



# Másmóvil Ibercom, S.A. and Subsidiaries

Consolidated Annual Accounts

31 December 2019

Consolidated Management Report

2019

**(With Independent Auditor's Report Thereon)**

(Free translation from the originals in Spanish. In the event of discrepancy, the Spanish-language version prevail.)



KPMG Auditores, S.L.  
Paseo de la Castellana, 259C  
28046 Madrid

## **Independent Auditor's Report on the Consolidated Annual Accounts**

(Free translation from the originals in Spanish. In the event of discrepancy, the Spanish-language versions prevail.)

To the Shareholders of Másmóvil Ibercom, S.A.

### **REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS**

#### **Opinion**

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We have audited the consolidated annual accounts of Másmóvil Ibercom, S.A. (the "Parent") and subsidiaries (together the "Group"), which comprise the consolidated statement of financial position at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2019 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

#### **Basis for Opinion**

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We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated annual accounts pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated annual accounts for the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Recognition of revenue from services rendered

See Notes 3 o) and 22 a) to the consolidated annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Group revenue from the rendering of services, which during 2019 amounted to Euros 1,462,053 thousand, is obtained through multiple sales channels and different information technology (IT) systems. The very low value of the transactions at unit level means that errors on an individual basis are insignificant. However, as they are difficult to detect and there is a large volume of transactions, possible system failures could ultimately give rise to material errors in the consolidated annual accounts.</p> <p>Furthermore, revenues are also a key metric to assess the Group's performance. The Group has annual revenue targets, incentive schemes for the its management team and contractual conditions related to the Group's financing that are partially affected by growth in revenues from rendering services.</p> <p>Due to the significance of the amount of revenues from the rendering of services, the complexity of the information systems that the Group uses to recognise these revenues, the possibility of recognising these revenues in an incorrect period and the inherent risk of adjustments or the overriding of controls by Group management, this aspect have been considered a key audit matter.</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"><li>- In collaboration with our IT specialists, we assessed the design and implementation of the most relevant controls established by Group management for the recognition of revenue from the rendering of services, as well as the related systems. We also tested the operating effectiveness of these controls;</li><li>- Our IT specialists tested the general control environment of the IT systems used to recognise revenue from the rendering of services;</li><li>- We performed tests of detail on the transactions that generated Group revenues from the rendering of services to assess whether revenue is included in the appropriate period. We also performed tests of detail on monthly billing cycles and on customer contracts to reconcile the information of the billing and collection systems to the accounting records;</li><li>- We compared the material manual adjustments with supporting documentation to assess any evidence of bias on the part of Group management; and</li><li>- We assessed whether the disclosure in the consolidated annual accounts comply with the requirements of the financial reporting framework applicable to the Group.</li></ul>



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**Accounting treatment and measurement of the sale of the FTTH network**  
 See Notes 3 e) and 6 to the consolidated annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>During 2019 the Group completed the sale of approximately 940,000 dwelling units of its fibre optic network (FTTH) for Euros 218.5 million, where the Group retained right of use over 40% of these dwelling units. The transaction has not had an impact on the Group's customer base, as existing customers are maintained on the network sold by simultaneously entering into a contract to provide bitstream services</p> <p>In addition to the corresponding derecognition of the assets sold and the transfer of the intangible asset relative to the Group's right of use over 40% of the dwelling units sold, this transaction generated a gain of Euros 144 million, which has been recognised under "Impairment and result from on disposals of assets" in the consolidated statement of comprehensive income.</p> <p>Due to the significance of the accounting impacts of this transaction and the existence of complex contractual terms that require judgement in recognising and measurement of this transaction, this has been considered a key audit matter.</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> <li>- We evaluated the design and implementation of controls relating to the process for managing fixed assets;</li> <li>- We obtained and analysed the documentation supporting this transaction, and assessed the accounting treatment and the measurement of the right of use, as well as the impact on the Group's consolidated annual accounts, in accordance with the applicable financial reporting framework;</li> <li>- We assessed, with the involvement of our valuation specialists, the reasonableness of the assumptions included in the financial models drawn up by Group management, as well as the discount rate used to value the right of use;</li> <li>- We assessed whether the disclosures in the consolidated annual accounts in relation to this transaction comply with the requirements of the financial reporting framework applicable to the Group.</li> </ul>



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**Recoverability of the value of goodwill and trademarks**

See Notes 3 e) and g) and 5 to the consolidated annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>At 31 December 2019 the Group has recognised goodwill and trademarks under intangible assets with indefinite useful lives, amounting to Euros 481,023 thousand and Euros 99,888 thousand, respectively.</p> <p>At each reporting date the Group estimates the recoverable amount of goodwill and trademarks, regardless of whether or not there are indications of impairment.</p> <p>The estimation of the recoverable amount requires a high level of judgement from the Parent's Directors and Group management in the use of the key assumptions and estimations used in the valuation techniques to determine the higher of fair value less cost of disposal or value in use.</p> <p>Due to the significance of the carrying amount of goodwill and the trademarks, and the high level of judgement and uncertainty associated with these estimates, we considered this to be a key audit matter.</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> <li>- We assessed the design and implementation of controls in relation to the measurement process of goodwill and trademarks;</li> <li>- We assessed the reasonableness of the projections used by the Group to determine the recoverable amount of these assets, and whether they are in line with the financial and management information included in the Group's budgets for the coming years;</li> <li>- We assessed, with the involvement of our valuation specialists, the reasonableness of the assumptions used in the financial models prepared by Group management, as well as the growth rates and discount rates used as the basis for determining the recoverable amount of goodwill and the trademarks;</li> <li>- We assessed the sensitivity of the current financial models to key assumptions, with the aim of determining their potential impact on the valuation of the intangible assets tested for impairment; and</li> <li>- We assessed whether the disclosures in the consolidated annual accounts comply with the requirements of the financial reporting framework applicable to the Group.</li> </ul>



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<b>Recognition and recoverability of deferred tax assets</b> <b>See Notes 3 p) and 21 to the consolidated annual accounts</b>	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>At 31 December 2019, the Group has deferred tax assets amounting to Euros 294,122 thousand.</p> <p>The Group recognises deferred tax assets provided that it is probable that sufficient future taxable profits will be available for their offset or when tax legislation allows the future conversion of deferred tax assets into a receivable from Public Administrations. The carrying amounts of deferred tax assets recognised are reviewed by the Group at each reporting date based on their expectations of tax gains in the coming years.</p> <p>The recognition of deferred tax assets implies a high level of judgement on the part of the Group's Directors and management regarding the assessment of the probability and sufficiency of future taxable profits (based on the Group's financial projections and business plans considering the applicable tax legislation at all times), future reversals of sufficient taxable temporary differences relating to the same tax authority and the same taxable entity, and the tax planning opportunities.</p> <p>Given the significance of the amount of deferred tax assets, the high level of judgement in the estimates used and the uncertainty associated with the recovery of these assets, this has been considered a key audit matter.</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> <li>- We assessed the design and implementation of the controls over the recognition and measurement of deferred tax assets;</li> <li>- We assessed the reasonableness of the projections used by the Group to determine future taxable profits, and their alignment with the financial and management information included in the Group's budgets for the coming years;</li> <li>- We assessed the sensitivity of tax projections and the sufficiency of future taxable profits to offset deferred tax assets and the estimated time limits thereof, as well as their consistency with the financial reporting framework applicable to the Group.</li> <li>- We assessed whether the disclosures in the consolidated annual accounts comply with the requirements of the financial reporting framework applicable to the Group.</li> </ul>

### **Other Information: Consolidated Management Report**

Other information solely comprises the 2019 consolidated management report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not encompass the consolidated management report. Our responsibility as regards the content of the consolidated management report is defined in the legislation regulating the audit of accounts, which establishes two different levels:

- a) A specific level applicable to the consolidated non-financial information statement, as well as certain information included in the Annual Corporate Governance Report (ACGR), as defined in article 35.2. b) of Audit Law 22/2015, which consists solely of verifying that this information has been provided in the consolidated management report, or where applicable, that the management report makes reference to the separate report on non-financial information, as provided for in legislation, and if not, to report on this matter.



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- b) A general level applicable to the rest of the information included in the consolidated management report, which consists of assessing and reporting on the consistency of this information with the consolidated annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned accounts and without including any information other than that obtained as evidence during the audit. Also, assessing and reporting on whether the content and presentation of this part of the consolidated management report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have verified that the information mentioned in paragraph a) above has been provided in the consolidated management report and the rest of the information contained in the consolidated management report is consistent with that disclosed in the consolidated annual accounts for 2019, and that the content and presentation of the report are in accordance with applicable legislation.

## **Directors' and Audit Committee's Responsibility for the Consolidated Annual Accounts**

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The Parent's Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent's Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's audit committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

## **Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts**

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated annual accounts.



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As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.
- Conclude on the appropriateness of the use by the Parent's Directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the Parent regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's audit committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.





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From the matters communicated to the audit committee of the Parent, we determine those that were of most significance in the audit of the consolidated annual accounts of the current period and which are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Additional Report to the Audit Committee of the Parent** \_\_\_\_\_

The opinion expressed in this report is consistent with our additional report to the Parent's audit committee dated 27 February 2020.

### **Contract Period** \_\_\_\_\_

We were appointed as Group auditor by the shareholders of Másmóvil Ibercom, S.A. at the ordinary general meeting on 8 May 2019 for a period of one year beginning after the year ended 31 December 2018.

Since the year ended 31 December 2012, we have audited the Group's consolidated annual accounts without interruption, having been appointed by consensus of the shareholders at their general meeting during this period, except in respect of our renewal as the Group's auditor for the period of three years beginning after the year ended 31 December 2014, whereby the Company's request to renew said appointment was registered in the Mercantile Registry of Guipuzcoa on 10 February 2016.

We have also been auditing the Parent's annual accounts since the year ended 31 December 2006.

KPMG Auditores, S.L.  
Registered in the Spanish Official  
Register of Auditors under number  
S0702

*(Signed on original in Spanish)*

Francisco Rabadán Molero  
Registered in the Spanish Official Register of Auditors under number 15.797  
27 February 2020

**MÁSMÓVIL IBERCOM, S.A. AND SUBSIDIARIES**

Consolidated Annual Accounts and Consolidated Management Report  
31 December 2019

prepared in accordance with International Financial

Reporting Standards adopted by the European Union (IFRS-EU)

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**Consolidated Statement of Financial Position at 31 December 2019**

<i>Thousand Euro</i>	<b>NOTE</b>	<b>31/12/2019</b>	<b>31/12/2018 (*)</b>	<b>01/01/2018 (**)</b>
<b>Assets</b>				
Goodwill	5	481,023	476,250	389,380
Intangible assets	5	1,090,763	746,257	393,628
Property, plant and equipment	6	647,766	604,239	456,805
Rights of use	7	151,904	159,054	304,798
Cost of obtaining contracts with customers	8	58,595	31,009	23,551
Contractual assets	9	15,254	34,715	18,225
Investments accounted for using the equity method	11	22,436	-	-
Other investments	10	29,177	7,734	6,404
Prepayment for non-current assets	3 (s)	10,058	6,273	3,889
Deferred tax assets	21	294,122	250,960	248,681
<b>Total non-current assets</b>		<b>2,801,098</b>	<b>2,316,491</b>	<b>1,845,361</b>
Inventories		12,182	1,239	448
Trade and other receivables	12	218,681	237,674	198,441
Cost of obtaining contracts with customers	8	88,815	81,003	54,441
Contractual assets	9	74,311	54,195	42,321
Current tax assets		892	71	1,995
Other investments	10	7,507	4,532	3,493
Prepayment for current assets	3 (s)	7,509	3,816	2,751
Cash and cash equivalents	18 (b)	63,037	98,205	320,092
<b>Total current assets</b>		<b>472,934</b>	<b>480,735</b>	<b>623,982</b>
<b>Total assets</b>		<b>3,274,032</b>	<b>2,797,226</b>	<b>2,469,343</b>
<b>Equity</b>				
Capital	13	2,634	2,404	1,995
Share premium	13	836,039	616,269	246,652
Retained earnings and other reserves	13	(735,001)	(221,760)	(97,432)
Treasury shares	13	(1,654)	(2,020)	(7,973)
Other equity instruments	13	-	66,253	228,086
Translation differences		76	62	199
<b>Equity attributable to equity holders of the Parent</b>		<b>102,094</b>	<b>461,208</b>	<b>371,527</b>
Non-controlling interests		1,822	-	-
<b>Total equity</b>		<b>103,916</b>	<b>461,208</b>	<b>371,527</b>
<b>Liabilities</b>				
Loans and borrowings	14	1,407,927	738,591	510,259
Derivative financial instruments	14	288	589	3,123
Other payables	14	20,994	29,814	32,014
Lease liabilities	14	116,382	120,022	226,714
Other financial liabilities	14	16,159	177,510	298,260
Provisions	15	55,808	105,155	82,568
Government grants	16	14,543	10,865	11,791
Deferred tax liabilities	21	65,747	71,690	55,981
Other non-current liabilities	20	166,418	133,729	107,169
<b>Total non-current liabilities</b>		<b>1,864,266</b>	<b>1,387,965</b>	<b>1,327,879</b>
Loans and borrowings	14	18,747	80,262	24,055
Current income tax liabilities		20,389	2,334	-
Other payables	14	499,769	239,409	38,364
Lease liabilities	14	31,011	28,153	53,180
Other financial liabilities	14	136,768	12,759	41,517
Trade and other payables	17	503,674	553,579	609,392
Provisions	15	95,492	31,557	3,429
<b>Total current liabilities</b>		<b>1,305,850</b>	<b>948,053</b>	<b>769,937</b>
<b>Total liabilities</b>		<b>3,170,116</b>	<b>2,336,018</b>	<b>2,097,816</b>
<b>Total equity and liabilities</b>		<b>3,274,032</b>	<b>2,797,226</b>	<b>2,469,343</b>

(\*) Restated balances. Certain amounts included in this Consolidated Statement of Financial Position at 31 December 2018 do not match those included in the Consolidated annual accounts for the year ended 31 December 2018, and reflect the adjustments described in note 2(c).

(\*\*) Restated data at 1 January 2018 to present the impacts of the adoption of IFRS 16 at the beginning of the first period in which it is applied (see note 2 (j)).

The explanatory notes form an integral part of the consolidated annual accounts.

**Consolidated Statement of Comprehensive Income for the year ended 31 December 2019**

<i>Thousand Euro</i>	<b>NOTE</b>	<b>31/12/2019</b>	<b>31/12/2018 (*)</b>
Revenue	<b>22 a)</b>	1,680,677	1,450,866
Other operating income	<b>22 e)</b>	65,348	47,348
Supplies	<b>22 b)</b>	(804,404)	(724,150)
Employee benefits expenses	<b>22 c)</b>	(67,332)	(50,390)
Depreciation and amortisation expenses	<b>5, 6 and 7</b>	(271,818)	(213,583)
Impairment and result from disposals of assets	<b>6 and 22 f)</b>	112,205	(1,583)
Other operating expenses	<b>22 d)</b>	(424,357)	(350,259)
<b>Operating profit/(loss)</b>		<b>290,319</b>	<b>158,249</b>
Financial income	<b>18 e)</b>	5,975	958
Financial expenses	<b>18 e)</b>	(226,610)	(123,906)
Change in fair value of financial instruments		580	486
Exchange differences		(44)	(137)
Impairment and result from disposal of financial instruments		(149)	28,666
<b>Financial results</b>		<b>(220,248)</b>	<b>(93,933)</b>
Results from equity-consolidated investments		(5,000)	-
<b>Profit/(Loss) from continuing operations, before income tax</b>		<b>65,071</b>	<b>64,316</b>
Income tax income/(expense)	<b>21 a)</b>	28,141	(3,812)
<b>Profit/(Loss) for the year from continuing operations</b>		<b>93,212</b>	<b>60,504</b>
<b>Profit/(Loss) for the year</b>		<b>93,212</b>	<b>60,504</b>
<b>Profit/(Loss) for the year attributable to:</b>			
Equity holders of the Parent Company		92,918	60,504
Non-controlling interests		294	-
<b>Profit/(Loss) for the year</b>		<b>93,212</b>	<b>60,504</b>
<b>Other comprehensive income</b>			
<b>Items to be reclassified to profit or loss</b>			
Translation differences of financial statements of foreign operations		14	(137)
<b>Other comprehensive income for the year, net of tax</b>		<b>14</b>	<b>(137)</b>
<b>Total comprehensive income for the year</b>		<b>93,226</b>	<b>60,367</b>
Total comprehensive results for the year attributable to:			
Equity holders of the Parent Company		92,932	60,367
Non-controlling interests		294	-
<b>Basic earnings per share (expressed in Euro)</b>			
Profit/(Loss) for the year	<b>13 f)</b>	0.73	0.58
<b>Diluted earnings per share (expressed in Euro)</b>			
Profit/(Loss) for the year	<b>13 f)</b>	1.25	0.46

(\*) Restated balances. Certain amounts included in this Consolidated statement of Comprehensive Income at 31 December 2018 do not match those included in the consolidated annual accounts for the year ended 31 December 2018, and reflect the adjustments described in note 2(c).

The explanatory notes form an integral part of the consolidated annual accounts.

**Consolidated Statement of Changes in Equity for the year ended 31 December 2019**

Thousand Euro	Equity attributable to equity holders of the Parent Company							Non-controlling interests	Total	
	Capital	Share Premium	Other reserves	Retained earnings	Treasury shares	Translation differences	Other equity instruments			Total equity
<b>Balance at 1 January 2018</b>	<b>1,995</b>	<b>246,652</b>	<b>9,963</b>	<b>(102,759)</b>	<b>(7,973)</b>	<b>199</b>	<b>228,086</b>	<b>376,163</b>	-	<b>376,163</b>
Impact of adopting IFRS 16, net of taxes (note 2 (j))	-	-	(4,636)	-	-	-	-	(4,636)	-	(4,636)
<b>Restated balances at 1 January 2018</b>	<b>1,995</b>	<b>246,652</b>	<b>5,327</b>	<b>(102,759)</b>	<b>(7,973)</b>	<b>199</b>	<b>228,086</b>	<b>371,527</b>	-	<b>371,527</b>
Profit/(Loss) for the year (notes 2 (c) and (j))	-	-	-	60,504	-	-	-	60,504	-	60,504
Other comprehensive income	-	-	-	-	-	(137)	-	(137)	-	(137)
<b>Total comprehensive income for the year</b>	-	-	-	<b>60,504</b>	-	<b>(137)</b>	-	<b>60,367</b>	-	<b>60,367</b>
Capital increase (note 13 (a))	409	369,617	(3,906)	-	-	-	-	366,120	-	366,120
Treasury shares (note 13 (d))	-	-	-	-	5,953	-	-	5,953	-	5,953
Share-based payments (note 13 (e) and 23)	-	-	-	-	-	-	(9,852)	(9,852)	-	(9,852)
Equity instruments transactions (notes 13 (c) and (e))	-	-	(181,866)	-	-	-	(151,981)	(333,847)	-	(333,847)
Distribution of profit/(loss) for the year 2017	-	-	(102,759)	102,759	-	-	-	-	-	-
Other movements	-	-	940	-	-	-	-	940	-	940
<b>Balance at 31 December 2018 (*)</b>	<b>2,404</b>	<b>616,269</b>	<b>(282,264)</b>	<b>60,504</b>	<b>(2,020)</b>	<b>62</b>	<b>66,253</b>	<b>461,208</b>	-	<b>461,208</b>
<b>Balance at 1 January 2019</b>	<b>2,404</b>	<b>616,269</b>	<b>(282,264)</b>	<b>60,504</b>	<b>(2,020)</b>	<b>62</b>	<b>66,253</b>	<b>461,208</b>	-	<b>461,208</b>
Profit/(Loss) for the year	-	-	-	92,918	-	-	-	92,918	294	93,212
Other comprehensive income	-	-	-	-	-	14	-	14	-	14
<b>Total comprehensive income for the year</b>	-	-	-	<b>92,918</b>	-	<b>14</b>	-	<b>92,932</b>	<b>294</b>	<b>93,226</b>
Capital increase (note 13 (a) and (b))	230	219,770	(3,168)	-	-	-	-	216,832	-	216,832
Distribution of profit/(loss) for the year 2018	-	-	60,504	(60,504)	-	-	-	-	-	-
Treasury shares (note 13 (d))	-	-	142	-	366	-	-	508	-	508
Non-controlling interests resulting from business combination (note 11)	-	-	-	-	-	-	-	-	1,528	1,528
Equity instruments transactions (note 13 (c) and (e))	-	-	(601,143)	-	-	-	(66,253)	(667,396)	-	(667,396)
Other movements	-	-	(1,990)	-	-	-	-	(1,990)	-	(1,990)
<b>Balance at 31 December 2019</b>	<b>2,634</b>	<b>836,039</b>	<b>(827,919)</b>	<b>92,918</b>	<b>(1,654)</b>	<b>76</b>	-	<b>102,094</b>	<b>1,822</b>	<b>103,916</b>

(\*) Restated balances. Certain amounts included in this Consolidated statement of Changes in Equity at 31 December 2018 do not match those included in the consolidated annual accounts for the year ended 31 December 2018, and reflect the adjustments described in note 2(c).

The explanatory notes form an integral part of the consolidated annual accounts.

## Consolidated Statement of Cash Flows for the year ended 31 December 2019

Thousand Euro

	NOTE	31/12/2019	31/12/2018 (*)
<b>Cash flow from operating activities</b>			
<b>Profit/(Loss) from continuing operations</b>		<b>93,212</b>	<b>60,504</b>
Adjustments for:			
Depreciation and amortisation	5; 6 and 7	271,818	213,583
Impairment losses from trade receivables	12	38,784	31,455
Change in provisions	15	(8,300)	(383)
Government grants recognised		(1,906)	(778)
Capitalization of the cost of obtaining contracts with customers		(35,448)	(34,878)
Recognised costs for contractual assets		(605)	(28,364)
Proceeds from disposal of assets	22 f)	(144,419)	-
Impairment of non-current assets	22 f)	32,214	7,027
Financial income		(5,975)	(958)
Financial expenses		226,654	124,043
Other income and expenses		(20,164)	(29,152)
Income tax income/(expense)	21	(28,141)	3,812
<b>Changes in working capital</b>			
- Inventories		-	206
- Trade and other receivables		(19,791)	(28,602)
- Other assets		(15,144)	(9,934)
- Trade and other payables		258,014	47,427
- Provisions		(1,075)	20,241
<b>Cash flow from operating activities</b>		<b>639,728</b>	<b>375,249</b>
Interest paid		(51,645)	(57,137)
Income tax received/(paid)		(4,880)	(6,849)
<b>Net cash flow from operating activities</b>		<b>583,203</b>	<b>311,263</b>
<b>Cash flow from investing activities</b>			
Proceeds from sale of financial assets		(269)	-
Proceeds from sale of property, plant and equipment	6	223,022	-
Payments from sale of financial assets	5	-	(1,881)
Payments for acquisition of property, plant and equipment	4	(315,779)	(232,705)
Payments for acquisition of intangible assets		(407,034)	(255,790)
Acquisition of subsidiaries, net of cash and cash equivalents		(72,793)	(110,929)
Payments for the acquisition of financial assets		-	(1,035)
<b>Net cash flow used in investing activities</b>		<b>(572,853)</b>	<b>(602,340)</b>
<b>Cash flow from financing activities</b>			
Proceeds from issue of share capital	13	220,000	370,026
Proceeds from bank borrowings	14	1,550,000	396,210
Proceeds from other financial liabilities	14	118,593	-
Payments for lease liabilities including interest	26	(32,086)	(53,283)
Payments for costs of issue of equity instruments		(3,168)	(3,899)
Payments for bank borrowings		(992,278)	(122,023)
Payment for other financial liabilities		(906,579)	(517,841)
<b>Net cash flow from/(used in) financing activities</b>		<b>(45,518)</b>	<b>69,190</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(35,168)</b>	<b>(221,887)</b>
Cash and cash equivalents at 1 January		98,205	320,092
<b>Cash and cash equivalents at 31 December</b>		<b>63,037</b>	<b>98,205</b>

(\*) Restated balances. Certain amounts included in this Consolidated statement of Cash Flows at 31 December 2018 do not match those included in the consolidated annual accounts for the year ended 31 December 2018, and reflect the adjustments described in note 2(c).

The explanatory notes form an integral part of the consolidated annual accounts.

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## **Notes to the consolidated annual accounts for the year ended 31 December 2019**

### **1. Nature, activities and composition of the Group**

World Wide Web Ibercom, S.L. was incorporated for an open-ended period as a private limited liability company under Spanish law on 12 November 1997. On 1 July 2011, the Company became a corporation while retaining its initial name.

On 3 July 2014, World Wide Web Ibercom, S.L. changed its name to its current name “MÁSMÓVIL IBERCOM, S.A.” (hereinafter the Company or the Parent Company). Its registered office is in San Sebastian (Guipúzcoa), Parque Empresarial Zuatzu, Edificio Easo, 2ª planta.

Its corporate purpose is:

- a) provision of telecommunications services through the operation of networks or the resale of telephone services, mobile and landline telephony, internet and television services, and the development of computer software.
- b) The marketing and provision and trading of all manner of services through computer networks.
- c) The provision of IT and telecommunications advisory and consultancy services. Company analysis, software and hardware technical collaboration. Application and teaching in relation to computer applications and telecommunications. The provision of advisory services on strategic and operational planning. Organisation of human and material resources, the preparation of business studies and reports, operations advisory and consultancy services for telecommunications operators and business strategy.
- d) The sale, distribution, import, export, maintenance and servicing of all types of products and services relating to IT and telecommunications with respect to hardware, software and internet, as well as the distribution and sale of any products and services through the internet, parallel internet network (infovía) or any other telematic network that is similar, complementary to or replaces those currently in existence.
- e) The provision of services to third parties comprising studies, projects and technical and investment advice in the area of telecommunications and computer software. This section expressly includes management support services relating to finance, tax and accounting administration, collections, payments, cash management, human resources and personnel management, IT services, purchases and any other service necessary to carry out its statutory activity.

The Company may wholly or partially carry out its statutory activity indirectly by any means permitted by law, specifically through the holding of investments in other companies with an identical or similar statutory activity.

The Company is the parent company of a group of subsidiaries (hereinafter the MásMóvil Group, MásMóvil or the Group). The most significant information regarding to the composition of this Group is provided in Appendix I, which forms an integral part of this note. MásMóvil Group's core business consists of the provision of fixed-line, mobile and broadband services. These transactions constitute the Group's only segment of business activity (see note 22 (a)).



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On 14 July 2017 the Company effectively stopped trading on the Spanish Alternative Stock Market for Growing Companies and simultaneously started trading on the Madrid, Barcelona, Bilbao and Valencia stock exchanges, and was included in the Spanish Interconnection Stock Market System (Mercado Continuo (SIBE)). The Technical Advisory Committee at the Ibx Indexes approved the Company's entry into the IBEX 35 on 14 June 2019. It effectively entered the IBEX 35 on 24 June 2019.

The Group has completed various acquisitions in 2019 and 2018 (see note 4) and has carried out mergers between two of its investee companies in 2019 (see note 2 (a)).

## **2. Basis of presentation**

The accompanying consolidated annual accounts have been prepared on the basis of the accounting records of the Company and of the Group companies, and have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), to give a true and fair view of the consolidated equity and consolidated financial position of the MásMóvil Group at 31 December 2019 and consolidated results of operations and changes in consolidated equity and cash flows of the Group for the year then ended.

The directors of the Parent Company consider that these consolidated annual accounts for 2019, authorised for issue on 27 February 2020, will be approved with no changes by the shareholders at their annual general meeting.

### **a) Changes in the consolidation perimeter**

In 2019, the Group made the following acquisitions that were included in the consolidation perimeter as from the acquisition date:

- Carrier-E Mobile, S.L.U.
- Netllar, S.L.U.

Further information about these acquisitions is included in note 4.1.

Also in 2019, the Group set up or acquired the following companies which were included in consolidation by means of the equity method as from the date of each incorporation or acquisition. As of 31 December of 2019, the Group does not have control over this company, but does exercise significant influence.

- Acquisition of Spotting Developments, S.L. and Inversiones Locua, S.L.
- Incorporation of Medbuying Technologies Group, S.L.
- Incorporation of Xfera Consumer Finance Establecimiento Financiero de Crédito, S.A.
- Acquisition of Cabonitel, S.A.
- Acquisition of Senior Telecomunicaciones y Servicios Avanzados, S.L.

Information on these transactions may be found in note 10.

On 5 December 2019, the merger of Neutra Network Services, S.A.U. into its parent company MásMóvil Broadband, S.A.U. was carried out through a public document (see appendix I).

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The Group sold its interest in the company Com&Media Proyectos y Servicios, S.L. on 31 July 2019, the result of which was not significant.

The Group carried out the following acquisitions in 2018 and they were included in the scope of consolidation perimeter as from the acquisition date:

- Neutra Network Services, S.L.U. was acquired through its subsidiary MásMóvil Broadband, S.A.U.
- The Bymovil Spain, S.L.U. was acquired through its subsidiary Xfera Móviles, S.A.U.
- The Group acquired a line of business consisting of the mobile virtual network operator (MVNO) business of Lebara Mobile Group B.V. through its subsidiary Xfera Móviles, S.A.U.

The information regarding these transactions is included in note 4.2.

On 31 March 2018, MásMóvil UK Ltd (formerly Quantum Ltd (UK)), a subsidiary of the group company Xtra Telecom, S.A.U. and resident in the UK, was wound up and extinguished.

#### **b) Basis of preparation of the consolidated annual accounts**

These consolidated annual accounts have been prepared on a historical cost basis, except for the following:

- Financial instruments (see note 3 (i));
- Certain assets and liabilities related to the business combination (see note 4).

#### **c) Comparative information**

These consolidated annual accounts present, for the purposes of comparison, the consolidated figures on the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and the consolidated annual accounts, in addition to the consolidated figures relating to 2019 and those for the preceding year.

As a result of the first-time application of IFRS 15, at 1 January 2018 and 31 December 2018 the Group presented certain costs relating to terminal discounts and subsidies under the heading "Costs of obtaining contracts with customers". In 2019 the Group analysed the nature of these items and reached the conclusion that they should be presented under "Contractual Assets" (see notes 3 (o) iii and 9), and therefore it has reclassified them to this asset heading in the consolidated statement of financial position at 1 January and 31 December 2018, in the amounts of Euro 60,546 thousand and Euro 88,910 thousand, respectively. This reclassification has not affected the Group's equity at those dates or profit/loss for 2018.

The Group has adopted IFRS 16 under the full retrospective method as of 1 January 2018 (see note 2 (j)), which entailed the restatement of the consolidated statement of financial position at 31 December 2018 and 1 January 2018, and the consolidated statement of comprehensive income, as well as the consolidated statement of changes in equity and the consolidated cash flow statement for the annual period ended 31 December 2018, included in these consolidated annual accounts.

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As mentioned in note 4.2, in 2019 the Group has concluded the evaluation of the acquisition of The Bymovil Spain, S.L.U. Therefore, in accordance with prevailing legislation, recognised the evaluation of the acquisition cost as from the acquisition date, 20 December 2018.

**d) Going concern**

The directors of the Company prepared the consolidated annual accounts based on the Group's ability to continue as a going concern as they consider that future prospects of the business will allow the Group to obtain results and positive cash flows in the foreseeable future.

The Group presents negative working capital totalling Euro 832,916 thousand at 31 December 2019 (negative working capital totalling Euro 467,318 thousand at 31 December 2018 considering the restatement mentioned in note 2 (j)), which is a common circumstance in the business in which it engages and in its financial structure, and this is not considered by the Directors to be a barrier to the normal performance of the business. The directors of the Company do not believe that cash requirements in 2020 will exceed its current financing capacity, taking into consideration the particularities of working capital within its business.

The Group's primary business is the rendering of telecommunications services which operates with a reduced payment collection period which, associated with a supplier payment period of 50.67 days (50.37 days in 2018) (see note 17) allows the Group's resources to be optimized since they operate with negative working capital. The directors of the Parent Company do not believe that any circumstances would arise in 2020 that would have a negative impact on the Group's current working capital structure.

The Group has available financing facilities at 31 December 2019, notably the CAPEX line (Euro 150,000 thousand) and the RCF tranche (Euro 100,000 thousand). In January 2020, Euro 95,000 thousand was drawn down from the CAPEX tranche (see notes 14 (a) and 28).

The financing structure signed in May 2019 allows (i) an increase in senior debt to a ratio of 4.0x (Net senior debt/EBITDA (in accordance with the definition of EBITDA included in the contract)), (ii) additional subordinated debt to be incurred and (iii) have a "basket" of available financing. The Group may therefore obtain additional financing of up to Euro 483,000 thousand (see note 14 (a)).

In turn, on 14 November 2019 the Company issued a new Promissory note Program with the Alternative Fixed Income Market (AFIM) for a maximum amount of Euro 200,000 thousand (see note 14 (d)), and in December 2019 it had issued within the framework of that Program Euro 80,000 thousand. At the date of preparation of these consolidated annual accounts, the total amount drawn down under this Programme was Euro 170,000 thousand (See notes 14 (d) and 28).

Finally, the Group has available short-term lines of credit totalling Euro 42,000 thousand at 31 December 2019 (see note 14 (a)).

**e) Functional and presentation currency**

The consolidated annual accounts are presented in thousands of Euros, rounded to the nearest thousand. The Company's presentation and functional currency is the Euro.

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#### **f) Relevant accounting estimates, assumptions and judgements used when applying accounting principles**

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Group's accounting principles to prepare the consolidated annual accounts in conformity with IFRS-EU. A summary of the items requiring a greater degree of judgement or which are more complex, or where the assumptions and estimates made are significant to the preparation of these consolidated annual accounts, is as follows.

##### ***Significant accounting estimates and assumptions***

The measurement adjustment for losses on trade receivables is based on assumptions regarding non-compliance risk and expected loss rates. Group management uses judgements when developing these assumptions and determining the variables to use in the calculation of the expected loss from a customer or trade receivable. These judgements are based on historical non-payment experience over the past 12 months, trade receivable non-payment percentages, existing market conditions as well as prospective estimates made at the end of each year being reported (see note 3 (i)).

The Group tests goodwill and intangible assets with an indefinite useful life, principally its trademarks, for impairment on an annual basis (see note 3(e)). The calculation of the recoverable value of a Cash Generating Unit (CGU) to which the goodwill and trademarks have been assigned requires the use of estimates. Recoverable amount is the higher of fair value less costs to sell and value in use. The Group uses the relief from royalties method net of the tax effect to calculate the value of the trademarks. The Group uses discounted cash flow methods to calculate the recoverable amount of goodwill. The calculations of cash flow discounts are based on five-year projections of the consolidated budgets approved by the Group. The cash flows take into consideration earlier experience and represent the Group's best estimate of the future development of the market. Cash flows beyond this five-year period are extrapolated by using terminal growth rates. Key assumptions used to calculate fair value less costs to sell and value in use include rates of growth, weighted average cost of capital and tax rates.

The calculation of provisions for onerous contracts, guarantees, litigation and certain employee and executive compensation is subject to a high degree of uncertainty (see note 3(n)). The Group recognises provisions for onerous contracts when the estimated total incurred costs exceed the expected income from the contract. Those estimates are subject to potential changes based on new information.

The Group analyses the useful life of assets with a definite useful life based on common practices in the sector and, if appropriate, internal technical reports (see notes 3 (e) and 3 (f)).

The Group recognises deferred tax assets in accordance with the accounting policy stated in note 3 (p). The estimates regarding the recoverability of Deferred tax assets use profit projections for Group companies based on the tax consolidation system, which entails the use of estimates. Those projections are taken into account provided they may be reliably estimated, bearing in mind the different circumstances established in current tax legislation.

##### ***Significant judgements in the application of accounting policies***

Useful life of property, plant and equipment and intangible assets (see notes 3 (e) and 3 (f));

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Capitalisation and recoverability of development expenditure (see note 3 (e));

Goodwill impairment analysis (see note 3 (e));

Determination of whether a contract falls within the scope of IFRS 16 (see note 3 (h));

Provisions subject to judgement and estimates (see note 3 (n));

Recoverability of capitalised tax credits (see note 3 (p)).

***Changes in estimates***

Although estimates are calculated by the Company directors based on the best information available at 31 December 2019, future events may require changes to these estimates in subsequent years. Any effect on the consolidated annual accounts of adjustments to be made in subsequent years would be recognised prospectively.

***Determination of fair values***

Certain of the Group's accounting and disclosure policies require the fair value of financial and non-financial assets and liabilities to be determined.

The Group has established a control framework for determining fair values. This framework includes the assigned personnel with general responsibility for overseeing all relevant fair value calculations, who report directly to Group's financial management.

These employees regularly revise significant, unobservable inputs and valuation adjustments. If third party information such as pricing services or broker quotes are used when determining fair values, the assessment team checks whether this information complies with IFRS-EU and the fair value hierarchy level in which these valuations should be classified.

Where possible, the Group uses observable market data to measure the fair value of an asset or liability. The fair values are classified in different levels of the fair value hierarchy based on the inputs used in the valuation techniques, as follows:

- Level 1: quoted prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The breakdown of financial instruments prescribed under the accounting standards is included in note 18 (e).

Where the inputs used to measure the fair value of an asset or liability can be categorised within different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between different levels of the fair value hierarchy at the end of the period in which the transfer occurs.

The following notes contain more information on the assumptions used to determine fair values:

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- Note 4: Business combinations.
- Note 18 (e): Financial instruments and fair value.

#### **g) Mandatory standards, amendments and interpretations for all years starting on 1 January 2019**

Starting 1 January 2019, the following accounting standards have come into effect which are applicable to these consolidated annual accounts, meaning that certain accounting policies have had to be changed.

- IFRS 16 “Leases”.

The impact of the adoption of IFRS 16 “Leases” and the resulting new accounting policy on these consolidated annual accounts is described in section (j) of this note.

Similarly, the following standards, interpretations, amendments to standards and improvements came into effect as from 1 January 2019, without a significant impact on these consolidated annual accounts for the Group:

- Amendments to IFRS 9 “Prepayment features with negative compensation”: The terms of instruments with prepayment features with negative compensation where the lender could be required to accept a prepayment which is substantially lower than unpaid principal and interest, were incompatible with the notion of “reasonable additional compensation” for the early termination of a contract according to IFRS 9.

- IFRIC 23, “Uncertainty over income tax treatments”: The interpretation provides requirements in addition to those of IAS 12 “Income Taxes”, specifying how to reflect the effects of uncertainty on the recognition of income taxes. This interpretation clarifies how the recognition and measurement requirements of IAS 12 are applied when there is uncertainty in the accounting treatment.

- Annual IFRS Improvements. 2015 – 2017 Cycle: The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23 and apply to years commencing on or after 1 January 2019. The main amendments relate to:

- IFRS 3 “Business combinations”: An interest previously held in a joint arrangement is remeasured when control of the business is obtained.
- IFRS 11 “Joint arrangements”: An interest previously held in a joint arrangement is not remeasured when control of the business is obtained.
- IAS 12 “Income taxes”: All tax repercussions of the payment of dividends are recognised in the same manner.
- IAS 23 “Borrowing costs”: Any specific loan originally made to develop a qualifying asset is considered to be part of generic loans when the asset is ready for use or sale.

Other standards, amendments and interpretations that the IASB and IFRS Interpretations Committee had published at the date of issue of these consolidated annual accounts but which are not applicable to the Group are as follows:

- IAS 28 (Amendment) “Long-term interests in associates and joint ventures”.
- IAS 19 (Amendment) “Plan amendment, curtailment or settlement”.

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**h) Standards, amendments and interpretations which are not yet effective but that the Group expects to adopt beginning on or after 1 January 2020 (not adopted early)**

At the date these consolidated annual accounts are authorised for issue, the IASB and the IFRS Interpretations Committee had published the following standards, amendments and interpretations that have been adopted by the European Union:

IAS 1 (Amendment) and IAS 8 (Amendment) “*Definition of material*”: These amendments clarify the definition of “material”. In addition to omitted or misstated items that may influence decisions by users, the concept of “obscure” information is included. The amendments make IFRS more coherent but are not expected to have a material impact on the preparation of the consolidated annual accounts.

IFRS 9 (Amendment), IFRS 7 (Amendment) and IAS 39 (Amendment) “*Interest rate benchmark reform*”: These amendments provide certain exemptions relating to the reform of the benchmark interest rate (IBOR). The exemptions relate to hedge accounting and entail that the reform of the IBOR must not generally cause hedge accounting to be discontinued. However, any hedge ineffectiveness must continue to be recognised in the consolidated statement of comprehensive income.

The amendments will apply in financial years beginning on or after 1 January 2020, although early adoption is permitted.

**i) Standards, amendments and interpretations applied to existing standards that cannot be adopted early or have not been adopted by the European Union**

As of the date these consolidated annual accounts were authorised for issue, the IASB and IFRIC had published the standards, amendments and interpretations described below, which have not yet been endorsed by the European Union.

IFRS 10 (Amendment) and IAS 28 (Amendment) “*Sale or contribution of assets between an investor and its associates or joint ventures*”. These amendments clarify the accounting treatment of the sale or contribution of assets between an investor and its associates and joint ventures. This will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a business. The investor will recognise the total gain or loss when the non-monetary assets constitute a “business”. If the assets do not meet the definition of a business, the investor should recognise the profit or loss to the extent of other investors’ interests. The amendments will only apply when an investor sells or contributes the assets to an associate or joint venture.

Initially these amendments to IFRS 10 and IAS 28 were prospective and effective for years starting on or after 1 January 2016. Nonetheless, at the end of 2015 the IASB took the decision to postpone the effective date (without establishing a new specific date) since it is planning a more extensive review which may result in the simplification of accounting for such transactions and other aspects of accounting for associates and joint ventures.

IFRS 3 (Amendment) “*Definition of a business*”: These amendments will help to determine whether we are dealing with the acquisition of a business or a group of assets. The amended definition stresses that the output of a business is to provide goods and services to customers

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whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, supplementary guidance has been provided. In order to be considered a business, an acquisition would have to include inputs and a process that together contribute significantly to the capacity to create outputs. The new guidance provides a framework to assess when both items are present (including start-ups that have generated no outputs). In order to be a business with no outputs, it will now be necessary to have an organised workforce.

These changes will apply to business combinations with an acquisition date as from 1 January 2020 and to asset acquisitions occurring as from the beginning of that year. Early application is permitted. These changes are pending approval by the European Union.

Other standards, amendments and interpretations that the IASB and the IFRS Interpretations Committee have published at the date these consolidated annual accounts were authorised for issue but are not applicable to the Group are as follows:

- IFRS 17 “*Insurance Contracts*”

#### **j) Changes in accounting policies**

This note explains the impact of adopting IFRS 16 “*Leases*” affecting the Group’s consolidated annual accounts.

#### **Transition to new accounting standards adopted during the present period**

- IFRS 16 “*Leases*”:

The new standard on leases that replaces IAS 17 was published in January 2016 and is effective for years beginning on or after 1 January 2019. As a result, most leases will be recognised on the consolidated statement of financial position by lessees as the distinction between operating and finance leases is eliminated. Under the new standard, and except for short-term or low-value leases, an asset (right of use of the leased asset) is recognised together with a financial liability for the present value of outstanding lease payments, and assets with a finite use life being subject to impairment testing. The standard mainly affects the accounting treatment of the Group’s operating leases that are reduced while amortisation of the right of use of those assets increases along with financial expenses.

When the Group has been subrogated to the position of lessee under a lease contract as a result of a business combination, the related liability will be measured at the present value of the outstanding payments on the lease at the combination date as if the contract taken on were a new lease at that date.

The Group has applied the standard as from 1 January 2018 under the full retrospective method and has restated the figures previously presented (see note 2 (c)), as indicated in the IFRS 16, paragraph C5 a) of appendix C on transition and effective date.

The Group reviewed the different types of contracts it has for goods and services in order to determine which arrangements constitute or contain a lease under the new definition of a lease. In this respect, the Group has not applied the practical expedients contained in paragraph C3 of appendix C on transition and effective date which would possibly have permitted it not to re-assess whether its contracts contain or constitute leases.



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The Group has employed a range of incremental interest rates suited to each type of contract asset and term, as listed in the following table:

Types of contracts	Debt ratio according to contract term
Mobile network locations	4.3% - 5.3%
OBA and cabling pipelines - fibre-optic network	4.3% - 5.3%
Transmission lines	5.8 – 6.8%
Housing and other contracts	3.3% - 4.3%

The exemptions provided under IFRS 16 for short-term and low-value leases have been applied to non-strategic assets (low value IT assets, furniture, housing etc).

Note 7 details the information related to the movement in the rights of use on leases since 1 January 2018, taking into account the impacts deriving from the adoption of IFRS 16, detailed below:

**Impact on comparative information**

The reconciliation of the figures included in the Group's consolidated statements of financial position and consolidated statements of changes in equity at 1 January 2018 and 31 December 2018 and the consolidated statement of comprehensive income and consolidated cash flow statement in 2018, before and after the adoption of IFRS 16 is as follows:

*Summarized impact on the condensed consolidated statement of financial position at 1 January 2018*

<i>Thousand Euro</i>	<b>01/01/2018</b>	<b>Impact from adopting IFRS 16</b>	<b>01/01/2018 Restated</b>
Property, plant and equipment	462,903	(6,098)	456,805
Rights of use	-	304,798	304,798
Prepayment for non-current assets	28,876	(24,987)	3,889
Deferred tax assets	247,136	1,545	248,681
Non-current assets - rest	831,188	-	831,188
<b>Total non-current assets</b>	<b>1,570,103</b>	<b>275,258</b>	<b>1,845,361</b>
Trade and other receivables	198,441	-	198,441
Current assets - rest	425,541	-	425,541
<b>Total current assets</b>	<b>623,982</b>	<b>-</b>	<b>623,982</b>
<b>Total assets</b>	<b>2,194,085</b>	<b>275,258</b>	<b>2,469,343</b>
<b>Total equity</b>	<b>376,163</b>	<b>(4,636)</b>	<b>371,527</b>
Lease liabilities	-	226,714	226,714
Non-current liabilities – rest	1,101,165	-	1,101,165
<b>Total non-current liabilities</b>	<b>1,101,165</b>	<b>226,714</b>	<b>1,327,879</b>
Lease liabilities	-	53,180	53,180
Current-liabilities - rest	716,757	-	716,757
<b>Total current liabilities</b>	<b>716,757</b>	<b>53,180</b>	<b>769,937</b>
<b>Total equity and liabilities</b>	<b>2,194,085</b>	<b>275,258</b>	<b>2,469,343</b>

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Summarized impact on the condensed consolidated statement of financial position at 31 December 2018

Thousand Euro	31/12/2018 (*)	Impact from adopting IFRS 16	31/12/2018 Restated
Property, plant and equipment	610,123	(5,884)	604,239
Rights of use	-	159,054	159,054
Prepayment for non-current assets	30,835	(24,562)	6,273
Deferred tax assets	246,068	4,892	250,960
Non-current assets - rest	1,295,965	-	1,295,965
<b>Total non-current assets</b>	<b>2,182,991</b>	<b>133,500</b>	<b>2,316,491</b>
Trade and other receivables	237,674	-	237,674
Current assets - rest	243,061	-	243,061
<b>Total current assets</b>	<b>480,735</b>	<b>-</b>	<b>480,735</b>
<b>Total assets</b>	<b>2,663,726</b>	<b>133,500</b>	<b>2,797,226</b>
<b>Total equity</b>	<b>475,883</b>	<b>(14,675)</b>	<b>461,208</b>
Lease liabilities	-	120,022	120,022
Non-current liabilities - rest	1,267,943	-	1,267,943
<b>Total non-current liabilities</b>	<b>1,267,943</b>	<b>120,022</b>	<b>1,387,965</b>
Lease liabilities	-	28,153	28,153
Current-liabilities - rest	919,900	-	919,900
<b>Total current liabilities</b>	<b>919,900</b>	<b>28,153</b>	<b>948,053</b>
<b>Total equity and liabilities</b>	<b>2,663,726</b>	<b>133,500</b>	<b>2,797,226</b>

(\*) Includes the restatement resulting from the allocation of the purchase price of the company The Bymovil Spain, S.L.U., as is mentioned in notes 2 (c) and 4.2 of these consolidated annual accounts.

Summarized impact on the condensed consolidated statement of comprehensive income for the period ended 31 December 2018

Thousand Euro	31/12/2018	Impact from adopting IFRS 16	31/12/2018 Restated
Revenues	1,498,214	-	1,498,214
Depreciation and amortisation expenses	(160,753)	(52,830)	(213,583)
Operating expenses - rest	(1,185,664)	59,282	(1,126,382)
<b>Operating profit / (loss)</b>	<b>151,797</b>	<b>6,452</b>	<b>158,249</b>
Financial income	30,110	-	30,110
Financial expenses	(104,203)	(19,840)	(124,043)
<b>Financial results</b>	<b>(74,093)</b>	<b>(19,840)</b>	<b>(93,933)</b>
<b>Profit/(Loss) from continuing operations, before income tax</b>	<b>77,704</b>	<b>(13,388)</b>	<b>64,316</b>
Income tax expense	(7,161)	3,349	(3,812)
<b>Profit/(Loss) for the year</b>	<b>70,543</b>	<b>(10,039)</b>	<b>60,504</b>
Translation differences of financial statements of foreign operations	(137)	-	(137)
<b>Total comprehensive income for the year</b>	<b>70,406</b>	<b>(10,039)</b>	<b>60,367</b>

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Summarized impact on the condensed consolidated statement of cash flow for the period ended 31 December 2018

<i>Thousand Euro</i>	<b>31/12/2018</b>	<b>Impact from adopting IFRS 16</b>	<b>31/12/2018 Restated</b>
<b>Cash flow from operating activities</b>			
<b>Profit / Loss for the year from continuing operations</b>	70,543	(10,039)	60,504
Adjustments for:			
Depreciation and amortization	160,753	52,830	213,583
Other adjustments to net result	(26,742)	-	(26,742)
Financial expense	104,066	19,840	123,906
Other income and expenses	(29,152)	-	(29,152)
Income tax income	7,161	(3,349)	3,812
Net changes in working capital	29,338	-	29,338
<b>Cash flow from operating activities</b>	<b>315,967</b>	<b>59,282</b>	<b>375,249</b>
Interest paid	(51,138)	(5,999)	(57,137)
Income tax received	(6,849)	-	(6,849)
<b>Net cash flow from operating activities</b>	<b>257,980</b>	<b>53,283</b>	<b>311,263</b>
<b>Cash flow from investing activities</b>			
Net proceeds and payments from investing activities	(602,340)	-	(602,340)
<b>Net cash used in investing activities</b>	<b>(602,340)</b>	<b>-</b>	<b>(602,340)</b>
<b>Cash flow from financing activities</b>			
Proceeds from issuance of share capital	370,026	-	370,026
Net proceeds from and payments for bank borrowings	274,187	-	274,187
Payments for lease liabilities	-	(53,283)	(53,283)
Proceeds from redemption of treasury shares	(3,899)	-	(3,899)
Payments for other financial liabilities	(517,841)	-	(517,841)
<b>Net cash flow from financing activities</b>	<b>122,473</b>	<b>(53,283)</b>	<b>69,190</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(221,887)</b>	<b>-</b>	<b>(221,887)</b>
Cash and cash equivalents at 1 January	320,092	-	320,092
<b>Cash and cash equivalents at 31 December</b>	<b>98,205</b>	<b>-</b>	<b>98,205</b>

### 3. Significant accounting policies applied

#### a) Basis of consolidation

##### i) *Business combinations*

##### Acquisitions from third parties

As permitted by IFRS 1 "First-time Adoption of International Financial Reporting Standards", the Group has recognised only business combinations that occurred on or after 1 January 2014, the date of the Group's transition to IFRS-EU, using the acquisition method. Entities acquired prior to that date were recognised in accordance with the accounting policies normally accepted in Spain then in force, taking into account the necessary corrections and adjustments at the transition date.

The Group has applied IFRS 3 "Business Combinations", revised in 2008, to transactions carried out on or after 1 January 2014.

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The Group applies the acquisition method for business combinations. The acquisition date is the date on which the Group obtains control of the acquiree.

The consideration given for a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree.

The consideration given excludes any payment that does not form part of the exchange for the acquired business. Acquisition-related costs are recognised as an expense as they are incurred. In business combinations performed prior to 31 December 2013, transaction costs were recognised as an integral part of the consideration given.

At the acquisition date the Group recognises the assets acquired, the liabilities assumed and any non-controlling interest at fair value. Non-controlling interests in the acquiree are recognised at the proportionate interest in the fair value of the net assets acquired.

The liabilities assumed include contingent liabilities to the extent that they represent present obligations arising from past events and whose fair value can be reliably measured. With the exception of lease and insurance contracts, the assets acquired, and liabilities assumed are classified and designated for subsequent measurement based on contractual agreements, economic terms, accounting and operating policies and any other conditions existing at the acquisition date.

The excess between the consideration given, plus the value assigned to non-controlling interests, and the value of net assets acquired, and liabilities assumed, is recognised as goodwill. Any shortfall, after evaluating the consideration handed over, the value assigned to non-controlling interests and the identification and measurement of net assets acquired, is recognised in the consolidated statement of comprehensive income.

If it is only possible to determine the business combination provisionally at the reporting date, the identifiable net assets are initially recognised at their provisional amounts and adjustments made during the measurement period are recognised as if they had been known at that date. Comparative figures for the previous year are restated where applicable. In any event, adjustments to provisional amounts only reflect information obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the measurement of the amounts recognised at that date.

The potential benefit of the acquiree's tax -loss carryforwards and other deferred tax assets, which are not recognised as they did not qualify for recognition at the acquisition date, is accounted for as income tax income provided that it does not arise from an adjustment of the measurement period.

The contingent consideration is classified in accordance with the underlying contractual terms as a financial asset or financial liability, equity instrument or provision. Subsequent changes in the fair value of a financial asset or financial liability are recognised in consolidated profit or loss or other comprehensive income, provided that they do not arise from a measurement period adjustment. Contingent consideration classified as equity is not remeasured, and subsequent settlement is accounted for in equity. Contingent consideration classified as a provision is subsequently recognised in accordance with the relevant measurement standard.

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For business combinations carried out prior to 1 January 2014, the cost of the business combination includes contingent consideration, if this was probable at the acquisition date and could be reliably estimated. Subsequent recognition of or changes to contingent consideration are recognised as a prospective adjustment to the cost of the business combination.

The derivative instruments are initially recognized at fair value and subsequent gains and losses are measured and recognized at fair value through profit or loss in the consolidated statement of comprehensive income.

*Non-controlling interests*

Non-controlling interests in subsidiaries are recognised at the acquisition date at the proportional part of the fair value of the identifiable net assets. Non-controlling interests in subsidiaries acquired prior to the transition date were recognised at the proportional part of the equity of the subsidiaries at the date of first consolidation.

The consolidated profit or loss for the year and changes in equity of the subsidiaries attributable to the Group and non-controlling interests after consolidation adjustments and eliminations, are determined in accordance with the ownership interest at year end, without considering the possible exercise or conversion of potential voting rights and after discounting the effect of dividends, agreed or not, on cumulative preference shares classified in equity accounts. However, Group and non-controlling interests are calculated taking into account the possible exercise of potential voting rights and other derivative financial instruments which, in substance, currently allow access to the economic benefits associated with the interests held, such as entitlement to a share in future dividends and changes in the value of subsidiaries.

The excess of losses attributable to non-controlling interests generated prior to 1 January 2014, which cannot be attributed to them because such losses exceed their interest in the equity of the subsidiary, is recognised as a decrease in equity attributable to equity shareholders of the Parent Company, except when the non-controlling interests are bound to assume part or all of the losses and are in a position to make the necessary additional investment. Profits obtained in subsequent years are allocated to equity attributable to shareholders of the Parent Company until the non-controlling interest's share in prior years' losses is recovered.

Profit and loss and each component of other consolidated comprehensive income are allocated to equity attributable to shareholders of the Parent Company and to non-controlling interests in proportion to their investment, even if this results in the non-controlling interests having a debtor balance. Agreements entered into between the Group and non-controlling interests are recognised as a separate transaction.

**ii) Subsidiaries**

Subsidiaries are entities over which the Company, either directly or indirectly through subsidiaries, exercises control. The Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Company has power over a subsidiary when it has existing substantive rights that give it the ability to direct the relevant activities. The Company is exposed, or has rights, to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

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Information on the subsidiaries controlled by the Group is presented in Appendix I.

The income, expenses and cash flows of subsidiaries are included in the consolidated annual accounts from the date on which the Group takes control until the date that control ceases.

Transactions and balances with Group companies and unrealised gains or losses have been eliminated on consolidation. Nevertheless, unrealised losses have been considered as an indicator of impairment of the assets transferred.

Subsidiaries' accounting policies are changed where necessary for consistency with the principles adopted by the Group.

The annual accounts or financial statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Parent Company.

**iii) Associates**

Associates are all entities over which the Group has significant influence. Significant influence is the power to intervene in the decisions regarding financial and operating policies at a company, without having control or joint control over that entity. This is generally the case where the Group holds between 20% and 50% of the voting rights. When evaluating the existence of significant influence, the potential voting rights that may be exercised or converted at the end of each year must be taken into account, including the potential voting rights held by the Group or another company. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost.

Under the equity method of accounting, the investments are initially recognised at cost, which includes transaction costs, and adjusted thereafter to recognise the Group's share of the post-acquisition consolidated profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.

The Group's participation in the profits or losses of associates and in changes in equity is determined based on the ownership interest held at the end of the year, without taking into consideration the possible exercising or conversion of potential voting rights.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 3 (g).

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## **b) Transactions and balances in foreign currency**

Transactions in foreign currency are translated to the functional currency through the application of the spot rates between the functional and foreign currency on the dates on which the transactions are completed.

Monetary assets and liabilities denominated in foreign currencies are converted to Euro by applying the year-end exchange rate while non-monetary assets and liabilities carried at historical cost are translated by applying the exchange rates used on the date the transaction took place. Lastly, non-monetary assets carried at fair value have been translated to Euro by applying the exchange rate on the date on which they were measured.

In the consolidated statement of cash flows, cash flows from foreign currency transactions have been translated into Euro at the exchange rates prevailing at the dates the cash flows occur. The effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currencies is recognised separately in the consolidated statement of cash flows as effect of exchange rate fluctuations on cash and cash equivalents held.

Exchange gains and losses arising on the settlement of foreign currency transactions and the translation into Euro of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated profit or loss. However, exchange gains or losses arising on monetary items forming part of the net investment in foreign operations are recognised as translation differences in other comprehensive income.

Exchange gains or losses on monetary financial assets or financial liabilities denominated in foreign currencies are also recognised in the consolidated profit or loss.

## **c) Translation of foreign operations**

Foreign operations have been translated into Euro as follows:

- Capital and reserves are translated at historical exchange rates;
- Assets and liabilities, including goodwill and net asset adjustments derived from the acquisition of the operations, including comparative amounts, are translated at the closing rate at the date of consolidated statement of financial position;
- Income and expenses, including comparative amounts, are translated at the average exchange rate for the year; and
- All resulting exchange differences are recognised as translation differences in other consolidated comprehensive income.

For presentation of the consolidated statement of cash flows, cash flows of the subsidiaries, including comparative balances, are translated into Euro applying the average exchange rates for the period.

Translation differences recognised in other consolidated comprehensive income are accounted for in consolidated profit or loss as an adjustment to the gain or loss on the sale using the same criteria as for subsidiaries.

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#### **d) Cash and cash equivalents**

Cash and cash equivalents include cash and demand deposits at banks. This caption also includes other highly liquid short-term investments provided they are easily convertible into specific cash amounts and the risk of value changes is insignificant. For such purposes, investments maturing in less than three months as from the acquisition date are included.

In those cases where the Group formalises contracts under which cash account balances become unavailable in order to secure the execution of those contracts, these balances remain presented under Cash and other cash equivalents insofar as the directors consider that the Group will not meet any of the conditions requiring the contracts' early termination and therefore the enforcement of the guarantee. This criterion is similarly followed in presenting cash and equivalents at the start and end of the year in the consolidated cash flow statement. Note 18 (b) includes information on the Group's available cash at year end and, if applicable, unavailable current cash account balances related to the guarantees granted.

The Group classifies cash flows from interest received and paid as operating activities.

#### **e) Intangible assets**

##### *i) Goodwill*

Goodwill is determined using the same criteria as for business combinations (see note 4).

Goodwill is not amortised but is tested for impairment annually or more frequently where events or circumstances indicate that an asset may be impaired. Goodwill on business combinations is allocated to the Group's Cash Generating Units (CGU), or, as the case may be, to the CGUs integrated in the Group which are expected to benefit from the synergies of the business combination and the criteria described in section (g) (impairment of this note) are applied. Following initial recognition, goodwill is stated at cost less accumulated impairment losses.

In assessing impairment of goodwill, the analysis is done at entity level except for those entities which are included in the Group CGU.

##### *ii) Software*

Computer software acquired and produced by the Group, including website costs, is recognised when it meets the conditions for consideration as development costs. Expenditure on developing a website to promote and advertise the Group's own products or services and maintenance expenses connected with IT applications are charged to expense when incurred.

##### *iii) Patents, trademarks and licenses*

Patents, trademarks and licences are initially recognised at their cost of acquisition or fair value if they have been as a result of a business combination.

Acquired licences primarily relate to the rendering of mobile telephony services and are presented at cost or assigned cost.

##### *iv) Research and Development*



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Expenditure on research is recognised as an expense when incurred.

Costs associated with development activities are capitalised to the extent that:

- The Group has technical studies that demonstrate the feasibility of the production process;
- The Group has undertaken a commitment to complete production of the asset, to make it available for sale (or internal use);
- The asset will generate sufficient economic benefits;
- The Group has sufficient technical and financial (or other) resources to complete development of the asset (or to use the asset internally) and has devised budget control and cost accounting systems that enable monitoring of budgetary costs, modifications and the expenditure actually attributable to the different projects.

Expenditure on activities for which costs attributable to the research phase are not clearly distinguishable from costs associated with the development stage of intangible assets is expensed in the period incurred.

Development work undertaken by and purchased from third parties is capitalised due to the existence of evidence of the technical success and financial and commercial feasibility of the work as the purchase price paid reflects the expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Development costs previously recognised as an expense are not capitalised in subsequent years.

v) Other intangible assets

Other intangibles assets mainly includes the customer portfolios acquired through the various business combinations carried out by the Group since 2016. Those assets are initially measured at fair value and are amortised on a straight-line basis in accordance with their estimated useful lives. The useful life of these assets is calculated based on the type of customer, historic abandonment rates and averages in the industry.

Cost access to ADSL red (Asymmetric Digital Subscriber Line) and the costs necessary prior to the entry of the 3500 MHz frequencies into operation, are also included.

vi) Rights of use

This relates to the rights to indirectly access the network of other operators, which are measured at the amount actually paid, or at fair value in the event that they originate from a business combination. These rights of use are originated as a result of the agreements that the Group signs with other operators for access to their network as well as mutualization agreements, which give the Group the right to long-term access to the infrastructure of said operators and, therefore, indirect access to a large additional number of building units. The rights of use are amortized based on the life of the signed contract.

vii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure to

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internally generate capital gains and trademarks is recognised in consolidated profit and loss when it is incurred.

*viii) Useful life and amortisation*

The Group assesses whether the useful life of each intangible asset is finite or indefinite. For such purposes, an intangible asset is understood to have an indefinite useful life when there is no foreseeable limit to the period during which it will generate net cash inflows.

Intangible assets with indefinite useful lives are not amortised but are instead tested for impairment on an annual basis or whenever there is an indication that they may be impaired.

The Group considers the “Yoigo” and “Pepephone” brands, acquired in 2016, to be the only assets, along with goodwill, with indefinite useful lives, as there is no foreseeable limit to the period over which they will generate net cash inflows.

Intangible assets with finite useful lives are amortised by allocating the depreciable amount of an asset on a systematic basis over its useful life, by applying the following criteria:

	Amortisation method	Estimated years of useful life
Development	Straight-line	4 - 5
Software	Straight-line	3 - 5
Patents, licenses, trademarks and similar items	Straight-line	3 - 15
Other intangible assets	Straight-line	3 - 9
Right of use	Straight-line	20 - 35

For such purposes, the acquisition cost or attributed cost less residual value is considered the amortisable amount.

The cost of licences is amortised on a straight-line basis from the moment they start generating profit to the Group according to the purpose they were acquired for, considering the remaining concession period.

The rights of use are amortised based on the term of the contracts covering access to the network maintained by other operators and any renewals that the Directors believe will arise.

The Group reviews the residual value, useful life and amortisation method of intangible assets at each year end. Modifications to the initially established criteria are recognised as a change in an accounting estimate.

The Group measures and determines impairment to be recognised or reversed based on the criteria in section (g) “Impairment of assets”.

**f) Property, plant and equipment**

*i) Initial recognition*

Property, plant and equipment are recognised at cost or attributed cost, less accumulated depreciation and, if appropriate, the accumulated impairment loss.

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The cost of property, plant and equipment includes the purchase price and any costs directly related to installation through to commissioning, less trade discounts or rebates. The cost of an item of property, plant and equipment also includes the estimated costs of dismantling or removal and restoration of the site on which it is located, provided that the obligation is incurred as a consequence of having used the item. This estimation is capitalised as an increase in the cost of the related asset, giving rise to the recognition of a provision (see note 15), which is increased accordingly in subsequent reporting periods.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the consideration obtained and the carrying amount of the item concerned) is recognised in the consolidated profit or loss.

*ii) Subsequent expenditure*

Subsequent expenditure is capitalised only when it is probable that any related future economic benefits will flow to the Group. Costs incurred for repairs and ongoing maintenance are taken to consolidated comprehensive income when incurred.

*iii) Agreements to share infrastructure*

In seeking to obtain the maximum efficiency of its investments, the Group signs agreements to share infrastructure with other operators. These sublease agreements establish that the infrastructure work needed to install the sublessee's equipment must be paid by the sublessee, even when the lessor retains the ownership of the infrastructure. Investments made in locations leased by the Group are recognised as property, plant and equipment with a balancing entry in non-current accruals, whereas those made at locations subleased by the Group are settled at the date of installation and recognised as prepayments for non-current assets. The accruals and prepayments are taken to the consolidated statement of comprehensive income as lease income or expenses, respectively, over the lease term.

*iv) Depreciation*

Depreciation of property, plant and equipment is charged, from the date on which they are installed and ready for use, by distributing the depreciable amount on a systematic basis over the assets' useful lives. For such purposes, the acquisition cost less residual value is considered the amortisable amount. The Group determines the depreciation charge separately for each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and with a useful life that differs from the remaining components of the asset.

Leased assets are depreciated over the shorter of the lease term and useful life, unless the Group is reasonably certain that it will obtain ownership of the asset at the end of the lease period, in which case they are amortised systematically over their useful lives.

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The depreciation of property, plant and equipment is calculated as follows:

	Depreciation method	Estimated years of useful life
Buildings	Straight-line	30
Mobile network infrastructure	Straight-line	30
Mobile network equipment	Straight-line	7 - 10
Mobile network Core	Straight-line	5
Fibre-optic network (Internal plant)	Straight-line	15
Fibre-optic network (External plant)	Straight-line	35
Fixtures, fittings, tooling and furnishings	Straight-line	3 - 10
Routers, paid installation	Straight-line	2 - 4
Other fixed assets	Straight-line	4 - 15

The Group reviews the residual value, useful life and depreciation method of property, plant and equipment at year end. Modifications to the initially established criteria are recognised as a change in an accounting estimate.

The Group measures and determines impairment to be recognised or reversed based on the criteria in section (g) "Impairment of assets".

#### **g) Impairment of assets**

It is the Group's policy to assess the existence of any indication that may point to the potential impairment of non-financial assets subject to amortisation or depreciation, in order to verify whether the carrying value of such assets exceeds their recoverable value.

The Group tests intangible assets with indefinite useful lives, goodwill and intangible assets that are not yet ready to enter service for potential impairment at least annually.

The recoverable value of assets is the higher of fair value less cost of sales and value in use. An asset's value in use is measured based on the future cash flows the Group expects to derive from use of the asset, expectations about possible variations in the amount or timing of those future cash flows, the time value of money, the price for bearing the uncertainty inherent in the asset and other factors that market participants would reflect in pricing the future cash flows the Group expects to derive from the asset.

Negative differences arising from comparison of the carrying amounts of the assets with their recoverable amounts, are charged to consolidated profit and loss.

The recoverable amount of each individual asset is calculated unless the asset does not generate cash flows which are largely independent of the cash flows corresponding to other assets or asset groups. If this is the case, recoverable amount is determined for the CGU to which the asset belongs.

However, the Group determines the impairment of the individual asset included in a CGU if:

- a) It no longer contributes to the cash flows of the CGU to which it belongs, and its recoverable amount is similar to its fair value less costs to sell, or, where applicable, the asset must be derecognised.

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- b) The carrying amount of the CGU has increased by the value of the assets that generate independent cash flows, provided that there are indications that the assets may be impaired.

In the current year, the Group uses detailed calculations from a prior year of the recoverable amount of a CGU in which an intangible asset with an indefinite life or goodwill has been incorporated, providing the following are met:

- a) The assets making up that CGU have not changed significantly since the most recent recoverable amount calculation;
- b) The most recent recoverable amount calculation resulted in an amount that exceeded the unit's carrying amount by a substantial margin; and
- c) Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the asset's carrying amount is remote.

The Group distributes goodwill and common assets among each of the CGUs to test for impairment. If part of the goodwill or common assets cannot be allocated to the CGUs, it is distributed in proportion to the carrying amount of each of the CGUs.

Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of the others assets in the CGU on a pro rata basis based on the carrying value of each asset limited to the higher between their fair value less cost to sell, value in use and zero.

At the end of each reporting period, the Group assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Impairment losses on goodwill are not reversible. Impairment losses on other assets are only reversed if there is a change in the estimates used to determine the asset's recoverable value.

A reversal of an impairment loss for a CGU is allocated to the non-current assets of each unit, except goodwill, pro rata with the carrying amounts of those assets. The carrying amount of an asset may not be increased above the lower of its recoverable amount and the carrying amount that would have been disclosed, net of amortisation or depreciation, if no impairment loss would have been recognised.

