

**REPORT FORMULATED BY THE BOARD OF DIRECTORS OF EUSKALTEL, S.A. REGARDING THE RATIONALE FOR THE PROPOSAL MADE BY THE APPOINTMENTS AND REMUNERATION COMMITTEE FOR THE RE-ELECTION OF MS BELÉN AMATRIAIN CORBI AND MR IÑAKI ALZAGA ETXEITA AS INDEPENDENT DIRECTORS OF THE COMPANY, WHICH WILL BE SUBMITTED FOR THE APPROVAL OF THE SHAREHOLDERS AT THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF THE COMPANY CALLED TO BE HELD ON 1 APRIL 2018, ON FIRST CALL, AND ON 2 APRIL 2019, ON SECOND CALL.**

**I. Object of the report**

This report is formulated by the Board of Directors of Euskaltel, S.A. (the “**Company**”) in compliance with the provisions of sub-section 5 of Section 529 *decies* of Royal Legislative Decree 1/2010 of 2 July approving the consolidated text of the Corporate Enterprises Act (*Ley de Sociedades de Capital*) (the “**Act**”), and is intended to provide a detailed rationale for the proposed re-election of Ms Belén Amatriain Corbi and of Mr Iñaki Alzaga Etxeita (both hereinafter collectively referred to as the “**Candidates**”) as independent directors of the Company, paying special attention to the skills, experience and merits thereof, as formulated by the Appointments and Remuneration Committee.

The re-election of the Candidates has been proposed due to the expiration of their terms as directors on 31 March 2019.

The preparation of this report followed the guidelines provided in the Director Selection Policy approved by the Company’s Board of Directors on 26 April 2016.

The Candidates are classified as independent.

Set forth below is a separate assessment of the Board of Directors regarding the skill, experience and merits of the various proposed Candidates, as well as their suitability to continue performing the duties of directors of Euskaltel, in light of the proposal formulated by the Appointments and Remuneration Committee (**Annex I**) on the date hereof pursuant to sub-section 4 of Section 529 *decies* of the Corporate Enterprises Act and article 8 of the Regulations for the General Meeting of the Company, which the Board of Directors adopts upon the terms thereof.

Pursuant to the provisions of Section 518.e) of the Act, this report also contains complete information regarding the identity, curriculum vitae and classification to which the Candidates belong.

**II. Rationale for the proposal**

**A. Ms Belén Amatriain Corbi**

**1. Biographical profile and training**

Ms Belén Amatriain Corbi was born in Madrid in 1958. She holds a degree in law (ICADE E-1) from the Pontificia de Comillas University in Spain.

**2. Noteworthy experience for holding the position thereof within the Company**

Ms Belén Amatriain Corbi was appointed as a Director of Euskaltel in March 2015. She has also belonged to the Appointments and Remuneration and Strategy Committees since 6 May 2015 and 26 June 2017, respectively.

Her previous professional career includes the following positions: Corporate Marketing Officer at Telefónica, S.A. from 2009 to 2012, CEO of Telefónica España from 2008 to 2009, CEO of Telefónica Móviles España from 2005 to 2007 and chair & CEO of Telefónica Publicidad e Información.

She currently also holds the position of independent Director of EVO Banco, S.A.U., chairs its Audit Committee and is a member of the Appointments and Remuneration Committee. She is also an independent member of the Board of Directors of the following companies listed on the continuous market and on the PSI 20 index of the Portuguese stock market: Prim, S.A. (member and chair of its Audit Committee), Faes Farma S.A. (member) and CTT - Correios de Portugal, S.A. (member of the board and of its Audit Committee).

### **3. Class**

Mr Amatriain has been proposed on the basis of her history with Euskaltel as well as her personal and professional qualifications and can discharge her duties without being constrained by relationships with the Company, its significant shareholders or its officers.

In light of the foregoing, Ms Amatriain has been once again deemed an independent director by the Appointments and Remuneration Committee, as based on the information received she continues to meet the requirements set forth in sub-section 4 of Section 529 *duodecies* of the Act.

### **4. Shares of the Company and derivative financial instruments whose underlying assets are shares of the Company of which the director is a holder**

Ms Amatriain is currently the direct owner of 3,000 shares of the Company, representing 0.002% of the share capital of Euskaltel.

