

REPORT PREPARED BY THE APPOINTMENTS AND REMUNERATION COMMITTEE OF EUSKALTEL, S.A. IN RELATION TO THE PROPOSED RESOLUTION REGARDING THE AMENDMENT OF THE COMPANY'S DIRECTOR REMUNERATION POLICY REFERRED TO IN ITEM 13 ON THE AGENDA FOR THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF THE COMPANY CALLED FOR 2 JUNE 2020, ON FIRST CALL, AND FOR 3 JUNE 2020, ON SECOND CALL

I. Introduction

Section 529 *novodecies* of Royal Legislative Decree 1/2010 of 2 July approving the consolidated text of the Corporate Enterprises Act (*Ley de Sociedades de Capital*) (the “**Corporate Enterprises Act**”) provides that the Director Remuneration Policy shall be approved by the shareholders at a General Meeting of Shareholders at least every three years as a separate item on the Agenda.

The Remuneration Policy proposal, which must be reasoned and submitted to the shareholders by the Board of Directors, must be accompanied by a specific report of the Appointments and Remuneration Committee. Both the proposed Policy and the specific report of the Committee must be made available to the shareholders on the Company's website as from the call to the General Meeting.

The Remuneration Policy so approved shall remain in effect for the three years following the year in which it is approved by the shareholders at the General Meeting.

The same procedure must be observed in the event of amendment or replacement of the Remuneration Policy in effect at any time, such that any amendment or replacement thereof during this period shall require the prior approval of the shareholders at a General Meeting of Shareholders in accordance with the procedure established for the approval thereof.

Thus, any proposal of the Board of Directors to amend or replace the Remuneration Policy then in effect shall be reasoned and must be accompanied by a specific report of the Appointments and Remuneration Committee, which document shall be published on the corporate website as from the call to the General Meeting of Shareholders, the delivery or sending of which may be requested by the shareholders without charge, which right shall be expressly mentioned in the announcement of the call to the General Meeting.

By virtue of all of the foregoing, and pursuant to the provisions of section 529 *novodecies* of the Corporate Enterprises Act, the Appointments and Remuneration Committee of Euskaltel, S.A. (“**Euskaltel**” or the “**Company**”), at its meeting of 22 April 2020, formulates and approves this report on the proposed amendment of Euskaltel's Director Remuneration Policy for financial years 2019, 2020 and 2021 (the “**Remuneration Policy**”), which, if approved, will replace in its entirety the one approved by the shareholders at the General Meeting of Shareholders held on 1 April 2019, without prejudice to the effects occurring and vested while then in force (the “**Report**”).

II. Reasons for the amendment of the Remuneration Policy

The shareholders acting at the Annual General Meeting of Shareholders of Euskaltel held on 1 April 2019 approved the Remuneration Policy in accordance with the proposal submitted by

the Board of Directors, following a report from the Appointments and Remuneration Committee.

Euskaltel's Appointments and Remuneration Committee, in compliance with the duties set out in its Regulations, regularly reviews the Remuneration Policy to verify the consistency thereof with the status and short-, medium- and long-term strategy of the Company in order to propose improvements and changes, if appropriate.

The proposed amendment of the Remuneration Policy approved on 1 April 2019 is justified for the reasons set out below.

During 2019 there were a number of changes in the composition of the Board of Directors, the most noteworthy being the new classification of the Chair as "Non-Executive":

- (i) On 5 June 2019, the Board of Directors resolved to appoint a new CEO, whose annual fixed remuneration is different than that of the previous CEO. It is therefore necessary to update the Remuneration Policy as it relates to the annual fixed remuneration of the CEO.
- (ii) On 29 October 2019 the Board of Directors resolved to appoint a new Non-Executive Chair. The Company has agreed with the non-Executive Chair to submit to the shareholders at the General Meeting of Shareholders a bylaw amendment that would allow for receipt of remuneration in kind consisting of a high-end automobile and participation in the Incentive Plan that the Company has in place at any particular time. In this case, the Remuneration Policy must be amended, eliminating the remuneration of the previous Executive Chairman and including items of remuneration for the new Non-Executive Chair of the Board of Directors.

The Incentive Plan 2017-2019 also ended in financial year 2019.

Furthermore, taking into account said agreement with the Non-Executive Chair of the Board of Directors, it is expected that during financial year 2020:

- (i) The amendment of the portion of article 62 of the Bylaws regarding director remuneration that corresponds to the remuneration of the directors who are not entrusted with executive duties is submitted for approval of the shareholders at the Annual General Meeting of Shareholders.
- (ii) The approval of a new Incentive Plan 2020-2022 addressed to the CEO (only executive director performing executive duties within the Company) and the Non-Executive Chair of the Board of Directors is submitted to the shareholders at the Annual General Meeting of Shareholders.

The parameters to which the short-term variable remuneration of the CEO are linked are also updated in financial year 2020.