A reversal of an impairment loss is recognised in the consolidated statement of comprehensive income. However, the carrying amount of an asset cannot be increased above the carrying amount that would have been recognised, net of amortisation or depreciation, if no impairment loss would have been recognised.

Following the recognition of the impairment or its reversal, depreciation/ amortisation for the following years are adjusted taking into account the new carrying amount.

However, if the specific circumstances of the assets indicate an irreversible loss, this is recognised directly in losses on the disposal of fixed assets in the consolidated statement of comprehensive income.

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## **h) Leases**

The Group assesses at inception whether or not a contract contains a lease. That analysis requires the use of judgement in order to determine whether there is an identified asset and whether the Group has the right to substantially obtain all the economic rewards deriving from the use of the identified asset and has the right to direct the use of that asset.

For each lease contract, the Group initially recognises the corresponding right-of-use asset and a lease liability.

In order to measure the lease liabilities, the amounts pending payment (less, if appropriate, any incentives receivable) at inception of the lease contract that the Group should pay over the lease term, discounted using the discount rate, are taken into account. The Group uses as the discount rate the incremental interest rates suited to each type of contract asset and term.

In order to measure the right of use asset, the amount of the lease liabilities is taken as a starting point, increased by payments and incentives prior to inception and restoration costs and indirect initial costs.

The Group recognises the depreciation of the asset recognised along with the annual financial charge associated with the lease liability in the consolidated statement of comprehensive income. The Group recognises in both the consolidated statement of financial position and consolidated statement of comprehensive income the tax effect associated with the difference between IFRS 16 and those criteria applicable for tax purposes.

When the Group has been subrogated to the position of lessee under a lease contract as a result of a business combination, the related liability will be measured at the present value of the outstanding payments on the lease at the combination date as if the contract taken on were a new lease at that date. The right of use asset is recognised for the same amount as the lease liability, adjusted to reflect the favourable or unfavourable conditions of the lease regarding market conditions.

The rights of use assets are tested for impairment like other assets with a finite useful life.

In terms of the consolidated statement of cash flows, cash payments on the principal and the interest of the lease liability are classified in financing activities.

The exemptions provided under IFRS 16 for short-term and low-value leases have been applied to non-strategic assets (low value IT assets, furniture, housing etc).

Leases when the Group is the lessor relate to telecommunications infrastructure shared in accordance with agreements entered into with other operators. Assets leased to third parties under lease contracts are classified according to their nature, increased, where applicable, by the amount of the directly attributable contract costs.

Lease revenue is recognised under income on a straight-line basis over the term of the lease. Initial direct costs incurred to obtain an operating lease are added to the carrying value of the underlying asset and are recognised as an expense over the lease term on the same basis as lease income. The related leased assets are included in the consolidated statement of financial position in accordance with their nature. The Group did not have to make any adjustment to the recognition of assets held as the lessor due to adopting the new standard on leases.

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## **i) Financial instruments**

### *i) Classification of financial instruments*

For measurement purposes, the Group classifies financial instruments into the categories of financial assets and liabilities at fair value through profit or loss, distinguishing those initially designated from those held for trading or mandatorily carried at fair value through profit or loss, financial assets and liabilities at amortised cost and financial assets measured at fair value through other comprehensive income, separating the equity instruments designated as such from other financial assets. The classification depends on the business model used by the Group to manage financial assets and the contractual terms of the cash flows.

The Group classifies a financial asset at amortised cost, if it fits within the framework of a business model the aim of which is to maintain financial assets to obtain contractual cash flows and the contractual terms of the financial asset give rise, on specific dates, to cash flows that are only payments of principal and interest on the amount of the unpaid principal (UPPI).

The Group classifies a financial asset at fair value through other consolidated comprehensive income if it fits within the framework of a business model the aim of which is achieved by obtaining contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise, on specific dates, to cash flows that are UPPI.

The business model is determined by the Group's key personnel and at a level that reflects the way in which they jointly manage groups of financial assets to deliver on a specific business objective. The Group's business model represents the way in which it manages its financial assets in order to generate cash flows.

The financial assets which are classified within a business model the aim of which is to hold assets to receive contractual cash flows are managed with a view to generating cash flows in the form of contractual receipts over the life of the instrument. The Group manages the assets held in its portfolio in order to receive contractual cash flows. In order to determine whether cash flows are obtained through the receipt of contractual cash flows from financial assets, the Group considers the frequency, value and timeline of sales in previous years, the reasons for those sales and expectations concerning future sales activities. Nonetheless, sales as such do not determine the business model and therefore cannot be considered on a stand-alone basis. Rather, the information on past sales and future sales prospects offers indicative data of how the Group's stated objective can be delivered in terms of managing financial assets and more specifically, the way in which the cash flows are obtained.

For assets measured at fair value, gains and losses are recognised in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, it will depend on whether the Group has adopted the irrevocable option at the time of initial recognition to record equity investments at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model managing these assets changes.

### *ii) Measurement*

At the moment of initial recognition, the Group values a financial asset at fair value, plus, for financial assets not valued at fair value through profit or loss, the costs of the transaction directly attributable to the acquisition. Transaction costs of financial assets at fair value through profit or loss are recognised in the consolidated statement of comprehensive income.

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iii) Offsetting principles

A financial asset and a financial liability are offset only when the Group currently has the legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

iv) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss are those classified as held for trading or which have been designated on initial recognition.

A financial asset or liability is classified as held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term,
- it forms part, on initial recognition, of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs directly attributable to the acquisition or issue are recognised as an expense when incurred.

After initial recognition, they are recognised at fair value while any variations are reflected in consolidated results. Fair value is not reduced by the transaction costs that may be incurred owing to the assets' possible sale or disposal through other means.

The Group does not reclassify any financial asset or financial liability into or out of this category while it is recognised in the consolidated statement of financial position.

v) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other financial asset categories. These assets are recognised initially at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

vi) Debt instruments

The measurement of debt instruments depends on the Group's business model to manage the asset and the characteristics of the cash flows from the asset. The Group's debt instruments mainly consist of trade and other receivables that the Group classifies as financial assets at amortised cost.

Financial assets at amortised cost are assets that the Group holds to collect contractual cash flows when these cash flows are solely payments of principal and interest and they are measured at amortised cost. Interest income on these financial assets includes financial income based on the effective interest method.



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vii) Equity instruments

The Group holds financial assets, mainly equity instruments, that are measured at fair value. When Group management has opted to present gains and losses in the fair value of equity investments in other comprehensive income, following initial recognition, the equity instruments are measured at fair value, the gain or loss being recognised in other comprehensive income, notwithstanding being reclassified to reserves at the time the instruments are redeemed. Dividends from such investments continue to be recognised in the profit or loss for the year as Other Income when the Group's right to receive payment is established.

Impairment losses (and reversals of impairment losses) on equity investments measured at fair value through other comprehensive income are not presented separately from other changes in fair value.

viii) Impairment

The Group assesses on a prospective basis expected credit losses on debt instruments recognised at amortised cost. The Group uses the practical expedients permitted by IFRS 9 to measure expected credit losses on trade accounts using a simplified approach, thereby eliminating the need to assess when there has been a significant increase in the credit risk. The simplified approach requires expected losses to be recognised from the time of initial recognition of the receivables such that the Group determines expected credit losses as a probability weighted estimate over the financial instrument's expected life.

The practical expedient employed is the use of a provision matrix based on segmentation into groups of homogeneous assets, applying historical information on default rates for such groups and using reasonable information on future economic terms.

Following the analysis of the Group's trade receivables, three groups of homogeneous assets were identified: residential, corporate and wholesale. These groups have different characteristics in terms of the management of collection and recoverability of balances, specific matrices having been developed for them.

Default rates are calculated based on current default experience during the past year given the highly dynamic nature of the market and are adjusted for differences between current and historical economic terms, taking into account projected information which is reasonably available.

ix) Disposals of financial assets

The Group applies the criteria for derecognition of financial assets to part of a financial asset or part of a group of similar financial assets.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

x) Financial liabilities

Financial liabilities, including trade and other payables, which are not classified according to their fair value through profit or loss, are initially recognised at fair value less any transaction costs that

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are directly attributable to the issue of the financial liability. Following initial recognition, liabilities classified in this category are carried at amortised cost using the effective interest method.

*xi) Derecognition and modifications of financial liabilities*

The Group derecognises all or part of a financial liability when it either discharges the liability by paying the creditor or is legally released from primary responsibility for the liability either by process of law or by the creditor.

The Group considers the terms to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the exchange is accounted as an extinguishment of the financial liability, any costs or fees incurred are recognised as part of the consolidated profit or loss on the extinguishment. If the exchange is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

The difference between the carrying amount of a financial liability, or part of a financial liability, extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised by the Group in consolidated profit or loss.

**j) Hedge accounting**

Derivative financial instruments are initially recognised using the same criteria as those described for financial assets and financial liabilities. Derivative financial instruments that do not qualify for hedge accounting are classified and measured as financial assets and financial liabilities at fair value through profit or loss. Derivative financial instruments which qualify for hedge accounting are initially measured at fair value, plus any transaction costs that are directly attributable to the acquisition, or less any transaction costs directly attributable to the issue of the financial instruments. Nonetheless, transaction costs are subsequently recognised in the consolidated profit or loss providing they do not change the effectiveness of the hedge.

**k) Treasury shares in the Parent Company**

The acquisition of equity instruments of the Parent Company is recognised separately at cost of acquisition in the consolidated statement of financial position as a reduction in equity, irrespective of the reason for the purchase. Any profit or loss on transactions with own equity instruments are not recognised.

The subsequent redemption of the treasury shares of the Parent Company entails a capital reduction equivalent to the par value of the shares. Any positive or negative difference between the purchase price and the par value of the shares is debited or credited to reserves.

Transaction costs related to own equity instruments, including issue costs related to a business combination, are accounted for as a reduction in equity, net of any tax effect.

**l) Inventories**

Inventories are measured at the lower of cost of purchase or production and net realisable value.

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The cost value of inventories is subject to adjustment against consolidated profit or loss in those cases where cost exceeds net realisable value. The net realisable value of merchandise is understood to be the estimated selling price less costs to sell.

The reduction in the previously recognised value is reversed against consolidated profit or loss if the circumstances that caused the impairment no longer exist or when there is clear evidence of an increase in the net realisable value as a result of a change in the economic circumstances. The reversal of the fall in value is limited to the lower of cost and new net realisable value of inventories.

**m) Government grants**

Government grants are recognised when there is reasonable assurance that the conditions associated with their grant and collection will be met.

*i) Capital grants*

Capital grants awarded in the form of monetary assets are recognised at fair value in the consolidated statement of financial position as deferred income under the liability heading "Government grants".

*ii) Interest rate grants*

Financial liabilities that include implicit aid in the form of the application of below market interest rates are recognised at inception at fair value. The difference between this value, adjusted where necessary for the issue costs of the financial liability and the amount received, is recognised as a government grant based on the nature of the grant awarded.

**n) Provisions**

*i) General criteria*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Amounts recognised as a provision in the consolidated statement of financial position represent the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the provision.

The financial effect of provisions is recognised under finance costs in the consolidated statement of comprehensive income.

Provisions do not include the tax effect or expected gains on the disposal or abandoning of assets.

Reimbursement rights enforceable vis-à-vis third parties in order to settle the provision are recognised as a separate asset when actual collection is practically assured. Any income deriving from the reimbursement is recognised in the consolidated profit or loss as a reduction in the provision expense up to the amount of the provision.

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed. The provision is reversed against the consolidated profit or loss item in which the

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related expense was recognised, and any surplus is accounted for in the heading Other operating income.

ii) Provisions for onerous contracts

Provisions for onerous contracts are based on the present value of unavoidable costs, determined as the lower of the contract costs, net of any income that could be generated, and any compensation or penalties payable for non-completion. Nonetheless, before recognising the provision, the Group recognises the impairment loss of non-current assets directly linked to the contracts.

iii) Provisions for decommissioning, restoration and similar liabilities

These provisions are measured in accordance with the general criteria for provisions and are recognised as an increase in the cost of the associated property, plant and equipment.

Changes in provisions resulting from changes in the amount, timing of the outflow of resources or the discount rate increase or reduce the cost of fixed assets up to the carrying amount thereof, whilst any excess is recognised in the consolidated profit or loss. The Group assesses whether the increase in value of property, plant and equipment is indicative of impairment.

Any changes in provisions subsequent to the end of an asset's useful life are recognised in consolidated profit or loss when they arise.

**o) Revenue recognition**

Revenues from the sale of goods are recognised at the fair value of the consideration received or to be received from the same.

The Group recognises revenues when performance obligations are considered satisfied by providing telecommunication services to customers or transferring control over a good.

Volume rebates, prompt payment and any other discounts, as well as the interest added to the nominal amount of the consideration, are recognised at the time at which it is probable that the conditions determining their granting as a reduction in the income for sales or the rendering of services.

i) Sales of goods

Revenue from the sale of goods is recognised when the Group:

- It has transferred control over the assets to the buyer;
- The buyer has full autonomy over the channel and the selling price and there is no unsatisfied obligation that could affect the receipt of the assets by the buyer;
- The delivery takes place when the products have been sent to the location established by the buyer (distributor), the risk of loss and obsolescence has been transferred to the buyer and it has accepted the assets in accordance with the sale agreement, the acceptance clauses have expired or the Group has objective evidence that all acceptance criteria have been met.

If it is considered probable that discounts will be awarded to customers, and the sum can be reliably estimated, these are recorded as a decrease in revenues when the sale is recognised.

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*ii) Services provided*

Group revenues come from the provision of telecommunication services to end customers (provision of telecommunications services through landline, mobile and broadband internet), interconnection and roaming services to other operators, trading services to wholesale customers and other services related to its statutory activity.

Usage based revenues (traffic revenues) are recognised as the service is rendered, while flat rate contracts are accounted for on a straight-line basis over the contractual period. When advances are received for prepaid services, the unused amount is recognised as a liability until used or until the contractual obligations are fulfilled.

Commercial package offers that combine several products or services are analysed to determine whether it is necessary to separate the different compliance obligations, applying the appropriate revenue recognition policy in each case. Total revenues for the package are distributed among the various identified compliance obligations based on their respective independent selling prices, i.e. the independent selling price of each compliance obligation with respect to the total independent selling price of the product or service.

*iii) Contractual assets*

Contracts with tie-in periods in which discounts or terminal subsidies exist are recognised as a customer contract asset under "Contractual assets" and are recognised on a straight-line basis as a reduction in revenue over the estimated life of the contract provided that the obligation to provide telecommunications services is fulfilled.

These assets are presented in the Group's Consolidated Statement of Financial Position under current or non-current items, based on whether they will be taken to profit or loss within 12 months or afterwards.

Revenue from rentals and other services is recognised as the service is rendered.

*iv) Commercial provisions*

The Group offers its customers subscription services providing access to a terminal financing model, primarily using bank resources, for a term of 24 months, plus a final payment (Cuota 25). At the end of the financing contract the customer has the option of paying the final instalment or selling the terminal to the Group for the amount of the so-called Cuota 25. The Group estimates a provision for sales transactions to cover possible liabilities deriving from the Cuota 25 plan.

The Group estimates a provision for sales transactions to cover the possible risks deriving from the failure to make payment for the financing and the purchase of terminals, taking into consideration the market value of the terminal if acquired from the customer. The difference between the promised amount under the Cuota 25 plan and the expected market value of the terminal after 24 months (minimum term) will reduce the revenue generated by the service contract with the customer, thereby generating a month-to-month contractual liability that is cancelled at the time at which the customer exercises or not the sale option.

*v) Costs of obtaining contracts with customers*

The incremental costs that are directly attributable to obtaining and retaining convergent and non-convergent contracts with customers, and which may be individually identified and reliably measured, when considered probable that the payments made will be recovered and are expected to be recovered in more than 12 months, are initially recognised as an asset under the

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heading Costs of obtaining contracts with customers and are released to the consolidated statement of comprehensive income under "Supplies" over the term of the contract with the customer.

The Group has identified the fees paid for obtaining and retaining contracts, the commissions paid to distributors and the various sales platforms as costs of obtaining contracts with customers.

The Group allocates to the consolidated profit or loss the costs on a systematic basis which is consistent with the transfer to customers of the related goods or services. This is updated to reflect significant changes in the expected timeline of the transfer of the related goods or services to customers.

In 2019 the Group performed an analysis of the average period between the payment of a fee for obtaining a new contract and the time at which a retention event giving rise to a new fee takes place, which is associated with the signing of a new contract or a substantial modification of a customer's contractual conditions. It has been determined that there is a 24-month amortisation period for mobile telephone customers and a 36-month period for converging offers, applying this new estimate to additions arranged as from 1 January 2019. In 2018 this period was determined to be 24 months for both types of customers. The difference in the amortisation period is due to the different retention approach applied for these two types of customers which, in turn, is determined by past behaviour observed in both cases. This primarily consists of including incremental costs for customers that are not engaged with converging products, which represent a higher relative weight in the customer base and for which retention activities take place more frequently. The changes have been recognised as changes in estimates. The effect of the change in the depreciation period to 36 months for 2019 additions is not significant for these consolidated annual accounts taken as a whole.

The Group recognises an impairment loss if the carrying amount of costs exceeds the residual amount of the consideration that the Group expects to receive for the goods or services, less the costs directly related to their delivery that have not been recognised as an expense.

**p) Income tax**

The income tax income/(expense) includes both current and deferred tax.

Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Current or deferred income tax is recognised in the consolidated statement of comprehensive income unless it arises from a transaction or economic event that has been recognised in the same year or in a different year against equity or from a business combination.

In 2018, MásMóvil Ibercom S.A. changed its tax domicile from Vizcaya to the common territory of Spain and, henceforth, was included in the income tax consolidation group 0218/16 as the Parent Company. Therefore, since 2018 the Parent Company has been taxed under the tax consolidation scheme along with the companies MásMóvil Phone & Internet, S.A.U., MásMóvil Holdphone, S.A.U., Xfera Móviles, S.A.U., Xtra Telecom, S.A.U., Embou Nuevas Tecnologías, S.L.U., MásMóvil Investments, S.L.U., MásMóvil Broadband, S.A.U., MásMóvil Infrastructures, S.L.U., Pepeworld, S.L.U., Pepe Mobile, S.L.U., Pepe Energy, S.L. and The Bymovil Spain, S.L.U.

The accrued income tax expense of the tax consolidated companies is determined by taking into account, in addition to the factors related to individual taxation, the following:

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- Temporary and permanent differences arising from the elimination of results on intercompany transactions between tax-consolidated companies derived from the process for determining the consolidated tax base.
- Deductions and credits corresponding to each company forming the consolidated tax group. For these purposes, deductions and credits are allocated to the company that carried out the activity or generated the profit necessary to obtain the right to the deduction or tax credit.

Temporary differences deriving from eliminations of results between tax-consolidated companies are recognised in each company that generated the results and are measured at the tax rate applicable to it.

With respect to the portion of tax losses derived from a tax-consolidated companies which have been offset by the remaining tax-consolidated companies, reciprocal receivable and payable items arise between the companies recording the losses and the companies offsetting them. Any tax-loss carryforward that cannot be offset by the remaining tax-consolidated companies is recognised as a deferred tax asset pertaining to the tax group.

*i) Recognition of deferred tax liabilities*

The Group recognises deferred tax liabilities in all cases except where:

- they arise on the initial recognition of goodwill or on an asset or liability in a transaction that is not a business combination and, on the transaction date, has no effect on the reported result or tax base;
- they relate to differences associated with investments in subsidiaries and joint ventures over which the Group has the capacity to control the moment of its reversal and it is not probable that its reversal will occur in the foreseeable future.

*ii) Recognition of deferred tax assets*

The Group recognises deferred tax assets provided that:

- it is probable that taxable profit will be available against which the deductible temporary difference can be utilised or when tax legislation allows the future conversion of deferred tax assets into a receivable from public administration. However, assets arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and, at the time of the transaction, affect neither accounting profit nor taxable income, are not recognised;
- this relates to temporary differences associated with investments in subsidiaries and joint ventures insofar as the temporary differences will reverse in the foreseeable future and taxable income is expected to be generated in the future to offset the differences.

Tax planning opportunities are only taken into account in assessing the recovery of the deferred tax assets if the Group intends to adopt them or is probable to adopt them.

The Group only recognises deferred tax assets arising from tax loss carryforwards when it is probable that future taxable profit will be generated against which they may be offset within the period stipulated in applicable tax legislation.

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Conversely, it is considered probable that the Group will generate sufficient taxable profit to recover deferred tax assets when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which are expected to reverse in the same tax period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from a deductible temporary difference can be carried back or forward.

*iii) Measurement*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted. The tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets or liabilities are also reflected in the measurement of deferred tax assets and liabilities.

*iv) Offset and classification*

The Group only offsets current tax assets and liabilities if it has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Deferred tax assets and liabilities are recognised in the consolidated statement of financial position under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

*v) Tax uncertainties*

If the Group determines that it is not probable that the tax authority will accept an uncertain tax treatment or a group of uncertain tax treatments, it considers that uncertainty in the calculation of the taxable base, tax bases, tax-loss carryforward credits, deductions and tax rates. The Group determines the effect of the uncertainty in the corporate income tax return using the expected amount method when the range of possible outcomes is diverse, or the most probable outcome method, when the outcome is binary or concentrated in a value. In those cases in which the tax asset or liability calculated using these criteria exceeds the amount presented in the self-assessments, the asset or liability is presented as a current or non-current item in the consolidated statement of financial position in accordance with the expected date of recovery or settlement and taking into consideration, if appropriate, the amount of any late-payment interest on the liability when accruing in the Consolidated statement of comprehensive income. The Group records changes in facts and circumstances regarding tax uncertainties as a change in estimates.

**q) Equity instruments-based payment transactions**

The Group recognises the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. It recognises an increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability with a balancing entry in the consolidated statement of comprehensive income or assets if the goods or services were acquired in a cash-settled share-based payment transaction.

The Group recognises equity-settled share-based payment transactions, and the corresponding increase in equity at the fair value of the goods or services received, unless that fair value cannot



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be reliably estimated, in which case the value is determined by reference to the fair value of the equity instruments granted.

Equity instruments granted as consideration for services rendered by Group employees or third parties which supply similar services are measured by reference to the fair value of the equity instruments granted.

**r) Share-based payments to employees**

*i) Equity-settled share-based payment transactions to employees*

Equity-settled payment transactions are recognised as follows:

- If the equity instruments granted vest immediately on the grant date, the services received are recognised in full, with a corresponding increase in equity;
- If the equity instruments granted do not vest until the employees complete a specified period of service, those services are accounted for during the vesting period, with a corresponding increase in equity.

The Group determines the fair value of the instruments granted to employees at the grant date.

Market conditions and non-vesting conditions are taken into account when measuring the fair value of the instrument. Other vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for services received is based on the number of equity instruments that eventually vest. Consequently, the Group recognises the amount for the services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and revises that estimate if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates.

*ii) Cash-settled share-based payments to employees*

On cash-settled share-based payment transactions, the Group values the services or goods acquired and the liability related to the cash-settled share-based obligation at the fair value of that liability and recognises the amount of the services received over the vesting period in the consolidated statement of comprehensive income based on the best estimate of the number of instruments that are going to vest, that estimate being reviewed based on the expected vesting rights. Therefore, non-market performance conditions for vesting are not taken into account in estimating the fair value of the liabilities.

Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period, with any changes in fair value being recognised in consolidated profit or loss. In order to determine the fair value of the liability, the Group applies the same criteria as indicated previously for equity-settled payments. Services received or goods acquired and the liability payable are recognised over the vesting period or immediately if vesting is immediate. The Group only recognises as staff costs the portion of the grant-date fair value of the payment that has been accrued as per the vesting schedule. The residual amount accrued is recognised as a financial cost or as financial income.

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**s) Prepayment for current/non-current assets**

The Group recognizes under this heading the payments made in advance which accrue after the end of the reporting period or have a multi-annual character. The concepts are charged to the consolidated statement of comprehensive income during its accrual period.

**t) Environmental information**

The Group takes measures to prevent, reduce and repair the damage caused to the environment by its activities.

Expenses deriving from environmental activities are recognised as Other operating expenses in the year in which they are incurred. Nonetheless, the Group recognises environmental provisions and, where applicable, reimbursement rights by applying the general criteria described in section n) of this note.

**u) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The activity of the Group primarily comprises the provision of landline and mobile telephone and internet services. These transactions constitute the Group's only segment of activity.

After the acquisitions carried out in previous years, the Group has become a one-stop telecommunications operator, forcing it to change its former markets-based management model (residential, business and wholesale) to an integrated management model as, although there are different types of customers, the service offered is convergent.

**4. Business combinations**

**4.1. Business combinations recognised in 2019**

Details of the net assets acquired and goodwill recognised on business combinations during 2019 are as follows:

Thousand Euro	Country	Cost of business combination net of cash received	Fair value of net assets identified	Goodwill
<b>Subsidiaries</b>				
Carrier-E Mobile S.L.U.	Spain	10,753	7,120	3,633
Netllar S.L.U.	Spain	4,049	2,406	1,643
		<b>14,802</b>	<b>9,526</b>	<b>5,277</b>

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The acquired businesses generated the following consolidated revenues and consolidated profit or loss between the acquisition dates and the end of 2019, as follows:

Thousand Euro	Netllar	Carrier	Total
Revenues	3,633	4,090	7,723
Profit/ (loss) after taxes	131	108	239

Had the businesses been acquired on 1 January 2019, the main financial indicators would have changed as follows in 2019:

Thousand Euro	Netllar	Carrier	Total
Revenues	7,108	8,359	15,467
Operating profit	213	522	735
Amortisation/ depreciation	(381)	(141)	(522)
Profit/ (loss) before taxes	169	510	679
Profit/ (loss) after tax	127	390	517

**a) Acquisition of Carrier-E Mobile, S.L.U.**

On 17 July 2019 the Group's subsidiary Xfera Móviles S.A.U. acquired 100% of the shares of Carrier-E Mobile, S.L.U. ("Carrier-E Mobile"). The acquired company is domiciled in Valencia (Spain) and its corporate purpose is that of mobile virtual network operator (MVNO) activities.

The acquisition price for these shares was Euro 10,753 thousand and the purchase took place as follows:

- A cash payment of Euro 9,288 thousand was made on the business combination date.
- Xfera Móviles, S.A.U. will retain Euro 1,500 thousand for 15 months as a warranty. The present value of the deferred payment is Euro 1,465 thousand, which the Group has recognised as Other financial liabilities at 31 December 2019 (see note 14 (d)).

Details of the cost of the business combination, the fair value of the net assets acquired, and recognised provisional goodwill are as follows:

Thousand Euro	Carrying amount of the acquired line of business	Fair value adjustments	Fair value
Intangible assets (note 5)	3	11,927	11,930
Property, plant and equipment (note 6)	25	-	25
Deferred tax assets (note 21)	43	585	628
Trade and other receivables	301	-	301
Other current assets	382	-	382
Cash and cash equivalents	403	-	403
<b>Assets</b>	<b>1,157</b>	<b>12,512</b>	<b>13,669</b>
Deferred tax liabilities (note 21)	-	2,982	2,982
Current liabilities	1,013	2,341	3,354
Other current financial liabilities	213	-	213
<b>Liabilities</b>	<b>1,226</b>	<b>5,323</b>	<b>6,549</b>
Identifiable net assets acquired			7,120
Cost of the business combination			(10,753)
Goodwill (note 5)			<b>3,633</b>

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The most relevant factor associated with the Euro 3,633 thousand goodwill recognized was the measurement of the expected synergies that are expected from the optimization of the mobile telecommunication network's costs which had been incurred up until the transaction date, since the mobile network deployed by the Group or those included in wholesale agreements with third parties may be used (see note 5).

The Group has 12 months to determine the fair values that arise from the business combination in accordance with the provisions of IFRS 3. Consequently, the values included in that respect are considered to be provisional since new information that changes the initially recognised values could arise, even though the measurement was prepared with the assistance of an independent expert. Any adjustment that is identified as a result of that additional information during the aforementioned period would be recognised as if it had been known at the acquisition date.

The fair value of the main assets and liabilities at the date control was taken was calculated with the assistance of an independent expert is as follows:

- Customer relations (intangible assets): these were measured using the Multi Excess Earnings Method (MEEM), which calculates the value of an asset as the sum of the excess future earnings discounted to their present value, after considering supporting asset charges. The key parameters used when measuring this intangible were the rate of abandonment, gross monthly invoicing per user, an asset contribution charge of 0.4% as expenses necessary to maintain that invoicing and a discount rate of 11.8%.
- Onerous contract: the fair value of this provision relates to the MVNO contract that Carrier maintained with a telecommunications operator. This estimate took into consideration the difference between the cost of the contract up until the date it ended plus the estimated period required to migrate to the Group's network compared to the cost that would have been incurred on a similar contract under market conditions (see note 15).
- Deferred tax assets and liabilities: these have been measured based on the best estimate of future tax profits and tax legislation prevailing at the date control was taken.

Goodwill will be fully tax-deductible.

**b) Acquisition of Netllar, S.L.U.**

On 17 July 2019, the Group's subsidiary Xfera Móviles S.A.U. acquired 100% of the shares of Netllar S.L.U. ("Netllar"). The acquiree is domiciled in Valencia (Spain) and its corporate purpose consists of the provision of internet network and electronic communications services.

The acquisition price for these shares was Euro 4,049 thousand and the purchase took place as follows:

- A cash payment of Euro 3,317 thousand was made on the business combination date.
- Xfera Móviles, S.A.U. will retain Euro 750 thousand for 15 months as a warranty. The present value of the deferred payment is Euro 732 thousand, which the Group has recognised as "Other financial liabilities" (see note 14 (d)).

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Details of the cost of the business combination, the fair value of the net assets acquired, and recognised provisional goodwill are as follows:

Thousand Euro	Carrying amount of the acquired line of business	Fair value adjustments	Fair value
Intangible assets (note 5)	285	2,943	3,228
Property, plant and equipment (note 6)	1,517	(903)	614
Deferred tax assets (note 21)	11	226	237
Trade and other receivables	689	-	689
Other current assets	337	-	337
Cash and cash equivalents	137	-	137
<b>Assets</b>	<b>2,976</b>	<b>2,266</b>	<b>5,242</b>
Non-current loans and bank borrowings	774	-	774
Deferred tax liabilities (note 21)	-	736	736
Current liabilities	1,105	-	1,105
Other current financial liabilities	221	-	221
<b>Liabilities</b>	<b>2,100</b>	<b>736</b>	<b>2,836</b>
Identifiable net assets acquired			2,406
Cost of the business combination			(4,049)
Goodwill (note 5)			<b>1,643</b>

The most relevant factor associated with the Euro 1,643 thousand goodwill recognized was the measurement of the expected synergies that are expected from the optimization of the mobile telecommunication network's costs which had been incurred up until the transaction date, since the mobile network deployed by the Group or those included in wholesale agreements with third parties may be used (see note 5).

The Group has 12 months to determine the fair values that arise from the business combination in accordance with the provisions of IFRS 3. Consequently, the values included in that respect are considered to be provisional since new information that changes the initially recognised values could arise, even though the measurement was prepared with the assistance of an independent expert. Any adjustment that is identified as a result of that additional information during the aforementioned period would be recognised as if it had been known at the acquisition date.

The fair value of the main assets and liabilities at the date control was taken was calculated with the assistance of an independent expert is as follows:

- Customer and franchisee relations: these were measured using the Multi Excess Earnings Method (MEEM), which calculates the value of an asset as the sum of the excess future earnings discounted to their present value, after considering supporting asset charges. The key parameters used when measuring this intangible were the rate of abandonment, gross monthly invoicing per user, an asset contribution charge of 1.7% as expenses necessary to maintain that invoicing and a discount rate of 11.8%.
- Fiber to the Home networks ("FTTH") (property, plant and equipment): as a result of the current overlap of this network with the Group's networks, as well as any potential buyer of these assets, a 97% negative adjustment was made to the carrying value of these assets since this percentage represents the current overlap of the networks.
- Deferred tax assets and liabilities: these have been measured based on the best estimate of future tax profits and tax legislation prevailing at the date control was taken.

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Goodwill will be fully tax-deductible.

#### 4.2. Business combinations recognised in 2018

Details of the net assets acquired and goodwill recognised on business combinations during 2018 are as follows:

<i>Thousand Euro</i>	Country	Cost of business combination net of cash received	Fair value of net assets identified	Goodwill (note 5)	Revenue from business combination
<b>Subsidiaries</b>					
Neutra Network Services, S.A.U.	Spain	6,003	34,292	-	(28,289)
Lebara Business Unit	Spain	52,331	(4,732)	57,063	-
The ByMovil Spain, S.L.U.	Spain	78,089	47,360	30,729	-
		<b>136,423</b>	<b>76,920</b>	<b>87,792</b>	<b>(28,289)</b>

The acquired businesses have generated the following consolidated revenues and consolidated profit and loss between the acquisition date and the reporting date in 2018.

<i>Thousand Euro</i>	Neutra Network Services, S.A.U.	Lebara Business Unit	The ByMovil Spain, S.L.U.
Revenues	2,369	5,629	404
Profit/ (loss)	(3,603)	1,205	259

Had the businesses been acquired on 1 January 2018, the main financial indicators would have changed as follows in 2018:

<i>Thousand Euro</i>	Neutra Network Services, S.A.U.	Lebara Business Unit	The ByMovil Spain, S.L.U.
Revenues	2,940	48,894	14,746
Operating profit	(4,843)	6,094	5,228
Amortisation/ depreciation	(3,199)	86	(1,112)
Profit or loss before taxes	(5,018)	6,092	4,753
Profit/ (loss) after tax	(4,159)	6,092	3,565

##### a) Acquisition of Neutra Network Services, S.A.U.

On 27 February 2018 the Group, through the subsidiary MásMóvil Broadband, S.A.U., acquired a 100% interest shares in Neutra Network Services, S.A.U. (hereinafter Neutra) from Iberfibra Gestión de Redes de Banda Ancha, S.A. The acquiree is domiciled in Madrid and its objects consist of providing services involving the establishment and exploitation of fixed public radio access lines on 3.4 to 3.6 Ghz and 2.6 Ghz bandwidth in Spain and the installation, development, exploitation and management of all kinds of telecommunication networks. Neutra owns 40 Mhz of 3.5 Ghz, and four public domain concessions of the 2.6 Ghz bandwidth over which the Group had an exclusive right to date.

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The purchase price of these shares amounted to Euro 6,003 thousand which was paid in cash.

On that same date and in a single act alongside the taking of control by the Group, Neutra and Iberfibra Gestión de Redes de Banda Ancha, S.A. signed a purchase-sale agreement under which Neutra acquired, once obtained the mandatory authorisation of the Ministry of Energy, Tourism and the Digital Agenda to establish and exploit public radio access networks in the 3.4 Ghz to 3.6 Ghz bandwidth and 2.6 Ghz bands, full ownership of the rights to the exclusive use of the radio electric public domain deriving from the public authorisations consisting of:

- i) a radio electric public domain concession for the establishment and exploitation of the public radio access lines on 3.4 to 3.6 Ghz bandwidth according to the Order of 7 July 2017 of the Ministry of Energy, Tourism and the Digital Agenda; and
- ii) four radio electric public domain concessions for the establishment and exploitation of the public radio access lines on 2.6 Ghz bandwidth in the Autonomous Regions of Madrid, Catalonia, Castilla - La Mancha and Andalusia.

Details of the cost of the business combination, the fair value of the net assets acquired and income registered are as follows:

<i>Thousand Euro</i>	Carrying amount of the acquired line of business	Fair value adjustments	Fair value
Intangible assets (note 5)	9,724	34,979	44,703
Property, plant and equipment (note 6)	5,486	1,484	6,970
Deferred tax assets (note 19 (b))	2,325	175	2,500
Trade and other receivables	866	-	866
Other current assets	1,045	-	1,045
Cash and cash equivalents	2,920	-	2,920
<b>Assets</b>	<b>22,366</b>	<b>36,638</b>	<b>59,004</b>
Non-current loans and bank borrowings	1,213	-	1,213
Non-current provisions	816	-	816
Deferred tax liabilities (note 21 (b))	886	9,116	10,002
Current liabilities	11,981	-	11,981
Other current financial liabilities	-	700	700
<b>Liabilities</b>	<b>14,896</b>	<b>9,816</b>	<b>24,712</b>
Identifiable net assets acquired			34,292
Cost of the business combination			(6,003)
Revenue from the business combination			<b>28,289</b>

The most relevant factor with respect to the recognition of revenue on this business combination was the measurement of the public domain concessions for the establishment and exploitation of public radio access lines on the 3.4 Ghz to 3.6 Ghz and 2.6 Ghz bandwidth owned by Neutra. Specifically, this company's inclusion in the Group will permit the Group to exploit these concessions and operate in the 5G spectrum, generating future synergies for the provision of telecommunication services for all Group components.

Fair value of the main assets and liabilities at the date control was taken was calculated as follows:

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- Concessions of radio spectrum (intangible assets): these were measured using a market approach, whereby the fair value of an asset is estimated by reference to other similar assets which have been sold or licensed recently.
- Base stations (property, plant and equipment): these were measured using the market approach under which their fair value has been estimated by analysing other similar assets of the Group which were recently sold.
- Current provisions: the fair value of this provision, corresponding to the loss-making contract Neutra had with a third party for the maintenance of towers, was calculated as the difference between the annual cost of this contract until expiry and the cost of cancellation of said contract.

During 2018 the Group recognised all assets acquired and liabilities assumed meeting the definition of assets and liabilities under IFRS on the acquisition date, including intangible assets and all contingent liabilities identified. All assets and liabilities were duly classified or designated at that date. In accordance with IFRS 3, prior to the recognition of revenue on the business combination, the Directors reassessed whether they had correctly identified all assets acquired and liabilities assumed and the criteria used in their measurement, with the collaboration of independent experts. Therefore, on the date these consolidated annual accounts were authorised for issue, the values assigned to this business combination are considered final.

**b) Acquisiton of the Lebara business unit**

On 20 November 2018 the Group acquired a mobile virtual network operator (MVNO) line of business from the company Lebara Mobile Group B.V. through its subsidiary Xfera Móviles, S.A.U. This line of business was operated through its branch in Spain under the Lebara trademark and the Group therefore acquired all assets of that line of business, except for the trademark for which an agreement was reached for its use by the Group.

The purchase price for the line of business amounted to Euro 52.3 million, Euro 50 million of which was paid in cash, an earn-out being agreed based on the success of customer migration to the Group's network of Euro 2.3 million.

The Group recognised the acquisition as a business combination with the consideration that the group of acquired items constitutes a business since it includes a customer base and employees, among other things.



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Details of the cost of the business combination, the fair value of the net assets acquired and goodwill are as follows:

<i>In thousand of Euros</i>	Carrying amount of the acquired line of business	Fair value adjustments	Fair value
Intangible assets (note 5)	131	-	131
Customer relations (note 5)	-	17,144	17,144
Property, plant and equipment (note 6)	86	-	86
Inventory	111	-	111
Deferred tax assets (note 21 (b))	-	4,697	4,697
<b>Assets</b>	<b>328</b>	<b>21,841</b>	<b>22,169</b>
Deferred income	3,009	-	3,009
Employee benefits expenses	819	-	819
Deferred tax liabilities (note 21 (b))	-	4,286	4,286
Onerous contract (note 15)	-	18,787	18,787
<b>Liabilities</b>	<b>3,828</b>	<b>23,073</b>	<b>26,901</b>
<b>Identifiable net assets acquired</b>			(4,732)
Cost of business combination			(52,331)
<b>Goodwill (note 5)</b>			<b>57,063</b>

The value of the assets and liabilities indicated above are identical to those recognised in the annual accounts of the acquiror Xfera Móviles, S.A.U.

The most important factor considered when recognising goodwill, Euro 57,063 thousand, was the valuation of expected synergies and other benefits from the business combination. Goodwill will be fully tax-deductible.

Fair value of the main assets and liabilities at the date control was taken was calculated, that were determined in collaboration with an expert hired in this connection, as follows:

- Customer relations: these were measured using the Multi Excess Earnings Method (MEEM), which calculates the value of an asset as the sum of the excess future earnings discounted to their present value, after considering supporting asset charges. The key parameters used in measuring this intangible asset were the churn rate, the EBITDA attributable to each customer, a royalty associated to the brand of 0.78% as a necessary expense for keeping the brand and a discount rate of 10.5%.
- Deferred income: by acquiring the customer portfolio, the Group assumed balances that had not been consumed by customers (prepayment). This amount was registered as "Trade and other payable".
- Onerous contract: the fair value of this provision, relating to the contract Lebara had with a telecommunications operator regarding a MVNO contract, was calculated as the difference between the cost of this contract until expiry plus the estimated time of migration to the Group's network and the cost of a similar contract under market conditions (see note 15).
- Deferred tax assets and liabilities: these were measured based on the best estimate of future tax profits and tax legislation prevailing at the date control was taken.

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On the date these consolidated annual accounts were authorised for issue, the fair values assigned to this business combination are considered final.

**c) Acquisition of The Bymovil Spain, S.L.U.**

On 20 December 2018 the Group, through the subsidiary Xfera Móviles, S.A.U, acquired a 100% interest shares in ByMovil Spain, S.L.U. (hereinafter Bymovil) to Tower Valley S.L. The acquiree is domiciled in Cartes (Cantabria) and engages in the management of public points of sale on the high street and in shopping centres under the Yoigo trademark, as the franchisees' wholesaler, in accordance with the contract for the promotion and marketing of Yoigo services and products at establishments open to the public.

The purchase price of this interest amounted to Euro 78,089 thousand and was paid as follows:

- Euro 70,589 thousand was paid in cash on the date of the business combination.
- Euro 7,500 thousand to be retained by Xfera Móviles, S.A.U. as a warranty for a 12 month period. On 23 December 2019, the amount withheld as a guarantee was paid.

In accordance with the provisions of IFRS 3, the Group provisionally recognised the net assets acquired at 31 December 2018 using the carrying amounts recorded by Bymovil and, accordingly, included them in the consolidated statement of financial position since, although their fair value had been preliminarily measured, the Group was still engaged in the valuation process and any new information could change the initially recognised figures.

In 2019 the Group has completed the measurement of the fair values of the business acquisition and proceeded to adjust the provisional values presented in the consolidated annual accounts for the year ended 31 December 2018 and the amounts included in the Consolidated Statement of Financial Position at that date, which changed the goodwill recognised on the business combination. In accordance with the provisions of IFRS 3, the fair values have been recognised as if they had been known on the acquisition date as follows:

<i>Thousand Euro</i>	Carrying amount of the acquired line of business	Fair value adjustments	Fair value
Intangible assets (note 5)	38	42,708	42,746
Property, plant and equipment (note 6)	149	-	149
Deferred tax assets	340	-	340
Trade and other receivables	27,067	-	27,067
Other current assets	1,177	-	1,177
Cash and cash equivalents	22,248	-	22,248
<b>Assets</b>	<b>51,019</b>	<b>42,708</b>	<b>93,727</b>
Non-current loans and borrowings	(5,965)	-	(5,965)
Deferred tax liabilities	(14)	(10,677)	(10,691)
Current liabilities	(29,711)	-	(29,711)
<b>Liabilities</b>	<b>(35,690)</b>	<b>(10,677)</b>	<b>(46,367)</b>
<b>Identifiable net assets acquired</b>			<b>47,360</b>
Cost of the business combination			(78,089)
<b>Goodwill (note 5)</b>			<b>30,729</b>

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The most relevant factor giving rise to the recognition of goodwill totalling Euro 30,729 thousand relate to the expected synergies from the Bymovil business, which is the management of the exclusive points of sale for the Yoigo brand located in street front locations and shopping centres (see note 5).

The fair values of the main assets and liabilities at the date control was taken was calculated with the assistance of an independent expert and are as follows:

- Intangible assets: Both the customer portfolio and the re-acquired rights have been measured using the MEEM (*“Multi Excess Earnings Method”*), through which the value of the asset is estimated through the sum of future “excess earnings” discounted to present value, less charges for the capital invested.
- The deferred tax liability has been measured at the amount expected to be paid to the tax authorities and obtained by applying 25% to recognised intangible assets.

On the date these consolidated annual accounts were authorised for issue, the recoverable values assigned to this business combination are considered final.

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## 5. Intangible Assets

Details of intangible assets and movements are as follows:

<i>Thousand Euro</i>	<b>Goodwill</b>	<b>Computer Software</b>	<b>Patents, trademarks and licences</b>	<b>Development</b>	<b>Other intangible assets</b>	<b>Prepayments</b>	<b>Rights of use</b>	<b>Total</b>
<b>Cost</b>								
Balance at 1 January 2018	389,380	45,727	189,521	18,290	172,773	38	54,240	869,969
Business combinations (note 4)	87,792	241	68,565	-	35,918	-	-	192,516
Additions	-	39,749	27,128	112	2,139	-	248,059	317,187
Disposals	(922)	(6,845)	-	-	-	-	-	(7,767)
Transfers	-	3,441	11	(412)	(3,300)	(38)	44	(254)
Balance at 31 December 2018	476,250	82,313	285,225	17,990	207,530	-	302,343	1,371,651
Business combinations (note 4)	5,276	289	-	-	14,869	-	-	20,434
Additions	-	47,416	4,150	12	17,705	10	337,741	407,034
Disposals	(503)	(2,992)	-	(2,502)	(3,559)	-	-	(9,556)
Transfers	-	(3)	(3,736)	-	3,631	-	26,667	26,559
Balance at 31 December 2019	481,023	127,023	285,639	15,500	240,176	10	666,751	1,816,122
<b>Amortisation and impairment losses</b>								
Balance at 1 January 2018	-	(12,944)	(20,403)	(9,324)	(39,077)	-	(5,213)	(86,961)
Amortisation for the year	-	(11,606)	(16,710)	(2,035)	(28,354)	-	(10,790)	(69,495)
Disposals	-	6,840	-	-	929	-	-	7,769
Transfers	-	(583)	14	(2,653)	2,764	-	1	(457)
Balance at 31 December 2018	-	(18,293)	(37,099)	(14,012)	(63,738)	-	(16,002)	(149,144)
Amortisation for the year	-	(19,643)	(30,058)	(1,861)	(31,731)	-	(21,542)	(104,835)
Disposals	-	2,790	-	2,503	3,559	-	-	8,852
Transfers	-	3	1,775	-	(2,783)	-	1,796	791
Balance at 31 December 2019	-	(35,143)	(65,382)	(13,370)	(94,693)	-	(35,748)	(244,336)
<b>Carrying amount</b>								
At 1 January 2018	389,380	32,783	169,118	8,966	133,696	38	49,027	783,008
At 31 December 2018	476,250	64,020	248,126	3,978	143,792	-	286,341	1,222,507
At 31 December 2019	481,023	91,880	220,257	2,130	145,483	10	631,003	1,571,786

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## Goodwill

The breakdown of goodwill at the CGU level is as follows:

	<u>31/12/2019</u>	<u>31/12/2018</u>
<b>CGU</b>		
Xfera Móviles	142,083	137,311
Xtra Telecom	39,791	39,791
Group's CGU (all CGU's)	<u>299,149</u>	<u>299,149</u>
	<u><b>481,023</b></u>	<u><b>476,251</b></u>

Goodwill arising on business combinations in 2019 and 2018 (see notes 4.1 and 4.2) have been assigned to the CGU Xfera Móviles, S.A.U. In the cases of Carrier E-Mobile, S.L.U., Netllar, S.L.U. and the Lebara business unit, since that CGU will benefit from the synergies that arise mainly through the optimization of the cost of leasing mobile telecommunications networks that have been paid up until the transaction date, as the mobile network developed by the Group can be used or it may join the wholesale commercial agreements entered into with third parties. In the case of The Bymovil Spain, S.L.U., given that its business consists of the management of exclusive Yoigo public points of sale on streets and in shopping centres.

As is mentioned in note 4.2, during the year ended 31 December 2019 the Group adjusted the provisional values of the business combination involving The Bymovil Spain S.L.U. and, consequently, updated the goodwill attributed to the CGU Xfera Móviles, S.A.U. at the transaction date.

The recoverable amount of the CGUs was determined based on value-in-use calculations. These calculations use cash flow projections from the business plan approved for a five-year period. After five years, cash flows are extrapolated using the terminal growth rates applicable to the industry in which the Group operates.

The key assumptions used by management when making cash flow projections are as follows:

- Post-tax discount rate: 7.6% (8.2% in 2018). Group management performs impairment tests using discount rates after taxes with the understanding that estimates are made by market participants on a post-tax basis using the CAPM (Capital Asset Pricing Model) methodology when estimating the cost of own capital for the purposes of calculating that discount rate. Using the iterative method, the discount rate before taxes would be 9.69% (10.49% in 2018).
- Growth of sales in the budgeted period: a range between 2% and 9% (between 2% and 11% in 2018), based on the evolution of the Group's business in 2019 and the strategic investment and growth plans. The growth levels are maintained until the end of 2021, at which time the Group estimates that it will reach maturity in the market as a result of the completion of its own network expansion plan and the infrastructure mutualisation plan with other operators. Starting in that year, average growth levels will be in line with those projected for the sector.
- Perpetual growth rates: 0.65% (0.7% in 2018). In order to determine this rate in 2019, market data on inflation, provided by the International Monetary Fund, was used, with variations of between -0.60% and 2.00% for the period 2015 to 2018 and 0.70% and 1.50%, expected in the period 2019 to 2021, the increase in the growth rate therefore being considered reasonable and consistent with the Group's growth.
- EBITDA margin/Revenue: 35% (29% in 2018), in line with the figure envisaged in the business plan and consistent with analysts' estimates.

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- CAPEX/Revenue ratio: also in line with the business plan and consistent with maintenance capital investment needs to perpetuity.

The Group determines gross margins and budgeted sales based on past experience and forecast market performance. The average weighted growth rates are coherent with the projections included in industry reports and consistent with the Group's evolution over the past few years, as well as the expectations that it has for coming years.

No goodwill impairment losses were recognised in 2019 or 2018.

The Group has carried out a sensitivity analysis of the key assumptions used to determine the value of goodwill recognised:

- Discount rate: +2%
- EBITDA: -25% in the base scenario.
- Combination of assumptions: +1% discount rate, -25% EBITDA and -5% in revenue and cost of sales, applied to the base scenario.

The sensitivity analyses performed did not reveal the existence of any impairment of the value assigned to goodwill.

### **Computer software**

Computer software additions in 2019 and 2018 related mainly to investments in the acquisition and development of the IT solutions needed by a telecommunications operator during a growth process. This process centred on the development of cross-organisational solutions for the Group and entailed the derecognition of computer applications that were fully amortised or close to the end of their useful life.

### **Patents, trademarks and licences**

#### Trademarks

This item includes the assigned values of the "Yoigo", "Pepephone" and "Llamayá" brands, according to the independent expert valuations performed for the business combinations all have been assigned to Xfera Móviles, S.A.U CGU, except the trademark "Pepephone" assigned to the Pepephone subgroup CGU.

There follows a summary by brand of indefinite useful life estimated by the Group, the CGUs to which the brands have been allocated and their carrying amount (in thousands of Euros):

Thousand Euro		<u>31/12/2019</u>	<u>31/12/2018</u>
<b>Brand</b>	<b>CGU</b>		
Yoigo and Llamayá	Xfera Móviles	91,294	91,294
Pepephone	Subgroup Pepephone	8,594	8,594
		<u><b>99,888</b></u>	<u><b>99,888</b></u>

The recoverable amount of trademarks is determined based on value-in-use calculations. These calculations use cash flow projections from the business plan approved for a five-year period.

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After five years, cash flows are extrapolated using the growth rates applicable to the industry in which the Group operates.

The key assumptions used by management when making cash flow projections are as follows:

- Discount rate after taxes: 7.40% (Yoigo trademark) and 7.61% (Pepephone trademark) (8,00% for the Yoigo trademark and 8,22% for the Pepephone trademark in 2018). Using the iterative method, the discount rate before taxes would be 9.45% for the Yoigo trademark and 10.16% for the Pepephone trademark (10.05% for the Yoigo trademark and 10.77% for the Pepephone trademark in 2018).
- Sales growth for the budgeted period: 5% per annum to 2024, in both cases (5% each year until 2023, in 2018).
- Perpetuity growth rates: 1,7% for both cases (0.7% in 2018). In order to determine this rate in 2019, market data on inflation, provided by the International Monetary Fund, was used, with variations of between -0.60% and 2.00% for the period 2015 to 2017, 0.70% and 1.50%, expected in the period 2019 to 2021 (expected change in 2018 between 1.7% and 1.8% between 2018 and 2020), the increase in the growth rate therefore being considered reasonable and consistent with the Group's growth.
- Perpetual yield on income: 1.25% (Yoigo trademark) and 1.00% (Pepephone trademark)

No impairment losses were recognised on trademarks in 2019 or 2018.

The Group has performed a sensitivity analysis of the key assumptions used to determine the recognised value of the trademarks:

- Discount rate: +/- 1%
- Sales growth: -2%
- Perpetual growth rate: -0.2%
- Perpetual yield on income: -0.1%

The sensitivity analyses performed did not reveal the existence of any risk of the impairment of the value assigned to the trademarks with an indefinite useful life.

### Licences

Licences amounting to Euro 95,559 thousand (Euro 120,517 thousand at 31 December 2018) reflect the cost attributed to mobile telephony service licences obtained or acquired for the following bands:

- 1800 MHz, valid to 2030;
- 2100 MHz, valid to 2020 and renewable one single time for a further 10 years;
- 2600 MHz, valid to 2030;
- 3500 MHz, valid to 2020 and renewable one single time for a further 10 years.

Additions of licenses in 2019 and 2018 in the amount of Euro 3,000 thousand and Euro 71,759 thousand, respectively, relate to those required for the 3.5 Ghz frequency as a result of the business combination involving Neutra (see note 4.2) and those acquired from Eurona.

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## **Development**

This caption essentially reflects software project costs related to the telecommunications business of the Group from which future income is expected to be earned.

## **Other intangible assets**

This heading primarily includes the measurement of the customer portfolios received through business combinations, which at 31 December 2019 presented a carrying value of Euro 122,350 thousand, the costs of accessing other operator's ADSL (Asymmetric Digital Subscriber Line) network and the necessary costs prior to the entry into operation of the 3500 MHz frequencies.

## **Rights of use**

During previous years, the Group entered into important strategic agreements for wholesale access to third-party infrastructure and the joint deployment of FTTH (Fibre-to-the-Home) networks with other operators.

During 2019 the Group completed the following relevant transactions with operators in the Spanish market:

- New overall agreement with Orange that allows:
  - a. Improvements to the FTTH network: the fibre network increases efficiently in terms of cost to 13.4 million DUs at the end of 2019.
  - b. Cost stability in the mobile business: the contract has been extended until 2028-2033, which eliminates any risk of renegotiation, includes 5G, options and conditions that are attractive and allows a change in the National Roaming Agreement (NRA) to a sustainable model with guarantees for the future based on network capacity.
  - c. Amendments to the data transmission agreement with improved unit prices.
  - d. National 5G coverage: the agreement resolves, in a single transaction, future 5G needs in the entire country with sufficient flexibility to accommodate all of the Group's expected future growth.
  - e. Visibility in Capex: the contract ensures that the future 5G and FTTH investment needs will be limited and significantly lower than would have been the case for the development of an individual network. At the same time, the Group significantly increases its infrastructure in terms of access to mobile locations, spectrum and FTTH networks.
- An agreement that allows:
  - a. Increased access to the operator's FTTH network.
  - b. Roaming contract with better unit prices, thereby ensuring better coverage for the Group's customers.



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- New agreements with other telecommunications infrastructure operators under mutual agreements that allow access to a relevant number of additional DUs.

The Group therefore continues to develop the strategy started in prior years of reaching agreements with telecommunications infrastructure operators to extend its own network (co-investment) and to increase wholesale access to third-party networks.

In general, as a result of these agreements, the Group will be able to provide more fixed and mobile services through its own networks, which will enhance flexibility in cost management and improve the quality of the service offered customers.

Additions of 2019 include mainly the payments made as a result of the agreements formalized in the year.

Furthermore, this heading includes Euro 26,667 thousand related to the usufruct retained by the Group in order to fulfill the commitments derived from the irrevocable transfer of use in favor of Jazz Telecom, S.A.U. (see note 20) over 40% of the dwelling units of its FTTH network sold during 2019 (see note 6).

In 2018, the Group entered into major strategic agreements for wholesale access to infrastructures and the joint deployment of FTTH (Fibre-to-the-Home) networks with other operators. In this respect, one of the agreements reached by the Group during 2018 includes the following:

- Extension of the existing Fibre-to-the-Home ("FTTH") co-investment agreement to a minimum of 2 million dwelling units (DUs), expanding the Group's own FTTH network to 6.5 million DUs in the next 3 years.
- Modification and improvement of the bitstream agreement for the use of another operator's FTTH network that encompasses over 8 million DUs.
- Review of the terms and conditions of the current Site Sharing agreement that includes access to approximately 5,500 new sites, making it possible to double the size of the Group's own mobile network in a profitable manner.
- Improvement in the economic terms of the current National Roaming agreement.
- Amendments to the data transmission agreement with improved unit prices.

In addition, during 2018 the Group concluded another agreement that provides for the sharing of FTTH networks of up to 1.9 million DUs, with the following characteristics:

- The Group and another operator assign each other indefeasible rights of use (IRUs) for their respective fibre footprints covered by this agreement on a long-term basis (up to a maximum of 34 years).
- The sharing arrangement is structured in three phases that span a maximum of four years, in which each party may acquire from the other up to 942,000 DUs.
- The initial phase runs to the end of 2019, envisaging a volume of 1.1 million DUs.

The additions in 2019 and 2018 are the result of these agreements.

This item also includes the indirect right of use of Jazz Telecom S.A.U.'s copper network under the framework agreement entered into on 31 July 2015.

### **Impairment losses on intangible assets**

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The Group has analysed intangible assets for any indications of impairment. No impairment losses on intangible assets were deemed necessary as a result of the analysis.

### **Purchase commitments**

At 31 December 2019, the Group has firm purchase commitments for intangible assets amounting to Euro 8,998 thousand (Euro 8,723 thousand at 31 December 2018), mainly deriving from the FTTH network mutualisation agreement signed with other operators.

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## 6. Property, plant and equipment

Details of property, plant and equipment and movements are as follows:

<i>Thousand Euro</i>	<b>Land and buildings</b>	<b>Network equipment</b>	<b>Other PPE</b>	<b>PPE in progress and prepayments</b>	<b>Total</b>
<b>Cost</b>					
Balance at 1 January 2018	<b>785</b>	<b>473,050</b>	<b>9,993</b>	<b>54,347</b>	<b>538,175</b>
Transfer at 1 January due to IFRS 16 application	-	(6,098)	-	-	(6,098)
Balance at 1 January 2018	<b>785</b>	<b>466,952</b>	<b>9,993</b>	<b>54,347</b>	<b>532,077</b>
Business combinations (note 4)	19	4,565	2,621	-	7,205
Additions	-	188,366	4,343	45,965	238,674
Disposals	-	(19,414)	(4,301)	(792)	(24,507)
Transfers	(2)	31,023	23,565	(54,654)	(68)
Balance at 31 December 2018	<b>802</b>	<b>671,492</b>	<b>36,221</b>	<b>44,866</b>	<b>753,381</b>
Business combinations (note 4)	-	27	92	520	639
Additions	-	246,058	9,309	60,112	315,479
Disposals	-	(183,957)	(1,098)	(149)	(185,204)
Transfers	-	29,914	(11,741)	(44,713)	(26,540)
Balance at 31 December 2019	<b>802</b>	<b>763,534</b>	<b>32,783</b>	<b>60,636</b>	<b>857,755</b>
<b>Depreciation</b>					
Balance at 1 January 2018	<b>(191)</b>	<b>(73,777)</b>	<b>(1,304)</b>	-	<b>(75,272)</b>
Depreciation charge for the year	(19)	(85,201)	(6,038)	-	(91,258)
Disposals	-	13,395	4,298	-	17,693
Transfers	-	7,716	(8,021)	-	(305)
Balance at 31 December 2018	<b>(210)</b>	<b>(137,867)</b>	<b>(11,065)</b>	-	<b>(149,142)</b>
Depreciation charge for the year	(38)	(128,398)	(6,614)	-	(135,050)
Disposals	-	73,268	940	-	74,208
Transfers	-	-	(5)	-	(5)
Balance at 31 December 2019	<b>(248)</b>	<b>(192,997)</b>	<b>(16,744)</b>	-	<b>(209,989)</b>
<b>Impairment losses</b>					
Balance at 1 January 2019	-	-	-	-	-
Impairment charge for the year	-	(23,890)	-	-	(23,890)
Impairment applied	-	23,890	-	-	23,890
Balance at 31 December 2019	-	-	-	-	-
<b>Carrying amount</b>					
At 1 January 2018	<b>594</b>	<b>393,175</b>	<b>8,689</b>	<b>54,347</b>	<b>456,805</b>
At 31 December 2018	<b>592</b>	<b>533,625</b>	<b>25,156</b>	<b>44,866</b>	<b>604,239</b>
At 31 December 2019	<b>554</b>	<b>570,537</b>	<b>16,039</b>	<b>60,636</b>	<b>647,766</b>

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The main additions in 2019 and 2018 relate to network equipment, specifically the rollout of the fibre-optic network, the optimization of the 4G mobile telephony network and also, in 2019, the deployment of the 5G mobile telephony pilot network.

The Group completed the sale of approximately 940,000 dwelling units (DUs) in its FTTH network to MacQuarie Assets Holding Limited for Euro 218.5 million on 18 November 2019, effective 1 December 2019. The Group retained usufruct rights regarding 40% of those DUs in order to be able to comply with the commitments derived from the irrevocable assignment of use in favour of Jazz Telecom, S.A.U. (note 20). The transaction has not had impact on either the FTTH's own network footprint or on the Group's customer base, as existing customers are maintained on the network sold by simultaneously entering into a contract to provide bitstream services. The transaction generated a gain of Euro 144 million, which is recognised under the heading "Impairment and profit/(loss) on disposals of assets" in the Consolidated statement of comprehensive income (see note 22 f). The assets sold had a carrying amount of 74 million and the transfer of the intangible asset related to the usufruct rate held by the Group over the 40% of the DUs sold (see note 5).

Apart from the transfer mentioned in the preceding paragraph, the rest of the transfers that took place in 2019 and 2018 basically relate to the degree of completion of the buildout of the telecommunications network.

No interest was capitalised in 2019 or 2018.

### **Network equipment**

This item includes the assets that make up the fixed and mobile telecommunications network.

The Group has entered into collaboration agreements for the joint deployment of the FTTH network, where each party deploys its own network and assigns use to the other party while retaining ownership of the asset (mutualisation). Third parties' right of use of the Group's own infrastructures is charged to other non-current liabilities (see note 20), while the right of use granted to the Group of the infrastructures deployed by third parties is carried as an intangible asset (see note 5).

Additions in 2019 primarily relate to the acquisition of routers and the development of the Group's fixed and mobile telephony network.

In 2019, the Group recorded write-offs with respect to routers and the costs associated with their installation which are collected from the homes of customers who decide to terminate their telecommunications services contracts, and which are not recoverable for subsequent use. As indicated in the paragraph on the impairment of property, plant and equipment, these routers had already been recognised as impaired during the year. In addition, in 2019 the Group sold routers that could be reconditioned to third parties, resulting in a loss of Euro 5,982 thousand.

The Group reached the conclusion in 2019 that ADSL routers (Asymmetric Digital Subscriber Line) located at customer homes are technologically obsolete due to the penetration in the market of FTTH (Fiber-to-the-Home) routers and reduced their useful lives from 4 to 2 years. If the estimated useful life of 4 years had been maintained for these routers, their depreciation would have been Euro 4,508 thousand less than that recognised in 2019.

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## **Insurance**

The Group has taken out insurance policies to cover the risks to which its property, plant and equipment are exposed. The coverage provided by these policies is considered to be sufficient.

## **Property, plant and equipment subject to guarantees**

At 31 December 2019 and 2018, a part of the land and buildings where the Group carries on its business have been mortgaged as security for bank borrowings (see note 14 (e)).

## **Purchase commitments**

At 31 December 2019, the Group has purchase commitments for property, plant and equipment totalling Euro 67,084 thousand (Euro 53,182 thousand at 31 December 2018) with which to expand its telecommunications network in the coming years.

## **Impairment of property, plant and equipment**

The Group has analysed the possible existence of indications of the impairment of property, plant and equipment. The analysis evaluates the existence of circumstances that could indicate that the carrying amount of the property, plant and equipment owned by the Group may not be recoverable.

The Group has concluded that the FTTH routers returned by customers as a result of the cancellation of service contracts, which up until this year were recycled for a new installation, are affected by technological obsolescence as a result of the entry into the market of progressively more efficient devices with a lower unit cost. The Group recognised an impairment loss in 2019 for the equipment collected from subscriber homes in the amount of Euro 23,890 thousand.

## **7. Rights of use**

This note provides information on leases in which the Group is the lessee.

The main types of lease agreements identified by Group management, as well as the main judgments applied when determining the terms of the lease, are as follows:

- Lease agreements covering mobile telephony network locations: rights to use identifiable spaces in the mobile telephony infrastructures of other telephony operators or infrastructure operators and spaces in specific locations. The Group has not applied any significant judgments regarding the terms of the leases under these agreements since there are initial mandatory compliance periods of between 8 and 15 years (with possible termination only in circumstances that may be classified as remote or after making full payment of outstanding amounts), and the Group does not have any unilateral extension options. As a result, the term of these leases is generally the outstanding mandatory compliance period. There are certain exceptions where the Group is entitled to a unilateral extension right and early termination, although they are not relevant.
- OBA contracts and fibre-optic networks: rights to use identifiable spaces in technical facilities (OBA) to house the Group's equipment, as well as the pipelines for the installation of fibre-optic networks. The Group has the right, but not the obligation, to use the relevant underlying assets for an indefinite period. As a result, the term of the

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leases is associated with the period over which the possibility of covering the operating needs satisfied by these assets with other assets or alternative means may be deemed to be remote. Although the use of assets or other alternative means in this respect could be considered to be remote, taking into account the period covered by the Group's business plans and the rate at which relevant changes could take place Group management considers that the term of these contracts cannot be established for a period exceeding 5 years.

- Transmission line contracts: rights to use groups of assets making up fibre-optic networks ("dedicated networks"). The Group has not applied any significant judgments regarding the terms of the leases under these agreements since there are initial mandatory compliance periods (with possible termination only in circumstances that may be classified as remote or after making full payment of outstanding amounts), and the Group does not have any unilateral extension options. As a result, the term of these leases is generally the outstanding mandatory compliance period.
- Housing contracts: rights to use identifiable spaces in properties, technical telecommunications facilities or infrastructures of public bodies or third parties to house the Group's equipment. As a general rule, the term of the lease initially taken into consideration is that which is mandatory. However, when the mandatory compliance period is less than the time during which the possibility of covering the operating needs for which these assets will be used with other assets or alternative means may be deemed to be remote, Group management uses the latter (without exceeding the maximum period of the right granted to the Group in accordance with the contract). As was the case with the OBA and the cabling pipelines, although the use of assets or other alternative means in this respect could be considered to be remote, taking into account the period covered by the Group's business plans and the rate at which relevant changes could take place Group management considers that the term of these contracts cannot be established for a period exceeding 5 years, which is used as a reference for these contracts.
- Other contracts: usage rights relating to the lease of offices, vehicles and other assets not directly related to operations. The lease terms are generally the minimum periods established in the agreements.

The payments associated with short-term lease agreements are recognised as an expense in the consolidated statement of comprehensive income. A short-term lease agreement is any for a term of 12 months or less.

The payments associated with low-value lease agreements are recognised as an expense in the consolidated statement of comprehensive income. A "low-value lease agreement" is considered to be any whose underlying asset assigned for use has a value of less than Euro 5 thousand.

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Movements in usage lease rights are as follows:

Thousand Euro	Rights of use	
	2019	2018
<b>Cost</b>		
Balance at 1 January	211,866	304,798
Additions	28,192	117,713
Disposals	(3,409)	(210,645)
Balance at 31 December	236,649	211,866
<b>Amortisation</b>		
Balance at 1 January	(52,812)	-
Amortisation/depreciation charge for the year	(31,933)	(54,287)
Disposals	-	1,475
Balance at 31 December	(84,745)	(52,812)
<b>Carrying amount</b>		
Balance at 1 January	159,054	304,798
Balance at 31 December	151,904	159,054

Since 2013 the Group had a contract with an infrastructure operator for the lease of approximately half of the sites used to provide telecommunications services. In 2018 the Group entered into a new agreement that replaced the previous contract, under which the operator has a greater practical capacity to manage this site network. In view of the characteristics of the new agreement, the Group has concluded that it should be classified as a contract for the provision of services and is therefore outside the scope of IFRS 16. Accordingly, the rights of use associated with the above-mentioned contract were derecognised.

The liabilities relating to these lease agreements at 31 December 2019 are set out in note 14 (c).

## 8. Costs of obtaining contracts with customers

This relates to the capitalization of certain costs to obtain contracts with customers in accordance with the matters mentioned in note 3 (o). Set out below is an analysis of these costs showing movements during 2019 and 2018:

Thousand Euro	31/12/2019	
	Non-current	Current
Balance at 1 January 2019	30,979	80,983
Additions	58,594	83,192
Taken to profit or loss	-	(106,338)
Transfers	(30,978)	30,978
Balance at 31 December 2019	<b>58,595</b>	<b>88,815</b>

Thousand Euro	31/12/2018	
	Non-current	Current
Balance at 1 January 2018	23,551	54,441
Additions	30,979	83,943
Taken to profit or loss	-	(80,902)
Transfers	(23,521)	23,521
Balance at 31 December 2018	<b>31,009</b>	<b>81,003</b>

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**9. Contractual assets**

This relates to the activation of the straight-line treatment of discounts and subsidies granted to customers mentioned in note 3 (o). The composition of and movements in these assets during 2019 and 2018 are as follows:

<i>Thousand Euro</i>	<b>31/12/2019</b>	
	<b>Non-current</b>	<b>Current</b>
Balance at 1 January 2019	34,745	54,215
Additions	26,856	77,795
Taken to profit or loss	-	(104,046)
Transfers	(46,347)	46,347
Balance at 31 December 2019	<b>15,254</b>	<b>74,311</b>

<i>Thousand Euro</i>	<b>31/12/2018</b>	
	<b>Non-current</b>	<b>Current</b>
Balance at 1 January 2018	18,225	42,321
Additions	34,745	64,922
Taken to profit or loss	-	(71,303)
Transfers	(18,255)	18,255
Balance at 31 December 2018	<b>34,715</b>	<b>54,195</b>

**10. Other investments**

Details of other investments are as follows:

<i>Thousand Euro</i>	<b>31/12/2019</b>	<b>31/12/2018</b>
<b>Non-current</b>		
Equity instruments	414	450
Loans to companies	23,721	-
Deposits and guarantees	1,648	1,249
Other financial assets	3,394	6,035
	<b>29,177</b>	<b>7,734</b>
<b>Current</b>		
Equity instruments	-	14
Loans to companies	5,763	3,677
Deposits and guarantees	965	681
Other financial assets	779	160
	<b>7,507</b>	<b>4,532</b>

Through its subsidiary Xfera Móviles S.A.U., the Group acquired 10% of the company Ticnova Quality Team S.L. from an unrelated third party for Euro 413 thousand. This company engages in the development and marketing of computer and telecommunications programs and applications.

