



Másmóvil Ibercom, S.A. and subsidiaries

Consolidated Annual Accounts

31 December 2018

Consolidated Directors' Report

2018

(With Independent Auditor's Report Thereon)

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



KPMG Auditores, S.L.

P^a de la Castellana, 259 C
28046 Madrid

Independent Auditor's Report on the Consolidated Annual Accounts

(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

We have audited the consolidated annual accounts of Másmóvil Ibercom, S.A. (the "Parent") and subsidiaries (the "Group") which comprise the consolidated statement of financial position at 31 December 2018, 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 2018 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

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 in Spain pursuant to the legislation regulating the audit of accounts. 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.



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 revenues from the rendering of services

See notes 3 o) and 20 a) of the consolidated annual accounts

<i>Key audit matter</i>	<i>How this matter was addressed in our report</i>
<p>The Group's revenue from services rendered, which amounts to Euros 1,206,922 thousand in 2018, is obtained from multiple sales channels and different information technology systems. The very low value of the transactions at unit level means that errors on an individual basis are insignificant. However, because 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. Moreover, since 1 January 2018 the Group has applied IFRS 15 Revenue from Contracts with Customers and the transition to this standard has been made using the modified retrospective method stipulated therein.</p> <p>In addition to the above, revenue is also a key metric to use in assessing the Group's performance. The Group has annual revenue targets, incentive schemes for its management team and contractual conditions related to the Group's financing that are partially affected by growth in revenue from services rendered.</p> <p>Due to the significance of the amount of revenue from services rendered, the complexity of the information systems that the Group uses to recognise revenue, the possibility of revenue being recognised in the wrong period, and the inherent risk of adjustments or the override of controls by Group management, this aspect has been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none">- In collaboration with our IT specialists, we evaluated the design and implementation of the most relevant controls established by Group management over the process of recognising revenue from services rendered, and the related systems. We also tested the operating effectiveness of these controls;- Our IT specialists tested the general control environment of the IT systems used to recognise revenue from services rendered;- We performed tests of detail on the transactions that generated the Group's revenue from services rendered to confirm that the cut-off of operations is correct. We also performed tests of detail on the monthly billing cycles and on contracts with customers to reconcile the information in the billing and collection systems with the accounting records;- We assessed and analysed the accounting policies used by the Group in relation to the criteria and practical solutions considered for the adoption of IFRS 15, evaluating its initial impact as well as the impact during the year;- We contrasted the material manual adjustments with supporting documentation to assess any evidence of bias on the part of Group management; and- We assessed whether the information disclosed in the consolidated annual accounts meets the requirements of the financial reporting framework applicable to the Group.

Recoverability of the value of goodwill and trademarks

See notes 3 e) and g) and 5 of the consolidated annual accounts

<i>Key audit matter</i>	<i>How this matter was addressed in our report</i>
<p>At 31 December 2018 the Group has goodwill and trademarks amounting to Euros 508,281 thousand and Euros 99,888 thousand, respectively.</p> <p>Every year the Group calculates the recoverable amount of goodwill and the trademarks and assesses whether there is any impairment of these intangible assets.</p> <p>The estimates of the recoverable amounts made by the Parent's Directors and Group management require a high level of judgement in the valuation techniques used to determine the higher of fair value less costs of disposal and 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, this has been considered a key matter in our audit.</p>	<p>The following are included as part of our audit procedures:</p> <ul style="list-style-type: none"> - We assessed the design and implementation of the controls related to the valuation process of goodwill and trademarks; - We reviewed the reasonableness of the projections used by the Group to determine the recoverable amount of these assets and its alignment with the financial and management information included in the Group's budgets for the coming years. - We assessed, with the involvement of our 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. - We assessed the sensitivity of the present financial models to key assumptions, with the aim of determining their potential impact on the valuation of the intangible assets tested for impairment; and - We assessed whether the disclosures in the consolidated annual accounts comply with the requirements of the financial reporting framework applicable to the Group.

Recognition and recovery of deferred tax assets

See notes 3 p) and 19 of the consolidated annual accounts

<i>Key audit matter</i>	<i>How this matter was addressed in our report</i>
<p>At 31 December 2018 the Group has deferred tax assets totalling Euros 246,068 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 entities. The carrying amounts of deferred tax assets are reviewed by the Group at each reporting date to reduce these amounts to the extent that it is no longer probable that sufficient taxable profit will be available for their offset.</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</p>	<p>We have performed the following procedures as part of our audit procedures:</p> <ul style="list-style-type: none"> - We assessed the design and implementation of the controls over the recognition and valuation of deferred tax assets. - We reviewed the reasonableness of the projections used by the Group to determine the future taxable profits and their alignment with the financial and management information included in the Group's budgets for the coming years. - We verified the existence of sufficient future taxable profits to offset the deferred tax assets; and

Recognition and recovery of deferred tax assets

See notes 3 p) and 19 of the consolidated annual accounts

<i>Key audit matter</i>	<i>How this matter was addressed in our report</i>
<p>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 taxation authority and the same taxable entity, and tax planning opportunities.</p> <p>Given the significance of the amount of the deferred tax assets, the high level of judgement in the estimates used and the uncertainty associated with the recovery of these assets, it has been considered a key matter in our audit.</p>	<p>- We assessed whether the disclosures in the consolidated annual accounts comply with the requirements of the financial reporting framework applicable to the Group.</p>

Other Information: Consolidated Directors' Report

Other information solely comprises the 2018 consolidated directors' 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 directors' report. Our responsibility regarding the consolidated directors' report is defined in the legislation regulating the audit of accounts, which establishes two different levels for this information:

a) A specific level applicable to non-financial information, as well as certain information included in the Annual Corporate Governance Report (ACGR), as defined in article 35.2. b) of the Audit Law 22/2015, which consists of merely verifying that this information has been provided in the consolidated directors' report, or if applicable, the latter contains a reference to the separate report on the non-financial information in accordance with the Law and if not, report on this matter.

b) A general level applicable to the rest of the information included in the consolidated directors' 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 consolidated annual 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 directors' 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.

On the basis of the work carried out, as described above, we have verified that the information included in section a) above is provided in the consolidated directors' report and that the rest of the information contained therein is in conformity with the consolidated annual accounts for 2018 and that its content and presentation is in accordance with applicable legislation.



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

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.

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 Parent's Directors' use 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.

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 2019.

Contract Period _____

On 4 May 2018 by consensus of the shareholders at their general meeting, we were appointed as auditors of the Group for the period of one year ended 31 December 2018.

On 10 February 2016 the Guipúzcoa Mercantile Registry recorded the Company's request for our automatic renewal as auditors of the Company and the Group for three years as from the year ended 31 December 2015.



Previously, we were appointed as auditors of the Parent for the period of one year ended 31 December 2014, by consensus of the shareholders at their general meeting, and have been auditing the annual accounts since the year ended 31 December 2006.

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

(Signed on original in Spanish)

Francisco Rabadán Molero
Registered in the Spanish Official Register of
Auditors (ROAC) [under number 15.797]

27 February 2019

PricewaterhouseCoopers Auditores, S.L. has advised on the wording and preparation of this document in the context and in accordance with the scope of the work and the definition of responsibilities contained in the Engagement Letter signed with MASMOVIL Group on 27 November 2018. PricewaterhouseCoopers Auditores, S.L.'s role was to assist during the writing and preparation process. The accompanying document does not therefore contain opinions or stances of PricewaterhouseCoopers Auditores, S.L. Responsibility for the content, including the criteria, assumptions or judgements expressed, lies exclusively with MASMOVIL Group Management.

MASMOVIL Group Management will be responsible for eliminating this box and making this document its own.

MÁSMÓVIL IBERCOM, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts and Consolidated Management Report
31 December 2018

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 2018

<i>Thousand Euro</i>	NOTE	31/12/2018	31/12/2017
Assets			
Goodwill	5	508,281	389,380
Intangible assets	5	703,549	434,225
Property, plant and equipment	6	610,123	462,903
Contracts costs	7	65,724	-
Other investments	8	7,734	6,404
Prepayment for non-current assets	9	30,835	28,876
Deferred tax assets	19	246,068	244,390
Total non-current assets		2,172,314	1,566,178
Inventory		1,239	448
Trade and other receivables	10	237,674	198,441
Contracts costs	7	135,198	-
Current tax assets		71	1,995
Other investments	8	4,532	3,493
Prepayment for current-assets	9	3,816	2,751
Cash and cash equivalents	16 (b)	98,205	320,092
Total current assets		480,735	527,220
Total assets		2,653,049	2,093,398
Equity			
Capital	11	2,404	1,995
Share premium	11	616,269	246,652
Retained earnings and other reserves	11	(207,085)	(165,874)
Treasury shares	11	(2,020)	(7,973)
Other equity Instruments	11	66,253	228,086
Translation differences		62	199
Total equity		475,883	303,085
Liabilities			
Loans and borrowings	12	738,591	499,274
Derivative financial instruments	12	589	3,123
Other payables	12	8,094	4,296
Finance lease payables	12	21,720	27,718
Other financial liabilities	12	177,510	298,260
Provisions	13	105,155	89,408
Government grants	14	10,865	11,791
Deferred tax liabilities	19	61,013	28,875
Other non-current liabilities	18	133,729	107,169
Total non-current liabilities		1,257,266	1,069,914
Loans and borrowings	12	80,262	24,055
Current income tax liabilities		2,334	-
Other payables	12	233,400	31,952
Finance lease payables	12	6,009	6,412
Other financial liabilities	12	12,759	41,517
Trade and other payables	15	553,579	609,392
Provisions	13	31,557	7,071
Total current liabilities		919,900	720,399
Total liabilities		2,177,166	1,790,313
Total equity and liabilities		2,653,049	2,093,398

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

Consolidated Statement of Comprehensive Income for the year ended 31 December 2018

<i>Thousand Euro</i>	NOTE	31/12/2018	31/12/2017
Revenue	20 (a)	1,450,866	1,301,032
Other operating income	20 (e)	47,348	49,727
Merchandise, Raw materials and consumables used	20 (b)	(724,150)	(712,843)
Employee benefits expenses	20 (c)	(50,390)	(46,652)
Depreciation and amortisation expenses	5 y 6	(160,753)	(123,567)
Other operating expenses	20 (d)	(411,124)	(375,679)
Operating profit/(loss)		151,797	92,018
Financial income	16 (e)	958	1,912
Financial expenses	13 y 16 (e)	(104,066)	(232,742)
Change in fair value of financial instruments		486	906
Exchange differences		(137)	(326)
Impairment and result from disposals of financial instruments	4.1 (a)	28,666	(3,612)
Financial results		(74,093)	(233,862)
Profit/(Loss) for the year from continuing operations, before income tax		77,704	(141,844)
Income tax income/(loss)	19	(7,161)	39,085
Profit/(Loss) for the year from continuing operations		70,543	(102,759)
Profit/(Loss) for the year		70,543	(102,759)
Other comprehensive income			
Items to be reclassified to profit or loss			
Translation differences of financial statements of foreign operations		(137)	243
Other comprehensive income for the year, net of tax		(137)	243
Total comprehensive income for the year		70,406	(102,516)
Basic earnings per share (expressed in Euro)			
Profit/(Loss) for the year (*)	11 (f)	2.764	(4.308)
Diluted earnings per share (expressed in Euro)			
Profit/(Loss) for the year (*)	11 (f)	1.287	0.675

(*) Re-expressed figures for 2017, weighing the impact of the split of shares of the Company made on 13 December 2018, mentioned in note 11 (a) of the attached explanatory notes

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

<i>Thousand Euro</i>	Capital	Share Premium	Other reserves	Retained earnings	Treasury shares	Translation differences	Other equity instruments	Total equity
Balance at 1 January 2017	1,995	246,652	(4,594)	(58,051)	(375)	(44)	70,022	255,605
Loss for the year	-	-	-	(102,759)	-	-	-	(102,759)
Other comprehensive income	-	-	-	-	-	243	-	243
Total comprehensive income for the year	-	-	-	(102,759)	-	243	-	(102,516)
Treasury shares (note 11 (d))	-	-	672	-	(7,598)	-	-	(6,926)
Other instruments (note 11 (e))	-	-	-	-	-	-	151,982	151,982
Issue of share-based payments (note 21)	-	-	-	-	-	-	6,082	6,082
Application of loss for the year	-	-	(58,051)	58,051	-	-	-	-
Other movements (note 11)	-	-	(1,142)	-	-	-	-	(1,142)
Balance at 31 of December 2017	1,995	246,652	(63,115)	(102,759)	(7,973)	199	228,086	303,085
Impact of adopting IFRS 15, neto net of taxes (note 2 (g))	-	-	81,317	-	-	-	-	81,317
Impact of adopting IFRS 9, neto net of taxes (note 2 (g))	-	-	(8,239)	-	-	-	-	(8,239)
Balance at 1 of January 2018	1,995	246,652	9,963	(102,759)	(7,973)	199	228,086	376,163
Profit for the year	-	-	-	70,543	-	-	-	70,543
Other comprehensive income	-	-	-	-	-	(137)	-	(137)
Total comprehensive income for the year	-	-	-	70,543	-	(137)	-	70,406
Capital increase	409	369,617	(3,906)	-	-	-	-	366,120
Treasury shares (note 11 (d))	-	-	-	-	5,953	-	-	5,953
Issue of share-based payments (notes 11(e) and 21)	-	-	-	-	-	-	(9,852)	(9,852)
Equity instruments transactions (notes 11(c) and 11(e))	-	-	(181,866)	-	-	-	(151,981)	(333,847)
Application of loss for the year	-	-	(102,759)	102,759	-	-	-	-
Other movements (note 11)	-	-	940	-	-	-	-	940
Balance at 31 December 2018	2,404	616,269	(277,628)	70,543	(2,020)	62	66,253	475,883

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

Consolidated Statement of Cash Flows for the year ended 31 December 2018

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Cash flow from operating activities		
Loss for the year from continuing operations	70,543	(102,759)
Adjustments for:		
Amortisation / depreciation	160,753	123,567
Impairment losses from trade receivables	31,455	27,716
Exchange differences	137	326
Change in provisions	(383)	(176)
Contract costs capitalization and amortisation	(63,242)	-
Government grants taken to income	(778)	(114)
Proceeds from disposal of assets	7,027	10,124
Finance income	(958)	(1,912)
Finance costs	104,066	232,742
Other income and expenses	(29,152)	404
Income tax income	7,161	(39,085)
Changes in working capital		
- Inventories	206	745
- Trade and other receivables	(28,602)	(57,593)
- Other Assets	(9,934)	11,091
- Trade and other payables	47,427	227,615
- Other liabilities	20,241	(43,898)
Cash flow from operating activities	315,967	388,793
Interest paid	(51,138)	(43,590)
Interest received	-	228
Corporate income tax collections	(6,849)	798
Net cash flow from operating activities	257,980	346,230
Cash flow from investing activities		
Proceeds from sale of financial assets	-	4,717
Proceeds from sale of property, plant and equipment	-	44,139
Proceeds from financial assets	(1,881)	-
Acquisition of property, plant and equipment	(232,705)	(149,949)
Acquisition of intangible Assets	(255,790)	(100,905)
Acquisition of subsidiaries, net of cash and cash equivalents	(110,929)	(24,891)
Acquisition of financial Assets	(1,035)	(121)
Net cash flow from investing activities	(602,340)	(227,010)
Cash flow from financing activities		
Proceeds from issuance of share capital	370,026	-
Proceeds from bonds and other marketable securities	-	38,040
Proceeds from financial institution debts	396,210	81,180
Proceeds from redemption of own shares and other own equity instruments	(3,899)	6,082
Payments to financial institutions debts	(122,023)	(45,196)
Payment of other financial liabilities	(517,841)	(108,386)
Payments of redemption of own shares and other own equity instruments	-	(6,926)
Net cash flow from financing activities	122,473	(35,206)
Net increase in cash and cash equivalents	(221,887)	84,013
Cash and cash equivalents at 1 January	320,092	236,079
Cash and cash equivalents at 31 December	98,205	320,092

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

Notes to the Consolidated Annual Accounts at 31 December 2018

1. Nature, Activities and Composition of the Group

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

On 3 July 2014, the Company 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, 2^a planta.

The Parent's objectives comprise the following activities:

- a) The 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 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 manner 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, infovía (parallel web created by Telefónica) 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 or the Group). The most significant information on this Group is provided in Appendix I, which forms an integral part of this note. The MásMóvil Group's core business consists of the provision of fixed-line, mobile and broadband. These transactions constitute the Group's only segment of activity (note 20 (a)).

On 14 July 2017 the Company effectively stopped trading on the 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 Group completed various acquisitions in 2018 and 2017 (see note 4) and carried out mergers between two of its investee companies in 2017 (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 2018 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 2018, authorised for issue on 27 February 2019, will be approved with no changes by the shareholders at their annual general meeting.

a) Changes in the scope of consolidation

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

- Through the subsidiary MásMóvil Broadband, S.A.U. it acquired Neutra Network Services, S.L.U.
- Through its subsidiary Xfera Móviles, S.A.U. it acquired The Bymovil Spain, S.L.U.
- Through its subsidiary Xfera Móviles, S.A.U. it acquired a virtual mobile operator (VMO) from Lebara Mobile Group B.V.

Further information about these acquisitions is included in note 4.1

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.

The Group acquired a virtual mobile operator line of business in 2017 from the company Llamayá Móvil, S.L.U. through its subsidiary MásMóvil Telecom 3.0. (See note 4.2)

In order to simplify the corporate structure and the business organisation MásMóvil Telecom 3.0, S.A.U was merged into Xfera Móviles, S.A.U. in 2017, which had no effect whatsoever on the Group's consolidated annual accounts of 2017.

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) Comparability

These consolidated annual accounts present, for the purposes of comparison, the consolidated figures from the previous year for each item in the 2018 Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Consolidated Statement of Cash

Flows, Consolidated Statement of Changes in Equity and the notes to the consolidated annual accounts.

The effects of the application of IFRS 9 and IFRS 15 are detailed in paragraph g) of this note. The Group has not applied these standards on a retrospective basis. Therefore, their application's effects are not presented in the Consolidated Statement of Financial position and Consolidated Statement of Comprehensive Income for 2017.

As mentioned in note 4, on 27 February 2018, 20 November 2018 and 20 December 2018, the Group acquired the virtual mobile operator business unit of Neutra Network Services, S.A.U., and the companies Lebara Mobile Group, B.V. and The ByMovil Spain, S.L.U., respectively, their operations being included from the acquisition date. These events should be taken into account with respect to the comparability of these consolidated annual accounts with those of 2017.

