



COMMUNICATION OF A RELEVANT EVENT

MASMOVIL GROUP

September 30, 2015

In accordance with the points established in Circular 9/2010 of the Mercado Alternativo Bursatil [Alternative Stock Market] (hereinafter referred to as MAB), and in Article 82 of the Stock Market Law and other applicable regulations, we hereby communicate the following information relating to the company MASMOVIL IBERCOM, S.A. (hereinafter referred to indistinctly as the **"MASMOVIL Group"**, **"MASMOVIL"**, or **"the company"**).

FINANCIAL RESULTS FOR THE FIRST HALF OF 2015

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1. Principal milestones of the semi-annual period

- During the first half of 2015, company **income** increased to € 59M (**€ 67.6 M pro-forma¹**), **multiplying** the 1st Half 2014 income **by almost 5**.
- The **Residential and Business** divisions showed **positive performance**, recording a **favorable trend** in the majority of **transactional indicators** (an increase in mobile customers, number five operator in net portability, a reduction in the Churn (cancelled subscriptions), etc.).

The situation in the **Wholesale division**, lower than expectations, reflects the impact of 1) the strategy of **freeing up financial resources** by reducing Wholesale activity, which allowed us to **invest** in areas of **greater profitability** without increasing the net financial debt; 2) the search for **improvements** in the **quality** of the **customer portfolio**. Despite this situation and the **difficult market conditions**, we maintained profitability in the division.

- The Gross Margin for the semi-annual period increased to € 16.9M, with a **Gross Margin on income of 28.6%**, **greater than** the margin obtained in the same period in **2014** (in comparable terms, excluding the Wholesale business which was not present in 2014), the result of the efficient management of the service mix of the MASMOVIL Group. In **pro-forma terms**, the **Gross Margin** increased to **€ 23.3M, 34.6% on sales**.
- The **EBITDA** reached € 2.8M during the first six months of the year, **a 127% increase** over 1st half 2014, with the EBITDA margin being 4.8% of income, positioned at **€ 4.2M (6.2% of the margin) on a pro-forma basis**. Despite assuming additional operating costs in **preparation** of its **new growth phase**, it is forecast that we will reach a pro-forma EBITDA of € 11.5M for the entire fiscal year.
- We have successfully **completed the acquisitions** of *Neo Operador de Telecomunicaciones (Neo)*, *Embou Nuevas Tecnologías* and *Ebesis Sistemas*.
- During the first half, we completed the following **corporate financing transactions**: 1) capital increase of € 21.1M destined for the acquisition of Neo; and 2) the issuance of bonds quoted on the MARF for € 27M. Both transactions **reflect investor confidence** in the future of MASMOVIL.
- After the closing of the semi-annual period, MASMOVIL communicated² the **agreement** reached with Orange for the **assignment of the fixed broadband assets** of **Orange/Jazztel**, which include the fiber and xDSL infrastructure at a national level.

¹ Assuming the consolidation of Neo and Youmobile (see Events after the closure of the semi-annual period) on January 1, 2015

² Relevant Event of August 10, 2015

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This **transformational transaction** will allow MASMOVIL not only to consolidate itself as the fourth largest domestic **operator** with an **integrated offering**, but also to **significantly increase its expectations for growth** in the mid and long term.

MASMOVIL expects official **approval** of the transaction by the European Commission in the **next few weeks** and is confident that it can shortly present the **new Business Plan** resulting from this transaction in all its dimensions.

2. Analysis of the Consolidated Income Statement (not audited)

Consolidated Income Statement (thousands of €)	January-June 2014	January-June 2015	% Variation
Net revenue	12,107	59,048	388%
Capitalized expenses of in-house work on fixed assets	1,200	680	- 43%
Supplies	- 8,345	- 42,845	413%
Gross Margin	4,963	16,882	-240%
Gross Margin %	41.0%	28.6%	12.4 p.p.
Other operating income	268	0	-
Staff costs	- 1,887	- 6,968	269%
Other operating expense	- 2,095	- 7,077	238%
EBITDA	1,249	2,837	127%
EBITDA %	10.3%	4.8%	- 5.5 p.p.
Depreciation and amortization	- 844	- 2,078	146%
Allocation of grants on non-financial assets	143	51	- 65%
Other profit/loss	18	- 6	- 134%
PROFIT FROM OPERATIONS (EBIT)	566	804	42%
Profit from operations (EBIT) %	4.7%	1.4%	- 3.3 p.p.
Finance income/cost	- 168	- 514	206%
PROFIT/LOSS BEFORE TAXES	398	290	- 27%
Profit/loss before taxes %	3.3%	0.5%	- 2.8 p.p.
Corporate Taxes	188	n.a.	-
PROFIT/LOSS AFTER TAXES	586	290	- 50%
Profit/loss for the Fiscal Year %	4.8%	0.5%	- 4.3 p.p.
Profit/loss attributed to the minority shareholder	0	0	-
PROFIT/LOSS ATTRIBUTED TO THE PARENT COMPANY	586	290	- 50%

Evolution of Income

During the first half of 2015, the company's **income** increased to **€ 59.1M**, multiplying the income from the same period last year by almost 5.

