



# Másmóvil Ibercom, S.A. and Subsidiaries

Consolidated Annual Accounts

31 December 2017

Consolidated Directors' Report

2017

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

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



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

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

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

To the Shareholders of Másmóvil Ibercom, S.A.

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

#### **Opinion**

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We have audited the consolidated annual accounts of Másmóvil Ibercom, S.A. (the "Parent") and subsidiaries (the "Group") which comprise the consolidated statement of financial position at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2017 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

#### **Basis for Opinion**

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

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

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



## Key Audit Matters

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

### Recognition of revenues from the rendering of services

See notes 3 o) and 19 a) to the consolidated annual accounts

<i>Key audit matter</i>	<i>How this matter was addressed in our report</i>
<p>The Group's revenues from the rendering of services, which amounted to Euros 1,058 thousand in 2017, are obtained from multiple sales channels and different information technology systems. The very low value of the transactions at unit level means that errors on an individual basis are insignificant. However, as they are difficult to detect and there is a large volume of transactions, system failures could end up generating material errors in the consolidated annual accounts.</p> <p>Revenues are also a key metric to assess the Group's performance. It has annual internal revenue targets, incentive schemes for the Group's management team and contractual conditions related to the Group's financing that are partially affected by growth in revenues from rendering services.</p> <p>Due to the significance of the carrying amount of revenues from the rendering of services, the complexity of the information systems that the Group uses to recognise these, the possibility of recognising revenues in an incorrect period and the inherent risk of adjustments or the overriding of controls by Group management, revenues have been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"><li>- With the collaboration of our IT specialists, we assessed the design and implementation of the most relevant controls established by Group management in respect of the process for the recognition of revenues from the rendering of services and the related systems. We also tested the operating effectiveness of these controls;</li><li>- Our IT specialists tested the general control environment of the information systems used to record revenues from the rendering of services;</li><li>- We performed tests of detail on the transactions that generated the revenues from the rendering of services to confirm that the cut-off of operations was appropriate. We also performed tests of detail on the monthly billing cycles and customer agreements to reconcile the information in the billing and collection systems with the accounting records.</li><li>- We contrasted the material manual adjustments with supporting documentation to assess any evidence of bias on the part of management.</li><li>- We assessed whether the disclosures in the consolidated annual accounts comply with the requirements of the financial reporting framework applicable to the Group.</li></ul>

**Accounting recognition and valuation of the financial instrument originating from the acquisition of Xfera Móviles, S.A.**

See notes 4.2, 10 e), 11d) and e) and 20 b) to the consolidated annual accounts

<i>Key audit matter</i>	<i>How this matter was addressed in our report</i>
<p>On 5 October 2016 the Group acquired Xfera Móviles, S.A. As part of the consideration given to the non-controlling shareholders of Xfera Móviles, S.A. the Group arranged a financial instrument (note) that was recognised as a hybrid financial instrument based on the conditions established in the original agreement recognising the debt and the undertaking to assume the debt and capitalisation, signed on 20 June 2016. On 13 July 2017 an addendum to this agreement was signed, whereby certain conditions were modified, which led to the note no longer being considered a hybrid financial instrument but rather a compound financial instrument.</p> <p>At 31 December 2017 the Group has recognised other equity instruments amounting to Euros 151,982 thousand, other financial liabilities totalling Euros 135,250 thousand and derivative financial instruments amounting to Euros 2,500 thousand in respect of this note. Also, during 2017 and up to the date of the aforementioned addendum, this instrument accrued finance costs of Euros 141 million due to its valuation for accounting purposes taking into account its nature of hybrid financial instrument.</p> <p>Due to the complexity of the instrument, the Group has contracted the services of an independent third party to analyse the accounting treatment and valuation of this instrument.</p> <p>On account of relevant events that occurred in 2017 in relation to this note, the significance of the accounting impacts of this transaction and the complex contractual terms that imply judgement regarding the recognition and valuation of this transaction, this has been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>- We assessed the design and implementation of the controls related to the accounting recognition and valuation of the note.</li> <li>- We obtained and analysed the documentation supporting the note, both that included in the original agreement and the addendum thereto and, with the involvement of our specialists, assessed the accounting treatment and the valuation of the note, as well as the impact on the Group's consolidated annual accounts of the signing of this addendum, in accordance with the applicable financial reporting framework;</li> <li>- We assessed, with the involvement of our specialists in financial instruments, the reasonableness of the assumptions used in the financial models prepared by Group management and the independent third party, as well as the discount rate used as the basis for the valuation of the note during the year.</li> <li>- We assessed whether the disclosures in the consolidated annual accounts in relation to this transaction and the accounting recognition of the note comply with the requirements of the financial reporting framework applicable to the Group.</li> </ul>

**Recoverability of the value of goodwill and trademarks**  
 See notes 3 d) and f) and 5 to the consolidated annual accounts

<i>Key audit matter</i>	<i>How this matter was addressed in our report</i>
<p>At 31 December 2017 the Group has recognised goodwill and trademarks amounting to Euros 389,380 thousand and Euros 99,888 thousand, respectively.</p> <p>Every year the Group calculates the recoverable amount of goodwill and trademarks and assesses whether there is any impairment of these intangible assets.</p> <p>The estimates of the recoverable amounts made by the Parent's Directors and Group management require a high level of judgement in the valuation techniques used to determine the higher of fair value less costs of disposal and value in use.</p> <p>Due to the significance of the carrying amount of goodwill and trademarks, and the high level of judgement and uncertainty associated with these estimates, this has been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>- We assessed the design and implementation of the controls related to the valuation process of goodwill and trademarks;</li> <li>- We reviewed the reasonableness of the projections used by the Group to determine the recoverable amount of these assets and their consistency with the financial and management information included in the Group's budgets for the coming years.</li> <li>- We assessed, with the involvement of our valuation specialists, the reasonableness of the assumptions used in the financial models prepared by Group management, as well as the growth rates and discount rates used as the basis for determining the recoverable amount of goodwill and trademarks.</li> <li>- We assessed the sensitivity of the present financial models to key assumptions, with the aim of determining their potential impact on the valuation of the intangible assets tested for impairment;</li> <li>- We assessed whether the disclosures in the consolidated annual accounts comply with the requirements of the financial reporting framework applicable to the Group.</li> </ul>

**Recognition and recovery of deferred tax assets**

See notes 3 p) and 18 to the consolidated annual accounts

<i>Key audit matter</i>	<i>How this matter was addressed in our report</i>
<p>At 31 December 2017 the Group has recognised deferred tax assets totalling Euros 244,390 thousand.</p> <p>The Group recognises deferred tax assets provided that it is probable that sufficient future taxable profits will be available for their offset or when tax legislation allows the future conversion of deferred tax assets into a receivable from public entities. The carrying amounts of deferred tax assets are reviewed by the Group at each reporting date to reduce these amounts to the extent that it is no longer probable that sufficient taxable profit will be available for their offset.</p> <p>The recognition of deferred tax assets implies a high level of judgement on the part of the Group's Directors and management regarding the assessment of the probability and sufficiency of future taxable profits (based on the Group's financial projections and business plans considering the applicable tax legislation at all times), future reversals of sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, and tax planning opportunities.</p> <p>Given the significance of the amount of the deferred tax assets, the high level of judgement in the estimates used and the uncertainty associated with the recovery of these assets, this has been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>- We assessed the design and implementation of the controls over the recognition and valuation of deferred tax assets.</li> <li>- We reviewed the reasonableness of the projections used by the Group to determine the future taxable profits and their consistency with the financial and management information included in the Group's budgets for the coming years.</li> <li>- We verified the existence of sufficient future taxable profits to offset the deferred tax assets recognised;</li> <li>- We assessed whether the disclosures in the consolidated annual accounts comply with the requirements of the financial reporting framework applicable to the Group.</li> </ul>

**Other Information: Consolidated Directors' Report**

Other information solely comprises the 2017 consolidated directors' report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility regarding the consolidated directors' report is defined in the legislation regulating the audit of accounts, which establishes two different levels for this information:

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



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

Based on the work carried out, as described above, we have verified that the non-financial information mentioned in a) above is presented in the separate "Statement of non-financial information" to which reference is made in the consolidated directors' report, that the ACGR information mentioned in that section is included in the consolidated directors' report, that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2017, and that the content and presentation of the report are in accordance with applicable legislation.

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

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

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

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

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

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

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



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

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

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

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

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

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





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

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

The opinion expressed in this report is consistent with our additional report to the audit committee of Másmovil Ibercom, S.A. dated 27 February 2018.

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

On 10 February 2016 the Guipuzcoa Mercantile Registry recorded the Company's request for our re-appointment as auditors of the Group for a period of three years, from the year ended 31 December 2015.

Previously, we were appointed by consensus of the shareholders at their general meeting, and have been auditing the annual accounts since the year ended 31 December 2006.

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KPMG Auditores, S.L.  
On the Spanish Official Register of Auditors  
("ROAC") with No. S0702

*(Signed on original in Spanish)*

Francisco Rabadán Molero  
On the Spanish Official Register of  
Auditors ("ROAC") with No. 15797

27 February 2018

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

Consolidated Annual Accounts and Consolidated Directors' Report  
31 December 2017

Prepared under International Financial Reporting Standards as adopted by the  
European Union (IFRS-EU)

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

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**Consolidated Statement of Financial Position at 31 December 2017**

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

	NOTE	31/12/2017	31/12/2016
<b>Assets</b>			
Goodwill	5	389,380	377,406
Intangible Assets	5	434,225	359,853
Property, plant and equipment	6	462,903	403,948
Other Investments	7	6,404	16,982
Prepayment for non-current Assets	8	28,876	31,498
Deferred tax Assets	18	244,390	235,801
<b>Total Non-Current Assets</b>		<b>1,566,178</b>	<b>1,425,488</b>
Non-current assets held-for-sale		-	401
Inventory		448	1,193
Trade and other receivables	9	198,441	187,794
Current Tax Assets	18	1,995	3,829
Other Investments	7	3,493	5,543
Prepayment for current-Assets	8	2,751	2,498
Cash and cash equivalents	15 (b)	320,092	236,079
<b>Total Current Assets</b>		<b>527,220</b>	<b>437,337</b>
<b>Total Assets</b>		<b>2,093,398</b>	<b>1,862,825</b>
<b>Equity</b>			
Capital	10	1,995	1,995
Share premium	10	246,652	246,652
Retained earnings and other reserves	10	(165,874)	(62,645)
Own shares	10	(7,973)	(375)
Other Equity Instruments	10	228,086	70,022
Translation differences		199	(44)
<b>Total Equity</b>		<b>303,085</b>	<b>255,605</b>
<b>Liabilities</b>			
Loans and Borrowings	11	499,274	434,125
Derivative financial instruments	11	3,123	27,727
Other payables	11	4,296	5,756
Finance lease payables	11	27,718	34,350
Other financial liabilities	11	298,260	181,998
Provisions	12	89,408	101,181
Government grants	13	11,791	11,798
Deferred Tax liabilities	18	28,875	59,391
Other non-current liabilities	17	107,169	75,289
<b>Total non-current liabilities</b>		<b>1,069,914</b>	<b>931,615</b>
Loans and borrowings	11	24,055	35,939
Derivative financial instruments	11	-	72,741
Other payables	11	31,952	28,582
Finance lease payables	11	6,412	6,782
Other financial liabilities	11	41,517	108,516
Trade and other payables	14	609,392	383,803
Provisions	12	7,071	39,242
<b>Total current liabilities</b>		<b>720,399</b>	<b>675,605</b>
<b>Total Liabilities</b>		<b>1,790,313</b>	<b>1,607,220</b>
<b>Total Equity and liabilities</b>		<b>2,093,398</b>	<b>1,862,825</b>

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

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

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

<i>In thousands of euros</i>	NOTE	31/12/2017	31/12/2016
Revenues	19 a)	1,301,032	401,020
Other operating income	19 e)	49,727	9,832
Merchandise, Raw materials and consumables used	19 b)	(712,843)	(262,871)
Employee benefits expenses	19 c)	(46,652)	(28,221)
Depreciation and amortisation expenses	5, 6	(123,567)	(41,204)
Other operating expenses	19 d)	(375,679)	(119,103)
<b>Results from operating activities</b>		<b>92,018</b>	<b>(40,547)</b>
Financial income	15 e)	1,912	4,852
Financial expenses	15 e)	(232,742)	(25,350)
Changes in fair value of financial instruments		906	-
Exchange differences		(326)	-
Impairment and result from disposals of financial instruments		(3,612)	-
<b>Net finance costs</b>		<b>(233,862)</b>	<b>(20,498)</b>
<b>Loss for the year from continuing operations, before income tax</b>		<b>(141,884)</b>	<b>(61,045)</b>
Income tax income	18	39,085	2,994
<b>Loss for the year from continuing operations</b>		<b>(102,759)</b>	<b>(58,051)</b>
<b>Loss for the year</b>		<b>(102,759)</b>	<b>(58,051)</b>
<b>Other comprehensive income</b>			
<b>Items to be reclassified to profit or loss</b>			
Translation differences of financial statements of foreign operations		243	(34)
<b>Other comprehensive income, net of taxes</b>		<b>243</b>	<b>(34)</b>
<b>Total comprehensive income for the year</b>		<b>(102,516)</b>	<b>(58,085)</b>
<b>Basic loss per share (expressed in euros)</b>			
Loss for the year	10	(5.159)	(3.847)
<b>Diluted loss per share (expressed in euros)</b>			
Loss for the year	10	1.817	(2.863)

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

**Consolidated Statement of Changes in Equity for the year ended 31 December 2017**

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

<i>In thousands of euros</i>	Capital	Share Premium	Other reserves	Retained earnings	Own shares	Translation differences	Other equity instruments	Total equity
<b>Balance at 1 January 2016</b>	<b>1,177</b>	<b>87,470</b>	<b>(374)</b>	<b>(1,507)</b>	<b>(1,241)</b>	<b>(10)</b>	<b>3,510</b>	<b>89,025</b>
Loss for the year	-	-	-	(58,051)	-	-	-	(58,051)
Other comprehensive income	-	-	-	-	-	(34)	-	(34)
<b>Total comprehensive income for the year</b>	-	-	-	<b>(58,051)</b>	-	<b>(34)</b>	-	<b>(58,085)</b>
Capital increases (Note 10)	818	159,182	-	-	-	-	-	<b>160,000</b>
Changes in investment in subsidiaries (Note 10)	-	-	(1,945)	-	-	-	-	<b>(1,945)</b>
Own shares (Note 10)	-	-	(261)	-	866	-	-	<b>605</b>
Issue of other compound instruments (Note 10)	-	-	-	-	-	-	66,253	<b>66,253</b>
Issue of based-share payments (Note 20)	-	-	-	-	-	-	259	<b>259</b>
Reserves	-	-	(1,507)	1,507	-	-	-	-
Other movements (Note 10)	-	-	(507)	-	-	-	-	<b>(507)</b>
<b>Balance at 31 of December 2016</b>	<b>1,995</b>	<b>246,652</b>	<b>(4,594)</b>	<b>(58,051)</b>	<b>(375)</b>	<b>(44)</b>	<b>70,022</b>	<b>255,605</b>
Loss for the year	-	-	-	(102,759)	-	-	-	<b>(102,759)</b>
Other comprehensive income	-	-	-	-	-	243	-	<b>243</b>
<b>Total comprehensive income for the year</b>	-	-	-	<b>(102,759)</b>	-	<b>243</b>	-	<b>(102,516)</b>
Own shares (Note 10 (d))	-	-	672	-	(7,598)	-	-	<b>(6,926)</b>
Other instruments (Note 10 (e))	-	-	-	-	-	-	151,982	<b>151,982</b>
Issue of share-based payments (Notes 10(e) and 20)	-	-	-	-	-	-	6,082	<b>6,082</b>
Application of loss for the year	-	-	(58,051)	58,051	-	-	-	-
Other movements (nota 10 (g))	-	-	(1,142)	-	-	-	-	<b>(1,142)</b>
<b>Balance at 31 December 2017</b>	<b>1,995</b>	<b>246,652</b>	<b>(63,115)</b>	<b>(102,759)</b>	<b>(7,973)</b>	<b>199</b>	<b>228,086</b>	<b>303,085</b>

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

**Consolidated Statement of Cash Flows for the year ended 31 December 2017**

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

<i>In thousands of euros</i>	<b>NOTE</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>Cash flow from operating activities</b>			
Loss for the year from continuing operations		<b>(102,759)</b>	<b>(58,051)</b>
Adjustments for:			
Amortisation / depreciation		123,567	41,204
Impairment losses from trade receivables		27,716	5,081
Translation differences		326	(71)
Change in provisions		(176)	353
Government grants taken to income		(114)	(584)
Proceeds from disposal of assets		10,124	2,533
Finance income		(1,912)	(4,781)
Finance costs		232,742	25,350
Otros ingresos y gastos		405	-
Income tax income		(39,085)	(2,994)
Changes in working capital		128,363	53,050
- Inventories		745	(1,051)
- Trade and other receivables		(57,593)	(47,908)
- Other Assets		11,091	10,480
- Trade and other payables		227,615	92,668
- Other liabilities		(43,898)	(1,139)
<b>Cash flow from operating activities</b>		<b>388,794</b>	<b>61,090</b>
Interest paid		(43,590)	(17,304)
Interest received		228	326
Corporate income tax collections		798	-
<b>Net cash flow from operating activities</b>		<b>346,230</b>	<b>44,112</b>
<b>Cash flow from investing activities</b>			
Proceeds from sale of financial assets		4,717	-
Proceeds from sale of property, plant and equipment	6	44,139	-
Acquisition of property, plant and equipment	6	(149,949)	(62,286)
Acquisition of intangible Assets	5	(100,905)	(27,055)
Acquisition of subsidiaries, net of cash and cash equivalents	4	(24,891)	(539,646)
Acquisition of financial Assets		(121)	(1,870)
<b>Net cash used in financing activities</b>		<b>(227,010)</b>	<b>(630,857)</b>
<b>Net cash flow from financing activities</b>			
<b>Cash flow from financing activities</b>			
Proceeds from issuance of share capital		-	158,055
Proceeds from bonds and other marketable securities		38,040	119,595
Proceeds from loans and borrowings		81,180	466,052
Proceeds from other financing liabilities		-	42,694
Proceeds from redemption of own shares and other own equity instruments		6,082	66,858
Payments from financial institutions debts		(45,196)	-
Payment of other financial liabilities		(108,386)	(24,902)
Payment of loans and borrowings		(6,926)	(1,953)
<b>Net cash flow from financing activities</b>		<b>(35,206)</b>	<b>792,326</b>
<b>Net increase in cash and cash equivalents</b>		<b>84,014</b>	<b>205,581</b>
Cash and cash equivalents at 1 January		236,079	30,498
<b>Cash and cash equivalents at 31 December</b>		<b>320,093</b>	<b>236,079</b>

## Notes to the Consolidated Annual Accounts at 31 December 2017

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

### 1. Nature, Activities and Composition of the Group

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

On 3 July 2014 the Company adopted its current name, MÁSMÓVIL IBERCOM, S.A. (hereinafter the Company or the Parent). Its registered office is located at Parque Empresarial Zuatzu, Edificio Easo, 2<sup>a</sup> Planta, San Sebastian (Guipúzcoa).

At the annual general meeting held on 29 June 2015, the shareholders approved the amending of the Company's statutory activity, details of which are as follows:

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

The MásMóvil Group's core business consists of the provision of fixed-line, mobile and broadband. These transactions constitute the Group's only segment of activity (Note 19 (a)).

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



MÁSMÓVIL IBERCOM, S.A. is the parent of a group of subsidiaries (hereinafter the MásMóvil Group or the Group). The most significant information on this Group is provided in Appendix I, which forms an integral part of this note.

On 14 July 2017 MÁSMÓVIL IBERCOM, S.A. effectively stopped trading on the Alternative Stock Market for Growing Companies and simultaneously started trading on the Madrid, Barcelona, Bilbao and Valencia stock exchanges, and was included in the Spanish Interconnection Stock Market System (Mercado Continuo (SIBE)).

The Group has performed various acquisitions in 2017 and 2016 (see Note 4) and carried out mergers between two of its companies in 2017 (see Note 2 (a)).

## **2. Basis of Presentation**

The accompanying consolidated annual accounts have been prepared on the basis of the accounting records of the Company and of the Group companies, and have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), to give a true and fair view of the consolidated equity and consolidated financial position of the MásMóvil Group at 31 December 2017 and consolidated results of operations and changes in consolidated equity and cash flows of the Group for the year then ended.

The directors of the Parent consider that the consolidated annual accounts for 2017, authorised for issue on 27 February 2018, will be approved with no changes by the shareholders at their annual general meeting.

### **a) Changes in the consolidated group**

The Group carried out major acquisitions and corporate operations in 2017 and 2016 with the strategic aim of becoming one of the leading integrated telecommunications operator in Spain.

The Group acquired a virtual mobile operator line of business in 2017 from the company Llamayá Móvil, S.L.U. through its subsidiary MásMóvil Telecom 3.0. (See Note 4.1)

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

The companies consolidated for the first time through business combinations in 2016 were as follows (See Note 4.2):

- Xfera Móviles, S.A.U. (Yoigo)
- Pepeworld, S.L.U., Pepemobile, S.L. and Pepe Energy, S.L. (collectively hereinafter Pepephone)

Furthermore, on 1 June 2016 the Parent constituted MásMóvil Holdphone, S.A.U. and MásMóvil Phone & Internet, S.A.U., with a view to structuring the company acquisitions described above.

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

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

- Financial instruments (see Note 3 (h));
- Non-current assets held for sale (see Note 3 (e)).
- Certain assets and liabilities related to the business combination (See Note 4).

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

The consolidated annual accounts present, for the purposes of comparison, the consolidated figures from last year for each item in the 2017 Consolidated Statement of Financial Position, Comprehensive Statement of Income, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and the notes to the annual accounts.

As mentioned in Note 4, on 5 October 2016 and 13 September 2016 the Group acquired Xfera Móviles, S.A.U. and the Pepephone Group and included their operations as from the acquisition date. This should be taken into account with respect to the comparability of these consolidated annual accounts with those of 2016.

Note 23 includes the reconciliation of opening and closing balances on the balance sheet for liabilities arising on financing activities as required under the amendment to IAS 7, mentioned in note 2g. As this amendment is effective for years starting on or after 1 January 2017, Note 23 does not include comparative information for 2016.

In order to allow the comparison of the figures for this year against those from 2016 during 2017 the Group reclassified, considering the nature of the financial debts, Euros 27,643 thousand from Current assets suppliers to the heading "Current payables", which in the consolidated annual accounts for 2016 was presented under the heading "Other current financial liabilities". This reclassification increased the net cash generated by operating activities by Euros 27,643 thousand, and decreased the net cash generated by the financing activities by the same amount. This reclassification did not affect consolidated profits for 2016, the Company's consolidate equity at 31 December 2016 or working capital at that date. Notes 11 b), d) and 15 were modified to present the effect of reclassification in the comparative figures of 2016

#### **d) Principle of going concern**

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

The Group presents negative working capital totalling Euros 193,179 thousand at 31 December 2017 (negative working capital totalling Euros 238,268 thousand at 31 December 2016), which is a habitual circumstance in the business in which it engages and in its financial structure, and it is not a barrier to the normal performance of the business. The Group does not believe that cash requirements in 2018 will exceed its current financing capacity, taking into consideration the particularities of working capital within its business.

The Group's primary business is the rendering of telecommunications services, which operates with a reduced payment collection period which, associated with a supplier payment period of 49.40 days (37.53 days in 2016) (Note 14) allows the Group's resources to be optimized by operating with negative working capital. The Group's Directors of the Parent Company do not believe that there will be circumstances in 2018 that will have a negative impact on the Group's current working capital structure.

Certain lines of working capital are available to the Group, notably tranche "Existing RCF" of the senior financing in the amount of Euros 30,000 thousand that had not been drawn down at 31 December 2017 (Note 11 (a)).

The Group also has a promissory note program listed on the Alternative Fixed Income Market (MARF) for a maximum amount of Euros 30 million, of which Euros 15,000 thousand and Euros 1,200 thousand was renewed on 23 March 2017 and 21 June 2017, respectively (Note 11(d)), while the rest of the amount had yet to be issued.

**e) Functional and presentation currency**

The figures disclosed in this consolidated annual accounts are expressed in thousands of Euros, the Group's functional and presentation currency, rounded off to the nearest thousand.

