

REPORT FORMULATED BY THE BOARD OF DIRECTORS OF EUSKALTEL, S.A. REGARDING THE RATIONALE FOR THE PROPOSED RE-ELECTION OF MR ALBERTO GARCÍA ERAUZKIN AND MR JOSÉ ÁNGEL CORRES ABASOLO AS DIRECTORS OF THE COMPANY AND OF THE PROPOSED APPOINTMENTS OF KARTERA 1, S.L., REPRESENTED BY MS ALICIA VIVANCO GONZÁLEZ, MS ELISABETTA CASTIGLIONI, MR MIGUEL ÁNGEL LUJUA MURGA AND MR FRANCISCO MANUEL ARTECHE FERNÁNDEZ-MIRANDA AS DIRECTORS OF THE COMPANY, AS REFERRED TO IN ITEMS THREE AND FOUR ON THE AGENDA FOR THE ORDINARY GENERAL SHAREHOLDERS' MEETING OF THE COMPANY CALLED FOR 27 JUNE 2016, ON FIRST CALL, AND FOR 28 JUNE 2016 ON SECOND CALL

I. Purpose of the report

This report is formulated by the Board of Directors of Euskaltel, S.A. 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 Companies Act, and is intended to provide a detailed rationale for the proposed re-election of Mr Alberto García Erauzkin and Mr José Ángel Corres Abasolo as well as the proposed appointment of Kartera 1, S.L., represented by Ms Alicia Vivanco González, Ms Elisabetta Castiglioni, Mr Miguel Ángel Lujua Murga and Mr Francisco Manuel Arteche Fernández-Miranda (all of them hereinafter collectively referred to as the “**Candidates**”) as directors of the Company, paying special attention to the skills, experience and merits thereof.

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

The classification of the Candidates will be as follows:

- Mr Alberto García Erauzkin as executive director.
- Mr José Ángel Corres Abasolo as independent director.
- Kartera 1, S.L., represented by Ms Alicia Vivanco González, as proprietary director (*consejero dominical*).
- Ms Elisabetta Castiglioni as independent director.
- Mr Miguel Ángel Lujua Murga as independent director.
- Mr Francisco Manuel Arteche Fernández-Miranda as executive director.

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 perform the duties of directors of Euskaltel, in light of the proposal (**Annex I**) or the report (**Annex II**) formulated by the Appointments and Remuneration Committee, pursuant to sub-sections 4 and 6 of Section 529 *decies* of the Companies Act and article 8 of the Regulations for the General Meeting of the Company, which the Board of Directors makes its own upon the terms thereof.

Pursuant to the provisions of Section 518.e) of the Companies 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. Mr Alberto García Erauzkin

1. Biographical profile and training

Mr Alberto García Erauzkin was born in Erandio (Biscay) in 1960. He has a degree in Economics and Business Administration from the University of Deusto Business School and is a member of the Official Registry of Auditors and of the Spanish Institute of Chartered Accountants.

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

His professional experience prior to joining Euskaltel was obtained in the area of Auditing and Consulting at Arthur Andersen and Audihispana (1983-1987 and 1990-1992, respectively) and in the field of economic/financial management at Heraclio Fournier and Corporación Patricio Echeverría (1987-1990 and 1992-1997, respectively).

He has engaged in activities at Euskaltel since 1998, initially as Director of Finance and Control (1998-2000), and then, already a member of the board, he also performed the duties of Managing Director (2000-2011), and currently as Chair of the Board of Directors of the Company.

3. Class

Mr García Erauzkin has been proposed based on both his experience at Euskaltel as well as his personal and professional status.

Taking into account that Mr García Erauzkin will perform management duties within the Company and its group, the Appointments and Remuneration Committee deems him to be an executive director pursuant to the provisions of sub-section 1 of Section 529 *duodecies* of the Companies 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 García Erauzkin is currently the direct holder of 357,222 shares of the Company, representing 0.24% of the share capital of Euskaltel.

