shares newly issued by Euskaltel for a value of at least EUR 80,690,000, at the issue price established on the basis of market conditions, in the capital increase to be conducted. Abanca has also undertaken not to transfer any shares that it might subscribe, in the same terms and for the same period as assumed by Kutxabank, S.A. (Euskaltel's main shareholder) in its flotation in July 2015.

The closing of this transaction is subject to the following conditions: (i) approval of the Transaction by the Spanish National Committee for Markets and Competition; and (ii) approval of the Transaction by Euskaltel's General Meeting of Shareholders, as well as its decision to delegate to the Board of Directors the power of increasing the Company's share capital, which will also be submitted to the General Meeting of Shareholders as item three of the agenda.

3. Description of R

R, a Galician fiber optic communications operator, was created under the name Grupo Gallego de Empresas para el Cable with the liberalization of the telecommunications market in 1998. A year later, it adopted its current name, and since then, it has grown to become Galicia's leading company in the telecommunications industry. It currently operates its own fiber optic network, which reaches more than 935,000 households and businesses in the region, and has more than 100 stores. The firm is also well-known for its high standards of quality service and customer care.

R has its own state-of-the-art fiber optic network, which does not require any significant additional investment and which provides access to 63% of the households and businesses in Galicia. In addition, it provides mobile phone services through a mobile virtual network operator (MVNO) agreement with Vodafone, and has a 4G/LTE license in Galicia.

R currently employs approximately 200 people.

According to the consolidated financial statements filed for the year 2014, R made a profit of 17.5 million euros, with an EBITDA of over 90 million euros.

4. Basis for the Transaction

The Company's Board of Directors believes that the Transaction has major strategic importance in the telecommunications industry as an essential step toward consolidating cable operators in northern Spain, which will give the Company greater strength, efficiency, shared synergies, and potential for growth. To this end, it has resolved to maintain the local nature of Euskaltel and R, which will entail the continuity of the two brands, local structures, and management teams, considered to be key elements for both companies' success over recent years.



In short, the acquisition of the R business will consolidate the Company's position and stability on the telecommunications market.

In this way, the combination of Euskaltel and R Cable will make it possible to:

- create synergies, such as (i) better access and bargaining capabilities for products, services, and content, (ii) the sharing of systems and technologies, (iii) the optimization of contractual relationships with suppliers, or (iv) the harmonization of growth strategies;
- maximize the value of their customers, based on their leading positions in their markets, the loyalty of their customers, and the high value of their brands; and
- increase their size and importance in the market, while simultaneously maintaining their local strength in the Basque Country and Galicia.

Furthermore, with regard to their commercial position, Euskaltel's acquisition of R will entail the emergence of a telecommunications operator that will lead the industry in the regions of northern Spain where it is present, with a combined network of approximately 750,000 kilometers serving over 715,000 customers, and with revenues of 570 million euros and EBITDA of 265 million euros.

The Transaction will therefore offer the Company greater strength, effectiveness, and growth potential to compete in a demanding market as a leading operator in the regions of northern Spain where it is present, as well as an important operator in the Spanish and European market, while maintaining its strong position and commitment in Galicia and the Basque Country, where both companies have deep roots.

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In Derio (Biscay), October 2, 2015.



REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF EUSKATEL, S.A. REGARDING THE PROPOSAL TO DELEGATE TO THE BOARD OF DIRECTORS THE POWER TO INCREASE SHARE CAPITAL ONCE OR SEVERAL TIMES, WITH THE POWER, IF APPLICABLE, TO OPT OUT OF PRE-EMPTIVE SUBSCRIPTION RIGHTS, AS PER ITEM THREE OF THE AGENDA FOR THE COMPANY'S EXTRAORDINARY GENERAL MEETING CALLED FOR NOVEMBER 12 AND 13, 2015, ON FIRST AND SECOND CALL, RESPECTIVELY.

