Másmóvil Ibercom, S.A. y

Sociedades Dependientes

Condensed Consolidated Interim Financial Statements
30 June 2018

Consolidated Interim Directors' Report
2018

(With Independent Auditor's Limited Review Report thereon)

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

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

Limited Review on the Condensed Consolidated Interim Financial Statements

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

To the Shareholders of
Másmóvil Ibercom, S.A., at the request of the board of directors

REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Introductión

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (the "interim financial statements") of Másmóvil Ibercom, S.A. (the "Company") and subsidiaries (the "Group"), which comprise the statement of financial position at 30 June 2018, the income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the explanatory notes for the six-month period then ended (all condensed and consolidated). Pursuant to article 12 of Royal Decree 1362/2007 the Directors of the Company are responsible for the preparation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying condensed consolidated interim financial statements.

KPMG Auditores S.L., a limited liability Spanish company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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Conclusion

Based on our limited review, which can under no circumstances be considered an audit, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements for the six-month period ended 30 June 2018 have not been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial statements, pursuant to article 12 of Royal Decree 1362/2007.

Emphasis of Matter

We draw your attention to the accompanying note 2, which states that these condensed consolidated interim financial statements do not include all the information required in complete consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accompanying condensed consolidated interim financial statements should therefore be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2017. This matter does not modify our conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The accompanying consolidated interim directors' report for the six-month period ended 30 June 2018 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the condensed consolidated interim financial statements, as well as the disclosures required by article 15 of Royal Decree 1362/2007. The consolidated interim directors' report is not an integral part of the condensed consolidated interim financial statements. We have verified that the accounting information contained therein is consistent with that disclosed in the condensed consolidated interim financial statements for the six-month period ended 30 June 2018. Our work is limited to the verification of the consolidated interim directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Másmóvil Ibercom, S.A. and subsidiaries.

Paragraph on Other Matters

This report has been prepared at the request of the board of directors in relation to the publication of the six-monthly financial report required by article 119 of the Revised Securities Market Law, enacted by Royal Decree 1362/2007 of 19 October 2007.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Francisco Rabadán Molero

25 July 2018

MASMOVIL IBERCOM, S.A. AND SUBSIDIARIES

Condensed Consolidated Interim Financial Statements
and Consolidated Interim Directors' Report

For the first six months of 2018

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

Condensed Consolidated Statement of Financial Position at 30 June 2018 and 31 December 2017

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

In thousands of Euros	NOTE	30/06/2018	31/12/2017
Assets			
Goodwill	4, 5	389,380	389,379
Intangible assets	5	590,229	434,226
Cost of obtaining customer contracts	7	55,498	-
Property, plant and equipment	6	496,835	462,903
Other investments		9,234	6,404
Prepayments for non-current assets	8	29,172	28,876
Deferred tax assets		243,216	244,390
Total non-current assets		**1,813,564**	**1,566,178**
Inventories		227	448
Trade and other receivables	9	238,403	198,441
Cost of obtaining customer contracts	7	117,822	-
Current tax assets		9,091	1,995
Other investments		3,384	3,493
Prepayments for current assets	8	28,154	2,751
Cash and cash equivalents		163,070	320,092
Total current assets		**560,151**	**527,220**
Total assets		**2,373,715**	**2,093,398**
Equity			
Capital	10	2,044	1,995
Share premium	10	256,629	246,652
Consolidated profit/(loss) for the period/year	10	38,277	(102,759)
Retained earnings and other reserves	10	(91,152)	(63,115)
Treasury shares	10	(2,442)	(7,973)
Other equity instruments	10	218,235	228,086
Translation differences		325	199
Equity attributable to equity holders of the Parent		**421,916**	**303,085**
Non-controlling interests		-	-
Total equity		**421,916**	**303,085**
Liabilities			
Loans and borrowings	11	601,558	499,274
Derivative financial instruments	11	2,380	3,123
Other payables	11	4,868	4,296
Finance lease payables	11	24,685	27,718
Other financial liabilities	11	309,310	298,260
Provisions	12	98,270	89,408
Government grants		12,518	11,791
Deferred tax liabilities		60,908	28,875
Other non-current liabilities	15	117,125	107,169
Total non-current liabilities		**1,231,622**	**1,069,914**
Loans and borrowings	11	44,238	24,055
Other payables	11	74,185	31,952
Finance lease payables	11	6,180	6,412
Other financial liabilities	11	13,874	41,517
Trade and other payables	13	572,124	609,392
Provisions	12	9,576	7,071
Total current liabilities		**720,176**	**720,399**
Total liabilities		**1,951,798**	**1,790,313**
Total equity and liabilities		**2,373,715**	**2,093,398**

Condensed Consolidated Statement of Comprehensive Income for the six-month period ended 30 June 2018 and 30 June 2017

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

In thousands of Euros	NOTE	30/06/2018	30/06/2017
Revenue	17 a)	676,453	609,168
Other operating income		24,448	14,471
Merchandise, raw materials and consumables used	17 b)	(329,155)	(338,259)
Employee benefits expenses	17 c)	(22,684)	(22,621)
Depreciation and amortisation expense	5 y 6	(73,300)	(58,661)
Other operating expenses	17 d)	(201,502)	(175,442)
Results from operating activities		**74,260**	**28,656**
Finance income	13	336	228
Finance costs	13	(64,886)	(172,801)
Change in fair value of financial instruments	13	120	312
Impairment and gains or losses on disposals of financial instruments	4	28,781	-
Net finance cost		**(35,649)**	**(172,261)**
Income/(Loss) for the period from continuing operations, before income tax		**38,611**	**(143,605)**
Income tax	16	(334)	(7,725)
Income/(Loss) for the period from continuing operations		**38,277**	**(151,330)**
Income/(Loss) for the period		**38,277**	**(151,330)**
Income/(Loss) for the period attributable to:			
Equity holders of the Parent		38,277	(151,330)
Income/(Loss) for the period		**38,277**	**(151,330)**
Other comprehensive income			
Items to be reclassified to profit or loss			
Translation differences of financial statements of foreign operations		126	78
Other comprehensive income, net of taxes		**38.403**	**78**
Total comprehensive Income/(Loss) for the period		**38.403**	**(151,252)**
Basic profit/(loss) per share (expressed in Euros)			
Income (Loss) for the period	10	1.906	(7.595)
Diluted profit/(loss) per share (expressed in Euros)			
Income (Loss) for the period	10	1.556	(0.008)

Condensed Consolidated Statement of Changes in Equity for the six-month period ended 30 June 2018 and 31 December 2017

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

	Attributable to equity holders of the Parent							
Thousand euro	Capital	Share premium	Other reserves	Retained earnings	Own shares	Translation differences	Other equity instruments	Total
Balance at 31 December 2017	**1,995**	**246,652**	**(63,115)**	**(102,759)**	**(7,973)**	**199**	**228,086**	**303,085**
Adjustments due to the first application of IFRS 15, net of the tax effect (note 3)	-	-	81,317	-	-	-	-	81,317
Adjustments due to the first application of IFRS 9, net of the tax effect (note 3)	-	-	(8,239)	-	-	-	-	(8,239)
Balance at 1 January 2018	**1,995**	**246,652**	**9,963**	**(102,759)**	**(7,973)**	**199**	**228,086**	**376,163**
Profit/(loss) for the period	-	-	-	38,277	-	-	-	38,277
Other comprehensive income	-	-	-	-	-	126	-	126
Total comprehensive income for the period	**-**	**-**	**-**	**38,277**	**-**	**126**	**-**	**38,403**
Share capital increase (Note 10)	49	9,977	-	-	-	-	-	10,026
Treasury shares (Note 10)	-	-	300	-	5,531	-	-	5,831
Share-based payments (Note 10)	-	-	-	-	-	-	(9,024)	(9,024)
Reservas	-	-	(102,759)	102,759	-	-	-	-
Other movements			1,344	-	-	-	(827)	517
Balance at 30 June 2018	**2,044**	**256,629**	**(91,152)**	**38,277**	**(2,442)**	**325**	**218,235**	**421,916**
Balance at 1 January 2017	**1,995**	**246,652**	**(4,594)**	**(58,051)**	**(375)**	**(44)**	**70,022**	**255,605**
Profit/(loss) for the period	-	-	-	(151,330)	-	-	-	(151,330)
Other comprehensive income	-	-	-	-	-	78	-	78
Total comprehensive income for the period	**-**	**-**	**-**	**(151,330)**	**-**	**78**	**-**	**(151,252)**
Treasury shares (Note 10)	-	-	292	-	(598)	-	-	(306)
Issue of share-based payments	-	-	-	-	-	-	400	400
Reserves	-	-	(58,051)	58,051	-	-	-	-
Other movements	-	-	(1,143)	-	-	-	-	(1,143)
Balance at 30 June 2017	**1,995**	**246,652**	**(63,496)**	**(151,330)**	**(973)**	**34**	**70,422**	**103,304**

Condensed Consolidated Statement of Cash Flows for the six-month period ended 30 June 2018 and 30 June 2017

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

In thousands of Euros	NOTE	30/06/2018	30/06/2017
Cash flows from operating activities			
Result of the period from continuing operations		38,277	(151,330)
Adjustments for:			
Depreciation and amortization	5 y 6	73,300	58,661
Reversals on trade receivables	9	14,344	10,438
Change in provisions		2,436	3,087
Charge of cost of obtaining customer contracts		68,874	-
Government grants taken into income		46	(32)
Finance income		(336)	(228)
Finance costs		64,886	172,801
Other income and expenses		(28,901)	(5)
Income tax expense	16	334	7,725
Changes in working capital			
Inventories		232	535
Trade and other receivables		(20,755)	(14,082)
Other assets		(169,027)	(26,296)
Trade and other payables		6,729	57,567
Provisions		(2,190)	(27,259)
Cash flows from operating activities		**48,249**	**91,582**
Interest paid		(32,262)	(13,871)
Interest received		-	228
Income tax (paid)/received		(2,092)	444
Net cash from operating activities		**13,895**	**78.383**
Cash flows from investing activities			
Amounts collected on the sale of financial assets		167	1,388
Proceeds from the sale of property, plant and equipment		-	7.245
Acquisition of property, plant and equipment	6	(71,804)	(49,315)
Acquisition of intangible assets	5	(190,101)	(33,578)
Acquisition of subsidiaries, net of cash and equivalents	4	(12,567)	(24,891)
Acquisition of financial assets		110	(322)
Net cash used in investing activities		**(274,195)**	**(99,473)**
Cash flows from financing activities			
Proceeds from issue of share capital	10	9,047	-
Proceeds from bonds and other marketable securities		-	38,040
Proceeds from loans and borrowings		228,370	-
Proceeds from redemption of treasury shares	10	5,231	400
Payments of loans and borrowings		(116,590)	(24,450)
Payments of other financial liabilities		(22,780)	(25,599)
Payments of redemption of treasury shares		-	(306)
Net cash flows used in financing activities		**103,278**	**(11,915)**
Net decrease in cash and cash equivalents		**(157,022)**	**(33,005)**
Cash and cash equivalents at 1 January		320,092	236,079
Cash and cash equivalents at 30 June		**163,070**	**203,074**

Condensed explanatory notes

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

1. Description of the Group

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

Masmovil Ibercom, S.A. (hereinafter the Company or Parent) has changed its denomination on 3 July 2014. The registered office is located at Parque Empresarial Zuatzu, Edificio Easo, 2ª Planta, San Sebastian (Guipúzcoa).

These condensed consolidated interim financial statements for the six-month period ended 30 June 2018 (hereinafter the interim financial statements) include the Parent and its subsidiaries (hereinafter the Group). The most significant information regarding subsidiaries is set out in the accompanying Appendix I, which forms an integral part of this note.

The Group's activity is the provision of landline, mobile telephone and internet services, a market sector with a relatively stable cycle of activity throughout the year.

On 14 July 2017 all Masmovil Ibercom, S.A. shares were delisted from the Spanish Alternative Stock Exchange (MAB) – Growing Companies and simultaneously admitted to trading on the official Madrid, Barcelona, Bilbao and Valencia stock exchanges, and included on the Stock Exchange Interlinking System (electronic trading system) (SIBE).

2. Basis of Presentation

The interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 on Interim Financial Reporting, and article 12 of Royal Decree 1362/2007 of 19 October 2007 implementing Securities Market Law 24/1988 of 18 July 1988 in relation to transparency requirements for information on issuers whose securities are admitted to trading on an official secondary market or on another regulated market in the European Union, and Circular 3/2018, of 28 June, of the National Securities Market Commission on the regular reporting of issuers of securities admitted to trading on regulated markets relating to the six-month financial reporting, interim management statements and, if appropriate, the quarterly financial reporting.