The Group signed a call/put option agreement with the related company GAEA Inversión SCR, S.A. (hereinafter GAEA) (see note 23 (b)), which stipulates that the latter may exercise a call option covering the Group's shareholding in Ticnova Quality Team, S.L. for 5 years following



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their acquisition date at a price that will be increased by 6% per year compared to the price paid by the Group, with a minimum of a 1.2x multiple over the purchase price. The Group holds, in turn, a put option with GAEA to be exercised within 6 months after the date of the fifth anniversary of the completion of the transaction for a price set in the contract. The Company's directors do not expect that the exercising of these call and put options would have a significant impact on these consolidated annual accounts taken as a whole.

Loans to companies mainly include the credit line granted to a related party for a drawn-down amount at 31 December 2019 of Euro 22,303 thousand (note 23 (a)).

Other non-current financial assets also include long-term instalments receivable on financing granted to the Group's customers to buy telephone terminals in the amount of Euro 2,661 thousand (Euro 2,936 thousand at 31 December 2018). This financing has a 24-month term and is completely independent of the financing provided by financial institutions directly to customers.

The Group's exposure to credit risk, liquidity risk and market risk is described in note 18.

## **11. Equity-consolidated investments**

Several companies over which the Group has significant influence entered into the Group's consolidation perimeter in 2019, either through new creation along with other partners or through the acquisition of shares in those companies

### **- Acquisition of Senior Telecomunicaciones y Servicios Avanzados S.L.**

The company Senior Telecomunicaciones y Servicios Avanzados S.L. (see note 2 (a)), was incorporated on 21 February 2019 and has the corporate purpose of rendering and/or marketing remote medical services, generally for groups that require these assistance, protection or remote communication services through the use of communications, information, audio-visual, telecommunications, telematic or interactive technologies within the framework of current legislation, with or without the support of personal resources. Shareholders at an Extraordinary Meeting of this company held on 11 April 2019 adopted a resolution to increase share capital. This increase was subscribed by the Group through the subsidiary Xfera Móviles S.A.U. and attained a 70% interest in its share capital. On 13 December 2019 Xfera Móviles S.A.U. sold 20.011% of its interest to GAEA for Euro 667 thousand (see note 23 (b)) and no results whatsoever were generated on the sale of these shares.

The Group has concluded a call and put option contract with GAEA, under which this company grants the Group a call option covering the 20.011% of Senior Telecomunicaciones y Servicios Avanzados S.L. mentioned in the preceding paragraph, and the Group grants GAEA a put option covering that same shareholding. The strike price of the call option is established in the contract at an amount that allows the Group to obtain a 6% internal rate of return compared to the selling price, with a minimum of Euro 800 thousand, while the share price when exercising the put option will be Euro 600 thousand.

### **- Incorporation of Medbuying Technologies Group, S.L.**

The investment agreement reached between MásMóvil Ibercom S.A., Global Dominion Access, S.A. and Euskatel, S.A. for the incorporation of a newly created company called Medbuying Technologies Group S.L. (see note 2 (a)) was executed in a public document on 7 May 2019.

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The new company has the corporate purpose of acquiring and selling all types of mobile telephony and technology devices. The Group holds a 45% interest in this company.

**- Incorporation of Xfera Consumer Finance, Establecimiento Financiero de Crédito, S. A.**

The Group company Xfera Móviles S.A.U., together with Banco Cetelem S.A.U., incorporated the hybrid payment company Xfera Consumer Finance Establecimiento Financiero de Crédito S.A. on 25 July 2019 (see note 2 (a)). The Group holds a 49% interest in this company. The Group's initial investment amounts to Euro 2,940 thousand.

The company commenced activities in 2020 after having obtained the necessary authorization from the Bank of Spain.

**- Acquisition of Inversiones Locua, S.L. through Spotting Development, S.L.**

On 7 August 2019, through its company Xfera Móviles S.A.U., the Group acquired from unrelated third parties, for Euro 3,166 thousand, 50.0001% of Spotting Development, S.L., whose sole activity is the holding of shares representing 31.6635% of Inversiones Locua, S.L. (Ilocua) which, in turn, forms a group together with other telecommunication operators either as supply companies or holders of fixed or mobile networks. The Company's directors have considered that the acquired shares do not constitute a business in accordance with the definition under IFRS 3 and, therefore, have assigned the purchase price to acquired assets, recognising the percentage relating to non-controlling interests.

This purchase agreement establishes that the sellers grant an exclusive and irrevocable call option to Xfera Móviles, S.A.U. for the rest of the shares in Spotting Development, S.L., representing 49.9999% of its share capital and, in turn, Xfera Móviles, S.A.U. grants the sellers a put option for those shares. The call and put options may only be exercised by Xfera Móviles S.A.U. or by the sellers jointly, i.e. all of the call and/or put options would have to be exercised at the same time. The strike price for the call and put options will be established based on the provisions of the contract signed between the parties. The rest of the conditions and the schedule for these options are the same as those mentioned below for the call and put options involving certain companies pertaining to ILocua Group.

The Company also holds a call option granted by ILocua which, in turn, holds a put option granted by the Company, covering 100% of the capital of certain companies pertaining to ILocua Group. Both options are subject to compliance with certain requirements established in the contract, which must be reviewed by an independent third-party to verify that the minimum requirements have effectively been met together with the mandatory conditions for exercising the options. The prices for the call and put options are also regulated by the contract and will be calculated based on a multiplier applied to the normalised EBITDA of the companies involved with the potential transaction. The deadline for exercising the options expires in June 2020, although the contract allows an additional 15-month extension in the event that the conditions established in the contract are met. At the date these consolidated annual accounts are prepared, the Company has carried out a precautionary exercising of the call option in accordance with the procedure established in the contract and has requested the start of the process for verifying compliance with the requirements established in the contract for exercising that right, or for extending the deadline for exercising the options by an additional 15 months, as well as to determine the transaction price, if appropriate. Consequently, at the date these consolidated annual accounts are prepared, the Company's directors have concluded that the potential voting right is not substantive in accordance with IFRS 10.

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The directors of the Company do not expect a significant liability to arise in these consolidated annual accounts, taken as a whole, as a consequence of the exercise of these put and call options.

**- Acquisition of Cabonitel, S.A.**

29 October 2019, the Company acquired from an unrelated third party 100% of the Portuguese company Cabonitel, S.A. (Cabonitel), for Euro 27,278 thousand. Cabonitel owns the Portuguese telecommunications operators Nowo Communications S.A. and Onitelem – Infocomunicações, S.A. (ONI). Intern, and at the same time, the related entity GAEA Inversión SCR, S.A. (GAEA) acquired from the Company 50.1% of the share capital of Cabonitel for Euro 13,642 thousand (see note (b)) and, therefore, at 31 December 2019 the Company holds 49.9% of Cabonitel.

GAEA has a swap option relating to this transaction through which, if certain conditions arise, it may exchange its shares in Cabonitel representing 50.1% of its capital for the equivalent of 75% of ONI. This swap transaction would take place through the necessary and most efficient corporate transaction in accordance with Portuguese legislation and would have the result of the Company becoming the single shareholder of Cabonitel and GAEA the controlling shareholder of ONI, although the swap is subject to certain conditions that must be met within a maximum of 18 months after the date on which the transaction is completed. At the date these consolidated annual accounts are prepared, the conditions to which the swap option is subject have not arisen and it does not seem probable that they will be met within the validity period and therefore the swap has not taken place.

In turn, GAEA has granted a call option to the Company for the shares in Cabonitel owned by GAEA, equivalent to 1% of that company's share capital. The call option would be exercisable at a fixed price between months 24 and 26 after the completion of the original transaction, provided that the swap option mentioned in the preceding paragraph has not been exercised. If the call option is formally exercised, and only in that case, GAEA grants the Company and the Company grants GAEA a reciprocal call and put option for all of the shares in Cabonitel owned by GAEA, which could be exercised between month 60 and 66 after the completion of the original transaction and for a price determined in the contract.

In the event that the aforementioned options are not previously exercised, GAEA would have a drag-along right for the Company's shares in Cabonitel and, therefore, if GAEA can sell its shares in Cabonitel to a third party, GAEA could require the Company to also sell its shares under the same conditions as those to be sold by GAEA. This drag-along right would enter into force starting in month 27 after the end of the original transaction.

Taking into consideration that neither the conditions for the aforementioned swap have been met at the date these consolidated annual accounts are prepared, nor have the deadlines for the Company exercising the call options been reached, the Company's directors have concluded that at that date the options do not have an impact on control over Cabonitel and, therefore, the option is a derivative financial instrument that is measured at fair value through changes in the consolidated statement of comprehensive income. At 31 December 2019, the fair value of this instrument amounts to zero.

The following table shows the Group's associates at 31 December 2019 which, in the opinion of the Directors, are material to the Group. The companies listed below have share capital consisting solely of ordinary shares/participation units that are held directly by the Group. The ownership percentage is the same as the percentage voting rights held.

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<i>Thousand Euro</i>	<b>Country of incorporation</b>	<b>Percentage of ownership</b>	<b>Carrying amount</b>
<b>Subsidiaries</b>			
Medbuying Technologies Group, S.L.	Spain	45.00%	4,500
Inversiones Locua, S.L. (through Spotting Development, S.L.)	Spain	31.66%	5,285
Cabonitel, S.A.	Spain	49.99%	8,045
Xfera Consumer Finance, Establecimiento Financiero de Crédito, S.A.	Spain	49.00%	2,940
Senior Telecomunicaciones y Servicios Avanzados, S.L.	Spain	49.99%	1,666
			<b><u>22,436</u></b>

**Summarised financial information regarding associates**

A summary of the financial information regarding the associates that have been identified as material and/or significant for the Group is presented below. The information presented reflects the amount included in the financial statements for the relevant associate and not the interest of MásMóvil Group in those amounts:

	At 31 December 2019		
<b>Summarized balance sheet (unaudited) - Thousand Euro</b>	<b>Medbuying Technologies</b>	<b>Inversiones Locua (*)</b>	<b>Cabonitel</b>
Currents assets	32,548	n.a.	28,380
Non-current assets	21	n.a.	100,705
Current liabilities	(22,580)	n.a.	(73,098)
Non-current liabilities	-	n.a.	(39,156)
<b>Net assets</b>	<b>9,989</b>	<b>n.a.</b>	<b>16,831</b>
<i>Reconciliation to carrying amounts</i>			
Opening net assets (at date of acquisition)	10,000	9,652	21,497
Profit/ (loss) for the year	-	1,865	(11,140)
Other comprehensive income	-	-	(45)
Dividends paid	-	-	-
<b>Closing net assets</b>	<b>10,000</b>	<b>11,517</b>	<b>10,312</b>
Group's share in %	45.00%	31.66%	49.99%
Group's share in thousand Euro	4,500	3,647	5,155
Implicit goodwill	-	1,638	2,890
<b>Carrying amount</b>	<b>4,500</b>	<b>5,285</b>	<b>8,045</b>

(\*) n.a.: Information not available

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As this involves recent acquisitions and provisional closings, the Group has limited financial information regarding the income statements for the associates for the year ended 31 December 2019, which is as follows:

<i>Condensed total comprehensive income (unaudited)- Thousand Euro</i>	At 31 December 2019		
	<b>Medbuying Technologies</b>	<b>Inversiones Locua</b>	<b>Cabonitel</b>
<b>Profit/ (loss) for the year</b>	-	<b>4,476</b>	<b>(47,840)</b>
Other comprehensive income	-	-	-
Total other comprehensive income	-	<b>4,476</b>	<b>(47,840)</b>

## 12. Trade and other receivables

A breakdown of trade and other receivables is as follows:

<i>Thousand Euro</i>	<b>31/12/2019</b>	<b>31/12/2018</b>
Trade receivables	245,118	224,757
Receivables on terminal financing	5,817	9,095
Sundry receivables	5,251	1,337
Other receivables from Public Administrations	10,514	35,440
	<u>266,700</u>	<u>270,629</u>
Impairment adjustments	(48,019)	(32,955)
	<u><b>218,681</b></u>	<u><b>237,674</b></u>

Other receivables from Public Administrations relate mainly to balances refundable in respect of Value Added Tax ("VAT").

Movements in impairment adjustments (see note 22 (d)) are as follows:

<i>Thousand Euro</i>	<b>31/12/2019</b>	<b>31/12/2018</b>
Opening balance	<b>(32,955)</b>	<b>(8,545)</b>
Charges	(42,578)	(36,407)
Reversals	3,794	4,952
Applications	23,720	7,045
Closing balance	<u><b>(48,019)</b></u>	<u><b>(32,955)</b></u>

The Group's exposure to credit risk, liquidity risk and market risk is described in note 18.

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### **13. Equity**

Details and movements of equity are shown in the consolidated statement of changes in equity.

#### **a) Capital**

At 31 December 2019, the Company's share capital consists of 131,714,565 fully-paid shares with a par value of Euro 0.02 each. All shares bear the same voting and dividend rights, and there are no restrictions on their transfer.

On 7 May 2019, in the context of the cancellation of the convertible debt with PLT VII MC S.à.r.l. (Providence) (see note 14 (d)), the Company completed two share capital increases for this purpose:

- i. issue of 6,504,065 new shares with a par value of Euro 0.02 each and a share premium of Euro 18.43 each, fully subscribed by PLT VII MC S.à.r.l. (Providence) to repurchase the debt convertible into Company shares (see section (e) of this note); and
- ii. issue of 5,000,000 new shares with a par value of Euro 0.02 each and a share premium of Euro 19.98 each, fully subscribed by two international banks. The share capital increase took place simultaneously with the concluding of two Total Return Swaps (TRS) agreements with the same counterparties and on the same date for a nominal value of Euro 100 million (5 million shares in the Company at Euro 20 per share). The TRS commenced on 7 May 2019 and ended on 2 February 2020 and were indexed to an interest rate of Euroibor 3m + 2.75%, with quarterly settlements by the Company up until maturity. The TRS contracts served the purpose of securing the sale of all of the underlying shares before 31 January 2020 for the two banks subscribing this share capital increase.

Both the share capital increase and the TRS contracts were carried out simultaneously and with reciprocal consideration and, accordingly, the understanding is that they were related. The Company initially recognised the share capital increase and recognised Euro 95,445 thousand as a charge against reserves, crediting a financial liability account ("Current debt with special characteristics"), as well as the derivative financial instrument relating to the exposure to changes in share prices, recognized at fair value. At 30 November 2019, the banks that had subscribed the share capital increase had placed all of the issued shares and, therefore, the TRS were cancelled at a price slightly higher than Euro 20 per share, which provided the Company with a profit of Euro 4,042 thousand, which was recognised as financial income (see note 18 (e)).

Shares are held by many shareholders at 31 December 2019 and those with an interest exceeding 3% are the following: Onchena, S.L.U. 13.28%, FMR LLC (Fidelity) 4.99%, Indumentaria Pueri S.L. 8.07%, Providence (through two vehicles) 9.16%, BlackRock Inc. 5.21% and Key Wolf SLU 5.0%.

At 31 December 2018 the Company's share capital consisted of 120,210,500 fully-paid shares with a par value of Euro 0.02 each, carrying the same voting and dividend rights. There were no restrictions on the transfer of shares with the exception of 700,000 shares with respect to which a commitment existed not to sell, lend, offer, issue options or, in general, dispose of them in any way until 12 May 2019.

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On 9 May 2018, the Company increased capital by issuing 491,000 new shares with a nominal value of Euro 0.10 per share, that were subscribed for and paid up by the members of the Share-based Plan referred to in note 23(c). The capital increase amounted to Euro 10,026 thousand, including a share premium of Euro 9,977 thousand.

On 8 November 2018, the Company increased capital by means of an Accelerated Bookbuild Offering or ABO targeting qualified investors and professional clients through the issuance of 3,600,000 ordinary shares representing 17.6% of share capital prior to the increase and 15% of capital after the increase. The nominal amount of the capital increase totalled Euro 360,000 thousand, with a par value of Euro 0.10 per share and a share premium of Euro 99.90 per share. This capital increase assumed costs of issuing the new shares for an amount of Euro 3,906 thousand. Accordingly, following the capital increase, the Company's share capital stands at Euro 2,404,210, consisting of 24,042,100 fully-paid shares with a par value of Euro 0.10 each. On 12 November 2018, the Spanish National Securities Market Commission (CNMV) verified the fulfilment of requirements for the admission to listing of the new shares.

On 28 November 2018, the Parent Company's Board of Directors resolved to implement the share split and exchange approved by the Shareholders in the Annual General Meeting on 4 May 2018. It was agreed to split the 24,042,100 shares forming the Company's capital, in order to exchange them for 120,210,500 new shares in a proportion of five new shares to one old share, by reducing the par value of each share from Euro 0.10 to Euro 0.02 and thus increasing the number of shares outstanding, without affecting the share capital figure of Euro 2,404,210. The reference date for the split is 12 December 2018, the stock exchange business day prior to the effective date of the operation scheduled for 13 December 2018, the date of the suspension of trading in the old shares and simultaneous admission to listing of the new shares on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, as well as their inclusion in the SIBE.

At 31 December 2018, the shares were held by a number of shareholders. The following were the shareholders with an interest exceeding 3.00%: Onchena S.L.U (Ms. Carmen Ybarra Careaga) 14.25%, Indumenta Pueri, S.L. 8.71%, FMR LLC (Fidelity) 6.88%, Key Wolf, S.L.U. 5.38%, Gala Growth Properties S.L. 4.28%, PEP VII A International Limited (Providence) 3.29%, Caja de Seguros Reunidos Compañía de Seguros y Reaseguros, S.A. 3.11% and Eleva Capital 3.06%.

## **b) Share premium**

The share premium derives from the capital increases carried out in 2019 and prior years.

The share premium at 31 December 2019 and 2018 is not available for distribution due to the amount of development expenses that have yet to be amortised (see note 5).

## **c) Retained earnings and other reserves**

At 31 December 2019, retained earnings and other reserves have a negative balance for an amount of Euro 835,001 thousand (negative balance Euro 221,760 thousand at 31 December 2018), and includes the profit for the year of Euro 92,918 thousand (loss of Euro 60,504 thousand in 2018). The Group has applied the various practical solutions offered by IFRS 16, as is mentioned in note 2 (j). It gave rise to an adjustment against reserves in the amount of the accumulated net effect, totalling Euro 4,636 thousand.

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Within the context of the cancellation of the convertible bonds (see section (e) of this note and note 14 (d)), on 7 May 2019 the Group has recognized the decline in its reserves in the amount of Euro 601,143 thousand and recognised the share capital increase associated with the two international banks, which was initially considered to be a financial liability (see section (a) of this note). The difference between the share capital increase price and the market sale of the shares issued during the increase was recognised in reserves.

On 8 November 2018 the Parent Company repurchased the financial debt (the note) from ACS Actividades de Construcción y Servicios, S.A. (hereinafter ACS), resulting in a decrease in reserves of Euro 181,866 thousand (see paragraph (e) of this note).

The Parent Company's shareholders in the Annual General Meeting held on 8 May 2019 approved the application of 2018 losses to prior-year losses in the amount of Euro 14,458 thousand.

The preparation of the parent company's annual accounts for 2019 includes the proposal to distribute the profit for the year 2019 totalling Euro 133,849,615.58, for the following purposes and in this order:

- Offset prior-year losses for a total amount of Euro 54,730,576.63.
- Provide legal reserve until reaching 20% of the share capital, as established in article 274 of the Spanish Companies Act for an amount of Euro 407,658.26.
- Provide voluntary reserves for the remainder, Euro 78,711,380.69.

Appropriations to the legal reserve have been made in compliance with Article 274 of the Spanish Companies Act, which stipulates that 10% of the profits for each year must be transferred to this reserve until it represents at least 20% of share capital. The legal reserve is not available for distribution. It should be used to offset losses in the event of no other reserves being available, it must be replenished out of future profits.

At 31 December 2019 and 2018, the legal reserve amounts to Euro 119 thousand.

#### **d) Treasury shares**

The Shareholders in the Annual General Meeting of the Company held on 22 June 2017 authorised the Board of Directors to acquire treasury shares, either directly or through subsidiaries, up to a maximum of 10% of share capital. The acquisition price per share cannot exceed 5% above the listed price of the shares at the time of the transaction or be less than a 30% discount on the listed value at the time of the transaction, over a five-year period.

In 2019, the Company sold treasury shares with an acquisition cost of Euro 109,359 thousand (Euro 95,744 thousand in 2018), increasing reserves by Euro 142 thousand (Euro 342 thousand in 2018) due to the difference between the average acquisition price and the selling price. Treasury shares were also purchased in the amount of Euro 108,993 thousand (Euro 89,821 thousand in 2018).



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The following treasury share transactions were carried out in 2019 and 2018:

	Number of shares	
	31/12/2019	31/12/2018
<b>1 January</b>	<b>103,986</b>	<b>104,598</b>
Additions	5,548,385	1,050,648
Disposals	(5,569,196)	(1,051,260)
<b>31 December</b>	<b>83,175</b>	<b>103,986</b>

At year-end 2019, the Company holds 83,175 treasury shares acquired at a weighted average cost per share of Euro 19.73 (103,986 treasury shares at 31 December 2018 at a weighted average cost of Euro 20.95 (\*) per share).

(\*) 2018 restated figures to permit the comparability with 2019 figures

### **e) Other equity instruments**

On 23 September 2016, as approved by the Shareholders in the Annual General Meeting held on 16 August 2016, the Company issued bonds with a nominal value of Euro 165,000 thousand, convertible and/or exchangeable into Company shares with no pre-emptive rights for its shareholders. On 4 October 2016, the 1,650 bonds of the first tranche of the issue were fully subscribed and paid up by PLT VII Holdco S.à.r.l. (Providence) at a unit nominal value of Euro 100 thousand and a total nominal value of Euro 165,000 thousand, an eight-year maturity and annual fixed interest at a rate of 6.35% and are eligible for capitalization as an increase in debt. This issue was treated as a compound financial instrument comprising a liability component at amortised cost amounting to Euro 133,255 thousand at the date on which the instrument was cancelled (Euro 131,255 thousand at 31 December 2018) (see note 14 (d)) and an equity component for the remaining Euro 66,253 thousand (see note 23 (a)), as the issue provides the issuer with an option to convert the bonds into treasury shares. The directors considered that the convertibility of accrued interest into shares did not breach the fixed-for-fixed rule to be considered an equity instrument, as the variability in the number of shares depended only on the passage of time and not on any other variable.

As is mentioned in section (a) of this note and in note 14 (d), on 1 April 2019 the Group reached an agreement with Providence to cancel the compound financial instrument, which gave rise to the disposal of Other equity instruments for Euro 66,253 thousand, as well as financial liabilities for Euro 133,255 thousand.

On 2 January 2018 the Company used treasury shares to make payment of the deferred variable price of the acquisition agreement from prior years of Embou Nuevas Tecnologías, S.L. in the amount of Euro 9,024 thousand.

The Stock Option Plan that the Company granted to its Executive Team ended on 9 May 2018 (see section (a) of this note and Note 23 (c)). The heading Other equity instruments fell by Euro 828 thousand in order to cover the plan at maturity.

The Parent Company's Board of Directors approved the repurchase of the debt recognition contract with ACS (the note) on 7 November 2018. That note, for a nominal amount of Euro 200 million, provided ACS with the option to convert it into 4.8 million shares in the Company.

The repurchase of that note for Euro 476,533 thousand entailed to the cancellation of the equity component recognised under the heading Other equity instruments in the amount of Euro

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151,981 thousand the cancellation of the amortised cost of the debt and the interest accrued to date on the transaction in the amount of Euro 139,904 thousand and the cancellation of the liability relating to the embedded derivative in the amount of Euro 2,500. In turn, the Group incurred certain expenses totalling Euro 282 thousand associated with the repurchase of the note.

Accordingly, the repurchase of the note meant its early cancellation such that the Group distributed the consideration paid for the repurchase and the transaction expenses among the instrument's liability and equity components at the transaction date on a basis consistent with the method used when initially recognised, which entailed to a Euro 181,866 thousand decrease in reserves (see section (c) of this note). The repurchase of the debt was materialised through the share capital increase carried out on 8 November 2018 (see section (a) of this note), together with other funds provided by the Group.

**f) Earnings per share**

**Basic**

Basic earnings per share are calculated by dividing the profit/(loss) for the year attributable to the Parent Company's shareholders by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

Details of the calculation of basic earn/(loss) per share are as follows:

	<u>31/12/2019</u>	<u>31/12/2018</u>
Profit / (loss) for the year attributable shareholders of the Parent Company(Thousand Euro)	92,918	60,504 (*)
Weighted average number of ordinary shares outstanding (in thousand shares)	<u>127,658</u>	<u>103,937</u>
<b>Profit/(loss) per share (in Euro)</b>	<b><u>0.728</u></b>	<b><u>0.582</u></b>

(\*) Restated as a result of adopting IFRS 16 (see note 2 (j))

The weighted average number of ordinary shares outstanding is determined as follows:

<i>In thousand shares</i>	<u>31/12/2019</u>	<u>31/12/2018 (*)</u>
Shares outstanding at 1 January	120,211	99,756
Effect of shares issued	7,533	4,257
Effect of treasury shares	<u>(85)</u>	<u>(76)</u>
<b>Weighted average number of ordinary shares outstanding at 31 December</b>	<b><u>127,659</u></b>	<b><u>103,937</u></b>

(\*) 2018 restated figures to permit the comparability with 2019 figures

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**Diluted**

Diluted earnings per share are calculated by adjusting the profit/(loss) for the year attributable to the Parent Company's shareholders and the weighted average number of ordinary shares outstanding for all the dilutive effects of potential ordinary shares.

Details of the calculation of diluted earn/(loss) per share are as follows:

	<u>31/12/2019</u>	<u>31/12/2018</u>
Profit/ (Loss) for the year attributable to shareholders of the Parent Company (Thousand Euro)	177,224	76,716
Weighted average number of ordinary shares outstanding (in thousand of shares)	142,005	166,666
<b>Diluted loss per share (in Euro)</b>	<b><u>1.248</u></b>	<b><u>0.460</u></b>

The conciliation of profit/(loss) for the year attributable to the Parent Company's equity instruments holders against profit/(loss) for the year attributable to the Parent Company's equity instruments holders (diluted) is as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
Profit/(loss) for the year attributable to the Parent Company's shareholders (Thousand Euro)	92,918	60,504 (*)
Post-tax financial expense on convertible bonds	84,306	16,212
<b>Profit/(loss) for the year attributable to equity holders of the Parent Company (diluted)</b>	<b><u>177,224</u></b>	<b><u>76,716</u></b>

(\*) Restated as a result of adopting IFRS 16 (see note 2 (j))

The weighted average number of diluted ordinary shares outstanding has been determined as follows:

<i>In thousand of shares</i>	<u>31/12/2019</u>	<u>31/12/2018 (*)</u>
Weighted average of ordinary shares outstanding	127,658	103,937
Effect of the conversion of convertible bonds	14,347	62,729
<b>Weighted average number of diluted ordinary shares outstanding</b>	<b><u>142,005</u></b>	<b><u>166,666</u></b>

(\*) 2018 restated figures to permit the comparability with 2019 figures

The effect of the conversion of convertible bonds includes the weighted effect of the shares that were convertible relating to the convertible bonds subscribed by PLT VII Holdco, S.à.r.l., explained in paragraph e) of this note.

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**14. Financial liabilities**

A breakdown of financial liabilities is as follows:

<i>Thousand Euro</i>	<b>31/12/2019</b>		<b>31/12/2018</b>	
	Non-current	Current	Non-current	Current
Loans and borrowings	1,407,927	18,747	738,591	80,262
Derivative financial instruments	288	-	589	-
Other payables	20,994	499,769	29,814	239,409
Lease liabilities	116,382	31,011	120,022	28,153
Other financial liabilities	16,159	136,768	177,510	12,759
	<b>1,561,750</b>	<b>686,295</b>	<b>1,066,526</b>	<b>360,583</b>

**a) Loans and bank borrowings**

Loans and bank borrowings break down is as follows:

<i>Thousand Euro</i>	<b>31/12/2019</b>		<b>31/12/2018</b>	
	Non-current	Current	Non-current	Current
Loans	1,407,927	643	738,591	61,756
Credit lines	-	17,652	-	13,907
Other loans and borrowings	-	452	-	4,599
	<b>1,407,927</b>	<b>18,747</b>	<b>738,591</b>	<b>80,262</b>

The terms and conditions of loans and bank borrowings at 31 December 2019 are as follows:

<i>Thousand Euro</i>					<b>31/12/2019</b>			
Company	Currency	Fixed or variable rate	Effective interest rate	Maturity	Nominal	Current	Non-current	Total
Various financial institutions (Senior debt)	Euro	Variable	2.625%	2026	1,450,000	-	1,407,378	1,407,378
Other loans and credit policies	Euro	Fixed/ Variable	0,9% - 4,5%	2020-2024	-	18,747	549	19,296
						<b>18,747</b>	<b>1,407,927</b>	<b>1,426,674</b>

The terms and conditions of loans and bank borrowings at 31 December 2018 were as follows:

<i>Thousand Euro</i>					<b>31/12/2018</b>			
Company	Currency	Fixed or variable rate	Effective interest rate	Maturity	Nominal	Current	Non-current	Total
Various financial institutions (Senior debt)	Euro	Variable	2.50%	2022	831,000	61,607	618,135	679,742
BNP Paribas (Junior Debt)	Euro	Variable	3.50%	2023	120,000	-	119,238	119,238
Other loans and credit policies	Euro	Fixed/ Variable	-	2019-2021	-	18,655	1,218	19,873
						<b>80,262</b>	<b>738,591</b>	<b>818,853</b>

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This note provides information regarding the contractual terms of loans and bank borrowings, which are measured at amortised cost.

For further information on the Group's exposure to interest rate, foreign currency and liquidity risks, see note 18.

2019

The Group concluded a finance agreement with several national and international banks for a total of Euro 1,700 million on 7 May 2019. The purpose was to refinance its capital structure. The new financing has been structured as follows:

- Euro 1,450 million for a maintenance loan without covenants (TLB) with an estimated cost of Euroibor +3.25% and placed among institutional investors. The loan has a single payment (bullet payment) after 7 years have elapsed (May 2026), without any interim payments. In November 2019 the TLB was repriced downward to Euroibor +2.625%, which will be applied until the instrument matures. At 31 December 2019 the Group had drawn down the entirety of this loan.
- Lines of credit totalling Euro 250 million granted by several financial institutions, the conditions of which are associated with certain sustainability criteria. These lines of credit are primarily intended to finance investments totalling Euro 150 million and the Group's operating requirements in the amount of Euro 100 million. The Group had not drawn down the lines of credit at 31 December 2019 (see notes 2 (d) and 28).
- The financing structure signed allows (i) an increase in senior debt to a ratio of 4.0x (Net senior debt/EBITDA), (ii) additional subordinated debt to be incurred and (iii) have a "basket" of available financing, que se incrementa proporcionalmente al crecimiento del EBITDA tal y como se define por el contrato. The Group may therefore obtain additional financing of up to Euro 483,000 thousand (see note 2 (d)).

In order to mitigate the volatility of the interest-rate risk relating to this loan, and in accordance with the provisions of the contract regarding the minimum hedge limits, the Company has obtained a series of hedging financial instruments. At the date these consolidated annual accounts were prepared, the Group has contracted interest rate cash flow hedge instruments from the lenders covering 50% of the nominal amount of the drawn down debt.

This new debt is mostly secured by the shares/participation units in the Company's main subsidiaries.

This operation, together with the share capital increases carried out 2019 (see note 13 (a)) has allowed:

- The full repurchase of the convertible debt with Providence for Euro 883 million and Euro 23 million for the associated collar (see notes 13 (c), 13 (e) and section (b) of this note).
- The cancellation of the syndicated loan originally obtained in October 2016 and refinanced in June 2018 (see section (i) of this note), for a total amount of Euro 791 million (for a nominal value of Euro 831 million) which includes the cancellation of the principal amount (Euro 785 million) and interest and cancellation costs (Euro 6 million).

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- The cancellation of the junior subordinated loan (see section (ii) of this note) in the amount of Euro 120 million and the relevant interest, contracted by the Parent Company on 12 November 2018

In addition to the above, at 31 December 2019 the Group had available short-term lines of credit in the amount of Euro 42,000 thousand (see note 2 (d)).

2018

(i) Senior syndicated loan

On 18 June 2018 the Group completed the second phase of its refinancing of the syndicated loan originally obtained in October 2016 and refinanced for the first time in December 2017. This second refinancing was for a nominal value of Euro 831 million, of which Euro 698 million in nominal value had been drawn down at 31 December 2018. This tranche accrues interest at a variable rate tied to the Euroibor (Euroibor + 2.5%), with half-yearly payments of interest and principal until 2022. At 31 December 2018, this loan has been structured in several tranches as follows:

- Tranche A: The balance stood at Euro 36,448 thousand (face value of Euro 37,571 thousand) and the borrower was the subsidiary MásMóvil Holdphone, S.A.U.
- Tranche B: It stood at Euro 129,295 thousand (face value of Euro 132,122 thousand), the borrower and guarantor was Xfera Móviles, S.A.U.
- Tranche C: It stood at Euro 162,102 thousand (face value of Euro 165,459 thousand), the borrower and guarantor was Xfera Móviles, S.A.U.
- Tranche D: consisted of guarantees issued to ACS for a nominal value of Euro 120 million (see note 13 (e)). The last guarantee associated with tranche D was released on 6 November 2018 and the collateral cash associated with that guarantee was available to finance network development investments.
- Tranche Existing RCF: for an amount of up to Euro 30,000 thousand, considered a credit facility available to all Group entities, the Group entities also acting as guarantors. The Group did not draw down any amount from this tranche up until the date on which the new financing agreement was concluded and the cancellation of this agreement.
- Tranche E: In the amount of Euro 148,168 thousand (It has a face value of Euro 150,000 thousand), the borrower was Xfera Móviles, S.A.U. and the guarantor was MásMóvil Broadband, S.A.U. At 31 December 2018, this tranche has been fully invested in the deployment of the Group's fixed and mobile network.
- Tranche F: In the amount of Euro 78,000 thousand, of which Euro 76,930 thousand has been drawn down at 31 December 2018 (face value of Euro 77,350 thousand). The borrower was Xfera Móviles, S.A.U. and the guarantor was MásMóvil Broadband, S.A.U. This tranche was used to repurchase the bonds issued by MásMóvil Broadband S.A.U. on 8 January 2018.
- Tranche G: It stood at Euro 120,014 thousand (face value of Euro 122,000 thousand), the borrower and guarantor was Xfera Móviles, S.A.U. These funds were used to repay BNP Paribas' subordinated debt.

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- Tranche H: It had a face value of Euro 103,000 thousand, the borrower and guarantor was Xfera Móviles, S.A.U. These funds had not been drawn down at 31 on December 2018 and were intended for investments in fixed and mobile telecommunications infrastructure programs.

As security for this loan, a pledge was arranged on the shares of Xfera Móviles, S.A.U., Xtra Telecom, S.A.U. and MásMóvil Broadband, S.A.U., as well as on the shares of Pepeworld, S.L.U, Pepemobile, S.L.U., Pepe Energy, S.L. and Neutra Network Services, S.L.U.

The financing operation was coordinated by Banco Santander, BNP Paribas and Société Générale and the final syndicate loan involved 13 international and 8 national entities, for a total of 21.

The syndicated loan included the obligation to comply with the following covenants: Senior net debt/EBITDA and Total net debt/EBITDA and interest coverage ratio. The amounts reflected in these consolidated annual accounts at 31 December 2018 reflected compliance with the covenants.

In 2016, the Group arranged an interest rate “swap” on this loan.

As is mentioned at the start of this note, the new financing agreement concluded on 7 May 2019 gave rise to the cancellation of this senior syndicated loan.

*(ii) Junior subordinated loan*

Non-current bank borrowings totalling Euro 119,238 thousand (for a nominal amount of Euro 120,000 thousand) at 31 December 2018 were related to a junior subordinated loan obtained by the Parent Company on 12 November 2018 from BNP Paribas, with due date on 30 December 2023. This loan accrued annual interest of Euroibor + 3.5% and that spread increases in successive periods until repaid.

This debt was secured by the second-tier guarantees given by the Group's main subsidiaries: MásMóvil Phone & Internet, S.A.U, MásMóvil Holdphone, S.A.U., Xtra Telecom, S.A.U., Xfera Móviles, S.A.U., MásMóvil Broadband, S.A.U., Pepemobile, S.L.U., Pepeworld, S.L.U., Pepe Energy, S.L. and Neutra Network Services, S.L.U.

The junior subordinated loan included the same obligations to comply with the senior syndicated loan covenants previously mentioned.

As is mentioned at the start of this note, the new financing obtained in 2019 has the result, among other things, of cancelling the junior subordinated loan.

**b) Other payables**

This note provides information on the contractual terms of other debts carried at amortised cost. For further information on the Group's exposure to interest rate, foreign currency and liquidity risks, see note 18.

The heading “Other current payables” essentially includes fixed asset suppliers relating to the deployment of the telecommunications network totalling Euro 487,780 thousand (Euro 225,774 thousand at 31 December 2018).

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This heading also records the balance of loans granted by public administrations (Ministry of Industry, Tourism and Commerce), the effective interest rate on which varies between 0.00% and 4.00%, for a total amount of Euro 8,767 thousand at 31 December 2019 (Euro 6,811 thousand at 31 December 2018). The current tranche amounts to Euro 6,192 thousand at 31 December 2019 (Euro 3,672 thousand at 31 December 2018), while the non-current tranche totals Euro 2,575 thousand (Euro 3,139 thousand at 31 December 2018).

**c) Finance lease payables**

This heading records the amount of the liabilities relating to lease agreements in accordance with IFRS 16 which, at 31 December 2019, total Euro 116,382 thousand (non-current) (Euro 120,022 thousand at 31 December 2018) and Euro 31,011 thousand (current) (Euro 28,153 thousand at 31 December 2018).

**d) Other financial liabilities**

The balance of "Other financial liabilities" at 31 December 2019 and 2018 essentially includes of the following items:

*Non-current tranche*

- On 1 April 2019 the Group reached an agreement with PLT VII Holdco S.à.r.l. ("Providence") for the full repurchase of the bonds convertible into Company shares for a total amount of Euro 883,479 thousand, structured into two tranches:
  - The first tranche included the repurchase of 40% of the convertible bond at a price of Euro 350,638 thousand, paid on 7 May 2019.
  - The second tranche included the repurchase of the remaining 60% at a price of Euro 532,841 thousand, paid on 20 December 2019.

The final price of the second tranche was subject to a price adjustment that depended on the future evolution of the Company's share price up until 19 December 2019. The change could be a maximum of +/- Euro 60 million (collar), which was a 20% upward or downward variation compared to the reference price of Euro 18.45 per share.

On 30 October 2019 the Group at Providence reached a second agreement (addendum to the initial agreement) which established the price for the cancellation of the second tranche of the convertible bonds at Euro 532,841 thousand, valuing the derivative instrument (collar) at Euro 23,100 thousand, which has been recorded as a financial expense (see note 18(d)).

The agreements entered into with Providence cancel the right that the latter had to convert the bonds into Company shares (see note 13 (a)).

As part of the agreement reached, Providence invested Euro 120 million by subscribing a share capital increase (see note 13 (a)).

Prior to that date, Providence's convertible bonds were recognised as a financial liability in the amount of Euro 133,136 thousand and as an equity instrument in the amount of



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Euro 66,253 thousand (see note 13 (e)), both eliminated in 2019. The cancellation of this debt gave rise to the recognition of financial expenses totalling Euro 82,946 thousand (see note 18 (d)) and a decrease in Other reserves in the amount of Euro 601,143 thousand (see note 13 (c)).

- Euros 16,159 thousand relating to the discounted value of the amount payable to Jaztell Telecom, S.A. as a result of the contract included regarding the assignment of the indirect right held by the latter company to use the copper line network maintained by Telefónica de España, S.A. to the subsidiary MásMóvil Broadband, S.A.U. (see note 5).
- As is mentioned in note 13 (e), during 2018 the Company repaid the financial debt with ACS that was recorded at 31 December 2017.

*Current tranche*

- This records the deferred payments for the business combinations in 2019 (see note 4.1), as well as the current portion of the amount payable to Jazz Telecom, S.A.U.
- Euro 27,688 thousand relates to bonds and other marketable securities with unrelated parties derived from the bonds issued by the company in 2015. In accordance with the resolutions adopted by the Parent Company's Board of Directors on 13 May 2015 and as stipulated in the payment agent agreement dated 24 June 2015, the Parent Company issued five-year bonds for a total maximum nominal amount of Euro 27,000 thousand bearing an annual interest rate of 5.5%. A maximum of 270 bonds were issued and the Prospectus was officially registered with the Alternative Fixed Income Market (MARF). Interest accrued to 31 December 2019 totalling Euro 1,594 thousand (Euro 1,594 thousand at 31 December 2018), of which Euro 753 thousand was pending payment and reflected in the same heading at that date. Bond issuance costs amounted to Euro 543 thousand and were treated as part of the amortised cost of the bonds.
- Euro 99,974 thousand relate to promissory notes issued by the Company, of which Euro 20,000 thousand relates to the Promissory note Programme registered with the Alternative Fixed Income Market (AFIM) in December 2018 and the rest, Euro 80,000 thousand, were issued in November 2019 within the framework of a new registered Promissory note Programme covering a maximum of Euro 200,000 thousand (see notes 2 (d) and 28)). The promissory notes were issued at interest rates ranging between 0.15% and 0.18% per year.

**e) Other payables**

Details of bank loans secured by mortgages (see note 6) and the relevant balances at 31 December 2019 and 2018 are as follows:

<i>Thousand Euro</i>	<u>Guarantee</u>	<u>31/12/2019</u>	<u>31/12/2018</u>
Banco Popular Español, S.A.	Mortgage	76	118
Cajas Rurales Unidas, Sociedad Cooperativa de Crédito	Mortgage	65	106
Banco de Sabadell, S.A.	Mortgage	71	104
		<u>212</u>	<u>328</u>

These loans accrue interest at rates between 3% and 4.5%.

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**15. Provisions**

Details of provisions at 31 December 2019 and 2018 are as follows:

<i>Thousand Euro</i>	<b>31/12/2019</b>		<b>31/12/2018</b>	
	Non-current	Current	Non-current	Current
Provision for loss-making/onerous contracts	41,897	4,108	46,536	19,764
Provision for commercial transactions (note 18)	3,256	9,186	6,926	11,793
Dismantling of sites provision	8,346	-	8,294	-
Provision for employee benefits	-	82,198	41,713	-
Provisions for other liabilities	2,177	-	1,554	-
Other provisions	132	-	132	-
	<b>55,808</b>	<b>95,492</b>	<b>105,155</b>	<b>31,557</b>

Movements in provisions are as follows:

<i>Thousand Euro</i>	Provision for unfavorable/onerous contracts	Provision for commercial transactions	Dismantling of sites provision	Provision for employee benefits	Provisions for other liabilities	Other provisions	Total
Balance at 1 January 2018 (adjusted)	<b>53,389</b>	<b>13,807</b>	<b>7,973</b>	<b>9,366</b>	<b>1,200</b>	<b>262</b>	<b>85,997</b>
Business combinations (note 4.2)	18,787	-	-	-	-	-	18,787
Charge for the year	-	4,912	409	32,347	1,554	-	39,222
Applications	-	-	-	-	(36)	-	(36)
Reversals	(5,876)	-	(88)	-	(1,164)	(130)	(7,258)
Balance at 31 December 2018	<b>66,300</b>	<b>18,719</b>	<b>8,294</b>	<b>41,713</b>	<b>1,554</b>	<b>132</b>	<b>136,712</b>
Charge for the year	-	7,802	181	40,485	731	-	49,199
Business combinations (note 4.1)	2,341	-	-	-	-	-	2,341
Applications	(5,859)	-	-	-	-	-	(5,859)
Reversals (note 22 (e))	(16,777)	(14,079)	(129)	-	(108)	-	(31,093)
Balance at 31 December 2019	<b>46,005</b>	<b>12,442</b>	<b>8,346</b>	<b>82,198</b>	<b>2,177</b>	<b>132</b>	<b>151,300</b>

**Provision for unfavorable/onerous contracts**

At 31 December 2019, this item includes a provision of Euro 45,173 thousand (Euro 50,644 thousand at 31 December 2018) relating to the agreement with the Group company Xfera Móviles, S.A.U. for the provision of telecommunications services, the price of which is considered to be above the market. This provision is applied over the term of the agreement, which expires in 2030. Euro 4,108 thousand was taken to income in 2019.

On 17 July 2019 the Group acquired 100% of the shares in Carrier-E Mobile, S.L.U., which is a mobile virtual network operator (MVNO) (see note 4.1.), and recognized a provision for the contract that it maintained with a telecommunications operator for national roaming services and governed by conditions above market level for the Group.

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On 20 November 2018 the Group acquired a line of business consisting of the mobile virtual network operator (MVNO) business of Lebara Mobile Group B.V. (Lebara) (see note 4.2.), and recognised a provision for the contract between Lebara and a telecommunications operator for the national roaming service, which was governed by above-market conditions for the Group. This provision reversed in full in 2019 as the conditions governing the contract with that operator have improved.

### **Provision for commercial transactions**

Xfera Móviles S.A.U. offers its customers subscription services providing access to a terminal financing model, primarily through bank borrowings, for a term of 24 months, plus a final payment (“Cuota 25”). At the maturity date of the financing contract, the customer has the option of paying the final instalment or selling the terminal to the Group for the amount of the “Cuota 25”. The Group estimates a provision for sales transactions to cover the possible risks deriving from default on the financing and terminal purchases, taking into consideration the market value of the terminal if acquired from the customer.

### **Provision for dismantling of sites**

The dismantling of sites provision reflects the estimated cost of decommissioning, removing or restoring the sites of telecommunication infrastructures. It is recognised as an increase in the value of the assets in the amount of Euro 8,346 thousand (Euro 8,294 thousand at 31 December 2018) and is calculated using the estimated unit cost of decommissioning and the hypothetical contract completion date based on the experience gained since the launch date. At the year end at least, the Group reviews its estimates and updates them when necessary to record the provision at estimated value.

### **Provision for employee benefits**

In 2019, the Group has recognised an increase of Euro 39,783 thousand (Euro 32,347 thousand in 2018) to cover the Share Appreciation Rights Plan for certain senior managers and employees (see note 23 (c)). As mentioned in note 3 (r), this provision was accrued using the Financial expense account.

This provision also includes an estimate of severance and indemnity costs that have yet to be paid.

### **Provisions for other liabilities**

In 2019 the Group accrued a provision totalling Euros 731 thousand for the estimated risk of litigation or claims in progress.

## **16. Government grants**

Movements in non-refundable government grants are as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
Balance at 1 January	10,865	11,791
Grants received during the year	5,577	78
Grants released to income	(1,899)	(778)
Other movements	-	(226)
Balance at 31 December	<u>14,543</u>	<u>10,865</u>

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Grants extended to the Group primarily comprise capital grants to finance development expenditure and the roll-out of the fibre-optic network.

## 17. Trade and other payables

Details of “Trade and other payables” are as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
Trade payables	451,890	512,741
Public authorities, other taxes	25,744	18,551
Accrued wages and salaries	12,277	9,161
Customer advances	395	-
Other payables	13,368	13,126
	<u><b>503,674</b></u>	<u><b>553,579</b></u>

The Group's exposure to foreign currency and liquidity risk in relation to trade and other payables is described in note 18.

### Information on the deferral of payments to suppliers. Additional Provision Three. “Duty of information” of Law 15/2010 (5 July)

Details of late payments to suppliers by the Spanish consolidated companies are as follows:

	<u>31/12/2019</u>	<u>31/12/2018</u>
Average supplier payment period (days)	50.67	50.37
Ratio of settled transactions	82.36%	89.78%
Ratio of transactions pending payment	17.64%	10.22%
<i>Thousand Euro</i>		
Total payments made	2,016,593	1,914,132
Total payments pending	291,707	217,845

## 18. Financial risk management and fair value

### **General**

The Group is exposed to the following risks related to the use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note contains information on the Group's exposure to each of the risks indicated, its objectives, policies and procedures for measuring and managing each risk, and the way in which the Group manages capital.

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**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are designed to identify and analyse the risks undertaken by the Group, define suitable risk limits and controls, and control risks and the observance of limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the Group's activities. The Group, through its management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's overall risk management programme focuses on minimising uncertainty in financial markets and the potential adverse effects on the Group's financial performance. The Group employs derivatives to hedge certain risks.

**a) Credit risk**

Credit risk is the risk of financial loss to which the Group is exposed if a client or counterparty of a financial instrument fails to comply with their contractual obligations and mainly stems from trade receivables and investment instruments.

**Exposure to credit risk**

The maximum exposure to credit risk for loans and other receivables in the consolidated statement of financial position at the reporting date is as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
Loans to companies (note 10)	29,484	3,677
Equity instruments (note 10)	414	464
Deposits and guarantees (note 10)	2,613	1,930
Other financial assets (note 10)	4,173	6,195
Trade and other receivables (note 12)	208,167	202,234
	<u>244,851</u>	<u>214,500</u>

*Trade and other receivables*

The Group has no significant concentrations of credit risk and maintains policies to ensure that sales are made to customers with an appropriate credit history.

When the Group offers its own financing facilities for the purchase of terminals, the accounts receivable from customers are recognised under "Trade and other receivables".

The Group has policies to limit exposure to risk in respect of trade receivables and financial institutions, exposure to risk affecting the recovery of receivables being managed as part of ordinary activities. The Group ensures that services are rendered to customers with an adequate credit history.

The Group has formal procedures to identify the impairment of trade receivables. Through these procedures the Group estimates, based on the experience of customer insolvencies from past 12 months, the percentages of trade receivables default and registers the impairment credit expected at the beginning of the credit. The main components of impairment are individually significant exposures and a collective loss component for groups of similar assets in respect of losses incurred but not yet identified.

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Trade receivables are initially measured at fair value, which coincides with the face value of the amount, less the expected loss over the projected life of the receivable.

There are no significant unprovisioned receivables and trade receivables from business combinations have been recognised at market value and thus net of bad debt provisions.

## b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled in cash or other financial assets. The Group's approach to managing liquidity is to ensure, whenever possible, that it always has sufficient liquidity to settle its obligations as they fall due, in both normal and difficult conditions, so as to avoid incurring unacceptable losses or risking its reputation (see note 2 (d)).

The Group applies a prudent policy to cover its liquidity risks, based on having sufficient cash and marketable securities as well as sufficient financing through credit facilities to settle market positions. Given the dynamic nature of its underlying business, the Group's Finance Department aims to be flexible with regard to financing through drawdowns on contracted credit facilities.

At 31 December 2019, the Group's available cash resources amount to Euro 63,037 thousand (Euro 98,205 thousand at 31 December 2018, less unavailable current accounts at that date). Net cash generated from operating activities during 2019 was positive in the amount of Euro 579,288 thousand (Euro 311,263 thousand in 2018, considering the adjustments relating to the application of IFRS 16 (see note 2 (j))).

Set out below are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Thousand Euro	31/12/2019							
	Carrying amount	Contractual cash flows	Less than 1 year	More than 1 and less than 2 years	More than 2 and less than 3 years	More than 3 and less than 4 years	More than 4 and less than 5 years	More than 5 years
Loans and bank borrowings	1,426,674	1,469,306	18,747	266	156	88	49	1,450,000
Derivative financial instruments	288	288	-	-	288	-	-	-
Other payables	520,764	520,559	499,770	8,308	5,421	5,037	1,179	845
Lease liabilities	147,393	199,493	31,011	34,632	31,597	27,786	25,660	48,808
Other financial liabilities	152,927	154,168	136,768	3,900	4,500	9,000	-	-
Trade and other payables	477,535	477,535	477,535	-	-	-	-	-
	2,725,581	2,821,349	1,163,831	47,106	41,962	41,911	26,888	1,499,653

Thousand Euro	31/12/2018							
	Carrying amount	Contractual cash flows	Less than 1 year	More than 1 and less than 2 years	More than 2 and less than 3 years	More than 3 and less than 4 years	More than 4 and less than 5 years	More than 5 years
Loans and bank borrowings	818,853	846,117	80,263	172,651	197,338	253,519	142,346	-
Derivative financial instruments	589	589	-	-	-	-	-	589
Other payables	269,233	275,964	239,412	11,152	7,167	7,021	6,771	4,439
Lease liabilities	148,175	153,192	29,166	22,546	23,123	21,654	17,231	39,471
Other financial liabilities	190,269	269,847	12,759	32,828	3,900	4,500	9,000	206,860
Trade and other payables	535,028	535,028	535,028	-	-	-	-	-
	1,962,137	2,080,737	896,628	239,177	231,528	286,694	175,348	251,359

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**c) Market risk**

Market risk is the risk that changes in market prices, for example in exchange rates or interest rates, could affect the Group's income or the value of financial instruments held. The purpose of market risk management is to manage and keep exposures to this risk within reasonable parameters while at the same time optimising profitability.

***Interest rate risk***

Interest rate risk affecting the Group mainly derives from loans and bank borrowings. These loans accrue interest at variable rates, exposing the Group to interest rate risk on future cash flows.

An increase in the benchmark rates, in this case the Euroibor, could increase the cost of the Group's funding and thus reduce funds generated from the Group's business that may be used for other purposes. The Group currently has a policy of low leverage at variable rates.

Hedging instruments are contracted to convert a part of the debt to a fixed interest rate and reduce interest rate risk on future cash flows. The Group's current policy is to maintain a low level of leverage at variable rates by contracting interest rate derivatives.

At 31 December 2019 the Group had contracted interest rate hedge instruments (swaps) that cover Euro 66,775 thousand and ensure a fixed interest rate of 0.368%.

Variable- and fixed-interest rate financial assets and liabilities are as follows:

<i>Thousand Euro</i>	<b>Carrying amount</b>	
	<b>31/12/2019</b>	<b>31/12/2018</b>
<b><i>Fixed-interest debt</i></b>		
Financial Assets	29,484	3,677
Financial liabilities	<u>(281,906)</u>	<u>(214,374)</u>
	<u>(252,422)</u>	<u>(210,697)</u>
<b><i>Variable-interests debt</i></b>		
Financial liabilities	<u>(1,444,326)</u>	<u>(806,102)</u>
	<u>(1,444,326)</u>	<u>(806,102)</u>

***Sensitivity analysis***

At 31 December 2019, a 100 basis points ("bps") increase in interest rates, with other variables remaining constant, would have reduced the post-tax result by Euro 7,806 thousand (Euro 5,328 thousand in 2018), mainly due to increased in borrowing costs on variable-rate loans.

**d) Capital management**

The Group manages its capital structure and adjusts it based on changes in economic conditions. In order to maintain and adjust the capital structure, the Directors assess and where appropriate, adopt the most appropriate policies in relation to dividend payments, investment self-financing, term loans, etc.

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The Group's capital management is focused on safeguarding its capacity to continue to operate as a going concern, and ensure its sustained growth, so as to provide shareholder returns and at the same time assure an optimal capital structure to cut cost of capital, the current focus being to fulfil the debt ratios stipulated in the loan entered into with a number of financial institutions (see note 14 (a)). The debt ratio at 31 December 2019 is 3.5x (total net debt/EBITDA).

**e) Financial instruments and fair value**

The carrying amounts and fair values of financial instruments classified by category are presented below, including the fair value hierarchy levels. If the fair values of financial assets and liabilities not measured at fair value are not included it is because the Group believes that they approximate to their carrying amounts, due largely to the short-term maturity dates of those instruments.

2019	Fair value							
	Financial assets at fair value through OCI	Financial assets at amortized cost	Financial liabilities at amortized cost	Total	Level 1	Level 2	Level 3	Total
<i>Thousand Euro</i>								
<b>Financial Assets measured at fair value</b>								
Equity instruments	414	-	-	414	-	-	414	414
	<b>414</b>	-	-	<b>414</b>	-	-	<b>414</b>	<b>414</b>
<b>Financial assets not measured at fair value</b>								
Deposits and guarantees	-	2,613	-	2,613	-	-	-	-
Trade and other receivables	-	208,167	-	208,167	-	-	-	-
Cash and cash equivalents	-	63,037	-	63,037	-	-	-	-
Other financial assets	-	33,655	-	33,655	-	-	-	-
	-	<b>307,472</b>	-	<b>307,472</b>	-	-	-	-
<b>Financial liabilities measured at fair value</b>								
Derivative financial instruments	-	-	288	288	-	288	-	288
	-	-	<b>288</b>	<b>288</b>	-	<b>288</b>	-	<b>288</b>
<b>Financial liabilities not measured at fair value</b>								
Loans and bank borrowings	-	-	1,426,674	1,426,674	-	-	-	-
Lease liabilities	-	-	147,393	147,393	-	-	-	-
Other financial liabilities	-	-	152,927	152,927	99,974	-	-	99,974
Other payables	-	-	520,763	520,763	-	-	-	-
Trade and other payables	-	-	477,535	477,535	-	-	-	-
	-	-	<b>2,725,292</b>	<b>2,725,292</b>	<b>99,974</b>	-	-	<b>99,974</b>



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2018	Fair value							
	Financial assets at fair value through OCI	Financial assets at amortized cost	Financial liabilities at amortized cost	Total	Level 1	Level 2	Level 3	Total
<b>Thousand Euro</b>								
<b>Financial Assets measured at fair value</b>								
Equity instruments	450	-	-	450	-	-	400	400
	<b>450</b>	-	-	<b>450</b>	-	-	<b>400</b>	<b>400</b>
<b>Financial assets not measured at fair value</b>								
Equity instruments	14	-	-	14	-	-	-	-
Deposits and guarantees	-	1,930	-	1,930	-	-	-	-
Trade and other receivables	-	237,674	-	237,674	-	-	-	-
Cash and cash equivalents	-	98,205	-	98,205	-	-	-	-
Other financial assets	-	9,872	-	9,872	-	-	-	-
	<b>14</b>	<b>347,681</b>	-	<b>347,695</b>	-	-	-	-
<b>Financial liabilities measured at fair value</b>								
Derivative financial instruments	-	-	589	589	-	589	-	589
	-	-	<b>589</b>	<b>589</b>	-	<b>589</b>	-	<b>589</b>
<b>Financial liabilities not measured at fair value</b>								
Loans and bank borrowings	-	-	818,853	818,853	-	-	-	-
Lease liabilities	-	-	148,184	148,184	-	-	-	-
Other financial liabilities	-	-	190,269	190,269	28,554	-	-	28,554
Other payables	-	-	269,214	269,214	-	-	-	-
Trade and other payables	-	-	535,028	535,028	-	-	-	-
	-	-	<b>1,961,548</b>	<b>1,961,548</b>	<b>28,554</b>	-	-	<b>28,554</b>

There were no transfers of assets and liabilities between levels during the years ended 31 December 2019 and 2018.

The financial income and expense resulting from financial assets and liabilities are as follows:

Thousand Euro	31/12/2019	31/12/2018
<b>Financial income</b>		
- Revaluation of financial liabilities (TRS) (note 13 a)	4,042	-
- Loans given to related parties (note 23 b)	717	-
- Other financial income	1,216	958
	<b>5,975</b>	<b>958</b>
<b>Financial expenses</b>		
- Borrowing costs	56,048	34,124
- Loans and other settlement costs with related parties (note 14 d and 23 b)	112,408	25,203
- Debentures and other financial liabilities	3,058	3,072
- Lease liabilities costs	8,651	19,840
- Revaluation of stock option plan (note 23 c)	39,783	32,348
- Other financial expenses	6,662	9,319
	<b>226,610</b>	<b>123,906</b>

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Net profit/(loss) by financial liability category is as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
	Debts and payables	Debts and payables
Financial costs at amortised cost	186,827	91,588
Changes in fair value	(580)	(486)
	<u>186,247</u>	<u>91,072</u>

## 19. Leases

### *Leases as lessor*

The Group has operating lease agreements in relation to the sharing of telecommunications infrastructure under agreements signed with other operators.

The Group has the following minimum lease payments receivable in accordance with contracts currently in force, without taking into consideration the effects of joint expenses, future increases for inflation (Consumer Price Index or CPI), or future reviews of contractually agreed rent:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
Up to one year	2,134	3,200
Between 1 and 5 years	3,020	5,809
More than 5 years	42	-
	<u>5,196</u>	<u>9,009</u>

## 20. Other non-current liabilities

The Group has entered into long-term strategic agreements with various operators for wholesale access to FTTH infrastructures, where each of the parties deploys a proprietary network and assigns its use to the other party, maintaining the ownership of the asset (mutualisation). This caption includes the right of use of the Group's FTTH infrastructures by an operator, which is taken to the profit or loss over 20 years, based on the initial term of the agreement without extensions, which matches the approach adopted to amortise the right of use held by the Group (see note 5).

In 2015, the subsidiary MásMóvil Broadband, S.A.U. acquired a fibre-optic network from Jazz Telecom, S.A.U. Both companies simultaneously concluded an irrevocable assignment agreement for the use of 40% of that network by Jazz Telecom, S.A.U. (see note 6), which is being taken to the profit or loss over the 35-year period of the agreement.

The relevant movements in other non-current liabilities are as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
Opening balance	133,219	107,074
Additions	39,714	30,482
Transfer to profit or loss	(6,515)	(4,337)
Closing balance	<u>166,418</u>	<u>133,219</u>

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This caption also includes other non-current liabilities amounting to Euro 510 thousand at 31 December 2018.

**21. Income tax**

**a) Reconciliation of income tax**

Since 2018 the Company is taxed as part of the income tax consolidation group 0218/16, of which it is the Parent Company (see note 3 (p)).

Details of income tax income or expense are as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
<b>Current income tax</b>		
Current period	(33,004)	(11,233)
Unrecognized tax credits applied in previous years	3,014	294
Unrecognized tax deductions applied in previous years	4,960	1,495
Others	(3,499)	1,004
	<u>(28,529)</u>	<u>(8,440)</u>
<b>Deferred taxes</b>		
Deferred taxes originated and reversed during the year	16,446	5,109
Tax rate changes	-	(481)
Tax credits not recognised in previous years	40,224	-
	<u>56,670</u>	<u>4,628</u>
	<u>28,141</u>	<u>(3,812)</u>

The relationship between the tax income/(expense) on the profit or loss, or the profit from continuing activities, is as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
<b>Profit for the year from continuing operations, before income tax</b>	<u>65,072</u>	<u>64,316</u>
Tax calculated at the corresponding rate	(16,269)	(16,078)
Non-deductible expenses	(144)	(378)
Non-taxable income	-	7,073
Changes in tax rates	-	(481)
Fines and penalties	(367)	-
Tax credits recognized during the year	111	-
Non deductible goodwill	(1,590)	-
Prior year's adjustment	15	910
Unrecognised tax credits in previous years	40,206	-
Tax credits applied not recognized in previous years	3,014	294
Unrecognized tax deductions applied in previous years	4,960	1,495
Deferred tax assets applied not recognized in previous years	(136)	-
Other adjustments	(1,659)	3,353
<b>Total income/(expense) tax</b>	<u>28,141</u>	<u>(3,812)</u>

At the end of each year the Group performs an impairment test of all capitalised and uncapitalised tax credits, at both the Group level and at the level of each of its subsidiaries. During 2019 the Group recognised as an asset Euro 40,206 thousand that had not been capitalised by its subsidiary Xfera Móviles, S.A.U. The analysis of the recoverability of the tax credits was performed based on a 10-year projection of the Business Plan 2020-2024, considering that it is probable that Xfera Móviles, S.A.U. will obtain taxable profits that will allow

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the offset of the tax-loss carry forwards activated up to the maximum limit of 10 years as from the end of the year, in accordance with the analysis of its capacity to generate taxable income based on its financial and profitability potential. The key assumptions taken into consideration in the analysis were as follows:

- The information from the Business Plan 2020-2024 has been projected over 10 years, with profits before taxes remaining constant between 2024 and 2029.
- The impact of both present and future known temporary tax differences has been estimated.

The Group has performed a sensitivity analysis of the key assumptions applied, growth and EBITDA and a positive conclusion has been reached with regard to the recoverability of the capitalised tax credits.

Non-taxable income in 2018 corresponds to the fiscal impact of the income from Neutra business combination (see note 4.2).

**b) Deferred tax assets and liabilities recognised**

Deferred tax assets and liabilities are attributable to the following:

Thousand Euro	31/12/2019			31/12/2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangible assets	-	(28,133)	(28,133)	-	(33,850)	(33,850)
Property, plant and equipment	7,976	(10,010)	(2,034)	137	(1,191)	(1,054)
Goodwill	4,934	(3,364)	1,570	37,263	(36,753)	510
Right of use	5,933	-	5,933	4,892	-	4,892
Provisions	28,202	(14,902)	13,300	8,698	-	8,698
Tax credits for tax-loss carryforwards	229,636	-	229,636	194,064	-	194,064
Tax deductions	49	-	49	49	-	49
Impairments	81	-	81	66	-	66
Other	17,311	(9,338)	7,973	5,791	104	5,895
<b>Net assets and liabilities</b>	<b>294,122</b>	<b>(65,747)</b>	<b>228,375</b>	<b>250,960</b>	<b>(71,690)</b>	<b>179,270</b>

Movements in deferred tax assets and liabilities during 2019 and 2018 are as follows:

Thousand Euro	31/12/2019					
	Balance at 1 January	Recognised in profit/(loss)	Business combinations (note 4.1)	Recognised in equity	Other	Balance at 31 December
Intangible assets	(33,850)	7,527	(3,718)	-	1,908	(28,133)
Property, plant and equipment	(1,054)	(1,206)	226	-	-	(2,034)
Goodwill	510	1,060	-	-	-	1,570
Right of use	4,892	1,041	-	-	-	5,933
Provisions	8,698	1,090	585	(248)	3,175	13,300
Tax credits for tax-loss carryforwards	194,064	40,206	43	-	(4,677)	229,636
Tax deductions	49	-	-	-	-	49
Impairments	66	-	15	-	-	81
Other	5,895	6,952	(2)	-	(4,872)	7,973
<b>Net assets and liabilities</b>	<b>179,270</b>	<b>56,670</b>	<b>(2,851)</b>	<b>(248)</b>	<b>(4,466)</b>	<b>228,375</b>

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Thousand Euro	31/12/2018						Balance at 31 December
	Balance at 1 January	Recognised in profit/(loss)	Business combinations (note 4.2)	Recognised in equity (note 2 (g))	Other	Tax rate change	
Intangible assets	(21,938)	11,725	(23,708)	-	71	-	(33,850)
Property, plant and equipment	(641)	(42)	(371)	-	-	-	(1,054)
Goodwill	(3,819)	4,329	-	-	-	-	510
Right of use	1,545	3,347	-	-	-	-	4,892
Provisions	42,300	(13,488)	4,872	(24,360)	(442)	(184)	8,698
Tax credits for tax-loss carryforwards	195,627	(3,610)	1,921	-	423	(297)	194,064
Tax deductions	760	(711)	-	-	-	-	49
Impairments	66	-	-	-	-	-	66
Other	3,160	3,557	(156)	-	(666)	-	5,895
Net assets and liabilities	<u>217,060</u>	<u>5,107</u>	<u>(17,442)</u>	<u>(24,360)</u>	<u>(614)</u>	<u>(481)</u>	<u>179,270</u>

For the analysis of the recoverability of the tax credits for tax-loss carry-forwards recognized, it has been measured the capacity of producing positive tax bases for each Group company individually due to the tax bases were arising before being part of the tax Group business plan. The projections used to examine the recoverability of capitalised tax credits were based on a period of 10 years.

Details of deferred tax assets and liabilities that are expected to be realised or reversed after more than 12 months are as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
Deferred tax assets related to temporary differences	14,085	16,810
Credits for tax loss carryforward	166,536	173,051
Total assets	<u>180,621</u>	<u>189,861</u>
Deferred tax liabilities	<u>(22,988)</u>	<u>(32,212)</u>
Net	<u>157,633</u>	<u>157,649</u>

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The Group has the following unused deductions at 31 December 2019 and 2018 available for use within the periods indicated:

	Year	Thousand Euro	
		2019	2018
<b>Deductions generated prior to consolidation</b>	2006	488	488
	2007	49	49
	2008	16	16
	2009	87	87
	2010	69	69
	2011	68	68
	2012	99	99
	2013	217	713
	2014	231	2,825
	2015	103	695
	2016	199	458
	2017	220	220
	Deductions generated on consolidation	2016	-
2017		-	730
<b>Total</b>		<b>1,846</b>	<b>6,545</b>

The Group must keep the assets in respect of which tax relief has been obtained on investments for a five-year period.

