

REPORT FORMULATED BY THE BOARD OF DIRECTORS OF EUSKALTEL, S.A. REGARDING THE RATIONALE FOR THE PROPOSED AMENDMENT OF ARTICLES 2, 4, 9 AND 18 OF THE REGULATIONS OF THE BOARD OF DIRECTORS

1. Purpose of the report

This report is formulated by the Board of Directors of Euskaltel, S.A. in accordance with the provisions of articles 3 and 4.5.B).a) of the Regulations of the Board in order to provide a rationale for the proposed amendment of the Regulations of the Board of Directors, which proposal has been subject to a favourable report of the Audit and Control Committee.

In line with the provisions of Section 528 of the Consolidated Text of the Companies Act (*Ley de Sociedades de Capital*) approved by Royal Legislative Decree 1/2010 of 2 July, a report is made to the shareholders at the Company's General Shareholders' Meeting regarding the amendments to the Regulations of the Board of Directors. This report shall also be made available to the shareholders upon the call to the General Meeting.

2. Organisation of the report

To facilitate the shareholders' understanding of the changes that give rise to this proposed amendment of the Regulations, a statement of the general purpose of said proposal is offered, immediately followed by a more detailed rationale.

In addition, in order to provide a better understanding of the scope of the amendment as well as a comparison between the new text of the articles proposed to be amended and the current text, included as **Annex I** to this report is a comparative version of the current version of articles 2, 4, 9 and 18 of the Regulations of the Board showing the proposed amendments.

Furthermore, attached as **Annex II** is the new text of articles 2, 4, 9 and 18 of the Regulations of the Company's Board with the proposed amendments already included.

3. General purpose of the proposal

The purpose of the proposed amendment is to:

1. Conform the Regulations to certain recommendations of the Good Governance Code of Listed Companies approved by the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) on 18 February 2015 (the "Good Governance Code").
2. Clarify the meaning of certain provisions, improve the text thereof and facilitate a better understanding thereof.

4. Detailed rationale for the proposal

Given the purpose of the reform, the proposed amendments are explained in greater detail below.

4.1. Proposed amendment of article 2 (“Scope of application”)

It is proposed to amend the definition of the concept "senior officers" in the final section of article 2 of the Regulations, defining them as “those officers who report directly to the Board of Directors or to any chief executive (Executive Chair, Chief Executive Officer (*Consejero Delegado*) or Managing Director (*Director General*), whether a director or not), the head of internal audit of the Company, and any other officer who the Board of Directors recognises as having such status”, thus unifying in this article the definition of “senior officers” that currently appears both in article 2 as well as in article 4.5 of the Regulations.

4.2. Proposed amendment of article 4 (“Powers of the Board of Directors”)

It is proposed to eliminate the reference to senior officers in letter e) of section D) of article 4.5 of the Regulations, taking into account that said definition was already set out in article 2 of the Regulations (which is proposed to be amended as described above), with the repetition in article 4.5 of the Regulation thus being unnecessary.

4.3. Proposed amendment of the text of article 9 (“Disqualifications”)

Recommendation 25 of the Good Governance Code provides that the Appointments and Remuneration Committee shall ensure that non-executive directors have sufficient time available to properly perform their duties, adding that the regulations of the board shall establish the maximum number of company boards on which its directors may be members.

In line with this recommendation, it is proposed to add to the grounds for disqualification from appointment as a director of the Company that of being a member of more than five (5) boards of directors of commercial companies (other than the Board of Directors of Euskaltel), of which no more than three (3) may be listed companies.

This calculation shall not take into account (i) property holding companies (*sociedades patrimoniales*) of the director or the connected persons thereof; (ii) holding or portfolio companies that merely hold shares, membership interests or assets but that do not have recurring activities; or (ii) as pertains to proprietary directors, the boards to which they belong by appointment of the significant shareholder that proposed them as a proprietary director of the Company or by any company of its group, provided that the proprietary director has the material and/or personal means needed to sufficiently dedicate themselves to their post as director of the Company.