5. Requirements for appointment

Based on the information provided by the candidate, the Appointments and Remuneration Committee has verified that Mr García Erauzkin meets the requirements of respectability, suitability, expertise, competence, experience, qualification, training, availability and commitment to his duties to hold the position of executive 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 García Erauzkin, 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 Board of Directors finds that Mr García Erauzkin meets 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 Appointments and Remuneration Committee has reported favourably on the proposed re-election of Mr Alberto García Erauzkin as director of the Company with the classification of executive director.

In view of all of the foregoing, the Board of Directors finds that Mr Alberto García Erauzkin has sufficient skill, experience and merit to perform the duties of his position.

B. Kartera 1, S.L., represented by Ms Alicia Vivanco González

1. Identifying data. Biographical profile and training of Ms Alicia Vivanco González

Kartera 1, S.L. is a company that was organised in the form of a joint-stock company (*sociedad anónima*) with the name Kartera 1, S.A. on 30 July 1993 pursuant to an instrument confirmed by Mr José Antonio Isusi Ezcurdia, Notary of Bilbao, and recorded in his notarial book of records under number 2,943. It was thereafter transformed into a limited company on 23 March 1999 by means of an instrument confirmed by the above Notary, Mr Isusi Ezcurdia, and recorded in his notarial book of records under number 826. The latter is registered with the Commercial Registry of Biscay at volume BI-659, book 0, folio 25, sheet BI-5126-A, entry 9. It has Tax Identification Number B-48563506 and a domicile at Gran Vía números 30-32, 48009, Bilbao (Biscay).

Ms Alicia Vivanco González, the individual representative of Kartera 1, S.L., which is proposed to hold the position of director of the Board of Directors of Euskaltel, was born in Valle de Trápaga-Trapagaran (Biscay) in 1960. She has a degree in Economics from the University of the Basque Country.

2. Corporate object. Noteworthy experience of Ms Alicia Vivanco González for holding the positions thereof within the Company

The corporate purpose of Kartera 1, S.L. is the acquisition and administration of real property, among other things.

For her part, Ms Vivanco, the individual representative of Kartera 1, S.L., became a member of the Board of Directors of Euskaltel in 2003 as the representative of the savings bank Bilbao Bizkaia Kutxa (now Kutxabank), and is a member of the Audit and Control Committee of the Company as of the date of this report.

Her professional experience has been gained mainly at the current Kutxabank, where she began working in 1984, having held various responsibilities in departments such as International Affairs, Portfolio Management and Capital Markets, among others.

She has been the Managing Director of Kutxabank since 2012, heading the Subsidiary Companies Department.

3. Class

Kartera 1, S.L., represented by Mr Vivanco, has been proposed based on its relationship with Kutxabank, the significant shareholder proposing the appointment thereof.

Thus, taking into account that Kartera 1, S.L. has been proposed by a significant shareholder of the Company (i.e. Kutxabank), the Appointments and Remuneration Committee deems it to be a proprietary director pursuant to the provisions of sub-section 3 of Section 529 *duodecies* of the Companies 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

Neither Kartera 1, S.L. nor Ms Vivanco are currently the direct holders of any shares of Euskaltel or of financial instruments indexed to the value thereof.

5. Requirements for appointment

Based on the information provided by the candidate and its representative, the Appointments and Remuneration Committee has verified that both Kartera 1, S.L. and Ms Vivanco meet the requirements of respectability, suitability, expertise, competence, experience, qualification, training, availability and commitment to duties to hold the position of proprietary director of the Board of Directors of the Company, and has also verified that they 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 Kartera 1, S.L. and Ms Vivanco, in order to be able to properly perform the duties inherent to the proposed position, they must adequately combine sufficient abilities, skills and experience in the areas referred to above in section 0.0.0.

The Board of Directors finds that Kartera 1, S.L. and Ms Vivanco meet the foregoing conditions.

It has also verified that they are 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 Appointments and Remuneration Committee has reported favourably on the proposed appointment of the company Kartera 1, S.L. and of its physical representative Ms Alicia Vivanco González as director of the Company with the classification of proprietary director.

In view of all of the foregoing, the Board of Directors finds that the company Kartera 1, S.L. and its physical representative Ms Alicia Vivanco González have sufficient skill, experience and merit to perform the duties of their position.