### **5. Requirements for appointment**

Based on the information provided by the candidate and held by the Company, the Appointments and Remuneration Committee has verified that Ms Amatriain continues to meet the requirements of independence, respectability, suitability, expertise, competence, experience, qualification, training, availability and commitment to duties to hold the position of independent director of the Board of Directors of the Company, and has also verified that she continues to meet the general requirements demanded of all directors of the Company as provided by law.

In particular, the Appointments and Remuneration Committee finds that, in the particular case of Ms Amatriain, in order to be able to properly perform the duties inherent to the proposed position, the candidate must adequately combine sufficient abilities, skills and experience in the following areas:

- (i) the telecommunications industry and market, in which Euskaltel does business;
- (ii) strategic vision for the businesses;
- (iii) history of value creation;
- (iv) management of human resources and teams of people;
- (v) experience in management, leadership and business strategy as a director;
- (vi) highest level of ethics and respect of the business community generally;
- (vii) absence of conflict of interests and available time to attend scheduled meetings of the Board and, if applicable, of its various committees; and
- (viii) highest level of loyalty, commitment and sufficient and proven dedication to the Company's enterprise.

The Appointments and Remuneration Committee finds, and this Board of Directors confirms, that Ms Amatriain continues to meet the foregoing conditions.

It has also verified that she is not affected, directly or indirectly, by any of the instances of disqualification, prohibition, conflict with or opposition of interests to the corporate interest as set forth in provisions of a general nature or in the internal rules of Euskaltel.

## **6. Conclusion**

The Board of Directors endorses the proposal made by the Appointments and Remuneration Committee for the re-election of Ms Belén Amatriain Corbi as independent director of the Company.

In view of all of the foregoing, the Board of Directors finds that Ms Belén Amatriain Corbi has sufficient skill, experience and merit to continue to perform the duties of the position.

## **B. Mr Iñaki Alzaga Etxeita**

### **1. Biographical profile and training**

Mr Iñaki Alzaga Etxeita was born in Iurreta (Biscay) in 1960. He holds a degree in economics and business administration from the Deusto Business School.

### **2. Noteworthy experience for holding the positions thereof within the Company**

Mr Iñaki Alzaga Etxeita was appointed as a Director of Euskaltel in March 2015. He has also held the position of Chair of the Company's Audit and Control Committee since 1 June 2015 and has belonged to the Strategy Committee since 26 June 2017.

He was previously with the Company from 1998 to 2005, holding positions as Advanced Business Manager, Manager of Business Development and member of the Management Committee. Since 2005, he has been the President of Grupo Noticias.

The positions he held prior to joining the Company include Managing Director of Editorial Iparraguirre, S.A. and a 12-year career at PricewaterhouseCoopers.

He has been a member of the Board of Directors of Talde Gestión, S.G.E.I.C., S.A. since June 2018.

### **3. Class**

Mr Alzaga has been proposed on the basis of his history with Euskaltel as well as his personal and professional qualifications and can discharge his duties without being constrained by relationships with the Company, its significant shareholders or its officers.

In light of the foregoing, Mr Alzaga has been once again deemed an independent director by the Appointments and Remuneration Committee, as based on the information received he continues to meet the requirements set forth in sub-section 4 of Section 529 *duodecies* of the Act.

### **4. Shares of the Company and derivative financial instruments whose underlying assets are shares of the Company of which the director is a holder**

Mr Alzaga is currently the direct owner of 3,000 shares of the Company, representing 0.002% of the share capital of Euskaltel.

## **5. Requirements for appointment**

Based on the information provided by the candidate and held by the Company, the Appointments and Remuneration Committee has verified that Mr Alzaga continues to meet the requirements of independence, respectability, suitability, expertise, competence, experience, qualification, training, availability and commitment to duties to hold the position of independent director of the Board of Directors of the Company, and has also verified that he continues to meet the general requirements demanded of all directors of the Company as provided by law.

In particular, the Appointments and Remuneration Committee finds that, in the particular case of Mr Alzaga, in order to be able to properly perform the duties inherent to the proposed position, the candidate must adequately combine sufficient abilities, skills and experience in the areas referred to above in section II.A.5.

