

REPORT

FORMULATED BY

THE BOARD OF DIRECTORS OF



REGARDING THE RATIONALE FOR THE AMENDMENT OF ARTICLE 62 OF THE BYLAWS OF EUSKALTEL, S.A. RELATING TO THE REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

THIS REPORT CONTAINS:

- (i) RATIONALE FOR THE PROPOSED AMENDMENT;
- (ii) FULL TEXT OF THE PROPOSED BYLAW AMENDMENT; AND
- (iii) COMPARATIVE TEXT OF THE CURRENT TEXT AND THE PROPOSED TEXT OF ARTICLE 62 OF THE BYLAWS.

Derio, 27 February 2019.

EUSKALTEL, S.A.

REPORT ISSUED BY THE BOARD OF DIRECTORS REGARDING THE RATIONALE FOR THE AMENDMENT OF ARTICLE 62 OF THE BYLAWS OF EUSKALTEL, S.A. RELATING TO THE REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS.

I. INTRODUCTION

This report is formulated by the Board of Directors of Euskaltel, S.A. (hereinafter, "**Euskaltel**" or the "**Company**") to provide a rationale for the proposal submitted for approval of the shareholders acting at the Annual General Meeting of Shareholders of Euskaltel, called to be held on 1 April 2019, at 12:00, on first call, and on 2 April 2019, at the same time, on second call, under item six on the Agenda relating to the Amendment of the Company's Bylaws, with respect to the remuneration of directors, pursuant to the provisions of Section 286 of the restated text of the Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of 2 July (hereinafter, the "**Act**").

Although the text of the Bylaws relating to the remuneration of directors is currently in accordance with applicable legal provisions, the Board of Directors finds it appropriate to amend the Company's Bylaws regarding the remuneration of Directors in order to conform it to the interpretation contained in the recent Supreme Court Judgement 98/2018, of 26 February (the "**Judgement**"), in order to reduce the commercial and tax risks that might hereafter arise.

The Judgement itself excludes the application thereof to listed companies, but the Board of Directors finds it suitable for the interests of the company, and to prevent potential commercial and tax risks that might hereafter arise, to conform the current Bylaws to the Judgement, and thus proposes to the shareholders at the General Meeting of Shareholders of Euskaltel to amend article 62 of the Bylaws regarding "*director remuneration*".

This proposed amendment would not in any case entail an increase in the remuneration currently received by the members of the Company's Board of Directors.

In any event, the bylaw amendment herein proposed seeks to:

- (i) give greater transparency to the Company's remuneration system, transferring the current items of remuneration to the bylaws, on the same terms as applied to date, and

- (ii) offer greater control to the shareholders, providing that the maximum amount of director remuneration to be approved by the shareholders also include the remuneration of directors for the performance of executive duties.

To facilitate the Shareholders' understanding of the change giving rise to the amendment submitted for their approval at the General Meeting of Shareholders, a description of the purpose and rationale for said amendment is first provided, followed by the full proposed text.

Furthermore, and to facilitate a comparison between the new text of the proposed article 62 and the current text, attached as an **Annex** to this report, for informational purposes, is a document showing the proposed amendment to the current text of article 62 of the Bylaws of the Company.

II. RATIONALE FOR THE PROPOSAL

The proposed amendment of article 62 of the Bylaws is intended to avoid potential commercial and tax risks that might hereafter occur regarding director remuneration as a result of a change in jurisprudence similar to that which occurred with respect to non-listed companies.

From the commercial viewpoint, although the aforementioned Judgement does not apply to listed companies because the legal arguments expressly excluded these types of companies, it is deemed appropriate to plan ahead for a potential extrapolation of the arguments to listed companies, by amending the affected article of the Bylaws.

From a tax viewpoint, the main risk would refer to the deductibility of amounts that either do not relate to items of remuneration provided for in the Bylaws or that exceed the maximum amount approved by the shareholders at a General Meeting.

For this reason, the Board of Directors finds it appropriate to amend article 62 of the Bylaws, regarding director remuneration, upon the following terms:

- (i) to include in the Bylaws the items of remuneration received for the performance of executive duties; and
- (ii) to provide that the maximum amount of director remuneration to be approved by the shareholders includes the remuneration of all directors for all duties they perform, i.e. for the performance of both executive and non-executive duties.

As a result of the proposed bylaw amendment, Euskaltel would be anticipating a hypothetical, potential and future extrapolation to listed companies of the interpretation made by the Supreme Court in said Judgement.

