

REPORT FORMULATED BY THE BOARD OF DIRECTORS OF EUSKALTEL, S.A. IN CONNECTION WITH THE PROPOSED DELEGATION TO THE BOARD OF DIRECTORS OF THE POWER TO ISSUE NON-CONVERTIBLE DEBENDURES OR BONDS, NOTES AND OTHER FIXED-INCOME SECURITIES OF A SIMILAR NATURE, AS WELL AS PREFERENCE SHARES, WHICH PROPOSAL IS INCLUDED IN ITEM TEN ON THE AGENDA FOR THE ORDINARY GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON 27 JUNE 2016, ON FIRST CALL, AND ON 28 JUNE 2016, ON SECOND CALL

I. Purpose of the Report

This report has been prepared by the Board of Directors of Euskaltel, S.A. to comply with the requirements established in Section 319 of Royal Decree 1784/1996 of 19 July approving the Regulations of the Commercial Registry and in article 16 of the Bylaws of the Company, in order to provide a rationale for the proposal submitted to the shareholders for approval at the Annual General Shareholders' Meeting of Euskaltel called to be held on 27 June 2016, on first call, and the following day, 28 June 2016, on second call, under item ten on the agenda, concerning the delegation of powers to the Board of Directors of the Company, with express powers of substitution, to issue non-convertible debentures or bonds, notes and other fixed-income securities of a similar nature that are not convertible into new shares of the Company or exchangeable for outstanding shares of the Company, as well as preference shares, and authorisation for Euskaltel to guarantee all kinds of obligations to which its subsidiaries may become subject as a result of the issue of securities thereby.

II. Rationale for the Proposal

The dynamics of any commercial company, in general, and those of large companies and listed companies, in particular, require that the governance and management bodies thereof have appropriate instruments at all times to respond to the Company's needs in each case, and in light of market circumstances. The success of a strategic initiative frequently depends on the ability to implement it quickly, without the delays and costs that inevitably ensue from calling and holding a General Shareholders' Meeting.

In this regard, the issuance of non-convertible bonds or debentures, notes and other fixed-income securities of a similar nature, not convertible into new shares of the Company or exchangeable for outstanding shares of the Company, as well as preference shares, is one of the instruments for the financing of companies by raising third-party funds.

In light of the foregoing, the Board of Directors finds that the proposed resolution providing for the issue of said instruments being submitted to the shareholders at the General Shareholders' Meeting is justified by the desirability of having the mechanisms provided for in applicable corporate law to allow the Company to be in a position to raise such funds as may be necessary to further the interests of the Company. In other words, the goal of the delegation of powers to the Board of Directors is to give said body the instruments, margin of manoeuvrability and responsiveness demanded by the competitive environment in which the Company does business.

This is also particularly desirable taking into account the current economic environment, where market volatility and restricted access to credit make it advisable for the Company's Board of Directors to have the necessary means available, whenever the circumstances of the case so advise, to avail itself of the various available sources of financing to allow it to benefit from the most advantageous financial terms and conditions at any time.

As a result thereof, the Board of Directors of the Company would be authorised, if necessary, to borrow a significant volume of funds within a short period of time.

However, the Board of Directors does not believe it advisable to request the authorisation of the shareholders at the General Shareholders' Meeting to issue debentures or other securities of a similar nature convertible into newly-issued shares of the Company or exchangeable for outstanding shares of the Company, or warrants or other securities of a similar nature that may entitle the holders to subscribe or acquire shares of the Company.

Pursuant to the provisions of Article 319 of the Regulations of the Commercial Registry and article 16 of the By-Laws, the Board of Directors submits to the shareholders for consideration at the General Shareholders' Meeting a proposal to issue non-convertible debentures or bonds, notes and other fixed-income securities of a similar nature that are not convertible into new shares of the Company or exchangeable for outstanding shares of the Company, as well as preference shares, for a maximum period of 5 years from the date of any adoption of the resolution at the General Shareholders' Meeting

The proposed resolution sets the maximum amount for the issuance of which the authorisation of the shareholders at the General Shareholders' Meeting is requested at 300 million euros. The Board of Directors believes it advisable that the limit to the authorisation requested of the shareholders at the General Shareholders' Meeting be sufficiently high as to make it possible to borrow the necessary funds on the capital markets in order to implement the financing policy of the Company and its group.