4.4. Proposed amendment of the text of article 18 (“Executive and consultative bodies”)

It is approved to amend section 4 of the above article to conform it to recommendation 34 of the Good Governance Code, thus including among the powers of the lead independent director (*consejero coordinador*) not only those provided in Section 529 *septies* of the Consolidated Text of the Companies Act approved by Royal Legislative Decree 1/2010 of 2 July, but also those contemplated in said recommendation, i.e.:

- a) Chair the meetings of the Board of Directors in the absence of the Chair and of any Vice Chairs.
- b) Give voice to the concerns of the non-executive directors.

- c) Maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance
- d) Coordinate the succession plan for the Chair.

* * *

In Derio, on 26 April 2016

ANNEX I.- TEXT OF ARTICLES 2, 4, 9 AND 18 OF THE REGULATIONS OF THE BOARD OF DIRECTORS SHOWING AMENDMENTS TO THE CURRENT TEXT



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Article 2. Scope of application

The Regulations apply to the Board of Directors, the executive bodies thereof (whether collective or single-person) and its internal committees, as well as to all members thereof. The rules of conduct laid down in these Regulations for the directors of the Company shall also apply to the senior officers of the company, insofar as they are compatible with the specific nature thereof and the activities they perform. For the purposes of these Regulations, "senior officers" means those officers who report directly to the Board of Directors or to ~~the~~any chief executive (Executive Chair, Chief Executive Officer (*Consejero Delegado*) or Managing Director (*Director General*), whether a director or not), ~~if any, and in any case~~ the head of internal audit of the Company, and any other officer who the Board of Directors recognises as having such status.

Article 4. Powers of the Board of Directors

1. The Board of Directors has the power to adopt resolutions regarding all matters not vested by law or the Company's Bylaws in the shareholders acting at a General Shareholders' Meeting.
2. The core of the Board of Directors' mission is to approve Company's strategy and the organisation required for the implementation thereof, and to oversee and ensure compliance by senior management with the goals marked and with the Company object and interest.

To this end, the Board of Directors as a body reserves the power to approve general policies and strategies of the Company, and particularly, (i) the strategic or business plan, as well as the annual management goals and budget; (ii) the investment and financing policy; (iii) the determination of the structure of the group of companies; (iv) the corporate governance policy; (v) the corporate social responsibility policy; (vi) the policy for controlling and managing risks, including tax risks, as well as the periodic monitoring of internal information and control systems; (vii) the dividend policy, the treasury share policy, and particularly the limits thereof.

3. The Board of Directors has the broadest powers and authority to manage and represent the Company. Without prejudice to the foregoing, the Board of Directors may entrust the senior officers and any executive management bodies with day-to-day management and supervision, as well as the dissemination, coordination and general implementation of the management policies and guidelines of the Company, and thereby focus on the determination, supervision and monitoring of the policies, strategies and general guidelines to be followed by the Company and its group.
4. Those powers reserved by law or the bylaws to be exercised directly by the Board of Directors may not be delegated.

5. Without prejudice to any legal power of delegation or representation to implement the specific resolutions that have been adopted, the Board of Directors shall directly exercise the following powers on its own initiative or upon a proposal of the relevant internal body:
 - A) With respect to the General Shareholders' Meeting:
 - a) To call the General Shareholders' Meeting, as well as to publish announcements relating thereto.
 - b) To propose the amendment of the Company's Bylaws to the shareholders at a General Shareholders' Meeting.
 - c) To propose amendments to the Regulations for the General Shareholders' Meeting to the shareholders acting at a General Shareholders' Meeting, which must be accompanied by the corresponding supporting report.
 - d) To submit to a decision of the shareholders at a General Shareholders' Meeting the proposed transformation of the Company into a holding company by the assignment to subsidiaries of core activities theretofore carried out by the Company, even if the Company retains full control thereof.
 - e) To submit to a decision of the shareholders at a General Shareholders' Meeting the acquisition or sale of core operating assets, all in accordance with the assumption set out in Section 160 of the Companies Act.
 - f) To propose to the shareholders at a General Shareholders' Meeting the approval of transactions having an effect equivalent to the liquidation of the Company.
 - g) To submit proposals to the shareholders at the General Shareholders' Meeting regarding the appointment, ratification and re-election of non-independent directors following a report from the Appointments and Remuneration Committee, or the dismissal of directors.
 - h) To implement the resolutions approved by the shareholders at a General Shareholders' Meeting and perform any duties that the shareholders have entrusted thereto.
 - B) With respect to the organisation of the Board of Directors and the delegation of powers and the granting of powers of representation:
 - a) To approve and amend these Regulations following a report from the Audit and Control Committee.
 - b) To determine the structure of general powers to be granted by the Board of Directors or by the executive management bodies.