I. Purpose of the proposal

The Board of Directors of Euskaltel, S.A. (hereinafter "Euskaltel" or the "Company"), pursuant to the provisions of the Capital Enterprises Act, is issuing this report in order to support the proposal on granting powers to increase share capital to the Company's Board of Directors, pursuant to the provisions of article 297.1.b) of the Capital Enterprises Act. If applicable, this includes the delegation of powers to opt out of pre-emptive subscription rights, in accordance with the provisions of article 506 of the Act, with a limit of 20% of the share capital at the time of the delegation of powers, in accordance with article 13 of the Euskaltel articles of association, and powers to replace persons as the Board deems appropriate. This report is submitted for approval to the Company's Extraordinary General Meeting of Shareholders.

II. Basis for the proposal

In accordance with the provisions of article 297.1.b) of the Capital Enterprises Act, the General Meeting of Shareholders, meeting the requirements established to amend the Articles of Association, may delegate to the Board of Directors the power to enact one or more capital increases up to the limit of half of the Company's share capital, in the amount decided by the Board of Directors, without previously consulting the General Meeting of Shareholders. Such increases shall be made within a maximum period of five years from the resolution by the General Meeting.

The proposed resolution presented to the Extraordinary General Meeting of Shareholders is motivated by the opportunity to provide the Board with an instrument authorized by existing corporate law, which allows the Board to implement any capital increases it deems appropriate for the company's interests, at all times and without having to previously convene and hold a General Meeting of Shareholders, and within the limits and under the terms, time limits, and conditions decided by the General Meeting of Shareholders. The dynamics of any company and, in particular, of large firms and listed companies, require that its governing bodies and administration possess at all times the most appropriate instruments to meet the Company's needs in each case and in view of market conditions.

It is often impossible to predict the Company's needs regarding capital allocation in advance. Furthermore, a routine request to the General Meeting of Shareholders to increase share capital, with the attendant delay this entails, may make it more difficult for the Company to quickly and effectively respond to market needs under certain circumstances.

Accordingly, powers may be delegated to the Board of Directors under the terms of article 297.1.b) of the Capital Enterprises Act, thus largely circumventing these problems while also giving the Board of Directors the flexibility required in order to meet the Company's needs in response to prevailing circumstances.

In particular, it is envisaged that the Board of Directors may make use of this authorization to effect a capital increase which, subject to the commitments assumed by Euskaltel within the context of its recent stock market floating, will enable the Company to finance part of the deal to purchase the business of the company R Cable y Telecomunicaciones Galicia, S.A. by directly or indirectly acquiring 100% of its share capital. Approval of the deal by the General Meeting of Shareholders is to be discussed under item two of the agenda.

A motion is therefore laid before the extraordinary General Meeting of Shareholders to authorize the Company's Board of Directors to increase share capital on one or more occasions in the amount, and subject to the dates, conditions and other



circumstances the Board sees fit, up to the maximum limit and for the maximum period prescribed by law; and also to authorize the Board of Directors to act as necessary so as to ensure that the new shares created by virtue of the capital increase or increases are listed for trading on the corresponding stock markets, in accordance with the procedures in place for each of the stock markets in question, and including the power to substitute these powers in the people the Board considers appropriate, whether or not board members.

Furthermore, and in accordance with article 506 of the Capital Enterprises Act on the subject of listed companies, when the General Meeting of Shareholders delegates the power to increase share capital to Board members under the terms of the aforementioned article 297.1.b), it may also confer upon them the power to disapply the pre-emptive subscription right in relation to issuances of shares that have been delegated to the Board when such a move is deemed in the company's interests, although any such proposal to disapply the right must be included in the announcement of the General Meeting of Shareholders and a report prepared by the directors providing justified grounds for the proposal must be made available to shareholders.

Please note that the delegation of powers upon Euskaltel's Board of Directors to increase capital as contained in the motion to which this report refers also includes the powers envisaged under article 506 of the aforementioned Act for the directors to disapply, fully or in part and when deemed in the Company's interests, the pre-emptive subscription right of shareholders, subject to the limit of 20% of capital at the time this delegation is made, as stipulated in article 13 of Euskaltel's articles of association, all the foregoing in accordance with the terms of articles 308, 505 and related provisions of the same Act.