As established by IAS 34, these interim financial statements are prepared solely for the purpose of providing an update on the latest consolidated annual accounts prepared by the Directors of the parent company, focusing on new activities, events and circumstances occurring during the period, and do not duplicate information published previously in the consolidated annual accounts for 2017. Consequently, the interim financial statements at 30 June 2017 do not include all the information that would be required for complete consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union. The accompanying interim financial statements should therefore be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2017 in order for them to be interpreted correctly.

The consolidated annual accounts for 2017 were prepared by the directors of the parent company under International Financial Reporting Standards as adopted by the European Union (IFRS-EU).

The accounting policies used to prepare these interim financial statements are the same as those used to prepare the Group's consolidated IFRS-EU annual accounts for 2017, except for the adoption of new standards and certain amendments to existing standards (see section a) of this note and note 3).

The interim financial statements were authorised for issue by the board of directors of the parent company at the meeting held on 25 July 2018.

a) Comparative information

The comparative figures in the interim financial statements refer to the six-month period ended 30 June 2017, except for those in the condensed consolidated statement of financial position, which refer to 31 December 2017 and are the same as those in the consolidated statement of financial position at that date included in the consolidated annual accounts for 2017. The Group has not applied IFRS 9 and IFRS 15 retrospectively.

The effects of applying IFRS 9 and IFRS 15 are set out in note 3.

There have been no changes in the scope of consolidation during the six-month period ended 30 June 2018, except for the entry of the company Neutra Network Services, S.A.U. (see note 4). Details of the consolidation scope are shown in Appendix I.

b) Going-concern principle

The board of directors of the parent company has prepared these interim financial statements on a going concern basis on the understanding that the outlook for the Group's business will enable profit and positive cash flows to be obtained in the coming years.

At 30 June 2018, the Group's working capital is negative in an amount of Euros 160,026 thousand (Euros 193,179 thousand at 31 December 2017), which is a habitual circumstance in the Group's business and in its financial structure, and does not represent any impediment whatsoever for the normal performance of the business. Taking into consideration the peculiarities of the Group's working capital, cash requirements in the short and medium term are not expected to exceed its current funding capacity.

The Group's main line of activity is the provision of telecommunications services, which given its short collection period combined with a supplier payment period of 47.8 days, allows the Group to optimise the use of its resources while operating with negative working capital. The parent company's directors do not foresee any circumstances in the short and medium term that would negatively impact the Group's present working capital structure.

Lines of working capital are available to the Group, as the tranche "Existing RCF" of the senior financing in the amount of Euros 30,000 thousand and diverse bank facilities of up to Euros 20,000 thousand, wich in both cases had not been drawn down at 30 June 2018.

In addition, the Group has Euros 153,000 thousand in funds not drawn down from the syndicated loan (Note 11), whose availability changes throughout 2018.

c) Relevant accounting estimates, assumptions and judgements used when applying accounting policies

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Group's accounting policies to prepare the interim financial statements in conformity with IFRS-EU.

The estimates, judgements and assumptions used to prepare the interim financial statements are the same as those used to prepare the consolidated annual accounts for 2017, except for the matters mentioned in section a) of this note and in note 3.

d) EU-adopted standards and interpretations not effective from 1 January 2018 and which the Group expects to adopt on 1 January 2019 or afterwards (none has been adopted early)

- IFRS 16 - Leases. This new standard on leases supersedes IAS 17. Is effective for years beginning on or after 1 January 2019. Under the new requirements, and with certain exceptions, lessees must recognise the right to use the underlying asset at the present value of the future lease payments, and a balancing lease liability. At the date these Interim Financial Statements were prepared the Group continues with the process of analysing the potential impact of this standard and it involves obtaining a list of the Group's leases and the examination of their main characteristics (amount, renewal options, identification of the existence of control over specific assets). The main impacts of the application of this new standard for the Group are estimated through the recognition of the assets and liabilities deriving from the agreements over the use of other operators' infrastructures and the lease of space to build its own infrastructure. The situation reported by the Group in its consolidated annual accounts at 31 December 2017 remains unchanged.

  The standard is mandatory for the first interim periods within the financial years commencing on or after 1 January 2019.

- IFRS 9 (Amendment) "Prepayment features with negative compensation": The contractual terms of instruments with prepayment features 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. As a result, those instruments would not have contractual cash flows that are only payments of capital and interest, which led them to be recognised at fair value through profit or loss. The amendment of IFRS 9 clarifies that a party may pay or receive reasonable compensation when a contract is terminated early, which would allow those instruments to be measured at amortised cost or fair value through other comprehensive income. The amendment will be effective for years commencing on or after 1 January 2019, although it may be adopted early.

e) Standards and interpretations issued by the International Accounting Standards Board (IASB), pending EU approval

- 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 sales and contributions of assets between an investor and its associates and joint ventures which 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 full gain or loss when the non-monetary assets constitute a "business". If the assets do not meet the definition for a business, the investor recognises the gain or loss to the extent of the interests of other investors. The amendments will only apply when an investor sells or contributes assets to his associate or joint venture.

  These amendments to IFRS 10 and IAS 28 were originally prospective effective for years starting on or after 1 January 2016. However, at the end of 2015 the IASB took the decision to postpone their validity dates (without setting a specific new date) since it is planning a broader revision that may result in the simplification of the accounting for these transactions and other aspects of the accounting for associates and joint businesses.

- 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.

- IAS 28 (Amendment) "Non-current interests in associates and joint ventures": This limited-scope amendment clarifies that non-current interests in an associate or joint venture which, in essence, forms part of the net investment in the associate or joint venture but to which the equity method is not applied, will be recognised in accordance with the requirements of IFRS 9 "Financial Instruments". The IASB has also published an example that shows how the requirements of IAS 28 and IFRS 9 should be applied with respect to such non-current interests. The amendment will be effective for years commencing on or after 1 January 2019, although it may be adopted early.

- Annual IFRS Improvements. 2015 – 2017 Cycle: 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 arrangement is not remeasured when control of the business is obtained.
  - IAS 12 "Income taxes" All tax repercussions of the payment of dividends are recognised in the same manner.
  - IAS 23 "Borrowing costs". Any specific loan originally made to develop a qualifying asset is considered to be part of generic loans when the asset is ready for use or sale.

- IAS 19 (Amendment) "Amendment, curtailment or settlement of the plan": This amendment specifies how companies must determine pension expenses when there are changes in a defined benefit plan. The amendment takes effect on 1 January 2019, subject to being adopted by the European Union.

f) New and amended standards adopted by the Group

On 1 January 2018 new accounting standards entered into force that are applicable to these Interim Financial Statements for the Group and, therefore, certain accounting policies had to be modified. They are the following:

- - IFRS 9 *Financial instruments*, and

- - IFRS 15 and Clarifications to IFRS 15 *Revenue from contracts with customers*.

The impact of adopting these standards and the new accounting policies in these Interim Financial Statements are disclosed in Note 3.

On 1 January 2018 the following standards, amendments and improvement packages entered into force, which did not have a significant impact on the Group's Interim Financial Statements.

- Annual improvements to IFRS, 2014 - 2016 Cycle. These improvements amend the following standards:
  - IFRS 1 "First-time adoption of International Financial Reporting Standards": Elimination of the short-term exemptions for companies that adopt IFRS for the first time.
  - IAS 28 "Investments in associates and joint ventures" Fair value measurement of an investment in an associate or joint venture.
- Amendments to IFRS 2: Share-based payments. Amendments relating to the classification and measurement of share-based payment transactions. Effective for annual periods beginning on or after 1 January 2018.
- IFRIC 22, "Foreign currency transactions and advance consideration": This IFRIC concerns how to determine the transaction date when the standard on foreign currency transactions is applied, IAS 21. The interpretation applies when a company pays or receives advance consideration under contracts denominated in foreign currency.

3. Changes in accounting policies

Except for the matters explained below, the accounting policies applied to prepare these Interim Financial Statements are the same as those applied when preparing the Group's consolidated annual accounts for 2017.

This note explains the impact of adopting IFRS 9 *Financial instruments* and IFRS 15 *Revenue from contracts with customers* affecting the Group's interim financial statements and it also discloses the new accounting policies that have been applied since 1 January 2018, when different from those applied in prior years. The aforementioned changes in accounting policies are expected to be reflected in the Group's consolidated annual accounts for the year ending 31 December 2018.

a) Impact on the financial statements

The Group has adopted this standard without restating comparative information as a result of the changes in its accounting policies and the solutions implemented that allow IFRS 9 to be applied. The reclassifications and adjustments that arise from the application of this new standard and the new impairment rules are therefore not reflected in the Interim Condensed Consolidated Statement of Financial Position at 31 December 2017 included in these Financial Statements for the purposes of comparison but have been recognised in the beginning balance sheet at 1 January 2018.

The Group also adopted IFRS 15 Revenue from contracts with customers on 1 January 2018. In accordance with the transitional provisions of IFRS 15, the Group has chosen to apply the new standards using the modified retrospective transition method which means that the accumulated effects of adopting the standard will be recognised, upon first application, in the opening Condensed Consolidated Statement of Financial Position at 1 January 2018 by implementing the practical element that allows the standard to be applied only to contracts that have not been completed or terminated at 1 January 2018. The application of this method required making an adjustment against reserves for the accumulated effect, as described below. As a result, the information presented in the comparative figures for 2017 has not been re-expressed and is presented in accordance with IAS 18.

Thousand euro	NOTE	31/12/2017	IFRS 9	IFRS 15	1/1/2018
Assets					
Goodwill		389,380	-	-	389,380
Intangible assets		434,225	-	(40,597)	393,628
Cost of obtaining customer contracts	3 (b)	-	-	41,776	41,776
Property, plant and equipment		462,903	-	-	462,903
Other investments		6,404	-	-	6,404
Non-current prepayments and accrued income		28,876	-	-	28,876
Deferred tax assets	3 (d)	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
Cost of obtaining customer contracts	3 (b)	-	-	96,762	96,762
Current tax assets		1,995	-	-	1,995
Other investments		3,493	-	-	3,493
Current 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	3 (b) y (d)	(165,874)	(8,239)	81,317	(92,796)
Treasury shares		(7,973)	-	-	(7,973)
Other equity instruments		228,086	-	-	228,986
Differences on exchange		199	-	-	199
Equity attributed to holders of equity instruments in the parent		**303,085**	**(8,239)**	**81,317**	**376,163**
Total equity		**303,085**	**(8,239)**	**81,317**	**376,163**
Liabilities					
Bank borrowings	3 (d)	499,274	10,985	-	510,259
Derivative financial instruments		3,123	-	-	3,123
Other payables		4,296	-	-	4,296
Finance leases		27,718	-	-	27,718
Other financial liabilities		298,260	-	-	298,260
Provisions		89,408	-	(6,840)	82,568
Government grants		11,791	-	-	11,791
Deferred tax liabilities	3 (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**
Bank borrowings		24,055	-	-	24,055
Other payables		31,952	-	-	31,952
Finance leases		6,412	-	-	6,412
Other financial liabilities		41,517	-	-	41,517
Trade and other payables		609,392	-	-	609,392
Provisions		7,071	-	(3,642)	3,429
Total current liabilities		**720,399**	**-**	**(3,642)**	**716,757**
10,985Total 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:

Thousand euro

	Note	Retained Earnings	Tax effect
Retained earnings at 31 December 2017-IAS 39/IAS 18		**(165,874)**	**-**
Recalculation IFRS 9 adjustment to restructure financial debt	3 (d)	(8,239)	(2,746)
IFRS 15 adjustment due to aligning discounts, grants, capitalising costs and the "cuota 25" arrangement.	3 (b)	81,317	27,106
Retained earnings at 1 January 2018-IFRS 9/IFRS 15		**(92,796)**	**24,360**

b) Application of IFRS 15 *Revenue from contracts with customers* – Adoption impacts

The Group adjusted its initial reserves as a consequence of the main impacts deriving from applying IFRS 15 in accordance with the simplified retrospective method, as follows:

(i) Recognition of discounts or subsidies for permanence contracts:

In accordance with the eye FRS 15 guidelines, on 1 January 2018 the Group recognised under the heading "Cost of obtaining customer contracts" in the Consolidated Statement of Financial Position the discounts and subsidies offered for permanence contracts over the life of the customer contracts concerned, which will be straight-line apportionment during the useful live of the contracts .These assets will be taken to profit and loss for the year as a reduction in revenue as the obligation to comply with the telecommunications service obligation is met which will represent, with respect to the application of IAS 18, an increase in the recognition of revenue the first contract month and a reduction in revenue over the other the contracts useful live. Those assets are in the Group's Consolidated Statement of Financial Position as Current or Non-Current based on whether they are taken to profit and loss within 12 months or afterwards.