In 2018 the Company executed a stock split and swap (see Note 11 (a)). In order to facilitate the comparison of the information relating to basic and diluted earnings per share, the Group has restated the 2017 information by weighting the impact of the stock split.

d) Going concern

The Directors of the Company prepared the consolidated financial statements based on the Group's ability to continue as a going concern as they consider that future perspectives of the business will allow the Group to obtain results and positive cash flows in the forthcoming years.

The Group presents negative working capital totalling Euro 439,165 thousand at 31 December 2018 (negative working capital totalling Euro 193,179 thousand at 31 December 2017), which is a habitual circumstance in the business in which it engages and in its financial structure, and it is not a barrier to the normal performance of the business. The Directors of the Company does not believe that cash requirements in 2019 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 50.37 days (49.40 days in 2017) (see note 15) allows the Group's resources to be optimized by operating with negative working capital. The Directors of the parent company do not believe that any circumstances will arise in 2019 that will have a negative impact on the Group's current working capital structure.

Certain lines of credit are available to the Group, notably tranche H of the senior syndicated loan of Euro 103,000 thousand and tranche "Existing RCF" of the senior syndicated loan of Euro 30,000 thousand that had not been drawn down at 31 December 2018. The syndicated loan allows (i) the debt ratio to be increased to 2.6x (net senior debt/EBITDA) and (ii) additional subordinated debt to be obtained. At 31 December 2018 the syndicated loan agreement allows additional debt up to Euro 310 million to be obtained (see note 12(a)).

In turn, on 27 December 2018 the Group registered a promissory note programme for a maximum of Euro 50 million with the Alternative Bond Market (MARF) (see notes 12 (d) and 26), the entire programme being issued in January and February 2019.

Finally, the Group has available short-term lines of credit totalling Euro 26 million at 31 December 2018 (see note 12 (a)).

e) Functional and presentation currency Neutra Network Services

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

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 current 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 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 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 individual 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 habitual 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 taxes 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));

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

Goodwill (see note 3 (e));

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 2018, 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 financial management.

These employees regularly revise significant, unobservable inputs and valuation adjustments. If third party information such as pricing services or broker quotes is 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).

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:

- Note 4: Business combinations.
- Note 16 (e): Financial instruments and fair value.

g) Mandatory standards, amendments and interpretations for all years starting on 1 January 2018

The consolidated annual accounts for 2018 have been prepared using the same accounting principles applied in the previous year except for the following standards and amendments adopted by the European Union, which are mandatory for years beginning on or after 1 January 2018:

- IFRS 9, "Financial instruments" and
- IFRS 15 and Clarifications to IFRS 15 "Revenue from contracts with customers"

As a result of the changes to the Group's accounting policies and the practical expedients contained in IFRS 9 with respect to its application, the Group has adopted this standard without restating the comparative information. The reclassifications and adjustments resulting from the application of this standard and the new impairment rules are therefore not recognised in the consolidated statement of financial position at 31 December 2017, included in these consolidated annual accounts for comparison and are instead recognised in the opening consolidated statement of financial statement at 1 January 2018.

Similarly, the Group has adopted IFRS 15 Revenue from contracts with customers starting 1 January 2018. In accordance with the transitional provisions of IFRS 15, the Group has opted to apply the new rules using the modified retrospective transition method that entails recognising the cumulative effects of the adoption of the standard in the opening consolidated statement of financial position at 1 January 2018, applying the practical expedient that permits the standard to be applied only to contracts not completed or ended at 1 January 2018. Adopting this method has brought about an adjustment against reserves for the cumulative effect which is detailed further on. Accordingly, the information presented in respect of the comparative figures for 2017 has not been restated and is presented under the previously applied standard, IAS 18, Revenue.

The total impact on the Group's Consolidated Statement of Financial Position at 1 January 2018 due to the adoption of these standards is detailed below:

<i>Thousand Euro</i>	<u>31/12/2017</u>	<u>IFRS 9</u>	<u>IFRS 15</u>	<u>01/01/2018</u>
Assets				
Goodwill	389,380	-	-	389,380
Intangible assets (note 5)	434,225	-	(40,597)	393,628
Contracts costs (note 7)	-	-	41,776	41,776
Property, plant and equipment	462,903	-	-	462,903
Other investments	6,404	-	-	6,404
Prepayments and accrued income	28,876	-	-	28,876
Deferred tax assets (note 19 (b))	244,390	2,746	-	247,136
Total non-current assets	1,566,178	2,746	1,179	1,570,103
Inventories	448	-	-	448
Trade and other receivables	198,441	-	-	198,441
Contracts costs (note 7)	-	-	96,762	96,762
Current tax assets	1,995	-	-	1,995
Other investments	3,493	-	-	3,493
Prepayments and accrued income	2,751	-	-	2,751
Cash and cash equivalents	320,092	-	-	320,092
Total current assets	527,220	-	96,762	623,982
Total assets	2,093,398	2,746	97,941	2,194,085
Equity				
Share capital	1,995	-	-	1,995
Share premium	246,652	-	-	246,652
Retained earnings and other reserves	(165,874)	(8,239)	81,317	(92,796)
Treasury shares	(7,973)	-	-	(7,973)
Other equity instruments	228,086	-	-	228,086
Translation differences	199	-	-	199
Equity attributed to holders of equity instruments in the parent company	303,085	(8,239)	81,317	376,163
Total equity	303,085	(8,239)	81,317	376,163
Equity and liabilities				
Borrowings with credit institutions (note 26)	499,274	10,985	-	510,259
Derivative financial instruments	3,123	-	-	3,123
Other payables	4,296	-	-	4,296
Finance lease payables	27,718	-	-	27,718
Other financial liabilities	298,260	-	-	298,260
Provisions (note 13)	89,408	-	(6,840)	82,568
Government grants	11,791	-	-	11,791
Deferred tax liabilities (note 19 (b))	28,875	-	27,106	55,981
Other non-current liabilities	107,169	-	-	107,169
Total non-current liabilities	1,069,914	10,985	20,266	1,101,165
Borrowings with credit institutions	24,055	-	-	24,055
Other debts	31,952	-	-	31,952
Finance lease payables	6,412	-	-	6,412
Other financial liabilities	41,517	-	-	41,517
Trade and other payables	609,392	-	-	609,392
Provisions (note 13)	7,071	-	(3,642)	3,429
Total current liabilities	720,399	-	(3,642)	716,757
Total liabilities	1,790,313	10,985	16,624	1,817,922
Total equity and liabilities	2,093,398	2,746	97,941	2,194,085

The total impact on the Group's retained earnings at 1 January 2018 is as follows:

<i>Thousand Euro</i>	Retained earnings	Tax effect
Retained earnings at year end 31 December 2017 - IAS 39 /IAS 18	(165,874)	
IFRS 9 adjustment recalculation of financial debt restructuring	(8,239)	(2,746)
IFRS 15 adjustment due to the straight-line recognition of discounts and subsidies, capitalisation of costs and "cuota 25"	81,317	27,106
Retained earnings at 1 January 2018 - IFRS 9/IFRS 15	(92,796)	(24,360)

i) Application of IFRS 15 Revenue from contracts with customers – Impacts of its adoption

As a result of the application of IFRS 15, and using the modified retrospective method, the Group has adjusted opening reserves for the main impacts triggered by its application, as described below:

(a) Accounting for discounts or subsidies for contracts with permanence obligations:

Following IFRS 15 Guidelines, on 1 January 2018 the Group recognised under the heading Contract costs on its consolidated statement of financial position the discounts and subsidies offered for contracts subject to permanence obligations which contain such discounts and subsidies which are in turn recognised on a straight-line basis over the term of the contracts with customers. These assets are recognised in the income statement for the year as a decrease in revenue as and when the performance obligation for the delivery of the telecommunication service is satisfied, meaning that, in terms of IAS 18, there is an increase in revenue recognised in the first month of the contract and a decrease in revenue over its remaining estimated life. These assets are recognised in the Group's consolidated statement of financial position on a current and non-current basis, based on whether they will be taken to the income statement within the following 12 months or subsequently.

Until 2017 discounts were recognised as a decrease in revenues when customers were invoiced while subsidies were recognised as an expense in respect of "merchandise raw materials and consumables used" when the contracts were arranged with customers.

(b) Financing component

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 difference between the promised amount under the Cuota 25 plan and the expected market value of the terminal after 24 months 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 his/her sale option.

Until 2017 the contractual liability was recognised in full when customers signed up to the terminal financing model and was taken to the income statement as an expense in respect of "Merchandise, raw materials and consumables used".

(c) Incremental cost

Incremental costs directly attributable to securing contracts with customers and retention activities, for convergent and non-convergent contracts which may be individually identified, reliably measured and for which recovery of the amounts disbursed is considered probable, are recognised as an asset at inception and are taken to the consolidated statement of comprehensive income as “Merchandise, raw materials and consumables used” over the term of the contract with the customer, provided that the amortisation period exceeds 12 months.

At 1 January 2018 the Group identified commissions paid to distributors and different sales platforms for securing contracts with customers as contract costs and recognised them under the heading “Contract costs”.

Until 2017 incremental costs on the convergent offering were capitalised as intangible assets and taken to results as fixed asset amortisation/ depreciation. Incremental costs not capitalised were recognised under “Merchandise, raw materials and consumables used” when contracts were obtained with customers.

The detailed information regarding accounting principles applied with respect to revenue recognition starting in 2018 is set out in note 3 (o).

ii) Application of IFRS 9 Financial instruments – Impacts of adoption

For exchanges of debt instruments or modifications to contractual terms that do not result in the cancellation of a financial liability, IFRS 9 stipulates that the Group must recalculate the new discounted amortised cost of the new estimated flows using the effective interest rate applied to the original financial liability. Any difference between that amount and the carrying amount prior to modification is recognised as income or expense in the consolidated statement of comprehensive income. Transaction expenses reduce the new carrying amount of the modified debt instrument, making it necessary to recalculate a new effective interest rate.

The Group restructured its financial debt in 2017, obtaining new debt to finance projects for the deployment of fixed and mobile telecommunications infrastructure, and modified certain contractual terms of existing debt. The refinancing of the existing debt was recognised as a non-substantial modification under IAS 39. The Group has estimated the impact of applying the requirements established by IFRS 9 with respect to non-substantial modifications of financial liabilities by calculating the difference between the amortised cost of the debt at 31 December 2017 under IAS 39 and that which would have arisen had the restructuring performed in 2017 been recognised under IFRS 9 in accordance with the aforementioned criteria.

Considering the Group’s business, the application of IFRS 9 with respect to its receivables (impairment based on expected loss) is not significant for these consolidated annual accounts taken as a whole.

The detailed information regarding accounting principles applied to the recognition and measurement of financial instruments starting in 2018 is set out in Note 3 (i).

Similarly, the following standards, amendments to standards and improvement packages without a significant impact on these consolidated annual accounts came into effect starting 1 January 2018.

- Annual improvements to IFRS, cycle 2014 to 2016 The following standards are amended:

- IFRS 1, "First-time adoption of IFRS": Elimination of short-term exemptions for first-time adopters.
 - IAS 28 "Investments in associates and joint ventures" Measurement of an investment in an associate or joint venture at fair value.
 - Amendments to IFRS 2: Share-based payments. Amendments with respect to the classification and measurement of share-based payments.
 - IFRIC 22. "Foreign currency transactions and advance consideration" This IFRIC addresses how to determine the transaction date when the standard on foreign currency transactions (IAS 21) applies. The interpretation applies when an entity pays or receives advance consideration under contracts denominated in foreign currency.
- h) Standards, amendments and interpretations which are not yet effective but that the Group expects to adopt beginning on or after 1 January 2019 (not adopted early)**

The new standard on leases that replaces IAS 17 is effective for years beginning on or after 1 January 2019. IFRS 16 was published in January 2016 and its application is mandatory for periods 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 to use the leased asset) is recognised together with a financial liability for the present value of outstanding lease payments, assets with a finite use life being subject to impairment testing. The standard will mainly affect the accounting treatment of the Group's operating leases that will be reduced while amortisation of the right of use of those assets will increase 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 implementation of IFRS 16 in the Group is complex, taking into account the multitude of lease contracts it has and the assumptions that have to be used to determine the discount rate, bearing in mind the Group's indebtedness at the different points in time involved. In addition to the above, the need to establish a contract term often requires the use of judgements and relevant estimates by the Directors in order to determine the term, based on the Group's operational needs and the existence of alternative assets to cover them, and interpret certain early termination or extension clauses included in the contracts.

The Group is planning to apply the standard starting 1 January 2019 on a retroactive basis, restating the figures previously presented, applying one of the options provided in IFRS 16.

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 the standard which might possibly have permitted it not to re-assess whether its contracts contain or constitute leases.

With respect to the discount rate, the Group has employed a range of incremental interest rates suited to each type of contract asset and term.

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).

The Group is in the process of completing certain aspects of the implementation and verification of the correct functioning of its IT systems designed to calculate and manage the information required under IFRS 16. However, based on its information to date and the assumptions employed and estimates taken into account to carry out the calculation of the impact of this standard, the main estimated effects on the Group's consolidated statement of financial position, as a consequence of the application of this standard, at 1 January 2019 would entail increasing assets in respect of the assets and liabilities in a range of between Euro 120 million and Euro 160 million and a negative effect on equity of between Euro 10 million and Euro 30 million.

The difference between the liabilities mentioned and the minimum future lease payments, included in note 17, is primarily attributable to the financial effect resulting from the application of the discount rate in order to determine the liability under IFRS 16, to the existence of lease contracts not classified as such under IFRS 16 and to the expenses associated with lease contracts not classified as rent although they are included in the lease expense in note 17 and therefore, the Directors consider these data as provisional until the options, judgments and criteria used are established as final and, accordingly, conclude the calculation of the Group's impact of IFRS 16.

Taking into account that IFRS 16 does not bring in significant changes to lessor accounting, the Group does not expect a significant impact on its consolidated annual accounts in connection with its lessor related activities.

- Amendment to IFRS 9 "Prepayment features with negative compensation" The contractual terms of instruments with prepayment characteristics with negative compensation, under which the lender could be forced to accept a prepayment that is substantially lower than the unpaid amounts of principal and interest, were incompatible with the notion of "additional reasonable compensation" for the early termination of a contract in accordance with IFRS 9. The amendment will be effective for years commencing on or after 1 January 2019, although it may be adopted early.

-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. The interpretation will be effective for years commencing on or after 1 January 2019, although it may be adopted early. The Group expects to adopt for the first time this standard on 1 January 2019, however no significant impact on the consolidation annual accounts is envisaged.

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.

- Annual Improvements to IFRS. Cycle 2015- 2017: The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23 and will apply to years commencing on or after 1 January 2019, all subject to being adopted by the European Union. 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 venture is 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.
- 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 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 amendments will apply to business combinations the acquisition date of which is as from the start of the first reporting period beginning on or after 1 January 2020 and acquisitions of assets occurring as from the commencement of that year. Early application is permitted.
- IAS 1 (Amendment) and IAS 8 (Amendment): “Definition of material” These amendments clarify the definition of material, introducing, in addition to omissions or misstatements of items that may affect users’ decisions, the concept of “obscure” information. Following these amendments, more coherent IFRS are obtained. However, they are not expected to have a significant impact on the preparation of the financial statements. They will apply for the years starting on or after 1 January 2020; early application is permitted.

Other standards, amendments and interpretations that the IASB and the IFRS Interpretations Committee had 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”
- IAS 19 (amendment) - “Plan amendment, curtailment or settlement”

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 Spanish GAAP 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.

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 handed over in 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 transferred 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 handed over.

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 measured reliably. 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 handed over, 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 profit or loss.

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.

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.

Non-controlling interests

Non-controlling interests in subsidiaries acquired after 1 January 2014 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, is 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 as such losses exceed their interest in the equity of the subsidiary, is recognised as a decrease in equity attributable to equity holders 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, including structured 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.

Information on the subsidiaries included in the consolidated 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.

b) Transactions and balances in foreign currency

Transactions in foreign currency are translated to the functional currency (Euro) 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 currency 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 quantified.

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 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 profit or loss.

c) Translation of foreign operations

Foreign operations whose functional currency is not the currency of a hyperinflationary economy is been translated into Euro as follows:

- 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 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.

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 current account balances are unavailable to secure the execution of those contracts, these balances are 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 16 (b) includes information on the Group's available cash at year end and, if applicable, unavailable current 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 CGUs (*Cash Generating Units*) or, as the case maybe, 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 this regard, the Group considers according to goodwill that existing CGUs are the companies comprising the Group.

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 licences

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

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 recognised in consolidated profit or loss.

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

This heading includes the amount at which relationships with customers deriving from the acquisition in 2016 of Xfera Móviles S.A.U. and Pepephone group was recorded, and the business combinations carried out in 2018 and 2017 (note 4). Those assets are initially measured at fair value and are amortised on a straight-line basis in accordance with their estimated useful lives.

Cost access to ADSL red (Assymetric Digital Subscriber Line), are also included.

The useful life of these assets is calculated based on the type of customer, historic abandonment rates and averages in the industry.

The Group recorded the incremental costs of the convergent bid under this heading until 31 December 2017 (see note 2 (g)).

vi) Rights of use

This relates to the right to indirectly access the network of other operators, which are valued at the amount actually paid.

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 generate capital gains and trademarks internally, 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 the intangible asset may be impaired.

The Group considers the “Yoigo” and “Pepephone” brands, acquired in 2016, to be the only assets with indefinite useful lives, together with the goodwill, 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	8 - 35

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

The use rights 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 cost of licences is amortised on a straight-line basis from the moment it starts generating profit to the Group according to the purpose it was acquired over the remaining concession period.

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) "Asset impairment".

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.

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 13), 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 net proceeds from disposal and the carrying amount of the item) is recognised in 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 profit and loss 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 established 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 income statement 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.

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

	Amortisation method	Estimated years of useful life
Buildings	Straight-line	5 - 6
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
Other fixed assets	Straight-line	4 - 15

The Group reviews the residual value, useful life and depreciation method of property, plant and equipment at the 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) "Asset impairment".

g) Asset impairment

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.
- 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 can not be allocated to the CGUs, it is distributed in proportion to the carrying amount of each of the CGUs.

Impairment losses for cash-generating units are allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata with their carrying amounts. The carrying amount of each asset may not be reduced below the highest of its fair value less costs to sell, its 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, had no impairment loss been recognised.

A reversal of an impairment loss is recognised in the consolidated income statements. However, the carrying amount of an asset cannot be increased above the carrying amount that would have been recognised had the impairment loss not been recognised.