The Company also believes that, in any case, the proposed amendment gives greater clarity and transparency regarding the rules for remuneration of the Company's directors, for the shareholders as well as the market in general.

III. FULL TEXT OF THE PROPOSED BYLAW AMENDMENT

As a result of the foregoing, the full text of the proposed bylaw amendment is included below:

"Article 62. Director remuneration

1. The directors shall be entitled to receive remuneration for the performance of the duties corresponding thereto by virtue of their membership on the Board of Directors as a collective decision-making body of the Company.
2. The shareholders acting at a General Meeting shall determine and approve the maximum amount to be received as remuneration by all the directors for all the items and for any duties that they perform, both executive and non-executive. The maximum amount set by the shareholders at the General Meeting shall remain in effect for so long the shareholders do not approve a change thereof.
3. The remuneration of directors who are not entrusted with executive duties shall be based on the following components:
 - a. An annual fixed allocation;
 - b. Any potential commitments of the Company to pay amounts as insurance premiums in favour of the directors; and
 - c. A civil liability policy obtained by the Company for its directors upon customary terms and proportional to the circumstances of the Company.

The specific amount corresponding to the above items for each of the directors who are not entrusted with executive duties shall be determined by the Board of Directors in accordance with the director remuneration policy. For such purpose, it may take into account, amongst other issues, the positions held by each director within the collective body itself, their membership on and attendance at the various committees, and the classification of the director as independent or proprietary.

4. Directors who are entrusted with executive duties shall be entitled to receive the remuneration provided for in the contract signed to that end between the director and the Company, for the following items:
 - a. Fixed annual remuneration.

- b. Annual variable remuneration calculated based on benchmark qualitative or quantitative indicators or parameters linked to the level of achievement of their objectives (approved by the Board of Directors, upon a proposal of the Appointments and Remuneration Committee).
- c. Long-term variable remuneration based on the delivery of cash or shares, share options or instruments or other remuneration indexed to the value thereof, linked to business objectives, the value of the shares and, if applicable, other corporate social responsibility objectives.

If indexed to shares of the Company or to financial instruments linked to the quoted price thereof, said remuneration must be approved by the shareholders at a General Meeting of Shareholders. If applicable, the resolution shall state the maximum number of shares to deliver, the exercise price or system for calculating the exercise price of the share options, the value of any shares used as a reference, and the duration of the plan.

- d. The following remuneration: (i) availability of company vehicle; (ii) life and casualty insurance; (iii) special health insurance; and (iv) the ability to enjoy all those benefits that the Company might make available to management personnel.
- e. A civil liability policy obtained by the Company for its directors upon customary terms and proportional to the circumstances of the Company.
- f. Potential severance payment for cessation in office or termination of contractual relationship with the Company.

These contracts must be approved in advance by the Board of Directors upon a proposal of the Appointments and Remuneration Committee, in compliance with the requirements of applicable law.

Furthermore, the text of these contracts shall conform to the director remuneration policy to be approved by the shareholders at the General Meeting of Shareholders.

- 5. The director remuneration policy shall conform as appropriate to the remuneration system provided for in the Company's Bylaws, shall have the scope provided by law, and shall be submitted by the Board of Directors for approval of the shareholders acting at a General Meeting of Shareholders with the frequency provided by law.

In any event, the overall sum of all amounts to be received by all of the directors for any items during the financial year shall never exceed the maximum amount approved by the shareholders at the General Meeting.”

IV. SHAREHOLDERS’ RIGHT TO RECEIVE INFORMATION REGARDING THE PROPOSED BYLAW AMENDMENTS

Pursuant to the provisions of sections 286 and 518 of the Act and article 8 of the Regulations for the General Meeting of the Company, this report is issued in view of the Shareholders’ information right to either examine at the registered office the full text of the proposed bylaw amendment and the report in support thereof or to request the free delivery or shipment thereof.

This document will also be published on the Company’s website (www.euskaltel.com), together with the call to the General Meeting and the other documentation relating to the aforementioned articles of the Regulations for the General Meeting and the Act.

ANNEX.- COMPARATIVE TEXT

Article 62. Director remuneration

1. The directors shall be entitled to receive remuneration for the performance of the duties corresponding thereto by virtue of their membership on the Board of Directors as a collective decision-making body of the Company.