Up until 2017 the discounts were recognised as a reduction in revenue at the time customers were billed and the subsidies as an expense for the consumption of goods acquired for resale, raw materials and consumables when the contracts with customers were signed.

(ii) Financing component

The Group offers its customers subscription services with access to a phone financing model, primarily using bank resources, over a term of 24 months plus a final installment payment ("Cuota 25"). Once the financing agreement terminates, the customer has the option of paying the final installment or selling the phone to the Group for the amount of that 25th installment payment. The Group has therefore estimated a provision for commercial transactions to cover possible liabilities deriving from the "cuota 25" programme.

The difference between the cuota 25 commitment and the expected market value of the phone in 24 months will reduce the income generated by the service agreement with the customer, giving rise to a month-to-month contractual liability that will be canceled at the time the customer exercises, or does not exercise, the option to sell the phone.

Until 2017, the contractual liability was recognised in full when customers accessed the phone financing model and taken to the income statement as an expense for the consumption of goods acquired for resale, raw materials and consumables.

(iii) Incremental costs

The incremental costs directly attributable to obtaining customer contracts, retention activities and convergent and non-convergent contratcs that may be individually identified and reliably measured are considered to be likely to recover the payments made are initially recognised as an asset and will be taken to the consolidated statement of comprehensive income over the term of the contract with the customer, provided that it exceeds 12 months.

At 1 January 2018 the Group identified the fees paid to distributors and the various sales platforms due to the signing of permanence contracts with customers as costs for the signing of sales contracts into the heading "cost of obtaining customer contracts".

Until 2017 the incremental costs of the converging offer were capitalised in intangible assets and taken to results as fixed asset amortisation/ depreciation. The incremental costs not capitalised were recognised as an expense in respect of the consumption of goods purchased for resale, raw materials and consumables when the customer contracts were obtained.

c) Application of IFRS 15 Revenue from contracts with customers – Accounting policies applicable since 1 January 2018

Revenue recognition

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

The Group recognises revenue when it considers that it has satisfied telecommunications service compliance obligations with its customers, or when control over an asset has been transferred.

Services rendered

The Group's revenue derives from the rendering of telecommunication services to final customers (fixed and mobile telephony and broadband Internet), interconnection and roaming services to other operators, trading services for wholesale customers and other services falling within its corporate purpose.

Revenue from traffic is recognised as income as the service is rendered and on a straight-line basis over the covered period in the case of a flat-rate plan. For amounts collected in advance for prepaid services, the unused amount is recognised as a liability until it has been consumed or the contractual obligations cancelled.

Commercial package offers that combine several elements are analysed to determine whether it is necessary to separate the identified elements, applying the appropriate revenue recognition policy in each case. The total revenue from the package is distributed among its identifying elements, based on their respective fair values, i.e. the fair value of each individual component compared to the total fair value of the product.

Discounts and subsidies applied to permanence contracts will be recognised as an asset and applied on a straight-line basis as a reduction in revenue over the contract useful life as the obligation to render the telecommunication services is met.

The Group offers its customers subscription services with access to a phone financing model, primarily using bank resources, over a term of 24 months plus a final installment payment ("Cuota 25"). Once the financing agreement terminates, the customer has the option of paying the final installment or selling the phone to the Group for the amount of that 25th installment payment. The Group estimates a provision for commercial transactions to cover possible liabilities deriving from the "cuota 25" programme.

The Group estimates a provision for commercial transactions to cover the possible risks deriving from failures to make payment for the financing and the purchase of phones, taking into consideration the market value of the phone if acquired from the customer. The difference between the cuota 25 commitment and the expected market value of the phone in 24 months (the permanence period) will reduce the income generated by the service agreement with the customer, giving rise to a month-to-month contractual liability that will be canceled at the time the customer exercises, or does not exercise, the option to sell the phone.

The incremental costs that are directly attributable to obtaining customer contracts that may be individually identified and reliably measured are considered to be likely to recover the payments made and are expected to be recovered in more than twelve months are initially recognised as an asset and will be taken to the Consolidated Statement of Comprehensive Income over the term of the contract with the customer.

At 1 January 2018 the Group identified the fees paid to distributors and the various sales platforms due to the signing of permanence contracts with customers, as costs for the signing of sales contracts.

The Group systematically amortises the costs in a manner that is consistent with the transfer to customers of the goods or services to which the costs relate. The Group updates the amortisation rate to reflect significant changes in the expected schedule for transferring to customers the goods or services to which the costs relate. Changes are recognised as changes in estimates.

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

d) Application of IFRS 9 *Financial instruments* – Impacts of its adoption

For cases involving the exchange of debt instruments or modifications to contractual terms that do not result in the cancellation of a financial liability, IFRS 9 stipulates that the company 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 of the debt before modification would be recognised as income or expense in the statement of comprehensive income. Transaction costs reduce the new carrying amount of the modified debt instrument, requiring the calculation of a new effective interest rate.

The Group restructured its financial debt during 2017. That restructuring consisted of the granting of new debt to finance the program to roll out fixed and mobile telecommunications infrastructure and the modification of certain contractual terms covering existing debt. The refinancing of the existing debt was recognised as an immaterial modification under IAS 39. The Group has estimated the impact of applying the requirements established by IFRS 9 with respect to immaterial modifications to 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 been recognised if the restructuring carried out in 2017 had been recognised under IFRS 9 in accordance with the aforementioned policies.

Taking into account the Group's business, the application of IFRS 9 in relation to accounts receivable (based on the expected loss impairment model) is not significant for these interim financial statements taken as a whole.

e) Application of IFRS 9 *Financial instruments* – Accounting policies applied since 1 January 2018

Classification

For measurement purposes the Group classifies financial instruments as financial assets and liabilities at fair value through profit or loss, separating those that are initially designated from those held for trading or those that must be measured at fair value through profit or loss, financial assets and liabilities measured at amortised cost and financial assets measured at fair value through other comprehensive income, separating equity instruments designated as such from the rest of the financial assets. The classification depends on the Group's business model for managing financial assets and the contractual terms of cash flows.

The Group classifies a financial asset at amortised cost if held within the framework of a business model whose objective is to maintain financial assets to obtain contractual cash flows and when the contractual conditions of the financial asset give rise to cash flows on specified dates that are only payments of principal and interest on the amount of the outstanding principal (UPPI).

The Group classifies a financial asset at fair value through other comprehensive income if held within a business model whose objective is attained by obtaining contractual cash flows and selling financial assets, and the contractual conditions of the financial asset give rise to UPPI cash flows on specified dates.

The business model is determined by key personnel at the Group at a level that reflects the manner in which groups of financial assets are jointly managed to attain a specific business objective. The Group's business model represents the manner in which it manages its financial assets to generate cash flows.

The financial assets that fall within a business model whose objective is to maintain assets to receive contractual cash flows are managed to generate cash flows in the form of contractual receipts over the life of the instrument concerned. The Group manages portfolio assets to receive those specific contractual cash flows. To determine whether the cash flows are obtained through the receipt of contractual cash flows deriving from the financial assets, the Group considers the frequency, value and schedule of sales in preceding years, the underlying reasons for those sales and expectations regarding future sales activities. However, the sales themselves do not determine the business model and, therefore, they cannot be taken into consideration on an isolated basis. Information regarding past sales and expectations for future sales is what offers indicative information regarding the manner of attaining the objective declared by the Group with respect to the management of financial assets and, more specifically, the manner in which the cash flows are obtained.

Profit and loss deriving from assets measured at fair value will be recognised in the income statement or in other comprehensive income. When involving investments in equity instruments not held for trading, the treatment will depend on whether the Group has irrevocably chosen at the time of initial recognition to record the investments in equity at fair value through changes in other comprehensive income.

The group reclassifies is investments in debt when, and only when, its business model for managing those assets changes.

Measurement

At the time of initial recognition the Group measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are attributable to the acquisition. The transaction costs for financial assets at fair value through profit or loss are taken to the income statement and recognised as incurred.

Debt instruments

The subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the nature of the asset's cash flows. The Group's debt instruments primarily consist of trade and other receivables, which the Group classifies as financial assets at amortised cost.

Financial assets at amortised cost are those that the Group holds to collect contractual cash flows. When those cash flows represent only payments of principal and interest they are valued at amortised cost. Interest payments on these financial assets are included under financial income in accordance with the effective interest rate method.

Equity instruments

The Group owns financial assets, primarily equity instruments, which are measured at fair value. When group management has chosen to present gains and losses in the fair value of equity investments in other comprehensive income, after initial recognition the equity instruments are measured at fair value and the gain or loss is recognised in other comprehensive income. The amounts recognised in other comprehensive income are not reclassified to the income statement, although they may be reclassified to reserves at the time the instruments are derecognised. The dividends from such investments continue to be recognised in profit or loss for the year as other income, when the group's right to receive the payments has been established.

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

Impairment

Since 1 January 2018 the Group evaluates expected impairment associated with its debt instruments recognised at amortised cost on a prospective basis. The Group uses the practical solutions allowed by IFRS 9 to measure the expected credit losses relating to commercial accounts using a simplified approach, which eliminates the need to determine when a significant increase in credit risk has arisen. The simplified approach requires that expected losses be initially recognized in accounts receivable and therefore the Group estimates expected credit losses using the weighted probability of those losses over the expected life of the financial instrument.

The practical solution used consists of a provision matrix based on segmenting groups of uniform assets and applying past default percentages for those groups and reasonable information regarding future economic conditions.

The analysis of the Group's commercial accounts has resulted in the identification of three homogeneous groups of assets: residential, companies and wholesale. These groups have different characteristics with respect to collection management or the recovery of balances and therefore specific matrices have been developed.

Default percentages are calculated based on current non-payment experience over the last year, as it is a very dynamic market, and are adjusted by the differences between current and past economic conditions and taking into consideration projected information that is reasonably available.

4. Business Combinations

4.1. Acquisition of Neutra Network Services, S.A.U.

Through the subsidiary Masmovil Broadband, S.A.U., the group acquired 100% of the shares in Neutra Network Services, S.A.U. (hereinafter Neutra) from Iberfibra Gestión de Redes de Banda Ancha, S.A. on 27 February 2018. The acquired company is domiciled in Madrid and engages in the establishment and operation of fixed radio public access networks on the 3.4 to 3.6 GHz bands and the 2.6 GHz band throughout Spain, as well as the installation, development, operation and management of all types of telecommunications networks. Neutra owns 40 Mhz of the 3.5 Ghz frequency and has four public domain concessions of the 2.6 GHz band over which the Group held an exclusive right up to that date.

The purchase price of those shares totaled Euros 6,003 thousand, which was paid in cash.

On that same date and in the same act in which the Group acquired control, Neutra and Iberfibra Gestión de Redes de Banda Ancha, S.A. concluded a purchase agreement under which Neutra acquired, with the condition precedent that the necessary authorisation is obtained from the Ministry of Energy, Tourism and Digital Agenda or the relevant administrative body, full ownership of the exclusive right to use the public domain radio spectrum deriving from:

i) A public domain radio spectrum concession to establish and operate public access radio networks on the 3.4 to 3.6 gigahertz band in accordance with the Order dated 7 July 2017 issued by the Ministry of Energy, Tourism and Digital Agenda;

ii) Four public domain radio spectrum concessions to establish and operate public access radio networks on the 2.6 Ghz band in Madrid, Catalonia, Castilla-La Mancha and Andalusia.

On 1 June 2018 this agreement took full effect after the aforementioned administrative authorisation was obtained.

Details of the business combination and revenue obtained and recognised in the Condensed Consolidated Statement of Comprehensive Income are as follows:

	Cost of the business combination net of cash received	Fair value of identifiable net assets	Revenue
Thousand euro	6,003	34,292	28,289

Between the acquisition date and the end of the six-month period on 30 June 2018, the acquired business generated revenues and consolidated profit for the Group of Euros 1,036 thousand and a loss of Euros 2,521 thousand.

If the acquisition had taken place on 1 January 2018, the Group's consolidated revenue and profits would have changed by Euros 1,607 thousand and a loss of Euros 2,777 thousand.

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

	Carrying amount of the acquired company	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	2,325	175	2,500
Trade and other receivables	866	-	866
Other current assets	1,045	-	1,045
Cash	2,920	-	2,920
Assets	**22,366**	**36,638**	**59,004**
Non-current borrowings	1,213	-	1,213
Non-current provisions	816	-	816
Deferred tax liabilities	886	9,116	10,002
Current liabilities	11,981	-	11,981
Other current payables	-	700	700

Liabilities	**14,896**	**9,816**	**24,712**
Identifiable net assets acquired			34,292
Cost of the business combination			6,003
Income from Business combination			**(28,289)**

The most relevant factor in the recognition of revenue on this business combination was the measurement of the public domain concessions covering the establishment and operation of public access networks on the 3.4 to 3.6 GHz band and the 2.6 GHz band owned by Neutra. Specifically, the entry of this company into the Group and obtaining the authorisation from the Ministry of Energy, Tourism and Digital Agenda to establish and operate public access networks on the 3.4 to 3.6 GHz band and the 2.6 GHz band will allow the Group to operate those concessions and on the 5G spectrum, which will give rise to future synergies regarding the rendering of telecommunications services by all the components of the Group.

