

REPORT FORMULATED BY THE BOARD OF DIRECTORS OF EUSKALTEL, S.A. REGARDING THE RATIONALE FOR THE PROPOSED APPOINTMENT OF MR LUIS RAMÓN ARRIETA DURANA, MR ROBERT W. SAMUELSON AND MR JON JAMES AS DIRECTORS OF THE COMPANY AS REFERRED TO IN ITEM NINE ON THE AGENDA FOR THE ORDINARY GENERAL SHAREHOLDERS' MEETING OF THE COMPANY CALLED FOR 26 JUNE 2017, ON FIRST CALL, AND FOR 27 JUNE 2017 ON SECOND CALL

I. Object 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 (*Ley de Sociedades de Capital*) (the “**Companies Act**”), and is intended to provide a detailed rationale for the proposed appointment of Mr re-election of Mr Alberto García Erauzkin and Mr José Ángel Corres Abasolo as well as the proposed appointment of Mr Luis Ramón Arrieta Durana, Mr Robert W. Samuelson and Mr Jon James (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 Luis Ramón Arrieta Durana as proprietary director.
- Mr Robert W. Samuelson as proprietary director.
- Mr Jon James as independent director.

The appointments of Mr Robert W. Samuelson and of Mr Jon James are subject to the condition precedent consisting of the consummation of the transaction to be submitted for approval of the shareholders at the Ordinary General Shareholders’ Meeting as item five on the agenda during the financial year ending on 31 December 2017

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 Luis Ramón Arrieta Durana

1. Biographical profile and training

Mr Luis Ramón Arrieta Duran, born in Maeztu (Álava) in 1957. He has a degree in Chemistry from Universidad de Valladolid, as well as a Ph.D. in Financial Economy from Universidad Autónoma de Madrid, and completed his education at various business schools, including INSEAD and IESE.

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

Mr Luis Ramón Arrieta Duran has spent his professional career mainly in the banking area. In particular, he has held the positions of Managing Director of Finanzia Banco de Crédito, S.A. and BBVA E-Commerce, as well as the positions of assistant executive vice president of BBVA and territorial director of BBVA for the Basque Country and Cantabria, all within the BBVA Group.

He has also been connected to the university training sector: he was Director-General of Universidad de Deusto from 2007 to 2012.

He has been a member of the Boards of Directors of entities like Norpension, S.A., Solium, S.A., Terra Network, S.A., Mobipay Internacional, S.A., Portal Gas Natural, S.A. and Hotelnet B2B, S.A., among others. He is currently a member of the Board of Trustees of Caja de Ahorros de Vitoria y Álava–Araba eta Gasteizko Aurrezki Kutxa Fundación Bancaria, representing the Provincial Government of Álava.

3. Class

Mr Luis Ramón Arrieta Duran has been proposed based on his relationship with Kutxabank, S.A., the significant shareholder proposing the appointment thereof.

Thus, taking into account that Mr Luis Ramón Arrieta Duran has been proposed by a significant shareholder of the Company (i.e. Kutxabank), the Appointments and Remuneration Committee deems him 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

Mr Luis Ramón Arrieta Duran 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 Luis Ramón Arrieta Duran meets the requirements of respectability, suitability, expertise, competence, experience, qualification, training, availability and commitment to his duties to hold the position of proprietary 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 Luis Ramón Arrieta Duran, 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 Luis Ramón Arrieta Duran 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 Luis Ramón Arrieta Duran as director of the Company with the classification of proprietary director.

In view of all of the foregoing, the Board of Directors finds that Mr Luis Ramón Arrieta Duran has sufficient skill, experience and merit to perform the duties of his position.

B. Mr Robert W. Samuelson

1. Biographical profile and training

Mr Robert W. Samuelson was born in Bradford (England) in 1964. He obtained his Master's Degree in Natural Sciences from the University of Cambridge and studied for his MBA at Cranfield University (Cranfield School of Management).

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

Mr Samuelson began his career in the industrial and engineering area, at British Aerospace and Royal Ordnance.

Mr Samuelson then worked as a consultant at Arthur D. Little Ltd., leading the corporate finance arm of this company, where he advised companies in the telecommunications industry.

In 2000 he joined the Virgin Group, where he has had various responsibilities. In particular, Mr Samuelson held the position of executive director of the strategy group of Virgin Media, Inc.; he also held the positions of director of corporate development at Virgin Management Limited and executive director at Telecoms & Media, a company belonging to Virgin Management Limited.

He was also responsible for the creation of new business lines at Virgin and for directing the development thereof towards the telecommunications area in Canada, the USA, France and South Africa; in 2001 he created the U.S. company Virgin Mobile USA, LLC.

In January 2015 he founded Zegona Communications PLC, where he holds the position of director of operations and executive director.

