

REPORT

ISSUED BY

THE BOARD OF BOARD OF DIRECTORS OF



STATING THE GROUNDS FOR THE AMENDMENT OF ARTICLE 62 OF THE ARTICLES OF ASSOCIATION OF EUSKALTEL, S.A. PERTAINING TO THE REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS.

THIS REPORT CONTAINS:

- (i) GROUNDS FOR THE PROPOSED AMENDMENT;
- (ii) FULL TEXT OF THE PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION; AND
- (iii) COMPARISON BETWEEN THE CURRENT WORDING AND THE PROPOSED WORDING OF ARTICLE 62 OF THE ARTICLES OF ASSOCIATION.

Derio, 22 April 2020

EUSKALTEL, S.A.

REPORT ISSUED BY THE BOARD OF DIRECTORS STATING THE GROUNDS FOR THE AMENDMENT OF ARTICLE 62 OF THE ARTICLES OF ASSOCIATION OF EUSKALTEL, S.A. PERTAINING TO THE REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS.

I. INTRODUCTION

This report has been prepared by the Board of Directors of Euskaltel, S.A. (hereinafter “**Euskaltel**” or the “**Company**”) to state the grounds for the proposal submitted for the approval of the Ordinary General Shareholders’ Meeting of Euskaltel, to be held on 2 June 2020 at 12 noon, at the first call, and on 3 June 2020, at the same time, at the second call, under point 6.2 of the Agenda regarding the amendment of the Company’s Articles of Association, pertaining to remuneration of directors, in accordance with article 286 of the rewritten text of the Spanish Enterprises Act, approved by Royal Legislative Decree 1/2010 of 2 July (hereinafter, the “**Act**”).

The amendment to the Articles of Association proposed herein is intended to modify the remuneration system for directors who do not have executive functions assigned, extending the remuneration items of the Chairperson of the Board of Directors in the event that no executive functions are entrusted thereto.

In order to help the Shareholders understand the change leading to the amendment being submitted for the approval of the General Shareholders’ Meeting, this report sets out, first of all, the purposes and grounds of the amendment, and then includes the full text of the proposed wording.

Moreover, to facilitate a comparison between the new proposed wording of article 62 and the current wording, for information purposes, an **Appendix** is included with this report containing a document setting out the proposed amendment to the current wording of article 62 of the Company’s Articles of Association.

II. GROUNDS FOR THE PROPOSAL

The Company has agreed with the Non-Executive Chairperson of the Board of Directors to present to the General Shareholders' Meeting an amendment to the articles of association that allows for the inclusion, among other remuneration items, of remuneration in kind consisting of a high range vehicle and participation in the Incentives Plan offered by the Company at any given time.

To meet this commitment, the Board proposes amending article 62 of the Articles of Association, updating the remuneration of non-executive directors so that, in the event that the Chairperson of the Board of Directors were to be a non-executive post, in addition to the entitlements applicable as non-executive director, they would be entitled to receive long-term variable remuneration based on a settlement in the form of cash or shares, share options or instruments or other remuneration referenced to the share value, linked to business targets, the evolution of the share price, and, if applicable, other corporate social responsibility goals, and they would also be entitled to remuneration in kind in the form of access to a company car.

In this manner, the non-Executive Chairperson of the Board of Directors could participate in the Incentives Plan subscribed by the Company at any time.

III. FULL TEXT OF THE PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION

According to the above, the full text of the proposed amendment to the articles of association is set forth below:

“Article 62. Directors’ remuneration

- 1. The directors shall be entitled to receive remuneration for performing the functions attributable to them by virtue of their membership of the Board of Directors as the professional decision-making body of the Company.*
- 2. The Shareholders will determine and approve the maximum remuneration to be received by directors for all items and all functions they perform, both executive and non-executive. The maximum amount set by the*

Shareholders will remain in force until an amendment thereto is formally approved.

3. The remuneration of non-executive Directors is comprised of the following items:

- a) A fixed annual allocation;*
- b) The Company's potential commitments to pay amounts on account of insurance premiums for the directors; and*
- c) A public liability insurance policy, taken out by the Company for its directors with the standard conditions and suitable for the circumstances of the Company itself.*
- d) In addition to the aforementioned items, in the event that the Chairperson of the Board of Directors were to be a non-executive post, they would be entitled to receive long-term variable remuneration based on a settlement in the form of cash or shares, share options or instruments or other remuneration referenced to the share value, linked to business targets, the evolution of the share price, and, if applicable, other corporate social responsibility goals, and they would also be entitled to remuneration in kind in the form of access to a company car. When reference is made to Company shares or to financial instruments linked to the listed price thereof, this long-term variable remuneration must be agreed by the General Shareholders' Meeting. The agreement would state, if applicable, the maximum number of shares to be delivered, the strike price or system for calculating the strike price of the stock options, the value of the benchmark shares, if any, and the duration of the plan's term.*

With the exception set forth in the last paragraph of section d) above, pertaining to long-term variable remuneration based on the delivery of Company shares or financial instruments linked to the listed price thereof, the Board of Directors will determine the specific amount of each of these items attributable to each of the non-executive directors based on the directors' remuneration policy. For these purposes, it may take into account, inter alia, the functions carried out by each director within the professional body itself, their membership of the different committees and attendance at committee meetings, and the classification of the director as independent or proprietary.

