

DIRECTOR REMUNERATION POLICY OF EUSKALTEL, S.A.

1. Introduction

The Board of Directors of Euskaltel, S.A. (“Euskaltel” or the “Company”), within the scope of its powers, seeks at all times to achieve the company interest, which involves not only the achievement of a profitable and sustainable business over the long term, one which promotes its continuity and the maximisation of the economic value of the company, but also the reconciliation of this company interest with the legitimate interests of its shareholders, employees, customers, suppliers and, in general, the community as a whole and the environment.

Pursuant to the provisions of sections 529 *septdecies*, 529 *octodecies* and 529 *novodecies* of the Restated Text of the Corporate Enterprises Act (*Ley de Sociedades de Capital*) approved by Royal Legislative Decree 1/2010, of 2 July (the “LSC”), introduced by Law 31/2014, of 3 December, amending the Corporate Enterprises Act for the improvement of corporate governance (“Law 31/2014”), listed corporate enterprises must have a remuneration policy for their directors.

Therefore, as the period for which the Director Remuneration Policy (financial years 2016, 2017 and 2018) has expired, the Board of Directors of Euskaltel, after a report from the Appointments and Remuneration Committee and in the exercise of the powers vested therein, has prepared this policy on the remuneration of the directors of Euskaltel for financial years 2019, 2020 and 2021 for approval by the shareholders at the General Meeting of Shareholders of the Company (the “Remuneration Policy”), taking into account not only applicable law and case law trends in this area but also the recommendations of the Good Governance Code of Listed Companies approved by the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) on 18 February 2015 (the “Good Governance Code”) and the internal rules of the Company (particularly articles 62 of the Bylaws and 27 of the Regulations of the Board of Directors).

As a principal measure of the new Remuneration Policy, the Board of Directors, after a study of the current legal context and case law, has approved proposing to the shareholders an amendment of article 62 of the Bylaws regarding the remuneration of the directors.

Although the current text of the Bylaws complies with applicable legal provisions and case law as of the date hereof, the Company intends for the proposed amendment to reduce potential commercial and tax risks that might occur in the future with respect to such remuneration if there is a change in court precedents, as has occurred with respect to non-listed companies.

The shareholders acting at the General Shareholders’ Meeting of Euskaltel have approved the amendment of article 62 of the Bylaws, which now reads as follows:

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."

The new Remuneration Policy, consistent with the approval for the preceding three-year period, intends to comply with the principles of good corporate governance, providing greater transparency

and control over the remuneration of the directors by setting out in the Bylaws the items of remuneration of all directors for the performance of both executive and non-executive duties.

2. Regulatory framework of the Remuneration Policy

Euskaltel has prepared this Remuneration Policy as a result of the new interpretation of the concept of directors in their “capacity as such” (Supreme Court judgement 98/2018 of 26 February) pursuant to articles 23.e), 217 and 529 *novodecies* of the LSC.

Although the aforementioned judgement does not apply to listed companies because the legal arguments expressly excluded these types of companies, Euskaltel has decided to plan ahead for a potential extrapolation of the arguments to listed companies, by amending the affected article of the Bylaws regarding remuneration of the directors.

Based on the interpretation of the Supreme Court, the following consequences arise under article 217 of the LSC:

- (i) The shareholders acting at a General Meeting must determine the maximum amount of remuneration of all directors for all duties they perform, i.e. for the performance of both executive and non-executive duties.
- (ii) The system of remuneration (not the quantum) for directors performing non-executive duties must appear in the Bylaws.
- (iii) The system of remuneration, i.e. the items of remuneration received for the performance of executive duties, must appear in the Bylaws.

3. General principles of the Remuneration Policy and specific characteristics of the remuneration of the directors

3.1. Purpose and general principles of the Remuneration Policy

Pursuant to article 27 of the Regulations of the Board of Directors of the Company, and within the limits set out in the Company’s Bylaws, the Board of Directors shall endeavour to ensure that the remuneration of the directors is reasonably commensurate with the prominence of the Company, the financial situation thereof at any particular time and the market standards used at companies of a similar size or activity, and takes into account their dedication to the Company. The remuneration system established should be focused on promoting the long-term profitability and sustainability of the Company and include the safeguards required to avoid the excessive assumption of risk or rewarding unfavourable results.

The Board of Directors shall also ensure that the amount of the remuneration of external directors is such that it provides incentives to their dedication but does not compromise their independence.