Following the recognition of the value adjustment for impairment or its reversal, depreciation/amortisation for the following years is 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 income statements.

h) Leases

i) Classification of leases

The Group classifies contracts which, at inception, substantially transfer the risks and rewards of ownership of the assets to the lessee as finance leases. Otherwise, they are classified as operating leases and not recognised as finance leases on the Group's consolidated statement of financial position.

ii) Lessor accounting

Operating leases relate to telecommunications infrastructure shared in accordance with agreements entered into with other operators.

Assets leased to third parties under operating lease contracts are classified according to their nature, increased, where applicable, by the amount of the contract costs directly attributable.

Operating lease income, net of incentives granted, is recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefits deriving from the leased asset are diminished.

Initial direct costs are added to the carrying amount of the leased asset and recognised as an expense over the lease term, on the same basis as the lease income.

Any collection made on signing an operating lease will be treated as prepaid income and taken to consolidated profit or loss over the lease period, as the rewards of the leased asset are transferred.

In particular, installation costs paid in advance for the sharing of sites with other operators are recorded as prepayments for non-current assets and non-current accruals, based on the Group's positions under the relevant contract, and are taken to consolidated income and expense on a straight-line basis over the lease term.

iii) Lessee accounting

The Group has assigned the right to use certain assets under lease contracts.

- *Finance leases*

At the commencement of the lease term, the Group recognises finance leases as assets and liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Initial direct costs are added to the asset's carrying amount. Minimum payments are divided between the financial charge and the reduction in the debt pending payment. Financial expense is taken to the consolidated statement of comprehensive income using the effective interest rate method.

Contingent lease instalments are recognised as an expense when it is probable that they will be incurred.

The accounting policies applied to the assets used by the Group by virtue of finance lease contracts are the same as those set out in section (f) "property, plant and equipment". However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the assets are fully depreciated over the shorter of the lease term and their useful lives.

- *Operating leases*

Lease payments under an operating lease, net of incentives received, are recognised as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the lease's benefit.

The Group recognises initial direct costs incurred on operating leases as an expense when incurred.

Contingent lease instalments are recognised as an expense when it is probable that they will be incurred.

i) Financial instruments

i) Classification of financial instruments

Following the application of IFRS 9, starting 1 January 2018, 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.

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

Until 31 December 2017, financial instruments were classified at the time of initial recognition as a financial asset, a financial liability or an equity instrument, in accordance with the economic substance of the contractual agreement and the definitions of financial asset, financial liability or equity instrument developed in IAS 32 "Financial instruments: Presentation". The Group

recognised financial instruments when it became party to the contract or legal transaction, in accordance with the terms set out therein. Financial instruments were classified into the following categories: financial assets and financial liabilities at fair value through profit or loss, separating those initially designated from those held for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial assets and financial liabilities at amortised cost. Financial instruments were classified into different categories based on the nature of the instruments and the Group's intentions on initial recognition.

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 income statement.

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 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.

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 consolidated gain or loss being recognised in other comprehensive income. Dividends from such investments continue to be recognised in the income statement 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

Since 1 January 2018 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.

Until 31 December 2017 a financial asset or group of financial assets was impaired and there was an impairment loss, if there was objective evidence of impairment as a result of one or more events that occurred after the asset initial recognition and such event or events resulting in the loss had an impact on the estimated future cash flows of the financial asset or group of financial

assets, which could be reliably estimated. In the case of financial assets carried at amortised cost, the impairment loss was the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, excluding future credit losses not incurred, discounted at the asset's original effective interest rate. The impairment loss was recognised by charge to results and is reversible in subsequent years if the decrease may have been objectively connected to an event subsequent to its recognition. Nonetheless, the reversal of the loss was limited to the amortised cost of the assets had the impairment loss not been reflected. In the case of financial assets carried at cost, the amount of the impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses could not be reversed and were therefore recognised directly against the value of the asset and not as an allowance account.

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 or to a financial asset or 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 at fair value through profit or loss, are initially recognised at fair value less any transaction costs that 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 gain 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 profit and loss providing they do not change the effectiveness of the hedge.

k) Parent treasury shares

The acquisition of equity instruments of the Parent 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 gains or losses on transactions with own equity instruments are not recognised.

The subsequent redemption of the Parent instruments 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.

The cost value of inventories is subject to adjustment against consolidated results 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 results 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 consolidated profit or loss.

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 consolidated profit and 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 income statement item in which the related expense was recognised, and any surplus is accounted for in Other 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 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 as 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 as a reduction in the consideration, and are recognised as a reduction in sales revenue when it is probable that the discount conditions will be met.

i) Sales of goods

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

- The Company has transferred to the purchaser the significant risks and rewards attaching to ownership of the assets;
- The Company does not have any involvement in the current management of the assets sold, to the extent usually associated with ownership, and does not retain effective control over them;
- The amount of income and costs incurred or to be incurred may be reliably measured;
- The economic benefits associated with the sale are likely to be received;

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 sales are recognised.

ii) Services provided

Group revenues come from the provision of telecommunication services to end customers (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.

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.

Bundles comprising different elements are analysed to determine whether it is necessary to separate the elements, applying the appropriate revenue recognition criteria in each case. Total revenues obtained for the package are distributed among the identified elements based on their respective fair values, i.e. the fair value of each individual component as compared with the total fair value of the product.

For those contracts with permanence obligations containing discounts or subsidies, such discounts and subsidies are recognised as an asset on a straight-line basis and are recorded as a decrease in revenues over the estimated contract term as the performance obligation is completed by providing telecommunication services to customers.

Revenue from rentals and other services is taken to consolidated income as the service is rendered.

iii) 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 his/her sale option.

iv) Contract costs

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 likely 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 heading

Costs of obtaining contracts with customers and are released to the consolidated comprehensive income statement under “merchandise and other consumibles used” 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 contract costs.

The Group expenses 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.

An analysis was performed of the average period between the payment of a commission for obtaining a new contract and the time a retention event takes place generating a new commission, associated with the signing of a new contract or the substantial amendment of customers’ contractual terms. This resulted in an amortisation period of 24 months. In previous years, the amortisation period was determined to be 48 months. The difference in the amortisation period is primarily due to the inclusion of incremental costs for non-convergent customers, representing a relatively higher proportion of the customer base and involving more retention activity. Changes are recognised as changes in estimates.

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) Corporate income tax

The corporate income tax expense or income 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 corporate income tax is recognised in the consolidated income statement 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.

During 2018, the Company’s tax domicile was changed and the Company was included in the consolidated corporate income tax group 0218/16 as the Parent. Therefore, since 2018 the Company has been taxed under the tax consolidation scheme along with the companies MásMóvil Broadband, S.A.U., MásMóvil Infrastructures, S.L.U., MásMóvil Investments, S.L.U., MásMóvil Phone & Internet, S.A.U., MásMóvil Holdphone, S.A.U., Embou Nuevas Tecnologías, S.L.U., Xfera Móviles, S.A.U., Pepeworld, S.L.U., Pepe Mobile, S.L.U., Pepe Energy, S.L.U. and Xtra Telecom, S.A., the Company being the parent of the tax group.

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

- Temporary and permanent differences arising from the elimination of results on intercompany transactions between corporate income tax group’s 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 companies of the tax group are recognised in the 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 group company which have been offset by the remaining tax group 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 group companies is recognised as a deferred tax asset pertaining to the tax group.

The Parent of the tax group records the total consolidated income tax payable (recoverable) with a debit (credit) to receivables (payables) from/to tax group.

The amount of the debt (credit) relating to the subsidiaries is recognised with a credit (debit) to payables (receivables) to/from 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 time of reversal and their reversal is unlikely 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 entities. 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 likely 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.

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.

q) Equity-settled 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 income statement 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 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 rights expected to vest. Therefore the performance conditions for vesting that are not market are not taken into account in the estimate of the liability's fair value.

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.

s) Environmental disclosures

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.

t) 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 by the Group in previous exercises, has become a one-stop telecommunications operator, forcing it to change its former markets-based management model (consumer, 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 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 (Provisional) (note 5)	Bargain Purchase
Subsidiaries					
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	15,329	62,760	-
		136,423	44,889	119,823	(28,289)

The acquired businesses have generated the following consolidated revenue between the acquisition date and the closing 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
Results	(3,603)	1,205	259

Had the businesses been acquired on 01 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 before taxes	(5,018)	6,092	4,753
Profit after tax	(4,159)	6,092	3,565
EBITDA	(1,644)	6,180	6,340

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% 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.

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 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.
- 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 Andalucia.

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
Assets	22,366	36,638	59,004
Non-current loans and borrowings	1,213	-	1,213
Non-current provisions	816	-	816
Deferred tax liabilities (note 19 (b))	886	9,116	10,002
Current liabilities	11,981	-	11,981
Other current financial liabilities	-	700	700
Liabilities	14,896	9,816	24,712
Identifiable net assets acquired			34,292
Cost of the business combination			(6,003)
Bargain purchase			28,289

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 and the obtaining of authorisation from the Ministry of Energy, Tourism and the Digital Agenda for the establishment and exploitation of public radio access lines on 3.4 to 3.6 Ghz and 2,6 Ghz bandwidth 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:

- o Concessions of radio spectrum (intangible assets): these have been 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 have been 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.
- Short-term provisions: the fair value of this provision, corresponding to the loss-making contract Neutra has with a third party for the maintenance of towers, has been 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 provisional values assigned to this business combination were revised and considered final.

b) Acquisition of Lebara business unit

On 20 November 2018 the Group acquired a virtual mobile operator 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 has 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.

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)	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 19 (b))	-	4,697	4,697
Assets	328	21,841	22,169
Deferred income	3,009	-	3,009
Employee benefits expenses	819	-	819
Deferred tax liabilities (note 19 (b))	-	4,286	4,286
Onerous contract (note 13)	-	18,787	18,787
Liabilities	3,828	23,073	26,901
Identifiable net assets acquired			(4,732)
Cost of business combination			(52,331)
Goodwill (note 5)			(57,063)

The value of the assets and liabilities indicated above is identical to that 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, has been the valuation of expected synergies and other benefits from the business combination. Goodwill is fully deductible.

Fair value of the main assets and liabilities at the date control was taken was calculated, that have been 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 has been 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 VMO contract, has been 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 13).
- 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.

The fair values included in the business combinations are considered provisional as, although an appraisal has been carried out with the aid of an independent expert, new information could be

available that modifies the initially recognised amounts. Any adjustment made during the appraisal period (not exceeding a maximum of twelve months from the acquisition date established in the standard) will be recognised as if it had been known at the acquisition date.

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 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, under subfranchisee master agreements, 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 will be retained by Xfera Móviles, S.A.U. as a warranty for a 12 month period.

The difference between the warranty amount mentioned above and contingencies or indemnities to be addressed by Tower Valley, S.L. under the representations and warranties regime, will be paid in cash within five working days of the first anniversary. If at the end of the warranty, there are any claims pending settlement to be addressed by Tower Valley, S.L., the warranty will be maintained for the necessary amount through to the settlement of that claim.

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)	38	-	38
Property, plant and equipment (note 6)	149	-	149
Deferred tax assets (note 19 (b))	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
Assets	51,019	-	51,019
Long-term payables	(5,965)	-	(5,965)
Deferred tax liabilities (note 19 (b))	(14)	-	(14)
Current liabilities	(29,711)	-	(29,711)
Liabilities	(35,690)	-	(35,690)
Identifiable net assets adquired			15,329
Cost of the business combination			(78,089)
Goodwill (note 5)			(62,760)

The fair values included in the business combination are considered provisional as, although an initial valuation has been carried out, new information could be available that modifies the initially recognised amounts. Any adjustment made during the appraisal period (not exceeding a maximum of twelve months from the acquisition date established in the standard) will be recognised as if it had been known at the acquisition date.

4.2. Business combinations recognised in 2017

On 30 January 2017 the Group, through the subsidiary MásMóvil Telecom 3.0, S.A.U., acquired a line of business consisting of virtual operator activities, from Llamaya Móvil, S.L.U.

Details of the business combination and goodwill arisen are as follows:

	Country	Cost of business combination net of cash received	Fair value of identifiable net assets	Goodwill (note 5)
<i>Thousand Euro</i>				
Llamaya Business Unit	Spain	39,336	27,362	11,974
		39,336	27,362	11,974

The acquired businesses generated consolidated revenue of Euro 17,142 thousand and profits of Euro 5,473 thousand for the Group between the acquisition dates and the closing date.

If the acquisition had taken place on 1 January 2017 the Group's revenues and profits would have increased by Euro 1,346 thousand and Euro 102 thousand, respectively, in 2017.

The purchase price consists of the following items:

- A cash payment of Euro 24,891 thousand; and
- The deferred price initially consisted of a fixed amount of Euro 4,800 thousand and a variable amount (earn-out) based on the evolution of certain operating parameters, being the estimated fair value of the deferred price Euro 11,014 thousand at the transaction date. However, on 2 August 2017 the Group signed an addendum to the contract under which the parties agreed to replace the variable payment with a fixed payment totalling Euro 8,750 thousand. So there was a deferred payment at 31 December 2017, payable in October 2018, amounting to Euro 13,550 thousand. The difference in the deferred payment and the fair value was registered in the consolidated statement of comprehensive income.

The fair value of the deferred payments was calculated by discounting the deferred price and the variable price by a market interest rate, which places it at level 3 within the fair value hierarchy (see note 16 (e)).

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.

The breakdown of the cost of the business combination, the fair value of the net assets acquired and goodwill was as follows:

<i>Thousand Euros</i>	Carrying amount of the acquired company	Fair value adjustments	Fair value
Trademark (note 5)	-	2,650	2,650
Other intangible assets (note 5)	-	30,609	30,609
Assets	-	33,259	33,259
Current liabilities	(1,241)	-	(1,241)
Current Provisions (note 12)	-	(4,656)	(4,656)
Liabilities	(1,241)	(4,656)	(5,897)
Identifiable net assets acquired	(1,241)	28,603	27,362
Cost of the business combination			(39,336)
Goodwill (note 5)			(11,974)

The value of the assets and liabilities indicated in the above table was identical to that recognised in the acquiring company's individual financial statements (MásMóvil Telecom 3.0, S.A.U., absorbed by Xfera Móviles, S.A.U. in 2017) at its tax value, so no deferred taxes were generated in the business combination.

Other intangible assets consist, mainly, of the acquired customer portfolio.

The most important factor considered when recognising goodwill, amounting to Euro 11,974 thousand, was the valuation of expected synergies and other benefits from the business combination. Goodwill is fully tax deductible.

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

- Brand Llamaya: the fair value of this intangible asset was calculated by applying the “royalty” equivalent method, the most significant parameters of which were a royalty of 1.1%, based on royalties observed in the sector, a discount rate of 8.66% and a perpetuity growth rate of 0.5%. Both rates were estimated reasonable considering the specific market where the trademark Llamaya operates. This discount rate is lower than that used in the business combinations involving Xfera Móviles S.A.U. and Pepephone in 2016, given the competitive dynamic in the segment Llamaya addresses (ethnic) and it has a clearly differentiated profile from the general market addressed by Xfera Móviles S.A.U. and Pepephone group. This means, among other things, that the cost of recruiting customers is much lower in the ethnic segment than the general segment, which leads to lower financial risk per income unit generated.
- Customer service: measured using the Life Time Value (LTV) for customers making up the portfolio. The key parameters used to measure this intangible were the abandonment rate, the EBITDA attributable to the type of customer and an 8.66% discount rate, which was believed to be adequate given the very specific niche in which the Llamaya brand operates. Although projections covered a lifetime exceeding the book amortisation period, as was the case with the measurement in 2016 of Pepephone and Xfera Móviles S.A.U. customer relationships, since they were prepared based on the company's historical abandonment rate calculated for the year in which 90% of initial customers abandon the company (9 years in the case of Llamaya) and projected income decreases, the difference between the straight-line amortisation of those assets over five years and digressive amortisation based on income is not significant in any year.
- Current liabilities: by acquiring the customer portfolio, the Group assumed balances that had not been consumed by customers (prepayment).

- Onerous contract: Subsequent to the date on which control was assumed, the Group negotiated an addendum to the virtual mobile operator contract (VMO) with Llamaya's wholesale supplier, through which the financial conditions in force between the parties up until the purchase date were cancelled and replaced by conditions in line with the contractual relationship between the Group and the supplier. This new contractual negotiation took effect retroactively on 1 February 2017 and required a lump-sum payment by the Group and, similar to other agreements, included the customer traffic that took place under the Llamaya brand between 1 February and 31 December 2017 and compensation for Orange for terminating the contractual conditions in place before the purchase.

5. Intangible Assets

Details of intangible assets and movements are as follows:

	Goodwill	Computer Software	Patents, trademarks and licences	Development	Other intangible assets	Prepayments	Rights of use	Total
<i>Thousand Euro</i>								
Cost								
Balance at January 2017	377,406	32,614	187,066	17,052	142,268	382	20,215	777,003
Business combinations (note 4)	11,974	-	2,650	-	30,609	-	-	45,233
Additions	-	18,104	-	1,050	47,690	38	34,025	100,907
Disposals	-	(4,346)	(195)	(494)	(939)	(382)	-	(6,356)
Transfers	-	(645)	-	682	(5)	-	-	32
Balance at 31 December 2017	389,380	45,727	189,521	18,290	219,623	38	54,240	916,819
Trasfer at 1 January due to IFRS 15 application	-	-	-	-	(46,850)	-	-	(46,850)
Business combinations (Note 4.1)	119,823	241	44,631	-	17,144	-	-	181,839
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	508,281	82,313	261,291	17,990	188,756	-	302,343	1,360,974
Amortisation and impairment losses								
Balance at January 2017	-	(8,391)	(4,364)	(7,077)	(16,899)	-	(2,634)	(39,365)
Amortisation	-	(9,112)	(16,234)	(1,448)	(30,045)	-	(2,579)	(59,418)
Disposals	-	3,791	27	(379)	1,603	-	-	5,042
Transfers	-	768	168	(420)	11	-	-	527
Balance at 31 December 2018	-	(12,944)	(20,403)	(9,324)	(45,330)	-	(5,213)	(93,214)
Trasfer at 1 January due to IFRS 15 application	-	-	-	-	6,253	-	-	6,253
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)
Carrying amount								
At 1 January 2017	377,406	24,223	182,702	9,975	125,369	382	17,581	737,638
At 31 December 2017	389,380	32,783	169,118	8,966	174,293	38	49,027	823,605
At 1 January 2018	389,380	32,783	169,118	8,966	174,293	38	49,027	823,605
At 31 December 2018	508,281	64,020	224,192	3,978	125,018	-	286,341	1,211,830

Goodwill

Goodwill arising from business combinations in 2018 totalled Euro 119,823 thousand (Lebara business unit and The Bymovil Spain, S.L.U. acquisition) (see note 4.1), having been allocated to the CGU Xfera Móviles, S.A.U.