- C) With respect to the information to be provided by the Company:
- a) To manage the provision of information regarding the Company to the shareholders, the competent authorities, the markets and the general public pursuant to standards of equal treatment, transparency and truthfulness.
 - b) To formulate the annual accounts, the management report, and the proposed allocation of the Company's results, as well as any consolidated annual accounts and management report, for presentation to the shareholders at the General Shareholders' Meeting.
 - c) To approve the financial information that the Company must periodically make public due to its status as listed company.
- D) With respect to the directors and senior officers:
- a) To designate and renew internal positions within the Board of Directors and the members of and internal positions on the committees of the Board of Directors.
 - b) To make interim appointment of directors (cooption).
 - c) To appoint and remove the executive directors, and to give prior approval to the contracts to be signed between the Company and the directors who will be vested with executive duties, including the items for which they may receive remuneration for the performance of said duties.
 - d) To approve the remuneration of each director, following a proposal from the Appointments and Remuneration Committee, pursuant to the remuneration policy approved by the shareholders at the General Shareholders' Meeting.
 - d) To approve the determination and modification of the Company's organisational chart, the appointment and removal of the Company's senior officers (as defined in article 2), and to establish any possible compensation or severance payments in the event of removal.
~~Those officers who report directly to the Board of Directors or any chief executive officer of the Company or any chief executive officer of the Company, and in any event the managing director and any other officer given such status by the Board of Directors.~~
 - f) To approve the senior officer remuneration policy as well as the basic terms and conditions of their contracts, upon a proposal from the Chief Executive Officer, if any, following a report from the Appointments and Remuneration Committee.

- g) To regulate, analyse and decide on potential conflicts of interest and related-party transactions of the Company with its shareholders, directors and senior officers as well as the persons connected therewith.
 - h) To authorise or waive the obligations arising from the duty of loyalty established in accordance with the provisions of applicable law.
- E) Other powers:
- a) To formulate the dividend policy and corresponding proposed resolutions to the shareholders acting at a General Shareholders' Meeting regarding the application of results and other forms of shareholder remuneration, and approve the payment of interim dividends, if any.
 - b) To acknowledge mergers, divisions, concentrations or overall assignments of assets and liabilities affecting any of the significant companies of the group.
 - c) To approve investments, divestitures or transactions of any kind that are strategic in nature or have a special tax risk due to the large amount or special characteristics thereof, unless they are to be approved by the shareholders acting at a General Shareholders' Meeting.
 - d) To create or acquire equity interests in special purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to their complexity, might diminish the transparency of the group.
 - e) To approve, following a report from the Audit and Control Committee, related-party transactions as defined by the law from time to time in effect.
 - f) To declare its position regarding all takeover bids for securities issued by the Company.
 - g) To implement the Company's treasury share policy within the framework of the authorisation provided by the shareholders acting at a General Shareholders' Meeting.
 - h) To prepare the Company's Annual Corporate Governance Report and the annual sustainability report, as well as the annual report on the director remuneration policy.
 - i) To decide on proposals submitted thereto by the Chair of the Board of Directors, the chief executive officer, or any managing director or committees of the Board of Directors.