In light of the foregoing, Euskaltel’s Board of Directors, in defining the Remuneration Policy, has found that it should be based on the following principles in order to be consistent with the previous Remuneration Policy:

- **Moderation:** remuneration should be reasonably proportional to the Company, the economic situation thereof at any particular time and market standards for comparable companies.
- **Suitability:** the Remuneration Policy shall be focused on the attraction, motivation and retention of valuable human capital, as well as on remunerating professional merit, responsibility assumed and dedication in the case of external non-executive directors.
- **Balance:** the Remuneration Policy shall establish a suitable balance between fixed and variable components, such that fixed remuneration is a sufficiently high percentage of total remuneration that it allows the introduction of measures of flexibility for directors entrusted with executive duties.

- Profitability and sustainability: the remuneration of directors entrusted with executive duties shall incentivise performance and reward the creation of long-term value.
- Link to results: the remuneration of directors entrusted with executive duties shall include the required link to the Company's results over an appropriate time period, aligning with the interests, values and strategy of the Company.
- Fairness and external competitiveness: the external competitive environment and the principles of internal fairness shall be taken into account when establishing director remuneration.
- Transparency of the remuneration policy: the Remuneration Policy shall be established, determined and applied in accordance with applicable law, the internal rules of the Company and best corporate practices, ensuring transparency and adherence to the Good Governance Code. In particular, the Company shall make available to the shareholders on occasion of the call to the Annual General Meeting the Annual Director Remuneration Report, which shall be submitted to a consultative vote as a separate item on the agenda.

Based on these principles, Euskaltel's Board of Directors has defined a Remuneration Policy considering not only compliance with legal requirements, the Good Governance Code and internal rules, but also alignment with best market practices, having included elements intended to conform the remuneration of the directors to the long-term goals, values and interests of the Company.

For all of the foregoing reasons, this Remuneration Policy essentially differentiates between those directors who are not entrusted with executive duties from those others who are entrusted with executive duties at the Company, as described below.

3.2. Specific characteristics of the remuneration of directors who are not entrusted with executive duties

The application of the principles set forth in 3.1 above to the system of remuneration for directors of Euskaltel who are not entrusted with executive duties has the following characteristics:

- It is transparent in the information regarding the remuneration of directors.
- It is incentivising for remuneration of their dedication, qualification and responsibility, without being a hindrance to their duty of faithfulness.
- It is made up of a fixed allocation that is paid entirely in cash and remunerates membership on the Board of Directors and on any of its various Committees, without distinguishing duties or positions held, unless the Board of Directors otherwise provides, including any particular provision on remuneration, for the lead independent director.

Along these lines, the Board of Directors may make additional allocations to the lead independent director for the performance of duties inherent to such position. The amount of such additional allocation, if any, shall be determined by the Board of Directors on an annual basis, and may not, considered individually, exceed 25% of the annual fixed remuneration corresponding to the director for membership on the Board of Directors.

As regards the standards to be followed to determine the various components of the remuneration package of directors who are not entrusted with executive duties, the goal is to remunerate them in accordance with their professional value, dedication to the position and responsibility assumed thereby, without the remuneration received affecting their objectivity in the defence of the company interests.

As regards directors who are not entrusted with executive duties, the Remuneration Policy does not contemplate the payment of attendance fees, items that are variable or linked to results or payments in shares, share options or instruments based on shares.

Directors who are not entrusted with executive duties shall not receive severance payments or payments for termination of their duties as such or participate in savings or benefits schemes.

Furthermore, the remuneration of directors who are not entrusted with executive duties is supplemented with (i) the possibility of Euskaltel making individual annual contributions to insurance policies, and (ii) the existing civil liability insurance policy at the Company.

Finally, it should be noted that the foregoing items of remuneration are received only by directors who are not entrusted with executive duties, including proprietary directors, but excluding directors who are entrusted with executive duties, who only receive the remuneration established in their respective contracts within the items of remuneration set forth in the bylaws, as described in sections 3.3 and 6.

3.3. Specific characteristics of the remuneration of directors who are entrusted with executive duties

Executive directors are entitled to receive remuneration for the duties of this nature that they perform following the standards generally applicable to senior management and that are intended to establish a remuneration package that allows for the recruitment, motivation and retention of valuable human capital.

The characteristics of such remuneration package are the following:

- The remuneration is assigned for the performance of executive duties as set forth in the respective contracts within the items of remuneration established in the bylaws.
- The items of remuneration set forth in the contracts and in the bylaws conform to the provisions of this Remuneration Policy.
- The remuneration has a balanced and efficient relationship between the fixed and variable components.
- The remuneration system is compatible with proper and effective risk management and the long-term business strategy, values and interests of the Company, without the variable remuneration threatening the ability of the Company to maintain its solvency and financial position.
- The remuneration takes into account market trends and is positioned at the lead thereof in accordance with the Company's strategic planning as well as the size, nature and scope of its activities, and is effective to recruit and retain the best professionals.