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

- Radio spectrum concessions: measured using a market approach in which the fair value of an asset is estimated through other similar assets that have been recently sold or licensed.
- Base stations (property, plant and equipment): measured using a market approach in which fair value is estimated through an analysis of other similar assets that have been sold recently.
- Other payables: the fair value of this debt relating to the unfavorable contract that Neutra maintains with a third-party for the lease of towers, has been calculated as the difference between the annual cost of that contract up until it expires and the cost of canceling that agreement.

The Group has recorded all assets acquired and liabilities assumed that comply with the definition of assets and liabilities in accordance with IFRS on the acquisition date, including intangible assets and all identified contingent liabilities. All those assets and liabilities were duly classified or designated on that date.

In accordance with IFRS 3, prior to the recognition of revenue from the business combination, the Directors reassessed whether they have correctly identified all the assets acquired and liabilities assumed as well as the criteria used in their measurement, that was performed by an independent expert. Although these values are considered provisional for one year from the acquisition date, the Company's directors believe that these provisional values will be the definitive ones.

5. Intangible Assets

Intangible assets and movement for the six-month period of 2018 and for all the year 2017 are as follows:

In thousands of Euros	Goodwill	Computer software	Patents, trade marks and licences	Development	Other intangible assets	Advances	Rights of use	Total
Cost								
Balance at 1 January 2017	377,406	32,614	187,066	17,052	142,268	382	20,215	777,003
Business combinations	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
Transfers at 1 January by application FRS 15	-	-	-	-	(46,850)	-	-	(46,850)
Business combinations (note 4)	-	79	41,015	-	13,609	-	-	44,703
Additions	-	11,040	-	87	-	-	172,870	183,997
Disposals	-	(2,776)	(170)	-	(44)	-	-	(2,990)
Transfers	-	2,336	19	(412)	(332)	(38)	-	1,573
Balance at 30 June 2018	389,380	56,406	230,385	17,965	176,006	-	227,110	1,097,252
Depreciation and impairment losses								
Balance at 1 January 2017	-	(8,391)	(4,364)	(7,077)	(16,899)	-	(2,634)	(39,365)
Amortization for the year	-	(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 2017	-	(12,944)	(20,403)	(9,324)	(45,330)	-	(5,213)	(93,214)
Transfers at 1 January by application FRS 15	-	-	-	-	6,251	-	-	6,251
Amortization for the period	-	(5,078)	(9,050)	(885)	(14,196)	-	(4,424)	(33,633)
Transfers	-	7	-	-	-	-	-	7,189
Disposals	-	2,776	170	-	-	-	-	2,946
Balance at 30 June 2018	-	(15,239)	(29,283)	(10,209)	(53,275)	-	(9,637)	(117,643)
Impairment at 1 January 2017	-	-	-	(379)	-	-	-	(379)
Impairment	-	-	-	379	-	-	-	379
Impairment at 31 December 2017	-	-	-	-	-	-	-	-
Impairment at 30 June 2018	-	-	-	-	-	-	-	-
Carrying amount								
At 31 December 2017	389,380	32,783	169,118	8,966	174,293	38	49,027	823,605
At 30 June 2018	389,380	41,167	201,102	7,756	122,731	-	217,473	979,609

During the six-month period ended 30 June 2018, in addition to the disclosure in note 4 of business combinations, there were additions totalling Euros 183,997 thousand, mainly relating to use rights deriving from integrated agreements with Orange Espagne, S.A.U. mentioned in note 19, and the acquisition and development of computer applications.

Up until 31 December 2017 the Group capitalised the costs of obtaining new customers under convergent offer products. Starting on 1 January 2018 the Group adopted the accounting policies set out in IFRS 15 regarding the recognition of revenue from contracts with customers (Note 3c). Accordingly, the table showing movements in intangible assets reflects a transfer at 1 January 2018 for the IFRS 15 application, from the heading "Other intangible assets" to the headings costs of obtaining new long and short-term customer contracts in the Condensed Consolidated Statement of Financial Position at 30 June 2018 for a net amount of Euros 40,599 thousand (see note 7).

No additions were recognised under goodwill during the 6-month period ended 30 June 2018 and no indications of the impairment of existing goodwill have been detected so no impairment losses in this respect have been recognised.

The Group maintains firm commitments to acquire intangible assets totalling Euros 427 thousand at 30 June 2018.

6. Property, Plant and Equipment

Property, Plant and Equipment and movement for the six-month period of 2018 and for all the year 2017 are as follows:

In thousands of Euros	Land and Buildings	Other Property, plant and equipment	Fibre-optic network	Under construction and advances	Total
Cost					
Balance at 1 January 2017	1,009	300,511	114,505	26,416	442,441
Additions	-	7,017	110,560	32,398	149,975
Disposals	(224)	(5,933)	(54,794)	(4,563)	(65,514)
Transfers	-	(291,602)	302,779	96	11,273
Balance at 31 December 2017	785	9,993	473,050	54,347	538,175
Business combinations (Note 4)	-	2,490	4,480	-	6,970
Additions	-	1,691	28,502	41,610	71,804
Disposals	-	(153)	(5,276)	-	(5,429)
Transfers	-	9,620	33,028	(44,226)	(1,578)
Balance at 30 June 2018	785	23,641	533,784	51,731	609,941
Depreciation and impairment losses					
Balance at 1 January 2017	(402)	(34,069)	(3,988)	-	(38,459)
Depreciation for the year	(12)	(12,965)	(51,172)	-	(64,149)
Disposals	223	5,777	32,609	-	38,609
Transfers	-	39,953	(51,226)	-	(11,273)
Balance at 31 December 2017	(191)	(1,304)	(73,777)	-	(75,272)
Transfers	-	(8)	15	-	7
Depreciation for the period	(10)	(2,611)	(37,046)	-	(39,667)
Disposals	-	67	1,759	-	1,826
Balance at 30 June 2018	(201)	(3,856)	(109,049)	-	(113,106)
Impairment at 1 January 2017	-	(34)			(34)
Impairment at 31 December 2017		34			34
Impairment at 30 June 2018	-	-	-	-	-
Carrying amount	-	-			
At 1 January 2017	607	266,442	110,517	26,416	403,982
At 31 December 2017	594	8,689	399,273	54,347	462,903
At 30 June 2018	584	19,785	424,735	51,731	496,835

The main additions made during the six-month period ended 30 June 2018 relate to the rollout of the company owned FTTH network, both completed and in progress.

At 30 June 2018, the Group has firm commitments to purchase property, plant and equipment totalling Euros 49,249 thousand derived from the expansion of its telecommunications network over the coming years.

During the six-month period ended 30 June 2018, no indications of property, plant and equipment impairment have been detected, so no impairment test has been carried out.

7. Cost of obtaining customer contracts

As is mentioned in Notes 2 f) and 3, starting on 1 January 2018 the Group applied IFRS 15 and Clarifications to IFRS 15 Revenue from Contracts with Customers, which gave rise to the capitalisation of certain customer contract costs (see note 5) and the discounts and grants straight-lined and with clients. The composition and movements in these Interim Financial Statements regarding these costs are as follows:

	2018	
Thousand euro	**Non-current**	**Current**
IFRS 15 application at 1 January 2018	41,776	96,762
Additions	71,291	30,288
Taken to income statement	-	(66,797)
Transfers	(57,569)	57,569
Balance at 30 June 2018	**55,498**	**117,822**

8. Prepayments for current and non-current assets

At 30 June 2018 prepayments for non-current assets amount to Euros 29,172 thousand (Euros 28,876 thousand at 31 December 2017) and reflect payments made for the work carried out by the Group to install telecommunications equipment in infrastructures owned by another operator and for the rental of transmission lines.

In 2000 and 2011, the investee Xfera Moviles S.A.U. was awarded several concessions for mobile telephony services in the 2100 Mhz and 1800 Mhz bands, respectively. These concessions are subject to the payment of several annual taxes (taxes on the retention of title to public radio spectrum and taxes on microwave use), which amount to Euros 48 million in 2018. These taxes were paid in April 2018 and the expense accrued over 2018. The short-term apportionments totaling Euros 28,154 thousand (Euros 2,751 thousand at 31 December 2017) mainly relate to the pre-payments of the mentioned fees and several payments made for operating expenses.

9. Trade and Other Receivables

Details of trade and other receivables are as follows:

	30/06/2018	**31/12/2017**
Trade receivables	198,669	181,648
Receivables for phone financing	8,710	10,283
Other receivables	6,095	4,488
Public entities, other	43,201	10,567
	256,675	206,986
Impairment	(18,272)	(8,545)
	238,403	**198,441**

Movement in impairment is as follows (see Note 17 d)):

In thousands of Euros	30/06/2018	31/12/2017
Opening balance	(8,545)	(4,792)
Charges	(17,735)	(29,857)
Reversals	3,391	2,141
Applications	4,617	23,963
Closing balance	**(18,272)**	**(8,545)**

10. Equity

Details of equity and movement during the year are shown in the condensed consolidated statement of changes in equity.

a) Capital and share premium

Capital

At 30 June 2018 the share capital of the Company is represented by 20,442,100 shares of Euros 0.10 par value each, (19,951,100 shares of Euros 0.10 par value each at 31 December 2017) all fully paid. All shares have the same voting and profit-sharing rights.

The Group ended the share capital increase on 9 May 2018, which consisted of the issue of 491,000 new shares that were fully subscribed and paid in by the holders of convertible bonds (Note 18c). The share capital increase totaled Euros 10,026 thousand including a share premium of Euros 9,977 thousand and represents 2.40% of share capital after the increase.

At 30 June 2018 the shares are held by several shareholders, and those holding more than 3% are the following: Onchena, S.L.U. 16.76%, Indumenta Pueri S.L. 10.24%, FMR LLC 8.09%, Key Wolf S.L.U. 6.32%, Gala Growth Properties S.L. 6.00%, PLT VII Holdco Sarl (Providence) 3.87%, Caja de Seguros Reunidos Compañía de Seguros y Reaseguros S.A. 3.65% y Norsis Creaciones S.L.U. 3.3%.

Share premium

The share premium at 30 June 2018 amounting to Euros 256,629 thousand (Euros 246,652 thousand at 31 December 2017), derives from the capital increases carried out in 2018 and prior years.

At 30 June 2018 the share premium is freely distributable except for the amount of development expenditure to be amortised (see note 5).

a) Own shares

The following own share transactions were carried out during the six-month periods ended 30 June 2018 and 2017:

	Number of shares	
	30/06/2018	30/06/2017
At 1 January	104,598	14,939
Additions	447,639	76,356
Disposals	(528,577)	(74,902)
At 30 June	**23,660**	**16,393**

During the six-month period ended 30 June 2018, the Company sold own shares with an acquisition value of Euros 55,651 thousand (Euros 2,852 thousand during the six-month period ended 30 June 2017), increasing reserves by Euros 300 thousand (An increase in reserves of Euros 292 thousand during the six-month period ended 30 June 2017) due to the difference between the average acquisition cost and the selling price.

At 30 June 2018, the Company held 23,660 own shares acquired at an average weighted cost of Euros 103.2 per share (16,393 own shares at 30 June 2017 at an average weighted cost of Euros 59.38 per share).

b) Earnings/(loss) per share

Basic

Basic earnings per share are calculated by dividing the profit/(loss) for the period attributable to equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period, excluding own shares.

