



euskaltel

General Meeting of Shareholders **2018**



ERRONKA GARBIA
EVENTO AMBIENTALMENTE SOSTENIBLE

REPORT FORMULATED BY THE BOARD OF DIRECTORS OF EUSKALTEL, S.A. REGARDING THE PROPOSED INCREASE IN THE MAXIMUM LIMIT OF THE DELEGATION TO THE BOARD OF DIRECTORS OF THE POWER TO ISSUE SIMPLE DEBENTURES OR BONDS, NOTES AND OTHER SIMILAR FIXED INCOME SECURITIES, AS WELL AS PREFERRED SHARES, REFERRED TO IN ITEM FIVE ON THE AGENDA FOR THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF THE COMPANY CALLED FOR 1 JUNE 2018, ON FIRST CALL, AND FOR 2 JUNE 2018 ON SECOND CALL

I. Object of the report

This report is prepared by the Board of Directors of Euskaltel, S.A. (“**Euskaltel**” or the “**Company**”) in compliance with the requirements established in section 319 of Royal Decree 1784/1996, of 19 July, approving the Regulations of the Commercial Registry (the “**Regulations of the Commercial Registry**”) and article 16 of the Bylaws of the Company in order to provide a rationale for the proposal submitted for the approval of the shareholders at the Annual General Meeting of Shareholders of Euskaltel called to be held on 1 June 2018 on first call, and the next day, 2 June 2018, on second call, under item five on the agenda relating to the increase in the maximum limit of the delegation of powers granted by resolution of the shareholders at the General Meeting of 27 June 2016 in favour of the Company’s Board of Directors, with express powers of substitution, to issue simple debentures or bonds, notes and other similar fixed income securities, not convertible into new shares of the Company or exchangeable for outstanding shares of the Company, as well as preferred shares; and to the authorisation for Euskaltel to be able to guarantee all obligations that may arise for its subsidiaries from the issues of securities thereby.

II. Rationale for the proposal

The dynamic of all commercial companies generally, and of large and listed companies particularly, require that their governance and administration bodies have appropriate instruments at all times in order to respond to the needs of the Company in each case and in view of the circumstances of the market. With good reason, there are occasions in which the success of a strategic initiative depends on the ability to achieve it rapidly, without the delays and costs involved in the holding of a General Meeting of Shareholders.

Along these lines, the issue of simple 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 preferred shares, constitutes one of the instruments for financing companies through the attraction of external funds.

The Board of Directors believes that the issue of these instruments is justified by the expedience of having those mechanisms allowed by current corporate law that permit the Company to be in a position to acquire the funds needed to meet the corporate interest. In other words, the goal of such delegation is to give the Board of Directors the instruments, manoeuvrability and responsiveness required by the competitive environment in which the Company operates.

The foregoing is also especially important in view of the economic environment of recent years, in which the volatility of the markets and difficulties in accessing credit make it advisable for the Company’s Board of Directors to have the means necessary, and in the amount necessary, to be able to access different available funding sources when so required

and advisable by the circumstances, and thus be able to benefit from the most advantageous financial terms at each moment.

In light of all of the foregoing, on 27 June 2016, the shareholders acting at a General Meeting of Shareholders of Euskaltel authorised the Company's Board of Directors to issue simple bonds or debentures, notes and other fixed income securities of a similar nature, as well as preferred shares, not convertible into new shares of the Company or exchangeable for outstanding shares of the Company, in the amount of 300 million euros. The Company has utilised a portion of this authorised amount through the registration of a European note programme with the Irish Stock Exchange in the maximum amount of 200 million euros. The main goal of this programme is to reduce the financial cost of debt, complementing the traditional bank financing instruments.

In view of the current circumstances of the markets and of the Company, the Board of Directors finds it appropriate to increase said authorisation conferred by the shareholders at the General Meeting of Shareholders of Euskaltel by an additional 300 million euros.

Therefore, pursuant to the provisions of article 319 of the Regulations of the Commercial Registry and article 16 of the Bylaws, the proposed increase, if appropriate, in the maximum quantitative limit for the issue of simple debentures or bonds, 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 preferred shares, is submitted for the consideration of the shareholders at the General Meeting of Shareholders, with no change in the other terms and conditions of the original authorisation of the shareholders acting at the General Meeting of Shareholders of 27 June 2016.