It is therefore necessary to amend the Remuneration Policy, including the new text of article 62 of the Bylaws, including the new items of remuneration for the Non-Executive Chair of the Board of Directors, eliminating the Incentive Plan 2017-2019 and contemplating the new Incentive Plan 2020-2022 directed towards the CEO and the Non-Executive Director, subject in any case to the approval thereof by the shareholders at the General Meeting of Shareholders, and updating the final annual remuneration and the parameters of the short-term variable remuneration of the CEO.

All of these developments require a corresponding amendment of the Remuneration Policy, such that it (i) conforms to the new bylaw-mandated regulation of the system for remuneration

of directors who are not entrusted with executive duties; (ii) provides for the items of remuneration of the Non-Executive Chair of the Board of Directors; and (iii) contemplates the new Incentive Plan 2020-2022 directed towards the CEO and the Non-Executive Chair, among others.

III. Principal amendments to the Remuneration Policy compared to the prior Policy

1. IN RELATION TO THE APPOINTMENT OF THE NEW CEO OF THE COMPANY

On 5 June 2019, the Board of Directors resolved to appoint a new CEO.

Although the contract terms for both CEOs are identical, the annual fixed remuneration is different.

Furthermore, at its meeting held on 25 February 2020, the Board of Directors approved new parameters to which the short-term variable remuneration of the CEO are linked.

Pursuant to all of the foregoing, the proposed amendment of the Remuneration Policy to be submitted to the shareholders at the General Meeting of Shareholders on 2 June 2020, updates the annual fixed remuneration of the CEO and includes new parameters, with their respective weightings, to which the short-term variable remuneration of the executive directors is linked.

2. IN RELATION TO THE APPOINTMENT OF A NEW NON-EXECUTIVE CHAIR OF THE COMPANY'S BOARD OF DIRECTORS

On 29 October 2019 the Board of Directors resolved to appoint a new Chair of the Board of Directors, without executive duties.

Therefore, the Remuneration Policy must be amended, eliminating the remuneration of the previous Executive Chairman and including therein all items of remuneration for the new Non-Executive Chair of the Board of Directors.

3. IN RELATION TO THE NEW TEXT OF ARTICLE 62 OF THE BYLAWS

It is proposed to conform the Policy to the amendment of article 62 of the Bylaws regarding the remuneration of directors, which bylaw amendment only affects the system for remuneration of directors who are not entrusted with executive duties.

The shareholders acting at the Annual General Meeting of Shareholders to be held on 2 June 2020 (on first call or, if applicable, the next day on second call) will decide on the approval of the amendment of said article 62 on the terms proposed by the Board of Directors.

As described in the corresponding explanatory report on said bylaw amendment, it is intended to include among the components of the remuneration of the Chair of the Board of Directors, if said Chair is not entrusted with executive duties, remuneration in kind consisting of the availability of a company vehicle, as well as long-term variable remuneration based on the delivery of cash or shares, share options or instruments or other remuneration indexed to the value thereof, linked to business objectives, the value of the shares and, if applicable, other corporate social responsibility objectives.

In anticipation that said amendment will be approved by the shareholders at the Annual General Meeting of Shareholders, the amendment of the Remuneration Policy on this point consists only

of adjustment as appropriate to reflect the new text of article 62 of the Bylaws, as well as the new remuneration of the Chair of Euskaltel's Board of Directors, who is currently not entrusted with executive duties.

4. IN RELATION TO THE NEW INCENTIVE PLAN 2020-2022 FOR THE CEO AND FOR THE NON-EXECUTIVE CHAIR

As a result of the completion of the Incentive Plan 2017-2019, the Board of Directors has proposed to the shareholders at the General Meeting of Shareholders the approval of a new Incentive Plan 2020-2022 directed towards the CEO and the Non-Executive Chair, as well as towards the members of the Management Executive and the rest of the management team and key employees of the Euskaltel Group.

In anticipation that said Plan will be approved by the shareholders at the Annual General Meeting of Shareholders, the amendment of the Remuneration Policy on this point consists only of including the Plan among the items of remuneration of the CEO and of the Non-Executive Chair, as provided in the new article 62 of the Bylaws.

IV. Effectiveness

The proposed amendment would not affect the effective period of the Remuneration Policy, which will continue in effect, with the stated amendments, until 2021.

Any other amendment or replacement thereof during its effective period shall require the prior approval of the shareholders at a General Meeting of Shareholders.

V. Conclusions

As described in this Report, the Appointments and Remuneration Committee of Euskaltel finds that it is appropriate to amend the Remuneration Policy for the reasons set out above.

Besides the statements required by applicable legal provisions, the Appointments and Remuneration Committee also believes that the proposed text of the Remuneration Policy conforms to applicable legal provisions, the standards of prudence in the assumption of risk, good governance and transparency, and is aligned with the interests of the shareholders.

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In Derio, on 22 April 2020.