Among other positions, Mr Samuelson is a member of the Board of Directors of Virgin Mobile Canada, Virgin Mobile France and Virgin Mobile South Africa. He is also a member of the Strategy Committee of the Virgin Group, the body in charge of proposing new investment alternatives and corporate transactions.

3. Class

Mr Robert W. Samuelson has been proposed based on his relationship with Zegona Limited, the significant shareholder proposing the appointment thereof.

Thus, taking into account that Mr Robert W. Samuelson has been proposed by a significant shareholder of the Company (i.e. Zegona Limited), the Appointments and Remuneration Committee deems him 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

Mr Robert W. Samuelson 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 Robert W. Samuelson meets the requirements of respectability, suitability, expertise, competence, experience, qualification, training, availability and commitment to his duties to hold the position of proprietary 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 Robert W. Samuelson, in order to be able to properly perform the duties inherent to the proposed position, the candidate must adequately combine sufficient abilities, skills and experience in the areas referred to above in section II.A.5.

The Board of Directors finds that Mr Robert W. Samuelson 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 Robert W. Samuelson as director of the Company with the classification of proprietary director.

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

The appointment of Mr Robert W. Samuelson is subject to compliance with the condition precedent consisting of the consummation of the transaction to be submitted for approval of the shareholders at the Ordinary General Shareholders' Meeting as item five on the agenda during the financial year ending on 31 December 2017.

C. Mr Jon James

1. Biographical profile and training

Mr Jon James was born in Edinburgh (Scotland) in 1969. He has a degree in Economics and History from the University of Cambridge.

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

Mr Samuelson began his career in the technology, multimedia and telecommunications area, with executive posts at various companies in the United Kingdom belong to this area.

In 2007 he joined Virgin Media, where he was Director of Strategy and Director of Television.

After 7 years at Virgin Media, in 2014 he joined Com Hem, the main cable operator in Sweden, where he was Director of Operations, responsible for the residential market.

Mr James has been CEO of Tele2 Netherlands since March 2017.

3. Class

Mr James 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 James 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 James 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 James 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 James, in order to be able to properly perform the duties inherent to the proposed position, the candidate must adequately combine sufficient abilities, skills and experience in the areas referred to above in section II.A.5.

The Appointments and Remuneration Committee finds, and the Board of Directors confirms, that Mr James 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 Jon James as independent director of the Company.

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

III. Conclusion

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

The Company's Board of Directors finds that the 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 appointment of the independent director Mr Jon James by the shareholders at the General Meeting, and after a favourable report of the Appointments and Remuneration Committee proposes the appointment of Mr Luis Ramón Arrieta Duran and Mr Robert W. Samuelson as proprietary directors.

The appointments of Mr Robert W. Samuelson and of Mr Jon James shall be subject to compliance with the condition precedent consisting of the consummation of the transaction to be submitted for approval of the shareholders at the Ordinary General Shareholders' Meeting as item five on the agenda during the financial year ending on 31 December 2017.

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In Derio, on 24 May 2017

ANNEX I

PROPOSAL OF THE APPOINTMENTS AND REMUNERATION COMMITTEE

Reasoned proposal of the Appointments and Remuneration Committee of Euskaltel, S.A. regarding the appointment of the independent director 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 appointment of an independent director to be submitted for approval by the shareholders at the upcoming Ordinary General Shareholders' Meeting, with said appointment being subject to compliance with the condition precedent consisting of the consummation of the transaction submitted for approval of the shareholders at the Ordinary General Shareholders' Meeting under item five of the agenda during the financial year ending on 31 December 2017.

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 appoint Mr Jon James as independent director.

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

Therefore, it is proposed to appoint Mr Jon James with the classification of independent director for the bylaw-mandated term of four (4) years. As stated above, this appointment is subject to compliance with the condition precedent consisting of the consummation of the transaction to be submitted for approval of the shareholders at the Ordinary General Shareholders' Meeting as item five on the agenda during the financial year ending on 31 December 2017.

Detailed information regarding the candidate is set out below:

I. Mr Jon James

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

Mr Jon James was born in Edinburgh (Scotland) in 1969. He has a degree in Economics and History from the University of Cambridge.

Mr Samuelson began his career in the technology, multimedia and telecommunications area, with executive posts at various companies in the United Kingdom belong to this area.

In 2007 he joined Virgin Media, where he was Director of Strategy and Director of Television.

After 7 years at Virgin Media, in 2014 he joined Com Hem, the main cable operator in Sweden, where he was Director of Operations, responsible for the residential market.

Mr James has been CEO of Tele2 Netherlands since March 2017.