Details of the calculation of basic loss per share are as follows:

	30/06/2018	30/06/2017
Loss for the year attributable to equity holders of the Parent (in thousands of Euros)	38,227	(151,330)
Weighted average number of ordinary shares outstanding (in thousand of Euros)	20,083	19.926
Basic profit (loss) per share (in Euros)	**1,906**	**(7,595)**

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

In thousands of shares	30/06/2018	30/06/2017
Shares outstanding at 1 January	19,951	19.936
Effect of the shares issued during the period	144	-
Effect of own shares	(12)	(10)
Weighted average number of ordinary shares outstanding at 30 June	**20,083**	**19,926**

Diluted

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

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

	30/06/2018	30/06/2017
Loss for the year attributable to equity holders of the Parent (in thousands of Euros)	51,447	(267)
Weighted average number of diluted ordinary shares outstanding (in thousand of shares)	33,060	33.001
Diluted profit (loss) per share (in Euros)	**1.556**	**(0.008)**

A reconciliation of profit/(loss) for the period attributable to equity holders of the Parent with profit/(loss) for the period attributable to equity holders of the Parent (diluted) is as follows

In thousands of Euros	30/06/2018	30/06/2017
Loss for the year attributable to equity holders of the Parent	38,277	(151,330)
Finance costs after tax on convertible bonds	13,170	151,063
Diluted profit (loss) for the year attributable to equity holders of the Parent (in Euros)	**51,447**	**(267)**

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

In thousands of shares	**30/06/2018**	**30/06/2017**
Weighted average number of ordinary shares outstanding	20,083	19,926
Effect of the conversion of convertible bonds	12,977	13,075
Weighted average number of diluted ordinary shares outstanding	**33,060**	**33,001**

The effect of the conversion of the convertible bonds includes the shares relating to the convertible bonds acquired by Providence (8,366 thousand shares), in those relating to the Note issued by the Group that was subscribed by the former non-controlling shareholders of Xfera Moviles S.A.U. (4,800 thousand shares).

c) Other equity instruments

On 2 January 2018 the Group paid, through own equity instruments, the part of the deferred variable price under the agreement for the purchase of Embou Nuevas Tecnologías S.L.U., amounting to Euros 9,024 thousand.

11. Financial Liabilities

Details of financial liabilities are as follows:

	30/06/2018		**31/12/2017**	
In thousands of Euros	Non-current	Current	Non-current	Current
Loans and borrowings	601,558	44,238	499,274	24,055
Other payables	4,868	74,185	4,296	31,952
Finance lease payables	24,685	6,180	27,718	6,412
Other financial liabilities	309,310	13,874	298,260	41,517
Derivative financial instruments	2,380	-	3,123	-
	942,801	**138,477**	**832,671**	**103,936**

a) Details of loans and borrowings are as follows:

	30/06/2018		**31/12/2017**	
In thousands of Euros	Non-current	Current	Non-current	Current
Loans	601,558	34,943	499,274	4,576
Credit facilities	-	8,353	-	8,359
Interest accrued	-	942	-	413
Other loans and borrowings	-	-	-	10,707
	601,558	**44,238**	**499,274**	**24,055**

During the six-month period ended 30 June 2018, interests and principal payments were made amounting to Euros 13,167 thousand related to the different tranches of the syndicated loan.

In June 2018 the Group completed the second phase of its syndicated loan process that started in October 2016 and refinanced for the first time in December 2017, reached a nominal value of Euros 831 million, of which Euros 648 million had been drawn down at 30 June 2018. During this second phase of refinancing the Group was able to improve its financing conditions by:

- Reducing its funding costs as a result of canceling the Junior loan obtained in 2016

- Increase in the amount of the senior financing by Euros 225 million (opening margin 2.5%). The funds will be used for (i) the Group's corporate financing needs (Euros 122 million) and (ii) fixed and mobile telecommunications infrastructure investment programs (Euros 103 million).

- Make certain conditions of the financing agreement currently established under the sindicated loan more flexible, which will allow the Group to (i) deleverage itself more slowly in 2019, (ii) take on debt up to a certain Leverage Ratio and (iii) issue a higher amount of subordinated debt.

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

The syndicated loan includes an obligation to comply with the following covenants: Debt ratio (Net Consolidated Senior Debt/EBITDA and Net Consolidated Debt/EBITDA) and certain EBITDA coverage levels with respect to net financial expenses. There is no obligation to perform a compliance test of those covenants at 30 June 2018.

b) Other financial liabilities

The most significant movements during the six-month period ended 30 June 2018 are as follows:

Non-current tranche

The increase is due to interest accrued during the period.

Current tranche

- On 8 January 2018 the nominal outstanding amount of the bonds issued by Masmóvil Broadband, S.A.U. in 2016 and 2017 was fully repaid. These bonds were included in the Consolidated Statement of Financial Position at 31 December 2017 in the amount of Euros 5,787 thousand.

- On 23 March 2018 and 21 June 2018 the promissory notes programmes Masmovil were sold for Euros 15,000 thousand and Euros 1,200 thousand, respectively, not being renewed on maturity.

- During the six-month period ended 30 June 2018 the Group settled the payments pending on the acquisition of companies amounting to Euros 5,118 thousand.

12. Provisions

Details of provisions at 30 June 2018 and 31 December 2017 are as follows:

	30/06/2018		31/12/2017	
In thousands of Euros	Non-current	Current	Non-current	Current
Provision for loss-making/onerous contracts	51,335	-	53,389	-
Provision for commercial transactions (note 17)	5,947	9,576	17,218	7,071
Provision for decommissioning	7,973	-	7,973	-
Provision for commitments with personnel	32,717	-	9,366	-
Provisions for other liabilities	36	-	1,200	-
Other provisions	262	-	262	-
	98,270	**9,576**	**89,408**	**7,071**

Movement in provisions is as follows:

In thousands of Euros	Provision for loss-making/onerous contracts	Provision for commercial transactions	Provision for decommissioning	Provision for commitments with personnel (Note 18c)	Provisions for other liabilities	Other provisions	Total
Balance at 31 December 2017	53,389	24,289	7,973	9,366	1,200	262	96,479
Charge for the year	-	3,049	-	23,351	-	-	26,400
Applications	(2,054)	-	-	-	-	-	(2,054)
Reversals	-	(11,815)	-	-	(1,164)	-	(12,979)
Balance at 30 June 2018	**51,335**	**15,523**	**7,973**	**32,717**	**36**	**262**	**107,846**

At 30 June 2018 this includes a Euros 51,335 thousand (Euros 53,389 thousand at 31 December 2017) provision in relation to an agreement entered into by Xfera Moviles S.A.U., for the rental of towers, which is considered above market prices. This provision will be reduced over the rental period ending in 2030, with Euros 2,054 thousand having been applying during the six-month period ended 30 June 2018.

Xfera Moviles S.A.U., offers its customers subscription services providing access to a phone financing model, primarily using bank resources, for a term of 24 months plus a final installment payment ("Cuota 25") in which Xfera Moviles S.A.U., is the guarantor for the customer. Once the financing agreement terminates, the customer has the option of paying the final installment or selling the phone to the Group, which is obligated to acquire it, for the amount of that 25th installment payment. The Group estimates a provision for commercial transactions to cover the possible risks deriving from failures to make payment for the financing and the purchase of phones, due to the exercising of the sales option ("Cuota 25"), taking into consideration in this case the market value of the phone if acquired from the customer.

The Group records a provision for obligations with its personnel covering the stock option plan available to certain executives and employees (note 18 c).

13. Trade and Other Payables

Details of trade and other payables are as follows:

In thousands of Euros	**30/06/2018**	**31/12/2017**
Trade payables	545,223	579,336
Taxation authorities	22,053	12,481
Personnel	2,6576	6,037
Other payables	2,192	11,538
	572,124	**609,392**

14. Risk Management and Fair Value

General

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

- credit risk
- liquidity risk
- market risk

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 established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to 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 program focuses on minimising the uncertainty of financial markets and the potential adverse effects on the Group's financial yields. Some group subsidiaries use derivatives to hedge against certain risks.

a) Credit risk

Credit risk is defined as the risk of financial loss to which the Group is exposed if a customer or counterparty fails to comply with their contractual obligations relating to a financial instrument, and mainly stems from trade receivables and the Group's investment instruments.

The maximum exposure to credit risk deriving from borrowings and other receivables at the date of the Condensed Consolidated Statement of Financial Position is as follows:

In thousands of Euros	**30/06/2018**	**31/12/2017**
Loans to assotiates	2,325	2,735
Equity instruments	689	713
Deposits and guarantees	1,762	1,914
Other financial assets	13,549	4,535
Trade and ither receivables	238,403	198,441
	256,728	**208,338**

The Group has no significant credit risk concentrations. The outstanding trade receivable balance amounts to Euros 189,107 thousand (Euros 183,386 thousand at 31 December 2017).

The Group facilitates financing for its customers to acquire phones, either through financial institutions or using its own resources. The Group only acts as a guarantor in the agreements concluded between customers and financial institutions and does not recognise any receivables in this respect. The trade receivables arising in cases in which the Group offers financing using its own resources are reflected under the heading "Trade and other receivables" and the relevant provision is included in the provision for insolvencies.

The Group has policies to limit the amount of risk assumed with respect to customers and any financial institution, and the exposure to the risk of recovering loans is managed as part of the ordinary course of business. The Group has policies to ensure that sales of products on a wholesale basis are made to customers with an adequate credit record.

The Group has formal procedures to detect the impairment of trade receivables. These procedures and the individual analysis by business areas allow delays in payment to be identified and methods are established to estimate the impairment loss. The main components of this impairment are related to individually significant exposures and a component of the collective loss is established for groups of similar assets relating to losses that have been incurred but have not yet been identified.

Measurement adjustments for customer insolvency, the review of individual balances base on customer credit ratings, current market trends and an analysis of past insolvencies on an aggregate level require a high level of estimates. A reduction in the volume of balances gives rise to a reduction in measurement corrections and vice versa, based on the analysis of aggregate default experience. The practical solution used consists of a provision matrix based on segmenting groups of uniform assets and applying past default percentages for those groups and reasonable information regarding future economic conditions. The Group has identified three homogeneous groups of assets: residential, companies and wholesale. These groups have different characteristics with respect to collection management or the recovery of balances and therefore specific matrices have been developed.

Trade receivables are initially recognised at their nominal value and all necessary adjustments are applied for insolvency risk, i.e. those loans of a certain age or which present circumstances that indicate that their collection is doubtful. Delinquency percentages are calculated based on current delinquency experience over the past year since the market is very dynamic and they are adjusted for any differences between current and past economic conditions, and taking into consideration reasonably available projections.

b) Liquidity risk

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

The Group carries out prudent management of liquidity risk, based on maintaining sufficient cash and negotiable securities, the availability of sufficient financing through credit facilities and the capacity to sell marketable holdings. Given the dynamic character of the underlying businesses, the Group aims to be flexible with regard to financing through drawdowns on credit facilities with related parties.

The contractual maturity dates of financial liabilities, including estimated payments for interest and excluding the impact of the compensation agreements, are presented below:

Thousand euro	30/06/2018							
	Carrying amount	Contractual cash flows	Less than 1 year	More than 1 but less than 2 years	More than 2 but less than 3 years	More than 3 but less than 4 years	More than 4 but less than 5 years	More than 5 years
Bank borrowings	645,796	656,557	44,238	27,487	106,714	149,447	328,671	
Derivative financial instruments	2,380	2,380	-	-	-	-	2,380	
Other payables	79,053	79,441	74,185	3,667	845	262	209	27[illegible]
Finance leases	30,865	38,231	6,180	7,104	6,905	6,751	6,616	4,67[illegible]
Other financial liabilities	323,184	448,894	13,874	9,903	35,356	8,719	8,130	372,91[illegible]
Trade and other payables	572,124	572,124	572,124	-	-	-	-	
	1,653,402	**1,797,627**	**710,600**	**48,161**	**149,820**	**165,179**	**346,006**	**377,86[illegible]**

Thousand euro	31/12/2017							
	Carrying amount	Contractual cash flows	Less than 1 year	More than 1 but less than 2 years	More than 2 but less than 3 years	More than 3 but less than 4 years	More than 4 but less than 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	-	-	-	-	3123	-
Other payables	36,248	36,248	31,952	4,296	-	-	-	-
Finance leases	34,130	34,130	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	-	-	-	-	-
	1,533,518	**1,858,390**	**705,864**	**83,946**	**162,193**	**143,899**	**317,194**	**445,293**

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 objective of managing market risk is to manage and control exposure to this risk within reasonable parameters at the same time as optimising returns.

Interest rate risk

The Group's interest rate risk arises mainly from loans from financial institutions and related parties. These borrowings are extended at variable interest rates, so the Group has arranged hedging instruments to convert the majority of its debt to a fixed rate, thus avoiding interest rate risk on future cash flows. The Group's current policy is to maintain low leverage at variable rates through interest rate derivatives.

d) Capital management

The Group's capital management is centred on safeguarding its capacity to continue operating as a going concern, to provide its shareholders with returns, while maintaining an optimal capital structure to reduce the cost of capital. Its current focus is complying with the debt ratios attached to the financing contract signed with different financial institutions (see note 11a).

In relation to the different financial instruments, the Group must comply with a series of covenants:

- The syndicated loan contract establish certain indebtedness ratios (Consolidated Net Senior Debt/EBITDA and Total Consolidated Net Debt/EBITDA), service levels of EBITDA/net finance costs and maximum annual CAPEX.

- The Masmóvil Ibercom corporate bond stipulates the same indebtedness ratios (Consolidated Net Senior Debt/EBITDA and Total Consolidated Net Debt/EBITDA as the syndicated loan.