C. José Ángel Corres Abasolo

1. Biographical profile and training

Mr José Ángel Corres Abasolon was born in Bilbao (Biscay) in 1959. He has a degree in Economics and Business Studies from the University of Deusto Business School, having also studied at the Institute of Shipping Economics and Logistics in Bremen.

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

Mr Corres was appointed as a director of Euskaltel in 2013, and also performs the duties of Lead Independent Director (*Consejero Coordinador*) and Vice Chair of the Board of Directors, as well as Chair of the Appointments and Remuneration Committee.

He is also currently the President of the Bilbao Chamber of Commerce, Industry and Navigation, a position he has held since 2010.

His prior professional experience includes positions as Head of the “Ports of General Interest” Group of the Basque Government and as advisor to the representatives of the Basque Government in the Port of Bilbao, as well as President of the Port Authority of Bilbao, a position he held from 1996 to 2009. He has also been a member of the Board of Directors of Bilbao Ría 2000.

3. Class

Mr Corres has been proposed on the basis of 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 Corres has been deemed an independent director by the Appointments and Remuneration Committee, as based on the information received he meets the requirements set forth in sub-section 4 of Section 529 *duodecies* of the Companies 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 Corres is not currently the direct holder of any shares of Euskaltel or of financial instruments indexed to the value thereof.

5. Requirements for appointment

Based on the information provided by the candidate, the Appointments and Remuneration Committee has verified that Mr Corres meets the requirements of respectability, suitability, expertise, competence, experience, qualification, training, availability and commitment to his 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 Corres, 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 0.0.0.

The Appointments and Remuneration Committee finds, and the Board of Directors confirms, that Mr Corres meets 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 José Ángel Corres Abasolo as independent director of the Company.

In view of all of the foregoing, the Board of Directors finds that Mr José Ángel Corres Abasolo has sufficient skill, experience and merit to perform the duties of his position.

D. Ms Elisabetta Castiglioni

1. Biographical profile and training

Ms Elisabetta Castiglioni was born in Premosello-Chiovena (Italy) in 1964. She has a bachelors' and master's degree in Business Administration and Management from the Technical University of Munich, and obtained a doctorate from the Technical University of Munich in Business Administration and Management. She commands a good number of languages: besides her mother tongue of Italian, she speaks German perfectly and speaks French, English and Spanish fluently.

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

Ms Castiglioni joined the multinational German company Siemens in 1994, where she participated in the design and implementation of strategic plans. After a short period at the U.S. telecommunications company MCI, she returned to Siemens in 2003 to hold the position of Vice President for Europe in the area of Terminals, and then worked in IT consulting and providing services to clients in the media and entertainment industry.

Since leaving Siemens in 2011, she has focused on providing independent advice to companies in the telecommunications and media industries and is also a member of the Board of Directors and of the Audit committee of Telekom Austria in representation of the Mexican group América Móvil.

3. Class

Ms Castiglioni has been proposed on the basis of 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 Castiglioni has been deemed an independent director by the Appointments and Remuneration Committee, as based on the information received she meets the requirements set forth in sub-section 4 of Section 529 *duodecies* of the Companies 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 Castiglioni is not currently the direct holder of any shares of Euskaltel or of financial instruments indexed to the value thereof.

5. Requirements for appointment

Based on the information provided by the candidate, the Appointments and Remuneration Committee has verified that Ms Castiglioni meets the requirements of respectability, suitability, expertise, competence, experience, qualification, training, availability and commitment to her duties to hold the position of independent director of the Board of Directors of the Company, and has also verified that she meets 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 Castiglioni, 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 0.0.0.

The Board of Directors finds that Ms Castiglioni meets 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 appointment of Ms Elisabetta Castiglioni as independent director of the Company.

In view of all of the foregoing, the Board of Directors finds that Ms Elisabetta Castiglioni has sufficient skill, experience and merit to perform the duties of her position.

E. Mr Miguel Ángel Lujua Murga

1. Biographical profile and training

Mr Miguel Ángel Lujua Murga was born in Sestao (Biscay) in 1952. He has a degree in Economics from the University of the Basque Country.