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

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

***Relevant accounting estimates and assumptions***

Valuation allowances for bad debts require a high degree of judgement by Group management and a review of individual balances based on customers' credit ratings, current market trends and historical analysis of bad debts at an aggregated level.

The Group performs an annual impairment test of goodwill and intangible assets with an indefinite useful life, principally its trademarks. The calculation of the recoverable value of a Cash Generating Unit (CGU) to which the goodwill and trademarks have been assigned requires the use of estimates. The recoverable value of an asset is the higher of its fair value less costs of sale and value-in-use. The Group uses the Royalties method net of the tax effect to calculate the value of the trademarks. The Group uses discounted cash flow methods to calculate the recoverable value of goodwill. The calculations of cash flow discounts is based on five-year projections of the budgets approved by the Group. The flows take into consideration past experience and represent the Group's best estimate of the future development of the market. Cash flows beyond this five-year period are extrapolated by using individual growth rates. The key assumptions to determine the fair value less selling costs and value-in-use include growth rates, the weighted average cost of capital and tax rates.

The calculation of provisions for onerous contracts, guarantees, litigation and certain employee and the Executive compensation is subject to a high degree of uncertainty. The Group recognizes

provisions for onerous contracts when the estimated total costs exceed the expected income from the contract. Those estimates are subject to potential changes based on new information.

The Group analyses assets with definite useful life based on habitual practices in the sector and, if appropriate, internal technical reports.

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

### ***Relevant judgement when applying accounting principles***

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

Capitalisation and recoverability of development expenditure (see Note 3 (d));

Goodwill (see Note 3 (d));

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

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

### ***Changes in accounting estimates***

Although estimates are calculated by the Company's directors based on the best information available at 31 December 2017, future events may require changes to these estimates in subsequent years. Any effect on the consolidated annual accounts of adjustments to be made in subsequent years would be recognised prospectively.

### ***Determination of fair values***

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

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

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

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

- Level 1: quoted prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

- Note 4: Business combinations.
- Note 15 (e): Financial instruments and fair value.

#### **g) Standards and interpretations effective as of 1 January 2017**

The consolidated annual accounts for 2017 have been prepared using the same accounting principles applied in the previous year and the following standards and amendments adopted by the European Union, which are obligatory from 1 January 2017 onwards:

- IAS 7 (Revised) – "Disclosure Initiatives": An entity is required to disclose information that allows users to understand changes in the liabilities that derive from financing activities. This includes changes that derive from:
  - Cash flows, such as loan draw downs and repayments; and
  - Non-cash changes such as acquisitions, disposals and unrealised exchange differences.

Liabilities that derive from financing activities are liabilities in which the cash flows were, or will be, classified in the statement of cash flows as cash flows from financing activities. The new disclosure requirements also include changes in financial assets (for example, assets that cover liabilities deriving from financing activities) if the cash flows from those financial assets were included, or future cash flows will be included, in the cash flows from financing activities.

The amendment suggests that including a reconciliation between the beginning and ending balances in the balance sheet for liabilities that arise from financing activities would comply with the disclosure requirement, although no specific format is established.

This amendment is applicable in years commencing on or after 1 January 2017.

The effect of applying these amendments is disclosed in Note 23.

- IAS 12 (Revised) "Recognition of deferred tax assets due to unrealized losses": The amendment to IAS 12 clarifies the requirements for recognising deferred tax assets relating to unrealised losses. The amendments clarify the accounting treatment of deferred taxes when the asset is measured at fair value and that fair value is less than the asset's assessment base. It also clarifies other aspects of the recognition of deferred tax assets.

This amendment is applicable in years commencing on or after 1 January 2017.

Applying these standards has not had a significant impact on this consolidated annual accounts for 2017.

**h) EU-adopted standards and interpretations – not effective from 1 January 2017 – that the Group expects to adopt as of 1 January 2018 or at a later date (none has been adopted early)**

- IFRS 9 Financial Instruments and subsequent amendments. This standard replaces the requirements in IAS 39 for classification, measurement, recognition and derecognition of financial assets and financial liabilities, hedge accounting and impairment. In July 2014, IFRS 9 Financial Instruments was issued.

IFRS 9 establishes three main categories of financial asset measurements: amortised cost, fair value through profit or loss and fair value through comprehensive income. The basis of classification depends on the company's business model and the characteristics of the contractual cash flows deriving from the financial asset.

Investments in equity instruments must be measured at fair value through profit or loss with the irrevocable initial option of presenting changes in fair value through non-recyclable other comprehensive income, as they cease to be subject to impairment testing and to generate capital gains in the income statement on their sale, provided that the instrument is not held for trading. If the equity instrument is held for trading, changes in the fair value are presented in income. Only the dividends that may be distributed on these instruments are recognised as income in the income statement.

IFRS 9 provides for a new impairment loss model, the expected credit loss model, which replaces the incurred impairment loss model established by IAS 39.

There were no changes concerning the classification and measurement of financial liabilities except for the recognition of changes in the Company's fair value of the instruments due to changes in own credit risk (issuer's risk) under comprehensive income for liabilities designated at fair value through profit or loss.

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 prior to modification of the modified debt would be recognised as income or expense in the income. Transaction expenses reduce the new carrying amount of the modified debt instrument, making it necessary to recalculate a new effective interest rate.

MásMóvil Group has reviewed its financial assets and liabilities to evaluate the effects of applying this new standard to its consolidated annual accounts and it expects the following impacts upon the first application of the new standard at 01 January 2018:

- Debt instruments, primarily trade and other receivables, are currently measured at amortised cost and they would meet the conditions for classification at amortised cost under IFRS 9.

The rest of other financial assets of the Group fundamentally include equity instruments that are currently classified as available for sale, which under IFRS 9 also may be classified at fair value through other comprehensive income.

As a result, the Group does not expect the new guidelines to affect the classification and measurement of these financial assets, since the Group expects to maintain the current classification of equity instruments and therefore will choose to measure those instruments at fair value through comprehensive income. However, profits or losses realised on the sale of financial assets measured at fair value through comprehensive income will no longer be transferred to profit or loss on the sale, but rather will be reclassified through the reserve for fair value through other comprehensive income to retained earnings.

- The new impairment model requires the recognition of impairment provisions based on expected credit losses instead of just incurred credit losses, as is the case under IAS 39. This applies to the financial assets classified at amortised cost held by the Group, mostly consisting of trade receivables, and to certain financial guarantee contracts.

The Group does not expect any significant impact on the impairment provision based on the evaluations carried out to date and given the commercial nature and short terms of the debt instruments subject to credit impairment tests, as a result of the transition to IFRS 9.

- The Group restructured its financial debt in 2017. The restructuring consisted of obtaining new debt to finance the deployment projects of telecommunications infrastructure both fixed and mobile and the modification of certain contractual terms governing existing debt. The refinancing of the existing debt has been recognised as a non-substantial modification under IAS 39. The Group has estimated the impact of applying the requirements established by IFRS 9 with respect to non-substantial modifications of financial liabilities by calculating the difference between the amortised cost of the debt at 31 December 2017 under IAS 39 and that which would have arisen had the restructuring performed in 2017 been recognised under IFRS 9 in accordance with the aforementioned criteria. The refinancing of the existing debt was recognised as an amendment under IAS 39. The Group has estimated the impact of applying the requirements established by IFRS 9 with respect to the financial liability modifications by calculating the difference between the original contractual cash flows and the modified contractual cash flows discounted using the original effective interest rate. The Group expects the impact resulting from this requirement established by the new standard to reduce transition reserves by approximately Euros 11 million as a result of this new requirement and not significant impact are expected for 2018.

The new standard also introduces expanded disclosure requirements and changes in the presentation. These amendments are expected to change the nature and scope of the Group's disclosures regarding its financial instruments, particularly in the year in which the new standard is adopted.

IFRS 9 must be applied to all financial years commencing on or after 1 January 2018. The Group will apply the new standard retrospectively starting on 1 January 2018 with the practical resources allowed by the standard, specifically the use of debt ageing maturity matrices to estimate the expected loss on receivables, which should be recorded on initial recognition. The comparative information for 2017 will not be restated.

- IFRS 15 establishes the criteria for recognising revenue from contracts with customers. This standard will replace IAS 18 covering contracts for goods and services and IAS 11 covering construction contracts.

The new standard is based on the principle that revenue is recognised in the amount expected to be received from the customer when control over the goods or services is transferred to the customer.

MásMóvil Group has evaluated the effects of applying this new standard to the consolidated financial statements and identified a series of expected impacts upon the first application of the standard on 1 January 2018, among others:

- Through the application of IFRS 15, the Group has determined the performance obligation to be the rendering of telecommunications services to its customers. Revenue will be recognised as the performance obligations are met. The application of the new criteria will mean that those contracts with permanence obligations in which discounts or subsidies exist will be subject to those criteria over the term of the contract, which will require the recognition of higher revenue during the months the discount is applicable and lower revenue during the rest of the contract term.
- The Group offers its customers subscription services providing access to a terminal financing model, primarily using bank resources, for a term of 24 months, plus a final payment (“*Cuota 25*”). At the end of the financing contract the customer has the option of paying the final instalment or selling the terminal to the Group for the amount of the so-called “*Cuota 25*”. The Group estimates a provision for sales transactions to cover possible liabilities deriving from the cuota 25 plan.

The difference between the promised amount under the cuota 25 plan and the expected market value of the terminal after 24 months will reduce the revenue generated by the service contract with the customer, thereby generating a month-to-month contractual liability that is cancelled at the time at which the customer exercises his/her sale option, or no.

- IFRS 15 requires the recognition of an asset for the incremental costs that are directly attributable to obtaining a contract with customers and are expected to be recovered. It will then be taken to the consolidated comprehensive income statement over the life of the contract with the customer. The Group has identified the fees paid to distributors and the various sales platforms as costs for obtaining contracts.
- IFRS 15 requires separate disclosure of contract assets and liabilities in the consolidated statement of financial position. This will give rise to some reclassifications starting on 1 January 2018 with respect to contracts including customer discounts and promotions and contract liabilities relating to the exercising of the right to sell terminals or expected Cuota 25 that are currently included under other headings of the consolidated statement of financial position.

IFRS 15 allows different practical solutions in order to facilitate the application of the new standard. MásMóvil Group has evaluated the various available practical solutions with the



objective of facilitating the application of IFRS 15. The primary practical solutions adopted are:

- Grouping of contracts: MásMóvil Group applies the standard's requirements to groups of contracts with similar characteristics since the effect of performing an individualized contract-by-contract analysis or by groups of contracts with similar characteristics would not give rise to significant differences in their calculation.
- Financial component: not considered significant when the period between the time the goods or the services promised to the customer are transferred and the time at which the customer pays for those goods or services is one year or less.
- Contract intake costs: the directly identifiable costs for the intake of a contract will be considered to be an expense when the amortisation period is one year or less.

The Group has estimated that the overall impact of these changes on retained earnings and other reserves at 1 January 2018 will be an increase therein of approximately Euros 110 million as a result of the recognition of a contractual asset related to the straight-line recognition of revenue during the term of the contract, the capitalization of the costs of obtaining contracts and the straight-line recognition of the existing liability related to "Cuota 25".

Likewise, the Group has estimated a decrease of approximately Euros 30 million in EBITDA for 2018, first year of application of the standard. The actual impact of the adoption could be different depending on the evolution of the business.

- IFRS 16 "Leases": In January 2016 the IASB published this new standard that repeals IAS 17 "Leases", in conjunction with the FASB.

The IASB (*International Accounting Standards Board*) and the FASB (*Financial Accounting Standards Board*) have reached the same conclusions in many areas related to the recognition of lease agreements, including the definition of a lease, the general requirement to reflect leases on the balance sheet and the measurement of lease liabilities. The IASB and the FASB also agreed to not include substantial changes to the recognition by the lessor, maintaining requirements that are similar to the standard previously in force.

However, there continue to be differences between the IASB and the FASB with respect to the recognition and presentation of lease expenses in the income statement and the consolidated cash flow statement.

This standard will be applicable to years commencing on or after 1 January 2019. It may be adopted early if IFRS 15 "Revenue from contracts with customers" is simultaneously adopted.

The Group has started the process of analysing the potential impact of the standard by obtaining details of current leases and analysing their primary characteristics (amount, renewal options, identification of the existence of control over specific assets). Note 16 includes a breakdown of the operating lease amounts, where it may be seen that the main impacts of the new standard will be on the recognition of assets and liabilities relating to the agreements covering the use of infrastructure owned by other operators and the lease of space to build the company's own infrastructure.

**i) Standards and interpretations issued by the International Accounting Standards Board (IASB), pending EU adoption:**

At the date these consolidated annual accounts were prepared, the IASB and IFRS Interpretations Committee had published the standards, amendments and interpretations indicated below, which to date have not been adopted by the European Union.

- IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associates or joint ventures": These amendments clarify the accounting treatment of 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 an 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.

- IFRS 2 (Amendment) "Classification and measurement of share based transactions": The amendment of IFRS 2, which was developed by the IFRS Interpretations Committee, provides clarification as to how to account for certain types of share-based payment transactions. It provides requirements regarding the accounting for:
  - The effects of conditions for irrevocable status and the conditions that do not give rise to irrevocable status regarding the concession when measuring share-based payments settled in cash.
  - Share-based payment transactions with a net settlement for tax withholdings obligations, and
  - An amendment of the terms and conditions of a share-based payment that changes from a classification as settled in cash to settled through equity.

The amendment is effective for years commencing on or after 1 January 2018, although it may be adopted early.

- Annual improvements to IFRS, 2014-2016 Cycle. These amendments affects IFRS 1, IFRS 12 and IAS 28 and will be effective for the years commencing 1 January 2018 for amendments to IFRS 1 and IAS 28 and effective for the years commencing 1 January 2017 for the amendments affecting IFRS 12. These improvements are yet to be endorsed by the EU. These improvements contain amendments to the following standards:
  - IFRS 1 First-time Adoption of International Financial Reporting Standards;
  - IFRS 12 Disclosure of Interests in Other Entities;
  - IAS 28 Investments in Associates and Joint Ventures.

- IAS 40 (Amendment), “Transfers of investment property”. This amendment clarifies that a transfer to, or from, investment property must be due to a change in the property’s use. To reach a conclusion as to whether or not there has been a change in use an evaluation must be performed as to whether the property complies with the definition of an investment property. Such a change must be supported by evidence. The IASB confirmed that an isolated change in intent is not sufficient to support a transfer.

These amendments will be effective in years commencing on or after 1 January 2018. Earlier application is permitted.

- IFRIC 22 “Foreign currency transactions and advance consideration”: This IFRIC concerns how to determine the transaction date when IAS 21 on foreign currency transactions is applied. The interpretation applies when an entity pays or receives advance consideration under contracts denominated in foreign currency.

The transaction date determines the exchange rate to be used on initial recognition of the relevant asset, expense or income. The matter arises because IAS 21 requires the use of the exchange rate on the “transaction date”, which is defined as the date on which the transaction first qualifies for recognition. The question is therefore if the transaction date is the date on which the asset, expense or income is initially recognised or the first date on which the early payment is made or received, giving rise to a prepayment or deferred income.

The interpretation provides guidelines for when a single payment is made/received, as well as for situations in which there are multiple payments/receipts. The objective of the guideline is to reduce the diversity of practices.

The interpretation will be effective for years commencing on or after 1 January 2018, although it may be adopted early.

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

The interpretation will be effective for years commencing on or after 1 January 2019, although it may be adopted early.

- IFRS 9 (Amendment) “Prepayment features with negative compensation”: The contractual terms of instruments with prepayment characteristics with negative compensation, under which the lender could be forced to accept a prepayment that is substantially lower than the unpaid amounts of principal and interest, were incompatible with the notion of “additional reasonable compensation” for the early termination of a contract in accordance with IFRS 9. 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 and 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.

- 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 ventures": An interest previously held in a joint arrangement is remeasured when control of the business is obtained.
  - IAS 12 "Income taxes" All tax repercussions of the payment of dividends are recognised in the same manner.
  - IAS 23 "Borrowing costs". Any specific loan originally made to develop a qualifying asset is considered to be part of generic loans when the asset is ready for use or sale.

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

- IFRS 17 "Insurance Contracts"
- IAS 19 (Revised) "Amendment, reduction or liquidation of the plan".

### **3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently in the consolidated annual accounts.

#### **a) Basis of consolidation**

##### ***i) Business combinations***

###### *Acquisitions from third parties*

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

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

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

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

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

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

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

The excess between the consideration given, plus the value assigned to non-controlling interests, and the value of net assets acquired and liabilities assumed, is recognised as goodwill. Any shortfall, after evaluating the consideration given, the value assigned to non-controlling interests and the identification and measurement of net assets acquired, is recognised in profit or loss.

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

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

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

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

#### Non-controlling interests

Non-controlling interests in subsidiaries acquired after 1 January 2014 are recognised at the acquisition date at the proportional part of the fair value of the identifiable net assets. Non-controlling interests in subsidiaries acquired prior to the transition date were recognised at the proportional part of the equity of the subsidiaries at the date of first consolidation.

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

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

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

#### **ii) Subsidiaries**

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

Information on the subsidiaries included in the consolidated Group is presented in Appendix I.

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

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

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

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

#### **b) Foreign currency transactions and balances**

Transactions in foreign currency are translated at the spot exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies have been translated into Euros at the closing rate, while non-monetary assets and liabilities measured at historical cost have been translated at the exchange rate prevailing at the transaction date. Non-monetary assets measured at fair value have been translated into Euros at the exchange rate at the date that the fair value was determined.

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

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

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

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

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

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

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

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

**d) Intangible assets**

*i) Goodwill*

Goodwill is determined using the same criteria as for business combinations.

Goodwill is not amortised but is tested for impairment annually or more frequently where events or circumstances indicate that an asset may be impaired. Goodwill on business combinations is allocated to the CGUs (*Cash Generating Units*) or groups of CGUs which are expected to benefit from the synergies of the business combination and the criteria described in section (f) (impairment of this Note) are applied. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

In this regard, the Group considers CGUs to be the companies comprising the Group.

*ii) Computer software*

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

*iii) Patents, trademarks and licences*

Patents, trademarks and licences are initially recognised at their cost of acquisition. Administrative licences essentially comprise licences obtained for the provision of mobile telephone services.

*iv) Research and development*

Expenditure on research is recognised as an expense when incurred.

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

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



Expenditure on activities for which costs attributable to the research phase are not clearly distinguishable from costs associated with the development stage of intangible assets is recognised in profit or loss.

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

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

v) Other intangible assets

The Group records the incremental and specific costs relating to the amounts paid for each new contract it obtains under the heading “Other intangible assets” and the amount is amortised on a straight-line basis over the term of the contract with the customer, provided the customer does not interrupt the commercial relationship early, in which case the amount pending amortization is taken to the income statement.

This heading also includes the amount at which relationships with customers deriving from the acquisition of Xfera Móviles S.A.U. and Pepephone (Note 4) was recorded. Those assets are initially measured at fair value and are amortised on a straight-line basis in accordance with their estimated useful lives.

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

vi) Rights of use

This relates to the right to indirectly access the network of other operators.

vii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure to generate capital gains and trademarks internally, is recognised in profit and loss when it is incurred.

viii) Useful life and amortisation rates

The Group assesses whether the useful life of each intangible asset is finite or indefinite. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset will generate net cash inflows.

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

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

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

	Amortisation method	Estimated years Of useful life
Development	Straight-line	4 - 5
Computer software	Straight-line	3 - 5
Patents, licenses, trademarks and similar rights	Straight-line	3 - 15
Other intangible assets	Straight-line	3 - 9
Right of use	Straight-line	8-35

For these purposes, the acquisition cost or attributed cost less residual value is understood as the amortisable amount.

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

The cost of licences is amortised on a straight-line basis from their commercial launch or from the concession date, over the remaining concession period.

The Group reviews the residual value, useful life and amortisation method for intangible assets at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

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

## **e) Property, plant and equipment**

### *i) Initial recognition*

Property, plant and equipment are recognised at cost or deemed cost, less accumulated depreciation and any accumulated impairment losses.

The cost of property, plant and equipment includes the purchase price and any costs directly related to installation through to commissioning, less trade discounts or rebates. The cost of an item of property, plant and equipment includes the estimated costs of dismantling or removal and restoration of the site on which it is located, provided that the obligation is incurred as a consequence of having used the item and for purposes other than to produce inventories. This estimation is capitalised as an increase in the cost of the related asset, giving rise to the recognition of a provision (see Note 12), which is increased accordingly in subsequent reporting periods.

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

ii) Subsequent expenditure

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

In seeking to obtain the maximum efficiency of its investments, the Group signs agreements to share its infrastructure with other operators. These sublease agreements stipulate that the infrastructure works necessary to install the equipment of the sublessee operator must be borne by the sublessee, even though the title to the infrastructure remains with the lessee. Investments made in locations leased by the Group are recognised as property, plant and equipment with a balancing entry in non-current accruals, whereas those made at locations subleased by the Group are settled at the date of installation and recognised as prepayments for non-current assets. The accruals and prepayments are taken to the consolidated income statement as lease income or expenses, respectively, over the lease term.

iii) Depreciation

Property, plant and equipment are depreciated by allocating the depreciable amount of the asset on a systematic basis over its useful life. The depreciable amount is the cost of an asset, less its residual value. Leased assets are depreciated over the shorter of the lease period and their useful lives, unless the Group is reasonably certain that it will obtain the property at the end of the lease period. The Group determines the depreciation charge separately for each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and with a useful life that differs from the remaining components of the asset.

Property, plant and equipment are depreciated from the date on which they are installed and ready for use.

The depreciation of property, plant and equipment is determined following the criteria set forth below:

	Amortisation method	Estimated years of useful life
Buildings	Straight line	5 - 6
Mobile network infrastructure	Straight line	30
Mobile network equipment	Straight line	7 - 10
Mobile network Core	Straight line	5
Fibre-optic network (Internal plant)	Straight line	15
Fibre-optic network (External plant)	Straight line	35
Other installations, equipment and furniture	Straight line	3 - 10
Other property, plant and equipment	Straight line	4 - 15

The Group reviews residual values, useful lives and depreciation methods at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

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

iii) Non-current assets held for sale

Non-current assets or disposal groups are classified as non-current assets held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. Non-current assets or disposal groups are classified as held for sale, provided that they are available for sale in their present condition subject to terms that are usual and customary for sales of such assets and that the transaction is highly probable.

Non-current assets or disposal groups classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell and are not depreciated.

Impairment losses on initial classification and subsequent remeasurement of assets classified as held-for-sale are recognised under profit or loss from continuing operations in the consolidated statement of comprehensive income, unless it is a discontinued operation.

The Group measures a non-current asset that ceases to be classified as held-for-sale or to form part of a disposal group at the lower of the carrying amount before the asset was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held-for-sale, and its recoverable amount at the date of reclassification.

**f) Impairment**

The Group evaluates whether there are indications of possible impairment on non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount.

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

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

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

Recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs.

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

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

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

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

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

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

Impairment losses for cash-generating units are allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata with their carrying amounts. The carrying amount of each asset may not be reduced below the highest of its fair value less costs to sell, its value in use and zero.

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

A reversal of an impairment loss is recognised in the consolidated income statements. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

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

After an impairment loss or reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods based on its new carrying amount.

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

**g) Leases**

*(i) Classification of leases*

The Group classifies leases as finance leases when substantially all the risks and rewards incidental to ownership of the leased asset are transferred to the lessee under the terms and conditions of the lease, Otherwise they are classified as operating leases and are not recognised in the Group's consolidated statement of financial position.

*(ii) Lessor accounting*

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

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

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

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

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

In particular, installation costs paid in advance for the sharing of sites with other operators are recorded as prepayments for non-current assets and non-current accruals, respectively, and are taken to income and expense on a straight-line basis over the lease term.

*(iii) Lessee accounting*

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

- *Finance leases*

At the commencement of the lease term, the Group recognises finance leases as assets and liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Initial direct costs are added to the asset's carrying amount. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Interest is expensed using the effective interest method.

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

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

- *Operating leases*

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

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

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

**h) Financial instruments**

(i) Classification of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument in IAS 32 "Financial Instruments: Presentation".

The Group recognises financial instruments when it becomes party to the contract or legal transaction, in accordance with the terms set out therein.