In light of the foregoing, it is deemed that Mr Jon James has the appropriate skills, experience and merits to hold the position of director. He has professional experience that includes a profound knowledge of the telecommunications, technology and media worlds. 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 Jon James meets the requirements set forth in sub-section 4 of Section 529 *duodecies* of the Companies Act to be considered an independent director. This appointment is subject to compliance with the condition precedent consisting of the consummation of the transaction to be submitted for approval of the shareholders at the Ordinary General Shareholders' Meeting as item five on the agenda during the financial year ending on 31 December 2017.

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 appointment of two proprietary directors

This report is issued in compliance with the provisions of Section 529 *decies* of the Companies Act and is intended to favourably report to the Board of Directors of Euskaltel, S.A. regarding the appointment of two directors, both with the classification of proprietary director, to be submitted for approval by the shareholders at the upcoming Ordinary General Shareholders' Meeting, with the appointment of Mr Robert W. Samuelson being subject to compliance with the condition precedent consisting of the consummation of the transaction submitted for approval of the shareholders at the Ordinary General Shareholders' Meeting under item five of the agenda during the financial year ending on 31 December 2017.

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 appoint 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 appointment of Mr Luis Ramón Arrieta Duran and Mr Robert W. Samuelson as members of the Board of Directors of Euskaltel with the classification of proprietary directors for the bylaw-mandated term of four (4) years), with the appointment of Mr Robert W. Samuelson being subject to compliance with the condition precedent consisting of the consummation of the transaction to be submitted for approval of the shareholders at the Ordinary General Shareholders' Meeting as item five on the agenda during the financial year ending on 31 December 2017.

The detailed report regarding each of these directors is set out below:

I. Mr Luis Ramón Arrieta Durana

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

Mr Luis Ramón Arrieta Duran, born in Maeztu (Álava) in 1957. He has a degree in Chemistry from Universidad de Valladolid, as well as a Ph.D. in Financial Economy from Universidad Autónoma de Madrid, and completed his education at various business schools, including INSEAD and IESE.

Mr Luis Ramón Arrieta Duran has spent his professional career mainly in the banking area. In particular, he has held the positions of Managing Director of Finanzia Banco de Crédito, S.A. and BBVA E-Commerce, as well as the positions of Assistant Executive Vice President of BBVA and Territorial Director of BBVA for the Basque Country and Cantabria, all within the BBVA Group.

He has also been connected to the university training sector: he was Director-General of Universidad de Deusto from 2007 to 2012.

He has been a member of the Boards of Directors of entities like Norpension, S.A., Solium, S.A., Terra Network, S.A., Mobipay Internacional, S.A., Portal Gas Natural, S.A. and Hotelnet B2B, S.A., among others.. He is a member of the Board of Trustees of Caja de Ahorros de Vitoria y Álava–Araba eta Gasteizko Aurrezki Kutxa Fundación Bancaria, representing the Provincial Government of Álava.

In view of the foregoing, Mr Luis Ramón Arrieta Duran 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 Luis Ramón Arrieta Duran for appointment as a director by the shareholders at the General Shareholders' Meeting of the Company with the classification of proprietary director.

II. Mr Robert W. Samuelson

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

Mr Robert W. Samuelson was born in Bradford (England) in 1964. Mr Samuelson holds a Master's Degree in Natural Sciences from the University of Cambridge and studied for his MBA at Cranfield University (Cranfield School of Management).

Mr Samuelson began his career in the industrial and engineering area, at British Aerospace and Royal Ordnance.

Mr Samuelson then worked as a consultant at Arthur D. Little Ltd., leading the corporate finance arm of this company, where he advised companies in the telecommunications industry.

In 2000 he joined the Virgin Group, where he has had various responsibilities. In particular, Mr Samuelson held the position of executive director of the strategy group of Virgin Media, Inc. He has also held the positions of director of corporate development at Virgin Management Limited and executive director at Telecoms & Media, which belongs to Virgin Management Limited. He was responsible for the creation of new business lines at Virgin and for directing the development thereof towards the mobile telecommunications area in Canada, the USA, France and South Africa; in 2001 he created the U.S. company Virgin Mobile USA, LLC.

In January 2015 he founded Zegona Communications PLC, where he holds the position of director of operations and executive director.

Among other positions, Mr Samuelson is a member of the Board of Directors of Virgin Mobile Canada, Virgin Mobile France and Virgin Mobile South Africa. He is also a member of the Strategy Committee of the Virgin Group, the body in charge of proposing new investment alternatives and corporate transactions.

In view of the foregoing, Mr Robert W. Samuelson 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 Robert W. Samuelson for appointment as a director by the shareholders at the General Shareholders' Meeting of the Company with the classification of proprietary director. This appointment is subject to compliance with the condition precedent consisting of the consummation of the transaction to be submitted for approval of the shareholders at the Ordinary General Shareholders' Meeting as item five on the agenda during the financial year ending on 31 December 2017.