Goodwill of Euro 11,974 thousand arising from the business combination completed in 2017 (Llamaya business unit, see note 4.2) was allocated to the CGU Xfera Móviles, S.A.U., as the acquisition was made through MásMóvil Telecom 3.0, S.A.U., a company that was merged into Xfera Móviles, S.A.U. in 2017 (see note 2 (a)).

The goodwill that arose in 2018 and 2017 has been assigned to the CGU Xfera Móviles, S.A.U. since, in the case of Lebara and Llamaya (both virtual mobile operators), that CGU will benefit from the relevant optimisation of the costs of leasing mobile telecommunications networks until the transaction date because they may join wholesale commercial agreements reached by the Group with third parties and use the mobile network developed by Xfera Móviles S.A.U. The goodwill arising in the case of Bymovil has been attributed to that same CGU with the consideration that its business consists of the exclusive management of Yoigo brand street and shopping mall retail points of sale, which were assigned to that CGU.

Goodwill arising from the business combinations completed in 2016 for a total amount of Euro 299,149 thousand was allocated to all of the Group's cash-generating units, as they will all benefit from the synergies obtained through the new acquisitions. Goodwill that arose prior to 2016 was allocated to the CGUs Xfera Móviles S.A.U. (following the absorption of MásMóvil Telecom 3.0 S.A.U. (see note 2(a)) and Xtra Telecom, S.A.U. in the amounts of Euro 37,544 thousand and Euro 40,713 thousand, respectively.

The Group monitors goodwill at the CGU level. Set out below is a summary of the allocation of goodwill at the CGU level:

	<u>31/12/2018</u>	<u>31/12/2017</u>
CGU		
Xfera Móviles	169,341	49,518
Xtra Telecom	39,791	40,713
Total CGUs	<u>299,149</u>	<u>299,149</u>
	<u>508,281</u>	<u>389,380</u>

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 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: 8.2% (9.9% in 2017). 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 an iterative method, the discount rate before taxes would be 10.49% (13.63% in 2017).
- Growth of sales in the budgeted period: a range between 2% and 11% (2% and 12% in 2017), based on the evolution of the Group's business in 2018 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: 0.7% (0.5% in 2017). In order to determine this rate in 2018, 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 and 1.70% and 1.80%, expected in the period 2018 to 2020, the increase in the growth rate therefore being considered reasonable and consistent with the Group's growth.
- EBITDA margin/Revenue: around 29% (30% in 2017), in line with the figure envisaged in the business plan and consistent with analysts' estimates.
- 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 2018 or 2017.

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 2018 and 2017 related mainly to investments in the acquisition and development of the IT solutions needed by a telecommunications operator during a process of growth. This process centred on the development of cross-organisational solutions for the Group 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" and "Pepephone" brands, amounting to Euro 88,644 thousand and Euro 8,594 thousand respectively, according to independent expert valuations performed for the business combinations assigned in 2016 to Xfera Móviles, S.A.U CGU and Pepephone subgroup, as well as Euro 2,650 thousand for the "Llamaya" brand (see note 4.2) which was appraised internally and assigned to the CGU Xfera Móviles, S.A.U.

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):

		31/12/2018	31/12/2017
Trademark	CGU		
Yoigo and Llamaya	Xfera Móviles	91,294	91,294
Pepephone	Pepe Subgroup	8,594	8,594
		99,888	99,888

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. 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: 8.00% (Yoigo trademark) and 8.22% (Pepephone trademark). Using an iterative method, the discount rate before taxes would be 10.05% for the Yoigo trademark and 10.77% for the Pepephone trademark.
- Sales growth for the budgeted period: 5% per annum to 2023, in both cases.
- Perpetuity growth rates: 0,7% (for both cases). In order to determine this rate in 2018, 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, 1.70% and 1.80%, expected in the period 2018 to 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 2018 or 2017.

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: -0.2%

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 120,517 thousand (Euro 69,189 thousand at 31 December 2017) reflect the fair value of 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 (see note 22).

Additions under licences in 2018, amounted Euro 71,759 thousand relate to those acquired for the frequency 3.5 GHz as a result of the Neutra business combination (note 4.1) and those acquired from other operators.

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

The Group capitalised the costs of obtaining customers attributable to certain convergent products up until 31 December 2017. The Group adopted IFRS 15 starting on 1 January 2018 to recognise revenue deriving from contracts with customers (see notes 2 (g) and 3 (o)). This was why a transfer of Euro 40,599 thousand took place on 1 January 2018 from the heading "Other intangible assets" to the heading "Costs of obtaining contracts with customers" (non-current and current) in the consolidated statement of financial position (see note 7).

This heading primarily includes the measurement of the customer portfolios received through business combinations and the costs of accessing other operator's ADSL (Asymmetric Digital Subscriber Line) network.

Rights of use

During 2018 and 2017, the Group entered into important strategic agreements for wholesale access to infrastructures and the joint deployment of FTTH (Fibre-to-the-Home) networks with others operators.

One of the agreements reached by the Group during 2018 is as follows:

- Extension of the existing Fibre-to-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 other 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 of the economic terms of the current National Roaming agreement.
- Amendments to the data transmission agreement with improved unit prices.

During 2018, the Group has entered into other agreement to share of fibre optic networks (FTTH) of up to 1.9 millions DUs with the following characteristics:

- The Group and Vodafone 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.

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.

The additions in 2018 and 2017 are the result of those contracts.

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 for an acquisition price of Euro 29,000 thousand. The Group recognised this asset at the fair value of the consideration received, amounting to Euro 20,152 thousand, calculated as the present value of future cash flows payable, discounted at a market rate.

Impairment losses on intangible assets

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

Purchase commitments

At 31 December 2018, the Group has firm purchase commitments for intangible assets amounting to Euro 8,723 thousand (Euro 71,656 thousand at 31 December 2017, mainly deriving from the FTTH network mutualisation agreement signed with other operators and formalised during 2018).

6. Property, plant and equipment

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

<i>Thousand Euro</i>	Land and buildings	Network equipment	Other PPE	PPE in course and prepayments	Total
Cost					
Balance at 1 January 2017	1,009	114,505	300,511	26,416	442,441
Additions	-	110,560	7,017	32,398	149,975
Disposals	(224)	(54,794)	(5,933)	(4,563)	(65,514)
Transfers	-	302,779	(291,602)	96	11,273
Balance at 31 December 2017	785	473,050	9,993	54,347	538,175
Business combinations (note 4)	19	4,650	2,621	-	7,205
Additions	-	188,366	4,343	45,965	238,674
Disposals	-	(19,414)	(4,301)	(793)	(24,508)
Transfers	(2)	31,023	23,565	(54,654)	(68)
Balance at 31 December 2018	802	677,590	36,221	44,865	759,478
Depreciation and impairment losses					
Balance at 1 January 2017	(402)	(3,988)	(34,069)	-	(38,459)
Depreciation charge for the year	(12)	(51,172)	(12,965)	-	(64,149)
Disposals	223	32,609	5,777	-	38,609
Transfers	-	(51,226)	39,953	-	(11,273)
Balance at 31 December 2017	(191)	(73,777)	(1,304)	-	(75,272)
Depreciation charge for the year	(19)	(85,201)	(6,038)	-	(91,258)
Disposals	-	13,181	4,298	-	17,479
Transfers	1	7,716	(8,021)	-	(304)
Balance at 31 December 2018	(209)	(138,081)	(11,065)	-	(149,355)
Carrying amount					
At 1 January 2017	607	110,517	266,442	26,416	403,982
At 31 December 2017	594	399,273	8,689	54,347	462,903
At 1 January 2018	594	399,273	8,689	54,347	462,903
At 31 January 2018	593	539,509	25,156	44,865	610,123

The main additions during the years ended 31 December 2018 and 2017 relate to network equipment and, specifically, the roll-out and optimisation of the 4G mobile telephony network and deployment of the fibre-optic network, a part of which was in progress at the end of 2018. Property, plant and equipment in course of construction will be transferred to operating network equipment as network construction advances and is effectively handed over.

In December 2017, the Group reached an agreement with an infrastructures company for the sale of more than 600 mobile telephony infrastructures amounting to Euro 39 million, generating a profit of Euro 17 million (see note 20(e)). The agreement falls within the process of mobile network efficiency and rationalisation, and asset rotation, undertaken by the Group so as to reinvest the funds obtained in FTTH development. In this context, the Group is now co-located at those facilities and the infrastructures company has become an industrial partner for the management of the infrastructure and for possible new collaboration agreements regarding future network deployment.

The transfers that took place during 2018 relate to the progress achieved in building the telecommunications network, while 2017 transfers essentially relate to mobile network equipment assets which, in prior years, were presented as part of plant and machinery.

No interest was capitalised in 2018 or 2017.

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 financial liabilities (see note 18), 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).

Similarly, the fibre-optic sale and purchase agreement concluded with Jazz Telecom, S.A.U. includes the assignment of the right of use of the fibre-optic network to that company, which is also charged to other financial liabilities (see note 18).

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 2018 and 2017, a part of the land and buildings where the Group carries on its business have been mortgaged as security for bank borrowings (see note 12 (f)).

Purchase commitments

At 31 December 2018, the Group records firm purchase commitments for property, plant and equipment totalling Euro 53,182 thousand (Euro 68,471 thousand at 31 December 2017) with which to expand its telecommunications network in the coming years.

Impairment of property, plant and equipment

The Group has analysed property, plant and equipment assets for signs of impairment. No impairment losses on assets were deemed necessary as a result of the analysis.

Property, plant and equipment being acquired under finance leases

A breakdown of property, plant and equipment being acquired under finance leases, related to contracts, is provided in note 12 (c).

<i>Thousand Euro</i>	31/12/2018	
	Installations	Total
Cost	61,255	61,255
Accumulated depreciation and impairment losses	(29,646)	(29,646)
Net value at 31 December 2018	31,609	31,609

<i>Thousand Euro</i>	31/12/2017		
	Equipment and furniture	Installations	Total
Cost	44	61,250	61,294
Accumulated depreciation and impairment losses	(44)	(23,414)	(23,458)
Net value at 31 December 2017	-	37,836	37,836

7. Contract costs

As mentioned in notes 2 (g) and 3 (o) as from 1 January 2018, the Group has applied IFRS 15 Revenue from contracts with customers and Clarifications to IFRS 15 Revenue from contracts with customers, entailing the capitalisation of certain costs of customer contracts (see note 5) and the recognition on a straight-line basis of discounts and subsidies granted to customers. Set out below is an analysis of these costs showing movements during 2018:

<i>Thousand Euro</i>	2018	
	Non-current	Current
Application of IFRS 15 at 1 January 2018	41,776	96,762
Additions	65,724	148,865
Taken to income statement	-	(152,205)
Transfers	(41,776)	41,776
Balance at 31 December 2018	65,724	135,198

8. Other investments

Details of other investments are as follows:

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Non-current		
Equity instruments	450	692
Deposits and guarantees	1,249	1,281
Other financial assets	6,035	4,431
	<u>7,734</u>	<u>6,404</u>
Current		
Equity instruments	14	21
Loans to associates	3,677	2,735
Deposits and guarantees	681	633
Other financial assets	160	104
	<u>4,532</u>	<u>3,493</u>

Other non-current financial assets at 31 December 2018 include long-term instalments receivable on financing granted to the Group's customers to buy telephone terminals in the amount of Euro 2,936 thousand (Euro 4,075 thousand at 31 December 2017). 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 16.

9. Prepayments and accrued income

Long-term prepayments and accrued mainly reflecting payments made for work carried out to install the Group's telecommunications equipment in infrastructures owned by other operators and for the rental of transmission lines.

Short-term prepayments and accrued income mainly relate to insurance, bank charges and maintenance payments.

10. Trade and other receivables

A breakdown of trade and other receivables is as follows:

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Trade receivables	224,757	181,648
Receivables on terminal financing	9,095	10,283
Sundry receivables	1,337	4,488
Other amounts receivable from Public Administrations	35,440	10,567
	<u>270,629</u>	<u>206,986</u>
Impairment adjustments	<u>(32,955)</u>	<u>(8,545)</u>
	<u>237,674</u>	<u>198,441</u>

Other credits with the Public Administration relate mainly to balances refundable in respect of VAT.

Movements in impairment adjustments (see note 20 (d)) are as follows:

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
<i>Current</i>		
Balance at 1 January	(8,545)	(4,792)
Charges (nota 20 (d))	(36,407)	(29,857)
Reversals (nota 20 (d))	4,952	2,141
Applications	7,045	23,963
Balance at 31 December	<u>(32,955)</u>	<u>(8,545)</u>

The Group's exposure to credit risk, liquidity risk and market risk is described in note 16.

11. Equity

The consolidated statement of changes in equity provides a breakdown of and movements in equity.

a) Capital

At 31 December 2017, the parent company's share capital consisted of 19,951,100 fully-paid shares with a par value of Euro 0.10 each. All shares carry the same voting and dividend rights. There are no restrictions on the free transfer of the shares.

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 21(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 has 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 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.

Following these movements, the Company's share capital consists of 120,210,500 fully-paid shares with a par value of Euro 0.02 each at 31 December 2018. All shares carry the same voting and dividend rights. There are no restrictions on the free transfer of the shares, with the exception of 700,000 shares for which there is a commitment not to sell, lend, offer, issue options or, in general, not dispose of the aforementioned shares in any way until May 12, 2019

At 31 December 2018, the shares are owned by a number of shareholders. The following holding more than 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%.

At 31 December 2017, the shares were held by several shareholders, the following owning more than 3%: PLT VII Holdco Sarl (Providence) 18.00%, Onchena, S.L.U. 17.18%, Indumenta Pueri, S.L. 10.50%, Key Wolf, S.L.U. 6.48%, Gala Growth Properties, S.L. 6.15%, Caja de Seguros Reunidos Compañía de Seguros y Reaseguros, S.A. 3.74%, Norsis Creaciones, S.L.U. 3.59% and FMR LLC 3.38%.

b) Share premium

The share premium of Euro 616,269 thousand at 31 December 2018 (Euro 246,652 thousand at 31 December 2017) derives from the capital increases carried out in 2018 and prior years.

The share premium at 31 December 2018 is not available 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 2018, retained earnings and other reserves are negative in a total amount of Euro 207,085 thousand (Euro 165,874 thousand at 31 December 2017), which includes the profit for the year of Euro 70,543 thousand (loss of Euro 102,759 thousand in 2017). The Group has applied the various practical solutions offered by IFRS 9 and IFRS 15, as is mentioned in note 2 (g). It gave rise to an adjustment against reserves in the amount of the accumulated net effect.

The parent company's Annual General Meeting of 4 May 2018 approved the application of 2017 losses to prior-year losses in the amount of Euro 23,639 thousand.

The parent company's annual accounts for 2018 include a proposal to apply losses incurred during the year in the amount of Euro 14,458 thousand to prior-year losses.

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 2018 and 2017, the legal reserve stands at Euro 119 thousand.

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).

d) Treasury shares

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 2018, the Company sold treasury shares with an acquisition cost of Euro 95,744 thousand (Euro 21,618 thousand in 2017), increasing reserves by Euro 342 thousand (Euro 672 thousand in 2017) due to the difference between the average acquisition price and the selling price. Treasury shares were also purchased in the amount of Euro 89,821 thousand (Euro 29,216 thousand in 2017).

The following treasury share transactions were carried out in 2018 and 2017:

	Number of shares	
	2018	2017
1 January	104,598	14,939
Additions	1,050,648	373,251
Disposals	(1,051,260)	(283,592)
31 December	103,986	104,598

At year-end 2018, the Company holds 103,986 treasury shares acquired at a weighted average cost per share of Euro 86.69 (104,598 treasury shares at 31 December 2017 at a weighted average cost of Euro 76.22 per share).

e) Other equity instruments

On 23 September 2016, as approved by the Annual General Meeting of 16 August 2016, the Group issued bonds with a nominal value of Euro 165,000 thousand, convertible 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.àr.l. 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% that may be added to the principal.

The buyer has the option to convert the bonds at any time as from month 39 following the issuance date to day seven prior to maturity. The initial price for converting the bonds is Euro 4.4 per share and is subject to adjustment in the circumstances provided for in the issue terms and conditions, provided this does not cause significant dilution of the share price.

This issue was treated as a compound financial instrument comprising a liability component at amortised cost in the amount of Euro 131,255 thousand (Euro 115,043 thousand at 31 December 2017) (see note 12 (d)) and an equity component for the remaining Euro 66,253 thousand (Euro 66,253 thousand at 31 December 2017) (see note 21 (a)), as the issue provides the issuer with an option to convert the bonds into treasury shares. The directors consider that the convertibility of accrued interest into shares does not breach the fixed-for-fixed rule to be considered an equity instrument, as the variability in the number of shares depends only on the passage of time and not on any other variable.

On 2 January 2018 the Company used treasury shares to make payment of the deferred variable price of the acquisition agreement from prior years covering Embou Nuevas Tecnologías, S.L. in the amount of Euro 9,024 thousand (Euro 5,515 thousand in 2017 for the same item).

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 21 (c)). The heading Other equity instruments fell by Euro 828 thousand in order to cover the plan at maturity (increase of Euro 578 thousand in 2017 to allocate funds to the plan).

The Parent Company's Board of Directors approved the repurchase of the debt recognition contract with ACS on 7 November 2018. That Note, for a nominal amount of Euros 200 million, provided ACS with the option to convert it into 4.8 million shares in the Company, as was mentioned in the 2017 consolidated annual accounts.

The repurchase of that Note for Euro 476,533 thousand gave rise to the cancellation of the equity component recognised under the heading Other equity instruments in the amount of Euros 151,981, 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 recognised in 2017 in the amount of Euros 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 gave rise 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 equity holders by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

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

	<u>2018</u>	<u>2017</u>
Profit/(loss) for the year attributable to parent's equity holders (thousand Euro)	70,543	(102,759)
Weighted average number of ordinary shares outstanding (in thousand shares) (*)	25,526	23,855
Basic earnings/(loss) per share (in Euro)	<u>2.764</u>	<u>(4.308)</u>

(*) Data calculated (restated for 2017) by weighting the impact of the Company's stock split carried out on 13 December 2018 mentioned in section a) of this note.