The Group has the following tax-loss carryforwards (“BINs” in its Spanish abbreviation) at 31 December:

		Thousand euro			
		2019			
Year generated	Generated base	Type	Tax-losses carryforwards	Unrecognised tax-losses	
<b>BINs generated prior to consolidation</b>	2002	125,493	25%	31,373	-
	2003	74,592	25%	18,648	-
	2004	59,234	25%	14,809	-
	2005	71,877	25%	17,969	-
	2006	385,312	25%	96,328	-
	2007	81,570	25%	20,393	-
	2008	141,401	25%	2,368	32,982
	2009	176,998	25%	1,679	42,571
	2010	98,623	25%	635	24,020
	2011	33,391	25%	906	7,442
	2012	5,748	25%	585	852
	2013	16,238	25%	162	3,897
	2014	5,749	25%	1,437	-
	2015	9,250	25%	2,312	-
	2016	34,463	25%	2,829	5,787
2017	6,914	25%	-	1,729	
<b>BINs generated on consolidation</b>	2016	6,559	25%	-	1,640
	2017	38,642	25%	9,660	-
<b>Total</b>	<b>1,372,054</b>		<b>222,093</b>	<b>120,920</b>	

Thousand euro

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		2018			
Year generated	Generated base	Type	Tax-losses carryforwards	Unrecognised tax-losses	
<b>BINs generated prior to consolidation</b>	2002	153,201	25%	38,300	-
	2003	74,592	25%	18,648	-
	2004	59,234	25%	14,809	-
	2005	71,877	25%	17,969	-
	2006	385,312	25%	76,751	19,577
	2007	81,570	25%	281	20,112
	2008	141,401	25%	1,851	33,499
	2009	176,998	25%	1,679	42,571
	2010	98,623	25%	635	24,020
	2011	33,391	25%	906	7,442
	2012	5,748	25%	585	852
	2013	16,238	25%	162	3,897
	2014	5,749	25%	1,437	-
	2015	9,250	25%	2,312	-
2016	34,463	25%	2,829	5,787	
2017	6,914	25%	-	1,729	
<b>BINs generated on consolidation</b>	2016	18,615	25%	-	4,654
	2017	38,642	25%	9,660	-
<b>Total</b>		1,411,817		188,814	164,140

In 2015 the tax authorities undertook a VAT inspection of the subsidiary Xtra Telecom, S.A.U. (Xtra), as the successor of Xtra Telecom, S.L. (a company acquired by the Group on 1 August 2014), in relation to a part of its wholesale business from May 2011 to December 2014. The period subject to inspection is prior to the acquisition of the Xtra business by the Group and, any contingencies would be covered by the representations and warranties arranged with the former owner of Xtra in the sale and purchase agreement. The Group considers that the inspection should not affect the current directors or management of the Group, or the Parent Company.

On 21 February 2018 the State Tax Agency commenced inspections of VAT at the subsidiaries Xtra Telecom, S.A.U. and Quantum Telecom, S.A. (merged with Xtra Telecom, S.A.U. in December 2015), regarding the wholesale business in 2015 and 2016. On 12 March 2019, the subsidiary Xtra Telecom, S.A.U. on its own behalf and on behalf of Quantum Telecom, signed and contested the Assessments and filed allegations against the assessment with the Tax and Customs Control Office at the Central Office for Large Taxpayers on 11 April 2019. The Tax Agency reported the Settlement Agreements and the Penalty Agreements for both companies on 16 September 2019. The tax authorities considered that the offset of the amount set out in the returns for January and February 2015 were inappropriate, the total amount of which was Euro 367 thousand as it was part of the proven balance to be offset at 31 December 2014. This amount was classified as non-deductible during the inspection of 2011-2014 and the case file was sent to the Prosecutors' Office. Finally, both companies have filed appeals with the Central Tax and Treasury Court (TEAC).

In accordance with prevailing Spanish legislation, taxes cannot be considered definitive until they have been inspected by the taxation authorities or the four-year limitation period has elapsed.

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At 31 December 2019, the Parent Company and its subsidiaries in Spain are open to inspection for all the main taxes to which they have been subject since 1 January 2016 (2015 for corporate income tax).

In view of the different treatment afforded by tax legislation to certain transactions, additional tax liabilities could arise in the event of an inspection. In any event, the Parent Company's directors do not consider that any such liabilities would have a significant impact on these consolidated annual accounts taken as a whole.

## 22. Revenue and expenses

### a) Revenue

Revenues break down as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
Business and wholesale	211,633	162,957
Residential	1,469,044	1,287,909
	<u>1,680,677</u>	<u>1,450,866</u>

The Group is mainly engaged in providing landline and mobile telephone services, and broadband services. These transactions are the Group's only business segment.

The Group distinguishes the following types of customers:

- Residential: customers in this group are offered landline, mobile and broadband services.
- Business: these customers are offered landline, mobile and broadband services, as well as other value-added services such as data centres, cloud, virtual PBX, email and video-conferencing.
- Wholesale: voice services are sold to other industry operators, without offering access since the customers have their own network.

### b) Supplies

An analysis is as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
Consumption of goods purchased for resale	198,509	217,231
Other supplies	423,975	345,887
Subcontracted work	181,837	161,032
Impairment of goods purchased for resale	83	-
	<u>804,404</u>	<u>724,150</u>

Other supplies include, mainly, roaming, interconnection services, bistream and other added value services.



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**c) Employee benefits expenses**

Employee remuneration expenses break down as follows:

Thousand Euro	<u>31/12/2019</u>	<u>31/12/2018</u>
Wages, salaries and other welfare expenses	53,813	40,704
Social Security contributions	13,519	9,686
	<u>67,332</u>	<u>50,390</u>

The Group's average headcount by category is as follows:

	<u>31/12/2019</u>	<u>31/12/2018</u>
Board directors	1	1
Management	73	73
Technical personnel	190	128
Administrative personnel	83	69
Other employees	517	331
	<u>864</u>	<u>602</u>

At year-end 2019 and 2018, the distribution by gender of Group personnel and directors of the Parent Company was as follows:

	<u>31/12/2019</u>		<u>31/12/2018</u>	
	<u>Men</u>	<u>Women</u>	<u>Men</u>	<u>Women</u>
Board directors	9	3	10	2
Management	60	11	59	14
Technical personnel	165	42	95	35
Administrative personnel	44	39	46	75
Other employees	294	220	284	165
	<u>572</u>	<u>315</u>	<u>494</u>	<u>291</u>

The distribution of employees with a disability rating of 33% or higher (or equivalent local rating) in 2019 is as follows:

	<u>31/12/2019</u>	<u>31/12/2018</u>
Administrative personnel	1	1
Other	2	3
	<u>3</u>	<u>4</u>

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**d) Operating operating expenses**

Details of other operating expenses are as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
Infrastructure services	66,899	40,126
Cannon	47,950	47,280
Repairs and maintenance	63,533	46,063
Independent professional services	106,400	100,569
Transport	2,758	2,009
Insurance fees	956	562
Banking and similar services fees	11,764	8,131
Advertising, publicity and public relations	57,576	49,296
Supplies	3,572	3,024
Other services	12,783	12,119
Levies and other Taxes	11,382	9,625
Losses, impairment and changes in provisions (note 12)	38,784	31,455
	<u><b>424,357</b></u>	<u><b>350,259</b></u>

Infrastructure services primarily include the rendering of telecommunications infrastructure network services, cost related to network services, transmission-access services and leases with a term of less than one year or for a low value.

In 2019, independent professional services included expenses arising from the integration of the companies acquired, migration of customers to the Group's network and other costs related to system migrations for a total of Euro 10.3 million (Euro 15 million in 2018).

**e) Other operating income**

Details of other operating income are as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
Excess of provision (note 15)	31,093	7,258
Work carried-out by the Group for its assets	9,831	7,554
Revenue from leases	4,121	5,898
Other income	18,397	25,859
Grants transferred to profit and loss	1,906	779
	<u><b>65,348</b></u>	<u><b>47,348</b></u>

**f) Impairment and result from disposals of assets**

Details of impairment and result from disposal of assets are as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
Proceeds from disposal of assets (note 6)	(144,419)	-
Impairment of non-current assets	32,214	7,027
	<u><b>(112,205)</b></u>	<u><b>7,027</b></u>

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**23. Related parties**

**a) Related-party balances**

Details of balances with related parties at 31 December 2019 and 2018 are as follows:

<i>Thousand Euro</i>	<b>31/12/2019</b>		<b>31/12/2018</b>	
	Related parties	Total	Related parties	Total
<b>Assets</b>				
Loans to companies (note 10)	22,303	22,303	-	-
<b>Total assets</b>	<b>22,303</b>	<b>22,303</b>	<b>-</b>	<b>-</b>
<b>Other equity instruments</b>				
Debentures and other financial liabilities (note 13 (e))	-	-	66,253	66,253
<b>Liabilities</b>				
Debentures and other financial liabilities (note 13 (e))	-	-	131,255	131,255
Total liabilities	-	-	131,255	131,255
<b>Total liabilities and other equity instruments</b>	<b>-</b>	<b>-</b>	<b>197,508</b>	<b>197,508</b>

On 16 September 2019 the subsidiary Xfera Móviles, S.A.U. granted a line of credit in the amount of Euro 34,180 thousand to a related party, from which Euro 22,303 thousand had been drawn down at the end of 2019. The loan accrues interest in accordance with the PIK Margin and matures on 16 September 2024.

The related party has granted Xfera Móviles, S.A.U. an option to purchase the interest held by said related party in the financing of third party, together with other financial institutions and, in turn, Xfera Móviles, S.A.U. has granted to the related party a call option on the latter's interest in the financing of a third party. The granting of the call and put options falls within the context of that financing and, therefore, they are granted free-of-charge, without any price or premium. The deadline for exercising these options matches the term of the financing agreement, and is subject to the declaration of the early termination of the financing agreement, which has currently not occurred, if not corrected by the third party within the deadlines established in the contract, which would give rise to the start of actions intended to accelerate the debt and execute any of the real guarantees that have been provided in this respect. Should these options be exercised, Xfera Móviles S.A.U. would assume the debtor position currently held by the related party with respect to the financing agreement with the third party.

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**b) Related-party transactions**

Details of transactions with related parties during 2019 are as follows:

<i>Thousand Euro</i>	<b>31/12/2019</b>		
	Directors and senior management of the Parent Company	Related parties	Total
<b>Expenses</b>			
Salaries and allowances	7,122	-	7,122
Finance expenses	-	114,123	114,123
<b>Total expenses</b>	<b>7,122</b>	<b>114,123</b>	<b>121,245</b>
<b>Income</b>			
Financial income	-	4,759	4,759
<b>Total income</b>	<b>-</b>	<b>4,759</b>	<b>4,759</b>

Financial expenses include the cost of cancelling the debt with Providence together with the Collar totalling Euro 112,408 thousand. In turn, they include bank interest costs relating to the TRS in the amount of Euro 1,712 thousand.

Financial income includes the result of the cancellation of the TRS in the amount of Euro 4,042 thousand and interest on the loan to other related parties that accrued in 2019 consisting of a line of credit granted to the related parties mentioned in section (a) of this note, in the amount of Euro 717 thousand.

Details of transactions with related parties during 2018 are as follows:

<i>Thousand Euro</i>	<b>31/12/2018</b>		
	Directors and senior management of the Parent Company	Related parties	Total
<b>Expenses</b>			
Salaries and allowances	39,229	-	39,229
Finance expenses	-	24,921	24,921
<b>Total expenses</b>	<b>39,229</b>	<b>24,921</b>	<b>64,150</b>

Directors and senior management's remuneration and allowances include the expenses relating to the shares handed over in May 2018 on the execution of the Stock Option Scheme approved by the Company's Board of Directors (see section c of this note).

Financial expenses in 2018 include the interest on the ACS note up to the maturity date in the amount of Euro 8,710 thousand and Euro 16,211 thousand corresponds to accrued financial expenses on the convertible bonds (see notes 13 (e) and 14 (d)).

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	<u>31/12/2019</u>
Otras transacciones con partes vinculadas	
Proceeds from sale of shares of Cabonitel, S.A. to GAEA (note 11)	13,642
Proceeds from sale of shares of Senior Telecomunicaciones y Servicios Avanzados S.L. to GAEA (note 11)	667
<b>Other related parties</b>	<u><b>14,309</b></u>

At 31 December 2019 the Group maintains call and put options with related parties (see notes 10, 11 and section a) of this note).

**c) Information on the Group's Board directors and senior management**

During 2019, the Company's directors received remuneration and allowances totalling Euro 3,373 thousand for holding office (Euro 14,400 thousand in 2018). In 2019, the remuneration accrued for senior management personnel totaled Euro 3,749 thousand (Euro 24,829 thousand in 2018). It should be noted that one director is on the Company's payroll.

No advances or loans have been furnished to the directors and no guarantees have been given on their behalf. The Group has made no pension or life insurance commitments to former or current Board of directors of the Parent Company.

*Stock option plan*

On 9 May 2018 the Group liquidated the Stock Option Plan approved by the Parent Company's Board of Directors on 30 September 2015 (the Plan) for the Executive Team.

In order to cover the Plan, at inception the Company issued 500,000 convertible bonds with a par value of Euro 20.42 each, with a first payment tranche of Euro 2.00 per bond, which involved the recognition of a payable balance to a financial institution of Euro 1 million against a restricted current account for the same amount. The Board of Directors will have to increase share capital by the amount necessary to convert the bonds into shares at the Plan end date.

When the plan ended, the beneficiaries exercised options on 491,000 new shares (see note 13 (a)). The 9,000 options that were not exercised have been redeemed (see note 13 (e)).

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*Share Appreciation Rights Plan*

On 1 March 2017, the Extraordinary General Meeting approved a Share Appreciation Rights Plan ("SAR") for the Chief Executive Office, senior management personnel and Group employees. The aim of this plan is to establish a stable, long-term framework for Group management's variable remuneration so as to align management's interests with those of the shareholders. The plan entails the delivery of up to 1.7 million share appreciation rights, each right having the cash value of the potential appreciation of the Company's shares from the price at the plan approval date to the average price during the 90 trading sessions preceding the settlement date, for an initial period of 3.5 years. Among other factors, payment is subject to the beneficiary remaining at the Group during Plan term, trends in certain Group operating variables and fulfilment of certain individual targets by the beneficiary. Settlement will also take place in certain circumstances, basically in the event of the change of control of the Company. In 2018, Share Appreciation Rights Plan was extended to the entire workforce so as to involve all personnel in the Group's objectives and give them a share of the results achieved. The plan was increased by 40,000 rights, without exceeding the limit of 1.7 million of SAR, 8.5 million DRA after the share split mentioned in note 13.

Under current legislation, at each reporting date the Company calculates the fair value of the consideration to be paid to the employee at the time of the cash settlement of the share-based plan and recognises the accrued portion as a liability at that time (see note 3 (r)). The Group valuation method used is the Black-Scholes Merton (BSM) model. At 31 December 2019, the fair value of the liability for the entire Group is estimated at Euro 81,497 thousand and an expense of Euro 39,783 thousand has accrued (Euro 41,713 thousand and Euro 32,347 thousand, respectively, at 31 December 2018) (see note 15). The average weighted fair value of each right at that date is Euros 64.70 per right (Euros 66.30 per right at 31 December 2018).

The primary indicators used to place a value on the plan were as follows:

- Average weighted price of the share: average over the last 90 trading sessions before the reporting date, which at 31 December 2019 was Euros 102.33 per share (excluding the stock split carried out (see note 13 (a)) (Euros 104.34 per share at 31 December 2018 , without taking into consideration the aforementioned splitting of shares).
- Risk-free rate: -0.15% (-0.15% in 2018).
- Expected volatility: 30% (30% in 2018)
- Dividends: 0%

**d) Transactions other than ordinary business or on non-market terms carried out by the Parent Company's directors and senior management personnel**

Besides the transactions with related parties disclosed above, in 2019 and 2018 the Parent Company's directors and senior managers did not affect any transactions outside the ordinary course of business or on non-market terms with the Parent Company or with any other Group company.

**e) Conflicts of interest concerning the Parent Company's directors**

The Company's directors and their related parties have had no conflicts of interest requiring disclosure in accordance with Article 229 of the Revised Spanish Companies Act.

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## **24. Guarantees and contingencies**

At 31 December 2019, the Group has given several guarantees to secure fulfilment of the obligations deriving from the licence granted, legal appeals and supplier contracts, as analysed below:

- Guarantees for the grant of the B2 licence amounting to Euro 39,900 thousand (Euro 39,900 thousand at 31 December 2018): the administrative contracts granting B2 licences for the Group's subsidiary Xfera Móviles, S.A.U., to render 3G mobile telephone services (UMTS) include investment, roll-out, technical, commercial, job creation, industry support and business plan commitments, compliance with which is secured by counter-guarantees from the Group. The amount reflects the guarantees pending release for future commitments associated with the 2100 MHz frequencies.
- The Group also has guarantees in place to secure commitments amounting to Euro 91,814 thousand (Euro 49,502 thousand at 31 December 2018), most notably in relation to corporate operations, the lease of premises, business agreements, a number of appeals lodged against settlements by local corporations and other public administrations and from the suspension of the settlement of the fee for reserving the radio public domain for the 3.5 GHz band.

On 12 July 2019 the Group received a decision from the Central Tax and Treasury Court admitting the allegations filed by the Group against three provisional settlements issued by the State Tax Agency (STA) regarding the Tax on Economic Activities (TEA) for the years 2013, 2014 and 2015. This decision gives rise to the refund of the guarantee is provided in the amount of Euro 11,347 thousand.

The Group's subsidiary Xfera Móviles, S.A.U. offers its customers financing, using its own funds or under agreements with financial institutions, for the purchase of terminals as part of a subscription to telecommunications services. In the case of financing through financial institutions, Xfera Móviles, S.A.U. extends guarantees on behalf of its customers to cover potential defaults on the loan repayments, which is why it recognises a provision for commercial transactions (see note 15). Financing through financial institutions amounted to Euro 166 million at 31 December 2019 (Euro 182 million at 31 December 2018).

The directors of the Parent Company do not consider that any risks exist in relation to the situations covered by the guarantees provided. Furthermore, the Company's directors consider there are no other potential significant lawsuits which could entail a liability for the Group.

On 31 January 2018, notification was received of the judgement issued on the appeal against the ruling of Madrid First-Instance Court 52 of 8 March 2017 (PO 1352/2014). In the judgement, the Madrid Provincial Court: (i) rejects the claim filed by Pepemobile, S.L.U. against Xfera Móviles, S.A.U. and exonerates the latter from the pleas lodged against it; and (ii) partially upholds the counterclaim filed by Xfera Móviles, S.A.U. against Pepemobile, S.L.U. and Pepeworld, S.L.U., ordering Pepemobile, S.L.U. to pay damages to Xfera Móviles, S.A.U. in the amount of Euro 7 million for breach of contract and upholding the ruling whereby Pepemobile, S.L.U. and Pepeworld, S.L.U. must refund the Euro 3.5 million paid previously in respect of the purchase option, plus interest from the date the claim was filed to full settlement of the debt. At the date these consolidated annual accounts were prepared, Pepemobile S.L.U. and Pepeworld, S.L.U. have filed an appeal for reversal, which has yet to be admitted by the court. The Parent Company's directors do not consider that the final outcome of this matter can have a significant impact on these consolidated annual accounts taken as a whole.

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## 25. Environmental information

In order to provide services to its customers, the Group uses a network of base stations that emit electromagnetic waves. These emissions are regulated in Spain by Royal Decree 1066/2001 of 28 September approving the regulation that establishes the conditions for protecting the public radio domain, restrictions on radio wave emissions and healthcare measures to protect from radio wave emissions.

The Group conducts all its activities in strict compliance with this regulation and subsequent amendments, in accordance with European recommendations that ensure citizens' health is protected.

## 26. Reconciliation of financial debt

The reconciliation of financial debt for the year ended 31 December 2019 is as follows:

<i>Thousand Euro</i>	<b>At 31 December 2018</b>	<b>Cash flows</b>	<b>Payment of interests</b>	<b>Interests accrued in profit and loss</b>	<b>Debt from business combinations</b>	<b>Other</b>	<b>Balance at 31 December 2019</b>
Financial liabilities with financial institutions	818,853	576,638	(42,069)	33,949	769	38,534	1,426,674
Other debts	269,223	(431,597)	-	6	(4)	683,137	520,765
Lease liabilities	148,175	(32,060)	(3,292)	8,651	133	25,786	147,393
Other financial liabilities	190,269	(602,409)	(6,284)	9,270	-	562,081	152,927
Derivatives financial instruments	589	-	-	1	-	(302)	288
<b>Total debt</b>	<b>1,427,109</b>	<b>(489,428)</b>	<b>(51,645)</b>	<b>51,877</b>	<b>898</b>	<b>1,309,236</b>	<b>2,248,047</b>

<i>Thousand Euro</i>	<b>At 1 January 2018</b>	<b>Cash flows</b>	<b>Payment of interests</b>	<b>Interests accrued in profit and loss</b>	<b>Debt from business combinations</b>	<b>Other</b>	<b>Balance at 31 December 2018</b>
Financial liabilities with financial institutions	534,314	274,187	(35,137)	41,607	5,225	(1,343)	818,853
Other debts	70,378	(494,896)	-	-	7,178	686,563	269,223
Lease liabilities	226,714	(53,283)	(5,999)	19,840	-	(39,097)	148,175
Other financial liabilities	339,777	(172,284)	(15,601)	30,598	-	7,779	190,269
Derivatives	3,123	(3,334)	-	-	-	800	589
<b>Total debt</b>	<b>1,174,306</b>	<b>(449,610)</b>	<b>(56,737)</b>	<b>92,045</b>	<b>12,403</b>	<b>654,702</b>	<b>1,427,109</b>

Movements of Other debts mainly reflect the additions of fixed assets and payments to fixed assets suppliers made during the year.

## 27. Audit fees

The auditors of the Group's consolidated annual accounts, KPMG Auditores, S.L., accrued the following net fees for professional services during 2019 and 2018:



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<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
Audit services	771	525
Other assurance services	<u>122</u>	<u>109</u>
	<u><b>893</b></u>	<u><b>634</b></u>

The amounts referred to above include the total fees for services rendered in 2019 and 2018, irrespective of the invoice date.

Other assurance services relate mainly to limited reviews of the Group's interim consolidated financial statements for the first semester of 2019 and 2018 and agreed-upon procedures for covenant fulfilment reports provided by KPMG Auditores, S.L. to the Parent Company and other Group companies.

On the other hand, other entities affiliated with KPMG International have billed the Group during the years ended December 31, 2019 and 2018, fees and expenses for professional services according to the following detail:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
For tax advice services	<u>34</u>	<u>-</u>
	<u><b>34</b></u>	<u><b>-</b></u>

In addition, other auditors billed the Group for expenses and professional services rendered during the years ended 2019 and 2018 as follows:

<i>Thousand Euro</i>	<u>31/12/2019</u>	<u>31/12/2018</u>
Audit services	<u>32</u>	<u>35</u>
	<u><b>32</b></u>	<u><b>35</b></u>

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## **28. Events after the reporting date**

The Group acquired a line of business responsible for performing professional IT and Computer Engineering Services from Deep Technology & Engineering Services S.L., with an effective date of 1 January 2020.

In January and February 2020 the Company has issued notes totalling Euro 90,000 thousand on the Alternative Fixed Income Market (AFIM) under the 2019 notes Programme, using Euro 20,000 thousand to cancel the notes under the 2018 notes Programme which were still outstanding at 31 December 2019 (See notes 2 (d) and 14 (d)).

In January 2020 the Group drew down Euro 95,000 thousand from the CAPEX line entered into in May 2019 (See notes 2(d) and 14(a)).

On 20 February 2020 the subsidiary Xfera Móviles, S.A.U. acquired 5,010 shares, representing 5.01% of the share capital of Pepe Energy, S.L., that until that date were held by minority shareholders, increasing the Group's interest in Pepe Energy, S.L. to 100% of its share capital.

**APPENDIX I. – Details of subsidiaries at 31 December 2019**

Company name	Registered address	Activity	Auditor	Company holding the interest	% shareholding	% voting rights	Consolidated based on
Xtra Telecom, S.A.U.	Avda. de la Vega 15. Alcobendas (Madrid)	Activities and services in the field of telecommunications	KPMG	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
MásMóvil Broadband, S.A.U.	Avda. de la Vega 15. Alcobendas (Madrid)	Activities and services in the field of telecommunications	KPMG	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
Embou Nuevas Tecnologías, S.L.U.	Calle Bari 33, Edificio 1, 2 planta, Zaragoza	Consultancy and business advisory services in the field of telecommunications and new technologies	n/a	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
MásMóvil Investments, S.L.U.	Avda. de la Vega 15. Alcobendas (Madrid)	Telecommunications services and deployment and operation of telecommunications networks in Spain	n/a	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
MásMóvil Infraestructuras, S.L.U.	Avda. de la Vega 15. Alcobendas (Madrid)	Telecommunications services and deployment and operation of telecommunications networks in Spain	KPMG	MásMóvil Broadband, S.A.U.	100.00%	100.00%	Control
MásMóvil Phone and Internet, S.A.U.	Avda. de la Vega 15. Alcobendas (Madrid)	Holding company	n/a	MásMóvil Ibercom, S.A.	100.00%	100.00%	Control
MásMóvil Holdphone, S.A.U.	Avda. de la Vega 15. Alcobendas (Madrid)	Holding company	n/a	MásMóvil Phone and Internet, S.A.U.	100.00%	100.00%	Control
Xfera Móviles, S.A.U.	Avda. de la Vega 15. Alcobendas (Madrid)	Activities and services in the field of telecommunications	KPMG	MásMóvil Holdphone, S.A.U.	100.00%	100.00%	Control
Pepeworld, S.L.U.	Avda. de la Vega 15. Alcobendas (Madrid)	Holding company	n/a	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
Pepe Energy, S.L.	Avda. de la Vega 15. Alcobendas (Madrid)	Electricity supply	n/a	Pepe World, S.L.U. y Xfera Móviles, S.A.U.	94.44%	94.44%	Control
Pepemobile, S.L.U.	Avda. de la Vega 15. Alcobendas (Madrid)	Telecommunications services; IT services; development, sale and distribution of IT programs and materials	KPMG	Pepe World, S.L.U. y Xfera Móviles, S.A.U.	100.00%	100.00%	Control
The Bymovil Spain, S.L.U.	Polígono Mies de Molladar D-9. Cartes (Cantabria)	Marketing and selling of electrical, electronic and telephone materials	KPMG	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
Netllar Telecom, S.L.	Av. Padre Carlos Ferris 119. Abal (Valencia)	Development of activities and provision of services in the telecommunications area	Deloitte, S.L.	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
Carrier e-Mobile, S.L.U.	Av. Padre Carlos Ferris 119. Abal (Valencia)	Development of activities and provision of services in the telecommunications area	Deloitte, S.L.	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
Cabonitel, S.A.	Alameda dos Oceanos 21101A, Lisboa, Portugal	Development of activities and provision of services in the telecommunications area	Deloitte Portugal	MásMóvil Ibercom, S.A.	49.99%	49.99%	Equity method
Senior Telecomunicaciones y Servicios Avanzados S.L.	Calle María Tubau 8. Madrid	Provision and commercialization of telemedicine services.	n/a	Xfera Móviles, S.A.U.	49.99%	49.99%	Equity method
Spotting Developments, S.L.	Calle Ramon y Cajal 2. Las Rozas de Madrid (Madrid)	Development of activities and provision of services in the telecommunications area	KPMG	Xfera Móviles, S.A.U.	50.0001%	50.0001%	Control
Inversiones Locua, S.L.	Camino de las Ceudas, 2 bis. Las Rozas de Madrid (Madrid)	Commercialization or holding of network	-	Spotting Developments, S.L.	31.6635%	31.6635%	Equity method
Xfera Consumer Finance Establecimiento Financiero de Crédito, S.A.	Calle Retama 3, Madrid	Granting of loans and personal loans	Mazars	Xfera Móviles, S.A.U.	49.00%	49.00%	Equity method
Medbuying Technologies Group, S.L.	Vía de las dos Castillas 33. Complejo Ática. Pozuelo de Alarcón (Madrid)	Wholesale of radioelectric and electronic equipment and devices	KPMG	Xfera Móviles, S.A.U.	45.00%	45.00%	Equity method

**APPENDIX I. - Details of subsidiaries at 31 December 2018**

Company name	Registered address	Activity	Auditor	Company holding the interest	% shareholding	% voting rights	Consolidated based on
Xtra Telecom, S.A.U.	Avda. de la Vega, 15, Alcobendas (Madrid)	Activities and services in the field of telecommunications	KPMG	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
MásMóvil Broadband, S.A.U.	Avda. de la Vega, 15, Alcobendas (Madrid)	Activities and services in the field of telecommunications	KPMG	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
Embou Nuevas Tecnologías, S.L.U.	Calle Bari 33, Edificio 1, 2 planta, Zaragoza	Consultancy and business advisory services in the field of telecommunications and new technologies	n/a	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
MásMóvil Investments, S.L.U.	Avda. de la Vega, 15, Alcobendas (Madrid)	Telecommunications services and deployment and operation of telecommunications networks in Spain	n/a	MásMóvil Broadband, S.A.U.	100.00%	100.00%	Control
MásMóvil Infrastructures, S.L.U.	Avda. de la Vega, 15, Alcobendas (Madrid)	Telecommunications services and deployment and operation of telecommunications networks in Spain	KPMG	MásMóvil Broadband, S.A.U.	100.00%	100.00%	Control
MásMóvil Phone and Internet, S.A.U.	Avda. de la Vega, 15, Alcobendas (Madrid)	Holding company	n/a	MásMóvil Ibercom, S.A.	100.00%	100.00%	Control
MásMóvil Holdphone, S.A.U.	Avda. de la Vega, 15, Alcobendas (Madrid)	Holding company	n/a	MásMóvil Phone and Internet, S.A.U.	100.00%	100.00%	Control
Xfera Móviles, S.A.U.	Avda. de la Vega, 15, Alcobendas (Madrid)	Activities and services in the field of telecommunications	KPMG	MásMóvil Holdphone, S.A.U.	100.00%	100.00%	Control
Pepeworld, S.L.U.	Avda. de la Vega, 15, Alcobendas (Madrid)	Holding company	n/a	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
Pepe Energy, S.L.	Avda. de la Vega, 15, Alcobendas (Madrid)	Electricity supply	n/a	Pepe World, S.L.U. and Xfera Móviles, S.A.U.	94.44%	94.44%	Control
Pepe mobile, S.L.U.	Avda. de la Vega, 15, Alcobendas (Madrid)	Telecommunications services; IT services; development, sale and distribution of IT programs and materials	KPMG	Pepe World, S.L.U. and Xfera Móviles, S.A.U.	100.00%	100.00%	Control
The Bymovil Spain, S.L.U.	Polígono Mies de Molladar D-9. Cartes (Cantabria)	Marketing and selling of electrical, electronic and telephone materials	Cambior & Jameson	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
Neutra Network Services, S.A.U.	Avda. de la Vega, 15, Alcobendas (Madrid)	Activities and services in the field of telecommunications	n/a	MásMóvil Broadband, S.A.U.	100.00%	100.00%	Control
Con&Media Proyectos y Servicios, S.L.	Lugar Parque Empresarial Zuatzu, 4 Edificio Urumea, 20001 San Sebastian	Telecommunications services	n/a	MásMóvil Ibercom, S.A.	49.00%		

## Consolidated Management Report for 2019

### DESCRIPTION OF THE BUSINESS

#### Economic environment

In 2019 GDP in Spain grew by 2.0% (source: INE), which is lower than the 2.4% seen in 2018, although it remains relatively high compared to the rest of the Eurozone. Growth during the fourth quarter of 2019 was 0.5%, which is lower than the 0.7% seen in the fourth quarter of 2018.

This deceleration is essentially due to weak internal demand, which was particularly affected by gross capital investments that were less dynamic than in the preceding year.

Exports reflected a certain increase and the expectation is that the contribution of foreign markets to growth is expected to be positive at around 0.3% per year.

Growth in price levels continues to be moderate and the annual inflation rate was 0.8% (source: INE) at the end of 2019, slightly lower than the 1.2% last year. This was particularly affected by the increase in energy prices, which gave rise to a year-on-year change in transportation prices of +4.0%, as well as in food, which grew by +1.7%, while housing was the only group that recorded a negative year-on-year figure of -5.0%. The year-on-year inflation rate for communications was 0.7%. Underlying inflation was maintained at 1.0% (source: INE).

The development of employment continues to be positive throughout 2019. According to Social Security membership figures, somewhat more jobs were created during the fourth quarter than in the preceding quarter, although within a downward trend such that registrations grew by 2.6% in 2019, representing an increase of 489,000 new Social Security registrations.

The average annual unemployment rate fell in the fourth quarter to 13.8% (source: INE), and the total number of employed rose by 0.4 million to 19.97 million, a 2.1% increase (source: INE) over last year. In 2019, 90% of jobs were generated by the private sector.

Interest rates have remained at historically low levels. The one-year Euroibor continued at -0.26% in December 2019, while the risk premium for the German Bund declined throughout the year and at the start of 2020 was around 68 basis points, which is 41 points less than last year.

In total, 2019 was a year of economic growth supported by internal demand, which remains strong due to the favourable development of employment and low interest rates. Furthermore, in this positive environment and developing demand, inflation remained at low levels.

In the absence of any unforeseen event, the Spanish economy will foreseeably maintain this positive trend in 2020 with growth at around 1.6% (source: FUNCAS) and it will continue to create jobs. Internal demand is expected to maintain its growth rate, supported by higher income due to several items such as: the increase in public employee salaries, pensions and the minimum wage.

Internationally, a progressive improvement of the economic environment is expected, supported in Europe by the lower uncertainty regarding Brexit and a gradual improvement in international trade due to the lowering tensions between the United States and China. The current

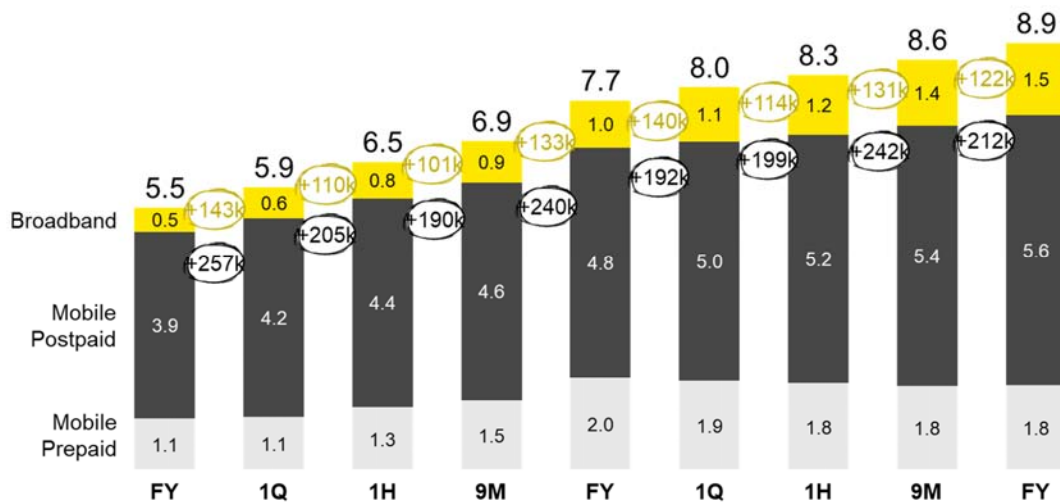
expansionary monetary policy implemented by the primary central banks is expected to be maintained.

### Sales information

The main telecommunications market trends in Spain seen in prior years were maintained in 2019. Broadband has continued to grow to 15.5 million lines, driven by the residential market and the development of ultrahigh speed broadband networks (FTTH and HFC), which already jointly represent more than 78% of access, to the detriment of XDSL technology. Furthermore, the marketing of converging service packages (land lines, mobile and pay TV) with higher capacity and speeds, continue to increase and 85% of broadband is associated with one or more mobile lines.

The Group exceeded 8.9 million lines in 2019, more than double those that it had when it purchased Yoigo and Pepephone in 2016, which was notably attained in 3 years. Specifically, the Group had 7.4 million active mobile lines and nearly 1.5 million fixed data bandwidth lines with customers at 31 December 2019, which are 9% and 50% increases over the figures reported at the end of 2018. This has been achieved while maintaining growing average customer revenue in the main converging packages.

**Growth of mobile lines and broadband 2017-2019  
(million lines)**



More than 10 million users changed fixed bandwidth and mobile telephony companies in Spain in 2019 thanks to portability, which is the regulated procedure which allows changing to another operator free of charge while maintaining telephone numbers. The Group was the leader in net portability in 2019 and attracted 427,000 mobile telephony lines and 255,000 fixed and Internet (ADSL and fiber-optic) lines from its competitors due to the brands under which it currently operates (Yoigo, Pepephone, MASMOVIL, Hits Mobile, Llamaya and Lebara). The attached table shows the development of the Group's net portabilities by quarter:

## Net Portabilities MASMOVIL Group

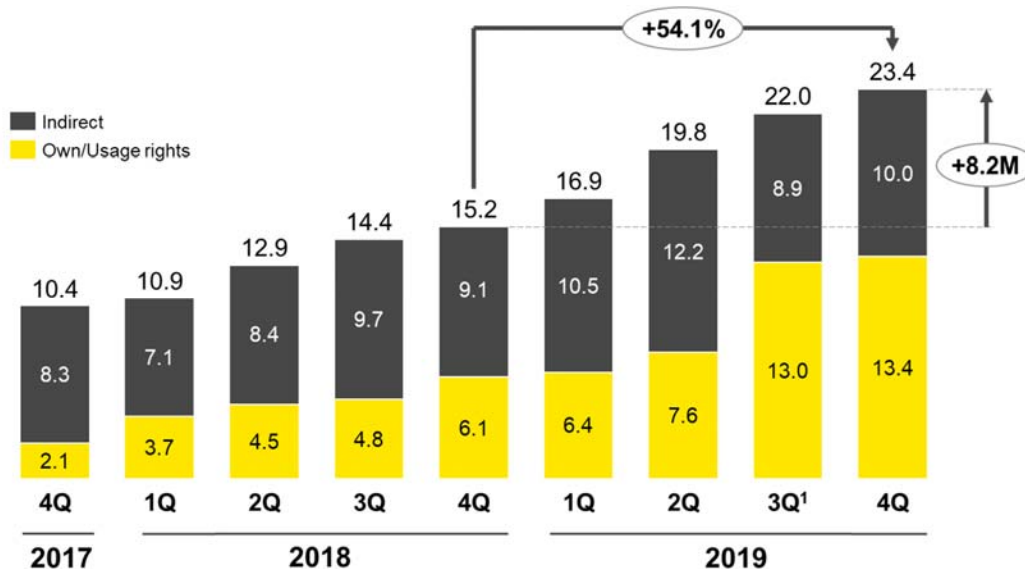
	Q1 '19	Q2 '19	Q3 '19	Q4 '19	TOTAL 2019
Mobile	127,714	100,614	80,259	118,784	427,371
Landline	64,775	61,811	67,045	61,459	255,090

Over the course of 2019 the Group consolidated its business model based on a multi-brand positioning. From an operating standpoint, significant achievements were made, notably the following:

In the infrastructure and technology area:

- FTTH networks (“Fibre-to-the-home”) exceeded 13 million dwelling units (“DUs”) with proprietary networks or optimized cost, which, together with the wholesale agreement signed with other operators, allows the Group to access more than 23.4 million DUs.
- A significant agreement was signed with another operator's network, at the start of the year under which the Group can roll out its fibre-optic network in the unregulated areas.
- In October the Group reached a master network agreement with Orange, which includes access to the new 5G services and a significant increase in its fibre-optic footprint.
- In December, the Group completed the negotiation of an agreement for MVNO services with a Spanish operator to include the Hits Mobile, which was already operational operator's network, in its agreement to transport Lebara brand customer traffic.

**Expansion of the fibre footprint (FTTH) 2017- 2019**  
(million dwelling units)



In the sales area:

- The speed of fibre services doubled from 50 and 300 Mbps to 100 and 600 Mbps at Yoigo and MASMOVIL, respectively, and from 100 Mbps to 200 Mbps at Pepephone. The gigas available through the convergent and mobile fees also increased.
- Yoigo has continued to market the Agile TV pay television service, whose content portfolio has been supplemented by including new agreements with Netflix and Amazon Prime.
- The objective of driving corporate business continued to be pursued in 2019 by launching new products such as Yoigo Pro, a new switchboard service and the SD-WAN service in collaboration with Cisco to facilitate private data network management for companies.
- A customer loyalty program “requetemartes” was launched with the collaboration of, for example, Galp, Marco Aldany, Telepizza, etc.

As a result of this effort, the Group has led the rankings for FTTH network quality, with the best upload/download speeds and latency in accordance with the nPerf<sup>1</sup> report, as well as customer satisfaction. Yoigo has been considered by the consultant Stiga<sup>2</sup> as the mobile operator with the best customer experience.

### Technical information

The Group made considerable efforts with respect to the rollout, expansion of capacity and modernisation of fixed and mobile networks in 2019 in order to delink present and future traffic growth from the cost structure.

During the year, the company's own FTTH network coverage footprint was increased to 13.4 million DUs. This footprint, together with that associated with wholesale agreements with other operators, gives rise to an overall coverage for MASMOVIL Group of 23.4 million DUs at the end of the year.

The reassignment of frequencies in the 2100 Mhz mobile network band has been completed and one of the two 3G carriers has been shut down to use that band to expand 4G services. This has given rise to an improvement in the use of the spectrum and an improvement in the customer experience, while doubling the average upload and download speed for users.

A pilot 5G network has also been rolled out in 2019 in 18 municipalities in Spain. This pilot is being used to analyse the technical benefits of this technology in a real scenario, the usage behaviour by potential customers as well as the development of cases for use by public bodies and companies.

At the same time as the implementation of 5G, an agreement has been concluded with Orange for the joint rollout of 5G in the main cities in Spain. This agreement allows the Group to offer 5G technology to its customers with a clear efficiency of the investment to be made, costs and output time into the market compared to a massive rollout on its own. The implementation of this agreement will be gradual together with Orange, based on the demand for this technology.

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1 [https://media.nperf.com/files/publications/ES/2020-01-22\\_Barometro-internet-fijo-nPerf-2019.pdf](https://media.nperf.com/files/publications/ES/2020-01-22_Barometro-internet-fijo-nPerf-2019.pdf)

2 <http://stigacx.com/iscx>



In addition to the activity in the access network, the “core” network and the common transmission infrastructure have been subject to continuous development in response to business needs. The projects executed in 2019 have allowed the notable growth in the number of customers to be absorbed, providing the various platforms with sufficient capacity to support both new users and higher traffic profiles. This all gives continuity to the project to evolve towards a single fixed and mobile network while ensuring service quality at all times.

The Group companies’ different systems continue to be progressively integrated, facilitating their coordinated management. A relevant event has been the growth of the internal team to adopt the company’s digitalisation strategy.

The results of the user experience test of landline services (Perf) published for 2019, and based on actual user experiences, revealed that the Group offered the most efficient access to its landline Internet subscribers during the year. The average speed data obtained are for downloads (149.88 Mbps) (+44% vs 2018), uploads (150.36 Mbps) (+47% vs 2018) and latency (27ms) (Improvement +18%) for its subscribers throughout 2019.

Focus on customers was a key aspect of 2019, in which projects were prioritised and processes guided towards ensuring quality and the resolution of incidents.

National roaming agreements notably resulted in the successful integration of the various Group brand customers into the proprietary network, thereby facilitating the reduction in the cost of mobile roaming payable to operators for the use of their networks. This customer migration is expected to and during the first half of 2020.

The rollout of the intelligent agent for fixed telephony services (Smart WiFi) at more than 600K CPEs will allow more efficient automatic monitoring and management of Wi-Fi in homes, which will lead to a reduction of complaints and higher customer satisfaction. It should be noted that during the second half of 2019 both the hardware and the firmware necessary to implement a field pilot program for the XGSPON technology obtained official approval (up to 10 symmetrical Gbps per PON port).

We note the following in the environmental area:

- The addition of new energy savings functionalities at the base stations, seeking minimum consumption by equipment during low traffic periods.
- The project of optimising telecommunications infrastructure, disassembling proprietary locations to shift to existing shared infrastructures has continued which, besides reducing the number of facilities, will minimise impacts on landscapes and improve efficiency. This year 96% of the mobile network facilities are at location shared with other operators. This minimises the number of total locations and improves energy efficiency.

## Financial information

The Group's role was consolidated in 2019 and it is the fourth-largest telecommunications operator in Spain, with significant increases in revenue, results and customers.

The Group remains interested in carrying out corporate transactions that are aligned with its strategy of growth, profitability and the search for synergies and savings in management. The following acquisitions that broadened the Group's scope of consolidation were completed in 2019:

- Acquisition of Carrier-E Mobile, S.L.U.
- Acquisition of Netllar, S.L.U.

The Group incorporated and acquired the following companies, which it does not control, but over which it holds significant influence, and they have been included in the scope of consolidation using the equity method as from the date of incorporation or acquisition:

- Acquisition of Spotting Developments, S.L. and Inversiones Locua, S.L.
- Incorporation of Medbuying Technologies Group, S.L.
- Incorporation of Xfera Consumer Finance, Entidad Financiera de Crédito, S.A.
- Acquisition of Cabonitel, S.A.
- Acquisition of Senior Telecomunicaciones y Servicios Avanzados S.L.

This growth strategy for the Group can also be seen in the signing of strategic agreements with the main operators in the industry, which will allow the Group to obtain significant cost savings, provide the Group wholesale access to FTTH infrastructures pertaining to other operators, perform joint rollouts of FTTH networks and reduce the operating risks inherent to the migration of customers to the Group's proprietary network starting in 2020.

In just one year the Group reached 100 MASlife shops, thus responding to the needs of our customers and offering our brands at a single point of sale: Yoigo, MASMOVIL, Pepephone, Hits Mobile, Lebara and Llamaya.

MÁSMÓVIL IBERCOM, S.A. AND SUBSIDIARIES

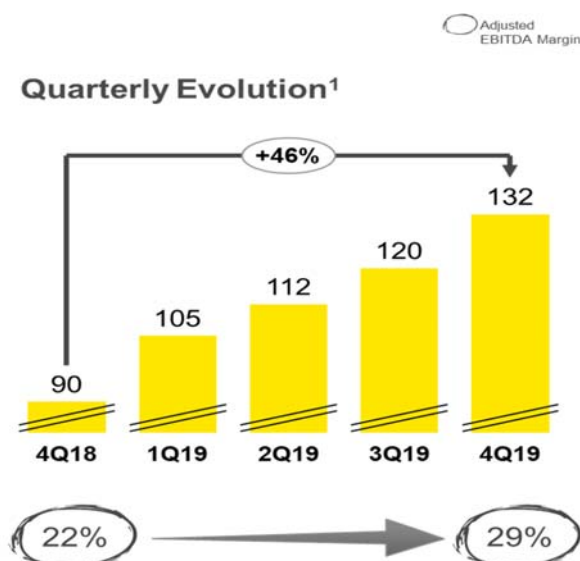
Consolidated Management Report for 2019

The Group presents consolidated revenue and EBITDA figures of Euro 1,681 million and Euro 562 million, respectively. Adjusted consolidated EBITDA was Euro 468 million. The EBITDA to income ratio is 31% and the ratio to consolidated adjusted EBITDA is 28%.

	2019 Consolidated Group	2018 (*) Consolidated Group
Profit for the period	93,212	60,504
Income tax expense	(28,141)	3,812
Interest expense	186,067	67,472
Depreciation and amortization expenses	271,818	213,583
<b>EBITDA</b>	<b>522,956</b>	<b>345,371</b>
Financial income	(5,975)	(958)
Share Appreciation Rights Plan	39,783	32,347
IFRS 16 adjustments	8,651	19,840
Other financial expenses (*)	(7,891)	4,247
Other financial income and expenses:		
Variation of fair value of financial instruments	(580)	(486)
Exchange differences	44	137
Impairment and result from disposals of financial instruments	149	(28,666)
Results from equity-consolidated investments	5,000	-
<b>Reported EBITDA</b>	<b>562,137</b>	<b>371,832</b>
Integration and migration expenses	18,377	17,374
Impairment and result from disposal of fixed assets	(112,205)	-
<b>Adjusted EBITDA</b>	<b>468,309</b>	<b>389,206</b>
Profit after tax	<b>93,212</b>	<b>60,504</b>

(\*) Figures restated to present the impacts of adopting IFRS 16.

**Quarterly development of recurring EBITDA  
(Million Euro)**



The Group concluded a finance agreement with several national and international banks for a total of Euro 1,700 thousand on 7 May 2019. The purpose was to refinance its capital structure.

- (i) Repurchase of all of the convertible debt held by Providence in the amount of Euro 883 million.
- (ii) The cancellation of the syndicated loan originally obtained in October 2016 and refinanced in June 2018 for a total of Euro 791 million (nominal value of Euro 831 million) which includes the cancellation of the principal amount (Euro 785 million) and interest and cancellation costs (Euro 6 million).
- (iii) The cancellation of the junior subordinated loan in the amount of Euro 120 million and the relevant interest, contracted by the Parent Company on 12 November 2018.

With 1.6x excess demand for the issue in financial markets, the new financing was structured as follows:

- Euro 1,450 million for a maintenance loan without covenants (TLB) with an estimated cost of Euroibor +3.25% and placed among institutional investors. The loan has a single payment (bullet payment) after 7 years have elapsed (May 2026), without any interim payments until then. In November 2019 the TLB was repriced downward to Euroibor +2.625%, which will be applied until the instrument matures. At 31 December 2019 the Group had drawn down the entirety of this loan.
- Lines of credit totalling Euro 250 million granted by several financial institutions, the conditions of which are associated with certain sustainability criteria. These lines of credit are primarily intended to finance investments totalling Euro 150 million and the Group's operating requirements in the amount of Euro 100 million. The Group had not drawn down the lines of credit at 31 December 2019.

To place the TLB loan MASMOVIL Group submitted to a rating process and obtained a classification of BB- from Standard and Poor's and Fitch, and B1 from Moody's.

Two share capital increases were carried out in May 2019. The first was for Euro 120 million and subscribed by Providence and the second was for Euro 100 million, subscribed by two financial institutions and associated with two TRS contracts with the same counterparties, which were both cancelled on 30 November 2019.

In addition, on 6 November 2019 MASMOVIL Group completed the sale of almost 940,000 dwelling units (DUs) in the FTTH network to Macquarie Assets Holdings Limited ("Macquarie") for a total of Euro 218.5 million. This transaction has no impact whatsoever on the Group's customer base since this transaction does not require any action whatsoever at the customer's residence. The transaction also has no impact on the Group's financial objectives and gave rise to a positive impact on the Group's results of Euro 134 million.

## Stock market information

MASMOVIL shares performed positively in 2019, increasing in value by 4.3%, although below the IBEX increase of 11.8% in 2019, and the share price was Euro 20 at 31 December.

This was due to a series of factors. The poor performance of the telecommunications sector at the European level, which suffered throughout 2019. The European index for industry companies (Eurostoxx telco) fell by -0.03% in 2019, whereas the Eurostoxx 50 rose by 24.8% during the same period. This performance is mainly due to: the uncertainty regarding the investments required to develop 5G, the investments necessary to rule out fibre-optic in some European countries and the high debt levels of some operators. It should be noted that throughout 2019 MASMOVIL Group has relieved the uncertainties relating to investments in 5G and fibre-optic through the agreements reached with another operator.

However, there has been a negative effect caused by the perception by operators of a potential downturn in the competitive environment in the Spanish market due to several factors such as the announcement of the entry of possible new national operators and the development of low-cost segment trademarks.

This perception has been maintained despite the fact that no relevant changes in the commercial strategy of the main operators is foreseen.

## Number of employees

The workforce was reorganised and adapted over the course of the year to align with the growing needs of the Group. The Group became a generator of jobs and business in overall terms in the telecommunications sector in Spain and hired 102 new employees, raising the total to 875 at the end of 2019.

Despite this growth, revenue per employee of Euro 2 million reflects the high productivity of the Group's employees, far above the average for the industry.

The efforts made to unify and integrate talent management policies at the various Group companies were notable this year, in areas such as recruiting, training and internal development. A clear Human Resources methodology has been implemented that is aligned with the Group's objectives.

The Group maintains its objective of being a business group of choice. We therefore continue to develop and improve our plan for selecting, training and retaining the employees with the best talent and motivation and which are fully in line with the values of our project.

This unification of policies and criteria within talent management has been supported by digital online tools that allow incentive schemes to be clearly established and to calibrate the performance of our human team in a simple and transparent manner.

Specific investments have been made in personnel training based on the needs of the various areas. There has been an emphasis placed on reinforcing knowledge of financial risks and our internal processes and lines of defence, compliance and data protection regulation training throughout the company, creating training plans in order to cover current and future gaps in our daily work and, in turn, generating a positive impact on the development of employees and the

Group. The Group maintains several training formats which, thanks to new technologies, facilitate access: classroom, online with a proprietary LMS, etc.

We have also held the second edition of the leadership program for all those employees in people management positions.

In 2019 the Group implemented a new policy in the training area called “Benefits for internal trainers”, through which the exchange of knowledge within the Group is encouraged together with the autonomy of employees to continue acquiring knowledge. This policy rewards training hours with credits to finance personal training or to make donations to charitable organisations.

We have implemented policies that are attractive for employees, offering a safe, enjoyable and productive working environment with incentives, social advantages and professional career opportunities within the Group.

We maintain an equal opportunity policy regardless of race, nationality, gender, age, civil status, sexual orientation, disability, religious or political beliefs.

Through its various policies and internal regulations, the Group is committed to applying an adequate hiring program taking into consideration the personal and professional academic merits of candidates and the needs of the Group.

All of the Group’s needs are published internally, prioritising internal mobility. All registered internal professionals are interviewed by the business and Human Resources and receive feedback in order for the Company to provide the tools necessary for their professional development if they are not selected for the desired position. Any employee may choose internal promotion or mobility in the various areas of the Group.

The talent development area has approved a Hiring and Retention Procedure for those persons that are engaged under a training contract so that if a job vacancy arises, they may be contracted.

A new career model was introduced in 2019: “MAScarrera”. Up until now the Group has had relevant information regarding the performance and growth potential of its professionals and action plans have been established based on detected areas of improvement.

Another talent management process launched in 2019, and which will continue in 2020, is to ensure that the Group has the best talent (key employees) in critical posts. As a result of this process, different training/development plans will be established to ensure matches and/or succession plans that ensure coverage of those positions.

Communication with employees is frequent, transparent and open to obtain a high level of commitment. We have internal channels through which the Group shares with its employees the information that it considers relevant: “MASletter”, “MAScomunica”, “MASnews” and “MASsesions”, in which regular meetings with the CEO are organised and during which the status of the Group is reported together with the degree to which the established targets have been attained. We also have programs to reward ideas from employees and their commitment to Group values. - “MASreconocimiento” and “MASideas”.

In line with the Group’s commitment to take initiatives that ensure employee satisfaction and in order to improve the labour climate in the organisation through the analysis of employee

perceptions of the various aspects affecting the working environment, in 2018 the Group performed the first labour climate diagnostic survey. That survey was repeated in 2019.

With 82% participation compared to 76% in 2018, the scores improved compared to 2018 in all areas, increasing by nearly 1 point out of 10 from one year to the next, rising from 7.36 out of 10 in 2018 to 8.26 in 2019.

After analysing the results of the survey from both years, actions have been taken to improve employee satisfaction and to provide tools to areas to make improvements sustainable over time.

We continue to comply with and improve the occupational safety and health plans that have been implemented, which has reduced absenteeism.

### **EXPECTED DEVELOPMENT**

The Group reinforced its position in the Spanish market in 2019 in terms of operations and sales, integrating the various businesses and capturing synergies under the umbrella of a single Group that carries out its business with a multi-brand strategy.

The Group continues with its investment efforts with respect to both the rollout of the network and the acquisition of companies or business units that strategically supplement the Group.

Furthermore, in 2019 the following transactions were carried out at the corporate level:

- Successful refinancing of the company's debt, having, moreover, obtained the following ESG ratings: BB- from Standard and Poors and Fitch, and B1 from Moody's.
- In June the Company was selected by the Technical Advisory Committee of the IBEX Indexes to join the most important index on the Spanish stock market, the IBEX 35.
- In July the Group acquired Carrier E-Mobile, S.L.U., MVNO Valencia with more than 100,000 mobile telephony customers and Netllar, S.L.U., a fixed telephony, mobile and internet company.
- In August the Group completed the acquisition of a non-controlling interest in the Portuguese company Cabonitel, S.A., which owns the brands NOWO, focusing on the residential market and Oni Telecom, focusing on the business market.
- In November the Group completed the sale of 940,000 dwelling units in the FTTH network for a total of Euro 218.5 million. The transaction did not have any impact whatsoever on the Group's customer base.

In 2020 the Group expects to maintain the positive development seen over the past few years, supported by a high level of customer satisfaction (NPS), a consolidated organisation, an efficient mix of fixed and mobile telephony network assets and a multi-brand sales strategy focusing on increasing the satisfaction of our customers.

## GROUP RESEARCH AND DEVELOPMENT ACTIVITIES

From the beginning the Group has strongly supported R&D+i activities as a tool for technological capacity and as a way of differentiating itself against the rest of the industry. The Group's R&D+i strategy obtains the support of the programs and tools that allow the subsidising and financing of those activities in order to increase the scope and the possibility of successful outcomes for its initiatives in this area, and it benefits from the tax deductions associated with its R&D+i activities.

At the national level the primary government grant program that the Group's projects address is the Economy and Digital Society Strategic Action Program. During 2019 the Group presented two new applications for assistance in this area.

Also in the area of the public financing of R&D+i projects, the Group has obtained the approval of the Industrial Technological Development Centre (ITDC) for two initiatives presented within the area of the distribution of digital content: "OTTIMIZE: Optimisation of the distribution of OTT content over decentralised networks and intelligent distribution and caching algorithms and "OPCASEDI: Optimisation of Digital service quality on mobile networks and their evolution towards 5G and convergence with the fixed network.

Over the past five years, the Group has dedicated much effort to roll out its own fibre-optic network that allows the development of high-speed broadband services offering very high speeds to areas with no coverage or future projected coverage.

These projects pursue the objective of improving the functionality and quality of digital services, thereby increasing the well-being and quality of life of citizens, while providing the possibility of increasing the Group's own network infrastructure. During 2019 the rollout projects have been presented to the Programme to extend New Generation Broadband as an application for assistance. The results obtained in this area were as follows:

- An approved and accepted rollout project.
- An initial grant of Euro 458,699 was obtained.
- A Euro 655,285.00 financing budget was granted.
- A concession was obtained for 31 municipalities covering rollouts to 2,574 Dwelling Units (DUs).

In terms of tax deductions, in 2019 the Group has worked to certify the R&D+i projects in fiscal year 2018.

Finally, the R&D+i projects on which work has been performed in line with the main areas of investigation and experimental technologies, and which the Group is pursuing, are as follows:

1. System for Managing Fixed Telephony.
2. Technological Platform for Customer Management and the Rendering of Services.
3. Intelligent Architecture for the Processing of Business Information and the Generation of Reports.
4. New Talent Management Platform.



*MÁSMÓVIL IBERCOM, S.A. AND SUBSIDIARIES*  
*Consolidated Management Report for 2019*

5. Digital Transformation Infrastructure for MASMOVIL Group's Business Activity.
6. Innovative System for the Processing of Financial and Business Information.
7. Centralised Tool for the Monitoring of Overall Sales and Multi-brand Customer Service.
8. Indirect Access Product Management Platform.
9. Centralised System for Sales and Operational Management for the Residential and Business Segments.
10. PRECOG2 Project.
11. CYBEROPS Project.

### ACQUISITION OF TREASURY SHARES

In accordance with the authority granted by shareholders at a General Meeting, the Company directly holds a total of 83,175 shares at 31 December 2019 which have a value of Euro 1,654 thousand (a total of 103,986 shares with a value of Euro 2,020 thousand at 31 December 2018).

It should be indicated that in May 2019 two share capital increases were carried out, one involving 6,504,065 shares that were fully subscribed by Providence and a second involving 5,000,000 shares that were placed in the market in 2019.

The details of the balances and movements in the treasury share account in 2019 are as follows:

Number of Shares						
	% / capital	12/31/2018	Additions	Derecognitions	12/31/2019	% / Capital
Intended to:						
Tr. Ordinaries	0.09%	103.986	5.548.385	5.569.196	83.175	0.06%

Thousand Euros				
	31/12/2018	Additions	Derecognitions	31/12/2019
Intended to:				
Tr. Extraordinaries	-	-	-	-
Tr. Ordinaries	2,020	108,993	(109,359)	1,654

On 20 July 2018 the Company renewed a liquidity agreement with Santander Investment Bolsa Sociedad de Valores S.A.U. in order to support liquidity for trading and the regularity of the listed price of its shares. The main characteristics are as follows:

- Execute treasury share purchase programs approved by the Board of Directors or by resolutions adopted by shareholders at a General Meeting.
- Comply with prior legitimate commitments.

- Cover share-based payments deliverable to employees and executives.
- Other permissible purposes according to applicable legislation.

Treasury share transactions will not be carried out in any case based on insider information or will take place for the purpose of influencing the free establishment of prices. In particular, all of the conduct referred to in Articles 83.c.1 of the Stock Market Act, Article 2 of Royal Decree 1333/2005 (11 November), which enables the Stock Market Act, regarding market abuse will be avoided.

## **USE OF FINANCIAL INSTRUMENTS**

At the end of 2019 the Group had not contracted any financial products that could be considered risky, and management has resolved not resort to these types of instruments in general.

However, the Group uses derivative financial instruments to hedge the risks to which its future activities, transactions and cash flows are exposed.

Within the framework of these transactions and in compliance with the obligations stipulated in the syndicated loan, at 31 December 2019 the Group has arranged interest rate hedges with lending banks for a nominal amount of Euro 1,450 million.

### **Financial risk factors**

The Group's activities are exposed to several financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the uncertainty of financial markets and attempts to minimise the potential adverse effects on the Group's financial yields.

Risk management is centralised and controlled by the corporate Finance Management area in accordance with policies approved by the Board of Directors. This Department identifies, evaluates and hedges against financial risk in collaboration with operating units at the Group. The Board of Directors provides written policies for overall risk management and for specific areas such as foreign exchange risk, interest rate risk, liquidity risk and investment of cash surpluses.

### **Market risk**

Market risk is the risk that changes in market prices, in exchange rates and in interest rates, could affect the Group's income or the value of financial instruments held. The purpose of market risk management is to manage and keep exposures to this risk within reasonable parameters while at the same time optimising profitability.

### **Credit risk**

The Group has no significant concentrations of credit risk and maintains policies to ensure that sales are made to customers with an appropriate credit history.

The Group has formal procedures to detect the impairment of trade receivables. The Group uses these procedures to estimate trade receivable non-payment percentages based on actual non-payment experience over the past 12 months and recognises the expected credit loss at the start of the loan. The main components of this impairment are related to individually significant

exposures and a component of the collective loss is established for groups of assets relating to losses that have been incurred but have not yet been identified.

Measurement adjustments for customer insolvency, the review of individual balances based on customer credit ratings, current market trends and an analysis of past insolvencies on an aggregate level require a high level of estimates. A reduction in the volume of balances gives rise to a reduction in measurement corrections and vice versa, based on the analysis of aggregate default experience.

### **Liquidity risk**

This is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled in cash or other financial assets. The Group's approach to managing liquidity is to ensure, whenever possible, that it always has sufficient liquidity to settle its obligations as they fall due, both in normal and difficult conditions, to avoid incurring unacceptable losses or risking its reputation.

The Group carries out prudent management of the liquidity risk by keeping sufficient cash and financing through sufficient available credit facilities.

### **ALTERNATIVE PERFORMANCE MEASURES (APM)**

To comply with ESMA (European Securities Market Authority) guidelines on Alternative Performance Measures (hereinafter "APMs"), the Group presents this additional information to improve the comparability, reliability and comprehensibility of its financial information. Although the Group's results are presented in accordance with the applicable financial reporting framework (IFRS-EU), the directors consider that certain APMs provide useful additional financial information that should be considered when evaluating the Group's performance. The directors and management also use these APMs not only to evaluate the Group's performance but also to make financial, operating and planning decisions. The Group provides those APMs it considers appropriate and useful for decision-making by users.

- Working capital: This financial measure represents the Group's operating liquidity. Working capital is calculated as current assets less current liabilities. Working capital is used to analyse the availability of necessary and sufficient funds to satisfy both outstanding current payables and upcoming operating expenses based on its financing structure.
- Adjusted EBIT margin: The adjusted EBIT margin is calculated by dividing the Group's total revenues by the operating profit obtained, after eliminating the results that cannot be assigned to any segment. The adjusted EBIT margin provides the pure yield obtained from business operations compared to the total revenue accrued.
- Net Financial Debt: The Group calculates net financial debt as the sum of current and non-current financial liabilities (including other non-bank payables relating to deferred M&A payments and financial liabilities with Group companies) less cash and cash equivalents, less current investments in Group companies and less other current financial assets. Net debt provides gross debt less cash in absolute terms.
- EBITDA: results before interest, tax, depreciation and amortization.

- **Reported EBITDA:** reported EBITDA is calculated based on the consolidated earnings obtained by the Group during a year, excluding profit/loss after taxes from discontinued operations, corporate income tax, financial income or expense and depreciation and the amortisation of goodwill. The purpose of reported EBITDA is to obtain a view of what the company is earning or losing from its operation activities. Reported EBITDA excludes the variables not related to cash that may significantly vary from one company to another, depending on the accounting policies applied. Amortisation and depreciation are non-cash variable and, therefore, of limited interest for investors.
- **Adjusted EBITDA:** adjusted EBITDA is calculated based on the reported EBITDA less integration and migration expenses and impairment and result from disposal of fixed assets.
- Any ratio from the APMs mentioned previously can be considered an alternative performance measure.

#### **DEFERRED PAYMENTS TO SUPPLIERS**

The average payment period to the Group's suppliers during 2019 was 50.67 days.

#### **SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE**

Effective 1 January 2020, the Group acquired a line of business responsible for performing professional IT and Computer Engineering Services from Deep Technology & Engineering Services S.L.

In January and February 2020, the Company has issued notes totalling Euro 90,000 thousand on the Alternative Fixed Income Market (AFIM) under the 2019 notes Programme, using Euro 20,000 thousand to cancel the notes under the 2018 notes Programme which were still outstanding at 31 December 2019.

In January 2020 the Group drew down Euro 95,000 thousand from the CAPEX line entered into in May 2019.

On 20 February 2020 the subsidiary Xfera Móviles, S.A.U. acquired 5,010 shares, representing 5.01% of the share capital of Pepe Energy, S.L., that until that date were held by minority shareholders, increasing the Group's interest in Pepe Energy, S.L. to 100% of its share capital.

#### **STATEMENT OF NON-FINANCIAL INFORMATION**

The Statement of non-financial information for 2019, which has been prepared in accordance with the Global Reporting Initiative (GRI) standards, is attached as an Appendix to this Consolidated Management Report.



KPMG Asesores S.L.  
Pº. de la Castellana, 259 C  
28046 Madrid

## **Independent Assurance Report on the Consolidated Non-Financial Information Statement of Másmóvil Ibercom, S.A. and subsidiaries for the year 2019**

(Free translation from the original in Spanish.  
In the event of discrepancy, the Spanish language version prevails.)

To the shareholders of Másmóvil Ibercom, S.A.:

Pursuant to article 49 of the Spanish Code of Commerce, we have provided limited assurance on the Consolidated Non-Financial Information Statement (hereinafter NFIS) for the year ended 31 December 2019, of Másmóvil Ibercom, S.A. (hereinafter the Parent Company) and subsidiaries (hereinafter the Group) which forms part of the Group's 2019 Consolidated Directors' Report.

The consolidated Directors' Report includes additional information to that required by prevailing mercantile legislation governing non-financial information that has not been the subject of our assurance work. In this regard, our work was limited only to providing assurance on the information contained in the table "Content required by law" of the accompanying consolidated Directors' Report.

### **Directors' responsibilities**

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The Board of Directors of the Parent Company is responsible for the contents and the authorisation for issue of the NFIS which has been prepared in accordance with the contents required by prevailing mercantile legislation and selected GRI Standards, in accordance with each subject area in the table "Content required by law" of the aforementioned Group's Directors' Report.

This responsibility also encompasses the design, implementation and maintenance of internal control deemed necessary to ensure that the NFIS is free from material misstatement, whether due to fraud or error.

The Parent Company's directors are also responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for preparing the NFIS was obtained.

### **Our independence and quality control**

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We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.



(Free translation from the original in Spanish.  
In the event of discrepancy, the Spanish language version prevails.)

Our firm applies International Standard on Quality Control 1 (ISQC1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The engagement team was comprised of professionals specialised in reviews of non-financial information and, specifically, in information on economic, social and environmental performance.

## **Our responsibility**

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Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed.

We conducted our review engagement in accordance with International Standard on Assurance Engagements, "Assurance Engagements other than Audits or Reviews of Historical Financial Information" (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the Performance Guide on assurance engagements on the Non-Financial Information Statement issued by the Spanish Institute of Registered Auditors (ICJCE).

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently, the level of assurance provided is also lower.

Our work consisted of making inquiries of Management, as well as of the different units of the Parent Company that participated in the preparation of the NFIS, in the review of the processes for compiling and validating the information presented in the NFIS and in the application of certain analytical procedures and sample review testing described below:

- Meetings with the Parent Company personnel to gain an understanding of the business model, policies and management approaches applied, the principal risks related to these questions and to obtain the information necessary for the external review.
- Analysis of the scope, relevance and completeness of the content of the NFIS based on the materiality analysis performed by the Parent Company and described in the section "About this report" considering the content required in prevailing mercantile legislation.
- Analysis of the processes for compiling and validating the data presented in the NFIS for 2019.
- Review of the information relative to the risks, policies and management approaches applied in relation to the material aspects presented in the NFIS for 2019.
- Corroboration, through sample testing, of the information relative to the content of the NFIS for 2019 and whether it has been adequately compiled based on data provided by internal and external information sources or third-party reports.
- Procurement of a representation letter from the Directors and management.



(Free translation from the original in Spanish.  
In the event of discrepancy, the Spanish language version prevails.)

## **Conclusion**

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Based on the assurance procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the NFIS of Másmóvil Ibercom, S.A. and subsidiaries for the year ended 31 December 2019 has not been prepared, in all material respects, in accordance with prevailing mercantile legislation and with the content of the GRI Standards selected, in accordance with each subject area in the table "Content required by law" of the aforementioned consolidated Directors' Report.

## **Use and distribution**

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This report has been prepared in response to the requirement established in prevailing mercantile legislation in Spain, and thus may not be suitable for other purposes and jurisdictions.

KPMG Asesores, S.L.