- As regards the notes of the former Xfera Moviles S.A.U, shareholders, the Net Financial Debt/EBITDA ratio entails certain obligations for the Group.

The figures used in the financial ratios do not meet the definitions indicated in the APMs described in the Directors' Report, rather, they are normalised figures based on the definitions established in the different financing agreements.

At present, the amounts reflected in the financial statements of the Masmóvil Group form ratios that indicate compliance with the ratios described.

e) Derivative financial instruments

As is aforementioned in c), the Group uses derivative financial instruments to hedge the risks to which its business activities, operations and future cash flows are exposed.

At 30 June 2018 and 31 December 2017 in the context of these transactions and in accordance with the stipulations of the syndicated loan, the Group has arranged interest rate on cash flow hedges with the lenders, for a nominal debt amount of Euros 648,261 thousand.

15. Other Non-current Liabilities

The Group has concluded an FTTH network infrastructure mutualising agreement with Orange under which both groups deploy their own FTTH networks and each grant the other party a right to use their own network. This liability is taken to the income statement over 20 years based on the initial term of the contract without any extension, in the same manner as the criteria applied to the amortisation of the usage right granted to the Group.

In 2015 the Group acquired the fixed broadband assets pertaining to Orange/Jazztel within the framework of the "remedies" imposed by the European Commission to authorise the acquisition of Jazztel by Orange. The Group granted an irrevocable right to use 40% of the acquired FTTH network to Orange over 35 years, which is recognised under this heading.

The movement under other non-current liabilities is as follows:

In thousands of Euros	30/06/2018	31/12/2017
Openning balance	107,074	75,014
Additions	11,411	36,448
Transfer to profit and loss	(1,937)	(4,388)
Closing balance	**116,548**	**107,074**

This heading also records other non-current liabilities associated with other items totals Euros 577 thousand at 30 June 2018 (Euros 95 thousand at 31 December 2017).

16. Income Tax

a) Reconciliation of income tax

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

In thousands of Euros	30/06/2018	30/06/2017
Loss for the year from continuing operations, before income tax	38,611	(143,605)
Tax calculated at the corresponding rate	(8,939)	36,519
Tax adjustments	8,838	-
Unrecognised tax credits	(233)	(44,244)
Income tax expense	(334)	(7,725)

When analysing the effective tax rate at 30 June 2018, it should be remembered that the consolidated loss comprises profits and losses contributed by companies subject to different tax rates.

Tax adjustments, as the variations in deferred taxes, are mainly relate to revenues on the Neutra business combination (note 4) and the adjustments deriving from the adoption of IFRS 15.

17. Income and Expense

a) Revenue

Details of revenue are as follows:

	30/06/2018			30/06/2017		
In thousands of Euros	Spain	International	Total	Spain	International	Total
Business and wholesale	31,655	62	31,717	65,731	202	65,933
Consumer	644,736	-	644,736	543,235	-	543,235
	676,391	**62**	**676,453**	**608,966**	**202**	**609,168**

The Group's activity mainly consists of the rendering of landline, mobile phone and boadbrand services. These transactions constitute the Group's only segment of activity.

The Group differentiates between the following types of customers:

- Consumer: customers in this group are offered landline, mobile phone and boadbrand services.

- Business: landline, mobile phone, boadbrand and data services, as well as other value-added services such as data centres, cloud, virtual PBX, email and video conferencing.

- Wholesale: wholesale services comprising voice solution sales to other sector operators, without access as the customers already have their own network.

b) Merchandise, raw materials and consumables used

Details of merchandise, raw materials and consumables used are as follows:

In thousands of Euros	30/06/2018	30/06/2017
Merchandise used	96,716	106,158
Raw materials and other consumables used	158,295	146,188
Subcontracted work	74,144	85,913
	329,155	**338,259**

c) Employee benefits expense

Details of the employee benefits expense are as follows:

In thousands of Euros	30/06/2018	30/06/2017
Salaries and wages	18,054	18,738
Social Security	4,630	3,883
	22,684	**22,621**

The average headcount of the Group, distributed by gender and category, is as follows:

	30/06/2018		30/06/2017	
	Men	Women	Men	Women
Management	60	15	52	15
Technicians	98	31	87	26
Administrative staff	33	33	32	34
Other employee	204	107	190	120
	395	**186**	**361**	**195**

The distribution of employees with a disability rating of 33% or higher (or equivalent local rating) during the three-month period ended 30 June 2018 is as follows:

	30/06/2018	30/06/2017
Administrative staff	1	1
Other employees	2	1
	3	**2**

d) Other operating expenses

Details of other operating expenses are as follows:

In thousands of Euros	30/06/2018	30/06/2017
Leases and fees	74,796	72,980
Repairs and maintenance	23,102	22,659
Independent professional services	50,341	40,172
Transport	1,198	477
Insurance premiums and commissions	189	285
Banking and similar services	3,703	2,999
Advertising, publicity and public relations	22,791	15,964
Supplies and other services	1,538	3,175
Other servivces	3,845	830
Taxes	5,453	5,315
Losses, impairment and changes in provisions (note 12)	14,344	10,438
Impairment and results from disposals of assets	202	148
	201,502	**175,442**

18. Related Parties

a) Related party balances

Details of balances with related parties at 30 June 2018 and 31 December 2017 are as follows:

In thousands of Euros	30/06/2018	31/12/2017
	Other related parties	Other related parties
Equity		
Bonds and other marketable securities	218,235	218,235
Total other equity instruments	218,235	218,235
Bonds and other marketable securities	265,963	252,794
Total liabilities	265,963	252,794
Total equity instruments and liabilities	**484,198**	**471,029**

Bonds and other marketable securities correspond to convertible bonds issued in 2016 and subscribed in full by PLT VII Holdco S.à r.l. ("Providence"), of which Euros 66,253 thousand has been recognised under other equity instruments and Euros 123,106 thousand under non-current financial liabilities, and the ACS Note the fair value of which at 30 June 2018 amounts to Euros 294,839 thousand, of which Euros 151,982 thousand relates to the equity component (conversion option).

The variation compared with balances at 31 December 2017 relates to interest accrued on these financial instruments.

b) Related party transactions

Details of related party transactions during the six-month periods ended 30 June 2018 and 30 June 2017 are as follows:

	30/06/2018		
In thousands of Euros	Directors and Senior Management of the Parent	Other related parties	Total
Expenses			
Salaries	3,247	-	3,247
Other operating expenses	399	145	544
Finance costs	-	13,170	13,170
Total expenses	**3,646**	**13,315**	**16,961**

In thousands of Euros	30/06/2017 Directors and Senior Management of the Parent	Other related parties	Total
Expenses			
Salaries	1,698	-	1.698
Other operating expenses	-	2	2
Finance costs	-	6,040	6,040
Total expenses	**1,698**	**6,042**	**7,740**

Financial expenses relate to the convertible bonds with Providence and ACS.

c) Information on the directors and senior management personnel of the Group

During the six-month period ended 30 June 2018 the directors of the Company received remuneration of Euros 1,192 thousand in their capacity as such (Euros 276 thousand at 30 June 2017). During the six-month period ended 30 June 2018, senior management personnel accrued short-term employee benefits of Euros 2,454 thousand (Euros 1,422 thousand at 30 June 2017). It should be noted that at 30 June 2018 and 2017 one of the directors is a Company employee.

The directors have not received any loans or advances, nor has the Company extended any guarantees on their behalf. The Group has paid Euros 67 thousand as of 30 June 2018 (Euros 22 thousand at 30 June 2017) in civil liability insurance premiums for damage or loss caused by acts or omissions in the performance of their duties. The Company has no pension or life insurance obligations with the Parent's former or current directors.

Stock options plan

On 30 September 2015 the board of directors approved a stock options plan of the Company shares for its management team. On 23 June 2016, the shareholders at their annual general meeting also approved this plan for the CEO and the conditions for covering the plan through the corresponding capital increase.

In 9 May 2018, upon the conclusion of the Plan, the Plan beneficiaries exercised the purchase option over 491,000 newly issued shares (Note 9). The 9,000 options that were not exercised have been amortised.

Share revaluations rights plan

At their extraordinary general meeting held on 1 March 2017, the shareholders approved a Shares Appreciation Rights (SAR) plan for the CEO, management team and employees of the Group. The aim of this Plan is to establish a stable, long-term framework for Group management's variable remuneration in order to align management's interests with those of the shareholders. The Plan involves awarding Group management up to Euros 1.7 million in SARs, with each SAR corresponding to the cash equivalent of the potential appreciation of the Group's shares, calculated over an average of 90 sessions, between the Plan approval date, 1 March 2017, and its settlement date, with a Plan duration of up to 3.5 years. Among other factors, payment is contingent on the beneficiary remaining on the Group's management team, the performance of certain Group operating variables, and compliance with individual targets, and the Plan may be liquidated in certain circumstances, basically due to a change in control of the Parent. During 2018 the Group expanded the SAR a to all of its employees in order to engage all personnel with the Group's objectives and allow them to participate in the results obtained. This plan has been increased in 25,000 DRAs without exceeding the 1.7 million limit.

In accordance with prevailing legislation, for cash-settled share-based payment transactions, the Group calculates at each reporting date the fair value of the consideration to be given to the employee upon liquidation of the instrument, and recognises the portion accrued at the corresponding closing date as a liability. The fair value of the liability calculated according to Black-Scholes metod, has been estimated at Euros 32,717 thousand (Euros 9,366 thousand at 31 December 2017) (see note 12). During the six-month period ended 30 June 2018 the expense related to this provision is Euro 23,351 thousand (Euros 1,275 thousand at 31 December 2017).

d) Transactions other than ordinary business or under terms differing from market conditions carried out by senior management personnel of the Parent

With the exception from the transactions with related parties disclosed previously, during the six-month period ended 30 June 2018 the directors of the Company and senior management personnel of the Group have not carried out any transactions other than ordinary business or applying terms that differ from market conditions with the Parent or any other Group company.

e) Conflicts of interest concerning the directors of the Parent

The directors of the Company and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act.

19. Guarantees and Contingencies

Details of the Group's guarantees in place at 30 June 2018 and 31 December 2017 to secure fulfilment of the obligations deriving from the licence granted, and in relation to legal appeals and supplier contracts, are as follows:

- Guarantees for the granting of the B2 licence amounting to Euros 39,900 thousand (Euros 39,900 thousand at 31 December 2017): the administrative contracts granting B2 licences for Yoigo 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 different commitments amounting to Euros 53,992 thousand (Euros 36,688 thousand at 31 December 2017), most notably in relation to the rental of premises, business agreements and various appeals lodged against settlements of local corporations and other public entities, and for the tender for the use of the radio spectrum relating to the band 3.6 to 3.8 Ghz for the provision of 5G services being carried out by the Ministry of the Economy and Companies.

The subsidiary Xfera Móviles, S.A.U. offers its customers financing, using its own resources or through agreements with different financial institutions, for the purchase of handsets when acquired in conjunction with a subscription to telecommunications services. In the case of financing through financial institutions, Xfera Móviles, S.A.U o extends them a guarantee on behalf of its customers to cover any potential defaults on the loan repayments, which is why it recognises a provision for commercial transactions (see note 11). The total amount financed through financial institutions at 30 June 2018 came to Euros 176 million (Euros 176 million at 31 December 2017).

The directors of the Group do not consider that any risks exist in relation to the situations covered by the guarantees provided. Furthermore, there are no other potential significant law suits which could entail a risk for the Group.

20. Events After the Reporting Period

The Group has concluded a 10-year agreement with the independent telecommunications operator Ufinet to expand its fibre-optic network and it may be extended for an additional five years. The agreement calls for the exclusive use of fibre optics and equipment in a significant part of the Ufinet network to guarantee the capacity that is necessary to absorb the Group's current and future growth. It also gives rise to significant savings in terms of both operating costs and investments and allows for the possibility to use a fibre-optic network which, if it had to be built, would not be available for several years.

The Group has notified the acquisition of a public domain radio frequency concession operating at 40 MHz in the 3.4-3.8 GHz ("3,5 GHz"), band from Eurona Wireless Telecom, S.A ("Eurona"), and the transaction is subject to the required authorization of the Ministry of Finance and Business. The investment in this transaction totals Euros 30 million, of which Euros 5.4 million were paid at the time the agreement was signed, Euros 21.6 million will be paid once the approval is received from the Ministry and the remaining Euros 3 million that is contingent in 2020. Once this acquisition has been completed the Group will add another 40 MHz block to its current 40 MHz spectrum and will therefore possess a total of 80 MHz of spectrum in the 3.5 GHz band. This means that it will have the highest proportion of this spectrum per customer in the Spanish market and it therefore favourably positions the Group for the future development of 5G technology. The Group has also reached additional agreements with Eurona to collaborate in fixed wireless and mobile telephony services.