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

From 1970 to 1982 he was the head of Human Resources for Nervacero S.A., and for the next sixteen (16) years he was responsible for the Human Resources Area of AHV-Aceralia (now Arcelor).

He was appointed manager of the External Area of Mutua Vizcaya Industrial in 1998. While in such position, he fostered the merger in 2006 of the three territorial mutual insurance companies (Mutua Vizcaya Industrial, La Previsora and Pakea) into Mutualia, since then holding the position of Managing Director. In 2015 he left the position to perform the duties of General Managing Director of the Igalatorio Médico Quirúrgico (IMQ) Group.

Based on his position as Managing Director of IMQ, he currently holds the following positions within the IMQ group: General Managing Director of Igalatorio Médico Quirúrgico, S.A. insurance and reinsurance; member of the board of Igurco Gestión, S.L.; member of the board of Clínica Vicente San Sebastián, S.A.; and member of the board of Sociedad Inmobiliaria del Igalatorio Médico Quirúrgico, S.A.

He has been president of Euskalit (Basque Foundation for Excellence) and has been vice president of Innobasque, as well as a member of the Managing Board of Cebek (Business Confederation of Biscay) and of the Executive Committee and Managing Board of the CEOE (Spanish Confederation of Business Organisations). Between 2011 and 2015, he also presided over Confebask (Basque Business Confederation), an organisation that represents and defends the general and common interests of Basque business persons.

3. Class

Mr Lujua has been proposed on the basis of 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 Lujua has been deemed an independent director by the Appointments and Remuneration Committee, as based on the information received he meets the requirements set forth in sub-section 4 of Section 529 *duodecies* of the Companies 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 Lujua is not currently the direct holder of any shares of Euskaltel or of financial instruments indexed to the value thereof.

5. Requirements for appointment

Based on the information provided by the candidate, the Appointments and Remuneration Committee has verified that Mr Lujua meets the requirements of respectability, suitability, expertise, competence, experience, qualification, training, availability and commitment to his duties to hold the position of independent director of the Board of Directors of the Company, and has also verified that he meets 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 Lujua, 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 0.0.0.

The Appointments and Remuneration Committee finds, and the Board of Directors confirms, that Mr Lujua meets 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 election of Mr Miguel Ángel Lujua Murga as independent director of the Company.

In view of all of the foregoing, the Board of Directors finds that Mr Miguel Ángel Lujua Murga has sufficient skill, experience and merit to perform the duties of his position.

F. Mr Francisco Manuel Arteche Fernández-Miranda

1. Biographical profile and training

Mr Francisco Manuel Arteche Fernández-Miranda was born in Donostia-San Sebastián (Gipuzkoa) in 1964. He has a degree in Industrial Engineering from the University of Navarra and an MBA from IESE.

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

After completing his academic training, Mr Arteche joined the French multinational L’Oreal in 1990 to handle sales and marketing work for various brands of the French group.

After seven (7) years, he was hired by the video game company EA Software to hold the position of country manager in Spain, a position he held for eight (8) years. This work was combined with his position as President of ADESE (Spanish Association of Software Manufacturers and Developers) between 2000 and 2005.

In 2005 he decided to accept an offer from the U.S. multinational Microsoft to become Director of the EDD (Entertainment & Devices) division for Central and Southern Europe. He subsequently assumed responsibility for this division for Western Europe, leading a business with more than 700 million euros in billing and a team of more than 150 people spread over 12 countries.

In 2013 he was named General Manager of the Consumer Channels Group at Microsoft Spain, where he is in charge of, among other things, leading the final consumer products and services business (Windows, Xbox, Windows Phone, etc.).

Finally, it should be noted that he has been appointed as Vice President of AMETIC (association of technology companies) and a member of the Board of AECOC (which encompasses large consumer companies) and leads incubation projects for companies related to the digital world.

3. Class

Mr Arteche has been proposed based on his personal and professional status.

Taking into account that Mr Arteche will perform management duties within the Company and its group, the Appointments and Remuneration Committee deems him to be an executive director pursuant to the provisions of sub-section 1 of Section 529 *duodecies* of the Companies 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 Arteche is not the direct holder of any shares of Euskaltel or of financial instruments indexed to the value thereof.