*(Signed on original in Spanish)*

Ramón Pueyo Viñuales

27 February 2020

# GRUPO **MAS** MOVIL

## STATEMENT OF NON-FINANCIAL INFORMATION FOR 2019

(Consolidated Management Report for 2019 Appendix)



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## About this report

This report concerns the statement of non-financial information of the MASMOVIL Group (“**the Group**” or “**MASMOVIL**”) which has been drawn up in line with the requirements laid down in Law 11/2018 of 28 December, which amended the Commercial Code, the consolidated text of the Companies Act approved by Legislative Royal Decree 1/2010 of 2 July, and Law 22/2015 of 20 July on Auditing, with respect to non-financial information and diversity (“**the Law**”). In addition, the provisions of the Global Reporting Initiative Standards (GRI Standards) have been taken into account as a reference for the preparation of this document, including those of the Telecommunications Sector Supplement.

The purpose of this document is to report on the Group's business model, non-financial matters, environmental and sustainability issues, social and personnel matters, respect for human rights, the fight against corruption and bribery and information on the community, which are relevant to its main stakeholders, in accordance with the Law.

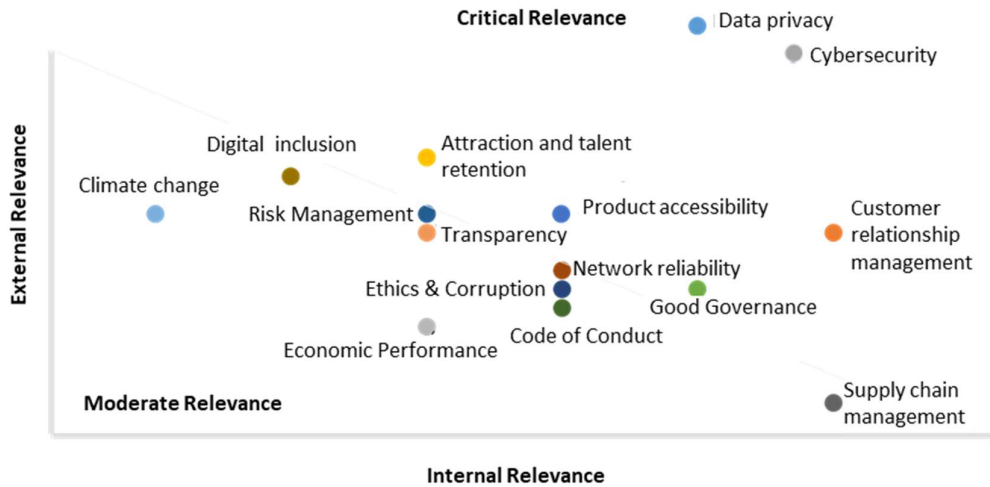
It should be noted that matters relating to respect for human rights and the environment focus on the proper management of people and assurance as to the fulfilment of their human rights, understood as freedom of expression and protection of personal data, as well as the energy efficiency of their consumption.

In the preparation of this report and with the aim of identifying the most relevant issues for MASMOVIL, in January 2019 the Group, together with an external expert, carried out a materiality analysis consisting of a study of the Company's idiosyncrasies and its business model, as well as the situation concerning the telecommunications sector in the news media, analysing different sector reports, future trends and reports from other companies with similar characteristics to the Group.

Likewise, in order to prioritise the results obtained through the materiality analysis, the Group carried out an internal assessment process through a questionnaire and interviews with the managers of the different areas involved.

The exercise for prioritising material matters led to the identification of 15 relevant matters affecting the Group, arranged in the materiality matrix by order of importance, on the basis of which this non-financial information statement has been prepared.

Critical issues are grouped mainly in the area of cyber security, customer management, personal data protection, talent attraction and retention, and corporate governance.



In this non-financial information statement, the Group identifies each heading with each of the critical issues identified and applicable by law, specifying the measures and actions being taken with respect to each of them, as well as other relevant environmental, social and governance issues.

## 1. Business model

### 1.1. Business environment

The economic environment in which MASMOVIL operates has been favourable during 2019. GDP has grown by 2.0% and projections envisage a prolongation of the current upward phase of the cycle for the coming three years, although with an expectation of a generalised slowdown, with growth for 2020 forecast at 1.6%. This growth in the Spanish economy has been reflected, to some extent, in the telecommunications sector which has consolidated the trends of recent years.

Mobile broadband lines have grown at a year-on-year rate of 4.9% compared to 2018. For their part, fixed broadband lines grew at a year-on-year rate of 3.1%. However, the number of lines belonging to Mobile Virtual Network Operators (MVNOs) has not grown significantly.<sup>1</sup>

There are three key factors in this growth in the number of lines: optical fibre technology (Fibre to the Home - FTTH and Hybrid Fibre-Coaxial - HFC) in homes continues to expand, accounting for 78% of total broadband lines, the deployment of new generation broadband has continued, and agreements between wholesalers (including the one between Orange and the Group) have been consolidated.

In addition, the National Commission for Markets and Competition (CNMC) approved a 40% reduction in mobile termination rates applicable since 1 February 2018, from 1.09

<sup>1</sup> Data taken from the latest information published by the CNMC for the total customer base (September 2018 - September 2019)

eurocents to 0.70 eurocents per minute. This rate was reduced to 0.67 eurocents in 2019 and has decreased to 0.64 eurocents since 1 January 2020. Over the last 10 years, mobile voice tariffs have fallen by nearly 80%.

In this respect, the telecommunications market in Spain has reached such a point of maturity that the opportunity to increase market share lies almost exclusively in net customer gains in inter-operator transfers, i.e. in portability and data rate improvements. For this reason, the portability figures in 2019 have been maintained at 678,000. The portability figure is largely based on the results of customer satisfaction rates in each operator, as well as customer loyalty.

## 1.2. Business model

MASMOVIL is a consolidated Spanish telecommunications operator, specialising in the provision of telecommunication services to both consumer and business end users (fixed and mobile telephony, broadband internet and television), interconnection and roaming services to other operators, trading services to wholesale customers and other services covered by its corporate objects through its brands: **Yoigo, Másmóvil, Pepephone, Embou, Hits Mobile, Llamaya and Lebara**. The Group has 8.9 million contracted lines. The Group also has its own infrastructure and agreements with other operators that provide it with a fixed fibre network with access to more than 23 million homes, as well as Asymmetric Digital Subscriber Lines (ADSL) and 3G and 4G mobile telephony, and continues to work to anticipate the needs and demands of its customers, constantly improving its services as one of the operators with best coverage in the country, reaching 98.5% of the population with its 4G network.

The Group is pursuing a policy of growth both organically, by improving its infrastructures and agreements, and inorganically, through acquisitions of companies or customer portfolios, making it the operator with the best growth in the Spanish market. In 2019 (like in 2018) it was the leading operator in terms of portability and customer attraction, in both the fixed and mobile areas, with the highest customer satisfaction rate.<sup>2</sup>

Throughout these years, the Group has been able to adapt to market conditions at all times and has maintained its firm commitment to reduce the digital divide in Spain, offering broadband internet via satellite to 100% of the Spanish population through the KA-SAT satellite, thanks to the agreement with Eutelsat.

### 1.2.1. Areas of activity

The Group focuses its activity on two main areas, consumer and business, which are detailed below:

**Consumer** is the Group's main business area, in terms of volume and projection, by means of which telephone services, fixed and mobile connectivity, and television services are provided to private end customers (Business-to-Consumer - B2C). The Group markets its services through various brands: MASMOVIL, Yoigo, Pepephone, Embou, Hits Mobile, Llamaya y and Lebara.

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<sup>2</sup> Data extracted from the Net Promoter Score report, prepared by the consultancy firm GFK

The Group leads growth among operators in the Spanish market for both mobile and fixed broadband customers according to data published by the CNMC. These customers are divided into:

- Single-line mobile customers: coinciding with the end user (in prepaid and postpaid plans).
- Multi-line mobile customers: also coincides with the end user, but contracting various lines under the same tax ID number (in the prepaid and postpaid plans).
- Landline customers: service to homes and businesses, the end users differ from the users figuring in the contract.

In 2016 the Group began to market its convergent offer under the MASMOVIL brand and gradually extended it to other brands, such as Yoigo, quite shortly thereafter, and other Group brands such as Pepephone. This allowed the Group to consolidate itself as the best alternative to the three traditional operators in the Spanish market.

It also offers customers the best connectivity technologies, 4G speed in all mobile tariffs, nationwide ADSL coverage and substantial and growing access through optical fibre that already exceeds 23 million homes available with this technology.

The **Business** area focuses on companies' telecommunications needs, whatever their size or sector, where customers find secure, tailor-made solutions, the end customers being the company's own employees or private users. The services are marketed through the Yoigo and MASMOVIL brands in the business (Small Office Home Office - SOHO) and companies (more than 10 lines) segments and offer: communication, connectivity, mobile telephony and data centre.

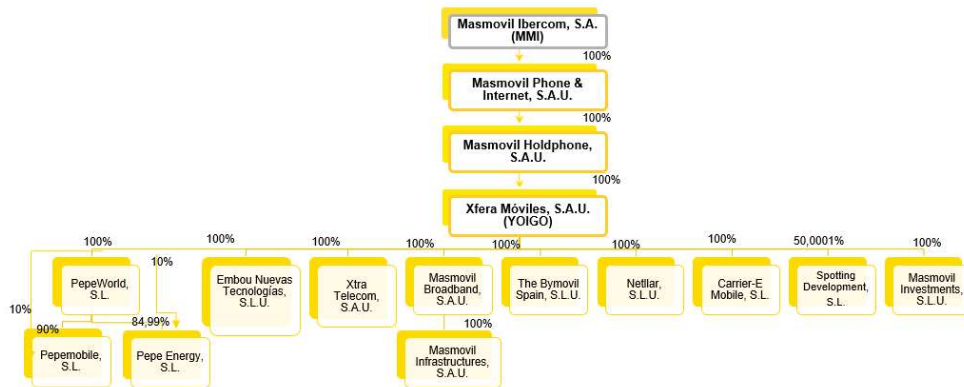
The package offered to companies also includes a service for providing telecommunications services directly or through intermediaries which focuses on end users with a residential profile in rural areas. In these cases, MASMOVIL offers its mobile service through a specialised third party in its segment, which also manages billing and end user service.

In addition to catalogue products, MASMOVIL Business provides an engineering team with extensive experience preparing tailor made offers to customers, whose needs do not conform to or exceed the use of a package offer.

MASMOVIL also offers wholesale services (traffic resale) to other telecommunication operators, as well as Mobile Virtual Network Operator (MVNO) services.

### 1.2.2. Organisation and structure

MASMOVIL IBERCOM, S.A. ("**the Company**") is a Spanish company formed for an indefinite duration and is the Group's parent company. The current Group is the result of the integration between 2014 and 2018 of different telecommunications operators with sustained growth in their respective markets and business areas.



\* The Group has minority interests in the following companies: Senior Telecomunicaciones y Servicios Avanzados, S.L. (49,99%), Cabonitel, S.A. (49,99%), Xfera Consumer Finance, E.F.C. (49%), Medbuying Technologies, S.L. (45%) and Ticnova Quality Team, S.L. (10%).

## 2. Management of non-financial matters

The Group's aim is to create long-term sustainable value, focusing on environmental protection, social development and business ethics based on the principles of transparency and good corporate governance, led by the Company's Board of Directors. The Group believes that corporate governance is one of the most effective instruments for transmitting confidence to investors, as well as for fostering control over the Group's non-financial aspects, providing an environment of control and balance necessary to reinforce good business practices and encourage credibility and stability, and contribute to the drive for growth and wealth generation.

In recent years, the financial community as a whole has increased its demands for non-financial information, which has been supported by recent legislation and initiatives to improve corporate governance practices, driven mainly by regulators.

Even before its stock market flotation, the Group promoted value creation through an up-to-date corporate governance system based on benchmark practices in this area. Therefore, the various corporate policies include the Corporate Social Responsibility Policy and the Corporate Governance Policy, approved by the Company's Board of Directors on 30 June 2017 and 24 January 2018, respectively. In addition, and as proof of the Company's firm commitment to transparency and good governance, in 2019 the Group's Human Resources and Labour Relations Policy was approved, as well as the Crime Prevention Manual.

The Regulations of the Company's Board of Directors establish as non-delegable powers of this body the determination of the Company's general policies and strategies, as well as the determination of the corporate governance policy, while the Appointments and Remuneration Committee is responsible for reviewing the corporate social responsibility policy, as well as monitoring its practices and reviewing its degree of compliance.

In this respect, as provided in the above-mentioned Corporate Social Responsibility Policy, the commitments made by the Group are as follows:

- Regulatory compliance.
- Support for the United Nations Global Compact.
- Ethical commitment.
- Promotion of free market practices.
- Development of advanced corporate governance practices.
- Encouragement of communication and dialogue channels.

In accordance with the Group's corporate governance system, this policy is developed and implemented through internal rules, which are referred to throughout this report.

All the policies approved by the Board of Directors are posted on the Group's intranet accessible to all employees, where all the "Group's Corporate Governance Standards" are grouped together in one document, the following being particularly noteworthy as they deal with non-financial matters, in addition to the Bylaws and the Regulations of the Board of Directors and the General Meeting:

- General corporate governance policy
- Policy on communication and contacts with shareholders
- Directors' remuneration policy
- Directors' selection policy
- Corporate social responsibility policy
- Equal opportunities policy
- Risk management and control policy
- Tax policy
- Procurement policy
- Protocol of action with public administrations and political parties
- Inappropriate conduct policy
- Cybersecurity policy
- Personal data protection and privacy policy
- Policy on crime prevention and to combat fraud and corruption
- Anti-money laundering policy
- Policy on offering and accepting gifts and invitations
- Sustainability and environmental policy
- Human rights policy
- Code of Ethics
- Supplier Code of Ethics
- Internal Code of Conduct on matters relating to the stock markets
- Insider trading rules
- Procedure on conflict of interest and related-party transactions involving the Group's directors, significant shareholders and senior management

## **2.1. Risk Management System**

The Company's Board of Directors is responsible for risk matters, as laid down in its own Regulations, and the Appointments and Remuneration Committee is responsible for evaluating non-financial risks at MASMOVIL.

To enhance supervision in this area, on 22 May 2017 the Company's Board of Directors approved the Group's Risk Management and Control Policy, which allows all the actions aimed at controlling and mitigating the risks identified to be determined. These actions are carried out through a comprehensive risk control and management system based on the "COSO" (*Committee of Sponsoring Organizations of the Tradeway Commission*) model, which covers financial, regulatory, strategic, operational, corporate governance and reputational risks.

Following the approval of Royal Decree-law 18/2017 of 24 November, which amended the Commercial Code, the consolidated text of the Companies Act approved by Legislative Royal Decree 1/2010 of 2 July and Law 22/2015 of 20 July on Auditing, with respect to non-financial information and diversity, the Company's Board of Directors approved a risk monitoring system differentiating between the supervision of financial risk and the supervision of non-financial risk.

Specifically, in the supervision of non-financial risk, the Company's Board of Directors approved a system based on the appointment of "risk-owners", supervised by "controllers" from each of the areas involved, who report directly to the Group's Compliance Officer who in turn reports to the Appointments and Remuneration Committee on the progress made in this area. The latter reports to the Audit and Control Committee, which supervises all the Group's risks, both financial and non-financial.

### 2.1.1. Main risks

The main non-financial risks to which the Group is exposed, as well as the main mitigation measures, are summarised in the following table:

Type of risk	Source of risk	Mitigation measures
<b>Strategic</b>	<ul style="list-style-type: none"> <li>Attracting and talent retention</li> </ul>	<ul style="list-style-type: none"> <li>Human Resources and Labour Relations Policy approved by the Board of Directors in 2019.</li> <li>Promotion of the "MASTALENTO" project in order to implement the tools for identifying and retaining talent for critical positions.</li> <li>Approval by the Board of Directors of the recruitment of key personnel for the information systems team who previously provided their services under a service provision contract.</li> <li>Policy/Procedure for the hiring and retention of interns at the MASMOVIL Group.</li> </ul>
<b>Operational</b>	<ul style="list-style-type: none"> <li>High dependence on certain suppliers in key business operations</li> </ul>	<ul style="list-style-type: none"> <li>Procurement policy approved by the Board of Directors.</li> <li>Procurement Procedures.</li> <li>Procurement Committee regulations.</li> <li>Inclusion of early termination clauses in contracts.</li> <li>The company has backup providers in the event of any need for change.</li> <li>In 2019 the Executive Committee has approved a Contingency Plan for suppliers subject to international blockades or sanctions.</li> <li>Analysis of alternative logistics models carried out by the Procurement Department.</li> </ul>



Type of risk	Source of risk	Mitigation measures
<b>Cybersecurity</b>	<ul style="list-style-type: none"> <li>IT Security</li> <li>Security breaches in systems and networks</li> </ul>	<ul style="list-style-type: none"> <li>Cybersecurity and Privacy Policies approved by the Board of Directors.</li> <li>Existence of an information security master plan.</li> <li>Security controls/computer access to critical systems: a corrective action plan issued by the internal audit is in place that will be implemented in the first half of 2020 through the IAM (Identity Access Management) Project.</li> <li>The Cybersecurity Operations Centre (CSOC) and Network Operations Centre (NOC) are fully operational and have been effective in preventing potential attacks.</li> <li>In 2019, 779 employees have received cybersecurity awareness courses (560 online and 219 face-to-face).</li> <li>Existence of a cybersecurity insurance policy.</li> </ul>
<b>Reputational</b>	<ul style="list-style-type: none"> <li>Reputational damage and penalties for non-compliance with privacy/data protection rules (at group level)</li> </ul>	<ul style="list-style-type: none"> <li>Cybersecurity and Privacy Policies approved by the Board of Directors.</li> <li>Approval by the Board of Directors in 2019 of the outsourcing of Data Protection Officer (DPO) functions to a firm of recognised prestige so that they would assume the pertinent duties.</li> </ul>
<b>Corporate governance</b>	<ul style="list-style-type: none"> <li>Risks arising from failure to comply with the Bylaws and Regulations of the Board of Directors and other Board delegated bodies, the Code of Ethics, the Group's internal regulations and governance recommendations in general.</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring and advice from the Secretary to the Board of Directors and Legal Advisor.</li> <li>Existence of a Compliance Officer and a collegiate body (Ethics Committee) to oversee compliance.</li> <li>Approval by the Board of Directors of various policies, including the Corporate Governance Policy and the Corporate Social Responsibility Policy.</li> <li>Implementation of internal control measures.</li> </ul>

## 2.2. Stakeholder relations

The Group's Corporate Social Responsibility Policy refers to existing relations with the various stakeholders. The Appointments and Remuneration Committee is responsible for monitoring and assessing processes involving relations with the different stakeholders.

**Relations with shareholders and investors** are based on the principles of loyalty, transparency, the responsible exercising of rights and the fulfilment of shareholders' duties. This relationship must be based on informed shareholder participation, particularly through the Company's General Shareholders' Meeting. The Group bases its investor relations on the provisions of the Policy on Communication and Contacts with Shareholders, Institutional Investors and Proxy Advisors approved by the Company's Board of Directors on 30 June 2017, which develops the above-mentioned principles and describes the various channels: corporate website, General Shareholders' Meeting and a specific e-mail address for such communications, maintaining a specific Investor Relations department.

The Group's **relations with employees** aim to enhance welfare and a good working environment and to help them develop their performance in the Group, while promoting training and equal opportunities. Employees have various internal communication channels, such as the intranet, e-mail, newsletters and information sessions, and they have an Ethics Committee to safeguard their and the Company's rights, as well as an Ethics Channel through which they can make queries or report irregularities. This channel is totally confidential and has a management procedure linked to the Ethics Committee.

**Customer relations** are governed by principles encompassing responsible advertising, health and safety and service quality monitoring, which will be discussed below.

**Supplier relations** are fluid, making suppliers participants in the value chain of the various companies that make up the Group through their compliance with the principles set out in the Group's Supplier Code of Ethics. Suppliers have a personalised and confidential ethics mailbox to which they can address any query or communication of irregularities.

### 2.3. Governance and compliance

The Group has a number of bodies, control mechanisms and internal rules that make up its Corporate Governance System with the objective, inter alia, of managing and regulating the Group's organisation in a transparent and efficient manner, promoting its common interest and that of its stakeholders, as reflected in its Corporate Governance Policy and Corporate Governance Plan, approved by the Company's Board of Directors on 22 January 2018 and 24 January 2019, respectively. To this Policy we may add the Code of Ethics, as well as the following internal regulations: Internal Rules of Conduct, the Regulations applicable to its governing bodies, various Corporate Policies and Protocols and the Compliance Model, in addition to numerous policies and procedures in each area aimed at improving management of the business and the various processes.

The composition, operation and activity of the Company's governing bodies and their main responsibilities are described in detail in the **Annual Corporate Governance Report** (CGR), which forms part of the Management Report. These are as follows:

- **The General Shareholders' Meeting** represents all shareholders and is the Company's ultimate decision-making body. At 31 December 2019, shareholders with an interest greater than 3% are as follows: Onchena S.L.U. 13.28%, Providence (through its two vehicles) 9.16%, Indumentaria Pueri S.L. 8.07%, BlackRock Inc. 5.21%, Key Wolf SLU 5.00% and FMR LLC (Fidelity) 4.99%.
- **The Board of Directors** is the body responsible for administering and representing the Company, notwithstanding the powers granted to the General Shareholders' Meeting, and is the highest supervision and control body. In 2019, the Board of Directors has met 17 times.
- **The Audit and Control Committee** is the advisory committee reporting to the Board of Directors responsible for overseeing the Company's internal control, internal audit and risk management systems, and for relations with the external auditor. The meetings of the Audit and Control Committee are attended, whenever deemed appropriate, by its Chairman, the External Auditor, the Internal Auditor, the Chief Financial Officer and the Group Compliance Officer, as well as by any member of Company or Group personnel whose activity may be related to the functions carried out by said Committee.

- **The Appointments and Remuneration Committee** is the advisory committee responsible for the appointment or re-election of directors and proposals for their remuneration, and is responsible for the Group's Corporate Social Responsibility. As a result, this Committee is responsible for matters such as the stakeholder relations strategy, the review of corporate social responsibility policy, the monitoring of related practices and their performance evaluation, and the assessment of the Group's non-financial risks.

#### **2.4. Awards and acknowledgements received in 2019**

- ADSL Zone award for best broadband operator: MASMOVIL.
- ADSL Zone award to the best 2019 MVNO operator: Pepephone.
- Best Company in Alcobendas Award: MASMOVIL.
- 100 Best Companies to Work For Award.
- Branded Content Award in the Social Commitment area: I think, therefore I act.
- Effectiveness Award in the Brand Social Relevance category: I think, therefore I act.
- Best Hyperconvergence and Hybrid Cloud Award.
- El Grupo Informático Award: Best fibre operator: MASMOVIL.
- El Grupo Informático Award: Best MVNO: Pepephone.
- Fastest and best performing fibre optic network in the Spanish market in 2019, according to the nPerf report.
- Received the award granted by the International Financial Review Awards, for ESG sustainable credit issued by a telecommunications company.


#### **2.5. Contribution by the MASMOVIL Group to Sustainable Development Goals (SDGs)**

On 20 September 2015, the United Nations General Assembly adopted the "Agenda 2030 for Sustainable Development", a 15-year action plan for people, the planet and prosperity, which also aims to strengthen universal peace and access to justice. The Agenda proposes 17 Goals with 169 integrated and indivisible targets covering the economic, social and environmental spheres.

As environmental issues have gained ground in all companies, senior management of large companies are seeking to integrate Sustainable Development Goals (SDGs) into their business.

MASMOVIL carries out activities that contribute to these SDGs and demonstrate the company's firm commitment to an ever-more sustainable world.

These activities may be summarised as follows:

	
<p><b><u>SDG 4</u></b> Quality education</p>	<ul style="list-style-type: none"> <li>- Agreement with the Carlos III University, under which five scholarships are granted with the aim of supporting young talent and improving the experience of the Group's users.</li> <li>- Incorporation of eight professionals through the CITIUS programme of the Fundación Universidad-Empresa, aimed at helping university graduates enter the labour market.</li> <li>- Agreements with the King Juan Carlos I University and the Polytechnic University of Madrid for the engagement of their students by Group companies.</li> </ul>
<p><b><u>SDG 5</u></b> Gender equality</p>	<ul style="list-style-type: none"> <li>- No wage gap in the Board of Directors of MASMOVIL Group. The Group's policy is to distribute the amount approved at the General Shareholders' Meeting based on membership of the Board of Directors and the various Board Committees, without distinction as to gender.</li> <li>- Existence of an Equal Opportunities Policy, which aims to be the cornerstone of a favourable environment for employees by promoting effective equality between men and women.</li> <li>- 312 women employees at the end of 2019, out of a total of 875 employees.</li> </ul>
<p><b><u>SDG 9</u></b> Industry, innovation and infrastructure</p>	<ul style="list-style-type: none"> <li>- The Group is in continuous contact with innovation and digital progress. Launch, together with Inveready, a Spanish investment group, of the MASventures accelerator to promote innovative projects in the telecommunications sector and encourage entrepreneurship in Spain. This accelerator acts as a motor for innovation in the Group and strengthens business relations with and investment in start-ups centred on the new technology sector.</li> <li>- Through MASventures, the Group has accelerated five projects, has acquired a direct interest in one of them and is studying the acquisition of other shareholdings.</li> <li>- Deployment of a fibre optic network focused on reducing the digital divide in towns with less than 20,000 inhabitants throughout Spain, with particular interest in providing connectivity in towns with a low population density where no network service previously existed.</li> </ul>
<p><b><u>SDG 12</u></b> Responsible consumption and production</p>	<ul style="list-style-type: none"> <li>- Elimination of consumption of plastic bottles in offices, replacing them with glass bottles (for each employee) that can be refilled at drinking fountains distributed around the various floors. This action has eliminated the consumption of more than 100,000 plastic bottles in the last year.</li> <li>- Electricity consumption per employee in 2019: 21.73 MWh.</li> <li>- Electricity consumption per employee in 2018: 26.25 MWh.</li> <li>- Fuel consumption per employee in 2019: 9.10 l.</li> <li>- Fuel consumption per employee in 2018: 87.15 l.</li> <li>- Water consumption per employee in 2019: 4.45 m<sup>3</sup>.</li> <li>- Water consumption per employee in 2018: 5.82 m<sup>3</sup>.</li> <li>- Waste generated per employee in 2019: 27.76 kg.</li> <li>- Waste generated per employee in 2018: 48.03 kg.</li> </ul>
<p><b><u>SDG 15</u></b> Life on land</p>	<ul style="list-style-type: none"> <li>- Presentation of the "Firefighting Drone" pilot project, focused on firefighting using 5G technology applied to drones with high resolution cameras and thermographic cameras for handling emergency situations.</li> <li>- Removal of storks' nests from mobile phone towers.</li> </ul>

### 3. Information on environmental and sustainability matters



Although the Group's activities have a reduced direct environmental impact, the Group is aware of the importance and relevance of environmental protection and has taken various measures over the last few years to improve its performance in this area. On 27 February 2017, the Company's Board of Directors approved the Sustainability and Environment Policy, which lays down the basic action principles for mitigating its effect on climate change and reducing its environmental impact.

The Policy sets out the environmental issues and best practices to be applied in business decisions and processes, as well as compliance with current legislation, which the Group's employees must take into account in their actions.

The four basic principles envisaged in the Policy are:

- The inclusion of environmental considerations and best practices in business decisions and processes as an integrated communications operator, compliance with existing environmental legislation and the adoption, where possible, of applicable future regulations.
- The establishment of programmes where objectives and goals are set that lead to the continuous improvement of the environmental performance and interaction of our products, services, offices, technical centres and communications infrastructures with the environmental aspects affected by our business, as well as the regular review of these programmes.
- Pollution prevention, the reduction of environmental impacts and the efficient use of resources in the deployment, adaptation and maintenance of the communications network, offices and technical centres, as well as in the provision of services.

- Environmental training and awareness of employees, to ensure that they carry out their work with the utmost respect for the environment, as well as encouraging environmental respect among key suppliers.

The Group is implementing programmes for environmental performance and pollution prevention, reduction of environmental impacts and efficient use of resources.

As the Group does not carry out any manufacturing activity the air pollution impact is very low and the same may be said of light and noise pollution.

In September 2018, the Board of Directors approved a Master Plan with Corporate Social Responsibility actions to be implemented by various areas of the company during 2018 and 2019. The Company has complied with this plan, to which other initiatives have been added during its implementation, and it has enhanced its environmental management and sustainability, gaining maturity and strengthening the commitment to the development of a long-term socio-environmental project with a genuine positive impact on society and the environment.

In addition, to strengthen the Group's commitment to sustainability, work began in 2019 on moving employees to a new modern and sustainable headquarters which is *LEED GOLD* certified, ensuring full compliance with the highest responsible consumption, environmental and employee welfare standards.

In view of the growing importance of ESG (Environmental, Social and Governance) aspects in the community in which it operates, the Group is going further and has included in its day-to-day activities certain measures that confirm its growing concern for doing business in a sustainable manner. In addition, the following actions have been carried out at the current headquarters:

- Elimination of consumption of plastic bottles in offices, replacing them with glass bottles (for each employee) that can be refilled at drinking fountains distributed around the different facilities. This action has eliminated the consumption of more than 100,000 plastic bottles in the last year.
- Introduction of plastic, battery and paper collection containers on all floors at the head office.
- Placement of electronic component recycling containers in the reception area and in the distribution channel.

Some of the measures being implemented in the new headquarters are:

- Use of *Airlite* ecological paint on the entire surface of the building, which absorbs CO<sub>2</sub>, cleans the environment of bacteria and prevents dirt and dust from adhering, ensuring very high air quality at the office.
- Use of natural and hydrophytic vegetation. Absence of plastic plant decoration.
- Inclusion of ashtrays in the permitted areas for subsequent recycling of cigarette butts, to prevent them ending up on the ground.

- Use of clean, green and sustainable electrical energy by providing the service through the Pepeenergy Group company. The energy comes from green energy producers, certified by the CNMC, at the wholesale market price plus €4/month<sup>3</sup>
- Finally, and in order to raise sustainability and environmental awareness among its own employees and visitors to the Group, the Group has created a communication space for SDGs and plans to set up an area for the exhibition of sustainable art.

A Group blog has also been created, which includes a section devoted to social commitment and the Group's contribution to the community. Additionally, in 2019 a section on "the 5 MASMOVIL Group Commitments" concerning environmental and social issues was added to the corporate website.

#### "I Think, Therefore I Act":

The Group's commitment to Corporate Social Responsibility is reflected in "I Think, Therefore I Act", a Yoigo platform that includes social content with the aim of giving a voice and visibility to people who are committed to a positive transformation of the society we live in. These are anonymous people who decided to transform their own determination into extraordinary actions that, in one way or another, are improving the world.

"I Think, Therefore I Act" is the first "Branded Doing" platform to be launched in Spain and allows people to interact in an innovative way through the ACT button, a call to action that shows readers the place where they can collaborate by publicising an idea, involvement, contribution, etc.

This project has been very well received in our community and during 2019, the number of "I think, therefore I Act" hits was 30,644,543.

#### ESG (Environmental, Social and Governance) rating and associated financing:

With a rating of 67/100 granted by Standard & Poor's - S&P Global Ratings, reflecting its major commitment to sustainability, in 2019 MASMOVIL Group became the first European company in the Leveraged Loans market to receive a sustainability rating from S&P in relation to ESG criteria. Part of the cost of the Group's financing is linked to the future evolution of the ESG rating.

The results of the analysis of these three aspects were: 44 points out of 50 for environmental performance, 28 out of 50 for social performance and 20 out of 35 for governance, which confirms that the Group is focusing its strategy on the ESG environment, highlighting its responsibility by working to control environmental and social risks.

At present, the Group continues to work on the development of other sustainable measures that it will implement during 2020, aimed at continuous improvement and enhancement of the ESG Rating.

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<sup>3</sup> Rate in force in February 2020.

### 3.1. Environmental management

Given its commitment and concern with respect for the environment and in its desire to achieve a more sustainable working environment, the Group continues to send environmental awareness messages both externally, through its networks, and internally, through of its intranet.

MASMOVIL has initiated a consultancy and audit process on its environmental management with the aim of evaluating its status with respect to the fulfilment of environmental standards, as well as the implementation of measures to improve management of the Group's environmental resources.

In 2019, the Group took part in the COP25 Summit in the "Real Technology for Climate Change" presentation, in which it presented its project for reducing polluting emissions from its employees' cars at the Alcobendas headquarters by means of remote measurement and real-time information through a free mobile application.

To develop this measure, MASMOVIL has installed remote measurement devices for the polluting and CO<sub>2</sub> emissions of its corporate fleet, in collaboration with the company OPUS RSE, at the accesses to its headquarters. Using an application, it notifies employees whether their emissions are in line with the approved emissions for their vehicles.

Based on these emissions, an analysis of the results in carried out by means of which it can be ascertained which vehicles have higher emissions than those approved. Employees who find themselves in this situation receive proposals for measures to be implemented with the Company's help in order to reduce these emissions and thus improve air quality.

84% of the measurements made in 2019 have been below the permitted emissions rate and the remaining 16% have been notified so they can take corrective action on their vehicles. Through this measure, the Group aims to make its employees aware of the importance of caring for the environment and its concern to be a company that makes a positive impact.

### 3.2. Sustainable use of resources

The Group's commitment to the environment involves controlling the impacts derived from its activity. It therefore seeks to improve the energy efficiency of its facilities in order to minimise its CO<sub>2</sub> emissions.

#### Main Group consumption:

Consumption	2019	2018
<b>Total electricity (MWh)*</b>	<b>19,012</b>	<b>17,430</b>
Diesel Generator set ** (l)	7,314	54,468
Diesel DPC (l)	650	3,400
<b>Total fuel (l)</b>	<b>7,964</b>	<b>57,868</b>
<b>Water (m3)</b>	<b>3,895</b>	<b>3,863</b>

\* The increase is due to an increase in the number of employees. \*\* Data for 2018 include 2 generators, one of which ceased to be used when connected to the electricity supply at the end of the year. The generator that continues to be used is more efficient as it is hybrid (diesel and solar energy).

During 2019, the Group has completed the implementation of energy efficiency measures in the DPCs (Data Processing Centres) initiated in 2018, including



improvements in enclosures, assembly of cold cube racks, LED tubes, free-cooling systems in air machines and free-cooling ducts, and cold aisles. The main measures are detailed below:

- Assembly of cold aisle enclosure in technical rooms, in both DPCs.
- Cold cube rack assembly. In both DPCs.
- Assembly of LED tubes in CPC MT8.
- Assembly of the free-cooling system in air machines No. 2 of DPC MT8.
- Conditioning of free-cooling ducts in MT8 UPS room, to avoid mixing cold and hot air.
- Renewal Plan 2018 and 2019 on sites with old air conditioning equipment from 2001 replaced by modern equipment with free-cooling system included.
- Renewal Plan 2018 and 2019 for rectifier equipment(retrofit) and batteries due to obsolescence, replaced by new more efficient rectifier equipment.
- Eight cold aisles have been created at eight locations with an estimated 14% saving in electricity consumption at those locations.

### **3.3. Circular economy and waste prevention and management**

The Sustainability and Environmental Policy also aims at the permanent improvement of environmental matters, helping to minimise waste generation and thereby contribute to the Circular Economy.

The Group is highly committed to waste reduction and recycling at its facilities, and has therefore carried out electronic recycling awareness campaigns through regular internal communications. In addition, at the Group's headquarters, there is a container where various environment-related messages have been displayed, to make all employees aware of the importance of protecting and respecting the environment. There are also containers for plastic, paper and batteries on all floors at the head office.

MASMOVIL has deployed more than 800 electronic recycling points at various Group points of sale in Spain.

Likewise, the commitment to the environment extends to the Group's supply chain, in that its suppliers must have an environmental management system that includes specific objectives and measures, such as ISO14001 certification or similar. By accepting the Supplier Code of Ethics, the Group's suppliers commit themselves to reducing the negative impact of their operations and to strive to maintain and increase biodiversity.

Suppliers also undertakes to establish, if applicable, a procedure for monitoring emissions, effluents, pollution and waste, including electronic waste. All waste must be properly managed or recycled in a way that allows for proper traceability.

The waste consumed in the Group is removed and processed by appropriate waste managers who certify that the waste is collected using the best technologies and in compliance with current regulations.

Waste generation (in kg):

Type of waste	2019	2018
Network electronic equipment	2,085	16,676
Other electronic products: panels	3,058	
Other electronic products: antennas	724	
Other	54	
<b>Total electronic waste</b>	<b>5,921</b>	<b>16,676</b>
Plastic	4,566	-
Paper/board	11,989	255
Metal	84	8,177
Wood/cork	1,071	4,292
Other	657	2,490
<b>Total packaging</b>	<b>18,367</b>	<b>15,214</b>
<b>Total waste</b>	<b>24,288</b>	<b>31,890</b>

Waste generation (DPC):

Type of waste	2019	2018
Total lead batteries (kg)	5,945	3,441
LER 160214 (kg)	2,160	607
LER 160213 (kg)	2,759	5,600
LER 160211 (kg)	608	-
Diesel filter (unit)	1	1
Air filter (unit)	130	-
Oil filter (unit)	2	-
Oil rags (l)	10	-
Filtering blanket (M <sup>2</sup> )	10	6
Oil (l)	75	-
Luminaires (displays) (unit)	12	-
Fluorescents (unit)	78	46
Copper (kg)	80	-
Radiators (kg)	120	-
Iron scrap (kg)	460	-

Food waste:

References to actions to combat food waste have not been considered relevant as this is not relevant to MASMOVIL's business activities.

### 3.4. Climate change

In the course of its activity MASMOVIL does not generate a relevant negative impact in relation to greenhouse gas emissions and therefore this is not considered a material issue for the Group.

However, in line with the commitment to control and reduce the impact of its emissions, the Group has calculated its Scope 1 and Scope 2 emissions.

Climate change and atmospheric emissions:

<b>Emissions</b>	<b>2019</b>	<b>2018</b>
Scope 1 emissions (tCO <sub>2</sub> )	21.40	152.02
Scope 2 emissions (tCO <sub>2</sub> )	4,676	4,290

**3.5. Protection of biodiversity**

During the Mobile World Congress (MWC) 2019 held in Barcelona, MASMOVIL Group together with Cellnex Telecom, SITEP, and Mobile World Capital Barcelona presented the “*Dron contra incendios*” (“firefighting drone”) pilot project, a measure focused on fire fighting based on 5G technology applied to drones with high resolution cameras and thermographic cameras specifically designed for handling emergency situations.

These drones are a key tool when exploring territories affected by a fire, since emergency teams can be informed of the emergency situation minute by minute through the images obtained.

The system is very useful for controlling and monitoring the fire perimeter, indicating the location of heat sources and facilitating the action plan to prevent the fire from spreading.

In 2018 the Group initiated actions to remove storks’ nests from mobile telephone towers in accordance with current legislation. Since these nests started being removed the Group has collected six units; three nests in 2018 and three more in 2019. In addition, in 2019 devices began to be installed in mobile telephone towers to prevent storks from nesting there.

**4. Information on social and personnel-related matters**

The Group has a firm commitment towards its employees based on its Code of Ethics, which encompasses the Group's ethical commitment and system for compliance with human and labour rights as recognised in national and international legislation, in addition to stating its actions in compliance with the principles defined in the United Nations Global Compact and the guidelines of the OECD (Organisation for Economic Co-operation and Development).

It also develops the principles of non-discrimination and equal opportunities which are complemented by specific policies.

Ethics is a fundamental pillar of the Human Resources area which has implemented the relevant provisions of the Group's Code of Ethics.

At a meeting held on 27 November 2019, the Board of Directors approved the Group's Human Resources and Labour Relations Policy, as a development of Article 12 of the Code of Ethics, which states that:

*“The Company will maintain an appropriate selection programme, taking into account the academic, personal and professional merits of the candidates and the Group's needs.*

*The Group will evaluate its employees objectively, taking into account their individual and collective professional performance, and will promote them, to the extent possible, according to their results.*

*The Company will inform its employees about the main lines of its strategic objectives and about the Group's progress."*

The objective of the Human Resources Policy is to implement a human resources management model in the Group that will make it possible to attract, develop and retain talent and foster the personal and professional growth of all the people in its human team, as well as to align the professionals' interests with the Group's strategic objectives.

This Policy is complemented by the Equal Opportunities Policy, approved by the Board on 20 December 2017, which aims to be the cornerstone of a favourable environment for employees by promoting effective equality between men and women. This policy develops the basic principles of action among which quality of employment, equal opportunity, fairness and respect for diversity should be highlighted.

The Group also approved, on 27 February 2018, a Human Rights Policy as a development and complement to its Corporate Social Responsibility Policy. Under a resolution adopted by the Company's Board of Directors on 25 July 2018, the Group also approved a Policy of non-tolerated behaviour and prevention and action against moral, psychological and physical harassment which, based on the principle of non-discrimination described in its Code of Ethics, lists the various actions contrary to regulatory compliance, both internal and external, which hamper the proper functioning of a healthy and ethical work environment.

This policy lays down the procedure for handling complaints received through the internal ethics channel, with the support of the Compliance Officer, the Ethics Committee and the CEO. This procedure also defines the internal investigation and the application of measures within a maximum of 15 working days.

The Group has also developed various measures to facilitate work-life balance and offers its employees various social benefits, such as flexible working hours, intensive working hours in summer and on Fridays, psychotherapist services, healthy meals, a shuttle service, discounts on training and leisure, and sports activities, among others.

Total number and distribution of employees by gender, age, country and professional category:

Age	2019			2018		
	Women	Men	Total	Women	Men	Total
<i>Under 30 years</i>	23	51	74	23	41	64
<i>From 30 to 50 years</i>	255	422	677	178	328	506
<i>Over 50</i>	34	90	124	20	74	94
<b>Total</b>	<b>312</b>	<b>563</b>	<b>875</b>	<b>221</b>	<b>443</b>	<b>664</b>

Professional classification	2019			2018		
	Women	Men	Total	Women	Men	Total
<i>Senior management</i>	12 (*)	59	71	14	59	73
<i>Technical personnel</i>	42	171	213	43	82	125
<i>Administrative personnel</i>	36	39	75	33	51	84
<i>Other employees</i>	222	294	516	131	251	382
<b>Total</b>	<b>312</b>	<b>563</b>	<b>875</b>	<b>221</b>	<b>443</b>	<b>664</b>

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\* One of the 2019 departures relates to an internal promotion of an employee to an investee outside the scope of consolidation (Senior Telecomunicaciones y Servicios Avanzados, S.L.).

Country	2019			2018		
	Women	Men	Total	Women	Men	Total
Germany	1		1			
Argentina		2	2	1	1	2
Bangladesh		2	2			
Brazil		1	1			
Bulgaria	2	1	3	4	1	5
Colombia	2	1	3	1		1
Slovakia	1		1			
Spain	298	530	828	212	428	640
USA	1		1		1	1
France		1	1			
Netherlands		1	1		1	1
Honduras		1	1			
India		1	1			
Italy		4	4			
Lithuania	1		1			
Morocco		2	2			
Nicaragua		1	1		1	1
Pakistan		3	3		2	2
Peru	1		1	1		1
Portugal		2	2		4	4
Dominican Republic		3	3		2	2
Romania	4	2	6	1		1
Russia	1		1	1		1
Sri Lanka		3	3		1	1
Switzerland		1	1		1	1
Venezuela		1	1			
<b>TOTAL</b>	<b>312</b>	<b>563</b>	<b>875</b>	<b>221</b>	<b>443</b>	<b>664</b>

Total number and distribution of types of employment contract by gender, age and professional category:

Indefinite contract	2019			2018		
	Women	Men	Total	Women	Men	Total
Full-time	290	548	838	214	434	648
Part-time	16	3	19	7	0	7
<b>Total</b>	<b>306</b>	<b>551</b>	<b>857</b>	<b>221</b>	<b>434</b>	<b>655</b>

Temporary contract	2019			2018		
	Women	Men	Total	Women	Men	Total
Full-time	5	10	15	0	9	9
Part-time	1	2	3	0	0	0
<b>Total</b>	<b>6</b>	<b>12</b>	<b>18</b>	<b>0</b>	<b>9</b>	<b>9</b>

Indefinite contract	2019			2018		
	< 30 years	From 30 to 50 years	>50 years	< 30 years	From 30 to 50 years	>50 years
Full-time	62	660	116	57	500	91
Part-time	4	10	5	0	5	2
<b>Total</b>	<b>66</b>	<b>670</b>	<b>121</b>	<b>57</b>	<b>505</b>	<b>93</b>

Temporary contract	2019			2018		
	< 30 years	From 30 to 50 years	>50 years	< 30 years	From 30 to 50 years	>50 years
Full-time	6	6	3	7	1	1
Part-time	2	1	0	0	0	0
<b>Total</b>	<b>8</b>	<b>7</b>	<b>3</b>	<b>7</b>	<b>1</b>	<b>1</b>

Indefinite contract	2019				2018			
	Senior management	Technical personnel	Administrative personnel	Other employees	Senior management	Technical personnel	Administrative personnel	Other employees
Full-time	71	207	73	487	72	130	79	367
Part-time	0	2	1	16	0	1	0	6
<b>Total</b>	<b>71</b>	<b>209</b>	<b>74</b>	<b>503</b>	<b>72</b>	<b>131</b>	<b>79</b>	<b>373</b>

Temporary contract	2019				2018			
	Senior management	Technical personnel	Administrative personnel	Other employees	Senior management	Technical personnel	Administrative personnel	Other employees
Full-time	0	3	1	11	0	0	0	9
Part-time	0	1	0	2	0	0	0	0
<b>Total</b>	<b>0</b>	<b>4</b>	<b>1</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9</b>

Annual average of permanent contracts, temporary contracts and part-time contracts by gender, age and professional classification\*

Indefinite contract	2019		
	Women	Men	Total
Full-time	289	513	802
Part-time	16	0	16
<b>Total</b>	<b>305</b>	<b>513</b>	<b>818</b>

Temporary contract	2019		
	Women	Men	Total
Full-time	2	5	7
Part-time	0	0	0
<b>Total</b>	<b>2</b>	<b>5</b>	<b>7</b>

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Indefinite contract	2019		
	< 30 years	From 30 to 50 years	>50 years
Full-time	36	626	140
Part-time	1	11	4
<b>Total</b>	<b>37</b>	<b>637</b>	<b>144</b>

Temporary contract	2019		
	< 30 years	From 30 to 50 years	>50 years
Full-time	5	1	1
Part-time	0	0	0
<b>Total</b>	<b>5</b>	<b>1</b>	<b>1</b>

Indefinite contract	2019			
	Senior management	Technical personnel	Administrative personnel	Other employees
Full-time	73	182	74	473
Part-time	0	1	0	15
<b>Total</b>	<b>73</b>	<b>183</b>	<b>74</b>	<b>488</b>

Temporary contract	2019			
	Senior management	Technical personnel	Administrative personnel	Other employees
Full-time	0	0	0	7
Part-time	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7</b>

\*This is the first year this indicator is reported, and due to a change in the Human Resources tool, it is not possible to obtain the 2018 average contract information

Number of dismissals by gender, age and professional category:

Age	2019			2018		
	Women	Men	Total	Women	Men	Total
Under 30 years	0	3	3	1	1	2
From 30 to 50 years	20	30	50	6	16	22
Over 50	3	8	11	1	4	5
<b>Total</b>	<b>23</b>	<b>41</b>	<b>64</b>	<b>8</b>	<b>21</b>	<b>29</b>

Professional category	2019			2018		
	Women	Men	Total	Women	Men	Total
Senior management	1	6	7	0	2	2
Technical personnel	2	9	11	0	3	3
Administrative personnel	8	3	11	4	5	9
Other employees	12	23	35	4	11	15
<b>Total</b>	<b>23</b>	<b>41</b>	<b>64</b>	<b>8</b>	<b>21</b>	<b>29</b>

The Group saw an increase in staff turnover with respect to the previous year due to the fact that during 2019 MASMOVIL implemented an initiative to attract specialist profiles in customer experience, digitalisation and the use of new technologies such as Big Data or Artificial Intelligence. For this reason, despite the turnover the total number of Group employees increased by 31.77% during the year.

Average remuneration and trends by gender, age and professional category (in euro)\*

Following the principles developed in the Diversity and Equal Opportunities Policy, the Group understands that equal pay is a fundamental right of its employees. The Group therefore seeks to ensure that remuneration is fair for both genders. In addition, aspects such as seniority and the assumption of greater responsibilities over an employee's career are rewarded.

Age	2019 (euro)			2018 (euro)		
	Women	Men	Total	Women	Men	Total
<b>Under 30 years</b>	27,239.67	28,182.16	27,889.23	32,973.30	29,380.41	30,530.14
<b>From 30 to 50 years</b>	42,495.61	55,524.16	50,616.80	47,308.91	60,773.57	55,974.03
<b>Over 50</b>	52,424.08	87,845.23	78,132.98	61,413.73	90,638.83	84,486.18
<b>Total</b>	<b>42,452.92</b>	<b>58,214.13</b>	<b>52,594.14</b>	<b>47,547.49</b>	<b>63,420.36</b>	<b>58,137.37</b>

\*The calculation of remuneration includes fixed and variable remuneration

Professional category	2019 (euro)			2018 (euro)		
	Women	Men	Total	Women	Men	Total
<b>Senior management</b>	112,850.00	148,854.93	142,769.59	106,625.36	151,729.21	142,959.02
<b>Technical personnel</b>	54,413.64	49,939.66	50,821.85	54,389.29	57,460.48	56,639.93
<b>Administrative personnel</b>	43,507.61	54,964.17	49,465.02	39,224.96	57,941.54	48,464.79
<b>Other employees</b>	36,213.81	45,268.14	41,376.67	41,989.52	46,076.00	44,663.92
<b>Total</b>	<b>42,452.92</b>	<b>58,214.13</b>	<b>52,594.14</b>	<b>47,547.49</b>	<b>63,420.36</b>	<b>58,137.37</b>

\*The calculation of remuneration includes fixed and variable remuneration

Wage gap, remuneration for the same posts or the company's average remuneration:

Professional category	2019	2018
<b>Senior management</b>	24.19%	29.73%
<b>Technical personnel</b>	-8.96%	5.34%
<b>Administrative personnel</b>	20.84%	32.3%
<b>Other employees</b>	20.00%	8.87%
<b>Total</b>	<b>13.36%</b>	<b>13.46%</b>

As a sign of the Group's commitment to transparency and to reducing the wage gap between men and women, this year the calculation was made using the weighted average by professional category, resulting in a total wage gap of 13.36% (v. 13.46% in 2018). This wage gap is in line with the sectoral context. It may also be observed that the Group has significantly reduced the gap in all professional categories and it is even negative in the technician category, except for the "other employees" category which was affected by the Group's non-organic growth in 2019.

Average remuneration of directors, including allowances, indemnities and any other payments, by gender:

Directors' remuneration	(euro)	2019	2018	Wage gap	0%
	Women	89,645*	89,307*		
	Men				

\* To calculate the average, Key Wolf, S.L., Aldebarán Riesgo SCR SAU (as these are legal persons) and the CEO have not been taken into account

The remuneration of the Chief Executive Officer, who is a member of the Board of Directors and a Company executive, differs from that of the other Board members in accordance with the relevant resolution adopted by the shareholders in general meeting.



There is no wage gap in the Board of Directors since the maximum amount approved at the General Shareholders' Meeting is distributed based on membership of the Board of Directors and the various Board Committees, without distinction as to gender. An individualised breakdown of Directors' remuneration is published in the Annual Directors' Remuneration Report.

Employees with disabilities:

<i>Employees with disabilities</i>	2019	2018
	3	4

The Group is committed to hiring people with disabilities through direct recruitment. Currently, the companies in the Xtra Telecom Group and Bymovil Spain have a compliance exceptionality certificate with respect to the Law on Disabled Persons. The new headquarters will comply with current regulations on accessibility for people with reduced mobility.

Percentage of employees covered by a Collective Agreement:

<i>Collective Agreement</i>	2019	2018
	100%	100%

**4.1. Talent development**

Through its various policies and internal rules, the Group undertakes to apply an appropriate selection programme, taking into account the academic, personal and professional merits of the candidates and the Group's needs.

All the Group's needs are published internally, giving priority to internal mobility. All registered internal professionals are interviewed by Business and Human Resources, receiving feedback so that, if they are not selected for the position, the company will provide them with the necessary tools for their professional development. Any employee can opt for internal promotion or mobility in the different Group areas.

As part of talent development, a Recruitment and Retention Procedure has been approved for persons that join the company under an internship contract so that they can be hired in the event of a job vacancy.

Recognition, participation and development programmes:

- "MASlearning", focused on employee training and development.
- "MASletter", "MAScomunica" "MASsesions" "MASnews", internal channels through which the Group shares the information it considers relevant with employees.
- "MASvalor", the Group carries out an ongoing, objective evaluation of its employees, taking into account their individual and collective professional performance. This system enables target-based performance to be evaluated and new SMART targets to be set. It is also used for defining and allocating variable remuneration.
- "MASreconocimiento" and "MASideas", programmes to reward employees' ideas and commitment to the Group's values.

Performance is the combination of the quantitative targets set, behaviours oriented towards the Group's Values and the Competences observed over the year of evaluation.

As a novelty, a new career model was introduced in 2019: "MAScarrera". To date the Group has received relevant information about the performance and growth potential of its professionals and action plans have been established based on the areas of improvement detected. "MAScarrera" has been designed with different aims:

- Providing the Group's professionals with a structure for growth.
- Encouraging the creation of development itineraries, along with "MASvalor".
- Establishing consistent development criteria, which are transparent and shared by all the Group's professionals.
- Strengthening and empowering experts' careers: expert profiles have a greater development depth, and team management is not the only relevant factor to keep growing.

Another talent management process launched in 2019 and which will continue in 2020 is to ensure that the Group has the best talent (key people) in critical positions. This process consists of two phases: identifying critical positions within the organisation and determining the suitability factors and criteria that make them up; and ensuring through different evaluation methods (face-to-face interviews, online questionnaires, etc.) that the professionals that occupy these critical positions are properly qualified to do so. Otherwise, training/development plans will be established to ensure the match and/or succession plans to make sure these positions are covered.

#### **4.2. Labour climate survey**

In line with the Group's commitment to carry out initiatives that ensure employee satisfaction and with the aim of improving the work climate in the organisation by studying employees' views of the various factors that affect the working environment, in 2018 the Group carried out the first diagnostic survey of the labour climate. This survey was repeated in 2019 and addresses the following areas:

- Aspects that influence job satisfaction.
- My work
- My boss
- People management
- The company
- Company's positioning
- General opinion

With an 82% participation compared to 76% in 2018, the valuation has improved in all the variables with respect to 2018, the total being almost 1 percentage point from one year to the next, rising from 7.36 out of 10 in 2018 to 8.26 in 2019.

In both years, after analysing the results of the survey, actions have been taken to improve employee satisfaction and provide the relevant areas with tools to make the improvement sustainable over time.

### 4.3. Safety, health and wellbeing

The health and safety of all the Group's employees is present in all the daily actions and decisions that concern the Group, and for this reason it has an Occupational Risk Prevention Management System which was presented to the Management Committee on 2 October 2018. As indicated in this Management System, the Group has set up a Joint Prevention Service as a preventive mechanism, which forms part of the Human Resources area. This preventive mechanism has undergone a mandatory audit during 2019, with satisfactory results.

Hours of absenteeism, number of accidents at work, indicating their frequency and severity:

	2019	2018
<b>Absenteeism (hours)</b>	25,487	21,951
<b>Absenteeism rate*</b>	1.07	1.74

\* Expresses the number of days lost based on the average workforce (calendar days from start of absence to return, both inclusive) every 100 days' work

<b>Accidents</b>	2019	2018
<i>Women</i>	0	0
<i>Men</i>	1	1
<b>Frequency rate</b>	2019	2018
<i>Women</i>	0	0
<i>Men</i>	1.02	1.42
<b>Severity rate</b>	2019	2018
<i>Women</i>	0	0
<i>Men</i>	0.007	0.010
<b>Occupational illnesses</b>	2019	2018
<i>Women</i>	0	0
<i>Men</i>	0	0

In addition to the legally required activities, the Joint Prevention Service has focused its actions on Employee Welfare, as is evidenced by the joint efforts with other areas of the company (Employee Experience, Communication and Corporate Social Responsibility) to implement different initiatives for the benefit of employees, which will be part of the **Corporate Wellness Plan**, which are internal initiatives for the improvement and satisfaction of the Group's employees:

#### Health care promotion

- Telemedicine service and on-line anonymous psychological assistance.
- Indoor physiotherapy service twice a week.
- Distribution of fresh fruit at the head office twice a week.
- Agreements with gyms located close to the Group's headquarters.
- Corporate competitions.
- Implementation of prevention and health week.
- Company canteen with balanced organic nutrition supervised by nutritionists who also offer talks and advice about correct nutrition.

Coinciding with the European Week for Safety and Health at Work, which took place during the week of 21 October 2019, the Group organised various workshops to encourage healthy living habits among its employees:

- Talk about stroke prevention.
- Talk about anti-smoking.
- Talk about nutrition.
- Talk about road safety.
- Corporate wellness.
- Telemedicine.
- Psychological assistance.
- Talk - workshop on active breaks and relaxation and stretching exercises.
- Training demonstration session.

#### 4.4. Internal employee training

In line with the stipulations of the Human Resources and Labour Relations Policy approved by the Board of Directors, the Group's strategy in the human resource area is focused on generating an ideal working environment among its employees where they feel part of the group, with opportunities to progress and obtain promotion. To this end, training plans are in place to cover current and future gaps in their working practice and, in turn, to generate a positive impact on the development of both employees and the Group.

Training plans are designed by defining and analysing the needs identified by each of the Group's areas, as well as analysing the Group's global strategy. In line with the above, employees develop new techniques and general skills such as agility and leadership, customer orientation, etc., and some more specific skills in areas such as occupational risk prevention, languages, products and technical knowledge.

The Group maintains various training formats which, thanks to new technologies, facilitate training access: presential, online with their own LMS, etc.

A total of 20,376 hours of training were provided in 2019. In the previous year, 12,566 hours were provided.

Training hours by gender and professional category:

<i>Training hours</i>	<b>2019</b>	<b>2018</b>
<i>Senior management</i>	1,770	2,041
<i>Technical personnel</i>	5,874	2,325
<i>Administrative personnel</i>	2,810	1,408
<i>Other employees</i>	9,922	6,792
<b>Total</b>	<b>20,376</b>	<b>12,566</b>

<i>Average training hours by gender</i>	<b>2019</b>	<b>2018</b>
<i>Women</i>	24.64	18.05
<i>Men</i>	22.54	19.37

In this connection, during 2019 the following training courses related to non-financial information, among others, were provided:

- Ethics, Compliance and GDPR (including Immersion Plan): 234 employees.
- Cybersecurity Awareness: 779 employees (219 presential and 560 online).
- Risk Management: 41 employees.
- Occupational Risk Prevention: all employees.

As a complement to the training efforts, a video was distributed to all personnel in 2019 in which the CEO and the Compliance Officer discuss the Group's ethics and values.

During 2019, the training strategy followed in previous years has continued, based on defining the necessary training for the different groups in the business. In addition, during 2019 a new policy has been implemented in the training area called "Benefits for internal trainers", through which the sharing of knowledge within the group and employees' freedom to continue acquiring knowledge is encouraged. Through this policy, training hours are rewarded with credits to finance their own training or to donate to charitable organisations.

## **5. Information on respect for human rights**

Although the Group's activities have little impact on human rights, it is aware of the importance of protecting its employees and of social impact. For this reason, the Corporate Social Responsibility Policy, approved by the Company's Board of Directors on 30 June 2017, expressly mentions the protection of employees' fundamental rights and is constantly reviewed by the Group's Compliance Officer.

However, the Group wishes to go further on issues concerning respect for human rights and on 27 February 2018 it adopted a specific policy to formalise its commitment to human rights and labour rights at a national and international level. It refers to the United Nations Global Compact, the guiding principles on business and human rights and the social policy of the International Labour Organisation.

The Group maintains its commitment to proper management of its employees and to ensuring compliance with their fundamental rights, eliminating any type of discrimination at work through various internal procedures and the Group's Code of Ethics and, with respect to its suppliers, through mandatory compliance with the Supplier Code of Ethics. Respect for human rights recognised in national legislation and compliance with international standards are required at all times.

Likewise, the Group declares its rejection of child labour and forced labour, committing itself to respecting freedom of association and collective bargaining, and to implementing due diligence procedures to identify risks in this area and to verify these procedures.

The MASMOVIL Group is not aware of any inappropriate behaviour or complaints concerning human rights violations.

## 6. Information related to the fight against corruption and bribery

The Group's corporate values are honesty, integrity and regulatory compliance. Therefore it has a firm commitment to the fight against corruption and bribery that resulted in the approval by the Company's Board of Directors, on 22 May 2017, of the Group's Code of Ethics, a fundamental standard for the Company and its subsidiaries, which sets out the values and principles that guide the behaviour of all those who make up the Group.

The Human Resources Area has conducted campaigns for compliance with the Code of Ethics, which has been signed by all the Group's employees, including new recruits who receive it as part of the welcome pack and who must return a signed copy which is kept by that Area.

All employees have a confidential ethics channel at their disposal through which all queries received have been evaluated and answered. A complaint was recorded through this channel in 2019 which, based on its merits, was admitted by the Compliance Officer and following the corresponding investigation the relevant measures were proposed by the Ethics Committee and subsequently adopted by Human Resources.

There have been no reports of corruption or bribery in the Group during 2019.

The policies and procedures implemented by the Group to combat corruption and bribery, in addition to the above-mentioned Code of Ethics, are the Supplier Code of Ethics, the Policy on crime prevention and to combat fraud and corruption, the Policy on offering and accepting gifts and invitations, the Anti-money laundering policy, the Protocol of actions with public administrations and political parties and the Crime Prevention Manual, all of which have been approved by the Company's Board of Directors.

The Supplier Code of Ethics includes a specific section on anti-corruption requirements which states that the supplier undertakes to adopt several of the premises stipulated in the Group's Policy on the prevention of crime, fraud and corruption.

The Group also has various internal regulations on the treatment of insider information, such as the Internal Rules of Conduct, the Procedure on conflicts of interest and related-party transactions involving the Group's directors, significant shareholders and senior management, and the Protocol on actions for managing news and rumours.

The Group has developed a criminal prevention plan where effective controls have been implemented and possible infractions detailed, and a Crime Prevention Manual. In direct relation to the above, and in accordance with Article 5.5 of the Regulations of the Company's Board of Directors, "*under the Board's supervision an internal regulatory compliance function will exist, exercised by one of the Company's internal units or departments*" and, in this respect, the Compliance Officer reports directly to the Board of Directors, on a regular basis on the degree of compliance with the internal regulatory compliance function. In this respect, and in compliance with the Group's governance standards, the Group Compliance Officer promotes a culture of regulatory compliance, transparency, ethics and internal control in all areas, with senior management's commitment, and encourages effective supervision of the Group's non-financial risks, with emphasis on the prevention of criminal risks.

In this connection and in accordance with the provisions of the Company's Board Regulations, the Compliance Officer must inform the Audit and Control Committee in the event that he receives notification of any potentially significant irregularity, particularly of a financial or accounting nature, within the Group.

In accordance with Article 31bis, paragraph 5.6 of the Criminal Code, and as an indication of the Board's commitment to the fight against fraud and corruption and to crime prevention, in 2019 the Board of Directors approved the verification of the Crime Prevention Manual by an independent external expert, which will be completed in February 2020.

Contributions to associations:

<i>Contributions to associations (in euro)</i>	<b>2019</b>	<b>2018</b>
	460,001	395,444

## **7. Information on the company**

### **7.1. Company's impact on local employment and development**

#### MASventures:

The Group is in continuous contact with innovation and digital progress. One of its main objectives is to transfer the most disruptive technology to the development of products and services that provide the best user experience for its customers. With this objective, in January 2019 MASMOVIL launched, together with Inveready, a Spanish investment group, the MASventures accelerator to promote innovative projects in the telecommunications sector and encourage entrepreneurship in Spain.

This accelerator acts as a motor for innovation in the Group and strengthens business relations with and investment in start-ups centred on the new technology sector. Thanks to this initiative, the Group, which was formed as a start-up in 2006, has implemented its open innovation strategy through a "Corporate Venturing" model.

Five projects have been accelerated in 2019, one of which has already received funding.

#### Research chairs and university scholarships:

Following the success of the programme launched in 2018, due to both the research results and the incorporation of several of the researchers into the Group's IT and Digital HUB teams, in 2019 MASMOVIL renewed its agreement with the Carlos III University of Madrid through a programme of research Chairs and five scholarships aimed at encouraging young talent and improving the experience of the Group's users:

- Three grants for studying the Group's Data infrastructures, the aim of which is to analyse network behaviour and optimise their understanding, as well as to deepen the analysis of data extracted from the customer service centres.
- Two grants for studying innovation programmes, with the aim of studying "machine learning" models applied to conversation engines, seeking new ways to enrich communication channels with customers and pursuing innovative approaches to drive improvements in the usability and performance of digital assets.

These grants provide students with everything they need to fully focus on the innovation area.

In 2019 eight professionals were taken on through the CITIUS programme of the Fundación Universidad-Empresa, aimed at helping university graduates enter the labour market.

The Group also has agreements with the King Juan Carlos I University and the Polytechnic University of Madrid for the engagement of their students by Group companies.

#### Generation Next:

In 2019 the Group entered into an alliance with Generation Next Spain, a global initiative that seeks to reduce youth unemployment through various training programmes in up to eight Spanish cities where unemployed young people are given the opportunity to find a job with intensive courses of 4 to 13 weeks, designed directly by the companies looking for workers.

#### Network deployment in rural areas:

As proof of the Group's commitment to reduce the digital divide and bring new technologies to the most isolated areas, in 2019 the Group deployed 477,000 new fibre optic dwelling units (homes accessible with this technology) in towns of less than 20,000 inhabitants across Spain. In addition, it has continued to deploy its fibre network in towns with over 20,000 inhabitants, reaching a total of 23 million serviceable homes with this technology.

In addition, reinforcing the Group's commitment at a local level, Embou Nuevas Tecnologías, S.L.U., a company wholly owned by the Group, has deployed a fibre optic network in 2019 focused on reducing the digital divide in the Aragon area, with particular emphasis on providing connectivity in sparsely populated areas where there was no network service, thus putting into practice the Group's commitment to be actively involved in reducing the "empty Spain" effect and boosting employment and the development of local commerce.

In total, connected dwelling units have increased by 10,498 in 2019, 97.48% of which are in towns with less than 500 inhabitants, and 76.05% in towns with less than 100 inhabitants.

#### Local development:

As a sign of the MASMOVIL Group's commitment towards the city council where most Group companies have their headquarters and most of their employees work, in 2019 MASMOVIL reached a collaboration agreement with the Alcobendas (Madrid) city council for the implementation of 5G technology, through which the Group has already started to provide fifth generation mobile communication services, Alcobendas being one of the first municipalities where they will be available.

#### Association or sponsorship:

The MASMOVIL Group also supports the promotion of sport through the Deporte Alcobendas Foundation. The Group has been a Member of FUNDAL (Deporte



Alcobendas Foundation) since 2018 and in June 2019 it renewed the collaboration agreement with the foundation through which it promotes healthy living activities among its employees, as well as team building activities and other events for employees.

Contributions to foundations and non-profit entities

Xfera Móviles, S.A.U. (in euro)		
Contributions to foundations and non-profit entities*	2019	2018
	19,000	23,636

\* The 2019 figures do not include material contributions to foundations, which are indicated below.

In 2019 the most significant contributions were as follows:

- 16 computers to the **NASCO Feeding Minds Foundation**, a non-governmental organisation that aims to create a network of computer classrooms in rural schools in Ghana, in order to familiarise children with digital tools and facilitate their access to information.
- **Esperanza y Alegría Foundation**, NGO dedicated to the fight against the lack of drinking water in the world. Part of the savings achieved from the elimination of plastic bottles in the company was allocated to the creation of two wells in India. The aim of this Foundation is to provide drinking water to places where access is difficult, thus reducing the risk of the population contracting water-related diseases, as well as preventing the inhabitants from having to travel long distances to access drinking water. According to a report by the Foundation, this action has helped 3,000 people to have access to drinking water. In addition, 20 people have been trained to carry out minor repairs and maintenance work on the wells. Training groups of 30 people have also been set up to provide training in environmental hygiene and diseases resulting from the consumption of contaminated water, as well as preventive measures.
- **También Foundation**, a summer sports camp for people with some kind of disability. During the summer of 2019, an inclusive diversity camp was held in which sporting activities were adapted to the needs of children with some kind of physical disability and their families, with the Group's collaboration. Three terminals were also donated with the aim of encouraging participation in the solidarity race carried out to promote and publicise social inclusion through sport. In addition, the race and the Foundation's work were promoted through social networks and internal communication.
- Six terminals to the **GMP Foundation** to promote the 20th Solidarity Paddle-Ball Tournament, the profits from which went to a project to promote the empowerment of women with intellectual disabilities thanks to **Down España**.
- **Trezeluces solidarity event** that collects funding for the **Meniños Foundation** which carries out actions for the protection of adolescents and children.

- The Group donated three terminals for the solidarity raffle of the **Tecnonavidad event**, organised by journalists from the telecommunications sector to raise funds for NGOs to help children.
- Design and creation of the website for the **CREATE Foundation** devoted to the research, development and implementation of experimental methodologies and tools with the educational community for use in schools and other education-related areas, as well as the development of the corporate identity of two of the Foundation's projects: Efecto 21 and Playing CODE.

## 7.2. Suppliers

Supply chain management is important for the proper functioning of the Company and the various companies that make up the Group. In this respect, the Group's suppliers are committed to adopting the principles and values set out in the Code of Ethics and are responsible for adhering to the Supplier Code of Ethics, which sets out the various criteria that suppliers must meet in relation to:

- Human rights: reject any kind of forced labour, employment of child labour, promote non-discrimination and equal opportunities, respect freedom of expression at all times, etc.
- Labour rights: all workers hired by a supplier or subcontractor must have a contract in accordance with applicable labour laws at all times, and the supplier must not engage in any unlawful practices;
- Health and Safety: The supplier will ensure the protection of its workers by providing health and safety information and training including emergency and first aid situations, providing workers with adequate protective equipment, etc.
- Corruption and bribery compliance: through adherence to the terms of the Group's Crime Prevention, Fraud and Corruption Policy; and
- Environmental and sustainability aspects: the supplier undertakes to have an environmental management system that includes objectives and measurement parameters (such as those provided for in ISO14001 or an equivalent standard), and will also assume responsibility for reducing the negative impact of its operations on the environment and for making efforts to maintain and increase biodiversity and limit water consumption, especially in resource-poor areas, etc.