Financial instruments are classified into the following categories: financial assets and financial liabilities at fair value through profit or loss, separating those initially designated from those held for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial assets and financial liabilities at amortised cost. Financial instruments are classified into different categories based on the nature of the instruments and the Group's intentions on initial recognition.

(ii) Offsetting principles

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

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

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

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

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

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

After initial recognition, they are recognised at fair value through profit or loss. Transaction costs incurred on the sale or disposal of the asset are not deducted from the fair value.

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

(iv) Loans and receivables

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

(v) Impairment and uncollectibility of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and the event or events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

An impairment loss in respect of a financial asset carried at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate. The amount of an impairment loss is recognised in profit and loss and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recognised.

In the case of financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses cannot be reversed and are therefore recognised directly against the value of the asset and not as an allowance account.

(vi) Derecognition of financial assets

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

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(vii) Financial liabilities

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



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

(viii) Derecognition and modifications of financial liabilities

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

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

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

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

**i) Hedge accounting**

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

At the inception of the hedge the Group formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges. Hedge accounting is only applicable when the hedge is expected to be highly effective at the inception of the hedge and in subsequent years in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, throughout the period for which the hedge was designated (prospective analysis), and the actual effectiveness is within a range of 80%-125% (retrospective analysis) and can be reliably measured.

For cash flow hedges of forecast transactions, the Group assesses whether these transactions are highly probable and if they present an exposure to variations in cash flows that could ultimately affect profit or loss.

(i) Cash flow hedges

The Group recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in other comprehensive income. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised with a debit or credit to finance costs or finance income.

**j) Parent own shares**

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

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

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

**k) Inventories**

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

The cost of inventories is written down against profit and loss when it exceeds net realisable value. The net realisable value of merchandise is understood to be the estimated selling price less costs to sell.

The previously recognised write-down is reversed against profit and loss when the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances. The reversal of the write-down is limited to the lower of the cost and the revised net realisable value of the inventories.

**l) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and demand deposits in financial institutions. They also include other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

In those cases where the Group formalises contracts under which current account balances are unavailable to secure the execution of those contracts, these balances are presented under Cash and other cash equivalents insofar as the directors consider that the Group will not meet any of the conditions requiring the contracts' early termination and therefore the enforcement of the guarantee. This criterion is similarly followed in presenting cash and equivalents at the start and end of the year in the consolidated cash flow statement. Note 15b) includes information on the Group's available cash at year end and unavailable current account balances related to the guarantees granted.

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

**m) Government grants**

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached.

*i) Capital grants*

Capital grants awarded as monetary assets are recognised in the consolidated statement of financial position as a reduction in the cost of the assets for which the grants have been received.

ii) Interest rate grants

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

**n) Provisions**

i) General criteria

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

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

The financial effect of provisions is recognised under finance costs in consolidated profit or loss.

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

Rights to reimbursement from third parties of the expenditure required to settle a provision are recognised as a separate asset provided that it is virtually certain that the reimbursement will be received. Any income deriving from the reimbursement is recognised in profit and loss as a reduction in the provision expense up to the amount of the provision.

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed. The provision is reversed against the consolidated income statement item in which the related expense was recognised, and any surplus is accounted for in other income.

ii) Provisions for onerous contracts

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

iii) Provisions for decommissioning, restoration and similar liabilities

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

Changes in provisions resulting from changes in the amount, timing of the outflow of resources or the discount rate increase or reduce the cost of fixed assets up to the carrying amount thereof,

whilst any excess is recognised in profit or loss. The Group assesses whether the increase in value of property, plant and equipment is indicative of impairment.

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

**o) Revenue recognition**

Revenue from the sale of goods or services is measured at the fair value of the consideration received or receivable. Volume rebates, prompt payment and any other discounts, as well as the interest added to the nominal amount of the consideration, are recognised as a reduction in the consideration, and are recognised as a reduction in sales revenue when it is probable that the discount conditions will be met.

*i) Sale of goods*

The Group recognises revenue from the sale of goods when:

- It has transferred to the buyer the significant risks and rewards of ownership of the goods;
- It retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue and the costs incurred or to be incurred can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

*ii) Rendering of services*

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

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

Bundles comprising different elements are analysed to determine whether it is necessary to separate the elements, applying the appropriate revenue recognition criteria in each case. Total revenue from the bundle is allocated to the different elements based on their respective fair values, i.e., the fair value of each individual component in relation to the total fair value of the product.

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

payment for the financing and the purchase of terminals, taking into consideration the market value of the terminal if acquired from the customer. The impact on the consolidated comprehensive income statement is recognised as an increase in the cost of supplies at the time the contract is signed.

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

**p) Income tax**

The income tax expense or tax income for the year comprises current tax and deferred tax.

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

Current and deferred tax are recognised as income or an expense and included in profit or loss for the year, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

Part of the Group has filed consolidated tax returns since 2015. The tax group comprises MásMóvil Broadband, S.A.U., MásMóvil Infrastructures, S.L.U., MásMóvil Investments, S.L.U. and Xtra Telecom, S.A. and is headed by the latter. In 2016, MásMóvil Phone & Internet, S.A.U., MásMóvil Holdphone, S.A.U. and Embou Nuevas Tecnologías, S.L.U. were incorporated into the tax group. During 2017 Xfera Móviles, S.A.U., Pepeworld, S.L.U., Pepe Mobile, S.L. and Pepe Energy, S.L. were included in the tax group.

In addition to the factors to be considered for individual taxation, set out previously, the following factors are taken into account when determining the accrued income tax expense for the companies forming the consolidated tax group:

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

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

The amount of the debt (credit) relating to the subsidiaries is recognised with a credit (debit) to payables (receivables) to/from tax group.

*i) Recognition of deferred tax liabilities*

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

- They arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.
- They are associated with investments in subsidiaries and jointly controlled entities over which the Group is able to control the timing of the reversal of the temporary difference and it is not probable that the difference will reverse in the foreseeable future.

ii) Recognition of deferred tax assets

The Group recognises deferred tax assets provided that:

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

Tax planning opportunities are only considered when assessing the recoverability of deferred tax assets if the Group intends to use these opportunities or it is probable that they will be utilised.

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

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

iii) Measurement

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

iv) Offset and classification

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

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

**q) Share-based payment transactions**

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

The Group recognises equity-settled share-based payment transactions, and the corresponding increase in equity at the fair value of the goods or services received, unless that fair value cannot be reliably estimated, in which case the value is determined by reference to the fair value of the equity instruments granted.

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

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

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

Equity-settled payment transactions are recognised as follows:

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

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

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

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

For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period, with any changes in fair value recognised in consolidated profit or loss. In order to determine the fair value of the liability, the Group applies the same criteria as indicated previously for equity-settled payments. Services received or goods acquired and the liability payable are recognised over the

vesting period or immediately if vesting is immediate. The Group only recognises as personnel expenses the portion of the grant-date fair value of the payment that has been accrued as per the vesting schedule. The residual amount accrued is recognised as a finance cost or as finance income.

### s) Environment

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

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

### t) Segment reporting

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

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

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

## 4. Business Combinations

### 4.1 Business combinations recognised in 2017

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

Details of the net assets acquired and goodwill recognised on business combinations during 2017 are as follows:

	Country	cost of business combination net of cash received	Fair value of net assets identified	Goodwill (Provisional) (Note 5)
<i>Thousands of Euros</i>				
Llamaya Business Unit	Spain	39,336	27,362	11,974
		<b>39,336</b>	<b>27,362</b>	<b>11,974</b>

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



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

The purchase price consists of the following items:

- A cash payment of Euros 24,891 thousand;
- The deferred price initially consisted of a fixed amount of Euros 4,800 thousand and a variable amount ("earn-out") based on the evolution of certain operating parameters, being the estimated fair value of the deferred price Euros 11.014 thousand at the transaction date. However, on 2 August 2017 the Group signed an addendum to the contract under which the parties agreed to replace the variable payment with a fixed payment totalling Euros 8,750 thousand. So there is a deferred payment, payable in October 2018, Euros 13,550 thousands (Note 11(d)). The difference in the deferred payment is registered in to the Consolidated Statement of Comprehensive Income.

The fair value of the deferred payments has been calculated by discounting the deferred price and the variable price by a market interest rate, which places it at level 3 within the fair value hierarchy (see Note 15 (e)).

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

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

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

The value of the assets and liabilities indicated in the above table is identical to that recognised in the acquiring company's individual financial statements (Másmóvil Telecom 3.0, S.A.U. subsequently merged with Xfera Móviles, S.A.U. during 2017) and their tax value, and therefore no deferred taxes have been generated by the business combinations.

Other intangible assets consist, mainly, of relationships with customers.

The most important factor considered when recognising goodwill, Euros 11,974 thousands, has been the valuation of expected synergies and other benefits from the business combination.

Specifically, the entry of the CGU into the Group will significantly optimise the rental costs of mobile telecommunications networks assumed to date by the Group, since it can be incorporated to trade agreements arranged with third parties by the Group. Goodwill is fully deductible.

The main assets and liabilities at the date control was taken of Xfera Móviles S.A.U.'s operations were calculated as follows:

- Brand “Llamayá”: the “royalty” equivalent method has been applied to determine the fair value of this intangible asset and the most significant parameters are a 1.1% royalty based on observed figures in the industry, an 8.66% discount rate and a perpetual growth rate of 0.5%. Both rates are estimated reasonable considering the specific market where the trademark Llamaya operates. This discount rate is lower than that used in the business combinations involving Xfera Móviles S.A.U. and Pepephone, given the competitive dynamic in the segment Llamaya addresses (ethnic) and it has a clearly differentiated profile from the general market addressed by Xfera Móviles S.A.U. and Pepephone (Note 4.2). This means, among other things, that the cost of recruiting customers is much lower in the ethnic segment than the general segment, which leads to lower financial risk per income unit generated.
- Customer service: measured using the Life Time Value (LTV) for customers making up the portfolio. The key parameters used to measure this intangible were the abandonment rate, the EBITDA attributable to the type of customer and an 8.66% discount rate, which is believed to be adequate given the very specific niche in which the Llamaya brand operates. Although projections cover a lifetime exceeding the book amortisation period, as was the case with the measurement of Pepephone and Xfera Móviles S.A.U. customer relationships, since they were prepared based on the company’s historical abandonment rate calculated for the year in which 90% of initial customers abandon the company (9 years in the case of Llamaya) and projected income decreases, the difference between the straight-line amortisation of those assets over five years and digressive amortisation based on income is not significant in any year.
- Current liabilities: By acquiring the customer portfolio, the Group has assumed balances that have not been consumed by customers (prepayment).
- Onerous contract: Subsequent to the date on which control was assumed, the Group negotiated an addendum to the virtual mobile operator contract (VMO) with Llamaya’s wholesale supplier, through which the financial conditions in force between the parties up until the purchase date were cancelled and replaced by conditions in line with the contractual relationship between the Group and the supplier. This new contractual negotiation took effect retroactively on 1 February 2017 and required a lump-sum payment by the Group and, similar to other agreements recently concluded, included the customer traffic that took place under the Llamaya brand between 1 February and 31 December 2017 and compensation for Orange for terminating the contractual conditions in place before the purchase.

During 2017 the provisional values assigned to this business combination were reviewed and partly modified and are considered definitive at the date of preparation of these consolidated annual accounts.

## 4.2 Business combinations in 2016

Details of the net assets acquired and goodwill recognised on business combinations during 2016 are as follows:

<i>In thousand of Euros</i>	Country	Cost of the rama, net of cash received	Fair value of identifiable net assets	Provisional Goodwill (Note 5)
<b>Subsidiaries</b>				
Xfera Móviles, S.A.U.	Spain	566,841	394,497	172,344
Pepe World, S.L.U.	Spain	148,159	21,354	126,805
		<b>715,000</b>	<b>415,851</b>	<b>299,149</b>

The acquired businesses have generated consolidated revenue of Euros 241,490 thousand and losses of Euros 18,504 thousand for the Group between the acquisition dates and the closing date.

Had the businesses been acquired on 1 January 2016, the main financial indicators would have changed as follows in 2016:

<i>In thousands Euros</i>	Xfera Moviles, S.A.U.	Pepeworld, S.L.U.
Revenue	669,740	49,244
Results from operating activities	23,524	(1,261)
Amortisation	(59,491)	(5,888)
Profit before tax	17,806	(1,218)
Profit after tax	18,180	200
EBITDA	83,015	4,627

The Group has recognised the costs of the transactions, amounting to Euros 16,078 thousand, under "Other expenses" in the consolidated statement of comprehensive income and Euros 11,957 thousand corresponding to integration costs of both companies (see Note 19 (d)). The profit of Pepeworld S.L.U. at date of acquisition includes Euros 2,563 thousand in respect of bonuses paid to its employees for the success of the corporate transaction.

At the date of preparation of the group's consolidated annual accounts for 2016, the assignment of the purchase price on both business combinations was considered provisional. In 2017 the provisional values were reviewed and no change has arisen with respect to the assigned fair values.

### a) Acquisition of Xfera Móviles, S.A.

On 5 October 2016, the Group, through its subsidiary Másmóvil Phone & Internet, S.A.U., acquired 100% of the share capital of Xfera Móviles, S.A. and the rights associated with each and every participating loan with its former shareholders at that date. The acquiree had its registered office in Alcobendas (Madrid) and its statutory activity is the establishment and provision of all types of telecommunications networks, and the provision, management, sale and distribution, on its own behalf or that of third parties, of all types of telecommunications services, including the

establishment and operation of mobile telecommunications networks and the provision of all types of mobile telecommunications services.

The consideration, totalling Euros 594,686 thousand, was paid as follows:

- A cash payment of Euros 398,706 thousand;
- The difference, Euros 195,980 thousand, from the valuation of the issuance of a note subordinated to senior debt convertible into shares of the Parent for a total of up to Euros 275,500 thousand. This issue was subscribed by the former non-controlling interests of Xfera Móviles S.A.U. under the conditions of conversion established in the debt recognition and debt undertaking and capitalisation contracts signed between them and the Parent on 20 June 2016, with the following conditions:
  - Initial amount of Euros 165.5 million, not subject to any collection conditions.
  - A Euros 110 million earnout, which may be reduced under the following conditions in reference to 2019 EBITDA:
    - If 2019 EBITDA is equal to or lower than Euros 210 million, the earnout will be equivalent to 0%;
    - If 2019 EBITDA is equal to or higher than Euros 300 million, the earnout will be equivalent to 100%;
    - If EBITDA 2019 is between Euros 210 million and Euros 300 million, the earnout will be determined proportionately.
  - Duration: 13 years (six-year grace period and repayment in equal instalments over seven years).
  - Interest payable (fixed-to-variable) on the total amount:
    - Fixed interest rate: 2%;
    - Variable interest rate: 3%, conditional on EBITDA growth over the coming years (+20% growth in EBITDA from year 1 to 4, and + 12.5% thereafter).
  - Rights to conversion into the Company shares at any time, at a conversion price of Euros 25/share (years 1 to 3) and Euros 40/share up to year 7.
  - Right to early settlement: The creditors may demand that the debt be settled early during the first two years, secured via bank guarantee. In this regard, the Group has a restricted current account of Euros 146,760 thousand at 31 December 2016 recognised under cash and cash equivalents.
  - If the creditor converts the debt or demands early settlement, they will not be entitled to receive the “earn-out”.

This financing is also subject to compliance with certain financial ratios as of the first quarter of 2017. In the event of a change in control of the Group, the outstanding debt may be collected in full, irrespective of the EBITDA achieved.

In 2016, and after the Group took control, an agreement was reached with one of the former shareholders of Xfera Móviles S.A.U., whereby the debt was settled with a cash payment of Euros 20,626 thousand, which entailed finance income of Euros 4,457 thousand.

During 2017, and prior to these annual accounts being authorised for issue, an agreement was reached with the former shareholders of Xfera Móviles S.A.U. whereby the debt was settled with a cash payment of Euros 29,138 thousand, thus entailing an expense of approximately Euros 72 thousand in 2017.

As part of the financial restructuring process, on 13 July 2017 the Group reached an agreement with ACS Actividades de Construcción y Servicios S.A. (ACS), a former shareholder of Xfera Móviles S.A.U. Regarding the refinancing of the pending debt generated on the acquisition of the shares in that company. The new process means that the “earn-out” becomes a fixed amount of Euros 80 million and therefore ceases to be related to the Group’s EBITDA. They also eliminate the variable 3% interest that was associated with the evolution of the EBITDA recorded by Xfera Móviles S.A.U. The execution of the bank guarantee on first demand granted by the Group during the first two years after the initial agreement is conditioned exclusively to the unfulfillment of the contractual obligations by the Group (see Note 11 (a)), maintaining till then an unavailable current account amounting Euros 120 million (see Note 15 (b)). The Company’s directors consider that none of the instances of early maturity in the addendum of the agreement will arise.

Also, the addendum notes that if ACS exercises its conversion option, the fixed nominal amount of the Note totalling Euros 200 million will be exchanged for a 4.8 million shares in Masmóvil Ibercom, S.A. As a result the Note ceases to be a hybrid financial instrument and becomes a compound financial instrument, its fair value at 31 December 2017 amounting to Euro 289,732 thousand (Note 10 (e)).

Certain “earn-outs” payable in shares for contingent payments not convertible into shares were also replaced and, as was the case with the original instrument, these payments are associated with a decline in the Group’s credit risk due to the failure to comply with any contractual payment obligation deriving from the instrument that is not duly corrected. The Group recorded a liability totalling Euros 2,500 thousand at 31 December 2017, that relates to the embedded derivative mentioned in this paragraph (Note 11 (e)).

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

<i>In thousands of Euros</i>	Carrying amount of the acquired company	Fair value adjustments	Fair value
Concessions (Note 5)	76,549	12,854	89,403
Trademark (Note 5)	-	88,644	88,644
Other intangible assets (Note 5)	14,294	40,604	54,898
Property, plant and equipment (Note 6)	267,120	-	267,120
Other non-current assets	43,183	-	43,183
Deferred tax assets (Note 18)	345,673	(137,138)	208,535
Trade and other receivables	109,535	-	109,535
Other current assets	11,842	-	11,842
<b>Assets</b>	<b>868,196</b>	<b>4,964</b>	<b>873,160</b>
Non-current provisions (Note 12)	(43,900)	(58,523)	(102,423)
Other non-current liabilities	(36,667)	-	(36,667)
Deferred tax liabilities (Note 18)	-	(35,525)	(35,525)
Current liabilities	(304,048)	-	(304,048)
<b>Liabilities</b>	<b>(384,615)</b>	<b>(94,048)</b>	<b>(478,663)</b>
Identifiable net assets acquired	483,581	(89,084)	394,497
Cost of the Business combination, net of cash received			566,841
Goodwill (Note 5)			<b>172,344</b>

The most important factor considered when recognising goodwill has been the valuation of expected synergies and other benefits from the business combination. Specifically, the entry of Xfera Móviles S.A.U. into the Group will significantly optimise the rental costs of mobile telecommunications networks assumed to date by the Group. These savings primarily derive from

trade agreements arranged with third parties by the Group in the fourth quarter of the year 2016, and cross-selling in Xfera Móviles S.A.U.'s customer portfolio of landline telecommunications services (broadband) built on the Group's landline telecommunications infrastructures (FTTH and ADSL).

The main assets and liabilities at the date control was taken of Xfera Móviles S.A.U.'s operations were calculated as follows:

- Concessions: these have been measured using a market approach, whereby the fair value of an asset is estimated by reference to other similar assets which have been sold or licensed recently.
- Brand Yoigo: the fair value of this intangible asset was calculated by applying the relief-from-royalty method, the most significant parameters of which were a royalty of 1.25%, based on royalties observed in the sector, a discount rate of 9.6% and a perpetuity growth rate of 0.5%.
- Customer relations: these were measured using the Multi Excess Earnings Method (MEEM), which calculates the value of an asset as the sum of the excess future earnings discounted to their present value, after considering supporting asset charges. The key parameters used in measuring this intangible asset were the churn rate, the EBITDA attributable to each type of customer and a discount rate of 9.1%.
- Deferred assets: these have been measured based on the best estimate of future tax profits and tax legislation prevailing at the date control was taken.
- Non-current provisions: the fair value of this provision, corresponding to the loss-making contract Xfera Móviles S.A.U. has with a third party for the lease of towers, has been calculated as the difference between the annual cost of this contract until expiry and the cost of a similar contract under market conditions (see Note 12).

b) Acquisition of Pepeworld, S.L.U. (including Pepemobile, S.L. and Pepe Energy, S.L.)

On 13 September 2016, the Group, through Másmóvil Holdphone, S.A.U., acquired 100% of the share capital of Pepeworld, S.L. and 100% and 94.99% of its investees Pepemobile, S.L. and Pepe Energy, S.L., respectively, (hereinafter the Pepephone subgroup or Pepephone). The registered offices of the acquired companies are in Madrid. Their principal activity is the provision of all types of telecommunications and ancillary services, research and development for the manufacture of equipment and systems used directly or indirectly for telecommunications, the provision of information technology services, and the development, sale and distribution of programs and IT material.

The total purchase price was Euros 158,000 thousand, which was paid in cash.

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

<i>In thousands of Euros</i>	Carrying amount of the acquired company	Fair value adjustments	Fair value
Trademark (Note 5)	-	8,594	8,594
Other intangible assets (Note 5)	587	69,349	69,936
Property, plant and equipment (Note 6)	172	-	172
Other non-current assets	8	-	8
Deferred tax assets (Note 18)	249	9,474	9,723
Other current assets	3,908	-	,908
<b>Assets</b>	<b>4,924</b>	<b>87,417</b>	<b>92,341</b>
Current provisions (Note 12)	-	(37,894)	(37,894)
Other non-current liabilities	(2,229)	-	(2,229)
Deferred tax liabilities (Note 18)	-	(19,486)	(19,486)
Current liabilities	(11,378)	-	(11,378)
<b>Liabilities</b>	<b>(13,607)</b>	<b>(57,380)</b>	<b>(70,987)</b>
Identifiable net assets acquired	(8,683)	30,037	21,354
Cost of the Business combination, net of cash received			148,159
Goodwill (Note 5)			<b>126,805</b>

The most important factor considered when recognising goodwill has been the valuation of expected synergies and other benefits from the business combination. Specifically, the entry of Pepephone into the Group will drastically reduce the costs of renting mobile telecommunications networks borne to date by Pepephone.

The main assets and liabilities at the date control was taken of Pepephone's operations were calculated as follows:

- Brand Pepephone: the fair value of this intangible asset was calculated by applying the relief-from-royalty method, the most significant parameters of which were a royalty of 1%, based on royalties observed in the sector, a discount rate of 10.7% and a perpetuity growth rate of 0.5%.
- Customer relations: these were measured using the Multi Excess Earnings Method (MEEM), which calculates the value of an asset as the sum of the excess future earnings discounted to their present value, after considering supporting asset charges. The key parameters used in measuring this intangible asset were the churn rate, the EBITDA attributable to each type of customer and a discount rate of 10.7%.
- Current provisions: the fair value of this provision, corresponding to the onerous contract Pepephone has with a telecommunications operator in relation a MVNO (mobile virtual network operator) contract, has been estimated considering the contractual cancellation penalty, which is equivalent to the last twelve monthly instalments of the contract (see Note 12).

The useful lives of Yoigo and Pepephone brands are indefinite as there is no foreseeable limit to the period over which they will generate net cash inflows. Customer relations included under "Other intangible assets" are amortised on a straight-line basis over their estimated useful lives of between 5 and 9 years.