APPENDIX I – Details of subsidiaries at 30 June 2018

30/06/2018

Name	Registered office	Activity	Auditor	Shareholder	Percentage ownership	Percentage of voting rights	Consolidation method
Xtra Telecom, S.A.U.	Avda. de la Vega, 15. Alcobendas	Telecommunications-related activities and services	KPMG	Xfera Móviles, S.A.U.	100,00%	100,00%	Full
Masmovil Telecom 3.0, S.A.U.	Avda. de la Vega, 15. Alcobendas	Telecommunications-related activities and services	KPMG	Xfera Móviles, S.A.U.	100,00%	100,00%	Full
Masmovil Broadband, S.A.U.	Avda. de la Vega, 15. Alcobendas	Telecommunications-related activities and services	KPMG	Xfera Móviles, S.A.U.	100,00%	100,00%	Full
Embou Nuevas Technologías, S.L.U.	Calle Bari 33, Edificio 1, Zaragoza	The rendering of consulting and business advisory services within the area of telecommunications and new technologies	n/a	Mas Movil Telecom 3.0, S.A.U.	100,00%	100,00%	Full
Masmovil Investments, S.L.U.	Avda. de la Vega, 15. Alcobendas	Provision of telecommunications-related services and implementation and operation of telecommunications networks in Spain	n/a	Masmovil Broadband, S.A.U.	100,00%	100,00%	Full
Masmovil Infrastructures, S.L.U.	Avda. de la Vega, 15. Alcobendas	Provision of telecommunications-related services and implementation and operation of telecommunications networks in Spain	n/a	Masmovil Broadband, S.A.U.	100,00%	100,00%	Full
Quantum Ltd (UK)	Fourth Floor, 30-31 Furnival Street, London, EC4A 1JQ	Provision of telephony services using other mobile network operators, mobile virtual network operator services, landline resale services, publicly available data transmission services, and nomadic voice services in the UK	n/a	Xtra Telecom, S.A.U.	100,00%	100,00%	Full
Masmovil Phone and Internet, S.A.U.	Avda. de la Vega, 15. Alcobendas	Holding company	n/a	MasMovil Ibercom, S.A.	100,00%	100,00%	Full
Masmovil Holdphone, S.A.U.	Avda. de la Vega, 15. Alcobendas	Holding company	n/a	Masmovil Phone and Internet, S.A.U.	100,00%	100,00%	Full
Xfera Móviles, S.A.U.	Avda. de la Vega, 15. Alcobendas	Telecommunications-related activities and services	KPMG	Masmovil Holdphone, S.A.U.	100,00%	100,00%	Full
Pepeworld, S.L.U.	Avda. de la Vega, 15. Alcobendas	Holding company	n/a	Xfera Móviles, S.A.U.	100,00%	100,00%	Full
Pepe Energy, S.L.	Avda. de la Vega, 15. Alcobendas	Electricity supply	n/a	Pepe World, S.L.U.	94,44%	94,44%	Full
Pepemobile, S.L.U.	Avda. de la Vega, 15. Alcobendas	Provision of telecommunications-related services; provision of services relating to information technology and to the development, sale and distribution of computer programs and equipment	KPMG	Pepe World, S.L.U.	100,00%	100,00%	Full
Neutra Network Services, S.A.U.	Avda. de la Vega, 15. Alcobendas	The establishment and operation of fixed public networks.	n/a	Masmovil Broadband, S.A.U.	100,00%	100,00%	Full

APPENDIX I – Details of subsidiaries at 30 June 2017

30/06/2017

Name	Registered office	Activity	Auditor	Shareholder	Percentage ownership	Percentage of voting rights	Consolidation method
Xtra Telecom, S.A.U.	Avda. de la Vega, 15. Alcobendas	Telecommunications-related activities and services	KPMG	Xfera Móviles, S.A.U.	100,00%	100,00%	Full
Masmovil Telecom 3.0, S.A.U.	Avda. de la Vega, 15. Alcobendas	Telecommunications-related activities and services	KPMG	Xfera Móviles, S.A.U.	100,00%	100,00%	Full
Masmovil Broadband, S.A.U.	Avda. de la Vega, 15. Alcobendas	Telecommunications-related activities and services	KPMG	Xfera Móviles, S.A.U.	100,00%	100,00%	Full
Embou Nuevas Technologías, S.L.U.	Avda. de la Vega, 15. Alcobendas	Provision of telecommunications- and new technologies-related consultancy and advisory services	n/a	Mas Movil Telecom 3.0, S.A.U.	100,00%	100,00%	Full
Masmovil Investments, S.L.U.	Avda. de la Vega, 15. Alcobendas	Provision of telecommunications-related services and implementation and operation of telecommunications networks in Spain	n/a	Masmovil Broadband, S.A.U.	100,00%	100,00%	Full
Masmovil Infrastructures, S.L.U.	Avda. de la Vega, 15. Alcobendas	Provision of telecommunications-related services and implementation and operation of telecommunications networks in Spain	n/a	Masmovil Broadband, S.A.U.	100,00%	100,00%	Full
Quantum Ltd (UK)	Fourth Floor, 30-31 Furnival Street, London, EC4A 1JQ	Provision of telephony services using other mobile network operators, mobile virtual network operator services, landline resale services, publicly available data transmission services, and nomadic voice services in the UK	n/a	Xtra Telecom, S.A.U.	100,00%	100,00%	Full
Masmovil Phone and Internet, S.A.U.	Avda. de la Vega, 15. Alcobendas	Holding company	n/a	MasMovil Ibercom, S.A.	100,00%	100,00%	Full
Masmovil Holdphone, S.A.U.	Avda. de la Vega, 15. Alcobendas	Holding company	n/a	Masmovil Phone and Internet, S.A.U.	100,00%	100,00%	Full
Xfera Móviles, S.A.U.	Avda. de la Vega, 15. Alcobendas	Telecommunications-related activities and services	KPMG	Masmovil Holdphone, S.A.U.	100,00%	100,00%	Full
Pepeworld, S.L.U.	Paseo de la Castellana, 8, Madrid	Holding company	n/a	Xfera Móviles, S.A.U.	100,00%	100,00%	Full
Pepe Energy, S.L.	Paseo de la Castellana, 8, Madrid	Electricity supply	n/a	Pepe World, S.L.U.	94,44%	94,44%	Full
Pepemobile, S.L.U.	Paseo de la Castellana, 8, Madrid	Provision of telecommunications-related services; provision of services relating to information technology and to the development, sale and distribution of computer programs and equipment	KPMG	Pepe World, S.L.U.	100,00%	100,00%	Full

Consolidated Interim Directors' Report

for the six-month period ended 30 June 2018

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

1. INTRODUCTION

During 2017 the Group has consolidated its position as the fourth largest telecommunications operator in Spain, showing significant increases in revenue (+16%), services rendered (+20%) and customers (20%), and with an important improvement in the Group's profitability (+100%).

This trend has been maintained during the first half of 2018 and the Group obtained a record 715,000 new post-payment mobile and fixed broadband customers while continuing to improve its primary financial figures. During this half of the year the Group continued to maintain strong growth, leading customer recruitment in the Spanish market and efficiently and quickly developing its own network infrastructure, primarily consisting of fibre optics.

As a result of this good progress, during the first half of the year the Group obtained a net profit of Euros 38 million and recurring EBITDA of Euros 155 million, which is more than half of the target set for the entire year. The EBITDA margin was 23%.

During the second 1:45 thousand 18 the EBITDA reached Euros 80 million, 44% higher than in the same period last year. The EBITDA margin for the quarter was 24%, compared to 22% in the preceding quarter.

Service revenue has increased during the first half of the year by 17% compared to the same period last year, reaching Euros 566 million. This is significantly above the double digit target for this year.

The Group continues to carry out corporate transactions that are aligned with its strategy of growth, profitability and the search for synergies and savings in management. It is also a response to the Company's strategy to continue developing its own fibre-optic and mobile telephony networks in the quickest and most efficient manner possible.

In February 2018 the Group acquired 100% of the company Neutra Network Services, S.A.U., which has 40 MHz of frequencies in the 3.4-3.6 GHz bands and the 2.6 GHz band nationally, which will fully secure the rollout of 5G technology in coming years.

The Group has also been admitted to the auction of concessions for the exclusive use of public domain radio spectrum in the 3.6-3.8 MHz band in which to develop 5G. The band 3.4-3.8 GHz has been identified as the primary band for introducing 5G services in Europe, even before 2020, taking into account that in the European Union the use of this band of frequencies for mobile communication services has already been harmonized.

The Group's aforementioned growth strategy has also been implemented through the signing of strategic agreements with the primary players in the sector, as the global agreements reached with Orange for the wholesale access to the FTTH infrastructures and the joint rollout of FTTH networks, and the contract entered into with Ufinet for the exclusive use of the fibre and equipment of a significant part of its network.

This agreement allows MASMOVIL Group to guarantee the capacity that is necessary to absorb its current extraordinary growth and that projected over the coming years and it will have unlimited availability of all of the bandwidth that its trunk network requires to attain optimal speeds and latencies. The agreement is structured through a long-term assignment of UFINET fibre optics and equipment for the exclusive use of MASMOVIL.

This agreement also extends the access network in which MASMOVIL will have direct fibre-optic connections in the first phase at more than 300 terminals from which MASMOVIL Group offers its convergent fibre-optic services to customers will through the brands Yoigo, MASMOVIL and Pepephone.

MASMOVIL will thus be able to cover all Spanish provinces using its own transmission facilities and create the foundation to efficiently access Telefónica's fibre-optic infrastructure (local VULA or NEBA mode).

2. BUSINESS PERFORMANCE AND SITUATION OF THE GROUP

As was the case with the Group's corporate and financial development, operating progress was very positive and has been marked by the Group's excellent evolution in terms of mobile and fixed telephony portability.

During the first half of 2018 the Group obtained a net total of 369,000 mobile portability transfers and 152,000 net landline broadband business portability transfers. These data make the Group the undisputed leader nationally in net portability transfers in both businesses.

MASMOVIL Group continues to see good progress, growing in all market segments and it ended the first half of the year with a record 715,000 net new customers between post-payment mobile and fixed broadband services. During the second quarter the Group obtained 315,000 new customers in these segments in a quarter with a lower level of commercial activity in the market as a whole.

Of those customers, 205,000 are post-payment mobile telephony customers and 110,000 fixed broadband service customers. The official information reported by the regulator (CNMC) shows that the Group acquired more than 90% of the net new broadband customers during the latest month reported (April 2018).

At the end of the first half of the year, MASMOVIL had nearly 6.5 million lines, which is 34% more than last year, of which 5.7 million are mobile lines (4.36 million pertain to the post-payment segment, 24% more than last year) and 760,000 in the fixed broadband segment, nearly 3 times more than last year, of which 58% are fibre optic service customers.

The Group's consolidated figures during the first half of 2018 were as follows:

	Consolidated 30/06/18	Consolidated 30/06/17
Total revenues	676,453	609,168
Total revenues less handset sales	566,047	501,487
Amortisation and depreciation	(73,300)	(58,661)
Results from operating activities	74,260	28,656
EBITDA (Results from operating activities + amortisation and depreciation)	147,560	87,317
Integration and migration expeneses	7,388	16,947
EBITDA recurrent (EBITDA + integration and migration expeneses)	154,948	104,264
Profit after tax	38,277	(151,252)

This represents growth totalling 11.05% and 48.61% in terms of revenue and recurring EBITDA, respectively, during the first half of 2018 compared to the first half of 2017.

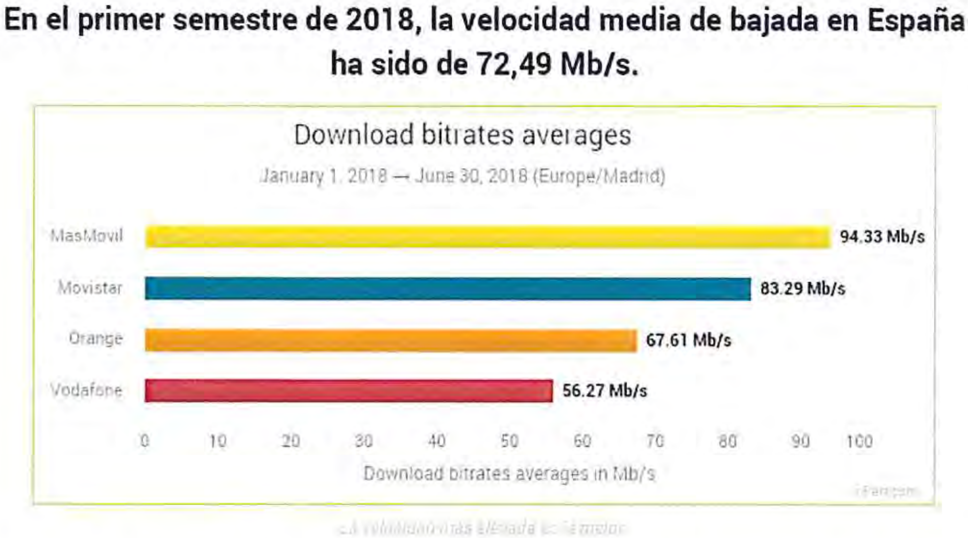
3. OUTLOOK FOR THE GROUP

The Group's commercial performance at 30 June 2018 continues to be very positive and shows acceleration in terms of the net recruitment of customers compared to 2017. This is the result of the launch of the new rates by Yoigo and Pepephone, and the implementation of the convergent offer by Yoigo and its reformulation by Pepephone.