5. Requirements for appointment

Based on the information provided by the candidate, the Appointments and Remuneration Committee has verified that Mr Arteche meets the requirements of respectability, suitability, expertise, competence, experience, qualification, training, availability and commitment to his duties to hold the position of executive 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 Arteche, 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 0.0.0.

The Board of Directors finds that Mr Arteche meets 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 Appointments and Remuneration Committee has reported favourably on the proposed appointment of Mr Francisco Manuel Arteche Fernández-Miranda as director of the Company with the classification of executive director.

In view of all of the foregoing, the Board of Directors finds that Mr Francisco Manuel Arteche Fernández-Miranda has sufficient skill, experience and merit to perform the duties of his position.

7. 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 and, if appropriate, appointment 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 makes its own the proposals made by the Appointments and Remuneration Committee relating to the re-election and appointment of the independent directors by the shareholders at the General Meeting (Mr José Ángel Corres Abasolo, Ms Elisabetta Castiglioni and Mr Miguel Ángel Lujua Murga), and after a favourable report of the Appointments and Remuneration Committee proposes the re-election of Mr Alberto García Erauzkin and the appointment of Kartera 1, S.L. represented by Ms Alicia Vivanco González, as well as of Mr Francisco Manuel Arteche Fernández-Miranda.

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In Derio, on 24 May 2016

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 and appointment of 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 Companies Act and is intended to propose to the Board of Directors of Euskaltel, S.A. the appointments and the re-election of directors that must be submitted for approval of the shareholders at the upcoming Ordinary General Shareholders' Meeting.

In line with the provisions of said article of the Companies 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 Mr José Ángel Corres Abasolo as independent director, as well as to appoint Ms Elisabetta Castiglioni and Mr Miguel Ángel Lujua Murga as independent directors.

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

Therefore, it is proposed to re-elect Mr José Ángel Corres Abasolo and to appoint Ms Elisabetta Castiglioni and Mr Miguel Ángel Lujua Murga, all with the classification of independent director, for the bylaw-mandated term of four (4) years.

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

I. Mr José Ángel Corres Abasolo

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

He has a degree in Economics and Business Administration from the University of Deusto Business School, thus having pertinent academic training to properly hold his position.

Mr Corres has also accumulated vast experience through his extensive professional career. Along these lines, it should be noted that Mr Corres is currently the President of the Bilbao Chamber of Commerce, Industry and Navigation, a position he has held since 2010. In addition, his curriculum includes positions as Head of the "Ports of General Interest" Group of the Basque Government, as advisor to the representatives of the Basque Government in the Port of Bilbao, President of the Port Authority of Bilbao (a position he held for more than a decade) and member of the Board of Directors of Bilbao Ría 2000.

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

As regards the evaluation of the actual work and dedication of the director (since his appointment as a director by the shareholders at the General Meeting held on 8 March 2013, and in the performance of his duties as Lead Independent Director, Vice Chair of the Board of Directors, and member and Chair of the Appointments and Remuneration Committee of the Company through the date hereof), this committee confirms the loyal and diligent holding of his position, as well as his duly informed attendance and participation at meetings of the Board of Directors and of the Appointments and Remuneration Committee.

His value to the Company is also shown by his active participation on both the Board and the Appointments and Remuneration Committee, where the candidate has been performing duties of maximum responsibility and importance for the Company.

Likewise, the assimilation of the business culture and values of the Company, as well as the experience and specific knowledge regarding Euskaltel accumulated during these recent years since his appointment, have made Mr Corres an ideal candidate for re-election.

Finally, as regards the class of director, this committee finds that Mr José Ángel Corres Abasolo meets the requirements set forth in sub-section 4 of Section 529 *duodecies* of the Companies Act to be considered an independent director.

II. Ms Elisabetta Castiglioni

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

She has a bachelors' and master's degree in Business Administration and Management from the Technical University of Munich, as well as a doctorate in Business Administration and Management from the Technical University of Munich. She thus has the pertinent academic training to properly hold her position. She also commands a good number of languages: besides her mother tongue of Italian, she speaks German perfectly and speaks French, English and Spanish fluently.