At a meeting held on 27 September 2018, the Board of Directors approved an amendment to the Group's Procurement Policy aimed at implementing a global framework for the control and management of the risks resulting from equipment and material purchases, as well as the contracting of work and services throughout the Group.

As stipulated in the Policy, the Procurement Department is responsible for maintaining an active relationship with suppliers and ensuring control of the risks associated with them. The Area that requests a service or product is responsible for monitoring compliance with contractual conditions and service level agreements, where applicable.

In accordance with this policy, all suppliers working with MASMOVIL must be approved. This process is managed using an external tool through which the following documentation is requested: adhesion to the Supplier Code of Ethics, financial statements for the last two years, certificate of good standing with the Social Security and the Tax Administration, and personnel breakdown, among others.

As part of the approval process, in addition to the documentation requested, the Procurement Department carries out a qualitative evaluation which in some cases includes visits to the suppliers' facilities, particularly in the cases of staff-intensive suppliers and/or those with a potential environmental impact.

A total of 555 suppliers were assessed in 2019 (compared to 285 in 2018), of which 367 were approved (247 in 2018) as meeting all the social and environmental criteria established by the Group and described in its policies and plans.

Following the acquisitions of companies and businesses during 2019, the Group carried out a supplier analysis process that allowed it to check coincidences with existing suppliers and evaluate the remaining suppliers.

### **7.3. Customers**

The Group is determined to continue having the most highly satisfied customers in the market, for which it considers it essential to offer the best service and continuous customer care, answering their demands and suggestions.

In line with the desire to continue building long-term satisfaction, the Group set a company objective for 2019 to improve the customer experience in its mobile and convergent services. This goal was implemented via a cross-disciplinary programme involving the Company's technical, administrative and commercial areas, and by setting an objective to reduce the incident rate per customer per month.

This quality assurance programme has launched and implemented more than 100 initiatives aimed at improving the reliability of administrative processes for registration, rate change and billing, as well as the provision of both fixed and mobile network services.

The results of the programme have exceeded expectations with a reduction of over 50% in the number of cases managed by the customer care services from January to December and a significant reduction in the response time to these incidents.

Information security and personal data protection, i.e. our customers' privacy, is a key issue for the Group.

Anticipating the European data protection regulations, the Group approved a Privacy and Personal Data Protection Policy on 20 December 2017, the purpose of which was to process personal data correctly and transparently, requesting only strictly necessary and appropriate data and keeping the data for the requisite period. This Policy was updated and revised in 2018 after the Group had adopted the new regulations.

In this respect, in compliance with Article 37 of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of individuals with regard to the processing of personal data and on the free movement of such data

("GDPR"), in April 2018 the Group appointed a Data Protection Officer ("DPO") for all Group companies and in 2019 the Board of Directors, at a meeting held on 27 June 2019, agreed to externalise the functions and responsibilities attaching to the DPO, appointing a firm of recognised experience and prestige to carry out these functions. This appointment, with effect from 1 November 2019, was duly reported the Spanish Data Protection Agency ("AEPD") on 12 November 2019.

The advantages of outsourcing the DPO function may be summarised as follows:

- Ensuring the DPO's independence within society.
- Working with an external firm of recognised prestige to handle DPO functions.
- Ensuring that adequate resources and professionals with experience and specialised knowledge, updated to include the latest interpretations, are at the Company's disposal at all times to guarantee that these functions are correctly performed.
- Management of risks derived from confidentiality.
- The outsourcing of DPO functions to a firm of recognised prestige transmits certainty to the market and to stakeholders, and facilitates dialogue with the authorities.

In accordance with Article 39 of the GDPR, the DPO has been assigned the functions that are provided for in said Regulation and in the applicable legislation, as well as others allocated thereto internally. These functions have been approved by the Group's internal bodies and reported to the Company's Board of Directors.

#### Approval of the LOPDGDD

Following the approval of Organic Law 3/2018 of 5 December on the Protection of Personal Data and Guaranteeing of Digital Rights ("LOPDGDD"), the aim of which is to adapt Spanish legislation to the GDPR, various measures were designed to inform and train the organisation in relation to the new developments brought in by said Law.

#### **7.3.1. Satisfaction**

Knowing the degree of customer satisfaction is essential for the Group. To this end, studies are carried out for each of its brands to evaluate customer satisfaction on a general level and on a specific level for different factors, with the aim of detecting areas for improvement. These studies are carried out on a quarterly basis, analysing the customers of the different brands: Yoigo, MASMOVIL, Pepephone and Llamayá.

In the studies carried out in 2019, all the Group's brands continue to be leaders in customer satisfaction within their segment. In addition, customer satisfaction has evolved positively with respect to the levels observed in 2018, as all the brands maintain or improve their results despite the fact that the rates were already very high in the previous year. Specifically, according to the results of the studies carried out in 2019, 87% of Yoigo's clients were satisfied or very satisfied (result on a par with 2018), 83% of MASMOVIL's clients were satisfied or very satisfied (80% in 2018) and 96% of Pepephone's clients were satisfied or very satisfied (95% in 2018).

This means that the Group continues to be the leader in customer satisfaction and, more importantly, it has improved on the previous year.

In the business segment, the Group has a different process for measuring satisfaction by means of an automatic survey in which, at the end of the call, customers rate the service received and the degree of resolution.

### 7.3.2. Customer service

The Group offers the customers of all its brands their own agent-assisted service. However, various automatic or self-service channels are also available to customers, like the website, e-mail and other channels. This customer service is free of charge, with no access or administration fees in all the brands.

In parallel with the growing importance of digital channels, the telephone service continues to evolve with continuous improvement initiatives to provide customers with a fast, efficient service that meets their expectations. To this end the response schedule has been extended in all brands, some of them as much as 24 hours a day, 7 days a week, to handle any incidents, information requests or changes in the service.

In addition, the Group has specific platforms for managing customer cancellations through which it seeks to understand their reasons for leaving the Group in order to continuously improve service and, if possible, avoid such cancellations.

Certain services have been broadened in some of the Group's brands:

- MASMOVIL: it has a free customer text service (SMS) and a mobile application that is in the process of being updated.
- Yoigo: it also has a customer texting service and an application. In addition, Yoigo has exclusive stores through which it provides direct and personalised customer service.
- Pepephone: it has a brand application.

In the Business segment, customers also have free telephone and e-mail support. In the specific case of cable operators, they also have a self-management website.

### 7.3.3. Complaints

The Group has a deep commitment to its customers and to offering the best service in the telecommunications market. To this end, it relies on the mechanisms mentioned above (satisfaction surveys and permanent and free customer service), as well as an accessible and effective complaints/claims procedure.

All the Group's brands have a complaint system that follows the same process. Customers are entitled to report any incident or disagreement with any of the services contracted through the telephone customer service, at any time, as well as the coverage of any official body such as consumer offices, arbitration boards, the State Secretariat for Digital Advancement, etc.

The customer service complaints department receives all incidents and/or disagreements, and is responsible for recording each complaint received in the Group's internal system. Thanks to this system, the Group controls the entry, resolution times and settlement of each of the complaints registered.

The Group deals with complaints through various channels, including e-mail (the most frequent), registered mail, the website of each of the official bodies mentioned above and by telephone. However, in order to improve the quality of service, the Group is implementing online communication within each of the customers' private areas.

Number of claims and complaints received

<b>Complaints, Consumer Area</b>	<b>2019</b>	<b>2018</b>
<b>Total number of complaints</b>	150,684	156,284
<b>Number of successfully resolved complaints</b>	110,597	128,586

*\*Yoigo, MASMOVIL, Pepephone*

<b>Complaints, Business Area and Cable Operators</b>	<b>2019</b>	<b>2018</b>
<b>Total number of complaints</b>	8,740	8,900
<b>Number of complaints terminated at the year end</b>	8,481	8,655

**7.3.4. Responsible advertising and consumption**

In line with its values and following the principles set out in its policies, the Group ensures the transparency of its products and services. The same transparency principle is applied in the implementation of responsible advertising through a control procedure using the copy advice provided by Autocontrol.

In 2019 only two claims against MASMOVIL by individuals were received from Autocontrol, both referring to publications in the Facebook social network in the accounts of Online Distributors and not in the official account managed by MASMOVIL where the practice has been appropriate over the entire period. MASMOVIL responded to the organisation, also asking the distributors in the first instance to correct the communication.

Similarly, all the Group's brands promote the responsible use of technology in communication channels with their customers and non-customers.

The Group uses its social networks on a daily basis to illustrate and educate customers and followers on the use of responsible applications ("Apps") and the benefits they bring to customers. A clear example of this was the promotion in January 2019 in MASMOVIL's Blog of the application "*Today!*", an App aimed at helping students to prepare their final exams and measure their study times.

In the case of Yoigo, its blog is the preferred channel for offering advice on the digital world in the different sections on "guides and tutorials", "technology", "entertainment" and "Internet", so that customers and non-customers know their advantages and risks.

**7.3.5. Clear rates**

The Group's priority is to ensure predictability for customers in their bills and it therefore applies the principles of clarity, transparency and communication with customers.

At Yoigo, all convergent and contract rates have unlimited minutes and data speed is automatically reduced when customers finishes their data credit. Previously, they receive various consumption warnings. Rates also have roaming control, i.e. when a customer leaves the agreement area traffic is automatically blocked until the customer gives

explicit permission after being informed of the relevant roaming rates. Customers also have all the information they need on the website and in the App.

MASMOVIL also has unlimited minutes and automatic data speed reduction in all its convergent rates. The brand's main focus is for customers to receive the same bill every month, and therefore promotions are minimised. As with Yoigo, customers can consult the website and App for matters related to the services provided.

In the case of Pepephone, long-standing customers receive rate improvements such as gigabyte increases or free SMS without any impact on price and without the need for a request to be made. In fact, this year it has been a pioneer in the market by reducing prices for converging customers based on the number of years they have been with the brand, as a reward for their loyalty.

In the case of business customers, both companies and cable operators have sales professionals assigned to them to resolve any doubts concerning their rates.

#### 7.4. Tax information

In 2019, the Group fulfilled its tax obligations as a listed company.

	2019	2018
<b>Profits (thousand euro)</b>	93,212	60,504 (**)
<b>Corporate income taxes paid* (thousand euro)</b>	4,880	6,849
<b>Public grants received (thousand euro)</b>	1,290	669

\*Corporate income tax (advance corporate income tax for 2019).

\*\* Data restated under IFRS 16

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Content required by law

General area		GRI Standards listed	Critical materiality	Reference to the chapter where reported	Reason for omission	External verification (Y/N)
Business model	Brief description of the group's business model (business and organisational context)	102-2 Activities, brands, products and services	S	1.2 Business model		S
	Geographical presence	102-4 Location of operations		1.2.1 Areas of activity		
Organisation's objectives and strategies	102-6 Markets served	1.2.2 Organisation and structure				
Main factors and trends that could affect its future development						
General	Reference in the report to the national, European or international reporting framework used for the selection of key non-financial performance indicators under each of the headings			About this report		S
Management approach	Description of the policies applied by the group in relation to these issues, including due diligence procedures applied in the identification, assessment, prevention and mitigation of risks and significant impacts, and in verification and control, including the measures that have been adopted.	103-1 Explanation of the material topic and its boundary		2. Management of non-financial matters		S
	Policy outcomes, including relevant non-financial key outcome indicators that allow progress to be monitored and assessed and that favour comparability between companies and sectors, in accordance with national, European or international reference frameworks used.	103-2 The management approach and its components	2.4 Struggle against corruption and bribery			
	The main risks related to these issues and linked to the group's activities, including, when relevant and proportionate, its business relations, products or services that could have negative effects in these areas, and how the group manages said risks, explaining the procedures used to detect and evaluate them in accordance with national, European or international reference frameworks for each topic. Information must be included on any impacts detected, offering a breakdown of these impacts, in particular concerning the main short, medium and long term risks	102-15 Key impacts, risks, and opportunities	3. Society			
			4. Social and personnel-related matters	S		
			5. Environment			
			6. Human rights			
			2.1.1 Main risks	S		

		GRI standards related in whole or in part	Critical materiality	Reference to the chapter where reported	Reason for omission	External verification (Y/N)	
Environmental matters	Environmental management	Current and foreseeable effects of the company's activities on the environment and, if appropriate, health and safety	N	N/A	The activity of the MASMOVIL Group does not have any significant environmental impact. Even so, management of these aspects and their indicators are reported		
		308-2 Negative environmental impacts on the supply chain and measures taken					
		Environmental evaluation or certification procedures		308-1 New suppliers that were screened using environmental criteria		5. Environment	S
		Resources devoted to environmental risk prevention		N/A		N/A	
		Application of the precautionary principle		102-11 Precautionary principle or approach		N/A	
		Amount of provisions and guarantees for environmental risks	N/A	N/A			



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Pollution	Measures to prevent, reduce or repair carbon emissions that seriously affect the environment (including noise and light pollution)	305-1 Direct GHG emissions (Scope 1) 305-2 Energy indirect GHG emissions (Scope 2) 305-3 Other indirect GHG emissions (Scope 3) 305-6 Emissions of ozone-depleting substances (ODS) 305-7 Nitrogen oxides (NOX), sulphur oxides (SOX) and other significant air emissions	N/A		
	Circular economy and waste prevention and management	Prevention, recycling, reuse, other forms of recovery and waste disposal measures	306-2 Waste by type and disposal method	5.3 Circular economy: waste management	
		Actions to combat food waste	N/A	N/A	
	Sustainable use of resources	Water consumption and water supply in accordance with local constraints	303-1 Water withdrawal by source 303-3 Recycled water	N/A	
		Consumption of raw materials	301-1 Materials used by weight or volume	5.2 Consumption	
		Measures taken to improve energy efficiency	302-4 Reduction in energy consumption 302-5 Reduction in energy requirements of products and services	5. Environment	
		Direct and indirect energy consumption	302-1 Energy consumption within the organisation 302-2 Energy consumption outside the organisation 302-3 Energy intensity	5.2 Consumption	S
		Measures taken to improve energy efficiency	302-4 Reduction in energy consumption 302-5 Reduction in energy requirements of products and services	5.2 Consumption	S
		Use of renewable energies	302-1 Energy consumption within the organisation	5. Environment	
	Climate change	Major elements of greenhouse gas emissions generated as a result of the company's activities, including the use of the goods and services it produces	201-2 Financial implications and other risks and opportunities due to climate change 305-1 Direct GHG emissions (Scope 1) 305-2 Energy indirect GHG emissions (Scope 2) 305-3 Other indirect GHG emissions (Scope 3) 305-4 Intensity of GHG emissions	N/A	
		Measures taken to adapt to the consequences of climate change;	201-2 Financial implications and other risks and opportunities due to climate change	N/A	S
		Medium- and long-term reduction goals set voluntarily for greenhouse gas emissions and the means used to achieve them.	305-5 Reduction of emissions	N/A	
Protection of biodiversity	Measures taken to preserve or restore biodiversity	304-3 Protected or restored habitats	N/A	S	
	Impacts caused by activities or operations in protected areas	304-2 Significant impacts of activities, products, and services on biodiversity 303-2 Water sources significantly affected by withdrawal of water 306-5 Water bodies affected by water discharges and/or runoff	N/A		

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		GRI standards related in whole or in part	Critical materiality	Reference to the chapter where reported	Reason for omission	External verification (Y/N)	
Social and personnel-related matters	Employment	Total number and distribution of employees by gender	102-8 Information on employees and other workers 405-1 Diversity in governing bodies and employees 401-1 New employee hires and employee turnover	S	4. Social and personnel-related matters	S	
		Total number and distribution of employees by age		S	4. Social and personnel-related matters	S	
		Total number and distribution of employees by country		N/A	4. Social and personnel-related matters		S
		Total number and distribution of employees by professional category		S	4. Social and personnel-related matters		S
		Total number and distribution of types of employment contract		S	4. Social and personnel-related matters		S
		Annual average of permanent contracts by gender		S	4. Social and personnel-related matters		S
		Annual average of permanent contracts by age		S	4. Social and personnel-related matters		S
		Annual average of permanent contracts by professional category		S	4. Social and personnel-related matters		S
		Annual average of temporary contracts by gender		S	4. Social and personnel-related matters		S
		Annual average of temporary contracts by age		S	4. Social and personnel-related matters		S
		Annual average of temporary contracts by professional category		S	4. Social and personnel-related matters		S
		Annual average of part-time contracts by gender		S	4. Social and personnel-related matters		S
		Annual average of part-time contracts by age		S	4. Social and personnel-related matters		S
		Annual average of part-time contracts by professional category		S	4. Social and personnel-related matters		S
		Number of dismissals by gender		S	4. Social and personnel-related matters		S
		Number of dismissals by age		S	4. Social and personnel-related matters		S
		Number of dismissals by professional category		S	4. Social and personnel-related matters		S
		Wage gap	405-2 Ratio of basic salary and remuneration of women to men	S	4. Social and personnel-related matters		S
		Remuneration for the same posts or the company's average remuneration	102-38 Total annual compensation ratio 102-39 Percentage increase of total annual compensation ratio 405-2 Ratio of basic salary and remuneration of women to men 201-3 Defined benefit plan obligations and other retirement plans	S	4. Social and personnel-related matters		S

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	Average remuneration of Board directors (including variable remuneration, per diems, indemnities, payments to long-term pension schemes and any other remuneration) by gender		S	4. Social and personnel-related matters		S
	Average remuneration of executives (including variable remuneration, per diems, indemnities, payments to long-term pension schemes and any other remuneration) by gender		S	4. Social and personnel-related matters		S
	Implementation of right to disconnect policies		N	4.1 Talent development		S
	Employees with disabilities	405-1 Diversity in governing bodies and employees	N	4. Social and personnel-related matters		S
Work organisation	Organization of working time	403-2 Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities	N	4. Social and personnel-related matters	The MASMOVIL Group's activity does not involve significant health risks for its employees	S
	Number of hours of absenteeism		N	4. Social and personnel-related matters		S
	Measures to facilitate a work-life balance and encourage the co-responsibility of both parents	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees 401-3 Parental leave	N			S
Health and safety	Health and safety at work conditions	403-2 Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities 403-3 Workers with high incidence or high risk of diseases related to their occupation	N	4. Social and personnel-related matters	The MASMOVIL Group's activity does not involve significant health risks for its employees.	S
	Number of accidents at work by gender		N	4. Social and personnel-related matters		S
	Rate by gender		N	4. Social and personnel-related matters		S
	Rate of seriousness by gender		N	4. Social and personnel-related matters		S
	Professional illnesses by gender		N	N/A		S
Labour relations	Organisation of social dialogue, including procedures to inform, consult and negotiate with personnel	403-1 Workers' representation in formal worker-employer health and safety committees	N	There is no record of the creation of a formal worker-employer committee.		S
	Percentage of employees covered by a Collective Agreement by country	102-41 Collective bargaining agreements	N	All the Group's employees are covered by different collective agreements depending on the region: Collective Agreement for Office Workers of the Madrid Autonomous Region, Barcelona and Guipúzcoa and the Collective Agreement for Consultancies		S
	Main content of the collective agreements, particularly in relation to occupational health and safety	403-4 Health and safety topics covered in formal agreements with trade unions	N			S

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	Training	Training policies implemented	404-2 Programmes for upgrading employees' skills and transition assistance programmes	S	4.2 Internal employee training	S	
		Total training hours by professional category	404-1 Average hours of training per year per employee	S	4.2 Internal employee training	S	
	Equality	Measures adopted to promote equal treatment and opportunities for women and men	401-3 Parental leave				
			405-1 Diversity in governing bodies and employees 405-2 Ratio of basic salary and remuneration of women to men	S	4. Social and personnel-related matters	S	
		Equality plans (Chapter III of Organic Law 3/2007 of 22 March on the effective equality of women and men), measures taken to promote employment, sexual and gender harassment protocols	405-1 Diversity in governing bodies and employees	S	4. Social and personnel-related matters	S	
			Integration and universal accessibility for disabled persons	405-1 Diversity in governing bodies and employees	N	4. Social and personnel-related matters	S
	Policy against all types of discrimination and, where appropriate, diversity management policy	406 Incidents of discrimination and corrective actions taken	S	4. Social and personnel-related matters	S		

		GRI standards related in whole or in part	Critical materiality	Reference to the chapter where reported	Reason for omission	External verification (Y/N)
Information on respect for human rights	Application of human rights due diligence procedures	102-16 Values, principles, standards and norms of behaviour 102-17 Advisory mechanisms and ethical concerns 410-1 Security personnel trained in human rights policies or procedures 412-1 Operations that have been subject to human rights reviews and/or impact assessments 412-2 Employee training in human rights policies or procedures 412-3 Significant investment agreements and contracts containing human rights clauses or subject to human rights evaluations	N	6. Human rights	As the activities of MASMOVIL Group are limited to Spain, issues relating to respect for human rights are not a material matter for the Group. In the European Union both the abolition of forced or child labour and respect for freedom of association are strongly monitored and guaranteed. These issues are therefore limited to properly managing employees and ensuring compliance with their fundamental rights	S
	Prevention of risk of violation of human rights and, where appropriate, measures to mitigate, manage and redress any abuses committed		N	6. Human rights		S
	Complaints about cases of violation of human rights	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk 408-1 Operations and suppliers at significant risk for incidents of child labour 409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour	N	N/A		S
	Promotion and fulfilment of the provisions of the fundamental conventions of the ILO relating to freedom of association and the right to collective negotiation	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	N	6. Human rights		S

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	408-1 Operations and suppliers at significant risk for incidents of child labour				
	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour				
Elimination of discrimination in employment and occupation		N	4. Social and personnel-related matters		S
Elimination of forced or compulsory labour		N	N/A		S
Effective abolition of child labour		N	N/A		N

		GRI standards related in whole or in part	Critical materiality	Reference to the chapter where reported	Reason for omission	External verification (Y/N)	
Information related to the fight against corruption and bribery	Measures taken to prevent corruption and bribery	102-16 Values, principles, standards and norms of behaviour 102-17 Advisory mechanisms and ethical concerns 205-1 Operations assessed for risks related to corruption	S	2.4 Struggle against corruption and bribery		S	
	Measures to combat money laundering	205-2 Communication and training on anti corruption policies and procedures	S	2.4 Struggle against corruption and bribery		S	
	Contributions to foundations and nonprofit entities	201-1 Direct economic value generated and distributed	N	N/A		S	
		GRI standards related in whole or in part	Critical materiality	Reference to the chapter where reported	Reason for omission	External verification (Y/N)	
Information on the company	Company's commitments to sustainable development	Impact of the company's activities on local employment and development	413-1 Operations with local community involvement, impact evaluations, and development programmes 203-1 Infrastructure investments and services supported 203-2 Significant indirect economic impacts	N	4. Social and personnel-related matters		S
		Impact of the company's activities on local populations and on the territory	413-2 Operations with significant actual and potential negative impacts on local communities	N	N/A		S
		Relations and modes of dialogue with members of local communities	102-43 Approach to stakeholder engagement 413-1 Operations with local community involvement, impact evaluations, and development programmes	S	2.2 Stakeholder relations		S
	Subcontracting and suppliers	Initiatives with associations or sponsorships	203-1 Infrastructure investments and services supported 102-12 External initiatives 102-13 Membership of associations	N	N/A		S
		Inclusion in the procurement policy of social, gender equality and environmental matters	308-1 New suppliers that were screened using environmental criteria 414-1 New suppliers that were screened using social criteria	S	3.1 Suppliers		S
	Consideration of the social and environmental responsibility of suppliers and subcontractors		S	3.1 Supplier relations		S	

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		Oversight systems, audits and related findings	308-2 Negative environmental impacts on the supply chain and measures taken 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk 408-1 Operations and suppliers at significant risk for incidents of child labour 409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour 414-2 Negative social impacts on the supply chain and measures taken	N	3.1 Supplier relations 5. Environment		S
Consumers		Consumer health and safety measures	416-1 Assessment of the health and safety impacts of product and service categories 417-1 Requirements for product and service information and labelling	S	3.2 Customers		S
		Complaints system	416-2 Instances of non-compliance relating to health and safety impacts of product and service categories 418-1 Claims concerning breaches of customer privacy and loss of customer data	S	3.2.3 Complaints		S
		Complaints received and solutions		s	3.2.3 Complaints		S
Tax information		Profits obtained by country	201-1 Direct economic value generated and distributed	S	3.3 Tax information		S
		Income tax paid		S	3.3 Tax information		S
		Government grants received	201-4 Financial assistance received from the government	S	3.3 Tax information		S

**CORPORATE GOVERNANCE ANNUAL REPORT  
FOR LISTED COMPANIES**

**ISSUER IDENTIFICATION DATA**

END DATE OF REFERENCE YEAR 31/12/2019

Corporate Tax Id  
(C.I.F.) A20609459

Company Name: **MASMOVIL IBERCOM, S.A.**

Registered Address: Parque Empresarial Zuatzu, Edificio Easo, 2ª Planta, 20018 San Sebastián (Guipúzcoa).

<b>CORPORATE GOVERNANCE ANNUAL REPORT FOR LISTED COMPANIES</b>
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**A OWNERSHIP STRUCTURE**

A.1 Complete the following table on the company's share capital:

<b>Date of the last amendment</b>	<b>Share capital (€)</b>	<b>Number of shares</b>	<b>Number of voting rights</b>
7/05/2019	2,634,291.30	131,714,565	131,714,565

<b>Comments</b>
<p>The following changes to the share capital of Másmóvil took place during 2019:</p> <p>- <u>28 March 2019</u>: the Company's Board of Directors approved a capital increase by means of monetary contributions for a nominal amount of €130,081.30, by issuing and putting into circulation 6,504,065 shares with a nominal value of €0.02 each, with a share premium of €18.43 for each new share issued, excluding the shareholders' pre-emptive subscription right. This increase was subscribed and paid up in full by PLT VII MAS, S.a.r.l.</p> <p>The aforementioned increase was approved by the Board of Directors of Másmóvil under the delegation of authority granted by the Ordinary General Shareholders' Meeting held on 22 June 2017.</p> <p>- <u>3 May 2019</u>: the Company's Board of Directors approved a capital increase by means of monetary contributions for a nominal amount of €100,000, by issuing and putting into circulation 5,000,000 shares with a nominal value of €0.02 each, with a share premium of €19.98 for each new share issued, excluding the shareholders' pre-emptive subscription right. This increase was fully subscribed and paid for by BNP Paribas Arbitrage S.N.C. and Barclays Bank PLC</p> <p>The aforementioned increase was approved by the Board of Directors of Másmóvil under the delegation of authority granted by the Ordinary General Shareholders' Meeting held on 22 June 2017.</p>



Indicate whether there are different classes of shares with different associated rights:

Yes  No

Class	Number of shares	Nominal unit	Unit number of voting rights	Rights and obligations that are conferred

Comments
-

A.2 Detail the direct and indirect holders of significant shareholdings at the end of the financial year, excluding the directors:

Name or company name of the shareholder	% voting rights allocated to the shares		% voting rights through financial instruments		Total % of voting rights
	Direct	Indirect	Direct	Indirect	
CARMEN YBARRA CAREAGA	0.08%	13.203%			13.284%
PEP VII-A INTERNATIONAL LIMITED		9.158%			9.158%
GARMENT PUERI S.L.		8.067%			8.067%
BLACKROCK INC.		5.210%		0.018%	5.228%
FMR LLC		4.985%			4.985%

Breakdown of the indirect stake:

Name or company name of the indirect holder	Name or company name of the direct holder	% voting rights attributed to the shares	% voting rights through financial instruments	Total % of voting rights
Carmen Ybarra Careaga	Onchena, S.L.U.	13.284%		13.284%
PEP VII-A INTERNATIONAL LIMITED	PLT VII MAS, S.a.r.l.	9.158%		9.158%
Indumenta Pueri, S.L.	Global Portfolio Investments, S.L.	8.067%		8.067%
FMR LLC	FIAM Trust Co.	0.634%		0.634%
FMR LLC	FMR Co, Inc.	2.708%		2.708%
FMR LLC	FIAM LLC	0.189%		0.189%
FMR LLC	FMR Management & Research Ltd	0.115%		0.115%

FMR LLC	FMR Investment Management UK	1.339%		1.339%
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Indicate the most significant movements in the shareholding structure during the financial year:

<b>Most significant movements</b>
<p>During the financial year 2019, the most significant movements in the shareholding structure were as follows:</p> <ol style="list-style-type: none"> <li>1) The increase in the stake of the shareholder PLT VII MAS, S.a.r.l., as a result of the subscription and payment of 6,504,065 shares with a par value of €0.02 euros, in the capital increase by monetary contributions approved by the Board of Directors on 28 March 2019 and executed in a public deed on 7 May 2019. As a result of the aforementioned capital increase, the indirect holder's shareholding indicated in section A.2 above (PEP VII-A INTERNATIONAL LIMITED) went from 3.29% on 31 December 2018 to 9.158% on 31 December 2019.</li> <li>2) The repurchase by the Company of all the 1,650 securities convertible into Company own shares, which were issued by virtue of a resolution of the Extraordinary General Shareholders' Meeting of Másmóvil on 16 August 2016, which were initially subscribed by PLT VII HOLDCO, S.à r.l. and subsequently transferred to its wholly-owned subsidiary, PLT VII MC, S.à r.l.</li> <li>3) The increase in the indirect shareholding of Blackrock Inc. at 31 December 2019 produces an indirect shareholding of 5.21%.</li> <li>4) The sale of the entire share capital of Másmóvil, from the shareholder NS Servicios Especializados de Comunicación S.L. (Gala Growth Properties), which held a significant stake of 4.28% at 31 December 2018.</li> </ol>

A.3 Complete the following tables on the members of the company's board of directors who hold voting rights over company shares:

Name or company name of the director	% voting rights attributed to the shares		% voting rights through financial instruments		Total % of voting rights	% voting rights <u>that can be transferred</u> through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
Key Wolf, S.L. (Jose Poza Sanz)	5.017%				5.017%		
Josep María Echarri Torres	0.003%	2.075%			2.078%		
Meinrad Spenger	0.898%				0.898%		
Eduardo Díez-Hochleitner Rodríguez	0.16%				0.16%		
Borja Fernández Espejel	0.036%	0.001%			0.037%		
Rafael Domínguez de la Maza	0.029%				0.029%		
Pilar Zulueta de Oya	0.004%				0.004%		
Rafael Canales Abaitua	0.001%				0.001%		
John C. Hahn	0%				0%		
Felipe Fernández Atela	0%				0%		
Nathalie-Sophie Picquot	0%				0%		
Cristina Aldámiz-Echevarría González de Durana	0%				0%		

<b>Total % of voting rights held by the Board of Directors</b>	<b>8.224%</b>
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<b>Comments</b>

**Breakdown of the indirect shareholding:**

<b>Name or company name of the director</b>	<b>Name or company name of the direct holder</b>	<b>% voting rights attributed to the shares</b>	<b>% voting rights through financial instruments</b>	<b>Total % of voting rights</b>	<b>% voting rights that can be transferred through financial instruments</b>
Mr. Josep María Echarri Torres	Inveready Seed Capital, S.C.R., S.A.	1.771%		1.771%	
Mr. Josep María Echarri Torres	Inveready Evergreen, S.C.R., S.A.	0.165%		0.165%	
Mr. Josep María Echarri Torres	Inveready Capital Company, S.L.	1.771%		0.127%	
Mr. Josep María Echarri Torres	The Nimos Holding, S.L.	0.012%		0.012%	

A.4 Indicate any family, commercial, contractual or corporate relationship between holders of significant shareholdings, insofar as they are known to the company, unless they are scarcely relevant or arise from the ordinary course of business, except for those reported in section A.6:

<b>Name or company name that are related</b>	<b>Type of relationship</b>	<b>Brief description</b>
-	-	-

A.5 Indicate any commercial, contractual or corporate relationships between holders of significant shareholdings and the company and/or its group, unless they are scarcely relevant or arise from the ordinary course of business:

<b>Name or company name that are related</b>	<b>Type of relationship</b>	<b>Brief description</b>
PEP VII-A INTERNATIONAL LIMITED (PLT VII MAS S.à r.l.)	Contractual	Under the agreements signed on 29 March 2019 between Másmóvil and Providence (PLT VII MAS, S.a r.l. and PLT VII MC, S.à r.l.), in connection with the repurchase by Másmóvil of the 1,650 negotiable securities held by PLT VII MC, S.à r.l. and the subscription and payment by PLT VII MAS, S.a r.l. of 6,504.065 shares, in the capital increase approved by the Company's Board of Directors on 28

		<p>March 2019, the aforementioned parties signed a lock-up agreement ("prohibition of sale") for the 6,504,065 shares, as well as those already held by Providence in the share capital of Másmóvil.</p> <p>Likewise, by virtue of the aforementioned agreements, Providence is entitled to appoint a member of the Board of Directors, provided that it maintains a 5% stake in the Company's capital.</p>
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A.6 Describe the relationship, unless it is of little relevance to both parties, between the significant or represented shareholders on the board and the directors, or their representatives in the case of directors that are legal entities.

Explain, if applicable, how significant shareholders are represented. Specifically, those directors who have been appointed to represent significant shareholders, those whose appointment has been promoted by significant shareholders, or those who are linked to significant shareholders and/or entities of their group, will be indicated, specifying the nature of such relationships. In particular, the existence, identity and position of board members, or representatives of board members, of the listed company who are also members of the administrative body, or their representatives, in companies that hold significant shareholdings in the listed company or in entities of the group of such significant shareholders shall be mentioned, where appropriate.

<b>Name or company name of the director or representative that is related</b>	<b>Name or company name of the related significant shareholder</b>	<b>Company name of the group company of the significant shareholder</b>	<b>Description of relationship / position</b>
Mr. Rafael Canales Abaitua	Onchena, S.L.	Onchena, S.L.	Chief Executive Officer
Mr. Rafael Domínguez de la Maza	Global Portfolio Investments, S.L.	Global Portfolio Investments, S.L.	Administrator
Key Wolf, S.L. (Mr. José Poza Sanz)	Key Wolf, S.L.	Key Wolf, S.L.	Shareholder
Mr. John Carl Hahn	PLT VII MORE SARL	PLT VII MORE SARL	Manager

Mr. Josep María Echarri Torres	Inveready Seed Capital, S.C.R. S.A.	Inveready Seed Capital, S.C.R. S.A.	Administrator and majority shareholder of the Inveready Group (Inveready Seed Capital, S.C.R., S.A., Inveready Evergreen, S.C.R., S.A., Inveready Capital Company, S.L., The Nimo's Holding, S.L.)
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A.7 Indicate whether the company has been notified of any shareholders' agreements that affect it in accordance with Articles 530 and 531 of the Capital Companies Act. If applicable, briefly describe them and list the shareholders bound by the agreement:

Yes

No

Participants of the shareholders' agreements	% of share capital affected	Brief description of the agreement	Expiry date of the agreement, if any
Onchena, S.L.U., Key Wolf, S.L., Inveready Seed Capital, S.C.R., S.A., Inveready Capital Company, S.L., Inveready Evergreen, S.C.R., S.A., The Nimo's Holding, S.L., Mr. Josep María Echarri Torres and Mr. José Manuel Alsedo Solís	20.48%	The purpose of the agreement is to syndicate the shares of the signatory partners in the Company, in order to cast their vote in the same way as Inveready Capital Company, S.L. does. (or, failing that, Key Wolf, S.L.) at the Company's General Shareholders' Meetings and other corporate bodies of the Company, for all kinds of resolutions, except for certain resolutions that are exempted from the agreement, for which the signatories are free to vote.	Indefinite. The agreement will remain in force as long as the parties hold shares in the Company.
Masmovil Ibercom, S.A. and PLT VII MAS, S.a r.l	9.158%	PLT VII MAS, S.a r.l. undertakes not to carry out, either directly or indirectly, without the prior written consent of the Company, in respect of all the shares it holds in Másmóvil, the	The expiry date of the said agreement shall be on the earliest of the following dates: (i) 365 calendar days from 7 May 2019; and (ii) 180 calendar days from the date on which MASMOVIL

		<p>following transactions (among others): offer, pledge, sell, grant any right, warrant, enter into any swap or any other agreement that transfers, in whole or in part, directly or indirectly, the economic rights of ownership of any of the shares in the Company.</p>	<p>executes any placement of new ordinary shares or securities equivalent to equity in the market, excluding the shareholders' pre-emptive rights (each of them, an <b>"Equity Increase"</b>) of at least €180 million in total (provided that in no case the lock-up period is less than 180 calendar days or more than 365 calendar days from 7 May 2019).</p>
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Indicate whether the company is aware of the existence of concerted actions among its shareholders. If so, describe them briefly:

Yes  No

If during the financial year there has been any amendment or breakage of these pacts or agreements or concerted actions, please indicate this expressly:

By means of a Significant Event of the Company of 16 January 2019, the Company notified the dissociation from the shareholders' agreement that affects 20.48% of the share capital of Másmóvil, indicated above in the first place, of Norsis Creaciones, S.L.U. and Asesoramiento y Planeamiento SL, and the linkage to this of Inveready Evergreen, S.C.R., S.A., The Nimo's Holding, S.L. and Mr. Josep María Echarri.

A.8 Indicate whether any individual or legal entity exercises or may exercise control over the company in accordance with Article 5 of the Securities Market Act. If so, identify it:

Yes  No

Name or company name
-

Comments
-

A.9 Complete the following tables on the company's treasury stock:

**At closing date of the financial year:**

Number of direct shares	Number of indirect shares (*)	Total % of share capital
83,175		0.001%

Comments
-

(\*) Through:

Name or company name of the direct holder of the shareholding	Number of direct shares
	-
<b>Total:</b>	-

Explain any significant changes during the financial year:

Explain the significant changes
-

A.10 Detail the conditions and term of the current mandate of the shareholders' meeting to the board of directors to issue, repurchase or transfer own shares.

<p>In accordance with the resolution approved by the General Shareholders' Meeting on 22 June 2017, the Company's Board of Directors is authorised to acquire the Company's own shares, either directly or through subsidiaries. Likewise, the Board is authorised to acquire shares of the Company that the latter must deliver to directors or employees of the Company, either directly or as a result of the exercise of option rights by the former. Any acquisition of own shares by the Company that is exercised within the framework of the aforementioned authorisation must be subject to the following rules:</p> <ol style="list-style-type: none"> <li>a) The derivative acquisition must take place by any of the legally established methods.</li> <li>b) The nominal value of the shares acquired may not exceed ten percent (10%) of the share capital.</li> <li>c) The acquisition price per share may not exceed the maximum price resulting from a 5% increase in the share price at the time of the transaction, nor may it be less than the minimum price resulting from a 30% discount to the share price at the time of the transaction.</li> </ol>
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d) The maximum duration of the authorisation shall be five (5) years.
e) The acquisition, including the shares already held by the Company, must not have the effect of reducing the net worth to less than the amount of the share capital plus the legal or statutory reserves.
f) The shares acquired must be fully paid up.

A.11 Estimated floating capital:

	%
<b>Estimated Floating Capital</b>	51.1%

<b>Comments</b>
-

A.12 Indicate whether there are any restrictions (statutory, legislative or otherwise) on the transfer of securities and/or any restrictions on voting rights. In particular, the existence of any type of restriction that could make it difficult to take control of the company by means of the acquisition of its shares on the market shall be reported, as well as those authorisation or prior notification regimes that, on the acquisitions or transfers of the company's financial instruments, are applicable to it by sector-specific regulations.

**Yes X**                      **No**

<b>Description of the restrictions</b>
There is a prohibition on the sale of the shares owned by PLT VII MAS, S.a r.l. for a certain period. The aforementioned lock-up commitment is explained in sections A.5 and A.7.

A.13 Indicate whether the General Shareholders' Meeting has agreed to adopt neutralisation measures in the event of a takeover bid, pursuant to the provisions of Act 6/2007.

**Yes**                       **No X**

If applicable, explain the measures approved and the terms under which the restrictions will be ineffective:

Explain the measures approved and the terms on which the inefficiency will occur
-

A.14 Indicate whether the company has issued securities that are not traded on a regulated market in the European Union.

**Yes**                       **No X**

If applicable, indicate the different classes of shares and, for each class of shares, the rights and obligations conferred.

Indicate the different types of shares
-

## **B GENERAL SHAREHOLDERS' MEETING**

B.1 Indicate and, if applicable, provide details of any differences from the minimum requirements set out in the Capital Companies Act (CCA) with regard to the quorum for the general shareholders' meeting.

Yes

No

	% of quorum different from that established in art. 193 CCA for general cases	% of quorum other than that provided for in art. 194 CCA for the special cases of art. 194 CCA
<b>Quorum required for the first call</b>	-	-
<b>Quorum required for 2nd call</b>	-	-

<b>Description of the differences</b>
-

B.2 Indicate and, if applicable, detail whether there are any differences from the regime provided for in the Capital Companies Act (CCA) for the adoption of corporate resolutions:

Yes

No

Describe how it differs from the regime provided for in the CCA.

	Reinforced majority other than that set out in Article 201.2 CCA for cases under 194.1 CCA	Other cases of reinforced majority
<b>% established by the entity for the adoption of resolutions</b>		

<b>Describe the differences</b>
-

B.3 Indicate the rules applicable to the amendment of the company's articles of the association. In particular, the majorities provided for the amendment of the articles of association shall be communicated, as well as, where appropriate, the rules provided for the protection of the rights of the members in the amendment of the articles of association.

In accordance with the provisions of Article 17 of the Articles of Association of Másmóvil, the Ordinary or Extraordinary General Shareholders' Meeting, may validly agree to increase or reduce capital and any other amendment of the Articles of Association, issue bonds, suppress or limit the preferential right to acquire new shares, as well as the transformation, merger, spin-off or global assignment of assets and liabilities and the transfer of domicile abroad, but for this it will be necessary, at first call, the concurrence of shareholders, present or represented, holding at least 50% of the subscribed capital with voting rights. Under the second call, the presence of 25% of said capital shall be sufficient.

With respect to the majority required for the amendment of the Company's Articles of Association, the provisions of Article 201 of the Capital Companies Act apply, i.e. if the capital present or represented exceeds 50%, it is sufficient for the resolution to amend the Articles of Association to be approved by an absolute majority. As an exception to the above, the favourable vote of two thirds of the capital present or represented at the Meeting will be required when shareholders representing 25% or more of the subscribed capital with voting rights but not reaching 50% attending the Meeting on the second call.

B.4 Indicate the attendance figures for the general shareholders' meetings held in the year covered by this report and those of the previous two years:

Date of the General Shareholders' Meeting	Attendance figures				Total
	% of physical attendance	% represented	% distance voting		
			Electronic voting	Other	
22/06/2017	59.39	21.05	0.00	0.00	80.44
<i>Of which floating capital</i>	6.42	4.72	0.00	0.00	11.14
04/05/2018	8.57	71.85	0.00	0.00	80.42
<i>Of which floating capital</i>	1.76	22.60	0.00	0.00	24.36
08/05/2019	19.399	59.806	0.00	0.348	79.553
<i>Of which floating capital</i>	3.35	38.16	0.00%	0.00%	41.51

Comments
-

B.5 Indicate whether at the general shareholders' meetings held during the year there were any items on the agenda that, for any reason, which were not approved by the shareholders.

Yes

No

B.6 Indicate whether there are any restrictions in the Articles of Association establishing a minimum number of shares required to attend the General Shareholders' Meeting, or to vote remotely:

Yes

No

B.7 Indicate whether it has been established that certain decisions, other than those established by Law, involving an acquisition, disposal, contribution to another company of essential assets or other similar corporate transactions, must be submitted to the approval of the General Shareholders' Meeting.

Yes

No

B.8 Indicate the address and means of access to the company's website for information on corporate governance and other information on the general shareholders' meetings that must be made available to shareholders through the company's website.

This information is available on the Másmóvil corporate website, [www.grupomasmovil.com](http://www.grupomasmovil.com), in the "Shareholders and investors" section, followed by "Corporate Governance".

## **C STRUCTURE OF THE COMPANY'S MANAGEMENT**

### C.1 Board of Directors

C.1.1 Maximum and minimum number of directors provided for in the Articles of Association and the number set by the General Shareholders' Meeting:

<b>Maximum number of directors</b>	15
<b>Minimum number of directors</b>	5
<b>Number of directors set by the general shareholders' meeting</b>	12

Comments
-

C.1.2 Complete the following table with the members of the board:

MÁSMÓVIL IBERCOM, S.A. AND SUBSIDIARIES

Consolidated management report

Name or company name of the director	Representative	Category of the director	Position on the board	Date of first appointment	Date of last appointment	Election procedure	Date of birth
Mr. Eduardo Diez-Hochleitner Rodriguez		Independent	Chairman	29/06/2015	08/05/2019	Agreement of the General Shareholders' Meeting	30/08/1955
Key Wolf, S.L.	Mr. José Poza Sanz	Proprietary	First Vice-Chairman	01/03/2017	01/03/2017	Co-option and ratified by the General Shareholders' Meeting	05/06/1972
Mr. Josep María Echarri Torres		Proprietary	Second Vice-Chairman	01/03/2017	01/03/2017	Co-option and ratified by the General Shareholders' Meeting	22/01/1976
Mr. Meinrad Spenger		Executive	CEO	30/05/2014	04/05/2018	Agreement of the General Shareholders' Meeting	07/05/1975
Mr. Felipe Fernández Atela		Independent	Director	29/06/2015	08/05/2019	Agreement of the General Shareholders' Meeting	01/03/1956
Mr. Borja Fernández Espejel		Independent	Director	04/11/2016	04/11/2016	Agreement of the General Shareholders' Meeting	25/05/1973
Mr. John C. Hahn		Proprietary	Director	04/11/2016	04/11/2016	Agreement of the General Shareholders' Meeting	09/06/1958
Ms. Pilar Zulueta de Oya		Independent	Director	04/11/2016	04/11/2016	Agreement of the General Shareholders' Meeting	08/12/1963
Mr. Rafael Canales Abaitua		Proprietary	Director	08/05/2019	08/05/2019	Co-option and ratified by the General Shareholders' Meeting	29/05/1962
Mr. Rafael Domínguez de la Maza		Proprietary	Director	08/05/2019	08/05/2019	Agreement of the General Shareholders' Meeting	25/04/1967
Ms. Nathalie-Sophie Picquot		Independent	Director	08/05/2019	08/05/2019	Co-option and ratified by the General Shareholders' Meeting	29/06/1975
Ms. Cristina Aldámiz-Echevarría González de Durana		Independent	Director	04/11/2016	27/12/2019	Co-option	22/03/1970

<b>Total number of directors</b>	12
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Indicate departures, whether due to resignation, dismissal or any other cause, from the board of directors during the period covered by the information:

<b>Name or company name of the director</b>	<b>Director's category at the time of departure</b>	<b>Date of last appointment</b>	<b>Date of departure</b>	<b>Specialist committees of which they were a member</b>	<b>Indicate if the departure has taken place before the end of the term</b>
Mr. Angel Manuel Garcia Altozano	Proprietary	04/11/2016	14/03/2019	-	Yes
Ms. Cristina Aldámiz-Echevarría González de Durana	Proprietary	04/11/2016	14/03/2019	-	Yes
Aldebarán Riesgo, S.C.R., S.A.	Proprietary	28/06/2018	07/05/2019	-	Yes
Mr. Robert Sudo	Proprietary	04/11/2016	26/12/2019	Audit and Control Committee	Yes

#### **Reason for departure and other comments**

1. Mr. Angel Manuel García Altozano and Ms. Cristina Aldámiz-Echevarría, proprietary directors representing the shareholder ACS, Actividades de Construcción y Servicios, S.A., tendered their resignation as members of the Board of Directors of Másmóvil, effective as of 14 March 2019, inclusive. The reason for their resignation was the cancellation of the Debt Recognition, Debt Assumption and Capitalisation Agreement ("Note"), on 20 November 2018, to which Masmovil Ibercom, S.A., its subsidiary Masmovil Phone & Internet, S.A.U. and ACS Telefonía Móvil, S.L. were parties. It is noted that ACS' right to appoint two members to the Board of Directors of Másmóvil was recognised in the aforementioned Note.

2. Aldebarán Riesgo, S.C.R., S.A. (proprietary director), through its representative, Mr. Antonio García Ortiz, presented its resignation as a member of the Board of Directors of Másmóvil, with effect from 7 May 2019, inclusive. The reasons for its resignation were that (i) its stake in the share capital of Másmóvil was no longer sufficient, in accordance with the right to proportional representation on the Board, to hold a seat on the Board, and (ii) the need to incorporate a director (Mr Rafael Domínguez de la Maza) representing a shareholder (Global Portfolio Investments, S.L.) with a higher percentage of capital (8.71%), who had shown their willingness to hold a seat.

3. Mr. Robert Sudo, proprietary director representing the shareholder PLT VII MAS, S.a r.l (Providence) presented his resignation as a member of the Board of Directors of Másmóvil, effective 26 December 2019, inclusive. The reason for his resignation was the repurchase by Másmóvil of all the 1,650 securities convertible into Company own shares, which were issued by virtue of a resolution of the Extraordinary General Shareholders' Meeting of

Másmóvil on 16 August 2016, and which were initially subscribed by PLT VII HOLDCO, S.à r.l. and subsequently transferred to its wholly-owned subsidiary, PLT VII MC, S.à r.l. It is noted that Másmóvil and Providence agreed that one of the two members of the Board of Directors, representing Providence, would resign within two weeks following the closing of the repurchase of the Second Tranche of the Convertible Securities, which took place on 17 December 2019. They also agreed that Providence would retain the right to appoint a member of the Board (currently, in the person of the director Mr. John C. Hahn).

C.1.3 Complete the following tables on the members of the board and their different categories:

**EXECUTIVE DIRECTORS**

Name or company name of the director	Position in the company's organisation chart	Profile
Mr. Meinrad Spenger	CEO	<p>Law degree (Graz/Austria and Trieste/Italy). He has an MBA from the Instituto de Empresa (I.E.) and the Italian Business School SDA Bocconi (Milan).</p> <p>He worked for five years as a consultant at McKinsey &amp; Company, where he held the position of Engagement Manager and gained extensive international experience in countries such as Austria, Germany, Italy and Spain and in various sectors such as telecommunications. He is the co-founder of Más Móvil Telecom 3.0, S.A. where he held the position of CEO until its integration into the current Másmóvil.</p>

<b>Total number of executive directors</b>	1
<b>% of the board total</b>	8.3

Comments

**EXTERNAL PROPRIETARY DIRECTORS**

Name or company name of the director	Name of company name of the significant	Profile

	<b>shareholder represented or who proposed their appointment</b>	
KEY WOLF, S.L. (Mr. José Eulalio Poza Sanz)	KEY WOLF, S.L.U.	<p>Degree in Computer Science from the University of the Basque Country.</p> <p>7 years as a researcher in the Faculty of Computer Science of the University of the Basque Country, 3 years as a teacher in the Faculty of Computer Science of the University of the Basque Country, 10 years as Technical Director of IBERCOM and since 2009 Manager of IBERCOM. He was CEO of Masmovil between July 2011 and October 2014 and currently holds the position first Vice President, through Key Wolf, S.L.</p> <p>Mr. Poza has been a mentor and partner of Berriup Accelerator Startups. He is currently a Director of Easo Ventures, S.C.R.</p>
Mr. Josep María Echarri Torres	Inveready Group	<p>Degree in Economics and in Actuarial and Financial Sciences, both from the University of Barcelona, and Master's Degree in Financial Management from ESADE.</p> <p>Chief Financial Officer of Oryzon from 2003 to 2007, he was previously responsible for the first comprehensive technology business creation programme developed by a Spanish administration. He is currently the Managing Director of Inveready Asset Management, S.G.E.C.R., S.A. and Chairman of the Inveready Financial Group, companies of which he has been a founding partner, and is currently its largest shareholder. He participates as a member of the Board of Directors of more than 30 technology-based companies such as Oryzon Genomics, S.A, Agile Contents, S.L., Interiorvista, S.L., Palo Biofarma, S.L. or Grupo Natac, S.L. From his position at Inveready, Josep M<sup>a</sup> has actively participated in dozens of corporate transactions, including the sale of PasswordBank Technologies, S.L. to the American group Symantec or the sale of Indisys, S.L. to the also American group Intel. Josep M<sup>a</sup> actively collaborates in the definition and implementation of the M&amp;A strategy of the Másmóvil Group.</p>



<p>Mr. John C. Hahn</p>	<p>Providence (PLT VII MAS SARL LC )</p>	<p>He received his Master's Degree of Business Administration from the Anderson School of the University of California, Los Angeles, and has a degree in Business Administration from the University of Notre-Dame.</p> <p>Mr. John C. Hahn is a senior executive officer of Providence Equity Partners, in its London corporate office. Mr. Hahn manages the company's private equity investments internationally. Mr. Hahn is a director of the companies Chime Communications, Volia (Ukraine) and UMI (India). Previously, he was a director to Digiturk (Turkey), Eircom (Ireland), Casema (Netherlands), Kabel Deutschland (Germany), Recoletos (Spain), Ono (Spain) and Com Hem (Sweden).</p> <p>Prior to joining Providence in 2000, Mr. Hahn served as an executive director at Morgan Stanley. Previously, he worked at Price Waterhouse and Federal Data Corporation.</p>
<p>Mr. Rafael Canales Abaitua</p>	<p>Onchena, S.L.U.</p>	<p>Mr. Canales holds a degree in Economics and Business Administration from the Universidad Comercial de Deusto (Bilbao), having completed postgraduate studies at the Escuela de Organización Industrial, as well as a MDP from IESE.</p> <p>He is currently CEO of Onchena, S.L.U., a family holding company. Mr. Canales has developed his professional activity in the financial sector. Since 2001 in the area of wealth management, in various management positions, first in Consulnor Servicios Financieros and later in Banca March after the acquisition of Consulnor by Banca March. Previously he worked in Corporate Banking in Argentaria - BBVA and in Manufacturers Hanover Trust Co. (currently J.P. Morgan).</p> <p>In the field of teaching, he has taught Banking, International Financing and Financial Management at ICADE (Universidad Pontificia de Comillas).</p>
<p>Mr. Rafael Domínguez de la Maza</p>	<p>Global Portfolio Investments, S.L.</p>	<p>Mr. Domínguez de la Maza holds a degree in business administration from the Instituto Internacional San Telmo and a degree in the Owner/President Management Program (OPM) from Harvard Business School.</p> <p>Entrepreneur and investor. He began his professional career in the family company Mayoral Moda Infantil, S.A.U., of which he is a partner, and manager in the design department in 1988 for 4 years. After another 4</p>

		years in production, in 1998 he moved to the sales department until he became sales director in 2000. Over the past 20 years he has led the creation of more than 15 subsidiary companies, expanding the family fashion business internationally. Since 2002 he has been combining his work with managing the family's investments outside the textile business. He currently holds the position of Deputy General Manager (COO) of Mayoral Moda Infantil, S.A.U.
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<b>Total number of proprietary directors</b>	5
<b>% of the board total</b>	41.6%

**EXTERNAL INDEPENDENT DIRECTORS**

<b>Name or company name of the director</b>	<b>Profile</b>
Mr. Eduardo Diez-Hochleitner Rodriguez	<p>Degree in Economics and Business Studies from the Universidad Autónoma de Madrid (1973-1978) and MBA from IESE in Barcelona (1980-82).</p> <p>He started his career at Dresdner Bank in Germany (1978-1980). Between 1982 and 1990 he held various positions at the Banque Nationale de Paris in Spain and France, the last one as General Manager of Banexi Spain. He was Corporate General Manager of Grupo PRISA (1990-2001), Partner for Iberia of the private equity firm Apax Partners (2002-2006). He also held several important positions within the Norwegian media group Schibsted ASA, being CEO (2010-2012) and Vice President of 20 Minutes (2007-2010 and 2012-2014), Member of the Board of Directors of Infojobs (2010-2011). He is currently a member of the Board of Directors of several companies: Samaipata Ventures SGEIC, S.A., Gawa Capital Partners, S.L., Global Impact Funds Management, Sàrl, and he has sta on those of Boolino, Promotech Digital, Diario As, Everis, Apax Partners, Radical Technologies, Bodaclick, Màs Móvil Telecom 3.0, Canalmail, Kreab Gavin Anderson Iberia, B-Side Media, Imm Sound. He is also a member of various Advisory Boards: The Global Steering Group for Impact Investment (GSG), NAB Spain, UnLtd Spain, and Friends of the Museum of Romanticism, and he has been Kreab AB, Veronis Suhler Stevenson, La Nevera Roja, among others.</p>
Mr. Felipe Fernández Atela	<p>He has a degree in Economics and Business Administration from the Complutense University of Madrid and an MBA from INSEAD in Fontainebleau, as well as postgraduate courses at various business schools (London, Harvard and Stanford).</p>

	<p>He was Chairman of EDS Iberia and Deutsche Telekom Spain, as well as Vice-Chairman of Operations for Convergys Iberia/Latam. He is currently Chairman of Experian Spain and Buongiorno Spain, a member of the Board of Directors of 3 Angle Capital and Chairman of Lapinta Ventures.</p>
<p>Mr. Borja Fernández Espejel</p>	<p>Degree in Business Administration from the Universidad Autónoma de Madrid and the Frankfurt School of Finance &amp; Management. He has also completed the Senior Executive Management Programme at INSEAD as well as other courses at IE Business School, where he was Associate Professor of Forensic Analysis of Financial Statements in the Master's Degree in Management from 2013 to 2017.</p> <p>From 2017 to 2018 he was Chief Financial Officer of Via Celere, where he led the IPO process (finally cancelled in May 2018) as well as the analysis and negotiation of several corporate transactions for an aggregate value of €3,000 million.</p> <p>In 2013 he joined Metrovacesa as Director of Finance and Strategy, as well as a member of the Management Committee and assistant to the Board of Directors and Audit Committees. Since 2013, he has managed the various restructuring and refinancing operations (aggregate value of €4,300 million), as well as recapitalization (€1,650 million), resulting in a debt reduction of €3,300 million and obtaining "Investment Grade" from S&amp;P and Moody's. He also participated in the sale of Gecina (€1,550 million) and the merger with Merlin (€2,200 million), among others.</p> <p>Previously he was Managing Director of Caser Capital Riesgo (Caser Group), where he managed several investment transactions. He was a director of the investee companies and a member of the Investment Committee of the Caser Group (€13,000 million under management). Previously, he held management positions at N+1 (currently ALANTRA), Ahorro Corporación, PwC and Dragados.</p> <p>In total, he has accumulated more than twenty (20) years of experience in Private Equity, Structured Finance, Corporate Finance and Debt &amp; Equity Capital Markets, having been involved in more than 20 transactions amounting to more than €5,700 million. He has participated in various boards and audit committees since 2004.</p>

	<p>He is currently the Corporate General Manager of Ahorro Corporación Financiera, S.A., one of Spain's leading independent investment banks.</p>
<p>Ms. Pilar Zulueta de Oya</p>	<p>Degree in Biochemistry and Molecular Biology from the Universidad Autónoma de Madrid, with a specialisation in science from Harvard University, MBA from the Instituto de Empresa and in Digital Transformation from The Valley Digital Business School. She has extensive international experience in media, consumer products, retail and innovation.</p> <p>She is currently an independent director of Everis, NTT Group, where she is a member of the Audit and Remunerations and Appointments Committee. She is also a Proprietary Director and investor in Cervezas Brabante and a member of the International Advisory Board of Instituto de Empresa (IE). She is also an independent advisor to Dorna Sports, S.L. She currently collaborates with different foundations linked to better education for girls and women in Nepal.</p> <p>In 1997 she joined Warner Bros. Consumer Products, where she has performed the following duties: General Manager for Spain &amp; Portugal (1997-1999), General Manager for Southern Europe (1999-2001) and General Manager for Europe, Middle East and Africa (2001-2015) from the London headquarters. From 1992 - 1995 she was Marketing and Sales Manager at RJ Reynolds and General Manager at WBI - RJR Nabisco Group (1992-1995). She has been a member of the Women's Leadership Advisory Council at the American Chamber of Commerce (AMCHAM) and of Professional Women Network Spain.</p> <p>At present, she collaborates with different foundations linked to better education for girls and women in Nepal.</p> <p>Ms. Zulueta is an independent director of Everis, NTT Group, where she is a member of the Audit and Remunerations and Appointments Committee. She is also a Proprietary Director and investor in Cervezas Brabante and a member of the International Advisory Board of Instituto de Empresa (IE).</p> <p>In January 2020 she joined Dorna Sports, S.L. as an independent director.</p>
<p>Ms. Nathalie Sophie-Picquot</p>	<p>Ms. Picquot holds a degree in Arts and Sciences from Cornell University (1993-1997) and a degree in Political Science from the Institute of Political Studies in Paris. In addition, she has taken executive courses in Strategy (Harvard), Counselor</p>

	<p>Course (IESE), as well as a postgraduate course at the Wharton-Twitter Business Academy.</p> <p>She has extensive international experience in different sectors and management positions. She started her career in investment banking at the Vereins und Westbank AG in Hamburg, Germany. She then became a Market Analysis Associate at Cartier International in Paris (France) and from there moved to the US to become the Marketing Manager of the International Herald Tribune. Since 1999 she has been working in the digital world, initially occupying management positions in the business development area of DoubleClick in New York from where she moved to the International Business Development Management of AdLink Internet Media AG. Between 2006 and 2017 she held various management positions at Google Spain. Since 2017 she is the General Manager of Twitter in Spain and Portugal.</p>
<p>Ms. Cristina Aldámiz-Echevarría González de Durana</p>	<p>Mrs. Cristina Aldámiz-Echevarría González de Durana has a degree in Economics and Business Administration from the University of Deusto and has extensive experience in financial and team management issues, as well as in mergers and acquisitions, mainly in international companies, participating or leading complex financial operations and a multitude of corporate transactions.</p> <p>Currently and since April 2017, Ms. Aldámiz-Echevarría is Director of Finance and Corporate Development of ACS, Actividades de Construcción y Servicios, S.A.</p> <p>Prior to joining ACS in 2002, Ms. Aldámiz-Echevarría worked in the telecommunications team of Bank of America Merrill Lynch in London as an Associate (2001 to 2002), in ONA Electroerosión, S.A. as Chief Financial Officer (1994 to 2000) and in the Lima Stock Exchange in Peru as an Analyst (1993 to 1994). Between 2007 and 2009, she was also a proprietary director of various Boards of Directors representing ACS: of Saeta Yield, S.A., a company engaged in the management of renewable assets, formerly listed on the Spanish Stock Exchange, and of Bow Power, S.L. (2015 to 2019), dedicated to the promotion and development of renewable energies, of TBI Limited (2007 to 2012), an international airport services company, and of Clece, S.A. (2012 to 2014), a service company subsidiary of the ACS Group.</p>

<b>Total number of independent directors</b>	6
<b>total % of the board</b>	50%

Indicate whether any director qualified as independent receives any amount or benefit for an item other than director's remuneration from the company, or from the same group, or

maintains or has maintained during the last financial year a business relationship with the company or with any company in its group, either in their own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained such a relationship.

No.

Where appropriate, a reasoned statement from the board shall be included as to why it considers that such a director can perform their duties as an independent director.

Name or company name of the director	Description of the relationship	Reasoned statement
-	-	-

#### **OTHER EXTERNAL DIRECTORS**

The other external directors shall be identified and the reasons why they cannot be considered as proprietary or independent and their links, either with the company, its executives or its shareholders, shall be detailed:

Name or company name of the director	Reasons	Company, manager or shareholder with whom they have a relationship	Profile
-	-	-	-

<b>Total number of other external directors</b>	-
<b>total % of the board</b>	-

Comments
-

Indicate any changes in the category of each director during the period:

Name or company name of the director	Date of change	Previous category	Current category
Ms. Cristina Aldámiz-Echevarría González de Durana	27/12/2019	Proprietary	Independent

Comments
Ms. Cristina Añdámiz-Echevarría González de Durana presented her resignation as a proprietary director, representing the shareholder ACS, Actividades de Construcción y Servicios, S.A. (the reason for her

resignation is explained in section C.1.2 of this report), effective as of 14 March 2019, inclusive.

On 27 December 2019, she was appointed as a new director, with the category of independent, by unanimous agreement of the Board of Directors, at the proposal of the Appointments and Remunerations Committee, to fill the vacancy of Mr. Robert Sudo. Her appointment will be submitted for ratification at the Ordinary General Shareholders' Meeting in 2020.

Both the Board and the Committee unanimously concluded that there were objective circumstances which made it possible to guarantee the independence of action and judgement of Ms. Aldámiz-Echevarría with respect to ACS, Actividades de Construcción y Servicios, S.A., which are briefly set forth below:

a) ACS does not hold and has never held a significant interest in the capital of Masmovil, nor has it been a controlling or reference shareholder.

b) There are no other current or foreseeable commercial or business transactions or relationships with ACS, nor are there any circumstances that might give rise to a direct or indirect conflict of interest for Ms. Aldámiz-Echevarría, in her capacity as an independent director.

c) Ms. Aldámiz-Echevarría is not subject to any of the cases of absolute prohibition to be considered as an independent director, as provided in Article 529 *duodecies*, paragraph 4, of the Capital Companies Act.

(d) Ms. Aldámiz-Echevarría is not in any other situation that would prevent her from being classified as independent or in a conflict of interest or incompatibility with the office of director.

C.1.4 Complete the following table with information on the number of female directors at the end of the last 4 years, as well as the category of such directors:

	Number of female directors				% of the total number of directors in each category			
	2019	2018	2017	2016	2019	2018	2017	2016
<b>Executive</b>	0	0	0	0	0	0	0	0
<b>Proprietary</b>	0	1	0	0	0	14.28	0	0
<b>Independent</b>	3	1	1	0	60.00	25.00	25.00	0
<b>Other External</b>	0	0	1	0	0	0	50.00	0
<b>Total:</b>	3	2	2	0	25.00	16.66	16.66	0

C.1.5 Indicate whether the company has diversity policies in relation to the board of directors of the company with regard to issues such as age, gender, disability, or professional training and experience. Small and medium-sized

entities, as defined in the Audit Act, shall be required to report, at least, on the policy they have established in relation to gender diversity.

Yes

No

Partial policies

If yes, please describe these diversity policies, their objectives, the measures and the way they have been implemented and their results in the year. The specific measures adopted by the board of directors and the appointments and remuneration committee to achieve a balanced and diverse presence of directors must also be indicated.

If the company does not apply a diversity policy, explain the reasons why it does not.

<b>Description of the policies, objectives, measures and how they have been implemented, and the results obtained</b>
<p>The policy for selecting directors was approved by the Board of Directors of Másmóvil at its meeting on 30 June 2017. The aim of this policy is to: (i) establish the procedure and criteria that the Board of Másmóvil will take into account in the selection processes of candidates regarding the appointment or re-election of the members of the Board of Directors of Másmóvil, as well as (ii) ensuring that proposals for candidates are based on a prior analysis of the needs of the Board of Directors, and encouraging diversity of knowledge, experience and gender.</p> <p>The principles on which this policy is based are as follows: (i) transparency, (ii) diversity of knowledge, gender and experience, (iii) non-discrimination and equal treatment, (iv) adequacy of skills and performance, (v) appropriate size and composition and (vi) compliance with legislation.</p> <p>During the 2019 financial year, the Appointments and Remunerations Committee and the Board of Directors have analysed the opportunity and desirability of increasing the number of female directors, in accordance with recommendation No. 14 of the Code of Good Governance of Listed Companies, regarding the objective that in 2020 the number of female directors on the administrative body should represent at least thirty (30) per cent of the total members of the Board. To this end, the number of female directors at the end of 2019, compared to 2018, has increased by one new female director, from 2 to 3, representing 25% of the total members of the Board (compared to 16.67% at the end of 2018).</p>

C.1.6 Explain any measures the Appointments Committee has adopted to ensure that selection procedures are not implicitly biased in a way that hinders the selection of female directors, and that the company deliberately seeks out and includes women with the desired professional profile among the potential candidates, in order to achieve a balanced presence of women and men:



<b>Explanation of the measures</b>
<p>In exercising its powers, the Appointments and Remunerations Committee has assessed and analysed various profiles of female directors, in view of their technical and human skills, their professional performance and experience in their areas of specialisation and the potential of their contribution to the Company, and has not incurred in any bias in proposing candidates for the Board of Directors.</p> <p>The Appointments and Remunerations Committee has verified the need to study and assess the profiles of female directors for Másmóvil and has informed the Board of Directors, within the framework of its competencies, of the criteria and objectives sought by the National Securities Market Commission in this area and, consequently, of the need and desirability of achieving the gender diversity objectives laid down in the rules of good corporate governance.</p> <p>To this end, two new independent directors have been appointed in 2019 (Nathalia-Sophie Picquot and Cristina Aldámiz-Echevarría González de Durana). At the end of 2019, the number of female directors was 3, i.e. 25% of the total number of members of the Board of Directors.</p>

When, despite the measures taken, the number of female directors is low or non-existent, explain the reasons for this:

<b>Explanation of the reasons</b>
<p>Not applicable as the number of female directors is not nil or scarce (see sections C.1.5, C.1.5 and C.2.2 of this report).</p>

C.1.7 Explain the conclusions of the Appointments Committee regarding the verification of compliance with the policy for the selection of directors. And in particular, how this policy is promoting the objective that by 2020 the number of female directors should represent at least 30% of the total members of the board of directors.

<p>The Appointments and Remunerations Committee meeting held on 28 October 2019 established the need to increase the number of female directors, by appointing a new director who also has a financial profile and who meets the requirements for independence, in order to comply with recommendation No. 17 of the Code of Good Governance for Listed Companies, which states that in large-cap companies, the number of independent directors should represent at least half of the members of the Board. It should be noted that the Company acquired such condition on 24 June 2019, when Masmóvil shares were included in the IBEX-35 stock exchange index.</p>
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For this purpose, the Company hired the services of an expert firm in the selection of directors, to search for a new member of the Board who met the three aforementioned conditions. The external firm proposed a list of three candidates, who were interviewed by various members of the Appointments and Remunerations Committee. Finally, Cristina Aldámiz-Echevarría González de Durana was unanimously proposed, and was appointed by the Company's Board of Directors, through the co-option system, on 27 December 2019, to replace Robert Sudo, who resigned as a member with effect from 26 December. The appointment of Ms. Aldámiz-Echevarría will be submitted for ratification at the Ordinary General Shareholders' Meeting in 2020.