4. *Directors with executive functions are entitled to receive the remuneration set forth in the contract entered into between each director and the Company, for the following items:*

- a) *Fixed annual remuneration.*
- b) *Variable annual remuneration, calculated based on benchmark qualitative or quantitative indicators or parameters, linked to the degree of target accomplishment (agreed by the Board of Directors based on proposals from the Appointments and Remunerations Committee).*
- c) *Long-term variable remuneration based on a settlement in the form of cash or shares, share options or instruments or other remuneration referenced to the share value, linked to business targets, the evolution of the share price, and, if applicable, other corporate social responsibility goals.*

When reference is made to Company shares or to financial instruments linked to the listed price thereof, this remuneration must be agreed by the General Shareholders' Meeting. The agreement would state, if applicable, the maximum number of shares to be delivered, the strike price or system for calculating the strike price of the stock options, the value of the benchmark shares, if any, and the duration of the plan's term.

- d) *The following remunerations: (i) use of a company car; (ii) life and accident insurance; (iii) special health insurance; and (iv) the option to avail of any benefits the Company may place at the disposal of management staff.*
- e) *A public liability insurance policy, taken out by the Company for its directors with the standard conditions and suitable for the circumstances of the Company itself.*
- f) *Compensation for dismissal or termination of employment with the Company.*

These contracts should be approved in advance by the Board of Directors at the proposal of the Appointments and Remunerations Committee, in accordance with the requirements set forth in prevailing legislation.

Furthermore, the content of these contracts will adhere to the directors' remuneration policy to be approved by the General Shareholders' Meeting.

5. *The directors' remuneration policy will adhere where applicable to the remunerations policy set forth in the Company's Articles of Association, will*

have the legally required scope and be submitted by the Board of Directors for the approval of the General Shareholders' Meeting with the frequency required by law.

In any event, the overall total of all the resulting amounts payable to all directors for any items each year must not exceed the maximum amount approved by the General Shareholders' Meeting."

IV. SHAREHOLDERS' RIGHT TO INFORMATION ON THE PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In accordance with articles 286 and 518 of the Act, and article 8 of the Company's General Shareholders' Meeting Regulations, this report is issued for the purposes of fulfilling the Shareholders' right to information and the full text of the proposed amendment to the articles of association and the reports on the grounds thereof may be examined at the Company's registered offices or shareholders may request free delivery of a copy for their perusal.

In addition, this document will be published on the Company's website (www.euskaltel.com), together with the announcement of the General Shareholders' Meeting and the other documentation pertaining to the aforementioned articles of the General Shareholders' Meeting Regulations and the Act.

APPENDIX I.- COMPARATIVE TEXT

Article 62. Directors' remuneration

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<p>1. The directors shall be entitled to receive remuneration for performing the functions attributable to them by virtue of their membership of the Board of Directors as the professional decision-making body of the Company.</p> <p>2. The Shareholders will determine and approve the maximum remuneration to be received by directors for all items and all functions they perform, both executive and non-executive. The maximum amount set by the Shareholders will remain in force until an amendment thereto is formally approved.</p> <p>3. The remuneration of non-executive Directors is comprised of the following items:</p> <ul style="list-style-type: none"> a) A fixed annual allocation; b) The Company's potential commitments to pay amounts on account of insurance premiums for the directors; and c) A public liability insurance policy, taken out by the Company for its directors with the standard conditions suitable for the circumstances of the Company itself. <p>The Board of Directors will determine</p>	<p>1. The directors shall be entitled to receive remuneration for performing the functions attributable to them by virtue of their membership of the Board of Directors as the professional decision-making body of the Company.</p> <p>2. The Shareholders will determine and approve the maximum remuneration to be received by directors for all items and all functions they perform, both executive and non-executive. The maximum amount set by the Shareholders will remain in force until an amendment thereto is formally approved.</p> <p>3. The remuneration of non-executive Directors is comprised of the following items:</p> <ul style="list-style-type: none"> a) A fixed annual allocation; b) The Company's potential commitments to pay amounts on account of insurance premiums for the directors; and c) A public liability insurance policy, taken out by the Company for its directors with the standard conditions and suitable for the circumstances of the Company itself. <p>The Board of Directors will determine</p>

the specific amount of each of these items attributable to each of the non-executive directors based on the directors' remuneration policy. For these purposes, it may take into account, inter alia, the functions carried out by each director within the professional body itself, their membership of the different committees and attendance at committee meetings, and the classification of the director as independent or proprietary.

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d) In addition to the aforementioned items, in the event that the Chairperson of the Board of Directors were to be a non-executive post, they would be entitled to receive a long-term variable remuneration based on a settlement in the form of cash or shares, share options or instruments or other remuneration referenced to the share value, linked to business targets, the evolution of the share price, and, if applicable, other corporate social responsibility goals, and they would also be entitled to remuneration in kind in the form of access to a company car.