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

<i>In thousand shares</i>	<u>2018</u>	<u>2017</u>
Shares outstanding at 1 January	19,951	19,951
Effect of shares issued during the year	5,594	3,936
Effect of treasury shares	(19)	(32)
Weighted average number of ordinary shares outstanding at 31 December (*)	<u>25,526</u>	<u>23,855</u>

(*) Data calculated (restated for 2017) by weighting the impact of the Company's stock split carried out on 13 December 2018 mentioned in section a) of this Note.

Diluted

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

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

	<u>2018</u>	<u>2017</u>
Profit/(loss) for the year attributable to parent's equity holders (thousand Euro)	86,755	60,129
Weighted average number of ordinary shares outstanding (diluted) (in thousand shares) (*)	67,421	89,071
Diluted earnings/(loss) per share (in Euro)	<u>1.287</u>	<u>0.675</u>

(*) Data calculated (restated for 2017) by weighting the impact of the Company's stock split carried out on 13 December 2018 mentioned in section a) of this Note.

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

<i>Thousand Euro</i>	<u>2018</u>	<u>2017</u>
Profit/(loss) for the year attributable to the parent's equity holders (thousand Euro)	70,543	(102,759)
Post-tax financial expense on convertible bonds	16,212	162,888
Profit/(loss) for the year attributable to the parent's equity holders (diluted)	<u>86,755</u>	<u>60,129</u>

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

<i>In thousand shares</i>	2018	2017
Weighted average number of ordinary shares outstanding (*)	25,526	23,855
Effect of conversion of convertible bonds	41,895	65,216
Weighted average number of diluted ordinary shares outstanding	67,421	89,071

(*) Data calculated (restated for 2017) by weighting the impact of the Company's stock split carried out on 13 December 2018 mentioned in section a) of this Note.

The effect of the conversion of convertible bonds includes convertible shares pertaining to the convertible bonds subscribed for by PLT VII Holdco, S.à.r.l , as explained in section (e) of this note (41,895 thousand shares).

12. Financial liabilities

A breakdown of financial liabilities is as follows:

<i>Thousand Euro</i>	31/12/2018		31/12/2017	
	Non-current	Current	Non-current	Current
Bank borrowings	738,591	80,262	499,274	24,055
Derivative financial instruments	589	-	3,123	-
Other payables	8,094	233,400	4,296	31,952
Finance lease liabilities	21,720	6,009	27,718	6,412
Other financial liabilities	177,510	12,759	298,260	41,517
	946,504	332,430	832,671	103,936

a) Bank borrowings

Bank borrowings break down as follows:

<i>Thousand Euro</i>	31/12/2018		31/12/2017	
	Non-current	Current	Non-current	Current
Loans	738,591	61,756	499,274	4,576
Credit lines	-	13,907	-	8,359
Accrued interest	-	-	-	413
Other bank borrowings	-	4,599	-	10,707
	738,591	80,262	499,274	24,055

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

<i>Thousand Euro</i>						31/12/2018		
Company	Currency	Fixed or variable rate	Effective interest rate	Maturity	Nominal	Current	Non-current	Total
Various financial institutions (Senior debt)	EUR	Variable	2.50%	2022	831,000	61,607	618,135	679,742
BNP Paribas (Junior debt)	EUR	Variable	3.50%	2023	120,000	-	119,238	119,238
Other loans and credit policies	EUR	Fixed/Variable	-	2019-2021	-	18,655	1,218	19,873
						<u>80,262</u>	<u>738,591</u>	<u>818,854</u>

The terms and conditions of bank borrowings at 31 December 2017 were as follows:

<i>Thousand Euro</i>						31/12/2017		
Company	Currency	Fixed or variable rate	Effective interest rate	Maturity	Face value	Current	Non-current	Total
Various financial institutions (senior debt)	EUR	Variable	2.50%	2022	419,891	12,131	394,494	406,625
BNP Paribas (junior debt)	EUR	Variable	14.50%	2022	95,500	1,466	104,299	105,765
Other loans	EUR	Fixed/Variable	3.12%	2019	300	982	481	1,463
Other credit lines	EUR	Fixed	-	-	-	9,476	-	9,476
						<u>24,055</u>	<u>499,274</u>	<u>523,329</u>

This note provides information regarding the contractual terms of 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 16.

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 first refinanced 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 Euribor (Euribor + 2.5%), with half-yearly payments of interest and principal until 2022. This loan has been structured in several tranches as follows:

- Tranche A: The balance stands at Euro 36,448 thousand (face value of Euro 37,571 thousand) and the borrower is the subsidiary MásMóvil Holdphone, S.A.U.
- Tranche B: It stands at Euro 129,295 thousand (face value of Euro 132,122 thousand), the borrower and guarantor being Xfera Móviles, S.A.U.
- Tranche C: It stands at Euro 162,102 thousand (face value of Euro 165,459 thousand), the borrower and guarantor being Xfera Móviles, S.A.U.
- Tranche D: consisted of guarantees issued to ACS for a nominal amount of Euro 120 million (see note 11 (e)). The last guarantee associated with tranche D was released on 6 November 2018 and the cash collateral 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 has not drawn down any amount on this tranche at the date of preparation of these consolidated annual accounts for 2018 (note 2.d)

- Tranche E: In the amount of Euro 148,168 thousand (It has a face value of Euro 150,000 thousand), the borrower being Xfera Móviles, S.A.U. and the guarantor being 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 is Xfera Móviles, S.A.U. and the guarantor is MásMóvil Broadband, S.A.U. This tranche was used to repurchase the bonds issued by MásMóvil Broadband S.A.U. on 8 January 2018 (see letter (d) of this note).
- Tranche G: It stands at Euro 120,014 thousand (face value of Euro 122,000 thousand), the borrower and guarantor being Xfera Móviles, S.A.U. These funds were used to repay BNP Paribas' subordinated debt.
- Tranche H: It has a face value of Euro 103,000 thousand, the borrower and guarantor being Xfera Móviles, S.A.U. These funds will be used at 31 December 2018 (see notes 2 (d) and 26) to invest in fixed and mobile telecommunications infrastructures.

Additionally, the senior syndicated loan permits (i) the senior loan to be increased to a ratio of 2,6x (Net senior debt /EBITDA) and (ii) additional subordinated debt to be incurred. Therefore at 31 December 2018 the syndicated loan agreement enables additional debt to be subscribed of up to Euro 310 million.

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.U. and Neutra Network Services, S.L.U

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

The syndicated loan includes 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 reflect compliance with the covenants.

In 2016, the Group arranged an interest rate "swap" on this loan (see note 16 (c) and letter (e) of this note)The fair value of the derivative at 31 December 2018 is Euro 589 thousand (Euro 623 thousand at 31 December 2017).

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 relate to a junior subordinated loan obtained by the parent company on 12 November 2018 from BNP Paribas, falling due on 30 December 2023. This loan accrues annual interest of Euribor + 3.5% and that spread increases in successive periods until repaid.

This debt is 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., Pepeworld, S.L.U., Pepe Energy, S.L. and Neutra Network Services, S.L.U.

The junior subordinated loan includes the same obligations to comply with the senior syndicated loan covenants.

Credit lines

As of 31 December 2018, the Group has short-term credit lines available at that date for 25,593 thousand euros (see note 2 (d)).

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 16.

The heading "Other current payables" essentially records payables to fixed asset suppliers relating to the deployment of the telecommunications network totalling Euro 225,774 thousand (Euro 30,730 thousand at 31 December 2017).

This heading also records the balance of loans granted by public bodies (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 6,811 thousand at 31 December 2018 (Euro 4,731 thousand at 31 December 2017). The current tranche amounts to Euro 3,672 thousand at 31 December 2018 (Euro 585 thousand at 31 December 2017), while the non-current tranche totals Euro 3,139 thousand (Euro 4,146 thousand at 31 December 2017).

c) Finance lease liabilities

Details of minimum lease payments and the present value of finance lease liabilities (see note 6), by maturity date, are as follows:

<i>Thousand Euro</i>	31/12/2018			31/12/2017		
	Minimum payments	Interest	Present value	Minimum payments	Interest	Present value
Up to one year	7,200	(1,191)	6,009	7,404	(992)	6,412
Between 1 and 5 years	27,039	(6,327)	20,712	27,689	(5,733)	21,956
More than 5 years	1,400	(392)	1,008	7,951	(2,189)	5,762
	<u>35,639</u>	<u>(7,910)</u>	<u>27,729</u>	<u>43,044</u>	<u>(8,914)</u>	<u>34,130</u>
Less current portion	(7,200)	1,191	(6,009)	(7,404)	992	(6,412)
Total non-current	<u>28,439</u>	<u>(6,719)</u>	<u>21,720</u>	<u>35,640</u>	<u>(7,922)</u>	<u>27,718</u>

d) Other financial liabilities

The balance of "Other financial liabilities" at 31 December 2018 and 2017 essentially includes of the following items:

Non-current tranche

- Euro 131,255 thousand (Euro 115,043 thousand at 31 December 2017) (see note 21 (a)) relates to bonds and other marketable securities with related companies arising from the convertible bonds mentioned in note 11 (e), including Euro 16,211 in financial expenses accrued in 2018 (Euro 13,765 thousand in 2017).
- Euro 26,839 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 2018 totals Euro 1,594 thousand (Euro 1,594 thousand at 31 December 2017), of which Euro 753 thousand was pending payment and reflected in the same item at that date. Bond issuance costs amounted to Euro 543 thousand and were treated as part of the amortised cost of the bonds.
- Euro 19,416 thousand relating to the discounted value of the amount payable to Jazz Telecom, S.A.U. under the agreement to assign to the subsidiary MásMóvil Broadband, S.A. the indirect right held by the former company to use Telefónica de España, S.A.'s copper network (see note 5).
- As mentioned in note 11 (e), during 2018 the Company has proceed to cancel the financial debt with ACS maintained as of December 31, 2017.

Current tranche

This fundamentally includes the deferred payments for the business combinations in 2018 (see note 4, as well as the current portion of the loans referred to in section (b) of this Note.

In 2018 the Company made payment of the deferred amounts relating to the business combinations that took place in prior years.

The Company registered a Euro 50 million promissory note programme in December 2018. The notes will be issued during 2019, there being no debt outstanding at 31 December 2018 (see note 2 (d) and 26).

e) Derivative financial instruments

It includes the derivatives relating to the senior debt interest swap (see letter (a) of this note).

f) Other information on payables

Details of bank loans secured by mortgages (see note 6) and the relevant balances at 31 December 2018 and 2017 are as follows:

<i>Thousand Euro</i>	<u>Guarantee</u>	<u>31/12/2018</u>	<u>31/12/2017</u>
Banco Popular Español, S.A.	Mortgage	118	161
Cajas Rurales Unidas, Sociedad Cooperativa de Crédito	Mortgage	106	145
Banco de Sabadell, S.A.	Mortgage	104	137
		<u>328</u>	<u>443</u>

13. Provisions

Details of provisions at 31 December 2018 and 2017 are as follows:

<i>Thousand Euro</i>	31/12/2018		31/12/2017	
	Non-current	Current	Non-current	Current
Provision for loss-making/onerous contracts	46,536	19,764	53,389	-
Provision for commercial transactions	6,926	11,793	17,218	7,071
Decommissioning provision	8,294	-	7,973	-
Provision for employee benefits	41,713	-	9,366	-
Provisions for other liabilities	1,554	-	1,200	-
Other provisions	132	-	262	-
	105,155	31,557	89,408	7,071

Movements in provisions are as follows:

<i>Thousand Euro</i>	Provision for unfavorable/onerous contracts	Provision for commercial transactions	Decommissioning provision	Provision for employee benefits	Provisions for other liabilities	Other provisions	Total
Balance at 31 December 2016	95,391	29,354	8,374	2,470	1,273	3,561	140,423
Charge for the year	-	4,656	-	-	-	-	4,656
Business combinations (note 4)	-	7,774	209	9,366	1,200	132	18,681
Applications	(37,894)	(6,342)	-	(2,470)	(1,273)	(445)	(48,424)
Reversals	(4,108)	(11,153)	(610)	-	-	(2,986)	(18,857)
Balance at 31 December 2017	53,389	24,289	7,973	9,366	1,200	262	96,479
Application of IFRS 15 at 1 January 2018 (note 2 (g))	-	(10,482)	-	-	-	-	(10,482)
Balance at 1 January 2017	53,389	13,807	7,973	9,366	1,200	262	96,479
Charge for the year	-	4,912	409	32,347	1,554	-	39,222
Business combinations (note 4)	18,787	-	-	-	-	-	18,787
Applications	-	-	-	-	(36)	-	(36)
Reversals	(5,876)	-	(88)	-	(1,164)	(130)	(7,258)
Balance at 31 December 2018	66,300	18,719	8,294	41,713	1,554	132	136,712

Provision for unfavorable/onerous contracts

At 31 December 2018, this item includes a provision of Euro 50,644 thousand (Euro 53,389 thousand at 31 December 2017) relating to a tower lease agreement entered into by Xfera Móviles, S.A.U. that is considered to be above the market. This provision will be written down over the lease term ending in 2030.

On 20 November 2018 the Group acquired a line of business consisting of the virtual mobile operator (VMO) business of Lebara Mobile Group B.V. (Lebara) (see note 4.1). A provision was allocated for the contract between Lebara and a telecommunications operator for the national roaming service, which is governed by above-market conditions for the Group. This provision reverses over the remaining term of the contract that Lebara concluded with that telecommunications operator, plus the estimated time of migration to the Group's network.

In 2017, the Group fully applied a provision of Euro 37,894 thousand due to the termination of the Pepephone subgroup's agreement relating to a virtual mobile operator contract, which was equivalent to the penalty stipulated in the agreement.

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 maturing 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 site decommissioning

The site decommissioning 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 8,294 thousand (Euro 7,973 thousand at 31 December 2017) 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 fair value.

Provision for employee benefits

In 2018, the Group has recognised an increase of Euro 32,347 thousand (Euro 9,366 thousand in 2017) to cover the Share Appreciation Rights Plan for certain senior managers and employees (see note 21 (c)). As mentioned in note 3(r), the appropriation was made using the Financial expense account.

Provisions for other liabilities

In 2018 the Group allocated a provision totalling Euros 1,554 thousand for the estimated risk of litigation or claims in progress.

14. Government grants

Movements in non-refundable government grants are as follows:

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Balance at 1 January	11,791	11,798
Grants awarded during the year	78	107
Grants released to income	(778)	(114)
Other movements	(226)	-
Balance at 31 December	<u>10,865</u>	<u>11,791</u>

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

15. Trade and other payables

Details of "Trade and other payables" are as follows:

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Trade payables	512,741	579,336
Public administrations - other taxes	18,551	12,481
Accrued wages and salaries	9,161	6,037
Other payables	13,126	11,538
	<u>553,579</u>	<u>609,392</u>

The Group's exposure to foreign currency and liquidity risk in relation to trade and other payables is described in note 16.

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

Details of supplier payments deferred by the Spanish consolidated companies are as follows:

	<u>31/12/2018</u>	<u>31/12/2017</u>
Average supplier payment period (days)	50.37	49.40
Ratio of settled transactions	89.76%	89.59%
Ratio of transactions pending payment	10.24%	10.41%
<i>Thousand Euro</i>		
Total payments made	1,965,800	1,820,965
Total payments pending	224,334	211,484

16. 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.

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 in some of its subsidiaries 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:

	<u>31/12/2018</u>	<u>31/12/2017</u>
Loans to associates (see note 8)	3,677	2,735
Equity instruments (see note 8)	464	713
Deposits and guarantees (see note 8)	1,930	1,914
Other financial assets (see note 8)	6,195	4,535
Trade and other receivables (see note 10)	<u>202,234</u>	<u>187,874</u>
	<u>214,500</u>	<u>197,771</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.

Trade receivables are initially measured at fair value, which matches face value.

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 2018, the Group's available cash resources amount to Euro 98,205 thousand (Euro 199,092 thousand at 31 December 2017, less unavailable current accounts at that date. Net cash generated from operating activities during 2018 was positive in the amount of Euro 323,947 thousand (positive in the amount of Euro 346,230 thousand in 2017).

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

<i>Contractual maturities of financial liabilities</i>		2019	2020	2021	2022	2023	Beyond	
<i>Thousand Euro</i>		31/12/2017						
	Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Bank borrowings	818,853	846,117	80,263	172,651	197,338	253,519	142,346	-
Derivative financial instruments	589	589	-	-	-	-	-	589
Other payables	241,494	241,505	233,403	4,155	348	338	222	3,039
Finance lease liabilities	27,729	34,458	6,009	6,998	6,819	6,683	6,549	1,400
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	-	-	-	-	-
	<u>1,813,962</u>	<u>1,927,544</u>	<u>867,462</u>	<u>216,632</u>	<u>208,405</u>	<u>265,040</u>	<u>158,117</u>	<u>211,888</u>

<i>Contractual maturities of financial liabilities</i>		2018	2019	2020	2021	2022	Beyond	
<i>Thousand Euro</i>		31/12/2017						
	Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Bank borrowings	523,329	643,079	29,073	62,932	120,279	130,017	300,778	-
Derivative financial instruments	3,123	3,123	-	-	-	-	3,123	-
Other payables	36,248	36,248	31,952	4,296	-	-	-	-
Finance lease liabilities	34,130	34,129	6,412	5,815	5,815	5,163	5,163	5,761
Other financial liabilities	339,777	544,899	41,516	10,903	36,099	8,719	8,130	439,532
Trade and other payables	596,911	596,911	596,911	-	-	-	-	-
	<u>1,533,518</u>	<u>1,858,389</u>	<u>705,864</u>	<u>83,946</u>	<u>162,193</u>	<u>143,899</u>	<u>317,194</u>	<u>445,293</u>

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 yields.

Interest rate risk

Interest rate risk affecting the Group mainly derives from 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 Euribor, 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 2018, the Group has contracted interest rate hedging instruments ("swaps") (see note 12 (e)) to cover an increase in the Euribor rate on the syndicated loan tranches:(i) a drawdown of Euro 20,758 thousand on tranche A and Euro 72,996 thousand on tranche B (both swaps hedge a fixed interest rate of 0.367%); and (ii) on tranche C, a nominal amount of Euro 11,719 thousand, hedging a fixed interest rate of 0.379%.

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

<i>Thousand Euro</i>	Carrying amount	
	31/12/2018	31/12/2017
Fixed-interest debt		
Financial Assets	3,677	2,735
Financial liabilities	(214,374)	(392,423)
	<u>(210,697)</u>	<u>(389,688)</u>
Variable-interests debt		
Financial liabilities	(806,102)	(513,149)
	<u>(806,102)</u>	<u>(513,149)</u>

Sensitivity analysis

At 31 December 2018, a 100 bps increase in interest rates, with other variables remaining constant, would have reduced the post-tax result by Euro 5,328 thousand (Euro 2,979 thousand in 2017), mainly due to increased 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.