During 2018 MASMOVIL continued to make accelerated investments in the development of its own networks, primarily the fibre-optic network, and at the end of the first half of the year it had invested a total of Euros 247 million, of which nearly 70% was applied to this technology.

At the end of the first half of the year MASMOVIL had nearly 13 million marketable households with its fibre optic service, of which 4.5 million used its own fibre-optic network, 3.5 times more than the households available during the same period last year. This large increase in its own fibre-optic network, which is the fastest in Spain, was due to the acceleration of its investment plan for this network.

The latest report from the prestigious French consulting company nPerf "Barometer of fixed Internet connections in Spain" was just published and for the second consecutive six-month period MASMOVIL offered the fastest download, upload and latency speeds on average to its fixed broadband customers.



MASMOVIL expects to and 2018 with a total of almost 17 million marketable households with this technology, of which 5 million households will have its own fibre-optic network and the rest will be connected through its agreement with Orange and the NEBA access to the Telefónica network.

Its mobile network and agreements with other operators allow the Group to have 4G service covering 98.5% of the Spanish population, which is the highest in Spain.

In 2018 the Group will focus on successfully executing the following points:

- Ensure excellence when providing services to customers well as making advances in the digitalization process
- Develop a consistent brand strategy to optimise the difference and attain higher market coverage.
- Increase the ARPU through convergent offers.
- Migrate customers to make an efficient use of both mobile and broadband networks operated by the Group and the new National Roaming agreements.
- Obtain synergies after the acquisitions (in addition to the cost savings deriving from national roaming), such as in IT, sales, customer service, network maintenance, overheads, etc.
- Continue to develop the fibre-optic and mobile telephony network leveraging both the co-investment and partnership agreements with third parties such as Orange, as a supplement to our own development of the network.

The Group expects to attain the following objectives in 2018, taking into account the success obtained in 2017 and the performance observed during the first half of 2018:

- Customers: total net combined 800,000 increase in the number of fixed broadband lines and post-payment mobile lines.
- Revenue: more than 10% growth in service revenues compared to service revenues in 2017.
- EBITDA: attain more than Euros 300 million in recurring EBITDA compared to the Euros 238 million obtained in 2017.

4. CORPORATE STRUCTURE

Details of the companies comprising the Group (in addition to MasMovil Ibercom, SA.), and the interest held by the Parent (direct and/or indirect) at 30 June 2018, and that form part of the consolidated group are as follows:

- Xfera Móviles, S.A.U. 100%
- Xtra Telecom, S.A.U., 100%
- Masmovil Broadband, S.A.U., 100%
- Masmovil Infrastructures, S.L.U., 100%
- Masmovil Investments, S.L.U., 100%
- Pepeworld, S.L.U., 100%
- Pepemobile, S.L.U. 100%
- Pepe Energy, S.L. 94,99%
- Masmovil Holdphone, S.A.U., 100%
- Masmovil Phone & Internet, S.A.U., 100%
- Embou Nuevas Tecnologías, S.L.U., 100%
- Neutra Network Services, S.LU., 100%
- Quantum, Ltd., 100%

5. BOARD OF DIRECTORS

The Group's Board of Directors is empowered to adopt resolutions on all manner of issues that are not attributed to the shareholders by law or in the articles of association.

Among other functions, the Board of Directors approves the Group's strategy and the organisation of the resources required to implement it. In addition, it supervises the performance of the CEO and the rest of the management team with a view to achieving the targets set while respecting the statutory activity and the interest of the Company.

The Group's Board of Directors consists of 12 members (one executive director, five proprietary directors, four independent directors and two other directors)

The CEO has been delegated all the powers of the Board of Directors, with the exception of those powers which cannot be delegated by law or under the articles of association.

The Board of Directors entrusts the CEO and the management team with the ordinary management, administration, dissemination, coordination and general implementation of the guidelines set by the Board.

The Board of Directors has two committees:

- Audit Committee
- Appointments and Remuneration Committee.

The two committees lack executive functions and, within their scope of action, act as reporting and consultative bodies with advisory and proposal powers, which are governed by both the articles of association and their own internal regulations.

6. SHAREHOLDER STRUCTURE

Its current share capital is represented by 20,442,100 shares of a single class and a par value of Euros 0.10 each. Share capital is fully paid in.

At 30 June 2018 the shares are held by several shareholders, and those holding more than 3% are the following: Onchena, S.L.U. 16,76%, Indumenta Pueri S.L. 10,24%, FMR LLC 8,09%, Key Wolf S.L.U. 6,32%, Gala Growth Properties S.L. 6,00%, PLT VII Holdco Sarl (Providence) 3,87%, Caja de Seguros Reunidos Compañía de Seguros y Reaseguros S.A. 3,65% y Norsis Creaciones S.L.U. 3,3%.

7. MACROECONOMIC AND INDUSTRIAL BACKDROP

GDP in Spain rose by 0.7% during the first quarter of 2018. The year-on-year variation in GDP was 3%. The European Commission has estimated growth for 2018 at 2.3%.

The current market climate is an additional advantage for meeting the Group's objectives in 2018:

- Price increase: The traditional telecommunications operators in Spain have continued increasing prices following the "more for more" strategy (more data or mobile services for a higher monthly fee). In fact, the inflation rate for telecommunications doubled the general inflation rate, which has contributed to the recovery of the market.

- Convergence boom: the increase in the weight of convergent offers (almost 70% of telecommunications service purchasing decisions in Spain are associated with convergent offers) demonstrates the opportunity that convergence represents for the Group. The Group currently offers convergent packages under its three large brands.

- Market growth: consumer demand will continue to drive broadband growth in the Spanish market, which exceeded 14 million residential access points at the end of the second half of the year.

- Expansion of OTT: the growing number of "over the top" platforms is changing the manner in which video content is being consumed. This affects the 4P business model (voice, mobile, fixed broadband and video content) for telecommunications operators. According to the CNMC, around 30 of the households with audio-visual content chose to contract OTT services and the Group expects this figure to continue to grow. The Group has therefore started to promote third-party services during this six-month period.

8. RESEARCH AND DEVELOPMENT ACTIVITIES

During the first half of 2018, the Group confirmed its investment targets in research and development activities and dedicated resources to such tasks.

The projects detailed in the consolidated annual accounts for 2017 are progressing on schedule and according to plan.

9. ACQUISITION OF TREASURY SHARES

During the six-month period ended 30 June 2018 the Company sold treasury shares with an acquisition value of Euros 55,651 thousand (Euros 2,852 thousand during the six-month period ended 30 June 2017), generating an increase in reserves totalling Euros 300 thousand (Euros 292 thousand increase in reserves during the six-month period ended 30 June 2017) as a result of the difference between the average acquisition price and the selling price.

At 30 June 2018 the Company has 23,660 treasury shares acquired at an average weighted cost of Euros 103.20 per share (16,393 treasury shares at 30 June 2017 at an average weighted cost of Euros 59.38 per share).

10. INFORMATION ON FINANCIAL INSTRUMENTS

At the end of the first half of 2018, the Group had no financial products that could be considered risky except for the Note issued on the acquisition of Xfera Móviles, S.A.U explained in Note 10 to the accompanying Condensed Consolidated Interim Financial Statements, and the Group's management has the firm conviction to not contract this type of instrument.

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 30 June 2018 the Group has arranged interest rate hedges with lending banks for a disposal nominal amount of Euros 648,261 thousand.

11. ALTERNATIVE PERFORMANCE MEASURES (APM)

To comply with European Securities Market Authority (ESMA) guidelines on Alternative Performance Measures (hereinafter "APMs"), the Group presents additional information to improve the comparability, reliability and comprehensibility of its financial statements. Although the Group's results are presented in accordance with generally accepted accounting principles (EU-IFRS), 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 to make financial, operating and planning decisions and to evaluate the Group's performance. The Group provides APMs which it considers to be appropriate and useful for decision-making.

- Working capital: Calculated as current assets less current liabilities. This is a financial measure of the Group's available cash flow for operations.

- Consolidated earnings for the year before net interest expense, taxes, depreciation and amortisation (EBITDA): Calculated based on consolidated earnings for the year before net interest expense, taxes, depreciation and amortisation. It does not include amortisation or depreciation, interest expenses or direct taxes.

- Recurring EBITDA: Consolidated Group EBITDA excluding any non-recurring extraordinary or exceptional expenses and any integration and migration expenses derived from the acquisition of new businesses. It also excludes impairment losses and gains or losses from the sale of assets

- Investments: Additions of intangible assets and property, plant and equipment, Deduction from the sale of rights of use over the Group's 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.

- Adjusted BPA: Profit after tax adjusted for extraordinary expenses, the impact of the long-term investment plan, the amortisation of customers and trademarks acquired, interest on convertible instruments, and the tax impact of these adjustments, all divided by the number of fully diluted shares (i.e. assuming the conversion of the convertible instruments).

- Cash Flow from operations: EBITDA adjusted for those items that have no impact on the cash flow plus cash flows from financial interests and taxes, the impact of the variation in net working capital and the cash flow from net investments.

- Any ratio from the APM's mentioned previously can be considered an alternative performance measure.

12. AVERAGE SUPPLIER PAYMENT PERIOD

The average supplier payment period stood at 47.8 days in the first half of 2018.

13. SIGNIFICANT EVENTS FOR THE GROUP AFTER THE CLOSE OF THE FIRST HALF OF 2018

The Group has concluded a 10-year agreement with the independent telecommunications operator Ufinet to expand its fibre-optic network and it may be extended for an additional five years. The agreement calls for the exclusive use of fibre optics and equipment in a significant part of the Ufinet network to guarantee the capacity that is necessary to absorb the Group's current and future growth. It also gives rise to significant savings in terms of both operating costs and investments and allows for the possibility to use a fibre-optic network which, if it had to be built, would not be available for several years.

The Group has notified the acquisition of a public domain radio frequency concession operating at 40 MHz in the 3.4-3.8 GHz ("3,5 GHz"), band from Eurona Wireless Telecom, S.A ("Eurona"), and the transaction is subject to the required authorization of the Ministry of Finance and Business. The investment in this transaction totals Euros 30 million, of which Euros 5.4 million were paid at the time the agreement was signed, Euros 21.6 million will be paid once the approval is received from the Ministry and the remaining Euros 3 million that is contingent in 2020. Once this acquisition has been completed the Group will add another 40 MHz block to its current 40 MHz spectrum and will therefore possess a total of 80 MHz of spectrum in the 3.5 GHz band. This means that it will have the highest proportion of this spectrum per customer in the Spanish market and it therefore favourably positions the Group for the future development of 5G technology. The Group has also reached additional agreements with Eurona to collaborate in fixed wireless and mobile telephony services.

Preparation of the Consolidated Interim Financial Statements and Consolidated Interim Management Report corresponding to the six-month period ended June 30, 2018

In compliance with the current legislation, the Directors of MASMOVIL IBERCOM, S.A., on July 25, 2018, prepared the attached Condensed Consolidated Interim Financial Statements in accordance with International Accounting Standard (IAS) 34, adopted by the European Union, which include the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows for the six-month period ended June 30, 2018, and the Consolidated Summary Explanatory Notes, together with the Consolidated Interim Management Report that accompanies these Consolidated Explanatory Notes. The Consolidated Interim Financial Statements as of June 30, 2018 are constituted by the attached documents that precede this statement.

Signatories:

Chair Mr. Eduardo Díez-Hochleitner	CEO Mr. Meinrad Spenger
Ms. Cristina Aldámiz-Echevarría	Key Wolf, S.L. Represented by Mr. Jose Eulalio Poza
Ms. Pilar Zulueta de Oya	Mr. Antonio García Ortiz
Mr. Felipe Fernández Atela	Mr. Ángel García Altozano
Mr. John Hahn	Mr. Robert Sudo
Mr. Josep María Echarri Torres	Mr. Borja Fernández Espejel