## 5. Intangible Assets

Details of intangible assets and movement are as follows:

<i>In thousand euros</i>	<b>Goodwill</b>	<b>Computer Software</b>	<b>Patents , trademarks and licenses</b>	<b>Development</b>	<b>Other intangible Assets</b>	<b>Advances</b>	<b>Righths of use</b>	<b>Total</b>
<b>Cost</b>								
Balance at January 2016	78,257	9,584	960	8,852	20,152	382	20,215	138,402
Business combinations (Note 4)	299,149	14,845	186,641	-	109,989	-	-	610,624
Additions	-	8,020	-	3,178	15,857	-	-	27,055
Disposals	-	(1,215)	-	-	(35)	-	-	(1,250)
Transfers	-	1,380	(535)	5,022	(3,695)	-	-	2,172
Balance at 31 December 2016	377,406	32,614	187,066	17,052	142,268	382	20,215	777,003
Business combinations (Note 4)	11,974	-	2,650	-	30,609	-	-	45,233
Additions	-	18,104	-	1,050	47,690	38	34,025	100,907
Disposals	-	(4,346)	(195)	(494)	(939)	(382)	-	(6,356)
Transfers	-	(645)	-	682	(5)	-	-	32
Balance at 31 December 2017	<u>389,380</u>	<u>45,727</u>	<u>189,521</u>	<u>18,290</u>	<u>219,623</u>	<u>38</u>	<u>54,240</u>	<u>916,819</u>
<b>Amortisation and impairment losses</b>								
Balance at January 2016	-	(3,701)	(122)	(5,050)	(7,482)	-	(63)	(16,418)
Amortisation	-	(3,559)	(4,092)	(2,055)	(9,395)	-	(2,571)	(21,672)
Disposals	-	393	-	-	-	-	-	393
Transfers	-	(1,524)	(150)	28	(22)	-	-	(1,668)
Balance at 31 December 2017	-	(8,391)	(4,364)	(7,077)	(16,899)	-	(2,634)	(39,365)
Amortisation 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	<u>-</u>	<u>(12,944)</u>	<u>(20,403)</u>	<u>(9,324)</u>	<u>(45,330)</u>	<u>-</u>	<u>(5,213)</u>	<u>(93,214)</u>
Impairment at 31 December of 2016	-	-	-	(379)	-	-	-	(379)
Impairment	-	-	-	379	-	-	-	379
Impairment at 31 December of 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Carrying amount</b>								
At 1 January 2016	<u>78,257</u>	<u>5,883</u>	<u>838</u>	<u>3,802</u>	<u>12,670</u>	<u>382</u>	<u>20,152</u>	<u>121,984</u>
At 31 December 2016	<u>377,406</u>	<u>24,223</u>	<u>182,702</u>	<u>9,596</u>	<u>125,369</u>	<u>382</u>	<u>17,581</u>	<u>737,259</u>
At 1 January 2017	<u>377,406</u>	<u>24,223</u>	<u>182,702</u>	<u>9,596</u>	<u>125,369</u>	<u>382</u>	<u>17,581</u>	<u>737,259</u>
At 31 December 2017	<u>389,380</u>	<u>32,783</u>	<u>169,118</u>	<u>8,966</u>	<u>174,293</u>	<u>38</u>	<u>49,027</u>	<u>823,605</u>



## Goodwill

The total goodwill of Euros 11,974 thousand arising on the business combination carried out in 2017 (Llamayá business unit, see Note 4.1), was attributed to the Xfera Móviles, S.A.U. CGU, as this acquisition was completed through Masmovil Telecom 3.0, S.A.U., a company merged with Xfera Móviles, S.A.U. in 2017.

Goodwill arising on business combinations during 2016 amounting to Euros 299,149 thousand has been allocated to all the cash generating units in which the Group's assets are grouped as they will all benefit from the synergies obtained with the new acquisitions.

The goodwill arising previously was attributed to the Xfera Moviles S.A.U. CGUs (as a result of the merger with MásMóvil Telecom 3.0 S.A.U.(Note 2a)) and the Xtra Telecom S.A.U CGU in the amounts of Euros 37,554 thousand and Euros 40,713 thousand, respectively.

The recoverable amount of the CGUs was determined based on its value in use. These calculations are based on cash flow projections from the financial budgets approved by the directors over a period of five years. After five years, cash flows are extrapolated using the growth rates applicable to the sector in which the Group operates.

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

- Post-tax discount rate: 9.9% (10.3% in 2016).
- Sales growth for the budgeted period: between 2% and 12%.
- Perpetual growth rates: 0.5%.
- EBITDA margin/ revenue: around 30%, in line with that contemplated in the business plan and consistent with analysts' estimates.
- CAPEX/Revenue ratio: around 15%, also in line with that contemplated in the business plan and also consistent with recurring investment needs estimated by analysts.

The Group determines gross margins and budgeted sales based on past experience and forecast market performance.

No goodwill impairment has been recognised in 2016 and 2017.

The Group has conducted a sensitivity analysis of the main assumptions behind the value of goodwill allocated to each company, applying a stress test of +/- 5%, which is reasonable given the variations between the prior year's estimates for 2017 and actual figures. Consequently, differences in the exercise conducted were not significant for the assumptions analysed.

## Computer software

Computer software additions for 2017 and 2016 primarily reflect investments in the acquisition and development of IT solutions necessary for telecommunications operator activity. In 2016 investments in corporate applications and projects and integration systems projects with Xfera Móviles S.A.U. and Pepephone were rolled out.

The integration process focusing on the development of transversal solutions for the Group required the derecognition of computer applications that were either fully amortised or close to the end of their useful life.

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

This includes the measurements of the trademarks “Yoigo” and “Pepephone” totalling Euros 88,644 thousand and Euros 8,594 thousand, respectively (See Note 4.2), in accordance with the evaluation provided by independent experts, as well as the measurement of the trademark “Llamaya” totalling Euros 2,650 thousand (Note 4.1), which was prepared internally.

The recoverable amount of the trademarks is determined based on value-in-use calculations. These calculations use cash-flow projections based on approved five year financial budgets. The projections beyond the indicated period were extrapolated using growth rates applicable to the industry in which the Group operates.

The key assumptions used by Management to prepare the cash flow projections were as follows:

- Discount rate after taxes: 9.2% (Xfera Móviles S.A.U.) and 9.9% (Pepephone)
- Sales growth during the budgeted period: 6% until 2020 in both cases.
- Growth rates to perpetuity: 0.5% in both cases.
- Perpetual yield on income: 1.25% (Xfera Móviles S.A.U.) and 1.00% (Pepephone)

In 2017 and 2016 no impairment affected the trademarks.

Licences, amounting to Euro 69,189 thousand, reflect the fair value of licences obtained for the 1,800 MHz and 2,100 MHz bandwidths for the provision of mobile telephone services. These concessions expire in 2030 and 2020, respectively, although the 2,100 MHz licence can be extended, on a one-off basis, for an additional 10-year period until 2030.

### **Development**

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

### **Other intangible assets**

This heading primarily includes the measurement of the customer portfolios received as part of the business combinations (Note 4), the cost of accessing Orange’s ADSL network (*Asymmetric Digital Subscriber Line*) and the capitalization of the fees paid to the distribution channel to obtain new converging offer customers.

### **Rights of use**

The Group has entered into relevant strategic agreements with Orange for the wholesale access of its infrastructure for the joint deployment of FTTH networks (*Fiber-to-the-Home*). The additions recorded during the year 2017 are related to the rights acquired of the aforementioned agreements.

Additionally, this heading includes the indirect right of use of the copper network of Jazz Telecom S.A.U., under the framework agreement signed on 31 July 2015, the acquisition price of which amounted to Euros 29,000 thousand. The Group recognised this asset at cost of acquisition, which is equivalent to the fair value of the consideration received, calculated as the present value of future cash flows payable, and amounts to Euros 20,215 thousand. This amount was recognised as a liability under other financial liabilities.

### **Impairment**

The Group has analysed the possible existence of indications of the impairment of intangible assets. The analysis performed led to the conclusion that it is not necessary to recognize any impairment for intangible assets, and therefore impairment recognized at 31 December 2016 has been reversed.

### **Purchase commitments**

At 31 December 2017 the Group has firm purchase commitments for intangible assets amounting to Euro 71,656 thousand (there were no significant purchase commitments at 31 December 2016), mainly deriving from the FTTH mutualisation network contract signed with Orange.

## 6. Property, Plant and Equipment

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

<i>In thousand euros</i>	Land	Buildings	Installations, equipment and furniture	Other property, plant and equipment	Fibre- optic network	Under construction and advances	Total
<b>Cost</b>							
Balance at January 2016	284	2,735	14,502	3,029	89,186	101	109,837
Business combinations (Note 4)	-	-	252,546	5,165	-	9,581	267,292
Additions	-	-	13,681	855	18,898	28,852	62,286
Disposals	-	-	(2,509)	(1,806)	(90)	(1,372)	(5,777)
Transfers	-	(2,010)	12,994	2,054	6,511	(10,746)	8,803
Balance at 31 December 2016	284	725	291,214	9,297	114,505	26,416	442,441
Additions	-	-	7,002	15	110,560	32,398	149,975
Disposals	-	(224)	(4,492)	(1,441)	(54,794)	(4,563)	(65,514)
Transfers	-	-	(284,422)	(7,180)	302,779	96	11,273
Balance at 31 December 2017	284	501	9,302	691	473,050	54,347	538,175
<b>Depreciation and impairment losses</b>							
Balance at January 2016	-	(203)	(10,563)	(2,341)	(614)	-	(13,721)
Depreciation for the year	-	(16)	(15,592)	(550)	(3,374)	-	(19,532)
Disposals	-	-	2,296	1,805	-	-	4,101
Transfers	-	(183)	(8,954)	(170)	-	-	(9,307)
Balance at 31 December 2016	-	(402)	(32,813)	(1,256)	(3,988)	-	(38,459)
Depreciation for the year	-	(12)	(12,861)	(104)	(51,172)	-	(64,149)
Disposals	-	223	4,336	1,441	32,609	-	38,609
Transfers	-	-	38,047	1,906	(51,226)	-	(11,273)
Balance at 31 December 2017	-	(191)	(3,291)	1,987	(73,777)	-	(75,272)
Impairment at 1 January 2016	-	-	(34)	-	-	-	(34)
Impairment at 31 december 2016	-	-	(34)	-	-	-	(34)
Impairment	-	-	34	-	-	-	34
Impairment at 31 december 2017	-	-	-	-	-	-	-
<b>Carrying amount</b>							
At 1 January 2016	284	2,532	3,905	688	88,572	101	96,082
At 31 December 2016	284	323	258,367	8,041	110,517	26,416	403,948
At 1 January 2017	284	323	258,367	8,041	110,517	26,416	403,948
At 31 December 2017	284	310	6,011	2,678	399,73	54,347	462,903

The main additions during the years ended 31 December 2017 and 2016 relate to network equipment and, specifically, the roll-out and optimization of the 4G mobile telephony network and the deployment of the fibre-optic network, a large part of which was in progress at the end of the year 2017. Property, plant and equipment in progress will be transferred to operating network equipment as network construction advances and is effectively delivered.

In December 2017 the Group reached a sale agreement with an infrastructures company for the sale of more than 600 mobile telephony infrastructures amounting to Euro 39 million, generating a gain of Euros 17 million (see Note 19 (e)). The agreement falls within the efficiency and rationalization processes in the mobile network and the rotation of assets commenced by the Group, with the objective of reinvesting the funds obtained in the development of FTTH. In this context, the Group will be co-located at those facilities and the infrastructures company has become an industrial partner for the management of the infrastructure and for possible new cooperation agreements regarding future network rollouts.

The transfers that took place during 2017 essentially relate to mobile telephony network equipment assets which, in prior years, were presented as part of plant and machinery.

No interest has been capitalised at 31 December 2017 or 2016.

### **Network equipment**

The fibre-optic network includes the deployment of the telecommunications network, fixed and mobile, and the acquisition cost of the items making up the fibre-optic network acquired from Jazz Telecom S.A.U., plus costs start-up costs, based on the Sale and Purchase Agreement ("SPA") arranged in 2015.

The Group has entered into collaboration agreements with Orange for the overall deployment of the FTTH network, under which each party deploys its own network and assigns the use to the other party while retaining ownership of the asset (mutualization). The right of use assigned in favour of Orange over its infrastructures is recognized as a charge against other financial liabilities (Note 17).

Similarly, the purchase agreement signed with Jazz Telecom S.A.U., includes the assignment of the right to use of the fibre-optic network in favour of said company which was also recognized as a charge against other financial liabilities (see Note 17).

### **Property, plant and equipment located abroad**

At 31 December 2017 the Group has property, plant and equipment located abroad comprising IT equipment with a carrying amount of Euros 66 thousand (Euros 66 thousand at 31 December 2016).

### **Insurance**

The Group has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered sufficient.

**Property, plant and equipment pledged as collateral**

At 31 December 2017 and 2016 part of the land and buildings where the Group carries out its activity has been mortgaged as security for certain loans and borrowings (see Note 11 (f)).

**Purchase commitments**

At 31 December 2017 the Group maintains firm purchase commitments regarding property, plant and equipment totalling Euros 68,471 thousand euros (Euros 9,967 thousand at 31 December 2016) intended for the expansion of its telecommunications network over the coming years.

**Impairment of property, plant and equipment**

The Group has analysed the possible existence of indications of the impairment of property, plant and equipment. The analysis performed led to the conclusion that it is not necessary to recognize any impairment for property, plant and equipment.

**Property, plant and equipment being acquired under finance leases.**

The list of property, plant and equipment being acquired under finance leases is presented in Note 11 (c).

**7. Other Investments**

Details of other investments are as follows:

<i>In thousand euros</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
<b>Non-current</b>		
Equity instruments	692	2,172
Securities and other deposits	1,281	1,958
Other financial Assests	<u>4,431</u>	<u>12,852</u>
	<u>6,404</u>	<u>16,982</u>
<b>Current</b>		
Equity instruments	21	19
Loans to companies	2,735	4,300
Securities and other deposits	633	828
Other financial Assests	<u>104</u>	<u>396</u>
	<u>3,493</u>	<u>5,543</u>

Other non-current financial assets at 31 December 2017 mainly relate to the non-current payments for the financing of the acquisition of telephone terminals provided by the Group to customers in the amount of Euros 4,075 thousand (Euros 5,638 thousand in 2016). That financing has a term of 24 months and is completely independent of the financing provided by financial institutions directly to customers (See Note 9).

The Group's exposure to credit risk, liquidity risk and market risk is described in Note 15.

## 8. Prepayments for Non-current and current Assets

At 31 December 2017 prepayments for non-current assets amount to Euros 28,876 thousand (31,498 thousand Euros at 31 December 2016) and reflect the 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 (See Note 16).

Current accruals totalling Euros 2,751 thousand (Euros 2,498 thousand at 31 December 2016) mainly relate to payments made for insurance, bank expenses and maintenance.

## 9. Trade and Other Receivables

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

	<u>31/12/2017</u>	<u>31/12/2016</u>
Trade receivables	181,648	150,854
Terminal financing to customers (Note 7)	10,283	15,337
Other receivables	4,488	1,497
Public entities, other	<u>10,567</u>	<u>24,898</u>
	206,986	192,586
Impairment	<u>(8,545)</u>	<u>(4,792)</u>
	<u>198,441</u>	<u>187,794</u>

Movement in impairment is as follows:

<i>In thousand euros</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
<i>Current</i>		
Balance at 1 January	(4,792)	(1,902)
Charges	(29,857)	(5,929)
Reversals	2,141	419
Applications	<u>23,963</u>	<u>2,620</u>
Balance at 31 December	<u>(8,545)</u>	<u>(4,792)</u>

The Group’s exposure to credit risk, liquidity risk and market risk is described in Note 15.

## 10. Equity

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

### a) Share capital

At 31 December 2017 and 2016 the Company's share capital consists of 19,951,100 fully subscribed and paid shares with a par value of Euros 0.10 each. All shares have equal voting and financial rights. There are no restrictions on the free transfer of shares. There are no restrictions on the free transfer of shares.

At a General Meeting held on 23 June 2016 shareholders adopted a resolution to increase share capital by Euros 818 thousand by issuing 8,184,144 new shares with a par value of Euros 0.10 each, and a share premium of Euros 19.45 per share, resulting in a total share premium of Euros 159,182 thousand. The new shares were fully subscribed and paid in through a cash payment. The costs to issue the new shares were charged directly against equity in the amount of Euros 1,945 thousand.

Shares are held by several shareholders at 31 December 2017 and those with an interest exceeding 3.00% are the following: PLT VII Holdco Sarl (Providence) 18.00% (see Note 25), Onchena, S.L.U. 17.18%, Indumenta Pueri S.L. 10.50%, Key Wolf S.L.U. 6.48%, Gala Growth Properties S.L. 6.15%, Caja de Seguros Reunidos Compañía de Seguros y Reaseguros S.A. 3.74%, Norsis Creaciones S.L.U. 3.59% and FMR LLC 3.38%.

The primary shareholders with an interest exceeding 10.0% at 31 December 2016 were: PLT VII Holdco Sarl 18.0% and Onchena, S.L. 17.1%.

### b) Share premium

The share premium amounting to Euros 246,652 thousand at 31 December 2017 (Euros 246,652 thousand at 31 December 2016) derives from the capital increases carried out in 2016 and prior years, or accumulated losses at that date.

At 31 December 2017 and 2016 the share premium is freely distributable except for the amount of development expenditure to be amortised (see Note 5).

### c) Retained earnings and other reserves

At 31 December 2017 retained earnings and other reserves are negative in an amount of Euros 165,874 thousand (Euros 62,645 thousand negative in 2016), which includes losses for the year of Euros 102,759 thousand (losses of Euros 58,051 thousand at 31 December 2016).

The General Shareholders' Meeting of the parent Company of 22 June 2017 approved the appropriation of the losses incurred by the parent company in 2016 to prior-year losses in an amount of Euros 19,509 thousand.

The preparation of the parent company's annual accounts for 2017 includes the proposal to appropriate losses incurred during the year amounting to Euros 25,361 thousand to prior-year losses.



The legal reserve has been appropriated in accordance with article 274 of the Spanish Companies' Act, which requires that companies transfer 10% of their profits for the year to the legal reserve until this reserve reaches an amount equal to 20% of share capital. The legal reserve is not distributable to shareholders and if it is used to offset losses, in the event that no other reserves are available, the reserve must be replenished with future profits.

At 31 December 2017 and 2016 the legal reserve amounts to Euros 119 thousand.

#### d) Own shares

Shareholders at a General Meeting of Másmóvil Ibercom, S.A. held on 22 June 2017 provided a five-year authorization to the Board of Directors to acquire own shares, either directly or through subsidiaries, up to a maximum of 10% of share capital. The acquisition price per share cannot exceed 5% above the listed price of the shares at the time of the transaction or be less than a 30% discount on the listed value at the time of the transaction.

In 2017 the Company sold own shares with an acquisition cost of Euros 21,618 thousand, increasing reserves by Euros 672 thousand due to the difference between the average acquisition cost and the selling price. At the same time it purchased shares in the amount of Euros 29,216 thousand.

In 2016 the Parent sold own shares with an acquisition cost of Euros 8,098 thousand, decreasing reserves by Euros 261 thousand due to the difference between the average acquisition cost and the selling price.

The following own share transactions were carried out in 2017 and 2016:

	<b>Number of shares</b>	
	<b>(2017)</b>	<b>(2016)</b>
At 1 January	14,939	55,180
Additions	373,251	354,133
Disposals	(283,592)	(394,374)
<b>At 31 December</b>	<b>104,598</b>	<b>(14,939)</b>

At year-end 2017 the Company has 104,598 treasury shares acquired at a weighted average unit cost of Euro 76.22 per share (14,939 treasury shares at 31 December 2016 at a weighted average cost of 25.11 euros per share).

#### e) Other equity instruments

On 13 July 2017 the Group reached an agreement with ACS to refinance the debt generated on the acquisition of the Xfera Móviles, S.A.U. based on which the Note ceases to be a hybrid financial instrument and becomes a compound financial instrument (Note 4.2).

Since this involves a substantial change in a financial liability, the Directors consider that accounting legislation requires the compound instrument to be recognised at fair value. This value at 31 December 2017 amounted to Euros 289,732 thousand and the equity component (conversion option) amounted to Euros 151,982 was assigned the difference between Euros 289.732 thousand and the fair value of the financial liability component (debt instrument including the payment clause associated with the decline in the Group's credit risk and the early cancellation option).

In order to make partial payment of the deferred variable price for the acquisition of the company Embou Nuevas Tecnologías, S.L. concluded in April 2015, on 6 November 2017 the Group purchased treasury shares, which increased “Other equity instruments” by Euros 5,515 thousand.

As is indicated in Note 20 (c), in 2015 the Group implemented a parent company stock option plan for the executive team. The Heading “Other equity instruments” increased by Euros 577 thousand in 2017(Euros 259 thousand in 2016) to cover the plan at maturity.

As mentioned in Note 11 (d), on 23 September 2016, as approved by the shareholders of the Company at their general meeting on 16 August 2016, the Group issued bonds with a nominal value of Euros 165,000 thousand, convertible into the Parent shares with no pre-emptive rights for its shareholders. On 4 October 2016 the 1,650 bonds of the first issue were fully subscribed and paid by PLT VII Holdco S.à r.l. They were issued at a unit nominal value of Euros 100 thousand, total nominal value of Euros 165,000 thousand, mature in eight years and accrue interest annually at a fixed rate of 6.35%, and are eligible for capitalisation as an increase in debt.

The buyer has the option to convert the bonds at any time from the 39th month following their issue until the 7th day prior to maturity. The initial price for converting the bonds is set as Euros 22 per share and is subject to adjustment in the circumstances provided for in the bond conditions, providing they do not generate a significant economic dilution and are not protected against an eventual decline in share value.

This issue is considered a compound financial instrument comprising a debt component at amortised cost of Euros 115,043 thousand (Euros 98,747 thousand in 2016) (see Note 11 (d)) and an equity component of the remaining Euros 66,253 thousand (66,253 thousand at 31 December 2016), as the issue includes a conversion into own shares option for the issuer. The directors consider that the convertibility of accrued interest into shares does not breach the fixed-for-fixed rule to be considered an equity instrument, as the variability in the number of shares depends only on the passage of time, and not on any other variable, nor are they protected against a possible decline in share value.

## f) Earn per share

### Basic

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

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

	<u>2017</u>	<u>2016</u>
Loss for the year attributable to equity holders of the Parent (in thousand of Euros)	(102,759)	(58,051)
Weighted average number of ordinary shares outstanding (in thousand of shares)	19,919	15,088
<b>Basic loss per share (in Euros)</b>	<b><u>(5.159)</u></b>	<b><u>(3.847)</u></b>

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

<i>In thousand of shares</i>	<u>2017</u>	<u>2016</u>
Shares outstanding at 1 January	19,951	11,712
Effect of shares issued in 2016	-	3,431
Effect of own shares	<u>(32)</u>	<u>(55)</u>
<b>Weighted average number of ordinary shares outstanding at 31 December</b>	<b><u>19,919</u></b>	<b><u>15,088</u></b>

### Diluted

Diluted earnings per share are calculated by adjusting the profit/(loss) for the year attributable to equity holders of the Parent Company 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/ (losses) per share are as follows:

	<u>2017</u>	<u>2016</u>
Loss for the year attributable to equity holders of the Parent (in thousand of Euros)	60,129	(53,132)
Weighted average number of ordinary shares outstanding (in thousand of shares) (diluted)	33,086	18,561
<b>Diluted loss per share (in euros)</b>	<b><u>1.817</u></b>	<b><u>(2.863)</u></b>

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

<i>In thousand euros</i>	<u>2017</u>	<u>2016</u>
Loss for the year attributable to equity holders of the Parent (in thousand of Euros)	(102,759)	(58,051)
Effect of the conversion of convertible bonds	<u>162,888</u>	<u>4,919</u>
<b>Weighted average number of diluted ordinary shares outstanding</b>	<b><u>60,129</u></b>	<b><u>(53,132)</u></b>

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

<i>In thousand of shares</i>	2017	2016
Weighted average of ordinary shares outstanding	19,919	15,088
Effect of the conversión of convertible bonds	13,167	3,473
<b>Weighted average number of diluted ordinary shares outstanding</b>	<b>33,086</b>	<b>18,561</b>

Effect of the conversion of convertible bonds includes convertible shares corresponding to the convertible bonds subscribed by “Providence”, explained in section (e) of this note (8,108 thousand shares), those corresponding to the note subscribed by the former non-controlling interests of Xfera Móviles S.A.U. (4,800 thousand shares) (see Notes 4 and 11), weighted by the number of months since issue, and the 500 thousand convertible bonds under the stock options plan (see Note 20(c)) weighted since their approval.

#### g) Other movements

Other movements primarily include the costs of issuing new shares in subsidiaries charged directly to equity.