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed at the request of shareholders whose shareholding is less than 3% of the capital:

Name or company name of the shareholder	Justification
Inveready Group (Inveready Seed Capital, S.C.R. S.A., Inveready Evergreen, S.C.R. S.A., Inveready Capital Company, S.L., The Nimo's Holding, S.L.)	<p>On the date on which Mr. Josep María Echarri Torres was appointed director of Másmovil, the group he represents held an interest of over 3%, although this stake had fallen below that percentage by the end of the year as a result of the capital increases carried out in 2019.</p> <p>Although the Inveready Group does not hold a significant stake at the end of 2019, it should be noted that it has a consolidated and historic history as a shareholder of Másmovil and can be considered one of the reference shareholders in the company's capital.</p>

State whether any formal requests for a presence on the Board have been made by shareholders whose shareholding is equal to or greater than that of others at whose request proprietary directors have been appointed. If applicable, explain the reasons why this has not been dealt with:

Yes

No

C.1.9 Indicate the powers and authorities delegated by the board of directors to directors or board committees, if any:

Name or business name of the director or committee	Brief description
Mr. Meinrad Spenger	The Chief Executive Officer has been delegated all the powers

	of the Board of Directors, except those that cannot be delegated, as indicated in articles 249. bis and 529. ter
Audit and Control Committee	They are indicated in section C.2.1
Appointments and Remunerations Committee	They are indicated in section C.2.1

C.1.10 Identify any board members who hold positions as directors, representatives of directors or executives in other companies belonging to the listed company's group:

Name or company name of the director	Company name of the group's entity	Position	Do they hold executive functions?
Mr. Meinrad Spenger	Xfera Móviles, S.A.U.	Sole Administrator	Yes
Mr. Meinrad Spenger	XTRA Telecom, S.A.U.	Natural person representative of the sole administrator (Masmovil Ibercom, S.A.)	Yes
Mr. Meinrad Spenger	Masmovil Broadband, S.A.U.	Natural person representative of the sole administrator (Masmovil Ibercom, S.A.)	Yes
Mr. Meinrad Spenger	Masmovil Infrastructures, S.L.U.	Natural person representative of the sole administrator (Masmovil Ibercom, S.A.)	Yes
Mr. Meinrad Spenger	Masmovil Investments, S.L.	Natural person representative of the sole administrator (Masmovil Ibercom, S.A.)	Yes
Mr. Meinrad Spenger	Masmovil Holdphone, S.A.U	Natural person representative of the sole administrator (Masmovil Ibercom, S.A.)	Yes

Mr. Meinrad Spenger	Masmovil Phone & Internet, S.A.U	Natural person representative of the sole administrator (Masmovil Ibercom, S.A.)	Yes
Mr. Meinrad Spenger	Pepeworld S.L.U	Natural person representative of the sole administrator (Masmovil Ibercom, S.A.)	Yes
Mr. Meinrad Spenger	Pepe Energy, S.L.	Natural person representative of the sole administrator (Masmovil Ibercom, S.A.)	Yes
Mr. Meinrad Spenger	Pepemobile S.L	Natural person representative of the sole administrator (Masmovil Ibercom, S.A.)	Yes
Mr. Meinrad Spenger	Embou Nuevas Tecnologías, S.L.U	Natural person representative of the sole administrator (Masmovil Ibercom, S.A.)	Yes
Mr. Meinrad Spenger	Netllar, S.L.U.	Sole Director	Yes
Mr. Meinrad Spenger	Carrier E-Mobile, S.L.U.	Sole Director	Yes
Mr. Meinrad Spenger	The Bymovil Spain, S.L.U.	Sole Director	Yes
Mr. Meinrad Spenger	Sppoting Developments, S.L.	Executive Chairman	Yes

<b>Comments</b>
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C.1.11 Detail, if applicable, the directors or representatives of directors who are legal entities of your company, who are members of the board of directors or representatives of directors who are legal entities of other entities listed on official securities markets other than your group, which have been notified to the company:

Name or company name of the director	Company name of the listed company	Position
Mr. Josep María Echarri Torres	Oryzon Genomics, S.A.	Board member
Mr. Josep María Echarri Torres	Audax Renovables, S.A.	Board member

Comments
-

C.1.12 Indicate and, if applicable, explain whether the company has established rules on the maximum number of company boards on which its directors may serve, identifying, if applicable, where they are regulated:

Yes

No

Explanation of the rules and identification of the document where it is regulated
Article 31 of the Company's Articles of Association states that "no individual or legal entity may be appointed as a director of more than three (3) boards of directors, in addition to the Company's, of companies whose shares are listed on an official secondary securities market"
All the members of the Board of Directors of Másmóvil comply with the aforementioned statutory provision.

C.1.13 Indicate the amounts of the following items relating to the overall remuneration of the Board of Directors:

<b>Remuneration accrued during the year in favour of the Board of Directors (thousands of euros)</b>	3,373
<b>Amount of accumulated pension rights of current directors (thousands of euros)</b>	0
<b>Amount of accumulated pension rights of former directors (thousands of euros)</b>	0

Comments
The remuneration of the Board of Directors accrued in the 2019 financial year indicated in this section is covered by the Masmóvil Directors' Remuneration Policy approved by the Company's Ordinary General Shareholders' Meeting on 4 May 2018 and can be consulted on the corporate website at the following link: <a href="https://www.grupomasmovil.com/wp-content/uploads/2018/04/180403_MMI_Politica-de-Remuneraciones-de-los-Consejeros.pdf">https://www.grupomasmovil.com/wp-content/uploads/2018/04/180403_MMI_Politica-de-Remuneraciones-de-los-Consejeros.pdf</a>

This remuneration includes the following components:

1. Remuneration of the members of the Board of Directors, in their capacity as such: €1,094,534.42

Said remuneration is within the maximum annual limit for the 2019 financial year approved by the aforementioned Ordinary General Shareholders' Meeting, which amounts to €1,125,000.

The distribution of the maximum annual remuneration of the members of the Board, in their capacity as such, among them, was approved by resolution of the Board of Directors on 27 February 2019, taking into account the duties and responsibilities attributed to each director, membership of Board Committees and other relevant objective circumstances.

Mr. Eduardo Díez-Hochleitner Rodríguez has waived the remuneration that would correspond to him as Chairman of the Appointments and Remunerations Committee.

2. Remuneration of the Chief Executive officer, for his executive duties: this remuneration, which amounts to €1,688,454.11, is distributed as follows:

a) Fixed remuneration: €350,000.04

b) Variable remuneration: €1,322,000

c) Remuneration in kind (use of vehicle, medical insurance, fuel, life insurance and restaurant tickets): €16,454.07

Finally, it is noted that the Chief Executive officer has not received any remuneration in 2019 simply because he is a director (heading 1 of this section C.1.13).

3. Remuneration of the Director Mr. Josep María Echarri Torres, for the provision of financial and business advisory services to Másmóvil, through the company The Nimo's Holding, S.L., by virtue of the contract for the provision of consultancy and advisory services signed between the latter and the Company, dated 1 January 2018: €590,400

C.1.14 Identify the members of senior management who are not executive directors and indicate the total remuneration accrued in their favour during the year:

<b>Name or company name</b>	<b>Position/s</b>
Fernando Castro Izuzquiza	Communication's director
José María del Corro García Lomas	Finance Director
Juan Luis Delgado Domínguez	Legal Affairs and Compliance Director
Eduardo Duato Salmeron	Assistant to the CEO - Technological Projects

Pablo Freire Barral	Strategy Director
Victor Manuel Guerrero Ferrer	Business and Wholesale Director
José German López Fernández	Residential Director
Francisco Javier Marín de la Plaza	Investor Relations and Corporate Finance Director
Arturo Medina Santamaria	Human Resources Director
Francisco Eloy Gómez Orozco	Internal audit
Miguel Santos Fernandez	Chief Technology Officer
Miguel Angel Suarez García	Assistant to the CEO - Business
Maria de la Torre Rodriguez	Compliance Officer

<b>Total remuneration of senior management (in thousands of euro)</b>	3,749
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<b>Comments</b>
-

C.1.15 Indicate whether there have been any amendments to the Regulations of the Board during the year:

Yes X

No

Description of the amendments
<p>At the meetings, which are reflected below, the Board of Directors approved, following a favourable report by the Audit and Compliance Committee, the following amendments to the Regulations:</p> <p>a) 27 June 2019: amendment to Article 12.5, in order to eliminate the provisions (strengthening of the majorities required for the approval of certain Board resolutions) that were included in the Debt Recognition, Debt Assumption and Capitalisation Agreement ("Note") granted on 20 June 2016 by ACS Telefonía Móvil, S.L. and subsequently assigned to ACS Actividades de Construcción y Servicios, S.A. ("ACS") (as a Creditor), the member company of Grupo Masmovil, Masmovil Phone &amp; Internet, S.A.U. (as Debtor) and the Company itself (as Liable Party). The aforementioned Note was cancelled on 20 November 2018.</p> <p>b) 27 November 2019: amendment of Articles 14.1 and 17.1 of the Board of Directors' Regulations, to provide that the Audit Committee shall be composed of a minimum of 5 and a maximum of 6 non-executive directors, and the Appointments and Remunerations Committee shall be composed of a minimum of 3 and a maximum of 4 non-executive directors.</p>

C.1.16 Indicate the procedures for selection, appointment, re-election and removal of directors. Detail the competent bodies, the procedures to be followed and the criteria to be used in each of the procedures.

1. Selection of directors:

The Appointments and Remunerations Committee of Másmovil assesses the balance of knowledge, capacity, diversity and experience of the Board of Directors at least once a year and in any case when circumstances require it. In relation to proposals for the appointment or re-election of directors, it prepares a description of the capacities and skills required to adequately complement the profile of knowledge, skills, diversity and experience of the Board of Directors.

The result of this prior analysis of the needs of the Board of Directors is included in the Committee's justification report that is published when the General Shareholders' Meeting is called to ratify, appoint or re-elect each director.

The members of the Board of Directors should have the necessary skills, knowledge and experience to perform their duties, taking into account the needs of the Board of Directors and the composition of the Board as a whole. In general, candidates must be suitable people of recognised solvency, competence, experience, qualifications, training, availability and commitment to their duty, with a personal and professional career that respects the law and good business practices and must necessarily comply with the precepts set out by law at all times to be able to form part of an administrative body.

In particular, they must be honest professionals whose conduct and professional career is in line with the principles of the Company's Code of Ethics and with corporate values.

2. Appointment of directors:

The appointment of the members of the Board of Directors corresponds to the General Shareholders' Meeting, without prejudice to the power of the Board of Directors to co-opt members in the event of a vacancy and without prejudice to the system of proportional representation that corresponds to shareholders under the terms of the Law. The proposal for the appointment or re-election of the members of the Board of Directors corresponds to the Appointments and Remunerations Committee, in the case of independent directors, and to the Board itself, in the other cases.

Candidates for directorship or, where appropriate, representatives of a candidate for directorship of a legal entity, who are involved in a legal cause of incompatibility for the performance of their duties cannot be considered as candidates for directorship and in any event:

- Companies, whether domestic or foreign, in the telecommunications sector or other sectors that may be direct or indirect competitors of the Company, as well as their directors or senior managers and any persons proposed by them in their capacity as shareholders.



- Nor may directors be civil servants in the service of the public administration with duties relating to the activities of the companies concerned, judges or magistrates and other persons affected by a legal incompatibility.
- Natural or legal persons who hold the position of director in a number of boards greater than that determined by the Company at any given time.
- Those involved in incompatibility, legal prohibition or incapacity in accordance with the requirements established in the applicable legislation and in the rules of corporate governance of MASMOVIL, including those who in any way have interests opposed to those of the Company or its Group or may put its interests at risk.

### 3. Re-election of directors:

Before proposing the re-election of directors to the General Shareholders' Meeting, the Board of Directors assesses, with the abstention of the subjects concerned, the quality of the work and the dedication to the post of the directors whose re-election is proposed. The proposal for the re-election of any non-independent director must also be preceded by a report from the Appointments and Remunerations Committee.

Those who are in any of the following circumstances cannot be re-elected as directors:

- Those who have seriously breached their obligations as directors.
- When the cause for which they were appointed as directors disappears, and in particular
  - When the cause for their appointment as Executive Directors disappears.
  - When the shareholder represented by the Proprietary Directors sells their entire shareholding.
  - When the Independent Directors no longer meet the conditions required by law for that category.

### 4. Removal of directors:

Directors exercise their duties during four (4) years, being able to be re-elected, once or several times, for periods of equal duration. The appointment of directors expires when, upon expiry of the term, the general shareholders' meeting has been held or the term for holding the meeting that is to decide on the approval of the previous year's accounts has elapsed.

The Board of Directors shall not propose the removal of any independent director before the end of the statutory period for which they have been appointed, except where just cause is found by the Board after a favourable report from the Appointments and Remunerations Committee.

Directors must place their position at the disposal of the Board, and formalise, if the Board deems it appropriate, the corresponding resignation in the cases indicated in Article 23 of the Regulations of the Board of Directors (section C.1.19 of this report), among others.

C.1.17 Explain to what extent the annual assessment of the Board has led to significant changes in its internal organisation and in the procedures applicable to its activities:

<b>Description of the amendments</b>
<p>As a result of the self-assessment process of the Board of Directors carried out in the financial year 2017, in which the external firm Evaluación de Consejos, S.L. attended, the Board approved a work plan aimed at strengthening the areas of improvement identified by the directors.</p> <p>With regards to the assessment for 2019, which includes questionnaires and personal interviews with Board members, as well as the appropriate reports from the Committees and the Board that include the aforementioned assessment, this is currently in progress. The result of the assessment will be reported in the Annual Corporate Governance Report for the next financial year.</p>

Describe the assessment process and the areas assessed by the Board of Directors, assisted if necessary by an external consultant, with respect to the functioning and composition of the Board and its committees and any other area or aspect that has been the subject of assessment.

<b>Description of the assessment process and areas assessed</b>
<p>Másmóvil carried out the assessment of its Board of Directors and its Committees (Audit and Control Committee and Appointments and Remunerations Committee) in 2017, through the firm Evaluación de Consejeros, S.L.</p> <p>The aforementioned assessment process of the Board of Directors and its Committees was based on the opinions issued, in confidence, by each of the members of the Board of Directors of Másmóvil, who answered different questionnaires on various issues and attended interviews and telephone calls from the aforementioned external consultant on this matter. The areas subject to valuation and analysis were as follows:</p> <ul style="list-style-type: none"> <li>- Strategic control</li> </ul>

- Business performance monitoring
- Risk management
- Composition of the Board and policies for the selection of directors
- Operational performance of the Board
- Performance of the Chairmen of the Board and its Committees
- Performance of the directors
- Shareholder communication and corporate social responsibility policy
- Succession Plan
- Monitoring and information provided to the Board by the management team.

It is noted that based on the work carried out by the external firm, a work plan was proposed, which was also approved by the Company's Board of Directors, and which included proposals for recommendations. Among the measures adopted from the action plan proposed by Evaluación de Consejeros, S.L., the following should be highlighted

- The creation and implementation of a corporate social responsibility plan.
- The establishment of a schedule for meetings of the Board of Directors and its Committees.
- The review of the remuneration conditions of the members of the management and of the Board of Directors.
- The creation of a company induction programme for new members of the management team and the Board.

With regards to the assessment for 2019, which includes questionnaires and personal interviews with Board members, as well as the appropriate reports from the Committees and the Board that include the aforementioned evaluation, this is currently in progress. The result of the assessment will be reported in the Annual Corporate Governance Report for the next financial year.

It is also planned that the assessment of the financial year 2020 will be carried out with the assistance of an external firm.

C.1.18 Breakdown, in those financial years in which the assessment has been assisted by an external consultant, of the business relations that the consultant or any company in the group has with the company or any company in the group.

No business relationship has been identified with the external consultant hired by the Company.

C.1.19 Indicate the cases in which directors are obliged to resign.

In accordance with the provisions of Article 23 of the Regulations of the Board of Directors, directors must place their position at the disposal of the Board, and formalise, if the Board deems it appropriate, the corresponding resignation in the following cases, among others:

- a. When internal directors reach the age of sixty-five (65) and external directors reach the age of seventy (70), whether they are executive, non-executive, proprietary or independent directors.
- b. When they are involved in any of the cases of incompatibility or prohibition provided for in Law, the Articles of Association and these Regulations.
- c. When they cease to hold the executive post to which their appointment was linked and, in general, when the reasons for which they were appointed disappear and, in particular, in the case of proprietary directors, when the shareholder they represent sells all or part of its shareholding with the consequence that it loses the status of significant or sufficient to justify the appointment. The number of proprietary directors proposed by a shareholder must be reduced in proportion to the reduction of its stake in the Company's share capital.
- d. When the Board of Directors, after a report from the Appointments and Remunerations Committee, considers that the director has seriously infringed their obligations, or that there are reasons of corporate interest that require it.
- e. When they miss four (4) consecutive meetings of the Board of Directors or six (6) consecutive meetings even if they have delegated representation.
- f. When their permanence on the Board of Directors could damage the credit and reputation of the Company, they must inform the Board of Directors of the criminal cases in which they face charges.

C.1.20 Are reinforced majorities, other than the legal ones, required in any type of decision?:

Yes

No X

If so, describe the differences.

Description of the differences
-

C.1.21 Explain whether there are specific requirements, other than those relating to directors, for being appointed chairman of the board of directors.

Yes  No

Description of the requirements

C.1.22 Indicate whether the articles of association or the regulations of the board establish any age limit for directors:

Yes  No

	Age limit
<b>Chairman</b>	70
<b>Chief Executive Officer</b>	65
<b>Director</b>	70

Comments
In accordance with the provisions of Article 23.2 of the Board of Directors' Regulations, directors must place their position at the disposal of the Board of Directors when they reach the age of sixty-five (65) for internal directors and seventy (70) for external directors, whether executive, non-executive, proprietary or independent.

C.1.23 Indicate whether the articles of association or regulations of the board of directors establish a limited term of office or other more stringent requirements than those legally established for independent directors, other than those established in the regulations:

Yes  No

Additional requirements and/or maximum number of terms of office

C.1.24 Indicate whether the articles of association or the regulations of the board of directors establish specific rules for delegating votes on the board of directors in favour of other directors, how this is to be done and, in particular, the maximum number of delegations a director can have, as well as whether any limitations have been established regarding the categories in which it is possible to delegate, beyond the limitations imposed by legislation. If applicable, please give brief details of these rules.

In accordance with the provisions of Article 33 of the Articles of Association and Article 33 of the Regulations of the Board of Directors, a director who cannot personally attend a meeting of the Board of Directors may grant their representation to another director (with instructions), in writing, by telegram, fax or e-mail and on a special basis for each meeting of the Board of Directors.

Non-executive directors may only delegate their representation to another non-executive director.

There is no limitation on the maximum number of delegations that a director may have for each Board meeting.

C.1.25 Indicate the number of meetings held by the Board of Directors during the year. Also indicate, if applicable, the number of times the board has met without the presence of its chairman. Representations made with specific instructions will be considered as attendance.

<b>Number of board meetings</b>	17
<b>Number of board meetings without the chairman's attendance</b>	0

<b>Comments</b>
-

Indicate the number of meetings held by the coordinating director with the other directors, without the attendance or representation of any executive director:

There is no such thing as a coordinating director in Másmóvil.

<b>Number of meetings</b>	-
---------------------------	---

<b>Comments</b>
-

Indicate the number of meetings held during the year by the various Board committees:

<b>Number of meetings of the executive committee</b>	-
<b>Number of meetings of the audit committee</b>	11
<b>Number of meetings of the appointments and remunerations committee</b>	13
<b>Number of meetings of the appointments committee</b>	-
<b>Number of meetings of the remunerations committee</b>	-
<b>Number of meetings of the _____ committee</b>	-

<b>Comments</b>

C.1.26 Indicate the number of meetings held by the Board of Directors during the year and details of attendance by members:

<b>Number of meetings with at least 80% of the directors in attendance in person</b>	17
<b>% of attendance in person over total votes during the year</b>	95.5%
<b>Number of meetings with attendance in person, or representations made with specific instructions, of all directors</b>	17
<b>% of votes cast with attendance in person and representations given with specific instructions, over the total votes during the financial year</b>	100%

<b>Comments</b>
-

C.1.27 Indicate whether the individual and consolidated financial statements presented to the Board for preparation are previously certified:

Yes                       No

Identify, if applicable, the person(s) who has/have certified the individual and consolidated annual accounts of the company, for their preparation by the board:

Name	Position

<b>Comments</b>
-

C.1.28 Explain any mechanisms established by the Board of Directors to prevent the individual and consolidated accounts prepared by it from being presented to the General Shareholders' Meeting with qualifications in the auditors' report.

Article 15.2 of the Regulations of the Board of Directors of the Company establishes that the Audit and Control Committee shall ensure that the Board of Directors presents the accounts in such a way that there are no limitations or qualifications by the auditor.

In the exceptional cases in which they exist, both the Chairman of the Audit and Control Committee and the external auditors shall clearly explain to the shareholders the content of such reservations and qualifications.

Furthermore, the Board of Directors, at its meetings of 22 May and 31 October 2017, approved the Policy on review and approval of financial information by the Company's administrative bodies and the Procedure for the preparation and communication of financial information, which established the practices for internal review and approval of the financial information to be provided to the markets and regulators by the members of the Board of Directors and the Company's Audit Committee.

C.1.29 Does the secretary of the board have the status of a director?

Yes

No

If the secretary does not have the status of a director, complete the following table:

Name or company name of the secretary	Representative
Mr. Alberto Castañeda González	
Comments	
Mr. Alberto Castañeda González was appointed Secretary of the Board at the meeting of 30 June 2014.	

C.1.30 Indicate the specific mechanisms established by the company to preserve the independence of external auditors, as well as, if any, the mechanisms to preserve the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.

In accordance with the provisions of Article 15.4 of the Regulations of the Board of Directors, the Audit and Control Committee is responsible for submitting to the Board of Directors proposals for the selection, appointment, re-election and replacement of the auditor, taking responsibility for the selection process and the terms and conditions of the contract, and for regularly obtaining information from the auditor on the audit plan and its implementation, as well as preserving its independence in the performance of its duties, without prejudice to the regulations governing the audit of accounts.

Likewise, the Board of Directors, at its meeting on 28 November 2017, approved the Policy on Hiring and Relations with the Accounts Auditor, which establishes in Article 2 that the Audit and Control Committee shall refrain from proposing to the Board of Directors, and that the latter shall in turn refrain from submitting to the General Shareholders' Meeting, the appointment of any accounts auditing firm as the Company's accounts



auditor when it is found to be in a situation of lack of independence, prohibition or cause of incompatibility in accordance with accounts auditing legislation.

C.1.31 Indicate whether the company changed its external auditor during the year. If applicable, identify the incoming and outgoing auditor:

Yes  No

Outgoing auditor	Incoming auditor
-	-

Comments
-

In the event that there were disagreements with the outgoing auditor, explain the content of these:

Yes  No

Explanation of the disagreements
-

C.1.32 Indicate whether the audit firm performs other work for the company and/or its group other than auditing and, if so, state the amount of fees received for such work and the percentage it represents of the fees invoiced to the company and/or its group:

Yes  No

	Company	Companies of the Group	Total
Amount of other non-audit work (thousands of euros)	122	0	122
Amount of non-audit work / Amount of audit work (in %)	33.80%	0%	15.82%

Comments
-

C.1.33 Indicate whether the audit report on the previous year's financial statements is qualified or unqualified. If applicable, indicate the reasons given to the shareholders at the General Shareholders' Meeting by the Chairman of the Audit Committee to explain the content and scope of such reservations or qualifications.

Yes  No

Explanation of the reasons
-

- C.1.34 Indicate the number of consecutive years that the current audit firm has audited the company's individual and/or consolidated financial statements. Also indicate the percentage represented by the number of years audited by the current audit firm over the total number of years in which the financial statements have been audited:

	Single	Consolidated
<b>Number of continuous financial years</b>	14	8
	Single	Consolidated
<b>No. of financial years audited by the current audit firm / No. of years the company or its group has been audited (in %)</b>	73.68%	100%

Comments

- C.1.35 Indicate and, if applicable, detail whether there is a procedure to ensure that directors have the necessary information to prepare for the meetings of the governing bodies with sufficient time:

Yes

No

Detail of the procedure
<p>Yes. Article 11 of the Regulations of the Board of Directors states that, among other powers, it is the responsibility of the secretary to ensure that directors receive sufficient information in advance to discuss the items on the agenda. On the other hand, Article 12 of the Regulations of the Board of Directors establishes that the notice of the meeting shall be sent at least five (5) days prior to the date of the meeting. This minimum period of notice for sending documentation is also met in the case of meetings of the Audit and Control Committee and the Appointments and Remunerations Committee.</p> <p>Likewise, with regard to the financial information that the Company must prepare and communicate to the markets, on 22 May 2017 the Board of Directors approved the Policy on the Review and Approval of Financial Information, which establishes a protocol for the preparation, drafting and review of the aforementioned information by the various departments and bodies of the Company, and also ensures that the members of the Committees and the Board have the necessary information for the adequate exercise of their duties as directors.</p>

C.1.36 Indicate whether the company has established rules that oblige directors to report and, if appropriate, resign in cases where the credit and reputation of the company may be damaged:

Yes  No

Explain the rules
In accordance with Article 23.3 f) of the Regulations of the Board of Directors, the directors must place their position at the disposal of the Board of Directors and formalise, if the Board deems it appropriate, the corresponding resignation, for among other reasons, when their permanence on the Board of Directors could damage the credit and reputation of the Company, and must inform the Board of Directors of any criminal cases in which they are accused, as well as of any subsequent procedural developments.

C.1.37 Indicate whether any member of the board of directors has informed the company that he has been prosecuted or that a court order has been issued against them for any of the offences referred to in article 213 of the Capital Companies Act:

Yes  No

Director's name	Criminal Case	Comments
-	-	-

State whether the Board of Directors has analysed the case. If the answer is yes, explain in a reasoned manner the decision taken as to whether or not the director should continue in their position or, if appropriate, explain the actions taken by the board of directors up to the date of this report or that it plans to take.

Yes  No

Decision taken/action carried out	Reasoned explanation
-	-

C.1.38 Detail any significant agreements entered into by the company that come into force, are amended or terminate in the event of a change of control of the company following a takeover bid, and the effects thereof.

Not applicable.

C.1.39 Indicate individually, when it refers to directors, and in an aggregate manner in all other cases, and indicate in detail the agreements between the

company and its directors, managers or employees that provide for indemnities, guarantee or protection clauses, when they resign or are unfairly dismissed, or if the contractual relationship comes to an end as a result of a takeover bid or other types of operations.

Number of beneficiaries	5
Type of beneficiary	Description of the agreement
Chief Executive Officer	<p>The compensation awarded to the Chief Executive Officer in his contract in the event of termination is as follows:</p> <p>a) In the event that the contract is terminated by decision of Másmóvil, for reasons other than the failure of the Chief Executive Officer to comply with his contractual obligations, Másmóvil must pay an indemnity consisting of an amount equal to the total gross annual remuneration (including all remuneration items) that the Chief Executive Officer was receiving at the time of the termination of the contract.</p> <p>For the above purposes, in no case may the gross amount mentioned be less than the amount resulting from applying 45 days per year worked from 16 March 2006 to 12 February 2012 plus 33 days per year worked from 13 February 2012 to the date of termination.</p> <p>b) For reasons of company succession, the Chief Executive Officer is entitled to receive from the Company an indemnity, consisting of an amount equal to two total gross annual payments (including all remuneration items) received by the Chief Executive Officer at the time of termination of the contract.</p> <p>If the gross annual remuneration for all remuneration items exceeds €300,000, the additional compensation referred to will become two gross annual remunerations (all items included).</p> <p>c) In the event that the termination of the contract is ordered by the Chief Executive Officer for breach of the contractual obligations by the Company, the Company shall be obliged to pay the Chief Executive Officer an indemnity consisting of an amount equal to the total gross annual remuneration (all remuneration items included) that the Chief Executive Officer was receiving at the time of the termination of the contract.</p> <p>In addition, if as a result of a company succession, the working conditions of the Chief Executive Officer are substantially altered, the Chief Executive Officer could request the termination of their contract with Másmóvil and would be entitled to an indemnity equivalent to three times the total annual remuneration (all remuneration items</p>

	included).
Executives	An executive of Xfera Móviles, S.A.U. has a non-competition obligation recognised in their contract with the aforementioned company for one year following termination of his contract, with a consideration for this agreement equivalent to their fixed annual salary.

Indicate whether these contracts must be notified to and/or approved by the governing bodies of the company or its group, beyond the cases provided for in the regulations. If so, specify the procedures, cases envisaged and the nature of the bodies responsible for approving them or making the communication:

	<b>Board of Directors</b>	<b>General Shareholders' Meeting</b>
<b>Body authorising the clauses</b>	Yes	No

	<b>YES</b>	<b>NO</b>
<b>Is the general shareholders' meeting informed about the clauses?</b>	X	

<b>Comments</b>
The remuneration conditions and other relevant conditions of the Chief Executive Officer's contract are known and assessed by Másmóvil's Appointments and Remunerations Committee, which reports to the Board and proposes their approval or amendment, as appropriate.

## C.2 Committees of the Board of Directors

C.2.1 Detail all board committees, their members and the proportion of executive, proprietary, independent and other external directors on the board:

### AUDIT COMMITTEE

<b>Name</b>	<b>Position</b>	<b>Category</b>
Mr. Borja Fernández Espejel	Chairman	Independent
Mr. Eduardo Díez-Hochleitner Rodríguez	Board member	Independent
Mr. Josep María Echarri Torres	Board member	Proprietary
Ms. Pilar Zulueta de Oya	Board member	Independent
Ms. Cristina Aldámiz-Echevarría González de Durana	Board member	Independent
Mr. Alberto Castañeda González	Secretary	Non-Director

<b>% of proprietary directors</b>	20%
<b>% of independent directors</b>	80%
<b>% of other externals</b>	-

<b>Comments</b>
-

Explain the duties, including, if applicable, those additional to those provided for by law, attributed to this committee, and describe its procedures and rules of organisation and operation. For each of these duties, indicate its most important actions during the year and how it has exercised in practice each of the duties attributed to it, whether by law or by the articles of association or other corporate resolutions.

#### Committee's Duties

The Audit and Control Committee has no delegated powers, being an internal body of an informative and consultative nature and has the following duties:

1. To inform the General Shareholders' Meeting of any issues that may arise within its sphere of competence, in particular the outcome of the audit, explaining how the audit has contributed to the integrity of the financial information and the role that the Committee has played in this process. In this respect, the Audit and Control Committee must ensure that the Board of Directors endeavours to present the accounts to the General Shareholders' Meeting without any limitations or qualifications in the audit report and that, in exceptional cases where qualifications exist, both the Chairman of the Audit and Control Committee and the auditors shall clearly explain to the shareholders the content and scope of such limitations or qualifications.
2. To supervise the effectiveness of the company's internal control, internal audit, where appropriate, and risk management systems, and to discuss with the auditors or audit firms any significant weaknesses in the internal control system identified during the audit, without detracting from their independence. To this end and, where appropriate, they may submit recommendations for proposals to the Board of Directors and the corresponding deadline for their follow-up.
3. To supervise the process of preparing and presenting the regulated financial information and presenting recommendations or proposals to the Board of Directors aimed at safeguarding its integrity, reviewing compliance with regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of accounting criteria.

4. To submit to the Board of Directors proposals for the selection, appointment, re-election and replacement of the auditor, taking responsibility for the selection process, as well as the terms and conditions of its contract, and to regularly obtain from it information on the audit plan and its implementation, as well as to preserve its independence in the performance of its duties, without prejudice to the regulations governing the audit of accounts.

5. To establish appropriate relations with the auditors or audit firms in order to receive information on those matters which may pose a threat to their independence, for the examination of the latter by the Committee, and any other matters related to the process of carrying out the audit of the accounts and, where appropriate, the authorisation of services other than those prohibited, under the terms referred to in Articles 5(4) and (6).2.b) of Regulation (EU) no. 537/2014 of 16 April and the provisions of section 3 of chapter IV of Title I of Act 22/2015 of 20 July on the Auditing of Accounts, on the independence regime, as well as any other communications provided for in auditing legislation and auditing standards, without prejudice to the regulations governing the auditing of accounts.

In any case, they must annually receive from the auditors or audit firms written confirmation of their independence from the entity or entities linked to them directly or indirectly, as well as detailed and individualised information on the additional services of any kind provided to these entities by the said auditors or firms, or by the persons or entities linked to them in accordance with the provisions of the regulations governing the audit activity.

6. To issue annually, prior to the issuance of the audit report, a report expressing an opinion on whether the independence of the auditors or audit firms is compromised. This report must, in any case, contain a reasoned assessment of the provision of each and every one of the additional services referred to in the previous section individually and as a whole, other than the statutory audit and in relation to the independence regime or the regulations governing the activity of the accounts auditors, without prejudice to the regulations governing accounts auditing.

7. To report, in advance, to the Board of Directors on all matters provided for in the Law, the Articles of Association and the Regulations of the Board as being within its competence and, in particular, on: (i) the financial information that the company must make public periodically; (ii) the creation or acquisition of interest in special purpose entities or entities domiciled in countries or territories considered to be tax havens; and (iii) transactions with related parties.

8. Under the direct supervision of the Audit and Control Committee, there shall be an internal risk control and management function exercised by a unit or department within the Company.

9. Any other functions entrusted to it in the Regulations of the Board or specifically in a resolution of the Board of Directors.

In addition, the Audit and Control Committee is informed of any structural and corporate amendments that the Company plans to make, so that it can analyse them and report to the Board of Directors in advance on their economic conditions and accounting impact and, in particular, where appropriate, on the proposed exchange ratio.

In addition to the above-mentioned duties, the Audit and Control Committee is also responsible for the following:

1. In relation to information and internal control systems:

a) To supervise the preparation process and the integrity of the financial information relating to the Company and, where applicable, to the group, reviewing compliance with regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of accounting criteria.

b) To ensure the independence of the unit that assumes the internal audit function, if applicable; to propose the selection, appointment, re-election and removal of the head of the internal audit service; to propose the budget for that service; to approve the orientation and its work plans, ensuring that its activity is focused mainly on the relevant risks of the Company; to receive periodic information on its activities; and to verify that senior management takes into account the conclusions and recommendations of its reports.

c) To establish and supervise a mechanism that allows employees to communicate, confidentially and, if possible and considered appropriate, anonymously, irregularities of potential importance, especially financial and accounting irregularities, which they notice within the company.

2. In connection with the external auditor:

a) In the event of the resignation of the external auditor, to examine the circumstances that may have led to it.

b) To ensure that the remuneration of the external auditor for its work does not compromise its quality or independence.



c) To supervise that the Company notifies the CNMV of the change of auditor as a relevant fact and accompanies it with a statement on the possible existence of disagreements with the outgoing auditor and, if they have existed, their content.

d) To ensure that the external auditor holds, whenever the Board of Directors deems it appropriate, an annual meeting with the full Board of Directors to inform it of the work carried out and the evolution of the accounting and risk situation of the Company.

e) To ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements regarding auditor independence.

### 3. In terms of Corporate Reputation:

The area of corporate reputation includes issues relating to image management, branding, external communication, institutional relations and other aspects relating to the generation of trust and transparency towards its stakeholders, which correspond to the Group's business model and are determined by the Board of Directors.

In this sense, its competences are:

a) To be aware of, promote, guide and supervise the Company's actions in the area of corporate reputation and to inform the Board of Directors accordingly.

b) To report the contents relating to corporate reputation in the Group's annual reports, prior to their approval by the Board of Directors.

c) To promote the inclusion of elements of improvement in the management of intangible assets such as reputation, brand image, intellectual capital, transparency and ethics.

d) To assess and review the plans for implementing the Company's corporate reputation strategy and monitor the degree of compliance.

#### Activities carried out in 2019:

The Audit and Control Committee has met 11 times and the main activities carried out have been as follows

#### a) Annual accounts and other periodic financial information:

During the first months of last year, the Committee analysed, reviewed and reported favourably to the Company's Board of Directors on the

preparation of the individual and consolidated financial statements for 2018, as well as on the Group's budget.

Likewise, at different meetings in 2019, the Committee analysed, reviewed and reported favourably to the Board of Directors of MASMOVIL on the interim financial information to be published to the markets for the first quarter, first half and third quarter of the 2019 financial year.

The Committee discussed with those responsible for preparing the report such aspects as the valuation of certain financial assets of the Company, the most relevant transactions or events of the period, changes in accounting policies and any other relevant information. It also learned the conclusions of the external auditor's work on the individual and consolidated financial statements for that year.

b) Relationship with the auditor:

The auditors have been asked on several occasions by the members of the Committee to present issues for which they are responsible.

The Committee has also monitored the audit fees including those for professional services provided to MASMOVIL other than audit services, which have been expressly authorised by the Committee.

The Committee met with the auditor to discuss the planning of its audit work on the annual accounts and the results of the preliminary phase of its review.

c) Issue of reports:

The Committee has reported on the formulation of various reports that have been approved by the Board of Directors (Annual Corporate Governance Report for 2018, Statement of Non-Financial Information, among others) and has issued its own reports (among others, the report on activities and operations, the report on the independence of the auditor or various reports on the amendment of the Regulations of the Board of Directors).

(d) Corporate and related-party transactions:

The Committee analysed and reported favourably to the Board on various corporate transactions that took place during the past year and which were duly reported to the market (such as, among others, the repurchase of the Providence convertible securities, the refinancing of the Másmóvil Group's debt, and the sale of 933,000 BUs (building units) of 13 power plants located in five of the largest Spanish cities (Madrid, Barcelona, Valencia, Seville and Malaga), with access to the FTTH network, in favour

of an infrastructure fund). Other corporate operations currently in progress have also been analysed.

The Committee also analysed possible transactions with significant shareholders, directors and executives, and reported favourably to the Board on their approval.

Finally, the Committee has analysed the impact of the implementation of the new International Financial Reporting Standards No. 9 ("Financial Instruments"), No. 15 ("Income from Customer Contracts") and No. 16 ("Leases")

e) Internal risk control and management systems in relation to the process of issuing financial information ("SCIIF"), the Corporate Risk Map, the Group's Map of Crime Risks and the Internal Audit Plan:

The Committee has monitored and supervised the design and implementation by MASMOVIL of the internal risk management and control systems in relation to the process of issuing financial information ("SCIIF"), the Map of Corporate Risks and the Map of Crime Risks of the Group, with special emphasis on the risks detected by the Company and the plans for correction.

Likewise, the head of the Internal Audit Department presented the Internal Audit Plan for 2019 to the Committee and the report on the actions taken by his department in 2018 was also presented. The Committee has also assessed its performance in financial year 2018, in accordance with the provisions of recommendation 58 of the Technical Guide, 3/2017, on Audit Committees, of the National Securities Market Commission.

Internal operating rules:

The Committee is made up of five (5) non-executive directors appointed by the Board of Directors, four of whom are independent directors. The members of the Audit Committee are appointed for a maximum period of four years, and may be re-elected one or more times for periods of equal maximum duration. The Chairman shall hold office for a maximum period of four years, at the end of which he may not be re-elected to that office until one year after his removal as Chairman, without prejudice to his continuity as a member of the Committee.

The Audit and Control Committee is expected to meet whenever convened by its Chairman, when requested by at least two (2) of its members or at the request of the Board of Directors and in any case, periodically, to report on the interim financial statements and the annual accounts.

Committee meetings are held at the registered office or any other location determined by the Chairman and indicated in the notice of call. The Committee is validly constituted when a majority of its members are present or represented, and its reports are adopted with the favourable vote of the majority of its members attending the meeting. In the event of a tie, the Chairman or the person exercising his duties shall have the casting vote.

The meetings of the Audit and Control Committee must be attended whenever deemed necessary by its Chairman, the external auditor, the internal auditor and the *Compliance Officer* of the Company, as well as by any member of the staff of the Company or its Group whose activity may be related to the duties carried out by that Committee.

Identify the directors who are members of the audit committee and who have been appointed on the basis of their knowledge and experience in accounting and/or auditing matters and report on the date of appointment of the chairman of this committee to this position.

<b>Names of directors with experience</b>	- Mr. Borja Fernández Espejel - Mr. Eduardo Díez-Hochleitner Rodríguez - Mr. Josep María Echarri Torres - Ms. Cristina Aldámiz-Echevarría González de Durana
<b>Date of appointment of the chairman to the position</b>	4 November 2016

<b>Comments</b>
Ms. Pilar Zulueta de Oya was appointed as a member of the Audit and Control Committee for her knowledge in risk management, cybersecurity and technology. In accordance with the Regulations of the Board of Directors, the members of the Audit Committee must have knowledge and experience in the aforementioned areas.

#### APPOINTMENTS AND REMUNERATIONS COMMITTEE

<b>Name</b>	<b>Position</b>	<b>Category</b>
Mr. Eduardo Díez-Hochleitner Rodríguez	Chairman	Independent
Mr. Felipe Fernández Atela	Board member	Independent
Mr. John C. Hahn	Board member	Proprietary
Mr. Alberto Castañeda González	Secretary	Non-director

<b>% of proprietary directors</b>	33%
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<b>% of independent directors</b>	67%
<b>% of other external</b>	-
<b>Comments</b>	

Explain the duties, including, if applicable, those additional to those provided for by law, attributed to this committee, and describe its procedures and rules of organisation and operation. For each of these duties, indicate its most important actions during the year and how it has exercised in practice each of the duties attributed to it, whether by law or by the articles of association or other corporate resolutions.

**Committee's Duties:**

The Appointments and Remunerations Committee does not have delegated powers and is an internal body of an informative and consultative nature. This Committee is responsible for studying, issuing reports and preparing proposals for the Board of Directors on the following matters:

a) In the area of appointments:

i) To propose the criteria to be followed for the composition and structure of the Board of Directors, as well as for the selection of candidates to be part of the Board of Directors.

(ii) To assess the skills, knowledge and experience required of candidates to fill vacancies, where applicable, on the Board of Directors.

iii) To report on the proposed appointment of the Company's senior executives and the setting of their terms of contract and remuneration.

iv) To report on the Company's position regarding the appointment and removal of members of the administrative bodies of the investees.

v) To submit to the Board of Directors proposals for the appointment of independent directors for their appointment by co-option or for their submission to the decision of the General Shareholders' Meeting, as well as proposals for the re-election or removal of such directors by the General Shareholders' Meeting.

vi) To resolve conflicts of interest that directors may have brought to the attention of the Secretary of the Board of Directors

b) In the area of remuneration:

i) To make a proposal for the remuneration of directors, in accordance with the remuneration system established in the Articles of Association.

ii) To propose to the Board of Directors the remuneration policy for directors and general managers or those who perform their senior management duties reporting directly to the Board, executive committees or chief executive officers, as well as the individual remuneration and other contractual conditions of executive directors.

iii) To inform the Board prior to any resolution or proposal of the Board of Directors regarding the remuneration of directors and executives referenced to the value of the shares of the Company or of its subsidiaries or consisting of the delivery of shares of the Company or of its investees or the granting of option rights over them, or any instrument intended to retain and motivate such directors and executives.

c) In the area of corporate social responsibility:

i) To supervise the communication strategy and relationship with shareholders and investors, including small and medium sized shareholders.

ii) The review of the Company's corporate responsibility policy, ensuring that it is geared towards the creation of value.

iii) The assessment of all non-financial risks of the company including operational, technological, legal, social, environmental, political and reputational risks

iv) Coordination of the reporting process of non-financial and diversity information, in accordance with applicable regulations and international reference standards.

Activities carried out in 2019:

The Appointments and Remunerations Committee met 13 times and the main activities carried out were as follows:

- The review and proposal for approval by the Board of Directors of the Corporate Governance Plan for 2019.

- The proposal to approve by the Board of Directors the Management Targets for 2019, consisting of certain financial and sales targets to be achieved in relation to the bonus proposals for certain executives and the Chief Executive Officer.

- The proposal for approval by the Board of Directors of the Annual Report on Directors' Remuneration for the year ended 31 December 2018.

- The review and proposal of approval by the Board of Directors of the Human Resources Policy.
- Monitoring the activity of the Regulatory Compliance and Data Protection function.
- The proposal for re-election of the independent directors, Mr. Eduardo Díez-Hochleitner Rodríguez and Mr. Felipe Fernández Atela.
- The proposal for appointment of Ms. Nathalie-Sophie Picquot and Ms. Cristina Aldámiz-Echevarría González de Durana, as new independent directors.
- The analysis of the Company's compliance with the rules of good corporate governance and making recommendations on its monitoring.
- The review of the Non-Financial Risk Map.
- The review and proposal for approval by the Board of Directors of a new long-term incentive plan in favour of the management team and the Chief Executive Officer.

Internal operating rules:

The Committee is composed of three (3) non-executive directors appointed by the Board of Directors, two of whom are independent directors. The members of the Appointments and Remunerations Committee shall be appointed for a maximum period of four years and may be re-elected one or more times for periods of the same maximum duration. The Chairman shall hold office for a maximum period of four years, at the end of which he may not be re-elected to that office until one year after his removal as Chairman, without prejudice to his continuity as a member of the Committee.

The meetings of the Appointments and Remunerations Committee shall be attended, whenever deemed appropriate by its Chairman, by the person responsible for the implementation of the remuneration policy in the Company or by any other person deemed appropriate by the Chairman or by the aforementioned Committee.

The Appointments and Remunerations Committee shall meet whenever the Board or its Chairman requests the issue of a report or the adoption of proposals and, in any case, whenever it is appropriate for the proper performance of its duties and, in any case, it shall supervise the information on the remuneration of the Board of Directors.

Committee meetings will be held at the company's registered office or at any other location determined by the Chairman and indicated in the notice of call. The Committee will be validly constituted when a majority of its members are present or represented, and its reports will be adopted with the favourable vote of the majority of its members attending the meeting. In the event of a tie, the Chairman or the person exercising his duties shall have the casting vote.

C.2.2 Complete the following table with information on the number of female directors who are members of the Board's committees at the end of the last four years:

	Number of female directors			
	Year 2019	Year 2018	Year 2017	Year 2016
	Number / %	Number / %	Number / %	Number / %
<b>Executive Committee</b>	-	-	-	-
<b>Audit Committee</b>	2 / 40%	1 / 20%	1 / 20%	1 / 20%
<b>Appointments and Remunerations Committee</b>	0	0	0	0
<b>Appointments Committee</b>	-	-	-	-
<b>Remunerations Committee</b>	-	-	-	-
<b>_____ Committee</b>	-	-	-	-

Comments

C.2.3 Indicate whether there are any regulations for the Board committees, where they are available for consultation and any amendments made during the year. In turn, indicate if any annual report on the activities of each committee has been prepared voluntarily.

The organisation and operation of the Board of Directors' Committees are regulated in the Regulations of the Board of Directors', which are published on the corporate website, [www.grupomasmovil.com](http://www.grupomasmovil.com), in the section "Shareholders and investors", followed by "Corporate Governance" and



"Board of Directors". The Regulations of the Board are also filed at the Mercantile Registry of Guipúzcoa.

The only amendment made to the Regulations of the Board of Directors in the 2019 financial year, which affects the Audit and Control Committee and the Appointments and Remunerations Committee, is the one approved by the Board at its meeting on 27 November 2019, following a favourable report from the Audit and Control Committee, by virtue of which Articles 14.1 and 17.1 of the Regulations of the Board were amended, in order to provide that the Audit Committee shall be composed of a minimum of 5 and a maximum of 6 non-executive directors, and the Appointments and Remunerations Committee shall be composed of a minimum of 3 and a maximum of 4 non-executive directors.

In accordance with recommendation 6 of the Code of Good Governance of Listed Companies and recommendation 79 of the Technical Guide of the National Securities Market Commission, on Audit Committees of Public Interest Entities, , the reports on the functioning and activities of the Audit and Control Committee and the Appointments and Remunerations Committee, corresponding to the 2019 financial year, will be published on the Company's corporate website sufficiently in advance of the Ordinary General Shareholders' Meeting in 2020.

**D**

**RELATED-PARTY AND INTRA-GROUP TRANSACTIONS**

D.1 Explain the procedure and competent bodies for the approval of transactions with related parties and intra-group transactions, if applicable.

Article 25 of the Regulations of the Board of Directors states that:

1. The Director and their representative, when the former is a Company, must inform the Company of the shares that they hold in the Company directly, in the manner provided for in the Internal Code of Conduct, or as determined by other applicable provisions, through: (i) companies in which they hold a significant interest, (ii) any legal person or any legal trust business in which the director holds a management position or in which the director is responsible for the management of the business or which is directly or indirectly controlled by the director or which has been created for the benefit of the director or in which the economic interests are largely equivalent to those of the director or (iii) nominees, understanding as such, those who in their own name, carry out relevant operations for the purposes of these Regulations on behalf of the director (the latter condition being presumed in those persons whom the director leaves totally or partially covered by the risks inherent in the transactions carried out) or of those other shares of the Company owned by any of the companies of the group to which the company director belongs.

2. Likewise, the representative of the Director, a legal entity, and the Director, when the latter is an individual, must inform of any other actions held, directly or indirectly, by the spouse or any person linked to the Director by a relationship of affection similar to marriage, in accordance with national legislation, dependent children or other relatives who live with or are dependent on the Director.

3. Directors must also inform the Appointments and Remunerations Committee of all the positions they hold and the activities they carry out in other companies, as well as of any professional obligations that may interfere with the dedication required, and, in general, of any fact or situation that may be relevant to their actions as a director of the Company and of all those operations that may cause damage to the Company or the commencement of activities that may involve competition for the Company or for any of the Group companies.

4. The Director must also inform the Company, through the Secretary of the Board, of all conflicts of interest or related transactions in which he is a party as a related party in accordance with the provisions of the Internal Code of Conduct.

In addition, Article 26 of the Regulations of the Board of Directors states that:

"Whenever a significant shareholder, director or executive of the Company, or any person related to them in accordance with the provisions of the preceding articles, intends to carry out a transaction with the company, he must first inform the Audit Committee, which will immediately issue a report on the appropriateness or otherwise of carrying out the planned transaction.

In order to determine whether or not the projected transaction is appropriate, the Audit Committee must check that the proposed transaction is carried out under market conditions and with respect for the principle of parity of treatment, avoiding any conflict of interest that may arise, and even judging, if it deems it appropriate, the possibility of carrying out the transaction with a third party outside the Company. In the light of that report, the Board of Directors shall authorise or reject the proposed transaction.

In addition, the Company has established a Conflict of Interest and Related-Party Transactions Procedure, which sets out in detail the procedure for approving related-party transactions, as well as the procedure for notifying and resolving conflicts of interest, i.e. all situations in which the Company's interest and personal interest collide directly or indirectly.

D.2 Give details of any significant transactions, in terms of amount or subject matter, carried out between the company or entities in its group and significant shareholders of the company:

Name or company name of the significant shareholder	Name or company name of the company or entity in its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
PLT VII HOLDCO SARL	MASMOVIL IBERCOM, SA	Corporate	Cancellation of the convertible instrument (including interest)	112,408
BNP PARIBAS FORTIS SA/NV	MASMOVIL IBERCOM, SA	Corporate	Interest paid	1,206
BNP PARIBAS FORTIS SA/NV	MASMOVIL IBERCOM, SA	Corporate	Profit from placement of shares (TRS)	3,021
BARCLAYS BANK PLC	MASMOVIL IBERCOM, SA	Corporate	Interest paid	506
BARCLAYS BANK PLC	MASMOVIL IBERCOM, SA	Corporate	Profit from placement of shares (TRS)	1,021
INVEREADY EVERGREEN SCR, SA	XFERA MOVILES SAU	Corporate	Financing agreements: loans	22,303
INVEREADY EVERGREEN SCR, SA	XFERA MOVILES SAU	Corporate	Accrued interest	717
THE NIMO'S HOLDING, SL	MASMOVIL IBERCOM, SA	Corporate	Reception of services	590
GAEA INVERSION, SCR, SA	MASMOVIL IBERCOM, SA	Corporate	Sale of corporate stake	13,642
GAEA INVERSION, SCR, SA	XFERA MOVILES SAU	Corporate	Sale of corporate stake	667

**Comments**

At 31 December 2019, BNP Paribas Fortis SA/NV and Barclays Bank PLC were no longer shareholders due to the cancellation of the Total

Return Swaps (TRS) implemented in May 2019 as part of the refinancing process undertaken by the Group.
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D.3 Detail any significant transactions, in terms of amount or subject matter, between the company or entities in its group and the company's directors or executives:

Not applicable.

Name or company name of directors or managers	Name or company name of the related-party	Link	Nature of the operation	Amount (thousands of euros)
-	-	-	-	-

Comments
-

D.4 Report on significant transactions carried out by the company with other entities belonging to the same group, provided that they are not eliminated in the process of preparing the consolidated financial statements and do not form part of the company's normal business activities in terms of its purpose and conditions.

In any case, any intra-group transactions carried out with entities established in countries or territories considered to be tax havens shall be reported:

Not applicable.

Company name of the entity of its group	Short description of operation	Amount (thousands of euros)
-	-	-

Comments
-

D.5 Give details of any significant transactions between the company or entities in its group and other related parties that have not been reported in the preceding sections.

Company name of the related party	Short description of operation	Amount (thousands of euros)
AHORRO CORPORACIÓN FINANCIERA, S.V., S.A.U.	Expenses for its role as underwriter of the Promissory Note Programme issued by the Parent Company	3

Comments

D.6 Detail the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group, and its directors, executives or significant shareholders.

The Company has a procedure for conflicts of interest and related transactions approved by the Board of Directors, which identifies situations of conflict, duties of loyalty, the obligation to report, records and the obligation to abstain from participating in decision-making.

As stipulated in that procedure, a director who incurs a conflict of interest must notify the Board of this situation in writing, for the attention of the Secretary of the Company's Board of Directors.

In this regard, the Secretary of the Company's Board of Directors shall draw up a register of conflicts of interest of directors, which shall be constantly updated, with detailed information on each of the situations of conflict that have arisen. The information contained in the Register will be made available to the Compliance Officer on a regular basis.

Transactions with persons subject to conflict of interest rules other than directors and significant shareholders must be approved by the Ethics Committee, which will ensure that the transactions are carried out under market conditions and respect the principles of equal treatment.

The Compliance Officer shall prepare a record of transactions with persons subject to conflict of interest rules other than directors.

D.7 Is more than one Group company listed in Spain?

Yes

No

Identify the other companies listed in Spain and their relationship with the company:

Identity and relationship with other listed companies in the group

Indicate whether they have publicly and accurately defined the respective areas of activity and any business relationships between them, as well as those of the other listed company with the other group companies;

Not applicable.

Yes

No

<b>Define any business relationships between the parent company and the listed subsidiary, and between the latter and other group companies</b>
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Identify the mechanisms in place to resolve any conflicts of interest between the other listed company and other group companies:

Not applicable.

<b>Mechanisms for resolving potential conflicts of interest</b>
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## E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the company's risk control and management system, including those of a fiscal nature.

As a result of the activities carried out by the MASMOVIL Group, there are risks inherent to the sector, macroeconomic environment, regulatory framework and operations that must be identified and controlled through the risk management systems established by the Company.

In this regard, the Risk Management and Control Policy establishes the principles and guidelines so that the risks that could affect the Group's strategies, objectives and obligations are defined at all times, identified by category, quantified, communicated and, as far as possible, controlled.

The general risk control and management policy and the risk policies that develop it are applicable to all Group companies.

The Group has a Tax Risk Management and Control Procedure that develops and complements the Group's Risk Management and Control Policy (approved by the Board of Directors on 22 May 2017) and the Tax Policy (approved by the Board of Directors on 22 May 2017 and updated on 19 December 2018).

Risk control and management is a major issue within the company and is therefore a function that forms part of the Board of Directors' ongoing analysis and review of functions, which is why the Board of Directors relies on the two Board committees, i.e. both the Audit and Control Committee for financial risks and the Appointments and Remunerations Committee for the Group's non-financial risks.

In this regard, and following the COSO (Committee of Sponsoring Organisations of the Tradeway Commission's) framework of internal control, the Group has implemented three lines of defence:

- First line of defence: made up of the units that carry out the Group's operational management and are therefore owners of the risks and responsible for providing specific responses to mitigate or avoid the risk, and in the appropriate cases, transfer them to a third party or accept them.

- Second line of defence: made up mainly of the Area Controllers for financial risks (including tax risks) and the Compliance Officer for non-financial risks, responsible for the proper functioning of the Group's risk control and management system and the periodic monitoring of the evolution of the risks and control measures implemented.

- Third line of defence: made up of the Internal Audit Department, responsible for supervising the model and effectiveness of the controls implemented to mitigate the risks identified.

The Board seeks an appropriate allocation of roles, responsibilities, procedures, methodologies and support tools, covering the following stages:

a) Ongoing identification of relevant risks and threats based on their potential impact on key management objectives and the financial statements (including contingent liabilities and other off-balance sheet risks).

b) The analysis of these risks, both in each of the businesses or corporate functions, and in terms of their integrated effect on the Group as a whole.

c) The establishment of a structure of policies, guidelines and limits, as well as the corresponding mechanisms for their approval and deployment, which will make it possible to contribute effectively to risk management in accordance with the Company's risk appetite.

d) The measurement and control of risks following homogeneous procedures and standards common to the entire Group.

e) The maintenance of a system of internal control of compliance with policies, guidelines and limits, through appropriate procedures and systems, including the necessary contingency plans to mitigate the impact of the materialization of the risks.

f) Ongoing assessment of the adequacy and effectiveness of the implementation of the system and of best practices and risk recommendations for eventual incorporation into the model.

All the above stages are carried out in accordance with the principles of action reflected in the company's corporate governance rules, and specifically in relation to the following rules:

a) To report transparently on the Group's risks and the operation of the systems developed to control them to the regulators and main external agents, maintaining the appropriate channels to favour communication.

b) To ensure adequate compliance with the corporate governance rules established by the Company, as well as the permanent updating and improvement of such rules within the framework of the best practices of transparency and good governance, and to monitor and measure them.

c) To act at all times in accordance with the law and, in particular, with the values and standards of conduct reflected in the Code of Ethics and the principles and good practices reflected in the Corporate Fiscal Policy, under the principle of zero tolerance towards the commission of illicit acts and situations of fraud as set out in the Policy on the Prevention of Crimes and against Fraud and Corruption.

The Group's risk control and management model is based on the continuous review and updating of the Company's risk map, which has been designed in line with the Group's strategies. Once the risks have been identified and classified (according to their impact and probability of occurrence), the action plans needed to mitigate these risks are formalized, also evaluating the residual risk and risk tolerance levels.

Subsequently, the non-financial risk map and updated action plans are presented to the Appointments and Remunerations Committee and the Audit and Control Committee supervises both the financial and non-financial risks, including the corrective action plans, and periodically reports to the Board of Directors on the effectiveness of the Risk Management and Control Model so that it can be informed and take the appropriate measures in each case.

E.2 Identify the company's bodies responsible for drawing up and implementing the risk control and management system, including the tax system.

As a matter that cannot be delegated, the Board of Directors is the maximum body responsible for the risks of the company in accordance with the provisions of Article 5 of the Regulations of the Board of Directors. Thus, within the scope of its supervisory and control functions, the Board of Directors has, among other duties, the non-delegable power to supervise risks, in accordance with the provisions of the Regulations of the Board of Directors and thus, as established in the Regulations of the Board of Directors itself, the Board is assisted in carrying out this supervision by its two delegated committees and the collegiate or one-person compliance bodies described below:

Audit and Control Committee:



The Audit and Control Committee, within the framework of its competencies set out in Article 15 of the Regulations of the Board of Directors, is entrusted, among others, with the supervision of the effectiveness of the company's internal control, internal audit and risk management systems, as well as with the discussion with the auditors of accounts or audit companies of significant weaknesses detected in the internal control system, where appropriate, in the course of the audit, all of this without infringing its independence.

Appointments and Remunerations Committee:

In accordance with Article 18 of the Regulations of the Board of Directors, one of the functions attributed to the Appointments and Remunerations Committee is the assessment of all the company's non-financial risks, including operational, technological, legal, social, environmental, political and reputation risks.

Ethics Committee:

Within the framework of the Group's System for the Prevention of Criminal Risks, the Group's Ethics Committee was set up as the body responsible for monitoring, compliance and sufficiency of the prevention model, as well as any aspect related to the ethical culture of the Company and its Group, in order to carry out any recommendations that may be necessary for its implementation.

Cybersecurity and Privacy Committee:

Given the sector in which the Group operates and its commitment to the highest standards of quality, security, confidentiality, integrity, availability and privacy of information, a Cybersecurity and Privacy Committee was set up in the financial year 2017 as the body responsible for compliance with the Cybersecurity and Privacy Policies, as well as to create criteria and set internal priorities to undertake the necessary projects in cybersecurity and privacy, maintaining a balance between risk levels and efficient use of resources, with suitability and proportionality.

Data Protection Officer:

With regard to compliance with personal data protection regulations, the Group has appointed a Data Protection Officer, with the duties and status provided for by law, as well as any others entrusted to him internally.

Compliance Officer:

As a compliance monitoring body that reports independently to the Board of Directors.

Internal Audit:

As the party responsible for supporting the Audit and Control Committee in the supervision of the Group's risk management and control system (including tax risks).

E.3 State the main risks, including tax risks and, to the extent that they are significant, risks arising from corruption (the latter being understood to be within the scope of Royal Decree Act 18/2017), which may affect the achievement of business objectives.

In general, significant risks are considered to be those that have a medium to high impact and probability of occurrence or any internal or external contingency that, if it were to materialize, would prevent or hinder the achievement of the Group's strategic objectives. The control systems described in this section have been designed for this purpose.

The risk factors to which the Group is generally subject are:

- Financial and credit risks: probability of the occurrence of an event with negative financial consequences for the Group. Specifically, MASMOVIL understands that there are risks related to the market, interest rate, liquidity, taxation, indebtedness, solvency and credit.

- Regulatory risks: probability of the occurrence of an event related to compliance with laws and regulations that may negatively affect the Group's economically or its reputation. Specifically, MASMOVIL understands that these are risks associated with contracts, legislation and regulation of the telecommunications sector, litigation, the model of prevention of criminal risks and protection of personal data.

- Strategic risks: probability of the occurrence of an event that has negative consequences on the Group's strategy. Specifically, MASMOVIL understands that these are risks related to the business model, communication and brand. Mergers and acquisitions, innovation and transformation, macroeconomic aspects and planning and resource allocation.

- Operational risks: probability of the occurrence of an event related to the Group's operations that has negative consequences (economic, organisational, reputational, etc.). Specifically, MASMOVIL understands that these are external threats, commercial, logistic, organisational and supplier-related risks.

- Technological risks: probability of the occurrence of an event related to the Group's information systems and infrastructures. Specifically, MASMOVIL understands that there are risks related to the integration of information systems as a result of recent acquisitions, risks related to cyber security and privacy or security breaches in the information systems and

communications network that may result in leakage/loss of information, availability of the systems/network and sanctions.

- Corporate Governance risks: MASMOVIL understands that these are the risks derived from non-compliance with the Articles of Association and Regulations of the Board and other delegated bodies of the Board, the Code of Ethics, the internal regulations of the Group and in general the recommendations of good governance.

Reputational risks: MASMOVIL understands that these are the risks derived from those activities that could have a negative impact on the image of the Company.

E.4 Identify whether the entity has risk tolerance levels, including tax risk.

In accordance with the provisions of the Group's Risk Management and Control Policy, at its meeting on 18 December 2019 the Board of Directors approved the updating of the risk tolerance levels for the main risk categories (strategic, financial, operational and compliance), where, for each of the risks identified in the Corporate Risk Map, the risk tolerance level that the Group is willing to assume in order to achieve its strategic objectives has been assigned.

E.5 Indicate which risks, including tax risks, have materialised during the year.

In 2019, no significant financial, strategic, operational or compliance risk materialised; however, as mentioned in the Consolidated Financial Statements, during 2018 the Spanish Tax Agency initiated VAT inspections of the subsidiaries Xtra Telecom, S.A.U. and Quantum Telecom, S.A., in relation to the wholesale business for 2015 and 2016. On 16 September 2019, the Tax Administration notified the Settlement Agreement and the Agreement on the Resolution of the Sanctioning File to both companies. This procedure is currently under way and the Parent company's directors do not consider that these liabilities could have a significant effect on the consolidated financial statements taken as a whole.

The non-materialisation of risks during the year is largely due to the control mechanisms implemented (see section E.6 of this report) which have made it possible to maintain the impact and probability of occurrence within the tolerance levels approved by the Board of Directors.

E.6 Explain the response and monitoring plans for the entity's main risks, including tax risks, as well as the procedures followed by the company to ensure that the board of directors responds to new challenges that are presented.

As stipulated in the Group's Risk Management and Control Policy, once the main risks have been identified, classified and quantified in the Corporate Risk Map, this is monitored and updated on an ongoing basis.

In this regard, the following action plans have been implemented for the main risks identified in the Corporate Risk Map:

As regards non-financial risks, the Group has been mitigating them throughout 2019 by implementing the measures agreed at the various meetings of the Appointments and Remunerations Committee, which have reviewed the following projects in particular:

- Retention and acquisition of talent:
  - In 2019 the Board of Directors approved the Group's Human Resources and Labour Relations Policy.
  - The Human Resources Department has promoted the "MASTALENTO" project in order to establish the tools to identify and retain talent for critical positions.
  - The Board of Directors has approved the hiring of key staff from the information systems team that previously provided services under a service delivery contract.
- High dependence on certain suppliers in key business operations:
  - Purchasing Policy approved by the Board of Directors.
  - Purchasing Procedure and Regulations of the Purchasing Board.
  - Inclusion of early termination clauses in contracts.
  - The company has backup providers in case of need for change.
  - In 2019 the Executive Committee approved a Contingency Plan for suppliers subject to international blockades or sanctions.
  - Analysis of alternative logistics models carried out by the Purchasing Department.
- Cybersecurity and privacy:
  - Cybersecurity and Privacy Policies approved by the Board of Directors.
  - Existence of an information security master plan.
  - Security controls / logical access to critical systems: there is a corrective action plan issued by the internal audit that will be implemented in the first half of 2020, through the IAM Project (Identity Access Management).
  - The Cyber Security Operations Centre (cSOC) and Network Operations Centre (NOC) are fully operational and have been effective in preventing potential attacks.
  - In 2019, 779 employees have been given cyber security awareness courses (560 online and 219 face-to-face).

- Existence of a cyber security insurance policy.
- Approval by the Board of Directors in 2019 of the outsourcing of the function of Data Protection Officer (DPO) to a firm of recognised prestige for the development of the functions inherent to this position.
- Criminal risks: to prevent the materialisation of the criminal risks identified in the Criminal Risk Map, the Company, as part of its corporate compliance programme, has approved, among others: the Code of Ethics, the Supplier Code of Ethics, the Criminal Risk Prevention Manual, the Policy on the Prevention of Crimes, Fraud and Corruption, the Policy on Non-Tolerated Behaviour, the Money Laundering Policy, the Protocol for Acting with the Public Administration and Political Parties, as well as the review of the Purchasing Policy and the Tax Policy.
- Legal and/or tax risks: the impact of possible changes in the regulations governing the activities carried out by the group are managed through the advice of specialists (both internal and external) in regulated law, civil, criminal, tax, financial and corporate law.

With regard to financial risks, during the 2019 financial year the Group has carried out, among others, the following actions in order to mitigate the main risks identified in the Corporate Risk Map presented every six months to the Audit and Control Committee:

- Level of indebtedness and complexity of financial instruments:
  - Successful completion of the senior debt refinancing and repricing of Term Loan B in 2019.
  - Providence Convertible buyback completed in 2019.
  - Existence of undrawn credit lines and confirming lines.
- Income recognition and assurance:
  - Implementation of 53 new Revenue Assurance controls with coverage of more than 80% of total income.
  - Update of the narrative and matrix of risks and controls of the SCIIF (See section F of this report).
- Reporting risks and reliability of financial information due to lack of integration of the acquired companies' ERP systems: there is a plan to integrate the acquired companies' management systems. Also, as described in section F of this report, the Company has developed its Internal Control System on Financial Information (SCIIF).

## **F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS (SCIIF)**

Describe the mechanisms that make up the risk control and management systems in relation to your entity's financial reporting process (SCIIF).

### **F.1 The entity's control environment**

Report, pointing out its main features of, at least:

- F.1.1. What bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective SCIIF; (ii) its implementation; and (iii) its supervision.

The Board of Directors is ultimately responsible for the existence and maintenance of an adequate and effective Internal Control System, in accordance with the provisions of article 529 ter of the current Capital Companies Act, and this is set out in article 5 of its Regulations, as amended and approved on 27 November 2019, which grants it the non-delegable function of "determining the policy for the control and management of risks, including tax risks, and supervising the internal information and control systems".

The Audit and Control Committee, within the framework of its powers as set out in the Regulations of the Board of Directors, and with the support of the Internal Audit and Compliance Departments, has been granted, among other powers, those:

- "To monitor the effectiveness of the company's internal control, internal audit, where appropriate, and risk management systems and discuss with the auditors or audit firms significant weaknesses in the internal control system identified during the audit, if any, without compromising their independence. To this end and, where appropriate, they may submit recommendations for proposals to the Board of Directors and the corresponding deadline for their follow-up"
- "To supervise the process of preparing and presenting the regulated financial information and to submit recommendations or proposals to the Board of Directors aimed at safeguarding its integrity, reviewing compliance with regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of accounting criteria".
- "To inform the General Shareholders' Meeting on the issues that arise within its competence, in particular, on the result of the audit explaining how it has contributed to the integrity of the financial information and the role that the Committee has played in this process. In this respect, the Audit and Control Committee shall ensure that the Board of Directors endeavours to present the accounts to the General Shareholders' Meeting without any limitations or qualifications in the audit report and that, in the exceptional cases where qualifications exist, both the Chairman of the Audit and Control Committee and the auditors shall clearly explain to the shareholders the content and scope of such limitations or qualifications".