When reference is made to Company shares or to financial instruments linked to the listed price thereof, this long-term variable remuneration must be agreed by the General Shareholders' Meeting. The agreement would state, if applicable, the maximum

<p>4. Directors with executive functions are entitled to receive the remuneration set forth in the contract entered into between each director and the Company, for the following items:</p> <ul style="list-style-type: none"> a) A fixed annual remuneration. b) A variable annual remuneration, calculated based on benchmark qualitative or quantitative indicators or parameters, linked to the degree of target accomplishment (agreed by the Board of Directors based on proposals from the Appointments and Remunerations Committee). 	<p>number of shares to be delivered, the strike price or system for calculating the strike price of the stock options, the value of the benchmark shares, if any, and the duration of the plan's term.</p> <p>With the exception set forth in the last paragraph of section d) above, pertaining to long-term variable remuneration based on the delivery of Company shares or financial instruments linked to the listed price thereof, the Board of Directors will determine the specific amount of each of these items attributable to each of the non-executive directors based on the directors' remuneration policy. For these purposes, it may take into account, inter alia, the functions carried out by each director within the professional body itself, their membership of the different committees and attendance at committee meetings, and the classification of the director as independent or proprietary.</p> <p>4. Directors with executive functions are entitled to receive the remuneration set forth in the contract entered into between each director and the Company, for the following items:</p> <ul style="list-style-type: none"> a) A fixed annual remuneration. b) A variable annual remuneration,
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<p>c) A long-term variable remuneration based on a settlement in the form of cash or shares, share options or instruments or other remuneration referenced to the share value, linked to business targets, the evolution of the share price, and, if applicable, other corporate social responsibility goals.</p> <p>When reference is made to Company shares or to financial instruments linked to the listed price thereof, this remuneration must be agreed by the General Shareholders' Meeting. The agreement would state, if applicable, the maximum number of shares to be delivered, the strike price or system for calculating the strike price of the stock options, the value of the benchmark shares, if any, and the duration of the plan's term.</p> <p>d) The following remunerations: (i) use of a company car; (ii) life and accident insurance; (iii) special health insurance; and (iv) the option to avail of any benefits the Company may place at the disposal of the management staff.</p> <p>e) A public liability insurance policy, taken out by the Company for its directors with the standard conditions and suitable for the circumstances of the Company itself.</p> <p>f) Compensation for dismissal or termination of employment</p>	<p>calculated based on benchmark qualitative or quantitative indicators or parameters, linked to the degree of target accomplishment (agreed by the Board of Directors based on proposals from the Appointments and Remunerations Committee).</p> <p>c) A long-term variable remuneration based on a settlement in the form of cash or shares, share options or instruments or other remuneration referenced to the share value, linked to business targets, the evolution of the share price, and, if applicable, other corporate social responsibility goals.</p> <p>When reference is made to Company shares or to financial instruments linked to the listed price thereof, this remuneration must be agreed by the General Shareholders' Meeting. The agreement would state, if applicable, the maximum number of shares to be delivered, the strike price or system for calculating the strike price of the stock options, the value of the benchmark shares, if any, and the duration of the plan's term.</p> <p>d) The following remunerations: (i) use of a company car; (ii) life and accident insurance; (iii) special health insurance; and (iv) the option to avail of any benefits the Company may place at the</p>
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<p>with the Company.</p> <p>These contracts should be approved in advance by the Board of Directors at the proposal of the Appointments and Remunerations Committee, in accordance with the requirements set forth in prevailing legislation.</p> <p>Furthermore, the content of these contracts will adhere to the directors' remuneration policy to be approved by the General Shareholders' Meeting.</p> <p>5. The directors' remuneration policy will adhere where applicable to the remunerations policy set forth in the Company's Articles of Association, will have the legally required scope and be submitted by the Board of Directors for the approval of the General Shareholders' Meeting with the frequency required by law.</p> <p>In any event, the overall total of all the resulting amounts payable to all directors for any items each year must not exceed the maximum amount approved by the General Shareholders' Meeting."</p>	<p>disposal of the management staff.</p> <p>e) A public liability insurance policy, taken out by the Company for its directors with the standard conditions and suitable for the circumstances of the Company itself.</p> <p>f) Compensation for dismissal or termination of employment with the Company.</p> <p>These contracts should be approved in advance by the Board of Directors at the proposal of the Appointments and Remunerations Committee, in accordance with the requirements set forth in prevailing legislation.</p> <p>Furthermore, the content of these contracts will adhere to the directors' remuneration policy to be approved by the General Shareholders' Meeting.</p> <p>5. The directors' remuneration policy will adhere where applicable to the remunerations policy set forth in the Company's Articles of Association, will have the legally required scope and be submitted by the Board of Directors for the approval of the General Shareholders' Meeting with the frequency required by law.</p> <p>In any event, the overall total of all the resulting amounts payable to all directors for any items each year must</p>
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