### 11. Financial Liabilities

Details of financial liabilities are as follows:

<i>In thousand of euros</i>	31/12/2017		31/12/2016	
	Non-current	Current	Non-current	Current
Loans and borrowings	499,274	24,055	434,125	35,939
Other payables	4,296	31,952	5,756	28,582
Finance lease payable	27,718	6,412	34,350	6,782
Other financial liabilities	298,260	41,517	181,998	108,516
Derivative financial instruments	3,123	-	27,727	72,741
	<b>832,671</b>	<b>103,936</b>	<b>683,956</b>	<b>252,560</b>

#### a) Loans and borrowings

Details of loans and borrowings are as follows:

<i>In thousand of euros</i>	31/12/2017		31/12/2016	
	Non-current	Current	Non-current	Current
Loans	499,274	4,576	434,125	14,197
Credit facilities	-	8,359	-	19,619
Interest accrued	-	413	-	922
Other loans and borrowings	-	10,707	-	1,201
	<b>499,274</b>	<b>24,055</b>	<b>434,125</b>	<b>35,939</b>

The terms and conditions of the loans with financial Institutions are as follows:

<i>In thousand Euros</i>						<b>31/12/2017</b>		
Company	Currency	Fixed or variable rate	Effective interest rate	Maturity	Nominal	Current	Non-current	Total
Various financial institutions (Senior debt)	EUR	Variable	2,50%	2022	419,891	12,131	394,494	406,625
BNP Paribas (Junior debt)	EUR	Variable	14,50%	2022	95,500	1,466	104,299	105,765
Other loans	EUR	Fixed/Variable	3,12%	2019	300	982	481	1,463
Other credit policies		Fixed	-	-	-	9,476	-	9,476
						<u>24,055</u>	<u>499,274</u>	<u>523,329</u>

The terms and conditions of borrowings with financial Institutions at 31 December 2016 are as follows:

<i>Thousand euros</i>						<b>31/12/2016</b>		
Company	Currency	Fixed or variable rate	Effective interest rate	Maturity	Nominal amount	Current	Non-current	Total
Several financial institutions (Senior Debt)	EUR	Variable	3.50%	2021	356,059	10,131	337,233	347,364
Société Générale, Sucursal en España (Junior Debt)	EUR	Variable	14.50%	2022	95,500	-	95,958	95,958
Other loans	EUR	Variable	0,60% - 5,56%	2017-2021	4.388	763	686	1.449
Other loans	EUR	Fijo	1,15% - 5,88%	2017-2019	5.442	3.303	248	3.551
Other credit policies	EUR	Fijo	-	-	-	19.619	-	19.619
Interest						922	-	922
Other bank borrowings						1.201	-	1.201
						<u>35.939</u>	<u>434.125</u>	<u>470.064</u>

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

See Note 15 for further information on the Group's exposure to interest rates, foreign currencies and liquidity risk.

#### *Senior syndicated loan*

In December 2017 the Group extended the term and increased the amount of the syndicated loan, Euros 228 millions, obtained in October 2016 for an initial nominal amount of Euros 386 million. That loan was structured into several tranches:

- Tranche A: The balance totals Euros 39,033 thousand (Euros 40,617 thousands nominal value) and the liable party is the subsidiary Másmóvil Holdphone, S.A.U. It accrues a variable rate indexed to the Euribor (Euribor + 2.5%), with half-yearly payments of interest and principal until 2022.
- Tranche B: The amount totals Euros 138,840 (Euros 142,835 thousands nominal value) and the liable party and guarantor is Xfera Móviles S.A.U.. It accrues a variable rate indexed to the Euribor (Euribor + 2.5%), with half-yearly payments of interest and principal until 2022.
- Tranche C: The amount totals Euros 160,859 (Euros 165,459 thousands nominal value) and the liable party and guarantor is Xfera Móviles S.A.U. It accrues a variable rate

indexed to the Euribor (Euribor + 2.5%), with half-yearly payments of interest and principal until 2022 (18 month grace period).

- Tranche D: guarantees issued, Euros 120.000 thousands nominal value, to ACS Actividades de Construcción y Servicios S.A. (See Note 4.2 y 15 (b)). Once this guarantee matures on 6 October 2018, this amount may be used to amortize the junior debt of the Group or finance investments in network developments.
- Tranche Existing RCF: up to a maximum of Euros 30,000, considered to be an available line of credit for Group companies and those companies are also the guarantors. The Group has not drawn down any amount of this tranche whatsoever at the date these consolidated annual accounts were prepared for the year-end 31 December 2017 (see Note 2 (d)).
- Tranche E: in the amount of Euros 150,000 thousand and the liable parties and guarantors are Xfera Móviles S.A.U. and MásMóvil Broadband. It accrues a variable rate indexed to the Euribor (Euribor + 2.5%), with half-yearly payments of interest and principal until 2022 (18 month grace period). This tranche had not been drawn down, although it has given rise to initial costs of Euros 2,510 thousand, and it is intended to be used for the investment in the roll-out of the Group's fixed and mobile telephony network.
- Tranche F: in the amount of Euros 78,000 thousand of which Euros 70,403 thousand had been drawn down at 31 December 2017 (nominal amount of Euros 70,980 thousand). The borrowers in this tranche are Xfera Móviles S.A.U. and MásMóvil Broadband S.A.U., and they are also the guarantors. It accrues a variable rate indexed to the Euribor (Euribor + 2.5%), with half-yearly payments of interest and principal until 2022 (18 month grace period). This tranche is intended for the repurchase of the bonds issued by MásMóvil Broadband S.A.U. On 8 January 2018 a nominal amount of Euros 6,370 thousand was drawn down and all of the bonds issued by MásMóvil Broadband, S.A.U. were repurchased.

As security for this loan, a pledge was arranged over the shares of Xfera Móviles S.A.U., Xtra Telecom, S.A.U. and MásMóvil Broadband, S.A.U., and the shares of Pepeworld, S.L.U, Pepemobile, S.L. and Pepe Energy, S.L. (See (d) in this note).

In December 2016 the Group arranged an interest rate derivative to cover the syndicated loan (see Note 15 (c) and (e) of this note). The fair value of the derivative at 31 December 2016 is Euros 623 thousand (Euros 1.098 thousands at 31 December 2016).

The syndicated loan includes the obligation to comply with the following financial leverage ratios: Senior net debt/EBITDA and Total net debt/EBITDA and financial expense hedge ratio. The first test will be conducted using the interim financial statements for the first quarter of 2017. The amounts reflected in these consolidated annual accounts at 31 December 2017 indicate compliance with those covenants.

#### *Junior subordinated loan*

Non-current bank borrowings totalling Euro 104,299 thousand (that relates to a nominal amount of Euro 95,500 thousand) at 31 December 2017 (Euros 95,958 thousand 31 December 2016) relate to a subordinated junior loan obtained by the parent company on 29 September 2016 from Société Générale, Sucursal en España for a maximum of Euros 95,500 thousand and falling due on 30 June 2022. During el 2017 ownership of the loan was transferred to BNP Paribas. This loan accrues annual interest as follows:

- During the first 24 months: Euribor (minimum of 1%) + 4.5% (cash interest margin) + 9% (PIK interest).

- From thereon until maturity: Euribor (minimum of 1%) + 4.5% (cash interest margin) + 8.25% (PIK interest).

Cash interest is payable every six months and PIK (*Payment in Kind Interest*) interest is eligible for capitalisation every six months.

This debt is secured by the guarantees provided by the Másmóvil Ibercom Group's main subsidiaries: Másmóvil Phone & Internet, S.A.U, Másmóvil Holdphone, S.A.U., Xtra Telecom, S.A.U., Xfera Móviles S.A.U., MásMóvil Boradband S.A.U., Pepemobile, S.L. and Pepeworld, S.L.

The junior subordinated loan includes the obligation to comply with the following covenants: Senior Net Debt/EBITDA financial leveraging ratio, Total Net Debt/EBITDA financial leveraging ratio, and the first test was performed using the interim consolidated financial statements prepared by the Group for the first quarter of 2017. The amounts reflected in these consolidated annual accounts at 31 December 2017 indicate compliance with those covenants.

### b) Other payables

The heading "Other current payables" essentially records payables to asset suppliers relating to the deployment of the telecommunications network totalling Euros 30,730 thousand (Euros 27,643 thousand at 31 December 2016).

This heading also records the balance relating to the loans granted by public agencies (Ministry of Industry, Tourism and Commerce) whose effective interest rate varies between 0.00%-4.00%, and are for a total amount of Euros 4,731 thousand at 31 December 2017 (Euros 6,408 thousand at 31 December 2016). The current tranche amounts to Euros 585 thousand at 31 December 2017 (Euros 738 thousand at 31 December 2016) while the non-current tranche totals Euros 4,146 thousand (Euros 5,670 thousand at 31 December 2016).

This note provides information regarding the contractual terms of other debts that are measured on an amortised cost basis.

See Note 15 for further information regarding the Group's exposure to interest rate, currency and liquidity risks.

### c) Finance lease payables

The Group has leased the following types of assets under finance leases:

<i>In thousand of euros</i>	31/12/2017		
	Furniture	Technical Installations	Total
Cost	44	61,250	61,294
Accumulated depreciation and impairment losses	(44)	(23,414)	(23,458)
Carrying amount at 31 December 2017	-	<b>37,836</b>	<b>37,836</b>

<i>In thousand euros</i>	31/12/2016		
	Furniture	Technical Installations	Total
Cost	44	61,250	61,294
Accumulated depreciation and impairment losses	(44)	(17,168)	(17,212)
Carrying amount at 31 December 2016	-	<b>44,088</b>	<b>44,082</b>

Details of minimum lease payments and the present value of finance lease liabilities, by maturity date, are as follows:

<i>In thousand of Euros</i>	31/12/2017			31/12/2016		
	Minimum payments	Interests	Present Value	Minimum payments	Interests	Present Value
Up to 1 year	7,404	(992)	6,412	7,609	(827)	6,782
Between 1 and 5 years	27,689	(5,733)	21,956	30,312	(6,743)	23,569
More than 5 years	7,951	(2,189)	5,762	12,969	(2,188)	10,781
	43,044	(8,914)	34,130	50,890	(9,758)	41,132
Less current portion	(7,404)	992	(6,412)	(7,609)	827	(6,782)
Total non-current	<b>35,640</b>	<b>(7,922)</b>	<b>27,718</b>	<b>43,281</b>	<b>(8,931)</b>	<b>34,350</b>

#### d) Other financial liabilities

The balance recognised under “Other financial liabilities” at 31 December 2017 and 2016 essentially consists of the following items:

##### Non-current tranche

- Euros 115,043 thousand (Euro 101,695 thousand at 31 December 2016) relates to debentures and other marketable securities with related party companies relating to the convertible bonds that are mentioned in Note 10 (e), including Euros 13,765 in financial expenses occurred in 2017 (Euros 2,948 thousand in 2016).
- Euros 27,473 thousand relates debentures and other marketable securities with unrelated parties relate to bonds issued by the Parent Company in 2015. In accordance with the resolutions adopted by the Company’s Board of Directors on 13 May 2015 and as stipulated in the payment agent agreement dated 24 June 2015, it issued five-year bonds for a total maximum nominal amount of Euros 27,000 thousand bearing an annual interest rate of 5.5%. A maximum of 270 bonds were issued and the Prospectus was officially registered with the Alternative Fixed Income Market (hereinafter MARF). Up until 31 December 2017 Euros 1,594 thousand in interest had accrued (Euros 1,485 thousand had accrued at 31 December 2016), of which Euros 473 thousand had yet to be paid and were recorded in the same heading at that date). The cost of issuing the bonds amounted to Euros 543 thousand and is considered to form part of their amortised cost.
- Euros 135,250 thousand relating to the Note issued when acquiring Xfera Móviles S.A.U. (Notes 4.2 and 10(e)).



- Euros 20,494 thousand relating to the discounted value of the amount payable to the company As a result of the contract included regarding the assignment of the indirect right held by the latter company to use the copper line network maintained by Telefónica de España, S.A. to the subsidiary MásMóvil Broadband, S.A. (see Note 5).

#### Current tranche

- MásMóvil 2016 promissory note program. As is established in the Prospectus for the promissory notes provided to the MARF on 30 September 2016, the Company issued the promissory notes for a maximum amount of Euros 30,000 thousand. The maximum number of active promissory notes at any given moment may not exceed 300 with a nominal value of Euros 100,000 each. The promissory note program is in force for one year. The nominal interest rate is established upon each issue. At 31 December 2017 Euros 16,200 thousand in promissory notes were outstanding, issued at an average rate of 1.57% in 2017. The carrying amount is Euros 16,142 thousand, including interest accrued at 31 December 2017 totalling Euros 94 thousand.

On 23 March 2017 and 21 June 2017 the Company renewed for one year its promissory notes program listed in the amount of Euros 15,000 thousand and Euros 1,200 thousand.

- Deferred payments for business combinations in 2014-2017 totalling Euros 13,469 thousand (Euros 2,212 thousand and 31 December 2016) (Note 4). This also includes deferred payments for the acquisition of companies totalling Euros 5,118 thousand.
- Euros 5,787 thousand relate to the bond issues carried out in by the subsidiary MasMóvil Broadband, S.A.U. In December 2017 the Group commenced the repurchasing process for all secured senior bond holders for a total of Euros 68 million at a 5.75% interest rate, maturing on 27 July 2024. All of these transactions are fungible and were issued by MasMóvil Broadband, S.A.U on 21 July 2016 and 10 March 2017. The repurchase price was established at 113.75% of the nominal value of each bond, which was the Group's estimated fair value for these financial instruments. On 2 January 2018 the Group announced that 100% of the bondholders had accepted the repurchase offer, and at the end of 2017 a nominal amount of Euros 62.4 million had been redeemed. The remaining nominal amount was redeemed on 8 January 2018, being amortised the emission.

#### e) Derivative financial instruments

This primarily includes Euros 2,500 thousand relating to the embedded derivative in the ACS Note mentioned in Note 4.2, as well as the derivatives relating to the senior debt interest swap (See (a) of this note).

**f) Other information on payables**

Details of bank loans secured by mortgages (see Note 6) and their balances at 31 December 2017 and 2016 are as follows:

<i>In thousand euros</i>	Guarantee	31/12/2017	31/12/2016
Kutxabank, S.A.	Mortgage	-	12
Kutxabank, S.A.	Mortgage	-	8
Banco Popular Español, S.A.	Mortgage	161	203
Cajas Rurales Unidas, Sociedad Cooperativa de Crédito	Mortgage	145	183
Banco de Sabadell, S.A.	Mortgage	137	169
		<b>443</b>	<b>575</b>

**12. Provisions**

Details of provisions at 31 December 2017 and 2016 are as follows:

<i>In thousand of Euros</i>	31/12/2017		31/12/2016	
	Non-current	Current	Non-current	Current
Provision for loss-making / onerous contracts	53,389	-	57,497	37,894
Provision for comercial transactions	17,218	7,071	29,354	-
Provision for decommissioning	7,973	-	8,374	-
Provision for commitments with personnel	9,366	-	2,470	-
Provisions for other liabilities	1,200	-	500	773
Other provisions	262	-	2,986	575
	<b>89,408</b>	<b>7,071</b>	<b>101,181</b>	<b>39,242</b>

Movement in provisions is as follows:

<i>In thousand of Euros</i>	Provision for loss-making onerous contracts	Provisions for comercial transactions	Provisions for discomissioning	Provisions for commitments with personnel	Provisions for other liabilities	Other provisions	Total
Balance at 1 January 2016	-	-	-	-	762	130	892
Business combinatios (Note 4)	96,418	35,517	8,370	-	-	12	140,317
Charge for the year	-	476	22	2,470	503	23	3,494
Applications	-	(4,525)	(18)	-	-	(12)	(4,555)
Reversals	(1,027)	(2,114)	-	-	-	-	(3,141)
Other movements	-	-	-	-	8	3,408	3,416
Balance at 31 December 2016	95,391	29,354	8,374	2,470	1,273	3,561	140,423
Charge for the year	-	7,774	209	9,366	1,200	132	8,681
Business combination (Note 4)	-	4,656	-	-	-	-	4,656
Applications	(37,894)	(342)	-	(2,470)	(1,273)	(445)	(48,424)
Reversals	(4,108)	(11,153)	(610)	-	-	(2,986)	(18,857)
Balance at 31 December 2017	<b>53,389</b>	<b>24,289</b>	<b>7,973</b>	<b>9,366</b>	<b>1,200</b>	<b>262</b>	<b>96,479</b>

**Provision for loss-making/onerous contracts**

It includes a provision totalling Euros 53,389 thousand at 31 December 2017 (Euros 57,497 thousand) at 31 December 2016 relating to a tower lease agreement maintained by Xfera

Móviles S.A.U. that is considered to be above the market. This provision will be reduced and cancelled over the rental period ending in 2030.

These also include a Euros 37,894 thousand provision for cancellation for Pepephone's contract with Telefónica relating to an MVNO contract, equal to the penalty amount established in the contract (see Note 4.2). As a new contract was signed with Telefónica in December 2016, this provision will be applied in full in 2017.

### Provision for commercial transactions

Xfera Móviles S.A.U. offers its customers subscription services providing access to a terminal financing model, primarily using bank resources, for a term of 24 months, plus a final payment ("Cuota 25"). At the end of the financing contract the customer has the option of paying the final instalment or selling the terminal to the Group for the amount of the so-called "Cuota 25", which has the acquisition commitment. The Group estimates a provision for sales transactions to cover the possible risks deriving from the failure to make payment for the financing and the purchase of terminals, taking into consideration the market value of the terminal if acquired from the customer. The impact on the consolidated comprehensive income statement is recognised as an increase in the cost of supplies at the time the contract is signed.

### Provision for decommissioning

The provision for dismantling sites reflects the estimated cost of dismantling, removal or renovation of the telecommunication infrastructures, recognised as an increase in the value of assets amounting to Euros 7,973 thousand (Euros 8,374 thousand at 31 December 2016), calculated in accordance with the estimated unit cost of dismantling and hypothetical contract completion, according to the experience obtained since the launch. At least at the year end the Group reviews its estimates and updates them when necessary to record the provision at fair value.

### Provision for commitments with personnel

At the end of 2017 the Group recorded a provision to cover the stock option revaluation plan arranged with certain senior managers and employees (Note 20(c)), amounting to Euro 9,366 thousand.

In 2016, the Group recorded a provision to cover the severance payments agreed with employees amounting to Euro 2,470 thousand, which was fully applied in 2017.

## 13. Government Grants

Movement in non-refundable government grants is as follows:

<i>In thousand of Euros</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Balance at 1 January	11,798	2,218
Grants received during the year	107	9,956
Grants recognised in income	(114)	(584)
Other movements	-	208
Balance at 31 December	<u>11,791</u>	<u>11,798</u>

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

## 14. Trade and Other Payables

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

<i>In thousand Euros</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Trade payables	579,336	363,425
Transaction authorities, other taxes	12,481	11,774
Personnel	6,037	3,714
Other payables	11,538	4,890
	<u><b>609,392</b></u>	<u><b>383,803</b></u>

The Group's exposure to currency and liquidity risk in relation to trade and other payables is described in Note 15.

### Late Payments to Suppliers. Third Additional Provision “Reporting Requirement” under Law 15/2010 of 5 July 2010

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

	<u>31/12/2017</u>	<u>31/12/2016</u>
Average supplier payment period (days)	49.40	37.53
Transaction paid ratio	89.59%	40,04%
Transaction payable ratio	10.41%	25,86%
<i>In thousand of Euros</i>		
Total payments made , in Euros	1,820,965	1,103,173
Total payments outstanding in Euros	211,484	35,904

## 15. 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

This note provides information on the Group's exposure to each of the above risks, the Group's objectives, the policies and procedures it uses to measure and manage risk and its capital management process.

### **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 adhere 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 global risk management programme focuses on uncertainty in the financial markets and the potential adverse effects on the Group's profits. The Group uses derivatives in some of its subsidiaries to cover certain risks.

### a) Credit risk

Credit risk is the risk of financial loss to which the Group is exposed in the event that a customer or counterparty to a financial instrument fails to discharge a contractual obligation, and mainly arises on the Group's trade receivables and investment instruments.

#### **Exposure to credit risk**

The maximum exposure to credit risk for loans and other receivables at the reporting date is as follows:

<i>In thousand of Euros</i>	31/12/2017	31/12/2016
Loans and associates	2,735	4,300
Equity instruments	713	2,592
Deposits and guarantees	1,914	2,786
Other financial assets	4,535	13,248
Trade and other receivables	198,441	187,794
	<b>208,338</b>	<b>210,720</b>

#### *Trade and other receivables*

The Group does not have significant concentrations of credit risk. Net current trade receivables amount to Euros 183,376 thousand (Euros 161,399 thousand at 31 December 2016).

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

The Group has policies to limit the credit risk associated with trade receivables and financial institutions, and the management of its exposure to risk relating to the recovery of loans forms part of its day-to-day activity. The Group ensures that wholesale sales are only made to customers with adequate credit records.

The Group has formal procedures in place to detect impairment of trade receivables. These procedures and individual analysis by business area are used to identify delays in payments and establish the methods for estimating the impairment loss. Impairment mainly arises due to significant individual exposure and collective loss on a group of similar assets for which impairment losses have been incurred but not yet identified.

Valuation allowances for bad debts, the review of individual balances based on customers' credit ratings, current market trends, and historical analysis of bad debts at an aggregated level entail a significant use of estimates. Any decrease in the volume of outstanding balances entails

a reduction in impairment resulting from an aggregate analysis of historical bad debts, and vice versa.

At 31 December 2017 the maximum exposure to credit risk associated with trade and other receivables, with a breakdown by geographical area, is as follows:

<i>In thousand of Euros</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Spain	196,282	168,716
Europe	2,159	14,230
USA and Canada	-	4,758
	<u>198,441</u>	<u>187,704</u>

Trade receivables are initially measured at nominal amount and the Group recognises the valuation allowances it considers necessary to cover insolvency risk, i.e. for loans past-due beyond a certain period or where circumstances indicate collection is doubtful.

There are no significant bad debts for which provision has not been made. Trade receivables from business combinations have been incorporated at their market value, and thus net of their bad debt provision.

#### **b) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled in cash or other financial assets. The Group's approach to managing liquidity is to ensure, whenever possible, that it always has sufficient liquidity to settle its obligations as they fall due, 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 maintain financial flexibility through the availability of credit facilities with related parties.

At 31 December 2017 cash available of the Group amounts to Euros 199,092 thousand taking into account the guarantee amounting to Euros 120,000 thousand granted to ACS (notes 4.2 and 11(d)) and the unavailable current account mentioned in note 20(c) of Euros 1,000 thousand. The net cash generated by operating activities during 2017 totals Euros 226,734 thousand (Euros 44,412 thousand in 2016).

Detailed below are the contractual maturities of financial liabilities, including estimated payments of interest and excluding the impact of netting agreements are as follow:

Vencimientos contractuales de pasivos financieros

In thousand of Euros

		2018	2019	2020	2021	2022	Later years	
		31/12/2017						
	Carrying amount	Contractual cash flows	Less than 1 year	More than 1 year and less than 2 years	More than 2 years and less than 3 years	More than 3 years and less than 4 years	More than 4 years and less than 5 years	More than 5 years
Loans and borrowings	523,329	643,079	29,073	62,932	120,279	130,017	300,778	-
Derivative financial instruments	3,123	3,123	-	-	-	-	3,123	-
Other payables	36,248	36,248	31,952	4,296	-	-	-	-
Finance lease payable	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	1	-	-	-	-	-
	<u>1,533,518</u>	<u>1,858,390</u>	<u>705,864</u>	<u>83,946</u>	<u>162,193</u>	<u>143,899</u>	<u>317,194</u>	<u>445,293</u>

Vencimientos contractuales de pasivos financieros

In thousand of Euros

		2017	2018	2019	2020	2021	Later years	
		31/12/2016						
	Carrying amount	Contractual cash flows	Less than 1 year	More than 1 year and less than 2 years	More than 2 years and less than 3 years	More than 3 years and less than 4 years	More than 4 years and less than 5 years	More than 5 years
Loans and borrowings	470,064	619,087	58,470	58,143	105,387	111,002	125,238	160,847
Derivative financial instruments	100,468	100,468	72,741	26,629	-	-	1,098	-
Other payables	6,695	6,695	939	727	1,143	1,354	-	2,532
Finance lease payable	41,132	51,133	7,609	7,453	7,342	7,189	6,825	14,715
Other financial liabilities	318,157	394,475	141,958	5,960	6,460	33,068	5,625	201,404
Trade and other payables	372,031	372,031	372,031	-	-	-	-	-
	<u>1,308,547</u>	<u>1,543,889</u>	<u>653,748</u>	<u>98,912</u>	<u>120,332</u>	<u>152,613</u>	<u>138,786</u>	<u>379,498</u>

### c) Market risk

Market risk is the risk that changes in market prices, for example in exchange rates or interest rates, could affect the Group's income or the value of financial instruments held. The 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.