The Appointments and Remuneration Committee finds, and the Board of Directors confirms, that Mr Alzaga continues to meet the foregoing conditions.

It has also verified that he is not affected, directly or indirectly, by any of the instances of disqualification, prohibition, conflict with or opposition of interests to the corporate interest as set forth in provisions of a general nature or in the internal rules of Euskaltel.

## **6. Conclusion**

The Board of Directors endorses the proposal made by the Appointments and Remuneration Committee for the re-election of Mr Iñaki Alzaga Etxeita as independent director of the Company.

In view of all of the foregoing, the Board of Directors finds that Mr Iñaki Alzaga Etxeita has sufficient skill, experience and merit to continue to perform the duties of the position of director.

## **III. Conclusion**

The information received indicates that the Candidates have sufficient skill, experience and merit to perform the duties of their position.

The Company's Board of Directors finds that the re-election of the proposed Candidates allows the Board of Directors to continue enjoying an equilibrium that enriches decision-making and provides plural viewpoints to the debate on the matters within its purview, maintaining a composition, structure and size that is balanced and in accordance with its needs and those of the Company itself.

Therefore, the Board of Directors endorses and adopts the proposal made by the Appointments and Remuneration Committee relating to the re-election of independent directors, which will be submitted for approval of the shareholders at the General Shareholders' Meeting, and which is included in Annex I to this Report.

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In Derio, on 27 February 2019

## ANNEX I

### PROPOSAL OF THE APPOINTMENTS AND REMUNERATION COMMITTEE

#### **Reasoned proposal of the Appointments and Remuneration Committee of Euskaltel, S.A. regarding the re-election of the independent directors that is submitted for the approval of the shareholders at the upcoming Ordinary General Meeting**

This reasoned proposal is formulated in compliance with the provisions of Section 529 *decies* of the Corporate Enterprises Act (the “Act”) and is intended to propose the re-election of directors that must be for approval by the shareholders at the upcoming Ordinary General Shareholders’ Meeting, due to the expiration of the directors’ term on 31 March 2019.

In line with the provisions of said article of the Act and in accordance with the provisions of article 5 of the Regulations of the Appointments and Remuneration Committee, this committee must:

- (i) submit to the Board of Directors proposals for the appointment of independent directors on an interim basis or for submission to a decision of the shareholders at a General Shareholders’ Meeting, as well as proposals for the re-election or removal of said directors by the shareholders; and
- (ii) report on proposals for the appointment of the other directors on an interim basis or for submission to a decision of the shareholders at a General Shareholders’ Meeting, as well as proposals for the re-election or removal thereof by the shareholders.

In the analysis performed by the Appointments and Remuneration Committee within the scope of its powers and within the framework of the Director Selection Policy of Euskaltel, this Committee has concluded that it would be appropriate for the profiles of the members Board of Directors to achieve equilibrium within the Board of Directors as a whole, such that decision-making is enriched and multiple viewpoints are contributed to the discussion of the matters within its purview.

The Appointments and Remuneration Committee also promotes the profile of the directors being suitable for achieving the goals of the Company, which would require, among other things but principally, the following aptitudes among the directors:

- a) the telecommunications industry and market, in which Euskaltel does business;
- b) strategic vision for the businesses;
- c) history of value creation;
- d) management of human resources and teams of people;
- e) experience in management, leadership and business strategy as a director;
- f) highest level of ethics and respect of the business community generally;
- g) absence of conflict of interests and available time to attend scheduled meetings of the Board and, if applicable, of its various committees; and
- h) highest level of loyalty, commitment and sufficient and proven dedication to the Company’s enterprise.

Taking into account the powers and the current needs of the Board of Directors, it is deemed appropriate to re-elect Ms Belen Amatriain Corbi and Mr Iñaki Alzaga Etxeita as independent directors of the Company.

Pursuant to article 52 of the Bylaws, the director’s term shall be four (4) years, although it is provided that directors may be re-elected on one or more occasions for equal maximum terms.

Therefore, it is proposed to re-elect Ms Belen Amatriain Corbi and Mr Iñaki Alzaga Etxeita with the classification of independent directors for the bylaw-mandated term of four (4) years.