- j) To decide any other matter within its power that the Board of Directors believes to be in the interest of the Company or that these Regulations reserve to the Board as a whole.
- 6. The Board of Directors shall evaluate the following on an annual basis, using the external and internal means it deems appropriate in each case:
 - a) The operation and the quality of the work thereof.
 - b) The performance by the Chair of the Board of Directors and any chief executive of the Company (as defined in article 2 of these Regulations) of the duties thereof, based on the report submitted thereto by the Appointments and Remuneration Committee.
 - c) the operation of its committees, in view of the report submitted thereto by such committees. To this end, the Chair of the Board of Directors shall organise and coordinate the aforementioned evaluation process with the Chairs of the committees.
- 7. In connection with such matters included in this article as may be appropriate, the Board of Directors shall act in coordination with the management bodies of the other companies forming part of the Group, acting in the common interest of all of them.

Article 9. Disqualifications

In addition to the provisions of the Company's Bylaws, the following may not be appointed as directors or as individuals representing a corporate director:

- (i) Domestic or foreign companies in the telecommunications or other sectors that compete with the Company ("**Competitor Companies**"), and the shareholders, directors and senior officers thereof, and persons who may be proposed by Competitor Companies in their capacity as shareholders of the Company.
- (ii) Persons who, during the two (2) years prior to their potential appointment, have occupied high-level positions in the government that are incompatible with the simultaneous performance of the duties of a director of a private company under national or autonomous community law.
- (iii) Individuals or legal entities that are affected by any other circumstance of disqualification or prohibition governed by provisions of a general nature, including those that have interests in any way opposed to those of the Company or its group.

(iv) Individuals or legal entities serving as directors in more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges.

This calculation shall not take into account (i) property holding companies (*sociedades patrimoniales*) of the director or the connected persons thereof; (ii) holding or portfolio companies that merely hold shares, membership interests or assets but that do not have recurring activities; or (iii) as pertains to proprietary directors, the boards to which they belong by appointment of the significant shareholder that proposed them as a proprietary director of the Company or by any company of its group, provided that the proprietary director has the material and/or personal means needed to sufficiently dedicate themselves to their post as director of the Company.

Article 18. Executive and consultative bodies

1. Without prejudice to the powers of representation that it may grant to any person, the Board of Directors may create an Executive Committee made up of a minimum of three (3) and a maximum of six (6) members and may also appoint a chief executive (as defined in article 2 of these Regulations) upon a proposal of the Chair of the Board of Directors, and may totally or partially delegate thereto, either temporarily or permanently, all of the powers that are not non-delegable under the law. The validity of the delegation and designation of the members of the Board of Directors to hold these posts shall require the favourable vote of four fifths (4/5) of the members of the Board of Directors following a report from the Appointments and Remuneration Committee, and shall not take effect until the registration thereof with the Commercial Registry.
2. The Company shall endeavour to ensure that, to the extent possible, the structure of participation of the various classes of directors in the composition of the Executive Committee is similar to that of the Board of Directors. The position of Secretary of the Executive Committee shall be held by the Secretary of the Board of Directors or, if appropriate, by the Deputy Secretary of the Board of Directors.
3. The Chair of the Executive Committee shall inform the Board of Directors of the matters discussed and of the resolutions adopted at its meetings, which must be reflected in minutes, sending a copy thereof to all members of the Board of Directors.
4. If the Chair of the Board of Directors performs executive duties, the Board of Directors, with the abstention of the executive directors, must appoint from among the independent directors a lead independent director (*consejero coordinador*), who shall be especially authorised to:
 - (i) Request Chair the meetings of the Board of Directors in the absence of the chair and of any vice chairs.
 - (ii) Ask the Chair of the Board of Directors to call a meeting thereof of this body when such director deems it deemed appropriate and participate with the Chair in planning the annual schedule of meetings.
 - (iii) Participate in the preparation of the agenda for each meeting of the Board of Directors and request the inclusion of matters on the agenda for meetings of the Board of Directors.
 - (iv) Coordinate, gather and reflect the opinions of the external non-executive directors.
 - (v) Direct the periodic evaluation of the Chair of the Board of Directors and lead any process for the succession thereof.
 - (vi) Keep abreast of the concerns of investors and shareholders.
5. An Audit and Control Committee and an Appointments and Remuneration Committee shall also be created with the information, supervisory, advisory and proposal-making powers on matters within their purview as specified in articles 64 and 65 of the Bylaws of the Company and which are further developed in ~~the~~their respective internal operating regulations.