To mitigate this risk, the Group has obtained hedge instruments to convert part of the debt to fixed interest and to reduce the interest rate risk on the future cash flows. The Group's current policy is to maintain a low level of leveraging at variable rates by contracting interest rate derivatives.



At 31 December 2017, the Group had contracted interest rate hedge instruments (hereinafter “Swaps”) (See Note 11(e)) to reduce the risk of an increase in the debt linked to the euribor in the various tranches of the syndicated loan. (i) a draw down of Euros 24,001 thousand from tranche A and Euros 84,402 thousand from tranche B (both swaps ensure a fixed interest rate of 0.367%); and (ii) for tranche C, a nominal amount of Euros 13,020 thousand, ensuring a fixed interest rate of 0.379%.

Variable-interest rate and Fixed-interest rate financial assets and liabilities at the reporting date are as follows:

<i>In thousand of Euros</i>	<b>Carrying amount</b>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>Fixed-interest instruments</b>		
Financial Assets	2,735	4,300
Financial liabilities	(392,423)	(491,745)
	<u>(389,688)</u>	<u>(487,445)</u>
<b>Variable-interests instruments</b>		
Financial liabilities	(513,149)	(444,771)
	<u>(513,149)</u>	<u>(444,771)</u>

#### *Sensitivity analysis*

At 31 December 2017, a 100 b.p. increase in interest rates, with other variables remaining constant, would have increased the loss after tax by Euros 2,979 thousand (Euros 2,230 thousand in 2016), mainly due to increased borrowing costs on variable-interest loans.

#### **d) Capital management**

The Group's capital management is centered 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 11), which must be met as of the first quarter of 2017.

#### **e) Financial instruments and fair value**

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

2017		Fair value			Total	Level 1	Level 2	Level 3	Total
Euros	Available-for-sale financial assets	Loans and receivables	Debts and payables						
<b>Financial Assets measured at fair value</b>									
Equity instruments	422	-	-	422	-	21	401	422	
	<u>422</u>	<u>-</u>	<u>-</u>	<u>422</u>	<u>-</u>	<u>21</u>	<u>401</u>	<u>422</u>	
<b>Financial assets not measured at fair value</b>									
Equity instruments	291	-	-	291	-	-	-	-	
Security and other deposits	-	1,914	-	1,914	-	-	-	-	
Trade and other receivables	-	198,441	-	198,441	-	-	-	-	
Cash and cash equivalents	-	320,092	-	320,092	-	-	-	-	
Other financial assets	-	7,270	-	7,270	-	-	-	-	
	<u>291</u>	<u>527,717</u>	<u>-</u>	<u>528,008</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Financial liabilities measured at fair value</b>									
Derivative financial instruments	-	-	3,123	3,123	-	3,123	-	3,123	
Contingent payments	-	-	3,123	3,123	-	3,123	-	3,123	
	<u>-</u>	<u>-</u>	<u>3,123</u>	<u>3,123</u>	<u>-</u>	<u>3,123</u>	<u>-</u>	<u>3,123</u>	
<b>Financial liabilities not measured at fair value</b>									
Loans and borrowings	-	-	557,459	557,459	-	-	-	-	
Other financial liabilities	-	-	334,659	334,659	35,038	-	-	35,038	
	-	-	5,118	5,118	-	-	-	-	
Deferred payments	-	-	36,248	36,248	-	-	-	-	
Otras payables	-	-	579,336	579,336	-	-	-	-	
Trade and other payables	-	-	1,515,943	1,515,943	35,038	-	-	35,038	
	<u>-</u>	<u>-</u>	<u>1,515,943</u>	<u>1,515,943</u>	<u>35,038</u>	<u>-</u>	<u>-</u>	<u>35,038</u>	
2016		Fair value			Total	Level 1	Level 2	Level 3	Total
Euros	Available-for-sale financial assets	Loans and receivables	Debts and payables						
<b>Financial Assets measured at fair value</b>									
Equity instruments	418	-	-	418	-	17	401	418	
	<u>418</u>	<u>-</u>	<u>-</u>	<u>418</u>	<u>-</u>	<u>17</u>	<u>401</u>	<u>418</u>	
<b>Financial assets not measured at fair value</b>									
Equity instruments	2,174	-	-	2,174	-	-	-	-	
Security and other deposits	-	2,786	-	2,786	-	-	-	-	
Trade and other receivables	-	187,794	-	187,794	-	-	-	-	
Cash and cash equivalents	-	236,079	-	236,079	-	-	-	-	
Other financial assets	-	17,548	-	17,548	-	-	-	-	
	<u>2,174</u>	<u>444,207</u>	<u>-</u>	<u>446,381</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Financial liabilities measured at fair value</b>									
Derivative financial instruments	-	-	100,468	-	-	100,468	-	100,468	
	<u>-</u>	<u>-</u>	<u>100,468</u>	<u>-</u>	<u>-</u>	<u>100,468</u>	<u>-</u>	<u>100,468</u>	
<b>Financial liabilities not measured at fair value</b>									
Loans and borrowings	-	-	511,196	511,196	-	-	-	-	
Other financial liabilities	-	-	289,019	289,019	-	-	-	-	
Deferred payments	-	-	1,495	1,495	-	-	1,495	1,495	
Otras payables	-	-	34,338	34,338	-	-	-	-	
Trade and other payables	-	-	363,425	363,425	-	-	-	-	
	<u>-</u>	<u>-</u>	<u>1,199,473</u>	<u>1,199,473</u>	<u>-</u>	<u>-</u>	<u>1,495</u>	<u>1,495</u>	

During the years ended 31 December 2017 and 2016 no assets or liabilities were transferred between levels.

Net gains and losses by financial asset category are as follows:

<i>In thousand of Euros</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
	Loans and receivables	Loans and receivables
Gain on the sale of liabilities and financial instruments	1,756	4,457
Finance income at amortised cost	156	324
Exchange gains/(losses)	-	71
Net gains/(losses)	<u>1,912</u>	<u>4,852</u>

Net gains and losses by financial liability category are as follows:

<i>In thousand of Euros</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
	Debts and payables	Debts and payables
Finance costs and amortised cost (See Note 20(b))	(234,751)	(24,466)
Changes in fair value	906	(884)
	<u>(233,845)</u>	<u>(25,350)</u>

## 16. Operating Leases

### *Operating Leases – Lessor*

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

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

	<u>31/12/2017</u>	<u>31/12/2016</u>
Up to 1 year	3,334	2,985
Between 1 and 5 years	9,038	6,617
More than 5 years	102	353
	<u>12,474</u>	<u>9,955</u>

*Operating Leases - Lessee*

The Group has various types of operating lease agreements and canons.

Operating lease payments have been recognised as an expense for the year (See Note 19 (d)) as follows:

<i>In thousand of Euros</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Shared locations	57,513	13,583
Cannon	47,683	11,671
Transmission lines	24,038	4,521
Offices	4,918	892
Vehicles	798	470
Licenses	838	592
Other leases	11,107	3,701
	<u><b>146,895</b></u>	<u><b>35,430</b></u>

Shared locations reflect the cost associated with the agreements reached with other operators for the sharing of telecommunications infrastructure, for an extendable period of 10 years. It also includes the cost of contracts signed with infrastructure sales and marketing companies, in this case for extendable periods of between 10 and 17 years.

The levy for reserving radio-electrical space relates to the annual charge paid for the concession of 2100 Mhz and 1800 Mhz licences and the annual microwave levy.

Transmission lines corresponds to multiple contracts signed with different operators, for periods of generally between one and three years.

The total future minimum operating lease payments are as follows:

<i>In thousand of Euros</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Up to 1 year	82,469	65,343
Between 1 and 5 years	205,101	196,007
More than 5 years	158,872	192,642
<b>Total</b>	<u><b>446,442</b></u>	<u><b>453,992</b></u>

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

**17. Other Non-current Liabilities**

The Group has signed long-term strategic agreements with Orange for wholesale access to its FTTH infrastructures and for the joint deployment of FTTH networks. This heading records the right to use the Group's FTTH infrastructures in favour of Orange. Additions for the year basically relate to the latter agreements (see Note 6)

In 2015 the subsidiary MásMóvil Broadband, S.A.U. acquired a fibre-optic network from Jazz Telecom S.A.U. Both companies simultaneously signed an irrevocable assignment contract for the use of 40% of that network in favour of Jazz Telecom S.A.U. for Euro 69,000 thousand a 35 year period (see Note 6).

The heading other non-current liabilities records the apportionment of the use right based on the term of the agreements, calculated according to the agreement.

Movement in other non-current liabilities in these regards is as follows:

<i>In thousand of Euros</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Opening balance	75,014	68,584
Additions	36,448	8,459
Transfer to profit and loss	(4,388)	(2,029)
Closing balance	<u><b>107,074</b></u>	<u><b>75,014</b></u>

Additionally, this line item includes other non-current liabilities amounting Euros 95 thousand as at 31 december 2017 (Euros 275 thousand as at 31 december 2016).

## 18. Income Tax

### a) Income tax income

Details of the income tax income are as follows:

<i>In thousand of Euros</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
<b>Current tax</b>		
Present year	9,529	(294)
	(289)	-
	<u>9,240</u>	<u>(294)</u>
<b>Deferred taxes</b>		
Source and reversal of temporary differences	29,845	3,481
Previously unrecognised deferred tax assets	-	(193)
	<u>29,845</u>	<u>3,288</u>
	<u><b>39,085</b></u>	<u><b>2,994</b></u>

## b) Reconciliation of income tax

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

<i>In Thousand of Euros</i>	<b>31/12/2017</b>	<b>31/12/2016</b>
Loss for the year from continuing operations, before income tax	(141,844)	(61,045)
Tax calculated at the corresponding rate	36,215	15,819
Permanent differences	1.171	523
Deductions and credits for the year	-	79
Prior year's adjustment	(289)	(1,606)
Unrecognised tax credits	(5,568)	(11,821)
Reversal deferred tax liabilities	7,631	-
Other adjustments	(75)	-
Income tax income	<u>39,085</u>	<u>2,994</u>

Tax credits that are not recognised relate to the tax-loss carry forwards that have not been capitalized due to the fact that their offset is expected to take place beyond the time horizon permitted by current regional legislation, in accordance with the estimates of future taxable profits generated by the Company's business.

## c) Deferred tax assets and liabilities recognised

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of Euros</i>	<b>31/12/2017</b>			<b>31/12/2016</b>		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangible assets	765	(22,704)	(21,938)	404	(54,527)	(54,123)
Property, plant and equipment	777	(1,418)	(641)	134	(1,374)	(1,240)
Goodwill	-	(3,819)	(3,819)	-	(2,869)	(2,869)
Provisions	43,337	(1,037)	42,300	47,658	(592)	47,066
Tax loss carryforward	195,627	-	195,627	186,266	-	186,266
Deductions	760	-	760	849	-	849
Impairment	66	-	66	30	-	30
Other	3,057	103	3,160	460	(29)	431
Net assets and liabilities	<u>244,390</u>	<u>(28,875)</u>	<u>215,515</u>	<u>235,801</u>	<u>(59,391)</u>	<u>176,410</u>

**d) Movement in deferred tax balances**

Movement in deferred tax assets and liabilities during the year is as follows:

<i>In thousand of Euros</i>	31/12/2017					Balance at 31 December
	Balance at 1 January	Recognised in profit/(osses)	Others	Transfers		
Intangible assets	(54,123)	31,784	(247)	609		(21,938)
Property, plant and equipment	(1,240)	562	-	37		(641)
Goodwill	(2,869)	(950)	-	-		(3,819)
Provisions	47,066	(7,390)	-	2,624		42,300
Tax loss carryforward	186,266	(165)	9,526	-		195,627
Deductions	849	-	-	(89)		760
Financial investments	30	-	-	(30)		-
Impairment	-	-	-	66		66
Others	431	6,040	(94)	(3,217)		3,160
Net assets and liabilities	<b>176,410</b>	<b>29,845</b>	<b>9,260</b>	<b>-</b>		<b>215,515</b>

  

<i>In thousand of Euros</i>	31/12/2016					Balance at 31 December
	Balance at 1 January	Recognised in profit/(osses)	Business combinations (Note 4)	Others	Transfers	
Intangible assets	(2,100)	1,106	(55,011)	(1)	1,883	(54,123)
Property, plant and equipment	(1,061)	915	-	320	(1,414)	(1,240)
Goodwill	(1,717)	(517)	-	-	(635)	(2,869)
Provisions	-	(4,595)	49,361	1,208	1,092	47,066
Tax loss carryforward	9,352	8,017	168,897	-	-	186,266
Deductions	1,255	(17)	-	-	(389)	849
Impairment	-	-	-	-	30	30
Others	2,619	(1,621)	-	-	(567)	431
Net assets and liabilities	<b>8,348</b>	<b>3,288</b>	<b>163,247</b>	<b>1,527</b>	<b>-</b>	<b>176,410</b>

Deferred tax assets deriving from pendientes de compensar tax loss carryforwards are recognised provided it is probable that sufficient taxable income will be generated in the future against which the asset can be offset.

Details of deferred tax assets and liabilities that are expected to be realised or reversed in periods exceeding 12 months, are as follows:

<i>In thousand of Euros</i>	31/12/2017	31/12/2016
Deferred tax assets related to temporary differences	38,588	37,804
Credits for tax loss carryforward	168,700	177,920
Deductions and credits	760	849
Total assets	208,048	216,573
Deferred tax liabilities	-	(54,914)
Net	208,048	161,659

The Group has the following unused deductions at 31 December 2017 and 2016 available as follows:

	Year	Thousands euros	
		2017	2016
<b>Tax losses generated prior to consolidation</b>			
	2001	152	-
	2002	66	-
	2003	3	-
	2004	1	-
	2005	1	-
	2006	491	488
	2007	54	36
	2008	78	104
	2009	165	163
	2010	142	140
	2011	186	186
	2012	241	241
	2013	2,433	2,305
	2014	3,017	2,917
	2015	695	626
	2016	250	-
<b>Tax losses generated on consolidation</b>			
	2016	166	-
<b>Total</b>		<b>8,141</b>	<b>7,206</b>

The Group must maintain the investments for which deductions were applied for a minimum of five years.



The Group has the following unused tax loss carryforwards at 31 December:

	Year	Miles de euros	
		2017	2016
<b>Generated prior to consolidation</b>			
	1999	-	1,555
	2000	-	1,160
	2001	4,623	6,263
	2002	160,594	161,766
	2003	74,592	78,753
	2004	59,234	60,386
	2005	71,877	71,877
	2006	385,312	386,108
	2007	81,570	81,570
	2008	141,401	140,087
	2009	176,998	176,998
	2010	98,623	98,623
	2011	33,391	33,391
	2012	6,198	5,748
	2013	16,238	16,246
	2014	5,299	5,306
	2015	6,067	10,745
	2016	23,966	62,940
	2017	19,885	
<b>Generated on consolidation</b>			
	2016	18,615	-
	2017	38,099	
<b>Total</b>		<b>1,424,582</b>	<b>1,399,522</b>

On 28 November 2014 the new Corporate Income Tax Law 27/2014 applicable to Spanish companies for tax years starting on or after 1 January 2015 was published in the Official State Gazette. The most significant change in this tax is the reduction in the general rate from 30% to 28% for tax periods from 1 January 2015 and to 25% for tax periods from 1 January 2016. Royal Decree Law 3/2016 of 2 December 2016 limits the offset of loss carryforwards in tax periods beginning on or after 1 January 2016 for companies with a turnover of less than Euros 20 million to 60%, of between Euros 20 million and Euros 60 million to 50%, and of more than Euros 60 million to 25%.

In 2015 certain Group companies filed consolidated tax returns, with the subsidiary Xtra Telecom, S.A. as parent of the tax group (see Note 3 (p)). During 2017 the companies Xfera Móviles, S.A.U., Pepeworld, S.L.U., Pepe Energy, S.L. and Pepemobile, S.L. were included in the tax consolidation group.

Due to the different treatment of certain transactions permitted by tax legislation, additional tax liabilities could arise in the event of an inspection. The directors of the Másmóvil Group do not consider that any liabilities that could arise would have a significant impact on these consolidated annual accounts.

In accordance with prevailing Spanish legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed.

At 31 December 2017 the Parent and its subsidiaries located in Spain have open to inspection by the taxation authorities all main applicable taxes since 1 January 2014 (2013 for Income Tax). On 12 February 2018 the investee Xtra Telecom S.A.U. received a notification of the commencement of inspection proceedings in relation to VAT for the periods 2015 and 2016 (note 25).

Pursuant to prevailing tax legislation, the generation of each individual company's taxable income has been taken into account when analysing the recoverability of tax credits, as they were essentially generated before the companies entered the Tax Group.

In this regard, tax credits from Xfera Móviles S.A.U. (see Note 4.2) were measured at the date of the business combination, in accordance with tax legislation prevailing at the time and the individual business plan of the company before it entered the Group. At the reporting date, the recoverability of these tax credits has been analysed, considering new tax legislation and the company's new business plan, which incorporates the contractually established cost savings, the launch of new lines of business by Xfera Móviles S.A.U. in the first quarter of 2017 and the renting of mobile networks to other Group companies. The projections used to examine the recoverability of capitalised tax credits were based on a period of 11 years.

As informed in the consolidated annual accounts for 2016, in 2015 the taxation authorities that year commenced a VAT inspection of the subsidiary Xtra Telecom, S.A. ("Xtra") as successor of Xtra Telecom, S.L. (company acquired by the Group on 1 August 2014), in relation to part of its wholesale activity from May 2011 to December 2014, although the contested invoices only date up to May 2014, i.e., they correspond to activity carried out prior to the Group acquiring Xtra. This inspection resulted in a preliminary investigation and consequently, it is difficult to predict what the final outcome will be. Nevertheless, as the investigation relates to a period prior to the acquisition of the business subject to inspection, any contingencies for Xtra or the Parent would be covered by the representations and warranties arranged with the former owner of Xtra in the SPA. The Group considers that this investigation will in no way affect the current directors or management of the Group, or the Parent itself, as they did not form part of Xtra on the dates in question.

## 19. Income and Expenses

### a) Revenue

Details of revenue are as follows:

<i>In thousands of Euros</i>		<u>31/12/2017</u>	<u>31/12/2016</u>
Sales		242,864	58,878
Services rendered		<u>1,058,168</u>	<u>342,142</u>
		<u><b>1,301,032</b></u>	<u><b>401,020</b></u>

  

<i>In thousand of Euros</i>	<u>31/12/2017</u>			<u>31/12/2016</u>		
	<u>Spain</u>	<u>Internacional</u>	<u>Total</u>	<u>Spain</u>	<u>Internacional</u>	<u>Total</u>
Business and wholesales	95,168	515	95,683	115,329	1,152	116,481
Consumer	<u>1,205,349</u>	-	<u>1,205,349</u>	<u>284,539</u>	-	<u>284,539</u>
	<u><b>1,300,517</b></u>	<u><b>515</b></u>	<u><b>1,301,032</b></u>	<u><b>399,868</b></u>	<u><b>1,152</b></u>	<u><b>401,020</b></u>

The Group's activity mainly consists of the rendering of landline, mobile phone and internet 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 broadband services.
- Business: landline, mobile phone, internet and data services, as well as other value-added services such as data centres, cloud, virtual PBX, email and video conferencing.
- Wholesale: communication 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:

<i>In thousand of Euros</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Merchandise used	224,433	73,603
Raw materials and other consumables used	291,564	147,460
Subcontracted work	196,846	41,808
	<u><b>712,843</b></u>	<u><b>262,871</b></u>

### c) Employee benefits expense

Details of the employee benefits expense are as follows:

<i>In thousand of Euros</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Salaries and wages	38,729	23,719
Social Security contributions	7,923	4,502
Other employee benefits expenses	-	-
	<u><b>46,652</b></u>	<u><b>28,221</b></u>

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

	<u>31/12/2017</u>	<u>31/12/2016</u>
Board members	1	1
Management	137	53
Technicians	125	280
Administrative staff	110	54
Other	193	71
	<u><b>566</b></u>	<u><b>459</b></u>

At the 2017 and 2016 year end, the distribution by gender of Group personnel and the members of the board of directors is as follows:

	31/12/2017		31/12/2016	
	Men	Women	Men	Women
Board members	10	2	10	2
Managment	101	28	41	13
Technicians	113	32	209	86
Administrative staff	37	48	27	43
Other employees	119	62	40	31
	<b>380</b>	<b>172</b>	<b>327</b>	<b>175</b>

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

	31/12/2017	31/12/2016
Administrative staff	4	4
Other	2	-
	<b>6</b>	<b>4</b>

#### d) Other expenses

Details of other operating expenses are as follows:

<i>En Miles de euros</i>	31/12/2017	31/12/2016
Leases (see Note 16)	146,895	35,430
Repair and maintenance	47,748	12,046
Independent professional services	88,868	43,919
Transport	1,356	271
Insurance fees	857	270
Bank fees	5,964	1,653
Advertinsing, publicity and public relations	36,302	12,420
Suplies	4,633	2,346
Other services	7,653	3,140
Levies and other taxes	7,341	2,527
Loss, impairment and changes in provisions	27,716	5,081
Loss and Impairment from sale of assets	346	-
	<b>375,679</b>	<b>119,103</b>

Independent professional services include those deriving from the merger of the acquired companies, the listing on the Continuous Market and the migration of customers to the Orange network and total approximately Euros 22 million (Euros 31 million in 2016) as a result of the acquisition of Xfera Móviles, S.A.U. and Pepephone (Note 4.2).

**e) Other income**

Details of Other operating income are as follows:

<i>In thousand of Euros</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Results from sale of property, plant and equipment (Note 6)	17,294	-
Excess of provision (Note 12)	11,153	3,141
Work carried-out by the Group for its assets	5,380	3,632
Revenue from leases	3,302	826
Other income	12,598	2,233
	<u><b>49,727</b></u>	<u><b>9,832</b></u>

**20. Related Parties****a) Related party balances**

Details of balances with related parties at 31 December 2017 and 2016 are as follows:

<i>In thousand of Euros</i>	<u>31/12/2017</u>		<u>31/12/2016</u>	
	Related parties	Total	Related parties	Total
<b>Assets</b>				
Other financial assets	-	-	1,867	1,867
Total current assets	-	-	1,867	1,867
<b>Total assets</b>	-	-	<b>1,867</b>	<b>1,867</b>
<b>Other equity instruments</b>				
Debentures and other marketable securities (Notes 4.2, 10(e) 11(d))	218,235	218,235	66,253	66,253
<b>Liabilities</b>				
Bonds and other marketable (Note 11)	252,794	252,794	101,695	101,695
Financial debt	-	-	56	56
Total current liabilities	252,794	252,794	101,751	101,751
<b>Liabilities</b>	218,235	218,235	101,751	101,751
<b>Total liabilities and other equity instruments</b>	<b>471,029</b>	<b>471,029</b>	<b>168,004</b>	<b>168,004</b>

**b) Related party transactions**

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

Financial expenses in 2017 primarily include the impact of the measurement of the ACS Note up until 13 July 2017 in the amount of Euros 142 million (Note 4.2, 10 (e) and 11 (d)) and Euro 13,765 thousand in financial expenses accrued on convertible debentures (Note 10 (e) and 11 (c))

<i>In thousand of Euros</i>	<b>31/12/2016</b>		
	Directors and Senior Management of The Parent	Related parties	Total
<b>Expenses</b>			
Salaries	2,195	-	2,195
Other operating expenses	-	12	12
Finance costs	-	5,839	5,839
<b>Total costs</b>	<b>2,195</b>	<b>5,851</b>	<b>8,046</b>

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

In 2017 the directors of the Company received remuneration of Euros 1,088 thousand in their capacity as such (accrued remuneration of Euros 185 thousand in 2016). In 2017 senior management personnel received short-term employee benefits of Euros 2,518 thousand (accrued short-term employee benefits of Euros 2,010 thousand in 2016). It should be noted that one of the directors is a Company employee.

The directors did not receive any remuneration, nor did they receive any loans or advances, nor did the Company extend any guarantees on their behalf or pay any civil liability insurance premiums for damage or loss caused by actions or omissions in the performance of their duties.