Detailed information regarding each of these directors is set out below:

**A. Ms Belen Amatriain Corbi**

The information obtained by the Company and her performance as a director at Euskaltel shows that Ms Amatriain has both sufficient knowledge as well as the required experience within the Company to perform the duties of the position.

Ms Belén Amatriain Corbi was born in Madrid in 1958. She holds a degree in law (ICADE E-1) from the Pontificia de Comillas University in Spain.

Ms Amatriain also accumulated extensive experience over her long professional career, and has also held significant positions. Her prior professional experience includes the following positions: CEO of Telefónica España from 2008 to 2009, CEO of Telefónica Móviles España from 2005 to 2007 and Executive Chair & CEO of Telefónica Publicidad e Información.

She currently also holds the position of independent Director of EVO Banco, S.A.U., chairs its Audit Committee and is a member of the Appointments and Remuneration Committee. She is also an independent member of the Board of Directors of the following companies listed on the continuous market and on the PSI 20 index of the Portuguese stock market: Prim, S.A. (member and chair of its Audit Committee), Faes Farma S.A. (member) and CTT - Correios de Portugal, S.A. (member of the board and of its Audit Committee).

Therefore, it is deemed that Ms Amatriain has the appropriate skills, experience and merits to hold the position of director.

As regards the evaluation of actual work and dedication to the Company, both in performing the work of director since her appointment at the General Meeting on 31 March 2015 and her membership on the Strategy Committee since 26 June 2017 and this Appointments and Remuneration Committee since 6 May 2015, this Committee confirms the faithful and diligent performance of her duties, as well as her attendance at and duly informed participation in the meetings of the Board of Directors and the Committees of which she is a member.

There has also been confirmation of the value contributed to the Company from her active participation on both the Board and on the Committees of which she is a member, within which the candidate has been performing duties of the highest responsibility and importance for the Company.

Furthermore, her assimilation of the business culture and values of the Company, as well as her experience and specific knowledge of Euskaltel accumulated in the years since her appointment, have made Ms Amatriain an ideal candidate for re-election.

Finally, as regards the class of director, this committee finds that Ms Belen Amatriain Corbi continues to meet the requirements set forth in sub-section 4 of Section 529 *duodecies* of the Act to be considered an independent director.

**B. Mr Iñaki Alzaga Etxeita**

The information obtained by the Company and his performance as a director at Euskaltel shows that Mr Alzaga has both sufficient knowledge as well as the required experience within the Company to perform the duties of the position.

Mr Iñaki Alzaga Etxeita holds a degree in economics and business administration from the Deusto Business School.

He was appointed as a Director of Euskaltel in March 2015. He has also held the position of Chair of the Audit and Control Committee since 1 June 2015.

He was with the Company from 1998 to 2005, holding positions as Advanced Business Manager, Manager of Business Development and member of the Management Committee. Since 2005, he has been the President of Grupo Noticias.

The positions he previously held include Managing Director of Editorial Iparraguirre, S.A. and a 12-year career at PricewaterhouseCoopers.

He has been a member of the Board of Directors of Talde Gestión, S.G.E.I.C., S.A. since June 2018.

Therefore, it is deemed that Mr Alzaga has the appropriate skills, experience and merits to hold the position of director.

As regards the evaluation of actual work and dedication to the Company, both in performing the work of director since his appointment at the General Meeting on 31 March 2015 and his membership on the Strategy Committee since 26 June 2017 and chairing the Audit and Control Committee since 1 June 2015, this Committee confirms the faithful and diligent performance of his duties, as well as his attendance at and duly informed participation in the meetings of the Board of Directors and the Committees of which he is a member.

There has also been confirmation of the value contributed to the Company from his active participation on both the Board and on the various Committees of which he is a member, especially the Audit and Control Committee of which he is Chair, within which the candidate has been performing duties of the highest responsibility and importance for the Company.

Furthermore, his assimilation of the business culture and values of the Company, as well as his experience and specific knowledge of Euskaltel accumulated in recent years, have made Mr Alzaga an ideal candidate for re-election.

Finally, as regards the class of director, this committee finds that Mr Iñaki Alzaga Etxeita continues to meet the requirements set forth in sub-section 4 of Section 529 *duodecies* of the Act to be considered an independent director.