After completing her academic training, which she combined with teaching at the Technical University of Munich, in 1994 Ms Castiglioni joined the German multinational Siemens, focusing on the design and implementation of strategic plans for the various business units of the German group throughout the world.

After a period of four (4) years of this work, she was hired by the U.S. telecommunications operator MCI, which then sought to expand its business in Europe, to engage in business development and to analyse investment opportunities.

She subsequently took charge of the deployment of new access systems (satellite and DSL, among others) in certain countries of continental Europe, the Near East and Africa. She then was responsible for the launch of Internet-related products.

However, in 2003 she decided to re-join Siemens to assume the position of Vice President for Europe of the Terminals area of the German group. Two (2) years later, and through 2011, she engaged in IT consulting work and provided services to clients in the media and entertainment industries, dealing with the emergence of digital models within these industries.

Since leaving Siemens in 2011 after the sale of the IT division to the digital services company Altos, she has focused on advising companies in the telecommunications and media industries. She is also a member of the Board of Directors of Telekom Austria in representation of the Mexican group América Móvil (which holds 59% of the Austrian operator) and of the Audit Committee of this Central European company. She combined all of the above with her teaching work at the Technical University of Munich and at the ILO Institute.

In light of the foregoing, it is deemed that Ms Castiglioni has the appropriate skills, experience and merits to hold the position of director. She has professional experience that includes a profound knowledge of the telecommunications, technology and media worlds. This makes her an ideal candidate to form part of the Board of Directors of Euskaltel.

Finally, as regards the class of director, this committee finds that Ms Elisabetta Castiglioni meets the requirements set forth in sub-section 4 of Section 529 *duodecies* of the Companies Act to be considered an independent director.

III. Mr Miguel Ángel Lujua Murga

The information obtained by the Company and his professional background shows that Mr Lujua has both sufficient knowledge as well as the required professional experience to perform the duties of a director.

He has a degree in Economics from the University of the Basque Country (Sarriko School), thus having pertinent academic training to properly hold his position.

Mr Lujua has also accumulated vast professional experience. For almost thirty (30) years, his professional work has been directly linked to improving the efficiency of various organisations through the management of human teams and capital. Along these lines, from 1970 to 1982 he was the head of Human Resources for Nervacero S.A. For the next sixteen (16) years he was responsible for the Human Resources Area of AHV-Aceralia (now Arcelor), creating the social agreement that allowed for the mobility of all redundant employees to different plants of the group after the closure of AHV in 1994.

He was also appointed manager of the External Area of Mutua Vizcaya Industrial in 1998. While in such position, he fostered the merger in 2006 of the three territorial mutual insurance companies (Mutua Vizcaya Industrial, La Previsora and Pakea) into Mutualia, since then holding the position of Managing Director. During his time as Managing Director of Mutualia, this entity has been awarded with the Q Silver and Q Gold awards, the 2009 Iberoamerican Quality Award and the Diplóos Trophy/National Workplace Safety Award given by the Asociación para la Prevención de Accidentes (Accident Prevention Association) (APA), among others.

In 2015 he left the position to perform the duties of General Managing Director of Igualatorio Médico Quirúrgico (IMQ).

Based on his position as Managing Director of IMQ, he currently holds the following positions within the IMQ group: General Managing Director of Igualatorio Médico Quirúrgico, S.A. insurance and reinsurance; member of the board of Igurco Gestión, S.L.; member of the board of Clínica Vicente San Sebastián, S.A.; and member of the board of Sociedad Inmobiliaria del Igualatorio Médico Quirúrgico, S.A.

He has been president of Euskalit (Basque Foundation for Excellence) and has been vice president of Innobasque, as well as a member of the Managing Board of Cebek (Business Confederation of Biscay) and of the Executive Committee and Managing Board of the CEOE (Spanish Confederation of Business Organisations). Between 2011 and 2015, he also presided over Confebask (Basque Business Confederation), an organisation that represents and defends the general and common interests of Basque business persons.