6. The Board may also create other committees with consultative or advisory duties, without prejudice to the vesting therein of particular decision-making powers. The Chair, the Secretary and the other members of such committees and commissions shall be appointed by the Board of Directors by a simple majority.

ANNEX II.- NEW TEXT OF ARTICLES 2, 4, 9 AND 18 OF THE REGULATIONS OF THE BOARD OF DIRECTORS OF EUSKALTEL, S.A.

Article 2. Scope of application

The Regulations apply to the Board of Directors, the executive bodies thereof (whether collective or single-person) and its internal committees, as well as to all members thereof. The rules of conduct laid down in these Regulations for the directors of the Company shall also apply to the senior officers of the company, insofar as they are compatible with the specific nature thereof and the activities they perform. For the purposes of these Regulations, "senior officers" means those officers who report directly to the Board of Directors or to any chief executive (Executive Chair, Chief Executive Officer (*Consejero Delegado*) or Managing Director (*Director General*), whether a director or not), the head of internal audit of the Company, and any other officer who the Board of Directors recognises as having such status.

Article 4. Powers of the Board of Directors

1. The Board of Directors has the power to adopt resolutions regarding all matters not vested by law or the Company's Bylaws in the shareholders acting at a General Shareholders' Meeting.
2. The core of the Board of Directors' mission is to approve Company's strategy and the organisation required for the implementation thereof, and to oversee and ensure compliance by senior management with the goals marked and with the Company object and interest.

To this end, the Board of Directors as a body reserves the power to approve general policies and strategies of the Company, and particularly, (i) the strategic or business plan, as well as the annual management goals and budget; (ii) the investment and financing policy; (iii) the determination of the structure of the group of companies; (iv) the corporate governance policy; (v) the corporate social responsibility policy; (vi) the policy for controlling and managing risks, including tax risks, as well as the periodic monitoring of internal information and control systems; (vii) the dividend policy, the treasury share policy, and particularly the limits thereof.

3. The Board of Directors has the broadest powers and authority to manage and represent the Company. Without prejudice to the foregoing, the Board of Directors may entrust the senior officers and any executive management bodies with day-to-day management and supervision, as well as the dissemination, coordination and general implementation of the management policies and guidelines of the Company, and thereby focus on the determination, supervision and monitoring of the policies, strategies and general guidelines to be followed by the Company and its group.
4. Those powers reserved by law or the bylaws to be exercised directly by the Board of Directors may not be delegated.
5. Without prejudice to any legal power of delegation or representation to implement the specific resolutions that have been adopted, the Board of Directors shall directly exercise the following powers on its own initiative or upon a proposal of the relevant internal body:
 - A) With respect to the General Shareholders' Meeting:
 - a) To call the General Shareholders' Meeting, as well as to publish announcements relating thereto.