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 financing agreement entered into with a number of financial institutions (see note 12 (a). The debt ratio at 31 December 2018 is 2.46x (total net debt/EBITDA), excluding the PLT VII Holdco, S.à.r.l convertible mentioned in note 11 (e).

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 their carrying amounts, due largely to the short-term maturity dates of those instruments.

The adoption of IFRS 9 – Financial Instruments on 1 January 2018 resulted in changes in the categories of financial instruments in accordance with the new accounting policy (see note 3 (i)). The comparative figures have not been restated based on the new categories and, therefore, they have been maintained in accordance with the IAS 39 categories, as stipulated by the transitional provisions of IFRS 9

2018		Fair value							
Thousand Euro		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
Financial Assets measured at fair value									
Equity instruments		450	-	-	450	-	-	450	450
		450	-	-	450	-	-	450	450
Financial assets not measured at fair value									
Equity instruments		14	-	-	14	-	-	-	-
Security and other deposits		-	1,930	-	1,930	-	-	-	-
Trade and other receivables		-	202,234	-	202,234	-	-	-	-
Cash and cash equivalents		-	98,205	-	98,205	-	-	-	-
Other financial assets		-	9,872	-	9,872	-	-	-	-
		14	312,241	-	312,255	-	-	-	-
Financial liabilities measured at fair value									
Derivative financial instruments		-	-	589	589	-	589	-	589
		-	-	589	589	-	589	-	589
Financial liabilities not measured at fair value									
Loans and borrowings		-	-	818,853	818,853	-	-	-	-
Other financial liabilities		-	-	217,998	217,998	28,554	-	-	28,554
Deferred payments		-	-	241,494	241,494	-	-	-	-
Otras payables		-	-	535,028	535,028	-	-	-	-
Trade and other payables		-	-	1,813,373	1,813,373	28,554	-	-	28,554
2017									
Thousand Euro		Fair value							
		Available-for-sale financial assets	Loans and receivables	Creditors and payables	Total	Level 1	Level 2	Level 3	Total
Financial assets at fair value									
Equity instruments		422	-	-	422	-	21	401	422
		422	-	-	422	-	21	401	422
Financial assets not carried at fair value									
Equity instruments		291	-	-	291	-	-	-	-
Deposits and guarantees		-	1,914	-	1,914	-	-	-	-
Trade and other receivables		-	198,441	-	198,441	-	-	-	-
Cash and cash equivalents		-	320,092	-	320,092	-	-	-	-
Other financial assets		-	7,270	-	7,270	-	-	-	-
		291	527,717	-	528,008	-	-	-	-
Financial liabilities at fair value									
Derivative financial instruments		-	-	3,123	3,123	-	3,123	-	3,123
		-	-	3,123	3,123	-	3,123	-	3,123
Financial liabilities not carried at fair value									
Bank borrowings		-	-	557,459	557,459	-	-	-	-
Other financial liabilities		-	-	334,659	334,659	35,038	-	-	35,038
Deferred payments		-	-	5,118	5,118	-	-	-	-
Other payables		-	-	36,248	36,248	-	-	-	-
Trade and other payables		-	-	579,336	579,336	-	-	-	-
		-	-	1,512,820	1,512,820	35,038	-	-	35,038

There were no transfers of assets and liabilities between levels during the years ended 31 December 2018 and 2017.

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

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
	Loans and receivables	Loans and receivables
Profit on sale of financial assets and instruments	-	1,756
Financial income at amortised cost	958	156
Net profit/(loss)	<u>958</u>	<u>1,912</u>

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

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
	Debts and payables	Debts and payables
Finance costs and amortised cost	72,205	225,557
Changes in fair value	(486)	(906)
	<u>71,719</u>	<u>224,651</u>

17. Operating leases

Operating leases – 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 (CPI), or future reviews of contractually agreed rent:

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Up to 1 year	3,200	3,334
Between 1 and 5 years	5,809	9,038
More than 5 years	-	102
Total	<u>9,009</u>	<u>12,474</u>

Operating leases - Lessee

The Group has different kinds of operating leases.

Operating lease payments recognised as expenses are set out below (see note 20 (d)):

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Shared locations	75,435	57,513
Transmission lines	19,778	24,038
Offices	3,489	4,918
Vehicles	430	798
Licenses	-	838
Other leases	276	11,107
	<u>99,408</u>	<u>99,212</u>

Leases for locations reflect the cost associated with the agreements reached with other operators for the sharing of telecommunications infrastructures. They also include the cost of agreements entered into with infrastructure sales and marketing companies.

Transmission lines relate to multiple contracts concluded with various operators.

Total future minimum operating lease payments are as follows:

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Up to one year	66,570	82,469
Between 1 and 5 years	187,032	205,101
More than 5 years	85,806	158,872
Total	<u>339,408</u>	<u>446,442</u>

The Group has analysed each individual contract to determine which qualify as finance leases, in which case they are recognised as property, plant and equipment.

18. Other non-current liabilities

The Group has entered into long-term strategic agreements with an operator for wholesale access to its FTTH infrastructures and for the joint deployment of FTTH networks (mutualisation). This caption includes the right of use of the Group's FTTH infrastructures by an operator, which is taken to the income statement 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. for Euro 69,000 thousand, which is being taken to the income statement over the 35-year period of the agreement.

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

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Opening balance	107,074	75,014
Additions	30,482	36,448
Transfer to income statement	(4,337)	(4,388)
Closing balance	<u>133,219</u>	<u>107,074</u>

This caption also includes other non-current liabilities amounting to Euro 510 thousand at 31 December 2018 (Euro 95 thousand at 31 December 2017).

19. Income tax

a) Reconciliation of income tax

Since 2018 the Company is taxed as part of the corporate income tax consolidation group 0218/16, of which it is the parent company (see Note 3 (p)). The Company was taxed at a rate of 28% in an independent tax region ("territorio foral") in prior years.

Details of income tax income/(expense) are as follows:

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Current income tax		
Current period	(11,233)	9,529
Adjustments from prior periods	910	(289)
Unrecognized tax credits applied in previous years	294	-
Unrecognized tax deductions applied in previous years	1,495	-
Others	95	-
	<u>(8,439)</u>	<u>9,240</u>
Deferred taxes		
Generation and reversal of temporary differences	1,760	29,845
Tax rate changes	(481)	-
	<u>1,278</u>	<u>29,845</u>
	<u>(7,161)</u>	<u>39,085</u>

The relationship between income tax income/(expense) and the loss from continuing operations is as follows:

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Profit/(Loss) for the year from continuing operations, before income tax	<u>77,704</u>	<u>(141,844)</u>
Tax calculated at the corresponding rate	(19,427)	36,215
Non-taxable income	7,073	-
Non-deductible expenses	(378)	(130)
Changes in tax rates	(481)	-
Prior year's adjustment	910	(287)
Unrecognised tax credits	-	(5,568)
Prior year unrecognised tax credits	294	-
Unrecognized tax deductions applied in previous years	1,495	-
Reversal deferred tax liabilities	-	7,631
Other adjustments	3,353	1,224
Total tax Income/(Expense)	<u>(7,161)</u>	<u>39,085</u>

Non-taxable income corresponds to the fiscal impact of the income from Neutra business combination (See Note 4.1).

Tax credits not recognised in 2017 relate to the tax losses generated by the parent company that have not been capitalised since offset is not expected within the time horizon permitted by current legislation, based on estimates of future taxable income.

b) Deferred tax assets and liabilities recognised

Deferred tax assets and liabilities are attributable to the following:

<i>Thousand Euro</i>	31/12/2018			31/12/2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangible assets	-	(23,173)	(23,173)	766	(22,704)	(21,938)
Property, plant and equipment	137	(1,191)	(1,054)	777	(1,418)	(641)
Goodwill	37,263	(36,753)	510	-	(3,819)	(3,819)
Provisions	8,698	-	8,698	43,337	(1,037)	42,300
Tax credits for tax-loss carryforwards	194,064	-	194,064	195,627	-	195,627
Tax deductions	49	-	49	760	-	760
Impairment	66	-	66	66	-	66
Other	5,791	104	5,895	3,057	103	3,160
Net assets and liabilities	246,068	(61,013)	185,055	244,390	(28,875)	215,515

Movements in deferred tax assets and liabilities during the year are as follows:

<i>Thousand Euro</i>	31/12/2018						Balance at 31 December
	Balance at 1 January	Taken to income statement	Business combinations (note 4)	Taken to equity	Other	Tax rate change	
Intangible assets	(21,938)	11,725	(13,031)	-	71	-	(23,173)
Property, plant and equipment	(641)	(42)	(371)	-	-	-	(1,054)
Goodwill	(3,819)	4,329	-	-	-	-	510
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)	194,179
Tax deductions	760	(711)	-	-	-	-	49
Impairment	66	-	-	-	-	-	66
Other	3,160	3,557	(156)	-	(666)	-	5,895
Net assets and liabilities	215,515	1,760	(6,765)	(24,360)	(240)	(481)	185,055

<i>Thousand Euro</i>	31/12/2017				Balance at 31 December
	Balance at 1 January	Recognised in profit/(osses)	Others	Transfers	
Intangible assets	(54,123)	31,748	(172)	609	(21,938)
Property, plant and equipment	(1,240)	562	-	37	(641)
Goodwill	(2,869)	(950)	-	-	(3,819)
Provisions	47,066	(7,390)	-	2,624	42,300
Tax loss carryforward	186,266	(165)	9,526	-	195,627
Deductions	849	-	-	(89)	760
Financial investments	30	-	-	(30)	-
Impairment	-	-	-	66	66
Others	431	6,040	(94)	(3,217)	3,160
Net assets and liabilities	176,410	29,845	9,260	-	215,515

In this regard, tax credits from Xfera Móviles, S.A.U. were measured at the date of the business combination, in accordance with tax legislation prevailing at the time and the company's individual business plan before it joined the Group. At the reporting date, the recoverability of these tax credits has been analysed, considering new tax legislation and the company's new business plan. The projections used to examine the recoverability of capitalised tax credits were based on a period of 10 years.

Reversals of deferred taxes in 2017 are due primarily to the partial reversal of the deferred tax liability recognised on the acquisition of Xfera Móviles, S.A. in 2016 as a result of the remission of all Company's participating loans subrogated on the acquisition date. The fair value measurement of the loans entailed the recognition of a deferred tax liability the residual amount of which was Euro 34 million at the balance sheet date.

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>	31/12/2018	31/12/2017
Deferred tax assets related to temporary differences	16,810	38,588
Credits for tax loss carryforward	173,051	168,700
Deductions and credits	-	760
Total assets	189,861	208,048
Deferred tax liabilities	(31,212)	-
Net	158,649	208,048

The Group has the following unused deductions at 31 December 2018 and 2017 available for use within the periods indicated:

	Año	Miles de euros	
		2018	2017
Generated prior to consolidation			
	2001	-	152
	2002	-	66
	2003	-	3
	2004	-	1
	2005	-	1
	2006	488	491
	2007	49	54
	2008	16	78
	2009	87	165
	2010	69	142
	2011	68	186
	2012	99	241
	2013	2,135	2,433
	2014	2,714	3,017
	2015	695	695
	2016	101	250
Generated on consolidation			
	2016	-	166
Total		6,521	8,141

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 at 31 December:

	Ejercicio origen	Miles de euros	
		2018	2017
Tax losses generated prior to consolidation			
	2001	-	4,623
	2002	152,296	160,594
	2003	74,592	74,592
	2004	59,234	59,234
	2005	71,877	71,877
	2006	385,312	385,312
	2007	81,570	81,570
	2008	141,401	141,401
	2009	176,998	176,998
	2010	98,623	98,623
	2011	33,391	33,391
	2012	5,748	5,748
	2013	16,238	16,238
	2014	5,749	5,749
	2015	6,067	6,067
	2016	29,964	23,966
	2017	-	19,885
Tax losses generated on consolidation			
	2016	17,426	18,615
	2017	38,642	38,099
Total		1,402,042	1,422,582

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 that 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 investigation will in no way affect the current directors or management of the Group, or the parent itself.

In 2018 the State Tax Agency commenced inspections of VAT at the subsidiaries Xtra Telecom, S.A.U. and Quantum Telecom, S.A., regarding the wholesale business in 2015 and 2016. Although these inspections are currently in their first stages, the directors of the parent company do not consider that they will give rise to any liabilities that could have a significant impact on these consolidated annual accounts taken as a whole.

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.

At 31 December 2018, 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 2015 (2014 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.

20. Revenue

a) Ordinary revenue

Revenues break down as follows:

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Sales	243,944	242,864
Services rendered	1,206,922	1,058,168
	<u>1,450,866</u>	<u>1,301,032</u>

<i>Thousand Euro</i>	<u>31/12/2018</u>			<u>31/12/2017</u>		
	<u>Domestic</u>	<u>International</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>	<u>Total</u>
Business and wholesale	162,957	-	162,957	95,168	515	95,683
Residential	1,287,909	-	1,206,909	1,205,349	-	1,205,349
	<u>1,450,866</u>	<u>-</u>	<u>1,450,866</u>	<u>1,300,517</u>	<u>515</u>	<u>1,301,032</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) Consumption of goods for resale, raw materials and consumables

Details of expenditure on goods for resale, raw materials and consumables are as follows:

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Consumption of goods purchased for resale	217,231	224,433
Consumption of raw materials and other consumables	345,887	291,564
Subcontracted work	161,032	196,846
	<u>724,150</u>	<u>712,843</u>

c) Employee remuneration expenses

Employee remuneration expenses break down as follows:

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Wages, salaries and other welfare expenses	40,704	38,729
Social Security contributions	9,686	7,923
	<u>50,390</u>	<u>46,652</u>

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

	<u>31/12/2018</u>	<u>31/12/2017</u>
Board directors	1	1
Management	73	70
Technical personnel	128	114
Administrative personnel	69	63
Other	331	318
	<u>602</u>	<u>566</u>

At year-end 2018 and 2017, the gender distribution of the parent Group's personnel and directors was as follows:

	31/12/2018		31/12/2017	
	Men	Women	Men	Women
Board directors	10	2	10	2
Executives	59	14	55	14
Technical personnel	95	35	87	27
Administrative personnel	46	75	30	32
Other employees	284	165	198	97
	494	291	380	172

The distribution of employees with a disability rating of 33% or higher (or equivalent local rating) in 2017 is as follows:

	31/12/2018	31/12/2017
Administrative personnel	1	4
Other	3	2
	4	6

d) Other expenses

Details of other expenses are as follows:

<i>Thousand Euro</i>	31/12/2018	31/12/2017
Leases and fees (see note 17)	99,408	99,212
Cannon	47,280	47,683
Repairs and maintenance	46,063	47,748
Independent professional services	100,569	88,868
Transport	2,009	1,356
Insurance fees	562	857
Banking and similar services fees	8,131	5,964
Advertising, publicity and public relations	49,296	36,302
Supplies	3,024	4,633
Other services	12,119	7,653
Levies and other Taxes	9,625	7,341
Losses, impairment and changes in provisions (note 10)	31,455	27,716
Loss and Impairment from sale of assets	1,583	346
	411,124	375,679

In 2018, 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 an approximate total of Euro 15 million (Euro 22 million at 31 December 2017).

e) Other income

Details of other income are as follows:

<i>Thousand Euro</i>	<u>31/12/2018</u>	<u>31/12/2017</u>
Results from sale of property, plant and equipment (note 6)	-	17,294
Excess of provision (note 13)	7,825	11,153
Work carried-out by the Group for its assets	7,554	5,380
Revenue from leases	5,898	3,302
Other income	26,071	12,598
	<u>47,348</u>	<u>49,727</u>

21. Related parties**a) Related-party balances**

Details of balances with related parties at 31 December 2018 and 2017 are as follows:

<i>Thousand Euro</i>	<u>31/12/2018</u>		<u>31/12/2017</u>	
	Related parties	Total	Related parties	Total
Other equity instruments				
Bonds and other marketable (Note 11 (e))	66,253	66,253	218,235	218,235
Liabilities				
Bonds and other marketable (Note 12 (d))	131,255	131,255	252,794	252,794
Total liabilities and other equity instruments	<u>197,508</u>	<u>197,508</u>	<u>471,029</u>	<u>471,029</u>

b) Related-party transactions

<i>Thousand Euro</i>	<u>31/12/2018</u>		
	Directors and senior management of parent company	Related parties	Total
Expenses			
Salaries and allowances	39,229	-	39,229
Finance expenses	-	24,921	24,921
Total expenses	<u>39,229</u>	<u>24,921</u>	<u>64,150</u>

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 paragraph 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 million and Euro 16,211 thousand in financial expenses accrued on the convertible bonds (see notes 11 (e) and 12 (d)).

<i>Thousand Euro</i>	31/12/2017		
	Directors and Senior Management of The Parent	Related parties	Total
Expenses			
Salaries and allowances	3,606	-	3,606
Other operating expenses	-	800	800
Operating expenses	-	437	437
Finance costs	-	163,851	163,851
Total costs	3,606	165,088	168,694

Financial expenses in 2017 primarily included the impact of the measurement of the ACS Note up until 13 July 2017 in the amount of Euros 142 million and Euro 13,765 thousand in financial expenses accrued on convertible debentures (see notes 11 (e) and 12 (d)).

c) Information on the Group's Board directors and senior management

During 2018, the Company's directors received remuneration and allowances totalling Euro 14,400 thousand for holding office (Euro 1,088 thousand at 31 December 2017). Remuneration accrued to senior management during the year 2018 total Euro 24,829 thousand (Euro 2,518 thousand at 31 December 2017). 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 directors of the parent company.

Stock option plan

On 30 September 2015, the parent company's Board of Directors approved a Stock Option Plan (hereinafter the Plan) for the executive team. On 23 June 2016, the Annual General Meeting also approved the application of the Plan to the Chief Executive Officer. The Plan ended on 9 May 2018.

The main features of the Plan were as follows:

- Beneficiaries are awarded, free of charge, a number of non-transferable options to acquire ordinary shares through the acquisition of bonds that are mandatorily convertible into shares. As from the notification date, beneficiaries must give notice of their intention to exercise the option by paying the par value of the convertible bonds which will automatically be converted into shares.
- Notification date: no later than 3 May 2018.
- Inception date: in the case of the CEO's Plan, the date of approval by the Annual General Meeting (23 June 2016) and, in the case of the management team, the date of Plan approval by the Board of Directors (30 September 2015).
- End date: 09 May 2018.
- Number of options: 125,000 options allocated to the Chief Executive Officer and 375,000 options allocated to the management team.
- Par value of the convertible bond: Euro 20.42.
- Continuance commitment: without affecting any special conditions the Board of Directors may impose, the beneficiary must have had an ongoing working relationship over the duration of the Plan.
- Conversion: the options are mandatorily convertible.