There is no extraordinary, variable remuneration directly related to the success of being listed on the Spanish automated quotation system (see Note 1).

*Stock options plan*

On 30 September 2015 the board of directors of the Parent Company approved a stock options plan (hereinafter the Plan) shares for its management team. On 23 June 2016, the shareholders at their annual general meeting also approved this plan for the CEO.

The main features of the Plan are as follows:

- Granting the beneficiaries, free of charge, a number of non-transferable options to acquire ordinary shares through the acquisition of a bond that must be converted into a share. As of the date of notification, the beneficiaries shall communicate their intention to exercise the option by paying the par value of the convertible bonds which will automatically be converted into shares.
- Notification date: no later than 3 May 2018.
- Inception date: in the case of the CEO's plan, the date of approval by the shareholders at their annual general meeting (23 June 2016) and in the case of the management team, the date of approval by the board of directors (30 September 2015).
- Expiry date: 9 May 2018.
- Number of options: 125,000 options allocated to the CEO and 375,000 options allocated to the management team.
- Par value of the convertible bond: Euros 20.42.
- Service restriction: without prejudice to any special conditions the board of directors may impose, the beneficiary must have maintained an ongoing working relationship over the duration of the Plan.
- Conversion: conversion of the options is compulsory.

In order to cover the Plan, at its inception the Company issued 500,000 convertible bonds of Euros 20.42 par value each, with a first payment tranche of Euros 2 per bond, which involved recognising a liability to a financial institution for Euros 1 million against a restricted current account for the same amount (see Note 15 (b)). The board of directors will have to increase share capital by the amount necessary to convert the bonds into shares upon expiry of the Plan.

On the expiry date, the Company will exercise the purchase option over any bonds not transferred to the beneficiaries, for subsequent redemption, in the event that any beneficiaries have not complied with the terms and conditions of the Plan.

Pursuant to prevailing legislation, equity instruments given as consideration for services rendered by Company employees are measured by reference to the fair value of the equity instruments granted on the relevant start date. The Company has estimated the fair value of the Plan at Euros 1 million, taking into account an estimated employee rotation when calculating the amount. As the granting of the options is contingent on the employee remaining with the Group until the Plan expires, the employee expense will accrue over three years, resulting in a personnel expense of Euro 577 thousand in 2017 (Euros 259 thousand in 2016).

#### *Rights plan involving the revaluation of shares*

At an Extraordinary General Meeting held on 1 March 2017, parent company shareholders adopted a resolution to approve a Rights Plan involving the revaluation of the Company's shares for the CEO, senior management personnel and Group employees. The aim of this Plan is to establish a stable, long-term framework for Group management's variable remuneration in order to align management's interests with those of the shareholders. The plan is structured into the delivery of up to 1.7 million rights, under which each right has the cash value of the potential increase in the parent company's shares between the date on which the plan is approved and the average price during the 90 trading sessions preceding the settlement date, and the term is initially established at 3.5 years. Among other factors, payment is bound to the beneficiary remaining at the Group, the evolution of certain Group operating variables and compliance with certain individual targets on a per beneficiary basis, but must be paid out under certain circumstances, basically in the event of any change in control over the Company.

Under current legislation the Group must calculate the fair value of the consideration to be delivered to the employee at the time of the cash-payment settlement of share-based consideration at each closing date and recognizes the accrued portion as a liability at that time. The fair value of the liability for the entire Group has been estimated at Euros 41,325 thousand. An expense totalling Euros 9,366 thousand had been accrued at 31 December 2017 (see Note 12).

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

Apart from the transactions with related parties disclosed above, in 2017 and 2016 the directors and senior management personnel of the Parent 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 Parent's directors**

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.

## **21. Guarantees and Contingencies**

Beside the guarantee connected with the acquisition of Xfera Móviles S.A.U. (Notes 4.2, 11(a) and 15 (b)), at 31 December 2017 the Group has several guarantees 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: the administrative contracts granting B2 licences for Xfera Móviles S.A.U. to render 3G mobile telephone services (UMTS) include investment, roll-out, technical, commercial, job creation, industry support and business plan commitments, compliance with which is secured by counter-guarantees from the Group. The amount reflects the guarantees pending release for future commitments associated with the 2100 MHz frequencies.
- The subsidiary Xfera Móviles S.A.U. also has guarantees in place to secure commitments amounting to Euros 36,688 thousand, most notably in relation to the rental of premises, business agreements and various appeals lodged against settlements involving local corporations and other public entities.

Xfera Móviles S.A.U. offers its customers financing, with own resources or through agreements with financial institutions, for the acquisition of handsets when they are acquired as part a subscription to telecommunications services. In the case of financing through financial institutions, Xfera Móviles S.A.U. extends the latter 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 12). The total amount financed through financial institutions amounted to Euros 176 million. (Euros 168 million in 2016).

In March 2017, Xfera Móviles S.A.U. received three notifications from the taxation authorities outlining the decisions and provisional settlements totalling Euros 11,347 thousand relating to prior years' business activities tax. Xfera Móviles S.A.U. has appealed these notifications and has requested that the debt be suspended by extending the corresponding guarantees. The



Group's external tax advisors believe that the appeals will probably be upheld and the tax settlements ultimately revoked, which is why the Group has not made any provision.

The directors of the Company 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.

## 22. Environmental Information

In order to provide services to its customers, the Group uses a network of base stations that emit electromagnetic waves. These emissions are regulated in Spain by Royal Decree 1066/2001 of 28 September 2001, approving the regulation that establishes the conditions for protecting the public radio domain, restrictions on radio emissions and healthcare measures to protect from radio emissions.

The Group conducts all its activity in strict compliance with this regulation and subsequent amendments, in accordance with European recommendations that ensure citizens' health is protected.

## 23. Reconciliation of financial debt

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

In thousand of Euros	Flujos de efectivo			Cambios sin flujos de efectivo				Balance at 31 December 2017
	At January 2017	Cash flows	Payment of interests	Business combinations	Interests accrued	Changes in Fair Value	Other	
Financial liabilities with financial institutions	470,064	42,201	(22,305)	-	33,666	-	(297)	523,329
Other debts	34,338	75	-	-	-	-	1,835	36,248
Financial lease debts	41,132	(5,277)	-	-	-	-	(1,725)	34,130
Other financial liabilities	290,514	(42,420)	(20,612)	14,444	30,850	144,996	(77,995)	339,777
Derivatives	100,468	(28,941)	(672)	-	2,230	(908)	(69,054)	3,123
<b>TOTAL</b>	<b>936,516</b>	<b>(34,632)</b>	<b>(43,589)</b>	<b>14,444</b>	<b>66,746</b>	<b>144,088</b>	<b>(147,236)</b>	<b>936,607</b>

"Other" includes the effect of the conversion option component of the compound financial liability adjusted against equity as explained in Note 10 e).

## 24. Audit Fees

The auditors of the Group's consolidated annual accounts, KPMG Auditores, S.L., invoiced the following net fees for professional services during 2017 and 2016:

<i>In thousand of Euros</i>	31/12/2017	31/12/2016
For audit service	570	282
For other assurance services	180	50
	<b>750</b>	<b>332</b>

The amounts set out above include all fees for the services provided in 2017 and 2016, irrespective of the invoice date.

Other accounting authentication services relate mainly to the limited review of the Group's financial statements for the first quarter of 2017 (included in the flotation prospectus) and for the first half of 2017 and agreed-upon procedures reports on compliance ratios, provided by KPMG Auditores, S.L. to Másmóvil Ibercom, S.A. and other group entities.

Other auditors invoiced the Group the following fees for professional services during the year ended 31 December 2016, while no fees were invoiced during 2017:

<i>In thousand of Euros</i>	<u>31/12/2016</u>
For audit service	297
For other services	<u>14</u>
	<u>311</u>

At the year end 31 December 2017 and 2016 net fees for professional services invoiced by other member firms of KPMG International are as follows:

<i>In thousand of Euros</i>	<u>2017</u>	<u>2016</u>
For other services	141	204
	<u>141</u>	<u>204</u>

## 25. Events after the Reporting Period

On 8 January 2018 the outstanding nominal amount of the bond issue carried out by MásMóvil Boradband, S.A.U. was amortized (note 11(e)).

On 23 January 2018 the private placement of a block of 2,800,000 parent company shares, representing 14.03% of its share capital, was completed on behalf of the Vendor Shareholder, a company controlled by the investment funds advised by Providence Equity Partners L.L.C., through an Accelerated Book-Building ("ABB") process aimed at qualifying investors. Following this placement, the Vendor Shareholder or entities of its group continue to own 791,565 Company shares, representing 3.97% of the Company's share capital, and Euro 178,535,009.34 in respect of the nominal value of convertible bonds (Notes 10 (e) and 11(d)), maturing in October 2024 and currently convertible into 8,115,227 Company shares at a conversion price of 22 euros per share which, together with the shares owned, represents approximately 26.91% of the Company's share capital, assuming that the bonds and other convertible instruments outstanding are converted.

On 31 January 2018 a decision was issued on the appeal against the ruling of the Court of 1 Instance 52 of Madrid of 8 March 2017 (PO 1352/2014). In that ruling the Provincial Court of Madrid: (i) rejects the claim filed by Pepemobile, S.L. against Xfera Móviles, S.A., and exonerates Xfera Móviles, S.A. regarding the judicial claims against it and (ii) partly upholds the claim filed by Xfera Móviles, S.A. against Pepemobile, S.L. and Pepeworld, S.L. and, therefore, condemns Pepemobile, S.L. to compensate Xfera Móviles, S.A., for damages in the amount of seven million euros (Euros 7,000,000) for breach of contract and upholds the judgment requiring Pepemobile, S.L. and Pepeworld, S.L. to refund the Euros 3,500,000 paid previously in respect of the purchase option, plus interest from the date on which the claim was filed until the debt is fully paid.

The Group has reached integrated agreements with Orange Espagne, S.A. and Orange España Comunicaciones Fijas, S.L.U. ("Orange") in order to support its growth and the efficient deployment of its fixed and mobile network infrastructure. The Directors do not expect significant impact on its consolidated annual accounts.

These new agreements include:

- 1) The extension of the existing Fiber-to-Home ("FTTH") joint investment agreement to a minimum of 2 million dwelling units (DUs), expanding MASMOVIL's own FTTH network to more than 6.5 million DUs in the next 3 years.
- 2) Modification and improvement of the bitstream agreement for the use of Orange's FTTH network that covers more than 8 million DUs.
- 3) Review of the terms and conditions of the current Site Sharing agreement that includes access to approximately 5,500 new sites, making it possible to double the size of MASMOVIL's own mobile network profitably.
- 4) Improvement in the economic terms of the current National Roaming agreement.
- 5) Amendments to the data transmission agreement with improved unit prices.

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

APPENDIX I. – Details of subsidiaries at 31 December 2017

31/12/2017								
Name	Registered office	Activity	Auditor	Shareholder	% ownership	% of voting rights	Consolidation method	
Xtra Telecom, S.A.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid.	Telecommunications-related activities and service	KPMG	Xfera Móviles, S.A.U.	100,00%	100,00%	Control	
Másmóvil Broadband, S.A.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid.	Telecommunications-related activities and service telecomunicaciones	KPMG	Xfera Móviles, S.A.U.	100,00%	100,00%	Control	
Embou Nuevas Tecnologías, S.L.U.	Zaragoza, calle Bari 33, Edificio 1, 2 planta	Provision of telecommunication-and new technologies-related consultancy and advisory service	n/a	Más Movil Telecom 3.0, S.A.U.	100,00%	100,00%	Control	
Másmóvil Investments, S.L.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid	Provision of telecommunications –related services and implementation and operation of telecommunication networks in Spain	n/a	Másmóvil Broadband, S.A.U.	100,00%	100,00%	Control	
Másmóvil Infrastructures, S.L.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid.	Provision of telecommunications –related services and implementation and operation of telecommunication networks in Spain	n/a	Másmóvil Broadband, S.A.U.	100,00%	100,00%	Control	
Quantum Ltd (UK)	Fourth Floor, 30-31 Furnival Street, London, EC4A 1JQ	Provision of telephony service using other mobile network operators, mobile virtual operators service, landline resale service, publicly available data transmission service, and nomadic voice service in UK	n/a	Xtra Telecom, S.A.U.	100,00%	100,00%	Control	
Másmóvil Phone and Internet, S.A.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid.	Holding company	n/a	Másmóvil Ibercom, S.A.	100,00%	100,00%	Control	
Másmóvil Holdphone, S.A.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid.	Holding, company	n/a	Másmóvil Phone and Internet, S.A.U.	100,00%	100,00%	Control	
Xfera Móviles, S.A.U.		Telecommunications-related activities and service	Deloitte	Másmóvil Holdphone, S.A.U.	100,00%	100,00%	Control	
Pepeworld, S.L.U.	Avda. de la Vega, 15. Alcobendas Paseo de la Castellana, 8, Madrid	Holding, company	n/a	Xfera Móviles, S.A.U.	100,00%	100,00%	Control	
Pepe Energy, S.L.	Paseo de la Castellana, 8, Madrid	Electricity supply	n/a	Pepe World, S.L.U.	94,44%	94,44%	Control	
Pepemobile, S.L.U.	Paseo de la Castellana, 8, Madrid	Provision of telecommunications –related services; provision of service relating to information technology and to development, sale and distribution of computer programs and equipment	KPMG	Pepe World, S.L.U.	100,00%	100,00%	Control	

APPENDIX I. – Details of subsidiaries at 31 December 2016

31/12/2016									
Name	Registered office	Activity	Auditor	Shareholder	% ownership	% of voting rights	Consolidation method		
Xtra Telecom, S.A.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid.	Telecommunications-related activities and service	KPMG	Xfera Móviles, S.A.U.	100,00%	100,00%	Control		
Mas Movil Telecom 3.0, S.A.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid.	Telecommunications-related activities and service	KPMG	Xfera Móviles, S.A.U.	100,00%	100,00%	Control		
MásMóvil Broadband, S.A.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid.	Telecommunications-related activities and service	KPMG	Xfera Móviles, S.A.U.	100,00%	100,00%	Control		
Embou Nuevas Tecnologías, S.L.U.	Zaragoza, calle Bari 33, Edificio 1, 2 planta	Provision of telecommunication-and new technologies-related consultancy and advisory service	n/a	Xfera Móviles, S.A.U. Mas Movil Telecom 3.0, S.A.U.	100,00%	100,00%	Control		
MásMóvil Investments, S.L.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid	Provision of telecommunications –related services and implementation and operation of telecommunication networks in Spain	n/a	MásMóvil Broadband, S.A.U.	100,00%	100,00%	Control		
MásMóvil Infrastructures, S.L.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid.	Provision of telecommunications –related services and implementation and operation of telecommunication networks in Spain	n/a	MásMóvil Broadband, S.A.U.	100,00%	100,00%	Control		
Quantum Ltd (UK)	Fourth Floor, 30-31 Furnival Street, London, EC4A 1JQ	Provision of telephony service using other mobile network operators, mobile virtual operators service, landline resale service, publicly available data transmission service, and nomadic voice service in UK	n/a	Xtra Telecom, S.A.U.	100,00%	100,00%	Control		
MásMóvil Phone and Internet, S.A.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid.	Holding, company	n/a	MásMóvil Ibercom, S.A. MásMóvil Phone and Internet, S.A.U.	100,00%	100,00%	Control		
MásMóvil Holdphone, S.A.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid.	Holding, company	n/a	MásMóvil Holdphone, S.A.U.	100,00%	100,00%	Control		
Xfera Móviles, S.A.U.		Telecommunications-related activities and service	Deloitte	Xfera Móviles, S.A.U.	100,00%	100,00%	Control		
Pepeworld, S.L.U.	Avda. de la Vega, 15. Alcobendas Paseo de la Castellana, 8, Madrid	Holding, company	n/a	Pepe World, S.L.U.	94,44%	94,44%	Control		
Pepe Energy, S.L.	Paseo de la Castellana, 8, Madrid	Electricity supply	n/a	Pepe World, S.L.U.	100,00%	100,00%	Control		
Pepemobile, S.L.U.	Paseo de la Castellana, 8, Madrid	Provision of telecommunications –related services; provision of service relating to information technology and to development, sale and distribution of computer programs and equipment	KPMG	Pepe World, S.L.U.	100,00%	100,00%	Control		

## Consolidated Directors' Report for 2017

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

## Consolidated Directors' Report for 2017

### 1. TRUE AND FAIR VIEW OF THE BUSINESS

#### Economic context

In 2017 Spanish GDP continued sustained growth and in the fourth quarter totalled 0.7% (INE), which leads to an annual GDP of 3.1%. This growth was essentially driven by domestic demand, which represented 2.5%.

Price levels continue to rise moderately, although higher than last year. Inflation in 2017 came in at 1.1% (INE), and was negatively affected by the evolution of energy prices. Underlying inflation, which excludes energy product and prepared food prices remained at 0.8% (INE).

Employment improved throughout 2017 and the average annual unemployment rate fell to 16.6% during the fourth quarter (INE), while the total number of employed reached 19 million, 2.6% more than last year. Social Security in 2017 therefore showed one of the highest levels of membership since 2000 (only exceeded by 2005 and 2006). Membership in social security grew by 3.6% (equal to 626,000). These figures point to sustained intense job growth.

Foreign trade also made a positive contribution to the economy and a balance of payments surplus of 1.8% of GDP is expected (FUNCAS) in 2017.

Interest rates remain at historically low levels. The three month Euribor (short-term inter-bank cost) continues to be at minimum levels (-0.33%), as is the cost of 10-year government debt with a yield of around 1.5%, while the risk premium for the German Bund has fallen by 100 basis points.

Taken together, 2017 was a year of sustained economic growth, essentially supported by internal demand, the reduction of unemployment and interest rates remaining at historically low levels. Inflation was at a moderate 1.1%, despite the unfavourable evolution of energy prices.

The Spanish economy is expected to maintain this positive trend in 2018 with growth around 2.6% (FUNCAS) and employment will continue to rise.

#### Sales information

The main market trends seen in previous years were maintained in 2017. Broadband continued to grow to 14.5 million users, driven by the ultrafast bandwidth networks (FTTH and HFC), which together already represent 65% of access points to the detriment of DSL, while the marketing of converging service packages (fixed telephony, mobile telephony,

television) continues to increase with penetration now at nearly 85% of the residential market.

Throughout the year the Group consolidated its business model based on the competitive positioning of its four main brands ((Xfera Móviles S.A.U., MÁSMÓVIL, Pepephone and Llamayá) while simultaneously demonstrating excellent operating performance supported by the synergies deriving from the recent mergers and acquisitions carried out by the Group.

The marketing of the Group's various brands was redesigned this year, aligning it with the requirements of the convergent services market and progressively better speeds and capacity:

- The convergent product offered by Xfera Móviles S.A.U. was launched in February and was continuously modified and improved throughout the year, including new pre-paid rates in May, the possibility of including additional lines ("La Dúo") since August and offering fixed-line service speeds of up to 1Gbps in December.
- MÁSMÓVIL, which launched its convergent services offer earlier in 2016, changed its rates in August 2017 and also launched its unlimited voice rate in September.
- Pepephone has been positioned as an innovative and purely digital brand and very successfully launched its "Inimitable" rate (including 19 GB at Euros 19.90/month) in May and changing its rate structure in September.
- After the acquisition of Llamaya its sales activity and service portfolio was reconfigured. Contract rates were added to its portfolio in November 2017. This provided excellent sales results during the second half of the year.

Throughout the year the digitalization of the various interactions with customers throughout their life cycle were emphasized, and a Digital Hub was created with a team of particularly qualified professionals in this area. The Hub's activity focuses on the design and development of innovative digital services, as well as assuring excellent interaction with the customer through purely digital channels (eShop, eCare, Social Networks).

The sales distribution strategy and policy was also modified, specifically consisting of the relaunch of the business in exclusive shops and much emphasis has been placed on sales activities through digital channels. The MÁSMÓVIL brand website was revamped in April, Xfera Móviles S.A.U.'s in July and Pepephone's in December, in all cases obtaining improvements in sales results.

Finally, we note the emphasis placed on the wholesale and corporate business unit, which initially operated under the MÁSMÓVIL brand, offering technological solutions to companies of various sizes and to operators. This year "Yoigo professional" was launched, which is a line of business focusing on the self-employed and small companies, which is a particularly interesting segment for offering the Group's services under the umbrella of the Yoigo brand.

The multi-brand model in parallel with the emphasis on digitalization and distribution has proven to be capable of generating sustained growth throughout 2017 and the Group recorded the highest growth in the Spanish market and exceeded 500,000 fixed bandwidth lines (a market share of around 3.5%) and 5 million mobile lines (a market share of around 10%).

## Technical information

In 2017 the Group made considerable efforts to roll out fixed and mobile networks, guaranteeing a high level of autonomy with respect to the cost structure.

Starting with 0.9 million property units (PU) covered by fibre optics, the figure now stands at 2.1 million PU. In addition, the total fibre-optic coverage obtained through wholesale agreements with other operators is now 10.4 million PU.

The 2G technology has now been completely phased out, thereby obtaining relevant efficiency improvements and allowing the spectrum capacity in the 1800 MHz band to be used to provide 4G services. Throughout the year the number of locations equipped with 4G technology exceeded the number of locations equipped with 3G technology.

These efforts were not only made in the access network, but also within the core network and common transmission infrastructure which has significantly pushed the evolution project towards a single fixed and mobile network. This was also the case in the systems area, in which the various systems pertaining to the group companies have been progressively integrated so that they can be managed in a coordinated manner.

National roaming agreements notably resulted in the practical completion of the migration of Xfera Móviles S.A.U. customers from the Telefónica network to the Orange network and the necessary action was also taken to complete the integration of MÁSMÓVIL customers into the Group's network over the course of 2018, as well as the progressive migration of Pepephone customers from the Telefónica network.

In December 2017 the Group reached a sale and lease-back agreement covering 600 passive telecommunications infrastructures with an infrastructure company for approximately Euros 39 million. The agreement falls within the efficiency and rationalization processes in the mobile network and the rotation of assets commenced by the Group in order to reinvest the funds obtained on the development of FTTH. This is also a further step towards improving the relationship that both groups commenced in 2013 with the externalization and sharing of passive infrastructure. In this context, the Group will be co-located at those facilities and the infrastructure company has become an industrial partner for the management of the infrastructure and for possible new cooperation agreements regarding future network rollouts.

We note the following in the environmental area:

- Purchase of energy with a certificate of origin (guarantee of energy originating from renewable sources).
- Rollout of new functionalities to save energy at the radio base stations, which will allow the emissions associated with our network's electricity consumption by nearly 800 Tn CO<sub>2</sub> (equivalent to the CO<sub>2</sub> absorbed by 80,000 trees).
- 70 of the Group's own telecommunications infrastructures have been removed, transferring them to existing locations shared with other operators, thereby reducing visual environment impacts.
- The rollout of the FTTH is based on the reuse of third-party conduit infrastructures.



## Financial information

2017 was a year of consolidation as the fourth-largest telecommunications operator in Spain, with significant increases in revenue, results and customers.

The Group remains interested in carrying out corporate transactions that are aligned with its strategy of growth, profitability and the search for synergies and savings in management. On 30 January 2017 the Group acquired the virtual mobile operator line of business from Llamaya Móvil, S.L., which operates under the Llamaya in the pre-paid segment. This acquisition increased the Group's customer base by approximately 200 thousands customers at the time of its acquisition, which continued increasing significantly until at 31 December 2017. Effective 1 January 2017 the group companies MásMóvil Telecom 3.0 S.A.U. and Xfera Móviles, S.A.U. merged together with the objective of increasing profitability, obtaining synergies and simplifying Group processes.

The Group's growth strategy also took the form of strategic agreements with the primary market participants. The strategic agreement reached with Orange represents significant cost savings for the Group and allowed a relevant agreement for the Group's wholesale access to the FTTH infrastructure owned by Orange and the joint rollout of FTTH networks to support the Group's offer of convergent services, while the agreement with Telefónica contributes to improving Pepephone's competitive position while reducing the operating risks inherent to the migration of customers to the Group's own network starting in 2018.

The Group had 5 millions active mobile lines and 504 thousands fixed line band with customers at 31 December 2017, which are 17% and 312% increases over the figures reported at the end of 2016.

According to information published by the Spanish Markets and Competition Authority (CNMC), in 2017 the Group secured 400 thousand net mobile number portabilities and 174 thousand net fixed broadband portabilities. These data show that the Group is the indisputable leader nationally in both business segments.