In light of the foregoing, it is deemed that Mr Lujua has the appropriate skills, experience and merits to hold the position of director. He has professional experience that includes, among other things, broad experience in both the management of human teams and capital as well as in business management. This makes him an ideal candidate to form part of the Board of Directors of Euskaltel.

Finally, as regards the class of director, this committee finds that Mr Miguel Ángel Lujua Murga meets the requirements set forth in sub-section 4 of Section 529 *duodecies* of the Companies Act to be considered an independent director.

ANEXO II

FAVOURABLE REPORT OF THE APPOINTMENTS AND REMUNERATION COMMITTEE

Report of the Appointments and Remuneration Committee of Euskaltel, S.A. favourably assessing the proposal of the Board of Directors for the re-election and appointment of three Directors

This report is issued in compliance with the provisions of Section 529 *decies* of the Companies Act and is intended to report favourably to the Board of Directors of Euskaltel, S.A. with respect to the re-elections of two directors (one classified as executive director and the other as proprietary director) that must be submitted for approval of the shareholders at the upcoming Ordinary General Shareholders' Meeting.

In line with the provisions of said article of the Companies 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.

For these purposes, the Appointments and Remuneration Committee finds that the candidate must adequately combine sufficient abilities, skills and experience in the following areas:

- 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 current needs of the Board of Directors, it is deemed appropriate to re-elect the persons referred to in this report, also taking into account the analysis included herein regarding the assessment of their actual work and dedication.

Pursuant to article 52 of the Bylaws, the directors' term shall be four (4) years, although they may be re-elected on one or more occasions for equal maximum terms.

Therefore, this committee reports favourably on the re-election of Mr Alberto García Erauzkin and the appointment of Kartera 1, S.L., represented by Ms Alicia Vivanco González, and of Mr Francisco Manuel Arteché Fernández-Miranda, as members of the Board of Directors of Euskaltel with the

respective classification of executive director for the former and proprietary and executive director for the latter two, for the bylaw-mandated term of four (4) years.

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

I. Mr Alberto García Erauzkin

The information obtained by the Company and the professional background of Mr García Erauzkin, both prior to joining Euskaltel as well as after he joined, first as a member of the management team and later as also a member of the Board of Directors of the Company, shows that the candidate not only has sufficient knowledge but also profound experience and an extensive track record at Euskaltel to perform the duties of the position.

He has a degree in Economics and Business Administration from the University of Deusto Business School and is a member of the Official Registry of Auditors and of the Spanish Institute of Chartered Accountants, for which reason he has the academic training needed to properly hold his position.

His professional experience prior to joining Euskaltel was obtained in the area of Auditing and Consulting at Arthur Andersen and Audihispana (1983-1987 and 1990-1992, respectively) and in the field of economic/financial management at Heraclio Fournier and Corporación Patricio Echeverría (1987-1990 and 1992-1997, respectively).

He has engaged in activities at Euskaltel since 1998, initially as Director of Finance and Control (1998-2000), and then, already a member of the board, he also performed the duties of Managing Director (2000-2011), and currently as Chair of the Board of Directors of the Company.

Mr García Erauzkin is also the President of Innobasque (Basque Innovation Agency), Vice President of BBK Fundación Bancaria, Vice President of Okestra (Basque Competitiveness Institute), member of the board of the Management Progress Association (*Asociación para el Progreso de la Dirección*) (APD) - North Zone, a trustee of the Novia Salcedo Foundation, and a member of the Advisory Board of the MIK Management Innovation Centre (Mondragón Innovation & Knowledge). He also represents the Company on the Board of Trustees of the Guggenheim Museum Bilbao and Innobasque on the Board of Trustees of the Ikerbasque Foundation.

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

As regards the evaluation of the actual work and dedication of the director (since his last re-election as a director by the shareholders at the General Meeting held on 20 December 2012, and in the performance of his duties as Chair of the Board of Directors and director with executive duties through the date hereof), this committee confirms the loyal and diligent holding of his position and performance of his executive duties, as well as his duly informed attendance and participation at meetings of the Board of Directors.

His value to the Company is also shown by his active participation and initiative on the Board and by the performance of his executive duties, with the candidate performing duties of maximum responsibility and importance for the Company.