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 recognising a balance payable 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.

Pursuant to prevailing legislation, equity instruments given as consideration for services rendered by Company employees are measured by reference to the fair value of the equity instruments granted. The Company estimated the fair value of the Stock Option Plan at Euro 1 million, taking into account estimated employee churn. As the grant of the options was contingent on the employee remaining with the Group until the Plan ends, the employee cost has been accrued over three years.

The ended Plan ended and the beneficiaries exercised options on 491,000 new shares (see note 11 (a)). The 9,000 options that were not exercised have been redeemed (see note 11 (e)).

Share Appreciation Rights Plan

On 1 March 2017, the Extraordinary General Meeting approved a Share Appreciation Rights Plan 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 DRA.

Under current legislation, at each closing 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 2018, the fair value of the liability for the entire Group is estimated at Euro 41,713 thousand and an expense of Euro 32,347 thousand has accrued (Euro 9,366 thousand and Euro 9,366 thousand, respectively, at 31 December 2017) (see note 13). The average weighted fair value of each right at that date is Euros 66.30 per right (Euros 35.56 per right at 31 December 2017). 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 closing date, which at 31 December 2018 was Euros 104.34 per share (excluding the stock split carried out (see note 11 (a)) (Euros 70.80 per share at 31 December 2017).
- Risk-free rate: -0.15% (-0.15% in 2017).
- Expected volatility: 30% (30% in 2017)
- 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 2018 and 2017 the parent's directors and senior managers did not effect any transactions outside the ordinary course of business or on non-market terms with the parent 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.

22. Guarantees and contingencies

At 31 December 2018 the Group has given several guarantees to secure fulfilment of the obligations deriving from the licences granted, legal appeals and supplier contracts, as analysed below:

- Guarantees for the grant of the B2 licence amounting to Euro 39,900 thousand: the administrative contracts granting B2 licences for 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 49,502 thousand, most notably in relation to the lease of premises, business agreements and a number of appeals lodged against settlements by local corporations and other public bodies.

At 31 December 2018 the Group has a contingent payment obligation amounting to Euro 3,000 thousand with respect to one of the licences for the 3.5 GHz frequency acquired in 2018 (note 5), payment of which is contingent on obtaining the extension of the public authorisations until 2030. At the date of these consolidated annual accounts, that extension has not been obtained.

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 13). Financing through financial institutions amounted to Euro 182 million at 31 December 2018 (Euro 176 million at 31 December 2017).

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. against Xfera Móviles, S.A. and exonerates the latter from the pleas lodged against it; and (ii) partially upholds the counterclaim filed by Xfera Móviles, S.A. 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.

In March 2017, Xfera Móviles, S.A.U. received three notifications from the tax authorities containing provisional settlements totalling Euro 11,347 thousand in respect of prior-year business activities tax. Xfera Móviles, S.A.U. has appealed the provisional settlements and has requested that payment of the debt be suspended by posting the relevant bonds. The Group's external tax advisors believe that the appeals will probably be upheld and the tax settlements ultimately revoked, which is why the Group has not made any provision.

The Company's directors do not consider there to be any risks in relation to the bonds posted.

Furthermore, the Company's directors consider there are no other potential significant lawsuits which could entail a liability for the Group.

23. 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.

24. Reconciliation of financial debt

The reconciliation of financial debt for the year ended 31 December 2018 is as follows:

<i>Thousand Euro</i>	At 31 December 2018	IFRS 9 application adjustment (note 2 (g))	At 1 January 2018	Cash flows	Payment of interests	Interests accrued	Business combina- tions	Other	Balance at 31 December 2018
Financial liabilities with financial institutions	523,329	10,985	534,314	274,187	(35,137)	41,607	5,225	(943)	818,853
Other debts	36,248	-	36,248	(488,995)	-	-	7,178	686,563	241,494
Financial lease debts	34,130	-	34,130	(6,401)	-	-	-	-	27,729
Other financial liabilities	339,777	-	339,777	(172,284)	(15,601)	30,598	-	7,779	190,269
Derivatives	3,123	-	3,123	(3,334)	-	-	-	800	589
TOTAL	936,606	10,985	947,592	(396,827)	(50,738)	72,205	12,403	694,199	1,278,934

Movements of Other debts mainly reflect the additions of fixed assets and payments to fixed assets suppliers made during the year.

The reconciliation of financial debt for the year ended 31 December 2017 is as follows:

<i>Thousand Euro</i>	At 1 January 2017	Cash flows	Payment of interests	Interests accrued	Business combinations	Changes in Fair Value	Other	Balance at 31 December 2017
Financial liabilities with financial institutions	470,064	42,201	(22,305)	33,666	-	-	(297)	523,329
Other debts	34,338	75	-	-	-	-	1,835	36,248
Financial lease debts	41,132	(5,277)	-	-	-	-	(1,725)	34,130
Other financial liabilities	290,514	(42,420)	(20,612)	30,850	14,444	144,996	(77,995)	339,777
Derivatives	100,468	(28,941)	(672)	2,230	-	(908)	(69,054)	3,123
TOTAL	936,516	(34,362)	(43,589)	66,746	14,444	144,088	(147,236)	936,607

“Other” in 2017 includes the effect of the conversion option component of the compound financial instrument adjusted against equity as explained in note 11 (e).

25. Audit fees

The auditors of the Group’s consolidated annual accounts, KPMG Auditores, S.L., invoiced the following net fees for professional services during 2018 and 2017:

<i>Thousand Euro</i>	31/12/2018	31/12/2017
Audit services	525	570
Other assurance services	109	180
	634	750

The amounts referred to above include the total fees for services rendered in 2018 and 2017, irrespective of the invoice date.

Other assurance services relate mainly to limited reviews of the Group's financial statements for the first semester of 2018 and 2017 and the first quarter of 2017 and agreed-upon procedures for covenant fulfilment reports provided by KPMG Auditores, S.L. to the parent company and other Group companies.

Other entities members of KPMG International invoiced the Company net fees of Euro 141 thousand during 2017.

26. Events after the reporting date

Regarding the promissory notes program that the Company registered on the Alternative Fixed Income Market (MARF) for a maximum amount of Euro 50,000 thousand on 27 December 2018 (note 12 (d)), in January 2019 promissory notes issued amounted to Euro 20,000 thousand with maturity in 3 months. Subsequently, during February 2019 there were two issues amounting to Euro 10,000 thousand and maturing in three months and Euro 20,000 and maturing in five months, respectively. At the date on which these consolidated annual accounts were authorised for issue, promissory notes were fully utilised.

Also, prior to the date on which these consolidated annual accounts were authorised for issue, the junior debt referred to in note 12 (a) was partly amortised in an amount of Euro 20,000 thousand together with the corresponding accrued interest.

Finally, on 19 February 2019 Euro 60,000 thousand of tranche H of the senior syndicated debt referred to in note 12 (a) was drawn down.

The Group has entered into an agreement with a Spanish network operator to manage customer traffic under the Lebara trademark for the next three years. The agreement will permit the Group to plan the orderly migration of such customers to its own mobile network.

APPENDIX I. – Details of subsidiaries at 31 December 2018

31/12/2018

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	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	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.	Zaragoza, calle Bari 33, Edificio 1, 2 planta	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	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	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	Holding company	n/a	MásMóvil Ibercom, S.A.	100.00%	100.00%	Control
MásMóvil Holdphone, S.A.U.	Avda. de la Vega, 15, Alcobendas	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	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	Holding company	n/a	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
Pepe Energy, S.L.	Avda. de la Vega, 15, Alcobendas	Electricity supply	n/a	Pepe World, S.L.U. and Xfera Móviles, S.A.U.	94.44%	94.44%	Control
Pepemobile, S.L.U.	Avda. de la Vega, 15, Alcobendas	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.	Avenida de la Vega, 15 Alcobendas	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%		

APPENDIX I. - Details of subsidiaries at 31 December 2017

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	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	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.	Zaragoza, calle Bari 33, Edificio 1, 2 planta	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	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	Telecommunications services and deployment and operation of telecommunications networks in Spain	KPMG	MásMóvil Broadband, S.A.U.	100.00%	100.00%	Control
Quantum Ltd (UK)	Fourth Floor, 30-31 Furnival Street, London, EC4A 1JQ	Telephony services through networks of other operators, mobile virtual operator services, resale of landline services, data transmission services available to the public and nomadic voice services in the UK	n/a	Xtra Telecom, S.A.U.	100.00%	100.00%	Control
MásMóvil Phone and Internet, S.A.U.	Avda. de la Vega, 15, Alcobendas	Holding company	n/a	MásMóvil Ibercom, S.A.	100.00%	100.00%	Control
MásMóvil Holdphone, S.A.U.	Avda. de la Vega, 15, Alcobendas	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	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	Holding company	n/a	Xfera Móviles, S.A.U.	100.00%	100.00%	Control
Pepe Energy, S.L.	Avda. de la Vega, 15, Alcobendas	Electricity supply	n/a	Pepe World, S.L.U. and Xfera Móviles, S.A.U.	94.44%	94.44%	Control
Pepemobile, S.L.	Avda. de la Vega, 15, Alcobendas	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
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 2018

DESCRIPTION OF THE BUSINESS

Economic environment

In 2018 Spanish GDP grew by 2.4% (Spanish Institute of Statistics, hereinafter, INE), down on the 3.0% in 2017, although relatively high compared with the Eurozone. Growth in the fourth quarter stood at 0.7%, which was consistent with previous quarters.

This growth was essentially driven by domestic demand, which stood at 2.7% percentage points, in keeping with the previous year. Notable was the fact that investment in capital goods and construction posted a more dynamic performance than expected, which resulted in an increase of 4.6% in gross fixed capital formation.

Exports, however, slowed, in terms of both goods and services, including tourism, meaning that the export sector's contribution to growth was finally negative (-0.3%).

Prices continued to show moderate increases, with annual inflation running at 1.2% (INE), slightly up on the previous year's 1.1%, the increase driven by the rise in house, communication and hospitality prices. Underlying inflation, which excludes energy products and processed food prices, remained at 0.9% (INE).

Employment improved throughout 2018 and the average annual unemployment rate fell to 14.5% during the fourth quarter (INE), while the total number of employed reached 19.6 million, up 0.6 million, 3% more than last year. This growth took place against a backdrop of slightly higher labour costs, with a year-on-year variation of 1.6%, which is higher than inflation.

Interest rates continue at all-time lows. The 12 month Euribor rate was still at a record low level of -0.116% in January 2019, slightly up by 0.073% on the previous year, while the risk premium on German bonds remained at moderate levels at the end of the year, at around 115 basis points, similar to the previous year end.

Overall, 2018 was a year of economic growth fuelled by domestic demand, which remained strong thanks to the fall in unemployment and all-time low interest rates. In addition, against this backdrop of growth, inflation remained low.

The Spanish economy is expected to maintain this positive trend in 2019 with growth of more than 2% (FUNCAS), while employment will continue to increase. Domestic demand will continue to grow, driven by higher income due to a variety of factors such as the increase in public salaries, pensions and the minimum wage while the deterioration of the international scenario will hinder higher growth.

Commercial information

The main trends seen in the Spanish telecommunications market in previous years continued in 2018. On the one hand, broadband continued to grow to 14.8 million lines, driven by the FTTH and HFC ultra-fast broadband networks, which together already account for more than 70% of access points to the detriment of XDSL technology. On the other hand, the marketing of converging services (fixed mobile and pay TV) with greater capacities and speeds continued to increase, with penetration standing at more than 85% of the residential market.

The Group officially exceeded the 8 million customer threshold in January 2019, which is almost twice the number of customers it had at the time it acquired Yoigo and Pepephone in 2016, this being achieved in only 2 years, by all accounts, in record time.

More than 10 million users changed fixed broadband and mobile telephony company in 2018, thanks to portability, the regulated process permitting customers to change operator for free while keeping the same number. In this fierce battle to legally steal customers, the Group emerged as the absolute winner in 2018, having taken 600,000 mobile lines and 272,000 fixed and internet (ADSL and fibre) lines from its rivals.

The Group's success in terms of customer portability takes on special relevance, bearing in mind that it is the only domestic operator without its own television offering and in view of the war over football with other operators having paid more than one thousand million euro for rights this season. Although it reached an agreement with Agile TV, a company enabling internet access to pay platform content on a consolidated basis in order to include television in its package. The service is currently in a pilot stage and its mass commercial launch is scheduled for the first quarter of 2019.

Against this backdrop, throughout the year the Group consolidated its business model based on a multi-brand positioning while at operational level, there were several major achievements, specifically:

As regards infrastructures and technology:

- The FTTH network reached 6.1 million DUs, with its own network, which, together with the wholesale agreements signed with other operators, puts the number of available DUs at more than 15 million.
- On a complementary level, a broad agreement was reached with another provider to guarantee backbone and backhaul transmission capacity and underpin constant growth in terms of customers.
- For the mobile network, an agreement was signed with Ericsson for its improvement and extension.
- 80MHz was acquired in 3.5 GHz to guarantee our future deployment in 5G technology (40MHz in the first quarter of 2018 and a further 40MHz in the third quarter of 2018) for a price lower than that in the recent auction held for the 3.4 to 3.6 GHz frequency.

In marketing:

- Early in the year, Yoigo was rebranded and the first unlimited mobile data rate was launched in Spain (SinFin Infinita).
- The marketing policy was further strengthened, focusing on customers using digital tools such as Yoigo e-care and the mobile app for service self-management, improving interaction between the user and installer during the fibre installation process.
- The introduction of new innovative services, complementing our portfolio, such as OTT television (Android) or the inclusion of Google Home, was a huge success from the point of view of both sales and means.
- A virtual mobile operator was acquired from Lebara Mobile Group, B.V., contributing more than 400,000 users and completing the group's trademark portfolio.
- New multi-brand stores were launched and the converging services portfolio was completed. In fact, the converging offer was introduced under the Llamayá trademark this year.
- In keeping with the above, the Group acquired the company The Bymovil Spain, S.L.U. in 2018 with a view to securing control and increasing the flexibility of our exclusive Yoigo store channel.

As a result of this effort, during this year the Group led the quality ranking for FTTH lines with the best uploading and downloading speeds and latency, as well as in customer satisfaction (NPS index measured by GFK).

The effort to focus our activity on customers' needs underpinned by a multi-brand model, services supported by modern fibre networks and digital tools, proved to be capable of generating sustained growth throughout 2018. The Group recorded the highest growth in the Spanish market, and reached almost one million fixed bandwidth lines (a market share of around 7%) and almost 7 million mobile lines (a market share of more than 13%).

Technical information

In 2018 the Group made considerable efforts to roll out fixed and mobile networks, guaranteeing a high level of autonomy with respect to the cost structure.

Starting with 2.1 million DUs in 2017 covered by fibre optics, the figure rose to 6.1 million DUs in 2018. In addition, the total fibre-optic coverage obtained through wholesale agreements with other operators enabled us to reach 15.2 million DUs at the year end.

For mobile networks, the 2100 MHz frequencies were reassigned and one of the two 3G carriers were shut down in order to increase the 4G service in this frequency. This entails a more efficient use of the assigned spectrum and a reduction in energy consumption. In late 2018, the plan had been completed in 15 provinces and is expected to be fully deployed in the first half 2019.

These efforts were not only made in the access network, but also within the core network and common transmission infrastructure which has significantly pushed the evolution project towards a single fixed and mobile network. This was also the case in the systems area, in which the various systems pertaining to the Group companies, have been progressively integrated, favouring their coordinated management.

According to the results of the nPerf test published in January 2019, based on more than 2 million speed tests in 2018, it was concluded that MásMóvil offered on average the best download speed (103.97 mega), upload speed (102 mega) and latency (32.57 mega) to subscribers throughout 2018.

National roaming agreements notably resulted in the successful integration of customers from the Group's different trademarks into the Group's own network favouring the reduction of roaming costs payable to operators for the use of their network. Customer migration is expected to end in the first half of 2019.

We note the following in the environmental area:

- Optimisation of energy saving functionalities at the radio base stations rolled out in 2017 by increasing effective time of activation of the low power mode. This entails increasing the energy savings obtained and the resulting CO2 emissions.
- The telecommunication infrastructure optimisation project continued, and own sites were dismantled in order to use existing shared infrastructures which, in addition, to reducing the number of facilities, minimises the impact on the landscape and improves efficiency. During the year 30 base stations were optimised and dismantled.
- Standardisation of new zero footprint radio equipment that cuts energy consumption at the site by approximately 30% while enabling an easier and more efficient installation.
- More than 300 installations which were more than 8 years old were replaced with new more efficient equipment, consuming far less energy. Additionally, such equipment is 5G ready, which will simplify future network upgrades.
- The roll-out of the FTTH is based on the reuse of third-party conduit infrastructures.

Financial information

2018 was a year of consolidation and recognition of the Group as 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. In 2018 the most significant acquisitions were as follows:

- ✓ on 27 February 2018 the Group acquired Neutra Network Services, S.L.U., with 40 MHz spectrum in the frequency 3.5 GHz, and four public domain concessions of the 2.6 GHz bandwidth that, together with the acquisition from Eurona of ownership of a further 40 MHz

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radio access in bloc in the 3.4 to 3.6 GHz bandwidth, positioning the Group for the launch of 5G technology.

- ✓ On 20 November 2018 the Group acquired the virtual mobile operator line of business from Lebara Mobile Group, S.L., which operates under the Lebara trademark in the pre-paid segment. This acquisition increased the Group's customer base by approximately 400 thousand customers at the time of its acquisition.
- ✓ On 20 December 2018 the Group acquired The Bymovil Spain, S.L. including the management of approximately 800 physical points of sale throughout Spain.

The Group's growth strategy also takes the form of strategic agreements with the leading industry operators that will enable the Group to obtain major cost savings, include wholesale access to other operators' FTTH infrastructures, complete the joint deployment of FTTH networks and reduce operations risks inherent in customer migration to the Group's own network starting 2018.

The Group had over 7 million active mobile lines and almost 1 million fixed lines with customers at 31 December 2018, which are 40% and 100% increases over the figures reported at the end of 2017.