- "To report, in advance, to the Board of Directors on all matters provided for in the Law, the Articles of Association and the Regulations of the Board, and in particular on: (i) the financial information that the company must make public periodically; (ii) the creation or acquisition of interests in special purpose entities or entities domiciled in countries or territories considered to be tax havens; and (iii) transactions with related parties".
- "Under the direct supervision of the Audit and Control Committee, there shall be an internal risk control and management function exercised by a unit or department within the Company".
- "To establish and supervise a mechanism that allows employees to communicate, confidentially and, if possible and if considered appropriate, anonymously, irregularities of potential importance, especially financial and accounting irregularities, which they notice within the company".

In accordance with the Internal Control System Policy on Financial Information (SCIIF), Financing and Financial Risk approved by the Board of Directors on 28 June 2018, the responsibility for the design and implementation of the SCIIF lies with the Finance Department, although the control of the Company and its Group companies must be supported by all areas of the Company and especially the Steering Committee.

F.1.2. If, especially with regard to the process of preparing financial information, the following elements exist:

- Departments and/or mechanisms in charge: (i) of the design and review of the organisational structure; (ii) of clearly defining the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) that there are sufficient procedures for their proper dissemination within the entity.

In accordance with the provisions of the Regulations of the Board of Directors, the non-delegable functions of the Board of Directors include, among others, the appointment and dismissal of the Company's Chief Executive Officer and of the executives who report directly to the Board or to any of its members, as well as the establishment of the conditions of their contracts, including their remuneration.

In this regard, as stipulated in the Internal Control System Policy on Financial Information (SCIIF), Financing and Financial Risk, the Chief Executive Officer, with the support of the General Human Resources Department, is the party ultimately responsible for the design and review of the organisational structure.

There is an organisation chart of the Group published on the Corporate Intranet accessible to all employees, as well as job descriptions prepared by the Human Resources Area, where the roles and responsibilities of employees are clearly defined from the highest to the

technical levels, including the Areas responsible for preparing financial information and reviewing it (Financial Area, Internal Audit, etc.).

As an integral part of the Internal Control System on Financial Information (SCIIF), narratives and risk and control matrices have been developed for the main processes that have a significant impact on the Group's financial information, defining the roles and responsibilities in relation to the process of preparing and reviewing financial information. Furthermore, in order to ensure that all operations are carried out with adequate control, seeking the greatest efficiency and safety, the Group has developed a Policy on the Granting and Use of Powers of Attorney approved by the Chief Financial Officer, which details the powers and amounts by level and type of activity within the organisation.

- Code of conduct, approval body, degree of dissemination and instruction, principles and values included (indicating whether there are specific mentions to the register of operations and preparation of financial information), body responsible for analysing breaches and proposing corrective actions and sanctions.

The Company maintains a Code of Ethics approved by the Board of Directors at its meeting held on 22 May 2017 and published on the Corporate Intranet. The Code of Ethics is the core of the Group's compliance and ethics system and aims to establish the principles and guidelines of business conduct to ensure the ethical and responsible behaviour of the Group's employees and managers.

The Human Resources Area has carried out campaigns to support this initiative, which has been signed by all the Group's employees, including the new recruits who receive it as part of the welcome pack, and must return a signed copy, which is kept by this Area. In addition, the Compliance Officer has conducted training sessions on the implementation of the Code and the Group's ethical principles.

With regard to financial information, the Code of Ethics states that: "The Group companies will ensure compliance with the regulations, with special attention to the sectoral, tax, accounting, stock market and financial regulations applicable in the framework of achieving the corporate interest and supporting the long-term business strategy, avoiding risks and inefficiencies in the execution of business decisions. Special attention will be given to aspects related to the Internal Control System on Financial Information (SCIIF) in order to ensure the clarity and accuracy of transactions and their respective accounting records and the preparation of financial information".

The supervision and monitoring of compliance with the Code of Ethics and, in general, with the compliance policies is the responsibility of the Compliance Officer. As stipulated in the Code of Ethics, the Compliance Officer will prepare an annual report on the assessment of the monitoring of the Code of Ethics, which will be reported to the Ethics Committee and the Board of Directors and disseminated to both the Internal Audit and Human Resources Departments.

In addition, the Group has set up an Ethics Committee (comprising the heads of the Departments for Legal and Compliance, Human Resources, Finance and the Compliance



Officer himself, as well as a fifth rotating member representing other Group Departments), which is the internal and autonomous collegiate body responsible for analysing possible breaches of the Code of Ethics and for resolving the procedures for checking and investigating the complaints received, including the recommendation of disciplinary sanctions to be applied by the Human Resources Department.

In addition to the Code of Ethics, the Board of Directors has approved the following documents and policies, among others, in order to strengthen the Group's business ethics, good corporate governance, honesty and transparency:

- Internal Code of Conduct for Securities Markets Issues (RIC).
  - Supplier's Code of Ethics.
  - Crime prevention policy, against fraud and corruption.
  - Gift Policy.
  - Protocol of action with the public administration and political parties.
  - Purchasing policy.
  - Prevention of money-laundering policy.
  - Corporate governance policy.
  - Non-tolerated behaviour policy.
  - Update of the Criminal Risk Prevention model (including the criminal risk map and the Crime Prevention Manual), approved by the Board of Directors at its meeting on 18 December 2019.
- Whistle-blower channel, which allows the communication to the audit committee of irregularities of a financial and accounting nature, in addition to possible breaches of the code of conduct and irregular activities in the organisation, informing, if appropriate, if this is of a confidential nature.

The Company has an Ethical Channel available to all Group employees, which is constituted as a transparent channel for reporting behaviour that may involve the commission of any irregularity or any act contrary to the law or to the rules of action of the Code of Ethics and internal regulations, or to raise any doubt or query regarding the interpretation of the Code of Ethics and internal development regulations.

As stipulated in the Code of Ethics, the identity of the person who communicates an anomalous action through the Ethical Channel will be considered confidential information and, therefore, will not be communicated to any third party, thus guaranteeing the non-disclosure of the identity of the party reporting and avoiding any type of response to them by the party being reported as a consequence of the complaint.

In accordance with the Procedure for the Management of the Ethical Channel, approved by the Ethics Committee at the meeting held on 16 June 2017, in the event that the facts reported through the Ethical Channel involve possible irregularities of potential importance that are exclusively financial and accounting, the Compliance Officer must immediately inform the Audit and Control Committee, without prejudice to its additional reporting to the Ethics Committee.

The rest of the complaints received will be analysed by the Compliance Officer who will determine whether or not to admit them for processing, based on the plausibility or veracity

of the facts and documentation provided, in order to validate the reasonableness and sufficiency of the information contained therein. No communication will be processed if the person who made it does not appear sufficiently identified, if the requirements relating to the protection of personal data are not met or if, in a significant manner, the action that is the object of the communication does not constitute an irregularity or a breach of the Group's internal rules or a behaviour that may imply the commission of some irregularity or an act contrary to law.

During the financial year 2019, the Ethical Channel has not received any reports related to irregularities that could affect financial information.

Likewise, as stipulated in the Supplier's Code of Ethics approved by the Board of Directors on 31 October 2017, the Company has established a supplier's ethical mailbox as a confidential communication channel between MÁSMÓVIL and its suppliers or their respective employees or subcontractors, as well as companies that have tendered for services or supplies to become suppliers, so that they can report behaviour that may involve some act contrary to the law or to the provisions of the supplier's own Code of Ethics, within the framework of the business relationship, either by an employee of MÁSMÓVIL or by an employee of the supplier or subcontractors.

No communication has been received through the supplier's ethical mailbox in 2019.

- Regular training and refresher programmes for staff involved in the preparation and review of financial information, as well as in the evaluation of the SCIIF, covering at least, accounting standards, auditing, internal control and risk management.

The Board of Directors, at its meeting held on 27 November 2019, approved the Human Resources and Labour Relations Policy, which establishes that the Group will promote the implementation of training programmes and plans that favour professional improvement for the performance of the job, the adaptation of human resources to technological and organisational changes, respect for human rights, the adaptation of new employees to the Group's requirements and that foster a culture of ethical behaviour.

In this sense, every year the Training and Development Department carries out a needs detection process after which the Annual Training Plan is drawn up and specific investments are made according to the needs of the different areas. The emphasis on training all Group employees in the use of new digital tools, awareness of cyber security, PRL, GRPD, ethics and compliance is worth noting. In addition, a Leadership Programme has been carried out aimed at all those employees who manage people in the MASMOVIL Group, a Sales Programme for the Business area and other technical training developed ad hoc according to the specific needs in each area.

Throughout 2019, the personnel involved in the preparation and review of financial information attended various seminars and workshops on current accounting, tax, internal control and risk management issues, specifically the following workshops, among others:

- Key financial and tax information for 2019.

- Seminar of tax updates for the company 2019.
- National risk management meeting.
- Institute of Internal Auditors Expert Forum (June and November).
- 1st Forum for Internal Auditors of the Telecommunications Sector.

In addition, in accordance with the Annual Training Plan prepared by the Training and Development Department, the following courses, both external and internal, were given in 2019 in connection with the preparation and review of financial information, business ethics and cyber security awareness:

- Online training course on Risk Management and the Group's Internal Control System on Financial Information (SCIIF), which was completed by 41 employees from the Financial, Internal Audit and Investor Relations Areas.
- The Compliance Officer has also given several internal training sessions on Ethics, GDPR and Compliance. In addition, a session on Ethics and Compliance has been included in the Immersion Plan for new employees. In 2019, a total of 234 employees attended this training on Ethics, GDPR and Compliance.
- Online and face-to-face cybersecurity awareness courses that have been completed by 779 employees (219 face-to-face and 560 online).

## F.2 Risk assessment of financial information

Reporting, at least:

F.2.1. What are the main characteristics of the risk identification process, including those of error or fraud, in terms of:

- If the process exists and is documented.

MÁSMÓVIL has a Group Risk Management and Control Policy, approved by the Board of Directors, which establishes the principles and guidelines so that the risks that could affect the Group's strategies, objectives and obligations are at all times defined, identified by category, quantified, communicated and, as far as possible, controlled.

The Risk Management and Control Policy and its principles are materialised through an Integral Risk Management and Control System, based on the COSO (Committee of Sponsoring Organisations of the Tradeway Commission's) model, which improves the organisation's capacity to manage uncertainty scenarios.

The Group's risk control and management model is based on the continuous review and updating of the Company's risk map, which has been designed in line with the Group's strategies. Once the risks have been identified and classified (according to their impact and probability of occurrence), the action plans needed to mitigate these risks are formalized, also evaluating the residual risk and risk tolerance levels.

The updated risk map and action plans are then presented to the Appointments and Remunerations Committee (non-financial risks) and the Audit and Control Committee (all

risks), which periodically informs the Board of Directors of the effectiveness of the Risk Management and Control Model so that it can take the appropriate measures in each case.

The description of the risk control and management model of the MÁSMÓVIL Group is included in section E. Risk Control and Management Systems of this Corporate Governance Report.

- If the process covers the full range of financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), whether it is updated and how often.

In the design and implementation phase of the SCIIF, an analysis was made of the critical processes and transactions that have a significant impact on the Group's Consolidated Financial Statements. This process is carried out annually, with the last update completed in the first half of 2019. To this end, risks are assessed considering both quantitative criteria (materiality in financial statements and/or number of transactions) and qualitative criteria, such as risk of error or fraud, complexity of calculations, estimates or judgements, corporate operations, growth trends and unusual operations within the Group.

Control activities are designed to cover all financial reporting objectives. In this regard, the risk and control matrices include a column detailing which financial reporting objectives are being covered by control activities and another column detailing whether a risk of fraud exists.

- The existence of a process for identifying the scope of consolidation, taking into account, among other aspects, the possible existence of complex corporate structures, instrumental or special purpose entities.

In accordance with the provisions of the Regulations of the Board of Directors, the Board has the power, which cannot be delegated, to approve the creation or acquisition of shares in special-purpose entities or entities domiciled in countries or territories considered to be tax havens, as well as any other transactions or operations of a similar nature which, due to their complexity, could undermine the transparency of the Company and its Group.

Likewise, in the same Regulations, the Audit and Control Committee is entrusted, among other functions, with the supervision of the preparation process and the integrity of the financial information relating to the Company and, where appropriate, to the Group, reviewing compliance with regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of accounting criteria.

In this regard, as described in the accounting close, consolidation and reporting process of the SCIIF, as an integral part of the quarterly closing presentation presented to the Audit and Control Committee by the Finance Department, a section is included with the changes in the consolidation scope of consolidation that occurred during the quarter, their impact on the consolidated financial statements and the main aggregates and conclusions.

- Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.

As stipulated in the Group's Risk Management and Control Policy, as a result of the activities carried out by the MÁSMÓVIL Group, there are risks inherent to the sector, macroeconomic environment, regulatory framework and operations that must be identified and controlled through the risk management systems established by the Company.

This policy is implemented through a comprehensive risk control and management system, based on the COSO model, which covers strategic, operational, financial, reporting and compliance risks. In accordance with the Policy, the risk factors to which the Group is generally subject are:

- Financial and credit risks: probability of the occurrence of an event that has negative financial consequences for the Group. Specifically, MÁSMÓVIL understands that there are risks related to the market, interest rates, liquidity, taxation, indebtedness, solvency and credit.

- Regulatory risks: probability of the occurrence of an event related to compliance with laws and regulations that may negatively affect the Group's economically or its reputation. Specifically, MASMOVIL understands that these are risks associated with contracts, legislation and regulation of the telecommunications sector, litigation, the model of prevention of criminal risks and protection of personal data.

- Strategic risks: probability of the occurrence of an event that has negative consequences on the Group's strategy. Specifically, MÁSMÓVIL understands that these are risks related to the business model, communication and brand, mergers and acquisitions, innovation and transformation, macroeconomic aspects and planning and resource allocation.

- Operational risks: probability of the occurrence of an event related to the Group's operations that has negative consequences (economic, organisational, reputational, etc.). Specifically, MASMOVIL understands that these are external threats, commercial, logistic, organisational and supplier-related risks.

- Technological risks: probability of the occurrence of an event related to the Group's information systems and infrastructures. Specifically, MASMOVIL understands that there are risks related to the integration of information systems as a result of recent acquisitions, risks related to cyber security and privacy or security breaches in the information systems and communications network that may result in leakage/loss of information, availability of the systems/network and sanctions.

- Corporate Governance Risks: MASMOVIL understands that these are the risks derived from non-compliance with the Articles of Association and Regulations of the Board and other delegated bodies of the Board, the Code of Ethics, the internal regulations of the Group and in general the recommendations of good governance.

Reputational Risks: MASMOVIL understands that these are the risks derived from those activities that could have a negative impact on the image of the Company.

In 2017 the Company approved a system of dual risk control, in accordance with approved regulations on non-financial information. Thus, non-financial risks are supervised in the first instance by the Appointments and Remunerations Committee and financial risks by the Audit and Control Committee, although the latter consolidates the supervision of both risks (financial and non-financial).

On the other hand, in 2018, the Audit and Control Committee and the Board of Directors were informed at their meetings held on 28 November 2018 of the Tax Risk Management and Control Procedure, which develops and complements the Group's Risk Management and Control Policy (previously approved by the Board of Directors on 22 May 2017), as well as the Tax Policy (previously approved by the Board of Directors on 22 May 2017 and updated on 19 December 2018).

- Which governing body of the entity oversees the process?

The Audit and Control Committee, within the framework of its competencies set out in Article 15 of the Regulations of the Board of Directors, is entrusted, among other things, with the competencies of supervising the effectiveness of the company's internal control, internal audit and risk management systems, as well as discussing with the auditors or audit firms significant weaknesses in the internal control system detected, where applicable, in the course of the audit, all of this without infringing its independence.

### F.3 Control activities

Report, pointing out its main characteristics, if you have at least:

- F.3.1. Procedures for reviewing and authorising financial information and the description of the SCIIF, to be published in the stock markets, indicating those responsible, as well as descriptive documentation of the flows of activities and controls (including those related to fraud risk) of the different types of transactions that may materially affect the financial statements, including the accounting closing procedure and the specific review of relevant judgements, estimates, valuations and projections.

The Board of Directors has approved a Policy for the Review and Approval of Financial Information by the Group's Governing Bodies, the purpose of which is to establish the practices for internal review and approval of the financial information to be provided to the markets and regulators (including the annual accounts, interim accounts and the Management Report) by the members of the Board of Directors and the Audit and Control Committee.

In addition, the Board of Directors has approved a Procedure for the Development of the Financial Information Review and Approval Policy, which describes in greater detail the process of preparing the financial statements, the necessary internal approvals and the deadlines established for sending the information to the administrative bodies for final approval.

As an integral part of the Internal Control System of Financial Information (SCIIF) of the MÁSMÓVIL Group, 10 key processes have been identified that have a significant impact on the Group's consolidated financial information:

- Accounting close, consolidation and reporting cycle
- Turnover and income recognition cycle
- Treasury and financing cycle
- Budget and business plan cycle
- Purchase and accounts payable cycle
- Terminal purchase, financing, subsidies and commissions to distributors cycle
- CAPEX and fixed assets cycle
- Taxation cycle
- Human resources and payroll management cycle
- Mergers and acquisitions (M&A) cycle

For all 10 processes, narratives are available that contain a description of the flows of activities and controls that materially affect the financial statements, as well as risk and control matrices that summarise the risks identified in the narratives and the controls implemented to mitigate them. In addition, during the 2019 financial year, flowcharts were developed for the main processes, including a graphic description of them, as well as the departments and systems involved.

The risk and control matrices include, among other areas, the objectives of the financial information they are covering, the person responsible for control and the execution of the control, the frequency of control activities, whether they are preventive or detective, manual or automatic, and whether there is a risk of fraud.

In accordance with the Internal Control System Policy on Financial Information (SCIIF), Financing and Financial Risk, the Areas and Departments that are mentioned in the different narratives are responsible for compliance with them and for communicating any changes in the processes that could affect the design or compliance with controls identified in the processes. In 2019, significant changes were made to the risk and control narratives and matrices of the processes of: (1) invoicing and income recognition; (2) purchases and accounts payable; and (3) accounting close, consolidation and reporting, which have been validated by the process owners.

As regards the review of relevant judgements, estimates, valuations and projections, as an integral part of the model, in the different processes identified (risk and control narratives and matrices), specific controls are included, where the control, the person responsible for its execution and its supervision and/or approval are clearly defined. Likewise, the process of Accounting Close, Consolidation and Reporting includes a specific control of supervision of the main assessments and estimates included in the Consolidated Financial Statements by the Audit and Control Committee.

As a general rule, whenever judgements or estimates are included that could have a significant impact on the Group's financial statements, reports from independent experts of recognised prestige are requested to support the calculations and valuations. The results of

their reports are presented to the Audit and Control Committee as part of the presentation of the accounting closure, thus ensuring the correct supervision of the work carried out.

In this connection, in 2019 the services of independent experts were engaged to support the calculation of the distribution between the assets acquired (tangible and intangible) and the liabilities assumed in the business combinations that took place in the year (Netllar, S.L.U. and Carrier-E Mobile, S.L.), as well as the adjustment to the distribution between the assets and liabilities of the acquisition of The Bymovil Spain, S.L.U. in December 2018.

F.3.2. Policies and procedures for internal control over information systems (including security of access, change control, operation of these systems, operational continuity and segregation of duties) that support the relevant processes of the entity in relation to the preparation and publication of financial information.

All new employees must sign the following policies and procedures related to information systems:

- Computer Security Policies and Standards.
- Internet Use and PC Security.
- Use of Email.

The Board of Directors has also approved the Group's Cybersecurity and Personal Data Protection and Privacy Policies (at its meetings held on 31 October 2017 and 20 December 2017, respectively), which aim, among other things, to effectively manage the security of the infrastructures and information processed by the company's IT systems, in order to guarantee the confidentiality, integrity, availability and privacy of the information, as well as to comply with the laws and regulations in force at any given time, maintaining a balance between the levels of risk and an efficient use of resources, with criteria of suitability and proportionality.

On the other hand, as an integral part of the SCIIF, specific controls related to access controls, segregation of functions and the correct interface between different systems are included in the risk and control narratives and matrices of the different processes, in order to ensure the integrity and reliability of the information contained in the computer systems and applications.

F.3.3. Internal control policies and procedures to monitor the management of the activities outsourced to third parties, as well as those aspects of evaluation, calculation or assessment entrusted to independent experts, which may have a material impact on the financial statements.

The Board of Directors, at its meeting held on 27 September 2018, approved the amendment of the Group's Purchasing Policy, which aims to establish a global framework for the control and management of the risks resulting from the activities of equipment and material purchases, as well as the contracting of works and services throughout the MASMOVIL Group.



As stipulated in the Policy, the Purchasing Department is responsible for maintaining an active relationship with suppliers and ensuring control of the risks associated with them, with the Area requesting a service or product being responsible for monitoring compliance with the contractual conditions and Service Level Agreements (SLAs), where applicable.

On 7 December 2018, the amendment of the Purchasing Procedure was approved, which develops the aforementioned policy, describing the requirements for contracting with suppliers and detailing the entire purchasing process (purchase request, request for quotations, bidding, purchase desk and awards), including the administrative processes, such as signing contracts, registering suppliers, creating purchase orders and receiving and registering invoices.

One of the services outsourced to third parties that have the greatest impact on the Group's financial statements is the management and maintenance of the CRM, pricing and billing system for the Yoigo brand. In 2018, a new contract was signed with the supplier that includes new service level agreements that are monitored by the corresponding areas. An ISAE 3402 Type II report has been requested for the year 2019 in relation to the internal control system of the services provided by the supplier.

Also, as an integral part of the invoicing and income recognition process of the SCIIF, there are a number of controls carried out by Group personnel to ensure that the activities carried out by the supplier and the data provided by the supplier are correct and have an appropriate interface with the management systems.

On the other hand, with respect to services entrusted to independent experts that involve evaluation, calculation or assessment and that may materially affect the Group's financial statements, the authorisation of services must always be in accordance with the Internal Purchasing Procedure in which the prestige, experience and independence of the independent expert will be assessed, among other aspects, and must pass a prior approval process carried out by the Group's Purchasing Department.

The results of the work carried out by independent experts that have a significant impact on the financial statements are presented to the Audit and Control Committee as part of the presentation of the accounting closure, thus ensuring the correct supervision of the work carried out.

#### **F.4 Information and communication**

Report, pointing out its main characteristics, if you have at least:

- F.4.1. A specific function in charge of defining, maintaining updated accounting policies (accounting policy area or department) and resolving queries or conflicts derived from their interpretation, maintaining fluid communication with those responsible for operations in the organisation, as well as an updated accounting policy manual communicated to the units through which the entity operates.

For the purposes of preparing the financial information of individual companies under Spanish GAAP and consolidated under EU-IFRS, the Company has developed an

Accounting Policy Manual applicable to all Group companies. This manual is updated periodically and its purpose is to define the criteria followed for the preparation of the individual and consolidated financial statements under Spanish GAAP and EU-IFRS, respectively, the last update having been completed in October 2019.

As stipulated in the Company's job descriptions, the Director of Accounting and Taxation, who reports to the General Finance Department, is ultimately responsible for carrying out, updating and communicating homogeneous accounting and administrative policies. He is also responsible for maintaining and mapping the chart of accounts in the SAP financial module, in accordance with the criteria and principles set out in the Accounting Policy Manual.

The Accounting Policy Manual also stipulates that the Group's Accounting Department is responsible for resolving any queries or conflicts arising from the interpretation of accounting policies for their correct application.

F.4.2. Mechanisms for capturing and preparing financial information with homogeneous formats, applicable and used by all the units of the entity or group, which support the main financial statements and the notes, as well as the information detailed on the SCIIF.

The Company has an Integrated Management System (SAP) from which the accounting record of operations and the preparation of financial information is carried out centrally for all the companies in the Group, which facilitates homogeneous treatment for the preparation of the consolidated financial statements.

The SCIIF risk and control narratives and matrices include controls relating to interfaces with other systems, access controls and segregation of duties. Critical files are stored in shared network folders with restricted access by users.

In accordance with the Procedure for the Development of the Financial Information Review and Approval Policy, the process of preparing the financial information by the Financial Area is structured around the following elements:

- The monthly and annual closing calendars prepared by the Accounting and Control Departments; these are prepared detailing the set of tasks that must accompany each one of the indicated processes, showing not only the tasks, but also the dates where it is required to have the information and the financial managers for each one of those activities.
- The accounting policies and criteria validated by the auditors (associated with PGC and IFRS).
- The internal processes of the Accounting and Control Departments; both internal for finance, and their rules of interrelation with other areas of the Company.

The process of accounting and preparation of the financial statements (which flows according to the indicated schedules) is led and reviewed in the first instance by the

Accounting Department which must ensure that the accounting rules and criteria validated by the audit team are respected. Subsequently, once the financial information for the period to be analysed has been generated, it is reviewed by the Directors of Accounting and Control with the Chief Financial Officer (CFO), where the main variations with the previous period and the annual budgets are analysed and explained. Likewise, any differential element is highlighted in this review, or that due to its importance should be commented on.

At the same time, and above all once the accounting close has been completed, the Area Controllers review the figures from an operational point of view, incorporating into the analysis the deviations by business units with a specific focus on monitoring business ratios (customers, income per customer, unit costs, etc.).

On a quarterly, half-yearly and annual basis, the Finance Department prepares the Consolidated Financial Statements which include the balance sheet, the profit and loss account, the statement of changes in equity, the cash flow statement and, in the half-yearly and annual closures, the annual report and the management report.

The notes and breakdowns supporting the Group's annual report and financial statements, as well as the management report (which incorporates the Annual Corporate Governance Report and the section of the SCIIF), are included in the reporting package which, in accordance with the Policy on Review and Approval of Financial Information by the Group's Management Bodies, is reviewed by the Audit and Control Committee, which in turn reports to the Board of Directors, so that the latter may formulate the interim and annual accounts, if appropriate.

## **F.5 Monitoring the operation of the system**

Report, pointing out its main features of, at least:

- F.5.1. The monitoring activities of the SCIIF carried out by the audit committee as well as whether the entity has an internal audit function that has among its responsibilities that of supporting the committee in its work of monitoring the internal control system, including the SCIIF. The scope of the assessment of the SCIIF carried out during the year and the procedure by which the person in charge of executing the assessment communicates its results will also be reported, if the entity has an action plan detailing any corrective measures, and if their impact on the financial information has been considered.

As established in the Regulations of the Board of Directors, the Audit and Control Committee has, among others, the following functions:

- "To supervise the process of preparing and presenting the regulated financial information and to submit recommendations or proposals to the Board of Directors aimed at safeguarding its integrity, reviewing compliance with regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of accounting criteria".

- "To monitor the effectiveness of the company's internal control, internal audit, where appropriate, and risk management systems and discuss with the auditors or audit firms significant weaknesses in the internal control system identified during the audit, if any, without compromising their independence.

The Company has an Internal Audit Area which, in accordance with the Good Governance Code for Listed Companies and Technical Guide 3/2017 on Audit Committees of Public Interest Entities (CNMV), reports directly to the Chairman of the Audit and Control Committee and, subsidiarily, to the Chairman of the Board of Directors. The Internal Audit Area periodically reports to the Audit and Control Committee on the Annual Internal Audit Plan, regarding the work performed and significant internal control weaknesses identified in the performance of its work.

In relation to the SCIIF, the Internal Audit Area has among its functions, described in the job descriptions of the Company, the support to the Audit and Control Committee in the supervision of the design, implementation and effective operation of the control and risk management systems, including the SCIIF.

The Annual Internal Audit Plan approved by the Audit and Control Committee, at its meeting held on 24 January 2019, includes a specific section for reviewing the operation and effectiveness of the internal control system on financial information, as well as the presentation of results, recommendations and corrective action plans to the Audit and Control Committee.

In application of this plan, in the financial year 2019, 100% of the key controls have been carried out (144 controls). The results of the tests carried out have been presented to the Audit and Control Committee and the control weaknesses identified have been reflected in a corrective action plan that includes recommendations, responsible parties and expected date of implementation. The Audit and Control Committee periodically reviews the status of implementation of the recommendations issued by Internal Audit.

At the request of the Audit and Control Committee, in 2019 the Group's SCIIF was reviewed by an independent expert who issued an ISAE 3000 report on reasonable assurance regarding the design and effectiveness of controls, concluding that the Group maintains, in all significant aspects, an internal control system on financial information as of 31 December 2019 that is appropriately designed and effective in accordance with the reference indicators for listed companies, as well as the criteria established in the Annual Corporate Governance Report (ACGR) model.

As part of the review carried out by the independent expert, the need to implement an Identity and Access Management (IAM) system has been highlighted, which will facilitate the management of identities and access to different applications in an ICT environment with a great diversity of information systems.

This fact was already known to the Company's management which, prior to the recommendation of the independent expert, had already implemented a corrective action

plan which was presented to the Audit Committee on 26 September 2019 and which is expected to be completed in the first half of 2020.

F.5.2. If it has a discussion procedure by which the auditor (in accordance with the provisions of the NTA), the internal audit function and other experts can communicate to the senior management and the audit committee or directors of the entity the significant weaknesses in internal control identified during the review processes of the annual accounts or those others that have been entrusted to them. It shall also report whether it has an action plan that seeks to correct or mitigate the weaknesses identified.

The Audit and Control Committee, within the scope of its competencies, regulated in the Regulations of the Board of Directors, has been granted, among other competencies, the power to discuss with the auditors of accounts or audit companies the significant weaknesses of the internal control system detected, if any, in the course of the audit, all of this without infringing its independence.

In this sense, as stipulated in the Policy on Review and Approval of Financial Information by the Administrative Bodies of the MÁSMÓVIL Group, the Audit and Control Committee, in its work of reviewing financial information, will carry out, among other possible actions, the following:

(1) It will hold meetings with the Internal Audit Department which will report:

- On the results of the latest procedures for monitoring internal control and the risk management system.
- On the status of the improvement processes of the weaknesses identified in previous monitoring of the internal control and risk management system.

(2) It will hold meetings with the External Auditors who will report, especially when they have intervened:

- On the scope of their work.
- On any significant internal control weaknesses that have become apparent in the course of their work and how their effects have been mitigated.
- On other issues that have arisen in the course of the audit and how they have been resolved.
- On the issues dealt with by Internal Audit and the Financial Management;
- On those issues that affect their work.
- Review of the content provided in their report.
- All the information that may be necessary to fulfil the responsibilities of the Audit and Control Committee in terms of verifying its independence.

(3) The Audit and Control Committee may require additional information and request such clarifications as it deems necessary in order to establish its own criteria and issue its corresponding report to the Board of Directors.

## F.6 Other relevant information

All relevant information regarding the SCIIF has been detailed in the different sections of this section.

## F.7 External auditor's report

Reporting on:

- F.7.1. If the SCIIF information sent to the markets has been reviewed by the external auditor, in which case the entity should include the corresponding report as an annex. If not, you should report your reasons.

The MÁSMÓVIL Group has submitted the information of the SCIIF sent to the markets for the year 2019 to the external auditor for review. See annexed report.

## **G** DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the company's degree of compliance with the recommendations of the Code of Good Governance for Listed Companies.

In the event that any recommendation is not or only partially followed, a detailed explanation of the reasons must be included so that shareholders, investors and the market in general have sufficient information to assess the company's performance. Explanations of a general nature will not be acceptable.

- 1. The articles of association of listed companies should not limit the maximum number of votes that can be cast by a single shareholder, nor contain other restrictions that make it difficult to take control of the company by acquiring its shares on the market.**

Complies  Explain

- 2. When the parent company and a subsidiary are listed, both publicly precisely define:**

**a) The respective areas of activity and any business relationships between them, as well as those of the listed subsidiary with the other group companies.**

**b) The mechanisms foreseen to resolve possible conflicts of interest that may arise.**

Complies  Partially complies  Explain  Not applicable

- 3. During the ordinary general shareholders' meeting, in addition to distributing the annual corporate governance report in writing, the chairman of the board**

**of directors should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, and in particular:**

- a) Of the changes that have occurred since the previous Ordinary General Shareholders' Meeting.**
- b) The specific reasons why the company does not follow any of the recommendations of the Corporate Governance Code and, if they exist, the alternative rules it applies in this area.**

Complies X Partially complies  Explain

- 4. The company defines and promotes a policy of communication and contacts with shareholders, institutional investors and voting advisers that is fully respectful of the rules against market abuse and gives similar treatment to shareholders in the same position.**

**And the company makes this policy public through its website, including information on how it has been implemented and identifying the partners or those responsible for carrying it out.**

Complies X Partially complies  Explain

- 5. The Board of Directors should not submit to the General Shareholders' Meeting a proposal to delegate powers to issue shares or convertible securities, excluding pre-emptive rights, for an amount exceeding 20% of the capital at the time of the delegation.**

**And when the Board of Directors approves any issue of shares or convertible securities with exclusion of the pre-emptive subscription right, the company immediately publishes on its website the reports on such exclusion referred to in the mercantile legislation.**

Complies  Partially complies X Explain

The Company partially complies with this recommendation, since it does not comply with the requirement that the Board of Directors does not submit to the General Shareholders' Meeting a proposal to delegate powers to issue shares excluding pre-emptive rights, for an amount exceeding 20% of the capital at the time of the delegation. It does, however, comply with the aforementioned recommendation with regard to convertible securities, as the Board has not yet proposed any resolution for approval by the General Shareholders' meeting to issue convertible securities with exclusion of the pre-emptive subscription right. The last section of the aforementioned recommendation is also complied with, since the Company published the reports of the Board and the independent expert appointed for this purpose by the Mercantile Registry of Guipúzcoa immediately after the Board's approval of the capital increases described below. These documents can be consulted and downloaded free of charge from the corporate website, [www.grupomasmovil.com](http://www.grupomasmovil.com) in the section "Shareholders and investors", followed by "Corporate Governance" and "Reports of the Board and independent expert on capital increases".

Below is information on the current authorisation and the capital increases that have been carried out in execution of it, the reason why the Board decided not to follow, in part, this recommendation, and when it is expected to be fulfilled in full.

The Ordinary General Shareholders' Meeting of Másmóvil held on 22 June 2017, approved by a large majority (in particular: 15.224,572 votes in favour, representing 94.87% of the share capital with voting rights attending the aforementioned Meeting; 823,748 votes against, which represented 5.13% of the share capital with voting rights attending the aforementioned Meeting; 0 abstentions), to delegate to the Board of Directors the power to increase the Company's capital, up to an amount of 50% of the share capital at the time of approval of the aforementioned authorisation, the share capital of Másmóvil, at that date, being €1,995,110, divided into 19,951,100 shares of €0.10 par value each, of the same class and series. The authorisation expressly provided that the capital increase(s) should be made by means of cash contributions and within a maximum period of five years.

It should also be noted that the aforementioned authorisation included the power to exclude shareholders' pre-emptive subscription rights, which can be exercised from the date on which Másmóvil's shares are admitted to trading on the stock exchanges through the Sistema de Interconexión Bursátil (S.I.B.E.), which took place on 14 July 2017. From this date, and for all legal purposes, the Company acquired the status of a listed company, as provided for in Article 495 of the Capital Companies Act. The exclusion of shareholders' pre-emptive rights from the aforementioned admission to trading of Másmóvil's shares on the Spanish Stock Exchange was appropriate since, at the date of the aforementioned Ordinary General Shareholders' Meeting of 22 June 2017, Másmóvil was not yet a listed company, as its shares were included in the Alternative Stock Market, which is not a regulated secondary market, but a multilateral trading system, and, consequently, Másmóvil was not subject to the legal regime for listed companies and could not benefit from the provision applicable to this type of company, which authorises the Board to propose the exclusion of pre-emptive subscription rights, if justified by the corporate interest, understood as the interest of the Company itself. It is recorded that by means of the aforementioned authorisation the Board was able to issue new shares for a total nominal amount of €997,555.

The reason why the Board of Directors decided to propose this resolution to the General Shareholders' Meeting, and therefore not to partially follow recommendation No. 5, was to have a greater margin for the approval of capital increases, by means of monetary contributions, with the exclusion of pre-emptive subscription rights, in accordance with article 297.1.b) of the Capital Companies Act, that is, with the limit of half of the share capital at the time of the delegation.

The Board of Directors has made use of this authorisation on the following three occasions:

a) **Capital increase of 8 November 2018**, executed by public deed authorised on the aforementioned date by the notary of Madrid, Mr. Andrés de la Fuente O'Connor, with number 2,252 of his protocol, duly registered in the Mercantile Registry of Guipúzcoa (registration 108).

By virtue of the aforementioned agreement, the capital of Másmóvil was increased by €360,000, through the issue and putting into circulation of 360,000 new shares



with a nominal value of €0.10 each, all belonging to the same class, and with a share premium of €99.90 per share, resulting in a total share premium of €359,640,000. Therefore, the new shares issued as a result of this increase did not exceed 20% of the share capital issued by Másmóvil at the date of approval of the capital increase. The amount of share capital still available to the Board of Directors of Másmóvil on that date for the purposes of the authorisation was €637,555.

It should be noted that, in the absence of such authorisation from the Board, the capital increase could not have been carried out, since an accelerated procedure for placement among qualified investors was followed, which de facto required the exclusion of the shareholders' pre-emptive right, as it was incompatible in terms of time, formalities and substantial requirements with a rapid placement aimed solely at qualified investors. Similarly, it should be noted that if the authorisation of the General Shareholders' Meeting had been limited to 20%, as prescribed in this Recommendation 5, the aforementioned capital increase of 8 November 2018 could not have been carried out under the terms described, since new shares of the Company were issued between the period between the authorisation of the General Shareholders' Meeting of 14 July 2017 and the execution of the aforementioned increase (in particular, the Company's capital was increased by €49,100 in the aforementioned period by issuing 491,000 shares with a par value of €0.1 euros), the authorisation would have been insufficient to accommodate all the shares that were finally issued.

Likewise, it should be recalled, as evidenced in the Relevant Event of 8 November 2018, that the aforementioned capital increase, together with the funds contributed by the Company, enabled the repurchase of all the debt convertible into shares owned by ACS, Actividades de Construcción y Servicios, S.A., with a substantial positive impact on the Company in financial terms and in terms of the share price. In addition to the above, it should be noted that the Company's *free float* was increased as was the liquidity of the Másmóvil share, allowing institutional investors to enter the Company's capital and also favouring the possible incorporation of Másmóvil shares in national indexes.

b) **Capital increase of 28 March 2019**, executed by public deed authorised on 7 May 2019 by the notary of Madrid, Mr Andrés de la Fuente O'Connor, under number 861 of his protocol, duly registered at the Mercantile Registry of Guipúzcoa (registration 121).

As a result of the aforementioned increase, the capital of MASMOVIL was increased by a nominal amount of €130,081.30 by issuing and putting into circulation 6,504,065 new shares, each with a nominal value of €0.10.

This capital increase was subscribed and fully paid up by the shareholder PLT VII MC S.a.r.l. The aforementioned agreement was carried out within the framework of the agreements to repurchase all the convertible securities owned by the aforementioned shareholder, and to refinance all the debt of the Másmóvil Group.

c) **Capital increase of 3 May 2019**, executed by public deed authorised on 7 May 2019 by the notary of Madrid, Mr Andrés de la Fuente O'Connor, under number 862 of his protocol, duly registered at the Mercantile Registry of Guipúzcoa (registration

122).

As a result of the aforementioned increase, the capital of MASMOVIL was increased by a nominal amount of €100,000 by issuing and putting into circulation 5,000,000 new shares, each with a nominal value of €0.10.

This capital increase was subscribed and paid up by two international banks, and was carried out within the framework of the agreements to repurchase in full the convertible securities owned by PLT VII MC S.a.r.l., and to refinance all the debt of the Másmóvil Group.

As a result of the three capital increase agreements described above, the amount of share capital still available to the Board of Directors of Másmóvil for the purposes of the authorisation is €407,473.70, equivalent to 20,373,685 shares with a par value of €0.02 each, representing 15.46% of the issued capital at 31 December 2019. On 28 November 2018, the Board of Directors implemented the resolution approved at the Ordinary General Shareholders' Meeting held on 4 May 2018 and, consequently, the number of shares into which the Company's share capital was divided on that date was split in the proportion of 5 new shares for each old share, by reducing the unit face value of each share from €0.10 to €0.02, without modifying the figure for share capital on that date. Consequently, the 24,042,100 shares into which the Company's share capital was divided were exchanged for 120,210,500 newly issued shares, maintaining the share capital figure, at that date, of €2,404,210.

It should also be noted that the next Ordinary General Shareholders' Meeting, to be held in the first months of 2020, is expected to propose the revocation of the current authorisation, as described above, and the approval of a new authorisation by the Board of Directors to increase the capital, up to 20% of the paid-in capital, with the power to exclude pre-emptive subscription rights, and therefore in full compliance with this Recommendation 5.

It is noted that there is no authorisation in force in the Board of Directors to issue securities convertible into shares, in any amount.

**6. Listed companies that prepare the following reports, whether mandatory or voluntary, should publish them on their website sufficiently in advance of the ordinary general shareholders' meeting, even though their dissemination is not mandatory:**

- a) Report on the independence of the auditor.**
- b) Reports on the operation of the audit, appointments and remuneration committees.**
- c) Report of the audit committee on related-party transactions.**
- d) Report on corporate social responsibility policy.**

Complies X Partially complies  Explain

7. The company transmits live, through its website, the holding of the general shareholders' meetings.

Complies  Explain

8. The audit committee should ensure that the board of directors endeavours to present the accounts to the general shareholders' meeting without any limitations or qualifications in the audit report and that, in exceptional cases where qualifications exist, both the chairman of the audit committee and the auditors shall clearly explain to the shareholders the content and scope of such limitations or qualifications.

Complies  Partially complies  Explain

9. The company should permanently publish on its website the requirements and procedures that it will accept to accredit the ownership of shares, the right to attend the general shareholders' meeting and the exercise or delegation of voting rights.

And that such requirements and procedures favour attendance and the exercise of shareholders' rights and are applied in a non-discriminatory manner.

Complies  Partially complies  Explain

10. When a legitimate shareholder has exercised the right to complete the agenda or to present new proposals for resolutions prior to the holding of the general shareholders' meeting, the company should:

- a) Immediately disseminate such complementary points and new proposals for agreement.
- b) Make public the attendance card model or representation form for voting or remote voting with the necessary amendments so that the new items on the agenda and alternative proposals can be voted on under the same terms as those proposed by the Board of Directors.
- c) Put all such items or alternative proposals to the vote and apply the same voting rules to them as to those made by the Board of Directors, including, in particular, any assumptions or deductions regarding voting behaviour.
- d) After the general shareholders' meeting, provide a breakdown of votes on such supplementary items or alternative proposals.

Complies  Partially complies  Explain  Not applicable

11. If the company plans to pay attendance fees for the general shareholders' meetings, it should establish a general policy on such fees in advance and this policy should be stable.

Complies  Partially complies  Explain  Not applicable

12. The board of directors should perform its duties with unity of purpose and independence of criteria, treat all shareholders in the same position equally and be guided by the corporate interest, understood as the achievement of a

profitable and sustainable business in the long term, which promotes its continuity and the maximization of the company's economic value.

And that in the pursuit of corporate interest, in addition to respect for laws and regulations and behaviour based on good faith, ethics and respect for commonly accepted customs and good practices, it should seek to reconcile its own corporate interest with, as appropriate, the legitimate interests of its employees, suppliers, customers and other stakeholders who may be affected, as well as the impact of the company's activities on the community as a whole and on the environment.

Complies X      Partially complies       Explain

13. The Board of Directors has the necessary size to achieve an efficient and participative operation, which makes it advisable to have between five and fifteen members.

Complies X      Explain

14. That the Board of Directors approves a policy for the selection of directors that:

- a) Is specific and verifiable.
- b) Ensures that proposals for appointment or re-election are based on a prior analysis of the needs of the board of directors.
- c) Encourages diversity of knowledge, experience and gender.

The result of the prior analysis of the needs of the board of directors should be included in the justifying report from the appointments committee published when the general shareholders' meeting is called to ratify, appoint or re-elect each director.

And the policy for selecting directors promotes the objective that by 2020 the number of female directors should represent at least 30% of the total members of the board of directors.

The appointments committee will verify annually the compliance with the policy of selection of directors and will report on it in the annual corporate governance report.

Complies X      Partially complies       Explain

15. Proprietary directors and independent directors should constitute an ample majority of the board of directors and the number of executive directors should be the minimum necessary, taking into account the complexity of the corporate group and the percentage of ownership of the company's capital by executive directors.

Complies X      Partially complies       Explain

16. The percentage of proprietary directors over total non-executive directors should not exceed the proportion between the capital represented by such directors and the rest of the company's capital.

This criterion may be relaxed:

- a) In large-cap companies in which there are few legally significant shareholdings.
- b) In the case of companies in which there is a plurality of shareholders represented on the board of directors and they are not related to each other.

Complies X Explain

17. The number of independent directors should represent at least half of the total number of directors.

However, when the company is not highly capitalized or when, even though it is, it has one or more shareholders acting concertedly, who control more than 30% of the share capital, the number of independent directors should represent at least one third of the total number of directors.

Complies X Explain

18. Companies should publish on their websites, and keep updated, the following information on their directors:

- a) Professional and biographical profile.
- b) Other boards of directors to which they belong, whether or not they are listed companies, and on other remunerated activities of whatever nature.
- c) An indication of the director's category, specifying, in the case of proprietary directors, the shareholder they represent or have links with.
- d) Date of first appointment as a director of the company, as well as subsequent re-elections.
- e) Shares of the company, and options on them, held by them.

Complies X Partially complies  Explain

19. The annual corporate governance report, after verification by the appointments committee, should disclose the reasons for the appointment of proprietary directors at the request of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a place on the board from shareholders whose equity stake is equal to or greater than that of others applying for a proprietary directorship.

Complies X Partially complies  Explain  Not applicable

20. Proprietary directors should tender their resignation when the shareholder they represent transfers its entire shareholding. They should also do so, in the corresponding number, when such shareholder reduces its shareholding to a level that requires a reduction in the number of its proprietary directors.

Complies X Partially complies  Explain  Not applicable

21. The board of directors should not propose the removal of any independent director before the end of the statutory period for which they have been appointed, except where just cause is found by the board of directors following a report from the appointments committee. In particular, just cause shall be deemed to exist when a director moves on to new positions or assumes new

obligations that prevent them from devoting the time required to perform the duties inherent in the position of director, fails to perform the duties inherent in their position or incurs any of the circumstances that make them lose their independent status, in accordance with the provisions of applicable legislation.

The removal of independent directors may also be proposed as a result of takeover bids, mergers or other similar corporate operations that involve a change in the company's capital structure, when such changes in the structure of the board of directors are prompted by the criterion of proportionality set out in recommendation 16.

Complies X Explain

22. Companies should establish rules obliging directors to report and, if appropriate, resign in those cases that could damage the credit and reputation of the company and, in particular, obliging them to inform the board of directors of any criminal cases in which they are accused, as well as any subsequent procedural events.

If a director is prosecuted or tried for any of the offences under company law, the board should examine the matter as soon as possible and, in view of the particular circumstances, decide whether or not the director should be called on to continue in office. And the Board of Directors gives a reasoned account of all this in the annual corporate governance report.

Complies X Partially complies  Explain

23. All directors should clearly express their opposition when they consider that a proposal for a decision submitted to the Board of Directors may be contrary to the corporate interest. In particular, independent and other directors not affected by the potential conflict of interest should do so when decisions are taken that could be detrimental to shareholders not represented on the board of directors.

When the Board of Directors adopts significant or repeated decisions about which a director has expressed serious reservations, the director should draw the appropriate conclusions and, if they choose to resign, explain the reasons in the letter referred to in the following recommendation.

This recommendation also applies to the Secretary of the Board of Directors, even they are not a director.

Complies X Partially complies  Explain  Not applicable

24. When a director resigns or for other reasons leaves their position before the end of their office, they should explain the reasons in a letter to be sent to all members of the board of directors. Without prejudice to the fact that such termination is notified as a significant event, the reason for the termination should be disclosed in the annual corporate governance report.

Complies X Partially complies  Explain  Not applicable

- 25. The Appointments Committee should ensure that non-executive directors have sufficient time to properly perform their duties.**

**The Regulations of the Board should establish the maximum number of company boards on which directors may sit.**

Complies X      Partially complies       Explain

- 26. The Board of Directors should meet as often as necessary to carry out its functions effectively and at least eight times a year, following the schedule of dates and issues established at the beginning of the year, with each director being able to propose other items on the agenda not initially foreseen.**

Complies X      Partially complies       Explain

- 27. Non-attendance by directors should be limited to those cases which are essential and should be quantified in the annual corporate governance report. And that, when they are to occur, representation with instructions is given.**

Complies X      Partially complies       Explain

- 28. When directors or the secretary express concern about a proposal or, in the case of directors, about the company's performance, and such concerns are not resolved by the board of directors, they should be recorded in the minutes at the request of the person expressing them.**

Complies X      Partially complies       Explain       Not applicable

- 29. The company should establish adequate channels for directors to obtain the advice they need to carry out their duties, including, if circumstances so require, external advice at the company's expense.**

Complies X      Partially complies       Explain

- 30. Regardless of the knowledge required of directors to perform their duties, companies should also offer directors programmes to update their knowledge when circumstances so advise.**

Complies X      Explain       Not applicable

- 31. The agenda of the meetings should clearly indicate the points on which the Board of Directors must reach a decision or resolution, so that the directors can study them or obtain the necessary information for their adoption beforehand.**

**When, exceptionally, for reasons of urgency, the Chairman wishes to submit to the Board of Directors for approval decisions or resolutions that are not on the agenda, the prior express consent of the majority of the directors present shall be required, which shall be duly recorded in the minutes.**

Complies X      Partially complies       Explain

- 32. Directors should be periodically informed of movements in the shareholding and of the opinion that significant shareholders, investors and rating agencies have of the company and its group.**

Complies X      Partially complies       Explain

- 33. The chairman, as the person responsible for the effective operation of the board of directors, in addition to exercising the duties attributed to him by law and the articles of association, should prepare and submit to the board of directors a programme of dates and matters to be discussed; organise and coordinate the periodic assessment of the board and, where appropriate, of the chief executive of the company; be responsible for the management of the board and the effectiveness of its operation; ensure that sufficient time is devoted to discussion of strategic issues; and agree and review programmes for updating the knowledge of each director, when circumstances so advise.**

Complies X      Partially complies       Explain

- 34. When there is a coordinating director, the articles of association or the regulations of the board of directors, in addition to the powers that correspond to them by law, should grant them the following powers: to chair the board of directors in the absence of the chairman and the vice-chairmen, if any; to voice the concerns of non-executive directors; to maintain contact with investors and shareholders to ascertain their views in order to form an opinion on their concerns, in particular with regard to the corporate governance of the company; and to coordinate the chairman's succession plan.**

Complies       Partially complies       Explain       Not applicable X

- 35. The Secretary of the Board of Directors should take special care to ensure that the Board of Directors takes into account in its actions and decisions, the recommendations on good governance contained in this Code of Good Governance that are applicable to the company.**

Complies X      Explain

- 36. That the board of directors in full, once a year assess and adopt, if necessary, an action plan to correct the deficiencies detected with respect to:**

- a) The quality and efficiency of the functioning of the board of directors.
- b) The functioning and composition of its committees.
- c) Diversity in the composition and competences of the board of directors.
- d) The performance of the Chairman of the Board of Directors and the Chief Executive Officer of the Company.
- e) The performance and contribution of each director, paying special attention to the heads of the different board committees.

The assessment of the various committees will be based on the report submitted by them to the Board of Directors, and for the Board's assessment, on the report submitted by the Appointments Committee.

Every three years, the Board of Directors will be assisted in carrying out the assessment by an external consultant, whose independence will be verified by the Appointments Committee.



The business relationships that the consultant or any company in his group has with the company or any company in his group must be disclosed in the annual corporate governance report.

The process and the areas assessed will be described in the annual corporate governance report.

Complies X Partially complies  Explain

37. When there is an Executive Committee, the structure of participation of the different categories of directors should be similar to that of the Board of Directors itself, and its secretary should be the Secretary of the Board.

Complies  Partially complies  Explain  Not applicable X

38. The Board of Directors is always aware of the matters dealt with and the decisions taken by the Executive Committee and that all members of the Board of Directors receive a copy of the minutes of the meetings of the Executive Committee.

Complies X Partially complies  Explain  Not applicable

39. The members of the audit committee, and particularly its chairman, should be appointed on the basis of their knowledge and experience in accounting, auditing or risk management matters, and the majority of such members should be independent directors.

Complies X Partially complies  Explain

40. Under the supervision of the audit committee, there should be a unit responsible for internal audit to ensure the proper operation of internal control and information systems, reporting functionally to the non-executive chairman of the board or to the chairman of the audit committee.

Complies X Partially complies  Explain

41. The head of the unit that assumes the internal audit function presents its annual work plan to the audit committee, reports directly on the incidents that arise in its development and submits an activity report at the end of each year.

Complies X Partially complies  Explain  Not applicable

42. In addition to those provided for by law, the following functions correspond to the audit committee:

1. In relation to information and internal control systems:

a) To supervise the preparation process and the integrity of the financial information relating to the Company and, where applicable, to the group, reviewing compliance with regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of accounting criteria.

b) To ensure the independence of the unit that assumes the internal audit function, if applicable; to propose the selection, appointment, re-

election and removal of the head of the internal audit service; to propose the budget for that service; to approve the orientation and its work plans, ensuring that its activity is focused mainly on the relevant risks of the Company; to receive periodic information on its activities; and to verify that senior management takes into account the conclusions and recommendations of its reports.

- c) To establish and supervise a mechanism that allows employees to communicate, confidentially and, if possible and considered appropriate, anonymously, irregularities of potential importance, especially financial and accounting irregularities, that they notice within the company.

2. In connection with the external auditor:

- a) In the event of the resignation of the external auditor, to examine the circumstances that may have led to it.
- b) To ensure that the remuneration of the external auditor for its work does not compromise its quality or independence.
- c) To supervise that the Company notifies the CNMV of the change of auditor as a relevant fact and accompanies it with a statement on the possible existence of disagreements with the outgoing auditor and, if they have existed, their content.
- d) To ensure that the external auditor holds an annual meeting with the full Board of Directors to inform it of the work carried out and the evolution of the accounting and risk situation of the Company.
- e) To ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements regarding auditor independence.

Complies X Partially complies  Explain

43. The audit committee may summon any employee or manager of the company, and even arrange for them to appear without the presence of any other manager.

Complies X Partially complies  Explain

44. The Audit and Control Committee is informed of any structural and corporate amendments that the Company plans to make, so that it can analyse them and report to the Board of Directors in advance on their economic conditions and accounting impact and, in particular, where appropriate, on the proposed exchange ratio.

Complies X Partially complies  Explain  Not applicable

45. The risk control and management policy identifies at least:

- a) The different types of financial and non-financial risks (including

operational, technological, legal, social, environmental, political and reputational risks) faced by the company, including among financial or economic risks, contingent liabilities and other off-balance sheet risks.

- b) Setting the level of risk that the company considers acceptable.
- c) The measures foreseen to mitigate the impact of the identified risks, should they materialise.
- d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities or off-balance sheet risks.

Complies X      Partially complies       Explain

**46. Under the direct supervision of the audit committee or, where appropriate, a specialist committee of the board of directors, there should be an internal risk control and management function exercised by a unit or department within the company that has been expressly assigned the following functions:**

- a) To ensure the proper functioning of risk control and management systems and, in particular, that all significant risks affecting the company are properly identified, managed and quantified.
- b) Actively participate in the development of the risk strategy and in major risk management decisions.
- c) To ensure that the risk management and control systems mitigate risks appropriately within the framework of the policy defined by the Board of Directors.

Complies X      Partially complies       Explain

**47. The members of the Appointments and Remunerations Committee - or of the Appointments Committee and the Remunerations Committee, if they are separate - should be appointed ensuring that they have the knowledge, skills and experience appropriate to the duties they are called upon to perform and that the majority of such members are independent directors.**

Complies X      Partially complies       Explain

**48. That large-cap companies have a separate appointments committee and a separate remunerations committee.**

Complies       Explain X      Not applicable

Despite the fact that the Company is a large-cap company (its shares were included in the IBEX-35 stock exchange index with effect from 24 June 2019), its ordinary activity does not require the separation of the Appointments and Remunerations Committee into two separate committees since, during its operation, this Committee has effectively carried out all the functions entrusted to it. Furthermore, the existence of a single committee allows the company to optimise costs by avoiding the payment of additional remuneration to the directors who would be part of the two separate committees. These were the conclusions of the Appointments and Remunerations Committee held on 26 June 2019, which analysed this issue.

- 49. The appointments committee should consult with the chairman of the board of directors and the chief executive of the company, especially on matters relating to executive directors.**

**And that any director may request the Appointments Committee to consider potential candidates to fill vacancies on the Board, if they find them suitable in their opinion.**

Complies  Partially complies  Explain

- 50. The remunerations committee should perform its duties independently and, in addition to the duties assigned to it by law, should be responsible for the following:**

- a) To propose to the Board of Directors the basic conditions of the contracts of the senior managers.**
- b) To check compliance with the remuneration policy established by the company.
- c) To periodically review the remuneration policy applied to directors and senior managers, including the share based remuneration systems and their application, and ensure that their individual remuneration is proportionate to that paid to the other directors and senior managers of the company.**
- d) To ensure that any conflict of interest does not impair the independence of the external advice provided to the committee.**
- e) To verify the information on directors' and senior managers' remuneration contained in the various corporate documents, including the annual report on directors' remuneration.**

Complies  Partially complies  Explain

- 51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior managers.**

Complies  Partially complies  Explain

- 52. The rules for the composition and operation of the supervision and control committees are set out in the regulations of the board of directors and are consistent with those applicable to the legally obligatory committees in accordance with the above recommendations, including:**

- a ) They should be composed exclusively of non-executive directors, with a majority of independent directors.**
- b) Their chairmen should be independent directors.**
- c) The Board of Directors should appoint the members of these committees, taking into account the knowledge, skills and experience of the directors and the duties of each committee, and should discuss their proposals and reports; and to report to the first plenary session of the Board of Directors after its meetings on its activities and to be accountable for the work carried out.**

d) The committees may seek external advice, when they consider it necessary for the performance of their duties.

e) Minutes should be taken of its meetings and made available to all directors.

Complies X      Partially complies       Explain       Not applicable

53. The supervision of compliance with the rules of corporate governance, the internal codes of conduct and the corporate social responsibility policy is attributed to one or several committees of the board of directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee, if any, or a specialised committee that the board of directors, in the exercise of its powers of self-organisation, decides to create for this purpose, to which the following minimum functions are specifically attributed:

a) The supervision of compliance with internal codes of conduct and the company's corporate governance rules.

b) The supervision of the communication strategy and relationship with shareholders and investors, including small and medium sized shareholders.

c) Periodic assessment of the adequacy of the company's corporate governance system, in order for it to fulfil its mission of promoting the corporate interest and taking into account, as appropriate, the legitimate interests of other stakeholders.

d) The review of the Company's corporate responsibility policy, ensuring that it is geared towards the creation of value.

e) The monitoring of corporate social responsibility strategy and practices and the assessment of their degree of compliance.

f) The supervision and assessment of the processes of relationship with the different interest groups.

g) The assessment of all non-financial risks of the company - including operational, technological, legal, social, environmental, political and reputational risks.

h) The coordination of the reporting process of non-financial and diversity information, in accordance with applicable regulations and international reference standards.

Complies X      Partially complies       Explain

54. The corporate social responsibility policy includes the principles or commitments that the company voluntarily assumes in its relationship with the different stakeholders and identifies at least:

a) The objectives of the corporate social responsibility policy and the development of support instruments.

b) Corporate strategy related to sustainability, environment and social issues.

c) Specific practices in matters related to: shareholders, employees, customers, suppliers, social issues, environment, diversity, tax

responsibility, respect for human rights and prevention of illegal behaviour.

- d) **Methods or systems for monitoring the results of the implementation of the specific practices identified in the previous point, the associated risks and their management.**
- e) **Monitoring mechanisms for non-financial risk, ethics and business conduct.**
- f) **Channels of communication, participation and dialogue with stakeholders.**
- g) **Responsible communication practices that avoid information manipulation and protect integrity and honour.**

Complies X      Partially complies       Explain

- 55. The company reports, in a separate document or in the management report, on matters related to corporate social responsibility, using one of the internationally accepted methodologies.**

Complies X      Partially complies       Explain

- 56. Directors' remuneration should be sufficient to attract and retain directors with the desired profile and to reward the dedication, qualifications and responsibility required by the position, but should not be so high as to compromise the independent judgement of non-executive directors.**

Complies X Explain

- 57. Variable remuneration linked to the company's performance and personal performance, as well as remuneration through the delivery of shares, options or rights over shares or instruments linked to the value of the share and long-term savings schemes such as pension plans, retirement systems or other social welfare systems, should be limited to executive directors.**

The delivery of shares may be considered as remuneration to non-executive directors when it is conditioned to their keeping them until they cease to be directors. The foregoing shall not apply to the shares that the director needs to sell, if any, to meet the costs related to their acquisition.

Complies X      Partially complies       Explain

- 58. In the case of variable remuneration, remuneration policies should incorporate the necessary technical limits and precautions to ensure that such remuneration is related to the professional performance of its beneficiaries and is not merely a result of general market or sector trends or other similar circumstances.**

In particular, the variable components of remuneration:

- a) **Are linked to performance criteria that are predetermined and measurable and that take into account the risk assumed in obtaining a result.**
- b) **Promote the sustainability of the company and include non-financial criteria that are appropriate for the creation of long-term value, such as**

**compliance with the company's internal rules and procedures and its policies for risk control and management.**

- c) Are designed on the basis of a balance between the achievement of short-, medium- and long-term objectives, allowing performance to be rewarded for continued performance over a period of time sufficient to appreciate their contribution to sustainable value creation, so that the elements of measurement of that performance do not revolve solely around one-off, occasional or extraordinary events.**

Complies X Partially complies  Explain  Not applicable

- 59. The payment of a relevant part of the variable components of the remuneration be deferred for a minimum period of time sufficient to verify that the previously established performance conditions have been met.**

Complies X Partially complies  Explain  Not applicable

- 60. Remuneration related to company results should take into account any qualifications in the external auditor's report that reduce such results.**

Complies X Partially complies  Explain  Not applicable

- 61. A significant percentage of the variable remuneration of executive directors should be linked to the delivery of shares or financial instruments referenced to their value.**

Complies X Partially complies  Explain  Not applicable

- 62. Once the shares or options or rights over shares corresponding to the remuneration systems have been allocated, directors should not be able to transfer the ownership of a number of shares equivalent to twice their fixed annual remuneration, nor should they be able to exercise the options or rights until a period of at least three years has elapsed since their allocation.**

**The foregoing shall not apply to the shares that the director needs to sell, if any, to meet the costs related to their acquisition.**

Complies X Partially complies  Explain  Not applicable

- 63. That the contractual agreements include a clause allowing the company to claim reimbursement of the variable components of remuneration when the payment has not been in accordance with the performance conditions or when they have been paid on the basis of data which is subsequently proven to be inaccurate.**

Complies  Partially complies  Explain X Not applicable

On the date of preparation of this Annual Corporate Governance Report, the Company's Appointments and Remunerations Committee is assessing with its advisers the best way to introduce variable remuneration reimbursement clauses into the Chief Executive Officer's contract.

- 64. Payments on termination of the contract should not exceed a set amount equivalent to two years' total annual remuneration and should not be paid until**

**the company has been able to verify that the director has met the previously established performance criteria.**

Complies  Partially complies  Explain  Not applicable

## H OTHER INFORMATION OF INTEREST

1. If there are any relevant aspects of corporate governance in the company or in the group entities that have not been included in the rest of the sections of this report, but which need to be included in order to gather more complete and reasoned information on the structure and practices of governance in the entity or its group, briefly describe them.
2. This section may also include any other information, clarification or nuance related to the previous sections of the report insofar as they are relevant and not repetitive.

Specifically, it will indicate whether the company is subject to legislation other than Spanish legislation on corporate governance and, if so, include the information that it is obliged to provide and that is different from that required in this report.

3. The company may also indicate whether it has voluntarily adhered to other international, sectoral or other codes of ethical principles or good practice. Where appropriate, the code in question and the date of accession shall be identified. In particular, it will mention whether it has adhered to the Code of Good Tax Practices of 20 July 2010.

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This annual corporate governance report was approved by the Company's Board of Directors at its meeting of 27 February 2020.

Indicate whether any directors voted against or abstained from voting on the approval of this report.

Yes  No

Name or company name of the director who did not vote for the approval of this report	Reasons (against, abstention, non-attendance)	Explain the reasons
<b>Comments</b>		





# Másmóvil Ibercom, S.A.

Auditor's Report on the "Information concerning the System of Internal Control over Financial Reporting (ICFR)" of Másmóvil Ibercom, S.A. for 2019

*(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)*



KPMG Auditores, S.L.  
Paseo de la Castellana, 259 C  
28046 Madrid

## **Auditor's Report on the "Information concerning the System of Internal Control over Financial Reporting (ICFR)" of Másmóvil Ibercom, S.A. for 2019**

*(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)*

To the Directors of Másmóvil Ibercom, S.A.

As requested by the Board of Directors of Másmóvil Ibercom, S.A. (the "Company") and in accordance with our proposal letter dated 6 February 2020, we have applied certain procedures to the "Information concerning the ICFR" attached in section F of the Annual Corporate Governance Report of Másmóvil Ibercom, S.A. for 2019, which summarises the Company's internal control procedures for annual financial reporting.

The Directors are responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and oversight of an adequate system of internal control, the development of improvements to that system and the preparation and definition of the content of the information concerning the ICFR attached.

In this respect, it should be borne in mind that irrespective of the quality of the design and operation of the internal control system adopted by the Company in relation to annual financial reporting, the system may only provide reasonable, but not absolute assurance in relation to the objectives pursued, due to the limitations inherent in any internal control system.

In the course of our audit work on the annual accounts and in accordance with Technical Auditing Standards, our evaluation of the Company's internal control was solely aimed at enabling us to establish the scope, nature and timing of the audit procedures on the Company's annual accounts. Consequently, the scope of our evaluation of the internal control, performed for the purposes of the audit of accounts, was not sufficient to enable us to issue a specific opinion on the efficiency of this internal control over regulated annual financial reporting.



*(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)*

For the purposes of issuing this report, we have applied only the specific procedures described below and set out in the Guidelines for preparing the auditor's report on the information on the system of internal control over financial reporting of listed entities, published on the website of the Spanish National Securities Market Commission (CNMV), which defines the work to be performed, the minimum scope of the work and the content of this report. As the scope of the work resulting from these procedures is in any event limited and substantially less than that of an audit or review of the internal control system, we do not express an opinion on its effectiveness or design or operational efficiency, with respect to the Company's annual financial reporting for 2019 described in the attached Information concerning the ICFR. Consequently, had additional procedures other than those defined in the aforementioned Guidelines been applied, or an audit or review been performed of the internal control system in relation to regulated annual financial reporting, other events or matters could have been identified, which would have been reported to you.

Moreover, as this special engagement does not constitute an audit of accounts nor is it subject to prevailing legislation regulating the audit of accounts in Spain, we do not express an audit opinion in the terms envisaged in such legislation.

The procedures applied were as follows:

1. Reading and understanding of the information prepared by the Company in relation to the ICFR – disclosures included in the directors' report – and evaluation of whether it covers all the information required, taking into account the minimum content described in Section F, concerning the description of the ICFR, the Annual Corporate Governance Report model set out in Spanish National Securities Market Commission (CNMV) Circular 5/2013 of 12 June 2013, subsequently amended by CNMV Circular 7/2015 of 22 December 2015 and CNMV Circular 2/2018 of 12 June 2018 (hereinafter, the CNMV Circulars).
2. Inquiries of personnel responsible for preparing the information detailed in point 1 above in order to: (i) gain an understanding of the preparation process; (ii) obtain information that allows us to assess whether the terminology used conforms to the definitions contained in the reference framework; (iii) obtain information on whether the control procedures described are in place and operational in the Company.
3. Review of explanatory documentation supporting the information detailed in point 1 above, and which will mainly include that made directly available to those responsible for preparing the descriptive information on the ICFR. This documentation includes reports prepared by internal audit, senior management and other internal or external specialists supporting the audit committee.
4. Comparison of the information detailed in point 1 above with the understanding of the Company's ICFR gained as a result of the procedures performed within the framework of the audit work on the annual accounts.
5. Reading of the minutes of the meetings of the Board of Directors, audit committee and other committees of the Company for the purposes of assessing the consistency of the matters discussed at these meetings in relation to the ICFR with the information detailed in point 1 above.
6. Procurement of a representation letter concerning the work performed, duly signed by those responsible for preparing and drawing up the information detailed in point 1 above.



*(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)*

As a result of the procedures applied to the Information concerning the ICFR, no inconsistencies or incidents have come to light that could affect it.

This report has been prepared exclusively in the context of the requirements established in article 540 of the Revised Spanish Companies Act and the CNMV Circulars for the purposes of the description of the ICFR in Annual Corporate Governance Reports.

KPMG Auditores, S.L.

*(Signed on original in Spanish)*

Francisco Rabadán Moreno

27 February 2020

**Formulation of Consolidated Annual Accounts and Consolidated  
Management Report for the Year 2019**

The Directors of MASMOVIL IBERCOM, SA, meeting on February 27, 2020 and complying with the requirements established in article 253.2 of the Consolidated Text of the Capital Companies Law and article 37 of the Commercial Code, proceed to formulate the Consolidated Annual Accounts and the Consolidated Management Report for the year between January 1, 2019 and December 31, 2019, which are constituted by the annexed documents preceding this document.  
Signatures:

\_\_\_\_\_  
Chair  
Mr. Eduardo Díez-Hochleitner Rodríguez

\_\_\_\_\_  
CEO  
Mr. Meinrad Spenger

\_\_\_\_\_  
Ms. Cristina Aldámiz-Echevarría  
González de Durana

\_\_\_\_\_  
Key Wolf, S.L.  
Represented por Mr. José Eulalio Poza

\_\_\_\_\_  
Ms. Pilar Zulueta de Oya

\_\_\_\_\_  
Mr. Rafael Canales Abaitua

\_\_\_\_\_  
Mr. Felipe Fernández Atela

\_\_\_\_\_  
Ms. Nathalie Picquot

\_\_\_\_\_  
Mr. John C. Hahn

\_\_\_\_\_  
Mr. Rafael Domínguez de la Maza

\_\_\_\_\_  
Mr. Josep María Echarri Torres

\_\_\_\_\_  
Mr. Borja Fernández Espejel