Furthermore, his tremendous experience and extensive knowledge regarding Euskaltel accumulated over the course of his long history within the Company (since its beginning) have made him an ideal candidate for re-election.

In view of the foregoing, Mr Alberto García Erauzkin has sufficient skill, experience and merit to perform the duties of his position. Therefore, the Appointments and Remuneration Committee reports favourably on the candidacy of Mr Alberto García Erauzkin for re-election as director by the shareholders at the General Shareholders' Meeting of the Company with the classification of executive director.

II. Kartera 1, S.L., represented by Ms Alicia Vivanco González

The information obtained by the Company and the prior experience of Ms Alicia Vivanco González as a director of Euskaltel (she has been a member of the Board of Directors for the past 13 years, and as of the date of this report is a member of the Company's Audit and Control Committee), shows that Kartera 1, S.L. and Ms Vivanco have both sufficient knowledge as well as the required experience within the Company to perform the duties of the position.

Along these lines, Ms Vivanco has a degree in Economics from the University of the Basque Country, thus having pertinent academic training to properly hold her position.

In addition, Ms Vivanco's professional experience has been gained mainly at the savings bank Bilbao Bizkaia Kutxa (now Kutxabank), where she began working in 1984, having held various responsibilities in departments such as International Affairs, Portfolio Management and Capital Markets, among others.

She has been the Managing Director of Kutxabank since 2012, heading the Subsidiary Companies Department. He also holds the position of member of the board of certain subsidiaries of Kutxabank: Ingeteam, IdE, Ibermática, Talde and Sociedad Promotora Bilbao Gas Hub (of which she is also the Chair).

In view of the foregoing, both Kartera 1, S.L. as well as Ms Vivanco have sufficient skill, experience and merit to perform the duties of the position of director. Therefore, the Appointments and Remuneration Committee reports favourably on the candidacy of Kartera 1, S.L., represented by Ms Alicia Vivanco González, for appointment as a director by the shareholders at the General Shareholders' Meeting of the Company with the classification of proprietary director.

III. Mr Francisco Manuel Arteche Fernández-Miranda

The information obtained by the Company and the professional background of Mr Arteche shows that the candidate not only has sufficient knowledge but also the required professional experience to perform the duties of his position.

He has a degree in Industrial Engineering from the University of Navarra and an MBA from IESE in Barcelona, for which reason he has the academic training needed to properly hold his position. In the linguistic area, he speaks English and French fluently.

After completing his academic training, he joined the French multinational L'Oreal in 1990 to handle sales and marketing work for various brands of the French group.

After seven (7) years, he was hired by the video game company EA Software to hold the position of country manager in Spain. For his eight (8) years at the company, he was in charge of closing distribution agreements with both large distribution chains and with potential partners (e.g. telecommunications operators).

He performed this work while also acting as President of ADESE (Spanish Association of Software Manufacturers and Developers) between 2000 and 2005, which led to him dealing with government administrations (central government and autonomous community governments) as well as with consumer associations, to handle issues affecting the video gaming sector, such as piracy and IT security.

In 2005 he decided to accept an offer from the U.S. multinational Microsoft to become Director of the EDD (Entertainment & Devices) division for Central and Southern Europe. He subsequently assumed responsibility for this division for Western Europe, leading a business with more than 700 million euros in billing and a team of more than 150 people spread over 12 countries.

In 2013 he was named General Manager of the Consumer Channels Group at Microsoft Spain, where he is in charge of, among other things, leading the final consumer products and services business (Windows, Xbox, Windows Phone, etc.).

Finally, it should be noted that he has been appointed as Vice President of AMETIC (association of technology companies) and a member of the Board of AECOC (which encompasses large consumer companies) and leads incubation projects for companies related to the digital world.

In view of the foregoing, Mr Francisco Manuel Arteche Fernández-Miranda has sufficient skill, experience and merit to perform the duties of his position. Therefore, the Appointments and Remuneration Committee reports favourably on the candidacy of Mr Francisco Manuel Arteche Fernández-Miranda for his re-election as director by the shareholders at the General Shareholders' Meeting of the Company with the classification of executive director.