During 2018 thanks to portability, 600,000 new mobile lines and 272,000 new fixed lines and Internet (ADSL and fibre) were reassigned to the Group, thanks to the five trademarks it currently operates (Yoigo, Pepephone, MásMóvil, Llamaya and Lebara).

The Group presents consolidated revenue and EBITDA figures of Euro 1,451 million and Euro 312 million, respectively. Adjusted consolidated EBITDA amounts to Euro 330 million, representing a ratio with respect to revenue of 45% with respect to EBITDA and 39% with respect to adjusted consolidated EBITDA.

	2018	2018 (*)	2017
	Consolidated Group	Proforma Group	Consolidated Group
Total revenue	1,450,866	1,509,044	1,301,032
Amortisation and depreciation	(160,753)	(162,254)	-123,567
Profit from operations	151,797	161,024	92,018
EBITDA	312,550	323,570	215,585
Integration and migration expenses	17,374	17,374	22,472
Adjusted consolidated EBITDA	329,924	340,944	238,057
Results after tax	70,543	83,431	(102,759)

(*) Calculated taking into account operations Neutra, Lebara and Bymovil since 1 January 2018 (Unaudited data).

In 2018 the Group completed the second phase of the refinancing of its syndicated loan arranged in 2016 and refinanced in the first phase in 2017. Following this second phase, it has Euro 831

million, of which Euro 698 million had been used at year end. All initially set objectives have therefore been delivered:

- Create a single senior financing arrangement for the Group.
- Extend the senior debt's average duration by approximately 12 months.
- Reduce financing costs by 25 basis points.
- Elasticize certain conditions of the financing agreement including, among other things, the reporting requirements and covenants.
- Provide the Group with more financial capacity to deploy telecommunications infrastructure projects, both fixed and mobile, by adding a new tranche of senior debt amounting to Euro 150 million which will partially finance the aforementioned deployment.
- Obtain a tranche of senior debt amounting to Euro 78 million to financially support the process of repurchasing the project bonds issued by MásMóvil Broadband S.A.U, which has been announced and is currently under way, as indicated below.

In December 2017 the Group commenced the repurchasing process for all secured senior bond holders for a total of Euro 68 million at a 5.75% interest rate, maturing on 27 July 2024, all being fungible and issued by MásMóvil Broadband, S.A.U on 21 July 2016 and 10 March 2017. The repurchase price was established at 113.75% of the nominal value of each bond, which was the Group's estimated fair value for these financial instruments. The repurchase offer was taken up by 100% of bondholders and the redemption process ended in January 2018.

Stock information

Although the stock market was down in 2018 (practically 16% was wiped out of the IBEX 35), MásMóvil shares posted a robust performance in a difficult environment and gained 7%, ending December at a price of 19.5 Euro/share.

Also notable was the fact that in the fourth quarter of this year, the Group's shares were split in a proportion of 5x1, representing 5 new shares for each existing share.

The global decline in markets in 2018 was primarily triggered by three elements:

- (i) Movements in USA, leading to doubts about the impact of interest rate rises on its economy and that started the tariff escalation with China. Higher official interest rates are leading to increases in bond yields, considered an alternative to stock market investment, while pushing up companies' financing costs. Increases in customs duties are beginning to reflect a certain weakening of global trade.
- (ii) Tensions in Europe fuelled by Brexit and Italy's budget challenges. The UK is set to abandon the EU in March 2019 and no agreement has yet been reached to ensure an orderly exit. Italy, which is the midst of an economic slowdown, has presented the EU with a budget with an unacceptable deficit.
- (iii) Finally, the instability in certain emerging economies such as Argentina and Turkey, has raised questions as to their ability to repay their public debt, triggering doubts about investments by Spanish companies and banks in those countries and therefore having a negative impact on their share prices.

Specifically, the EUROSTOXX 50 saw a marked drop in the last quarter of 2017 (of almost 10%, with the cumulative decline for the year standing at 12%), in line with the fall recorded in the USA in the last quarter of the year.

Development of the workforce

The workforce was reorganised and adapted over the course of the year in order to adapt to the Group's growing needs. As a result, 224 new employees were hired, making a total of 773 employees at the year end 2018 (including employees taken on following the acquisitions of The Bymovil Spain, S.L.U and the virtual mobile operator business from Lebara Mobile Group, B.V.), the Group turning into a generator of employment and sector activity.

Despite this increase, revenue per employee amounts to almost Euro 2 million reflecting the high productivity of the Group's employees, which is far above the industry average.

The efforts made to unify and integrate talent management policies at the various Group companies were notable this year, and covered areas such as recruiting, training and internal development. A clear methodology was implemented that is aligned with the Group's objectives.

We maintain our 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 who are fully aligned 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 team in a simple and transparent manner.

Specific investments have been made in training based on the needs of the various areas. Notable is the implementation of an on-line training platform and the emphasis on training all the Group's employees in the use of new digital tools, in the understanding and responsible use of social networks, in financial regulation, occupational risk prevention, data protection and compliance. A leadership programme was rolled out aimed at all people managers, together with a commercial programme for the four business sectors and other technical training provided ad hoc, based on the specific needs of each area.

We have implemented policies that are attractive for employees, offering a safe, enjoyable and productive working environment with incentives, fringe benefits and professional career opportunities within the Group.

We maintain an equal opportunity policy regardless of race, nationality, gender, age, civil status, sexual orientation, disability and religious or political beliefs.

Communication with employees is constant and open to obtain a high level of commitment. We therefore organise regular meetings with the CEO who reports on the status of the Group and the degree to which the established objectives have been achieved.

We continue to comply with and improve the occupational safety and health plans that have been implemented, reducing absenteeism.

OUTLOOK

The year 2018 saw the strengthening of the Group's position as the fourth Spanish operator, in terms of both operations and sales, integrating the different businesses and bringing synergies under the umbrella of a single Group operating through a multi-brand strategy.

The Group continues its investment effort, in terms of both network deployment and the acquisition of companies or business units that complement the Group strategically. Therefore in 2018 approximately Euro 800 million was invested, a figure which is expected to continue to increase in the coming years.

Additionally, in 2018 new initiatives were launched such as:

- agreement with Eurobroadband Infrastructure, a subsidiary of Eutelsat Communications, to offer satellite broadband internet in areas where there is no fibre or other technologies. Thanks to the use of the KA-SAT satellite, it will be possible to offer internet services to 100% of the population.
- launch of MASventures, a new *start-ups* accelerator that will have the support of Inveready, a Spanish investor group focusing on innovative companies and seeking to drive expanding projects through an average investment of Euro 2 million in overall financing per company. The main objective of MASventures is to drive entrepreneurship and promote innovation in telecommunications markets.
- agreement signed by the Group's white-label segment with ACN to launch JOi Mobile, our first virtual mobile operator (VMO) in 2019. ACN is a US multinational present in 25 countries, specialising in the direct sale of services that will offer fixed and mobile telephony, energy, broadband Internet, TV, home security and personal wellness products. Its business model is based on applying a system of remuneration in which its own customers act as sales personnel searching for new customers in exchange for monthly discounts.
- agreement signed with the financial institution Cetelem to set up a mixed company managing the financing offered by the Group to customers in relation to the acquisition of telephone handsets when they are purchased alongside a telecommunications service. This company will also make it possible to offer auxiliary financial services to the Group's customers.

In 2019 the Group expects to post a favourable performance as in the last few years, supported by a consolidated organisation and an efficient mix of network assets.

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 with respect to the rest of the industry. The Group's R&D+i strategy is supported by the programs and tools that allow those activities to be subsidized and financed, in order to increase the scope and possibility of successful project outcomes.

In this context, it should be noted that the Group uses a formula for driving R&D+i that is supported by two very strong public financing tools: financing through government grants and the maximization of 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. In 2018 no new aid programs were launched in this connection and the group filed no new requests for aid for the development of its R&D+i projects.

Since 2015 the Group has similarly devoted much effort to rolling 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 people's well-being and quality of life, while providing the possibility of increasing the Group's own network infrastructure. Accordingly, during 2018 the development projects were presented to the New Generation Broadband Extension Program, requesting aid. The results obtained in this area are:

- 20 roll-out projects were approved and accepted.
- An initial grant of Euro 6.09 million was obtained.
- A Euro 10.41 million financing budget was granted.
- A concession was obtained to implement these services in 208 towns covering 83,175 DUs.

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In terms of tax deductions in 2018, the Group worked to certify the R&D+i projects for fiscal year 2017. Specifically, deductible projects were identified at the companies MASMÓVIL Ibercom, Xtra Telecom, S.A.U. and Xfera Móviles, S.A.U. The details of the projects are as follows:

Project name	Company	Acronym FI	Classification
Fixed Converging Offer Management System	MAS MÓVIL IBERCOM	MASMOOFE04	IT
	XFERA MOVILES, S.A.	MASMOOFE02	
Customer Management and Service Delivery Technological Platform	MAS MÓVIL IBERCOM	MASMOCRM03	IT
	XFERA MOVILES, S.A.	MASMOCRM02	
	XTRA TELECOM, S.A.U.	MASMOCRM01	
Intelligent Architecture for Business Information Processing and Report Generation	MAS MÓVIL IBERCOM	MASMOINT03	IT
	XFERA MOVILES, S.A.	MASMOINT02	
Platform for the advanced control of user experiences on networks	XFERA MOVILES, S.A.	ADVANCON15	IT
Digital Transformation Infrastructure for MásMóvil Group's commercial activity	MAS MÓVIL IBERCOM	MASMOCOM03	IT
	XFERA MOVILES, S.A.	MASMOCOM02	
PRECOG2: Cognitive Prediction for Business Continuity.	XFERA MOVILES, S.A.	PRECOG2017	R&D
Intelligent cloud firewall to improve access services for mobile devices.	XTRA TELECOM, S.A.U.	FIREWALL15	IT
Cyber physical system for guided data centre management	XTRA TELECOM, S.A.U.	CYBEROPS26	IT

Finally, the R&D+i projects carried out in 2018 are described to indicate the primary lines of research and technologies involved in the experiments and to which the Group commits:

1. **PRECOG Project**, Cognitive Prediction for Business Continuity. The objective of the project is to roll out a big data platform and an intelligent semantic information analysis engine that will allow all of the data that is currently generated within the telecommunications operator to be captured and used and to correlate that information with what is found on the Internet and social networks. Time frame of the project: 2016-2018.
2. **CYBERIOS Project**, Cyber Physical Data Centre Operations. A cyber physical system involving operations personnel through advanced visualization tools to guarantee the efficient and effective management of the data centre. It involves common-sense integration concepts and the recognition of emotions and intelligent visualization to always allow the variables to be taught to be selected, the range of values to be shown, the manner of representing them, the manner of composing the various visualizations and the manner of developing the various screens over time. Time frame of the project: 2016-2018.

3. **Fixed Converging Offer Management System.** This project's main objective is the technological development of a certain infrastructure enabling the generation of efficient and productive tools for sales personnel and users, permitting them to comprehensively monitor customers, launch customised offers and thus anticipate customers' needs.

In order to deliver this objective, different analysis, design and development work was undertaken during 2016 and 2017, and continued in 2018 through to the project's completion.

4. **Customer Management and Service Delivery Technological Platform.** The project's objective was to carry out the development of an innovative solution through the implementation of tools and functionalities in order to obtain a state-of-the-art platform through which to provide services and manage customers. Functionalities were developed in relation to the management of the Company's customer portfolio and the complete administration of marketing processes and the relevant provision and invoicing tasks, contributing a complete functional range to the project for intuitive and visual access of the platform by customers, speeding up product purchases.
5. **Intelligent Architecture for Business Information Processing and Report Generation.** The objective of this project was to develop innovative mechanisms for processing business information and storing data to generate reports.
6. **Digital Transformation Infrastructure for MásMóvil Group's commercial activity.** In 2016 the MÁSMÓVIL Group started up the development of this major project whose main objective was the technological development and digital transformation of its systems, implementing efficient tools and enabling it to improve its commercial activity. This project continued in 2018.

Design and implementation activities were performed of new functionalities and processes through which the sales force can carry out the precise monitoring of customers and obtain detailed information on them, transforming data into valuable information, enabling them to launch appropriate offers tailored to the needs of each profile and grow sales.

ACQUISITION OF TREASURY SHARES

In accordance with the authority granted by shareholders at a General Meeting, the Company directly holds a total of 103,986 shares at 31 December 2018 which have a value of Euro 2,020 thousand (a total of 104,598 shares with a value of Euro 7,973 thousand at 31 December 2017).

It should be noted that on 13 December 2018, there was a share split in the proportion of 5 new shares to 1 existing share.

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The details of the balances and movements in the treasury share account in 2018 are as follows:

Number of shares								
	% /capital	31/12/2017	13/12/2018 (Split)	Additions	Derecognitions	13/12/2018 (Split)	31/12/2018	% /capital
Designated for:								
Ordinary (Pre split)	0.01%	2,516		801,707	(788,488)	(15,735)	-	-
Extraordinary (Pre split)	0.42%	102,082		6,500	(108,582)	-	-	-
Ordinary (Post split)		-	78,675	179,501	(154,190)	-	103,986	0.09%

Thousand euro						
	31/12/2017	13/12/2018 (Split)	Additions	Derecognitions	13/12/2018 (Split)	31/12/2018
Designated for:						
Ordinary (Pre split)	50	-	85,569	(84,000)	(1,619)	-
Extraordinary	7,923	-	769	(8,692)	-	-
Ordinary (Post split)	-	1,619	5,071	(3,052)	-	2,019

Extraordinary transactions relate to the handing over of 102,082 shares on 2 January 2018 in order to pay part of the deferred price under the contract for the acquisition of the company Embou Nuevas Tecnologías, S.L., signed in April 2015 and the derecognition of 6,500 shares ownership of which was changed to group employees on 8 May 2018.

On 20 July 2018 the Company renewed a liquidity agreement with Santander Investment Bolsa Sociedad de Valores S.A. Unipersonal in order to support liquidity for trading and the regularity of the listed price of its shares. The main characteristics are as follows:

The treasury share transactions carried out by the Group take place for the following legitimate purposes:

- 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 take place for the purpose of influencing the free establishment of prices. In particular, all of the conduct referred to in Articles 83.ter.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 2018, the Group had no financial products that could be considered risky, and management has resolved not resort to these types of instruments.

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 2018 the Group has arranged interest rate hedges with lending banks for a nominal amount of Euro 787,502 thousand.

Financial risk factors

The Group's activities are exposed to various financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the Group's financial performance.

Risk management is 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 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.

- 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 identify the impairment of trade receivables. The Group uses these procedures to estimate, based on current default experience for the past 12 months, the rates of default on trade receivables and recognises the expected credit loss at inception. 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.

Value 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 judgement. The results of the analysis, by group, of the default history show that reducing the number of balances would reduce the number of write-downs and vice versa.

- Liquidity risk

The Group carries out the prudent management of the liquidity risk based on holding sufficient cash and negotiable securities, as well as available financing through sufficient credit facilities and the capacity to settle market positions. Given the dynamic nature of the underlying businesses, the Group's Finance Department aims to maintain flexible financing through available credit facilities.

- Debt risk

Recurring investments in fixed assets and the acquisition of other supplementary group companies over the past two years have been generally financed by the Group through a combination of equity and borrowings.

Subject to certain limits marked by its current leveraging level, the Group has the capacity to access new lines of financing within the limits established by financial institutions.

- Interest rate risk

Interest rate risk affecting the Group mainly derives from loans from credit institutions. These loans are issued at variable rates and expose the Group to interest rate risk involving future cash flows.

An increase in the benchmark rates, in this case, the Euribor, could increase the cost of the Group's financing and thus divert the resources originating from the Group's business currently used for other purposes. The Group's current policy is to maintain a low level of leveraging at variable rates. In order to mitigate such risk, the Group has arranged interest rate hedges with lending banks.

- Risk of failing to comply with financial debt covenants.

The syndicated loan and the junior debt contract include the obligation to comply with the following covenants: Senior Net Debt/EBITDA financial leveraging ratio, Total Net Debt/EBITDA financial leveraging ratio, and financial expense hedge ratio. The amounts reflected in these consolidated annual accounts at 31 December 2018 reflect compliance with the covenants.

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: Calculated as current assets less current liabilities. This financial measure represents the Group's operating liquidity.
- Consolidated earnings before net interest expense and taxes (EBIT): Calculated based on consolidated earnings before interest and taxes.
- Consolidated earnings for the year before net financial expenses, taxes, depreciation and amortisation (EBITDA): consists of the net earnings for the year before net financial expenses, taxes, depreciation and amortisation. Calculated based on consolidated earnings before amortisation and depreciation. They do not include interest and direct taxes expenses.
- Adjusted EBITDA it is the consolidated EBITDA of the Group from which any non-recurring extraordinary or exceptional expenses are excluded, as well as those integration and migration costs resulting from acquiring new operations. Losses generated due to write-offs are also excluded, as well as the gains or losses resulting from disposal of assets.
- Net financial debt: Consists of outstanding amounts recognised on loans and borrowings from credit institutions and other debts and reflects the liquid assets held at financial institutions.
- 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 2018 was 50.37 days.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

At 31 December 2018 the Group has a contingent payment obligation amounting to Euro 3,000 thousand with respect to one of the licences for the 3.5 GHz frequency acquired in 2018 (note 5), payment of which is contingent on obtaining the extension of the public authorisations until 2030. At the date of these consolidated annual accounts, that extension has not been obtained.

Regarding the promissory notes program that the Company registered on the Alternative Fixed Income Market (MARF) for a maximum amount of Euro 50,000 thousand on 27 December 2018 (note 12 d), in January 2019 promissory notes issued amounted to Euro 20,000 thousand with maturity in 3 months. Subsequently, during February 2019 there were two issues amounting to Euro 10,000 thousand and maturing in three months and Euro 20,000 and maturing in five months, respectively. At the date on which these consolidated annual accounts were authorised for issue, promissory notes were fully utilised.

Also, prior to the date on which these consolidated annual accounts were authorised for issue, the junior debt referred to in note 12 (a) was partly amortised in an amount of Euro 20,000 thousand together with the corresponding accrued interest.

Finally, on 19 February 2019 Euro 60,000 thousand of tranche H of the senior syndicated debt referred to in note 12 (a) was drawn down.

The Group has entered into an agreement with a Spanish network operator to manage customer traffic under the Lebara trademark for the next three years. The agreement will permit the Group to plan the orderly migration of such customers to its own mobile network.



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 2018

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



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Auditor's Report on the "Information concerning the System of Internal Control over Financial Reporting (ICFR)" of Másmóvil Ibercom, S.A. for 2018

(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 27 November 2018, 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 2018, 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.



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 2018 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.



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 2019