The remuneration of the directors performing executive duties is therefore focused on generating value for the Company, seeking alignment with the interests of the shareholders, the prudent management of risk and strict compliance with applicable legal provisions regarding the remuneration of directors of listed companies.

The remuneration system for executive directors is therefore made up of:

- Annual fixed remuneration.
- 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).
- 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.

- 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.
- A civil liability policy obtained by the Company for its directors upon customary terms and proportional to the circumstances of the Company.
- Potential severance payment for cessation in office or termination of contractual relationship with the Company.

Set forth below is a description of the system for remuneration of directors based on the principles, foundations and characteristics described above.

4. Maximum amount of annual remuneration to be paid to the directors as a whole

Pursuant to the Company's Bylaws, the shareholders acting at a General Meeting of Shareholders must determine the maximum remuneration to be received by the directors for all of the duties that they perform, both executive and non-executive.

Pursuant to the foregoing and the principles governing this Remuneration Policy, the maximum amount of annual remuneration for all directors as a whole is 4,500,000 euros.

This maximum amount shall remain in effect for so long as a change thereof is not approved.

For purposes of clarification, it is stated for the record that such amount does not entail an increase in the remuneration of the directors under any circumstances.

The purpose of the shareholders determining the maximum remuneration to be received by the directors for all of the duties they perform, both executive and non-executive, is only to avoid the occurrence of a potential tax risk consisting of the inability to deduct as an expense the amounts to be paid to the members of the Board of Directors.

5. Remuneration system currently applicable to directors who are not entrusted with executive duties

The Board of Directors has approved the following amounts within the remuneration framework described above:

- Annual fixed allotment for membership on the Board of Directors in accordance with market standards.

The fixed allotment for this item is 65,000 euros for financial year 2019.

- Annual fixed allotment for membership on each advisory Committee of the Board of Directors, determined with market standards.

The fixed allotment for this item is 15,000 euros for financial year 2019.

- Cash remuneration consisting of the payment by Euskaltel of insurance premiums, which must be approved by the Board of Directors. The annual maximum limit for 2019 is established at 8,000 euros for each director.
- A civil liability policy upon customary terms and proportional to the circumstances of the Company. The maximum amount of this coverage for 2019 is 10,000,000 euros.

This remuneration system, as well as the description of remuneration, is broken down on an annual basis in the corresponding Annual Director Remuneration Report.

6. Remuneration system currently applicable to executive directors

6.1. Annual fixed remuneration

The fixed remuneration is intended to remunerate the performance of executive duties.

Fixed remuneration (i) shall be mainly based on a market focus and consider the size, nature and scope of the activities of the Company; and (ii) shall be duly aligned with the remuneration at comparable companies in the industry at the domestic and international level.

The fixed remuneration of the Chairman and of the CEO shall be updated annually by the Board of Directors upon a proposal of the Appointments and Remuneration Committee.

The Company shall timely report on the current system and levels of remuneration of the executive directors through the corresponding Annual Director Remuneration Report.

Along these lines, the annual fixed remuneration for financial year 2019 is 347,027.18 euros for the Chairman and 376,498.78 euros for the CEO.

6.2. Annual variable remuneration

As indicated above, annual variable remuneration only applies to the executive directors as a percentage of their fixed remuneration. Such variable remuneration is based on objective standards that seek to evaluate their contribution to the Company's business objectives in the performance of their executive duties.

Such annual variable remuneration of the executive directors generally ranges between 0% and 75% of the fixed salary at most for the CEO and between 0% and 60% for the Chairman, in both cases accounting for 50% of the fixed salary for achievement of 100% of the goals.

The setting of the objectives, as well as the achievement scales and performance evaluation, are within the purview of the Board of Directors, which will subsequently determine the level of achievement of the business goals used as a reference and the level of achievement of annual variable remuneration (including instances of under-performance and over-performance, as applicable).

Generally, the parameters to be taken into account for determining compliance with the annual variable remuneration objectives, as well as the respective weighting thereof, will be determined annually by the Board of Directors, upon a proposal of the Appointments and Remuneration Committee, based on indicators correlated to Company variables relating to the performance of the business and any other items of a qualitative or quantitative nature including, but not limited to, medium- and long-term sustainability, meeting strategic objectives or objectives relating to corporate social responsibility.

The aforementioned goals and parameters will also take account of the risk assumed to obtain a result and will pursue a balance amongst the Company's short-, medium- and long-term objectives, not revolving solely around one-off, occasional or extraordinary facts or data.

In all cases, executive directors shall be subject to the application of the objectives, parameters and weightings approved by the Board of Directors for the Company's management team generally.