Accordingly, Euskaltel's Board of Directors considers that the motion discussed in this report is warranted given the resulting flexibility and agility, which is often required in order to act effectively in the market while making the most of favorable conditions, and also in view of the volume of transactions to be carried out by the Company.

If when exercising the above powers the Board decides to disapply the pre-emptive subscription right in respect of a specific capital increase that may be decided upon under the terms of the authorization granted by the General Meeting of Shareholders, it shall, at the time the increase is agreed, issue a report detailing the specific interests of the Company warranting such a move, and enclosing also the report of the financial auditor prescribed by article 506 of the Capital Enterprises Act. Both reports will be made available to shareholders and communicated at the first General Meeting of Shareholders to be held after the resolution is reached to increase capital, in accordance with the provisions of the aforementioned article.

III. Motion

In view of the foregoing, it has been agreed that the following motion will be laid before the General Meeting of Shareholders for its approval:

“Three.- Authorization under the terms of article 297.1.b) of the Spanish Capital Enterprises Act and to remain valid for the maximum term of five years, enabling the Board of Directors, should it see fit, to increase share capital by up to half of the current share capital, on one or more occasions, and at any time and for any amount it deems fit. This authorization includes the power to disapply the pre-emptive subscription right, subject to the limit of 20% of capital at the time of the delegation pursuant to article 13 of the Articles of Association. Delegation of powers to the Board of Directors, with express authority to substitute, including, but not limited to, the power to reword article 6 of the Articles of Association, on the subject of share capital.

It is agreed to authorize the Company's Board of Directors, in accordance with article 297.1.b) of the Capital Enterprises Act, to increase share capital without previously consulting the General Meeting by up to half of the Company's share capital existing at the date of this resolution. The Board may exercise this power within five years of the date of this resolution, on more or more occasions and at any time, for any amount, and subject to any conditions the Board sees fit.



Accordingly, the Board of Directors is free to establish all the terms and conditions of the capital increases and the characteristics of the shares, and also to determine the target investors and markets of the increases along with the placement procedure to be followed. The Board will be free to offer any new shares that were not subscribed during the pre-emptive subscription period, or establish, in the event of incomplete subscription, that the capital increase will be held void or that share capital be increased only by the amount of those subscriptions received.

The Board of Directors may designate the person or persons, whether or not directors, who is/are to execute any of the resolutions carried in exercise of this authorization and, in particular, the resolution to effect and complete the increase.

The capital increase or increases may be carried out through the issuance of new shares, whether common stock, stock without voting rights, preferred stock or redeemable stock, with the relevant change to be made to article 6 of the Articles of Association.

Consideration for the new shares will take the form of monetary contributions to the Company's equity, with the par value of the shares to be paid up plus any share premium, which may be different for the different groups of shares possibly included in a given issuance.

Likewise, and insofar as legally admissible, the capital increase or increases may be charged to unrestricted reserves, in which case the capital increase or increases may be effected by increasing the par value of existing shares, with the resulting change to be made to article 6 of the Articles of Association.

Pursuant to the terms of article 506 and related provisions of the Capital Enterprises Act and article 13 of the Articles of Association, the Board of Directors is expressly authorized to disapply, fully or in part, the pre-emptive subscription right in respect of any or all of the issuances it may decide to make by virtue of this authorization, subject to the limit of 20% of capital at the time of this delegation when deemed in the Company's interests, and provided that the par value of the shares to be issued, plus the share premium, if any, is the same as the fair value of the Company's shares, such value as stated in a report to be prepared upon the request of the Board of Directors by a financial auditor other than the Company's habitual financial auditor. The auditor will be appointed for this task by the Companies Registry each and every time this power to exclude the pre-emptive subscription right is exercised.

Similarly, the Company's Board of Directors is authorized to seek admission for trading, and exclusion from trading, on/from the relevant Spanish or foreign organized secondary markets, of any shares that may be issued, or, if the par value of those already in circulation is changed, to exclude these and then have them readmitted, in compliance at all times with the rules and regulations in effect from time to time in relation to listing, trading and exclusion from trading.

The Board of Directors may confer any of the powers contained in this resolution upon the persons it deems fit, whether or not board members."

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In Derio (Biscay), on 2 October 2015.