On occasion, it may be advisable for a subsidiary of Euskaltel to issue the securities pursuant to this proposal. Accordingly, it is believed to be desirable for the shareholders at the General Shareholders' Meeting to authorise the Board of Directors to guarantee, on behalf of the Company and within the limits described above, the new issuances of securities made by Euskaltel subsidiaries during the effective period of this resolution. This measure is intended to give the Board of Directors the utmost flexibility to structure the issue of securities in the manner it deems most advisable in light of the circumstances at any time.

Furthermore, securities issued in reliance on this delegation may be admitted to trading on the applicable Spanish or foreign, official or unofficial, organised or other secondary market.

All powers to be granted to the Board of Directors if the resolution proposed herein is adopted will be granted with express power of substitution, so as to further promote the objective sought of making the proposed transactions as agile as possible.

III. Proposed Resolution

In accordance with the foregoing, the full text of the proposed resolution submitted to the shareholders at the General Shareholders' Meeting is as follows:

“Ten.- Authorisation to the Board of Directors, with express powers of substitution, for a period of 5 years, to issue non-convertible debentures or bonds, notes and other fixed-income securities of a similar nature that are not convertible into new shares of the Company or exchangeable for outstanding shares of the Company, as well as preference shares, with a maximum limit of 300 million euros. Authorisation for the Company to guarantee new issues of securities by subsidiaries up to the foregoing limit.

Pursuant to the provisions of Article 319 of the Regulations of the Commercial Registry and the general rules on the issue of debentures, to delegate to the Board of Directors the power to issue securities in accordance with the following terms and conditions:

1. Securities covered by the issue

The negotiable securities referred to in this delegation may be non-convertible bonds or debentures, notes and other fixed-income securities of a similar nature, as well as preference shares (the “Securities”).

The Securities referred to in this delegation may not be securities convertible into newly-issued shares of the Company or exchangeable for outstanding shares of the Company, nor may they be in the nature of warrants or other securities similar thereto that might give the right to subscribe or acquire shares of the Company.

2. Term of the delegation

The issue of the Securities for which the delegation is made may be effected on one or more occasions for a period of 5 years from the date of approval of this resolution.

3. Maximum amount of the delegation

The maximum total amount of the issue(s) of Securities approved under this delegation shall be 300 million euros or the equivalent thereof in another currency.

4. Scope of delegation

The delegation to issue the Securities shall, as broadly as required by Law, cover the determination of the various aspects and conditions of each issue (nominal value, issue premium, repurchase price, currency of the issue, form of representation, interest rate, repayment, subordination clauses, security for the issue, place of issue, law applicable thereto, if any, determination of the internal rules of the bondholders’ syndicate, and appointment of the statutory auditor if necessary or equivalent body in the case of issuance of non-convertible debentures or bonds, if required, admission to trading, etc.) and the taking of any required steps, including pursuant to applicable securities market rules, for implementation of the specific issues approved under this delegation.

5. Guarantee of securities issued by subsidiaries

The Board of Directors is also authorised to guarantee, on behalf of the Company and within the limits described above, new issues of securities carried out by subsidiaries during the effective period of this resolution.

6. Trading of securities issued

The Company may make application for trading of the Securities issued by the Company under this delegation on official or unofficial, organised or other, and domestic or foreign secondary markets, and the Board of Directors shall be authorised as broadly as required by law to carry out all acts and formalities that may be required

for admission to listing with the appropriate authorities of the various domestic or foreign securities markets.

7. Power of substitution

For purposes of the provisions of Section 249 bis l) of the Companies Act, the Board of Directors is hereby expressly authorised to further delegate the powers contemplated in this resolution.

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In Derio, 24 May 2016.