The Board of Directors, upon a proposal of the Appointments and Remuneration Committee, may adjust said weightings or include other objectives that have priority for the short-term development of the business.

The annual variable remuneration system shall be updated regularly by the Appointments and Remuneration Committee, which shall determine whether it is sufficient to measure the contribution to the results of Euskaltel.

By way of example, the parameters for annual variable remuneration applicable to this financial year 2019 and the respective weighting thereof are described below:

- Ebitda - Customers: 40%.
- Cash flow/Revenue: 35%.
- Weighted churn: 15%.
- Corporate Social Responsibility (CSR)/Compliance: 10%.

For each financial year, the objectives and metrics shall represent a proper balance between financial and operational aspects of the Company.

Should the Company's auditors make qualifications in their audit report affecting one or more of the objectives and parameters that are to be taken into account in setting the annual variable remuneration of the executive directors, said qualifications shall be taken into account by the Board of Directors in setting the variable remuneration to be received by the executive directors.

The Company may also demand reimbursement of all or part of the variable remuneration, as applicable, if (i) the payment of the variable remuneration did not match the conditions for performance of the Company; or (ii) the variable remuneration was paid in light of data subsequently proven to be incorrect (e.g. if there was a correction to the annual accounts on which the variable remuneration was based).

6.3. Long-term variable remuneration based on the delivery of cash or shares, share options or instruments or other remuneration indexed to the value thereof

The executive directors may participate in long-term incentive plans linked to strategic conditions and objectives that are payable in cash or in shares established by the Company for its senior officers.

Within the remunerative framework described above, the Board of Directors approved a 2017-2019 Incentive Plan for executive directors and senior officers that allows the beneficiaries to receive in financial year 2020 a certain extraordinary variable cash remuneration with the possibility of total or partial payment in shares in the case of the executive directors, provided that there is compliance with the condition of continuity in office as well as the strategic business objectives and creation of value for the shareholders.

Along these lines, at the General Meeting of Shareholders held on 27 February 2016, the shareholders approved the potential delivery of a maximum of up to 180,000 shares to the executive directors within the framework of the incentive plans, allowing for total or partial payment of the Plan in shares of the Company.

The 2017-2019 Incentive Plan includes best market practices and the recommendations of leading proxy advisors, institutional investors and the Good Governance Code of Listed Companies:

- Establishes clear grant levels for each level of beneficiaries near the average for the market.
- Establishes a 3-year measurement period.
- Establishes an additional holding period for the shares.
- Represents a prudent percentage of capitalisation value.
- Combines financial targets with share price increase targets.
- Paid totally or partially in shares.
- Includes competitive achievement scales.
- Circumscribes variable remuneration in shares for the executive directors.

At the end of the Plan, the Board of Directors intends to approve a similar new Incentive Plan for the 2020-2022 period consistent with the defined remuneration framework, following a favourable report from the Appointments and Remuneration Committee.

6.4. Other remuneration

The executive directors may receive certain remuneration in kind, including the availability of a company vehicle, a life and casualty insurance policy, a special health insurance policy, and the ability to enjoy all those benefits that the Company might make available to management personnel.

6.5. Benefits

Except as already stated in sections 5 and 6 of this Remuneration Policy, there are no commitments with respect to pensions, life insurance or otherwise for the directors of the Company.

6.6. Principal terms and conditions of the contracts of the executive directors with the Company

The contracts that the executive directors sign with the Company are based on the following basic terms and conditions:

a) Term:

The contracts of the executive directors shall remain in force for so long as they hold office.

b) Severance pay:

The contracts with the executive directors may contemplate severance payment to them in the event of termination.

c) Exclusivity and post-contractual non-competition clause:

The contracts may establish an obligation of exclusivity and full dedication to the Company and of post-contractual non-competition for a maximum period of two (2) years from the termination of the contract.

If a post-contractual non-competition clause is established, the contract must provide compensation for this commitment.

7. Application of the Remuneration Policy

Without prejudice to the provisions of the LSC regarding director remuneration policies, the Appointments and Remuneration Committee (i) shall endeavour to ensure compliance with this Remuneration Policy and the regular update hereof, and (ii) shall propose the amendment and update thereof to the Board of Directors, for submission to the shareholders at a General Meeting, all pursuant to the provisions of the Regulations of the Appointments and Remuneration Committee.

8. Effectiveness of the Remuneration Policy

This Remuneration Policy shall apply to the remuneration of the directors of Euskaltel for financial years 2019, 2020 and 2021, pursuant to the provisions of section 529 *novodecies* of the LSC.

In Derio, on 27 February 2019. Board of Directors of EUSKALTEL, S.A.