The proposed resolution thus established the maximum amount of issues of said financial instruments at 600 million euros. The Board of Directors finds it appropriate to increase the limit of the authorisation granted by the shareholders at the General Meeting of Shareholders so that it is sufficiently broad and increases flexibility in attracting a volume of funds on the capital market that is at any time deemed necessary by the Board of Directors, all in order to further develop the financing policy of the Company and its group, but always under the premise of reducing the financial cost of the borrowed funds used and without this increase in maximum quantitative limit entailing any change in the Company's financing policy or increase in the level of indebtedness existing at the time of making any issue under the authorisation.

Along these lines, the Board of Directors reiterates its commitment to maintain an appropriate structure of equity and debt, with a Net Financial Debt / Ebitda ratio within a range of 3x and 4x, after absorbing the higher indebtedness arising from the non-organic growth transactions carried out in recent years and that have entailed leverage levels for Net Financial Debt / Ebitda of close to 4.5x.

III. Proposed resolution

Pursuant to the foregoing, the full text of the proposed resolution submitted to the shareholders at the General Meeting of Shareholders reads as follows:

“Five.- Increase to 600 million euros of the maximum limit of the authorisation given to the Company's Board of Directors by the shareholders at the General Meeting of 27 June 2016 regarding the issue of simple debentures or bonds, 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 preferred shares, to guarantee new issues of securities by the subsidiaries up to the foregoing limit

Pursuant to the provisions of article 319 of the Regulations of the Commercial Registry and article 16 of the Bylaws, it is hereby resolved to amend the resolution adopted by the shareholders at the Annual General Meeting of Shareholders on 27 June 2016 regarding the authorisation given to the Board of Directors, for a period of 4 years, to issue simple debentures or bonds, 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 preferred shares, with a maximum limit of 300 million euros, and to guarantee the new issues of securities by the subsidiaries up to the foregoing limit.

In particular, it is resolved to increase the prior maximum limit of 300 million euros, increasing it by an additional 300 million euros, such that the quantitative limit of such authorisation hereafter and for future issues is established at the amount of 600 million euros, although the level of the Company's indebtedness prior to the issue may in no event be exceeded.

Therefore, except as provided with respect to the new quantitative limit of 600 million euros for future issues as provided above and fixed by virtue of this resolution, the other terms and conditions of the authorisation provided to the Board of Directors by the shareholders at the General Meeting dated 27 June 2016 remain unchanged.

In light of the foregoing, it is stated for the record for purposes of clarification that the terms and conditions of the authorisation provided to the Company's Board of Directors for the issue of simple debentures or bonds, notes and other fixed income securities of a similar nature, as well as preferred shares, to guarantee new issues of securities by the subsidiaries of Euskaltel, are those set out below:

1. Securities to be issued

The negotiable securities covered by this delegation may be simple bonds or debentures, notes and other fixed income securities of a similar nature, as well as preferred shares (the "Securities").

The Securities that this delegation refers to 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 to the foregoing that may give the right to subscribe or acquire shares of the Company.

2. Period of the delegation

The Securities covered by the delegation may be issued on one or more occasions for a period of 5 years from 27 June 2016, i.e. the date of the resolution by means of which the delegation was made.

3. Maximum amount of the delegation

The total maximum amount of the issue or issues of the Securities approved under this delegation shall be 600 million euros or the equivalent thereof in another currency.

4. Scope of the delegation

The delegation to issue the Securities shall cover, as broadly as required under Law, the setting of the various aspects and conditions of each issue (nominal value, issue premium, repurchase price, currency of the issue, form of representation, interest rate, amortisation,

subordination clauses, security for the issue, place of the issue, applicable law (if applicable), setting of internal rules for the bondholders syndicate and appointment of statutory auditor or equivalent body for issues of simple debentures and bonds if so required, admission to trading, etc.) and the taking of any steps required, including pursuant to applicable securities market rules, for specific issues approved under this delegation.

5. Guarantee for issues of securities by subsidiaries

The Board of Directors is also authorised to guarantee in the name of the Company and within the limits set forth above, new issues of securities by the subsidiaries during the term of this resolution.

6. Trading of securities issued

The Company may request the admission to trading on secondary markets, whether official or non-official, organised or non-organised, and domestic or foreign, of the Securities issued by the Company under this delegation, authorising the Board of Directors, as broadly under Law as required, to take the steps and actions necessary for admission to trading with the competent bodies of the various domestic or foreign securities markets.

7. Power of substitution

For purposes of the provisions of section 249 bis I) of the Capital Enterprises Act, the Board of Directors is expressly authorised to further delegate the powers referred to in this resolution.

* * *

In Derio (Biscay), on 27 April 2018