- b) To propose the amendment of the Company's Bylaws to the shareholders at a General Shareholders' Meeting.
 - c) To propose amendments to the Regulations for the General Shareholders' Meeting to the shareholders acting at a General Shareholders' Meeting, which must be accompanied by the corresponding supporting report.
 - d) To submit to a decision of the shareholders at a General Shareholders' Meeting the proposed transformation of the Company into a holding company by the assignment to subsidiaries of core activities theretofore carried out by the Company, even if the Company retains full control thereof.
 - e) To submit to a decision of the shareholders at a General Shareholders' Meeting the acquisition or sale of core operating assets, all in accordance with the assumption set out in Section 160 of the Companies Act.
 - f) To propose to the shareholders at a General Shareholders' Meeting the approval of transactions having an effect equivalent to the liquidation of the Company.
 - g) To submit proposals to the shareholders at the General Shareholders' Meeting regarding the appointment, ratification and re-election of non-independent directors following a report from the Appointments and Remuneration Committee, or the dismissal of directors.
 - h) To implement the resolutions approved by the shareholders at a General Shareholders' Meeting and perform any duties that the shareholders have entrusted thereto.
- B) With respect to the organisation of the Board of Directors and the delegation of powers and the granting of powers of representation:
- a) To approve and amend these Regulations following a report from the Audit and Control Committee.
 - b) To determine the structure of general powers to be granted by the Board of Directors or by the executive management bodies.
- C) With respect to the information to be provided by the Company:
- a) To manage the provision of information regarding the Company to the shareholders, the competent authorities, the markets and the general public pursuant to standards of equal treatment, transparency and truthfulness.
 - b) To formulate the annual accounts, the management report, and the proposed allocation of the Company's results, as well as any consolidated annual accounts and management report, for presentation to the shareholders at the General Shareholders' Meeting.
 - c) To approve the financial information that the Company must periodically make public due to its status as listed company.
- D) With respect to the directors and senior officers:

- a) To designate and renew internal positions within the Board of Directors and the members of and internal positions on the committees of the Board of Directors.
- b) To make interim appointment of directors (cooption).
- c) To appoint and remove the executive directors, and to give prior approval to the contracts to be signed between the Company and the directors who will be vested with executive duties, including the items for which they may receive remuneration for the performance of said duties.
- d) To approve the remuneration of each director, following a proposal from the Appointments and Remuneration Committee, pursuant to the remuneration policy approved by the shareholders at the General Shareholders' Meeting.
- e) To approve the determination and modification of the Company's organisational chart, the appointment and removal of the Company's senior officers (as defined in article 2), and to establish any possible compensation or severance payments in the event of removal.
- f) To approve the senior officer remuneration policy as well as the basic terms and conditions of their contracts, upon a proposal from the Chief Executive Officer, if any, following a report from the Appointments and Remuneration Committee.
- g) To regulate, analyse and decide on potential conflicts of interest and related-party transactions of the Company with its shareholders, directors and senior officers as well as the persons connected therewith.
- h) To authorise or waive the obligations arising from the duty of loyalty established in accordance with the provisions of applicable law.

E) Other powers:

- a) To formulate the dividend policy and corresponding proposed resolutions to the shareholders acting at a General Shareholders' Meeting regarding the application of results and other forms of shareholder remuneration, and approve the payment of interim dividends, if any.
- b) To acknowledge mergers, divisions, concentrations or overall assignments of assets and liabilities affecting any of the significant companies of the group.
- c) To approve investments, divestitures or transactions of any kind that are strategic in nature or have a special tax risk due to the large amount or special characteristics thereof, unless they are to be approved by the shareholders acting at a General Shareholders' Meeting.
- d) To create or acquire equity interests in special purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to their complexity, might diminish the transparency of the group.
- e) To approve, following a report from the Audit and Control Committee, related-party transactions as defined by the law from time to time in effect.
- f) To declare its position regarding all takeover bids for securities issued by the Company.

- g) To implement the Company's treasury share policy within the framework of the authorisation provided by the shareholders acting at a General Shareholders' Meeting.
 - h) To prepare the Company's Annual Corporate Governance Report and the annual sustainability report, as well as the annual report on the director remuneration policy.
 - i) To decide on proposals submitted thereto by the Chair of the Board of Directors, the chief executive officer, or any managing director or committees of the Board of Directors.
 - j) To decide any other matter within its power that the Board of Directors believes to be in the interest of the Company or that these Regulations reserve to the Board as a whole.
6. The Board of Directors shall evaluate the following on an annual basis, using the external and internal means it deems appropriate in each case:
- a) The operation and the quality of the work thereof.
 - b) The performance by the Chair of the Board of Directors and any chief executive of the Company (as defined in article 2 of these Regulations) of the duties thereof, based on the report submitted thereto by the Appointments and Remuneration Committee.
 - c) The operation of its committees, in view of the report submitted thereto by such committees. To this end, the Chair of the Board of Directors shall organise and coordinate the aforementioned evaluation process with the Chairs of the committees.
7. In connection with such matters included in this article as may be appropriate, the Board of Directors shall act in coordination with the management bodies of the other companies forming part of the Group, acting in the common interest of all of them.