~~2. The remuneration of The shareholders acting at a General Meeting shall determine and approve the maximum amount to be received as remuneration by all the directors as such (excluding for these purposes those directors who all the items and for any duties that they perform, both executive duties) shall have two and non-executive. The maximum amount set by the shareholders at the General Meeting shall remain in effect for so long the shareholders do not approve a change thereof.~~

~~3. The remuneration of directors who are not entrusted with executive duties shall be based on the following components: (a) a fixed~~

~~a. An annual fixed allocation; and (b)~~

~~2.b. Any potential commitments of the Company to pay amounts as insurance premiums in favour of the directors, in this latter case with a maximum annual limit of eight thousand euros (€8,000) per director.; and~~

~~The total amount of the remuneration that the Company may pay to all of its directors for the items set out in the immediately preceding paragraph shall not exceed the amount determined for such purpose by the shareholders at the General Shareholders' Meeting. The amount thus established by the shareholders shall be maintained until it is modified by a new resolution of the shareholders at a General Shareholders' Meeting, pursuant to the provisions of applicable law.~~

~~c. A civil liability policy obtained by the Company for its directors upon customary terms and proportional to the circumstances of the Company.~~

The specific amount corresponding to the above items for each of the directors who are not entrusted with executive duties shall be determined by the Board of Directors in accordance with the director remuneration policy. For such purpose, it may take into account, amongst other issues, the positions held by each director within the collective body itself, their membership on and attendance at the various committees, and the classification of the director as independent or proprietary.

~~1. Directors who perform are entrusted with executive duties shall be entitled to receive the remuneration for the performance of said duties provided for in the contract signed to that end between the director and the Company.~~

~~4. Said contract shall conform to, for the director remuneration policy to be approved by the shareholders at the General Shareholders' Meeting, including the parameters for the accrual of their remuneration, as well as possible severance payments for termination of the contract, provided that the termination of employment is not due to a breach of their duties as director, and any commitments of the Company to pay insurance premiums or contributions to savings or social welfare systems following items:~~

~~If appropriate, the Board of Directors shall establish the remuneration of the directors for the performance of executive duties and approve, with the legally required majority, the executive directors' contracts with the Company, which must conform to the remuneration policy approved by shareholders at the General Meeting.~~

~~a. Within the framework of the remuneration policy and the incentive plans that apply at any particular time, directors performing executive duties may be remunerated with Fixed annual remuneration.~~

~~b. Annual variable remuneration calculated based on benchmark qualitative or quantitative indicators or parameters linked to the level of achievement of their objectives (approved by the Board of Directors, upon a proposal of the Appointments and Remuneration Committee).~~

~~3-c. Long-term variable remuneration based on the delivery of cash or shares of the Company or of another company to which it belongs, share options thereon, or instruments or other remuneration linked indexed to the value thereof, linked to business objectives, the value of the shares and, if applicable, other corporate social responsibility objectives.~~

~~• If indexed to shares of the Company or to financial instruments linked to the quoted price thereof, said remuneration must be approved by the shareholders at a General Shareholders' Meeting of Shareholders. If applicable, the resolution shall state the maximum number of shares to deliver, the exercise price or system for calculating the exercise price of the share options, the value of any shares used as a reference, and the duration of the plan.~~

~~The shareholders may delegate to the Board of Directors the determination of any other aspects of this type of remuneration.~~

~~d. The following remuneration: (i) availability of company vehicle; (ii) life and casualty insurance; (iii) special health insurance; and (iv) the ability to enjoy all those benefits that the Company might make available to management personnel.~~

~~e. A civil liability policy obtained by the Company for its directors upon customary terms and proportional to the circumstances of the Company.~~

~~f. Potential severance payment for cessation in office or termination of contractual relationship with the Company.~~

~~These contracts must be approved in advance by the Board of Directors upon a proposal of the Appointments and Remuneration Committee, in compliance with the requirements of applicable law.~~

~~Furthermore, the text of these contracts shall conform to the director remuneration policy to be approved by the shareholders at the General Meeting of Shareholders.~~

~~4.5. The director remuneration policy shall conform as appropriate to the remuneration system provided for in the Company's Bylaws, shall have the scope~~

provided by law, and shall be submitted by the Board of Directors for ~~the~~ approval of the shareholders acting at a General ~~Shareholders'~~ Meeting of Shareholders with the frequency provided by law.

~~2. The Company shall purchase a civil liability policy for its directors upon customary terms and proportional to the circumstances of the Company.~~

~~Article 63. In any event, the overall sum of all amounts to be received by all of the directors for any items during the financial year shall never exceed the maximum amount approved by the shareholders at the General Meeting.~~