The Group presents consolidated revenue and EBITDA figures of Euros 1,301 million and Euros 215 million, respectively. Recurring EBITDA totalled Euros 238 million, which is 18% of revenue. Revenue grew by 16%, EBITDA by 144% and recurring EBITDA by 100% compared to the pro forma figures for 2016.

	2017	2016 (*)	2016
	Consolidated Group	Pro forma Group	Consolidated Group
Total revenue	1,301,032	1,120,004	401,020
Amortisation and depreciation	(123,567)	(106,583)	(41,204)
Operating profit	92,018	(18,284)	(40,547)
Expenses of integration and migration	22,472	30,598	-
<b>Recurring EBITDA</b>	<b>238,060</b>	<b>118,897</b>	<b>657</b>
<b>EBITDA</b>	<b>215,585</b>	<b>88,299</b>	<b>657</b>
BDI	(105,928)	(39,671)	(58,051)

(\*) Calculated considering the operations of Xfera Móviles S.A.U. and Pepephone from 1 January 2016. Un-audited.

This means that in 2017 revenue grew by 16%, EBITDA by 144% and recurring EBITDA by 100% compared with the pro forma figures for 2016.

In December 2017 the Group completed the process of refinancing the open balance of its senior syndicated loan in the amount of Euros 386 million (SFA), which is the original amount obtained in October 2016. It delivered on all of the objectives that were initially sought:

- Creation of a single perimeter through the incorporation of MÁSMÓVIL Broadband and its subsidiaries into the senior financing.
- Extension of the average length of the borrowings under the Group's SFA by approximately 12 months.
- Reduction of the financing costs under the Senior Financing Agreement, which fell by 25 basis points despite the increase in the amount and the term of the financing.
- Elasticize certain conditions of the financing agreement including, among other things, the reporting requirements and covenants that are currently established under the SFA.
- Provide the Group with better financing capacity for its program to roll out fixed and mobile telecommunications infrastructures, including a new tranche of senior financing in the amount of Euros 150 million, which will partially finance the aforementioned rollout.
- Obtain a tranche of senior debt in the amount of Euros 78 million to financially support the process of repurchasing the project bonds issued by MÁSMÓVIL Broadband S.A., which has been announced and is currently underway.

The general syndication process has resulted in 35% oversubscription. This financing transaction was underwritten and coordinated by Banco Santander, BNP Paribas and Société Générale, and the final syndicate consisted of 13 international and 9 domestic institutions, for a total of 22: Banco de Sabadell, BBVA, CACIB, Commerzbank, HSBC, ING, La Caixa,

Mizuho Bank and The Royal Bank of Scotland as Mandated Lead Arrangers, Allied Irish Banks, Barclays, Instituto de Crédito Oficial and Raiffeisen Bank International AG as Lead Banks and Bankinter, Cajamar, Citi, Liberbank, Natixis and Unicaja as Arrangers.

In December 2017 the Group commenced the repurchasing process for all secured senior bond holders for a total of Euros 68 million at a 5.75% interest rate, maturing on 27 July 2024. All of these transactions are fungible and were issued by MásMóvil Broadband, S.A.U on 21 July 2016 and 10 March 2017. The repurchase price was established at 113.75% of the nominal value of each bond, which was the Group's estimated fair value for these financial instruments. On 2 January 2018 the Group announced that 100% of the bondholders had accepted the repurchase offer, and at the end of 2017 a nominal amount of Euros 62.4 million had been redeemed. The remaining nominal amount was redeemed on 8 January 2018, making the total figure Euros 68 million.

On 23 March 2017 and 21 June 2017 the Group renewed for one year its promissory notes program listed on the Fixed-Income Alternative Market (MARF) in the amount of Euros 15,000 thousand and Euros 1,200 thousand.

### **Stock information**

2017 was a positive year from both an economic and financial point of view, in a decade marked by the profound global economic and financial recession, as well as the serious sovereign debt crisis in Europe. The improvement in global growth and the good outlook for the coming years has been well received by the various stock markets.

The monetary authorities in the main economies throughout the world have had very notable protagonists in during the year. The Federal Reserve in the United States applied 3 interest rate increases of 0.25% each in April, June and December, reaching the 1.50% level.

The European Central Bank maintained its expansive monetary policy throughout the year with benchmark rates at 0%, while maintaining its quantitative expansion program.

European stock markets have generally reflected positive yields. The EuroStoxx 50 index for the Euro area has risen by 6.5%. Positive performance was also seen by other European stock markets such as the London FTSE 100 (+7.6%), the Paris CAC 40 (+9.3%) and the Frankfurt DAX (+12.8%). Outside of Europe, the Dow Jones Industrials rose by 25% while the Nikkei 225 in Japan rose by 22% after the election of Shizo Abe and the Hong Kong Hang Seng rose by 36.1%, driven by the Chinese economy.

The Spanish stock market rose by 7.4% in 2017 and ended the year at 10,043.90 points, the second highest level since 2009, driven by the banking sector after the start of the change in the monetary policy of Europe and the United States, and the positive impact on the profitability of domestic companies deriving from the performance of businesses in international markets.

MÁSMÓVIL was listed on the continuous market on 14 July, with an initial stock price of Euros 61.05 per share. This is the first move in history to the Continuous Market by a company listed on the Alternative Stock Market (Mab-EE). MÁSMÓVIL's market Increased during the year to end at Euros 1,753 million.

Its shares showed an annual increase from Euros 26.60 at the end of 2016 to Euros 87.97 at the end of 2017.

## Number of employees

The workforce was reorganised and adapted over the course of the year based on the growing needs of the new Group. The Group became a generator of jobs and business in overall terms in the sector and hired 50 new employees, raising the total to 552 at the end of 2017. Despite this growth, revenue per employee of around Euros 2.3 million reflects the high productivity of the Group's employees, far above the average for the industry.

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

We maintain our objective of being a business group of choice. We therefore continue to develop and improve our plan for selecting, training and retaining the employees with the best talent and motivation and which are fully in line with the values of our project.

This unification of policies and criteria within talent management has been supported by digital online tools that allow incentive schemes to be clearly established and to calibrate the performance of our human team in a simple and transparent manner.

Specific investments have been made in training based on the needs of the various areas. The emphasis on training all Group employees to use the new digital tools, as well as social network knowledge and use should be noted.

We implement policies that are attractive for employees, offering a safe, enjoyable and productive working environment with incentives, social advantages and professional career opportunities within the Group.

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

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

We continue to comply with and improve the occupational safety and health plans that have been implemented. In 2017 we did not record any occupational accident and the level of absenteeism has been reduced.

## EXPECTED DEVELOPMENT

The Group consolidated as the fourth largest Spanish operator in 2017. This took place at the operating level, integrating the various businesses and capturing synergies under the umbrella of a single group carrying out its business activity through several brands, as well as at the corporate level through the successful listing on the stock market in July.

Throughout this business consolidation process the Group also developed a multi-brand strategy to adequately take on the various market segments, positioning the specific capacities and assets of the various brands, such as their brand image, their distribution models or their price positioning.

Simultaneously, the market performance of the larger operators in terms of raising prices has provided more sales space to the Group and, according to all indications, this trend will foreseeably be maintained in 2018.

The Group has also made investment efforts at the infrastructure level, rolling out fibre optic in 2017 and developing of co-investment agreements, as well as negotiating wholesale agreements. These efforts will be maintained in 2018 and allow growth to continue with respect to fibre-optic customers of higher value and lower rotation.

No significant changes are expected in the market in 2018 and the favourable development of the Group will remain supported by a consolidated organisation and a combination of efficient network assets.

## **GROUP RESEARCH AND DEVELOPMENT ACTIVITIES**

From the beginning the Group has strongly supported R&D+i activities as a tool for technological capacity and as a way of differentiating itself against the rest of the industry. The Group's R&D+i strategy is supported by the programs and tools that allow those activities to be subsidized and financed, in order to increase the scope and possibility of successful project outcomes.

In this context, it should be noted that the Group uses a formula for driving R&D+i that is supported by two very strong public financing tools: financing through government grants and the maximization of tax deductions associated with its R&D+i activities.

At the national level the primary government grant program that the Group's projects address is the Economy and Digital Society Strategic Action Program. In 2017 the Group presented two projects:

- The first project focused on 5G technology. Optimization of Digital service quality on mobile networks and their evolution towards 5G and convergence with the fixed network.
- The second project involved OTT content. Optimization of the distribution of OTT content using ABR Multicast and P2P techniques.

Along these lines, since 2015 the Group has dedicated much effort to roll out its own fibre-optic network that allows the development of high-speed broadband services offering very high speeds to areas with no coverage or future projected coverage.

These projects pursue the objective of improving the functionality and quality of digital services, thereby increasing the well-being and quality of life of citizens, while providing the possibility of increasing the Group's own network infrastructure. Accordingly, during 2017 the development projects have been presented to the New Generation Broadband Extension Program. The results obtained in this area are:

- 19 rollout projects were approved.
- An initial grant of Euros 4.8 million was obtained.
- A Euros 8.6 million financing budget was granted.
- A concession was obtained to implement these services in 264 municipalities covering 62,578 Property Units.

In terms of tax deductions, the Group has worked to certify the R&D+i projects for fiscal year 2016. Specifically, deductible projects have been identified at the companies MásMóvil Telecom, 3.0 S.A.U., Xtra Telecom, S.A.U. and Xfera Móviles, S.A.U. The details of the projects are as follows:

At MásMóvil Telecom, S.A.U.;

1. PRECOG Project, Cognitive Prediction for Business Continuity.
2. PLATOMV151 Project, Analytical real-time monitoring platform for the performance of OMV users to capture and encourage customer loyalty (BigData and Telecom Analytics).

At Xtra Telecom, S.A.U.:

1. ARM Project, Large-scale cloud computing hybrid platform based on ultra-low consumption ARM and x86 microprocessors.
2. FIREWALL Project, Intelligent cloud firewall to improve access services for mobile devices.
3. LEUKOS CYBERSEC project, Platform to automatically detect and recover illegitimate data stored fraudulently on legitimate servers.
4. CYBERIOS Project, Cyber Physical Data Centre Operations.

At Xfera Móviles, S.A.U:

1. ADVANCON Project, Platform for the advanced control of user experiences on networks.

Finally, the R&D+i projects work done in 2017 are described to indicate the primary lines of research and technologies involved in the experiments and in which the Group is making efforts:

1. **PRECOG Project**, Cognitive Prediction for Business Continuity. The objective of the project is to roll out a big data platform and an intelligent semantic information analysis engine that will allow all of the data that is currently generated within the telecommunications operator to be captured and used and to correlate that information with what is found on the Internet and social networks. Time frame of the project: 2016-2018.
2. **FIREWALL Project**, Intelligent cloud firewall to improve access services for mobile devices. This project has the objective of conceptualizing and building a cloud service that protects an operator's data network, particularly focusing on the protection of mobile data traffic which today is the least controlled traffic but, simultaneously, the area showing the most growth. Time frame of the project: 2015-2017.
3. **CYBEROPS Project**, Cyber Physical Data centre Operations. A cyber physical system involving operations personnel through advanced visualization tools to guarantee the efficient and effective management of the data centre. It involves common-sense integration concepts and the recognition of emotions and intelligent visualization to always allow the variables to be taught to be selected, the range of values to be shown, the manner of representing them, the manner of composing the various visualizations and the manner of developing the various screens over time.

**ACQUISITION OF TREASURY SHARES**

In accordance with the authority granted by shareholders at a General Meeting, the Company directly holds a total of 104,598 shares at 31 December 2017 which have a value of Euros 7,973 thousand (a total of 14,939 shares with a value of Euros 375 thousand at 31 December 2016).

The details of the balances and movements in the treasury share account in 2016 and 2015 are as follows:

<b>Number of shares</b>						
	% Shares/ capital	31/12/2016	Additions	Disposals	31/12/2017	% Shares/ Capital
Designated for:						
Regular transactions	0.1%	14,939	271,169	(283,592)	2,516	0.0%
Extraordinary transactions	0.0%	-	102,082	-	102,082	0.50%
		<b>14,939</b>	<b>373,251</b>	<b>( 283,592)</b>	<b>104,598</b>	

<b>In thousands of Euros</b>				
	31/12/2016	Additions	Disposals	31/12/2017
Designated for:				
Regular transactions	375	21,293	(21,618)	50
Extraordinary transactions	-	7,923	-	7,923
	<b>375</b>	<b>29,216</b>	<b>( 21,618)</b>	<b>7,973</b>

The extraordinary transactions relate to the share acquisition that took place between 6 November and 1 December 2017 to make partial payment of the deferred price for the purchase of the company Embou Nuevas Tecnologías, S.L., which was agreed in April 2015.

On 20 July 2017 the Company concluded a liquidity agreement with Santander Investment Bolsa Sociedad de Valores S.A. Unipersonal in order to support liquidity for trading and the regularity of the listed price of its shares. The main characteristics are as follows:

- Term of the agreement: 12 months
  - Number of shares in the securities account associated with the agreement: 7,885 shares
- Amount in the cash account associated with the agreement: Euros 500 thousand

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

- Execute treasury share purchase programs approved by the Board of Directors or by resolutions adopted by shareholders at a General Meeting.
- Comply with prior legitimate commitments.
- Cover share-based payments deliverable to employees and executives.
- Other permissible purposes according to applicable legislation.

Treasury share transactions will not be carried out in any case based on insider information or take place for the purpose of influencing the free establishment of prices. In particular, all of the conduct referred to in Articles 83.c.1 of the Stock Market Act, Article 2 of Royal Decree 1333/2005 (11 November), which enables the Stock Market Act, regarding market abuse will be avoided.

## USE OF FINANCIAL INSTRUMENTS

At the end of 2016, the Group had no financial products that could be considered risky, and management has resolved not resort to these types of instruments.

However, the Group uses derivative financial instruments to hedge the risks to which its future activities, transactions and cash flows are exposed.

Within the framework of these transactions and in compliance with the obligations stipulated in the syndicated loan, at 31 December 2016 the Group has arranged interest rate hedges with lending banks for a nominal amount of Euros 386,059 thousand (see Note 11).



## Financial risk factors

The Group's activities are exposed to several financial risks: market risk, credit risk and liquidity risk. The Group's global risk management program focuses on the uncertainty of financial markets and attempts to minimize the potential adverse effects on the Company's financial yields.

Risk management is centralised and controlled by the corporate Finance Management area in accordance with policies approved by the Board of Directors. This Department identifies, evaluates and hedges against financial risk in collaboration with operating units at the Group. The Board provides written policies for overall risk management and for specific areas such as foreign exchange risk, interest rate risk, liquidity risk and investment of cash surpluses.

### - Credit risk

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

Value adjustments for customer insolvency, the review of individual balances based on customer credit ratings, current market trends and an analysis of past insolvencies on an aggregate level require a high level of judgment. A reduction in the volume of balances gives rise to a reduction in measurement corrections and vice versa, based on the analysis of aggregate default experience.

### - Liquidity risk

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

### - Debt risk

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

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

### - Interest rate risk

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

An increase in the benchmark rates, in this case the Euribor, could increase the cost of the Group's financing and thus divert the resources originating from the Group's business currently used for other purposes. The Group's current policy is to maintain a low level of leveraging at variable rates at low variable rates.

- Risk of failing to comply with financial debt covenants.

The Group's Junior Debt agreement contains financial ratios (principal consolidated net debt/consolidated EBITDA), which must be met at the end of each six-month period. The failure to comply with these covenants without re-establishing the required levels in accordance with the agreement, could lead to the acceleration and immediate repayment of the debt.

### **ALTERNATIVE PERFORMANCE MEASURES (APM)**

To comply with ESMA (European Securities Market Authority) guidelines on Alternative Performance Measures (hereinafter "APMs"), the Group presents this additional information to improve the comparability, reliability and comprehensibility of its financial information. Although the Group's results are presented in accordance with the applicable financial reporting framework (IFRS-EU), the directors consider that certain APMs provide useful additional financial information that should be considered when evaluating the Group's performance. The directors and management also use these APMs not only to evaluate the Group's performance but also to make financial, operating and planning decisions. The Group provides those APMs it considers appropriate and useful for decision-making by users.

- Working capital: Calculated as current assets less current liabilities. This financial measure represents the Group's operating liquidity.
- Consolidated earnings before net interest expense and taxes (EBIT): Calculated based on consolidated earnings before interest and taxes.
- Earnings for the year before interest, taxes, depreciation and amortisation (EBITDA): consists of the net earnings for the year before net financial expenses, taxes, depreciation and amortisation. Calculated based on consolidated earnings before amortisation and depreciation. It does not include 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 losses from write-offs and gains or losses from the sale of assets.
- Operating cash flow: Calculated as EBITDA less investments.
- Recurring operating cash flow: Calculated as recurring EBITDA less investments.
- Investments: Additions of intangible assets and property, plant and equipment.
- Net financial debt: Consists of outstanding amounts recognised on loans and borrowings from credit institutions and other debts and reflects the liquid assets held at financial institutions.
- Any ratio from the APM's mentioned previously can be considered an alternative performance measure.

## LATE PAYMENTS TO SUPPLIERS

Average supplier payment period to suppliers of the Group during the year 2017 was 49.40 days.

## EVENTS AFTER THE BALANCE SHEET DATE

On 8 January 2018 the outstanding nominal amount of the bond issue carried out by MásMóvil Boradband, S.A.U. was amortized.

On 23 January 2018 the private placement of a block of 2,800,000 parent company shares, representing 14.03% of its share capital, was completed on behalf of the Vendor Shareholder, a company controlled by the investment funds advised by Providence Equity Partners L.L.C., through an Accelerated Book-Building ("ABB") process aimed at qualifying investors. Following this placement, the Vendor Shareholder or entities of its group continue to own 791,565 Company shares, representing 3.97% of the Company's share capital, and Euro 178,535,009.34 in respect of the nominal value of convertible bonds, maturing in October 2024 and currently convertible into 8,115,227 Company shares at a conversion price of 22 euros per share which, together with the shares owned, represents approximately 26.91% of the Company's share capital, assuming that the bonds and other convertible instruments outstanding are converted.

On 31 January 2018 a decision was issued on the appeal against the ruling of the Court of 1 Instance 52 of Madrid of 8 March 2017 (PO 1352/2014). In that ruling the Provincial Court of Madrid: (i) rejects the claim filed by Pepemobile, S.L. against Xfera Móviles, S.A., and exonerates Xfera Móviles, S.A. regarding the judicial claims against it and (ii) partly upholds the claim filed by Xfera Móviles, S.A. against Pepemobile, S.L. and Pepeworld, S.L. and, therefore, condemns Pepemobile, S.L. to compensate Xfera Móviles, S.A., for damages in the amount of seven million euros (Euros 7,000,000) for breach of contract and upholds the judgment requiring Pepemobile, S.L. and Pepeworld, S.L. to refund the Euros 3,500,000 paid previously in respect of the purchase option, plus interest from the date on which the claim was filed until the debt is fully paid.

The Group has reached integrated agreements with Orange Espagne, S.A. and Orange España Comunicaciones Fijas, S.L.U. ("Orange") in order to support its growth and the efficient deployment of its fixed and mobile network infrastructure. The Group does not expect significant impact on its accounts.

These new agreements include:

- 1) The extension of the existing Fiber-to-Home ("FTTH") joint investment agreement to a minimum of 2 million dwelling units (DUs), expanding MASMOVIL's own FTTH network to more than 6.5 million DUs in the next 3 years.
- 2) Modification and improvement of the bitstream agreement for the use of Orange's FTTH network that covers more than 8 million DUs.
- 3) Review of the terms and conditions of the current Site Sharing agreement that includes access to approximately 5,500 new sites, making it possible to double the size of MASMOVIL's own mobile network profitably.
- 4) Improvement in the economic terms of the current National Roaming agreement.
- 5) Amendments to the data transmission agreement with improved unit prices.

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



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**Auditors' Report on the "Information concerning the System of Internal Control over Financial Reporting (ICFR)" of Másmóvil Ibercom, S.A. for 2017**

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

To the Directors of  
Másmóvil Ibercom, S.A.

As requested by the Board of Directors of Másmóvil Ibercom, S.A. (the "Company") and in accordance with our proposal letter dated 29 January 2018, we have applied certain procedures to the "Information concerning the ICFR" attached in section F of the Annual Corporate Governance Report of Másmóvil Ibercom, S.A. for 2017, which summarises the Company's internal control procedures for annual financial reporting.

The Board of Directors is responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and oversight of an adequate system of internal control, the development of improvements to that system and the preparation and definition of the content of the information concerning the ICFR attached.

In this respect, it should be borne in mind that irrespective of the quality of the design and operation of the internal control system adopted by the Company in relation to annual financial reporting, the system may only provide reasonable, but not absolute assurance in relation to the objectives pursued, due to the limitations inherent in any internal control system.

In the course of our audit work on the annual accounts and in accordance with Technical Auditing Standards, our evaluation of the Company's internal control was solely aimed at enabling us to establish the scope, nature and timing of the audit procedures. Consequently, the scope of our evaluation of the internal control, performed for the purposes of the audit of accounts, was not sufficient to enable us to issue a specific opinion on the efficiency of this internal control over regulated annual financial reporting.

For the purposes of issuing this report, we have applied only the specific procedures described below and set out in the Action Guide referring to the Auditors' Report on Information on Internal Control over Financial Reporting for listed entities, published on the website of the Spanish Securities Market Commission (CNMV), which defines the work to be performed, the minimum scope of the work and the content of this report. As the scope of the work resulting from these procedures is in any event limited and substantially less than that of an audit or review of the internal control system, we do not express an opinion on its effectiveness or design or operational efficiency, with respect to the Company's annual financial reporting for 2017 described in the attached Information concerning the ICFR. Consequently, had additional procedures been applied to those defined in the Action Guide, or an audit or review been performed of the internal control system in relation to regulated annual financial reporting, other events or matters could have been identified, which would have been reported to you.

Moreover, as this special engagement does not constitute an audit of accounts nor is it subject to the current Audit Law in Spain, we do not express an audit opinion in the terms envisaged in such legislation.

The procedures applied were as follows:

1. Reading and understanding of the attached information prepared by the Company in relation to the ICFR – disclosures included in the directors' report – and evaluation of whether it covers all the information required, taking into account the minimum content described in Section F, concerning the ICFR description, of the standard Annual Corporate Governance Report pursuant to CNMV Circular 7/2015 of 22 December 2015.
2. Inquiries of personnel responsible for preparing the information detailed in point 1 above in order to: (i) gain an understanding of the preparation process; (ii) obtain information that allows us to assess whether the terminology used conforms to the definitions contained in the reference framework; (iii) obtain information on whether the control procedures described are in place and operational in the Company.
3. Review of explanatory documentation supporting the information detailed in point 1 above, and which will mainly include that made directly available to those responsible for preparing the descriptive information on the ICFR. This documentation includes reports prepared by internal audit, senior management and other internal or external specialists supporting the audit committee.
4. Comparison of the information detailed in point 1 above with the understanding of the Company's ICFR gained as a result of the procedures performed within the framework of the audit work on the annual accounts.

**Preparation of the Consolidated Annual Accounts and  
Consolidated Directors' Report for 2017**

In compliance with current legislation, on 27 February 2018 the Directors of the Company MÁSMÓVIL IBERCOM, S.A. prepared the Consolidated Annual Accounts in accordance with International Financial Reporting Standards adopted by the European Union in force at 31 December 2017, consisting of the Consolidated Statement of Financial Position, the Consolidated Income Statement, the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement for the year then ended, together with the Notes to the Consolidated Annual Accounts and the Consolidated Directors Report that accompanies those Notes. The Consolidated Annual Accounts at 31 December 2017 consist of the attached documents that precede this statement.

Signatories:

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Chair  
Mr. Eduardo Díez-Hochleitner Rodríguez

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CEO  
Mr. Meinrad Spenger

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Ms. Cristina Aldámiz-Echevarría González  
de Durana

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Key Wolf, S.L.  
Represented by Mr. José Eulalio Poza

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Ms. Pilar Zulueta de Oya

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Mr. Antonio García Ortiz

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Mr. Felipe Fernández Antela

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Mr. Ángel García Altozano

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Mr. John C. Hahn

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Mr. Robert Sudo

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Mr. Josep María Echarri Torres

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Mr. Borja Fernández Espejel