Article 9. Disqualifications

In addition to the provisions of the Company's Bylaws, the following may not be appointed as directors or as individuals representing a corporate director:

- (i) Domestic or foreign companies in the telecommunications or other sectors that compete with the Company ("Competitor Companies"), and the shareholders, directors and senior officers thereof, and persons who may be proposed by Competitor Companies in their capacity as shareholders of the Company.
- (ii) Individuals or legal entities serving as directors in more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges.

This calculation shall not take into account (i) property holding companies (*sociedades patrimoniales*) of the director or the connected persons thereof; (ii) holding or portfolio companies that merely hold shares, membership interests or assets but that do not have recurring activities; or (ii) as pertains to proprietary directors, the boards to which they belong by appointment of the significant shareholder that proposed them as a proprietary director of the Company or by any company of its group, provided that the proprietary director has the material and/or personal means needed to sufficiently dedicate themselves to their post as director of the Company.

- (iii) Persons who, during the two (2) years prior to their potential appointment, have occupied high-level positions in the government that are incompatible with the simultaneous performance of the duties of a director of a private company under national or autonomous community law.
- (iv) Individuals or legal entities that are affected by any other circumstance of disqualification or prohibition governed by provisions of a general nature, including those that have interests in any way opposed to those of the Company or its group.

Article 18. Executive and consultative bodies

1. Without prejudice to the powers of representation that it may grant to any person, the Board of Directors may create an Executive Committee made up of a minimum of three (3) and a maximum of six (6) members and may also appoint a chief executive (as defined in article 2 of these Regulations) upon a proposal of the Chair of the Board of Directors, and may totally or partially delegate thereto, either temporarily or permanently, all of the powers that are not non-delegable under the law. The validity of the delegation and designation of the members of the Board of Directors to hold these posts shall require the favourable vote of four fifths (4/5) of the members of the Board of Directors following a report from the Appointments and Remuneration Committee, and shall not take effect until the registration thereof with the Commercial Registry.
2. The Company shall endeavour to ensure that, to the extent possible, the structure of participation of the various classes of directors in the composition of the Executive Committee is similar to that of the Board of Directors. The position of Secretary of the Executive Committee shall be held by the Secretary of the Board of Directors or, if appropriate, by the Deputy Secretary of the Board of Directors.
3. The Chair of the Executive Committee shall inform the Board of Directors of the matters discussed and of the resolutions adopted at its meetings, which must be reflected in minutes, sending a copy thereof to all members of the Board of Directors.
4. If the Chair of the Board of Directors performs executive duties, the Board of Directors, with the abstention of the executive directors, must appoint from among the independent directors a lead independent director (*consejero coordinador*), who shall be especially authorised to:
 - (i) Chair the meetings of the Board of Directors in the absence of the chair and of the vice chairs.
 - (ii) Ask the Chair of the Board of Directors to call a meeting of this body when deemed appropriate and participate with the Chair in planning the annual schedule of meetings.
 - (iii) Participate in the preparation of the agenda for each meeting of the Board of Directors and request the inclusion of matters on the agenda for meetings of the Board of Directors.
 - (iv) Coordinate, gather and reflect the opinions of the non-executive directors.
 - (v) Direct the periodic evaluation of the Chair of the Board of Directors and lead any process for the succession thereof.
 - (vi) Keep abreast of the concerns of investors and shareholders.

5. An Audit and Control Committee and an Appointments and Remuneration Committee shall also be created with the information, supervisory, advisory and proposal-making powers on matters within their purview as specified in articles 64 and 65 of the Bylaws of the Company and which are further developed in their respective internal operating regulations.
6. The Board may also create other committees with consultative or advisory duties, without prejudice to the vesting therein of particular decision-making powers. The Chair, the Secretary and the other members of such committees and commissions shall be appointed by the Board of Directors by a simple majority.