This significant **increase** in **business** is due not only to the evolution of the company, but also to the consolidation during the entire period of the acquisitions made over the course of 2014 (and broadly communicated in prior financial reports) and also to the materialization of the acquisitions announced at the end of last year, and, to be specific:

- *Ebesis Sistemas S.L.* ("Ebesis") cloud infrastructure provider for companies in Aragón with its own data center.
- *Embou Nuevas Tecnologías* ("Embou") a telecommunications operator and leader in rural areas of Aragón. Both companies were acquired jointly through a combination of cash and shares to be delivered in 2016 and 2018. The transaction was communicated under Relevant Events on December 11, 2014 and April 13, 2015.
- *Neo Operador de Telecomunicaciones S.L.U.* ("Neo"), a telecommunications operator specializing in the business and public administration sector which bases its principal offer of internet access on infrastructure using 3.5 GHz frequency.

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The price of the transaction came to a total of € 27.1M and was structured through a combination of payments in cash and shares, which allowed MASMOVIL to incorporate a significant institutional shareholder like Gala Capital. The transaction was communicated under Relevant Events on December 23, 2014 and May 15, 2015.

Income Analysis

The following chart shows the distribution of the Income and the Gross Margin by division for the first half of the year:

Distribution by Division (%)	Income	Gross Margin
Residential	21%	44%
Business	35%	50%
Wholesale	44%	6%
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The **Residential** and **Business** divisions show **positive evolution**, while the **Wholesale** division recorded performance that was **beneath** expectations.

Residential (21% of the Income, 44% of the Gross Margin)

- Good performance for the mobile telephone business in the semi-annual period, increasing the mobile customer base by more than 35% compared to the end of the first half of 2014, with approximately 400,000 active lines at the end of June.
- The subscriptions recorded increased to double digits in respect of the first half of 2014, while the churn (cancellations) rate dropped, reflecting the strategic importance given by MASMOVIL to customer service and the perception of service quality of the company's customers.
- The company positioned itself as the fifth-largest operator on the Spanish market in total net portability in the first six months of the year, improving its competitive position until it reached fourth place during the third quarter of the fiscal year (by the middle of September). In the month of September, MASMOVIL has probably surpassed Yoigo and Lowi in net portability and practically positioned itself at the same level as Simyo, reaching third place in the monthly ranking of operators.

The evolution of MASMOVIL in total net portability takes on special significance in the context of recent concentration processes (Vodafone/Ono and Orange/Jazztel), which results in an increase in convergence (mobile/landline/broadband/TV) and a better rate of growth in only mobile lines.

¹ Assuming the consolidation of Neo and Youmobile on January 1, 2015

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- MASMOVIL's business initiatives in mobile telephony, highlighted by the creation of new high value zero rate bonds, allowed the company to improve contract customer ratios out of all customers, which moved from 37% on average in the first half of 2014 to 49% in the first half of 2015.

Business (35% of the Income, 50% of the Gross Margin)

- The business division recorded a positive evolution during the semi-annual period, with the negative impact of the change resulting from fixed termination rates that took place at the beginning of the year being offset by the good performance of the business.
- While the company had estimated that the decline in regulated fixed termination prices would take place in a progressive and linear manner over the entire fiscal year, the new regulation implemented at the beginning of the year was more drastic, and resulted in income below expectations for the company at the beginning of the year.

This deviation of income in the landline department in respect to initial expectations was slowly corrected, although not completely, during the second quarter, with the hopes that it could be completely offset by the end of the fiscal year.

- The improvement in the competitive position of the company in the business sector, with an increasingly more complete offering that incorporates LTE and Cloud services, is reflected in the achievement of contracts with large customers.
- In the mobile area, capturing new distributors was done at a rate that exceeded the initial expectations of the company. This good performance is expected to be maintained during the second half of the year.
- Finally, it is important to mention the delay experienced in the incorporation of Neo into the MASMOVIL Group, initially established for the first quarter of the year, but which did not actually take place until the middle of May. This had a negative impact on budget compliance during the first half of the current fiscal year.

Wholesale (44% of the Income, 6% of the Gross Margin)

- The Wholesale division experienced a significant reduction in income during the semi-annual period, below company expectations at the beginning of the year.
- This contraction in income may be explained by the following:
 1. The decision of the company to reduce the activity of the division and invest the financial resources freed up in areas of greater relative profitability. Specifically,

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and given the consumption of working capital of the Wholesale business, the fall in sales allowed the company to free up a sum in liquid financial resources similar to the sum used for the cash payment in the acquisition of Neo, whose EBITDA margin (greater than 30%) differs from that of the Wholesale business (less than 5%).

2. The objective of increasing the quality of the customer portfolio after the acquisitions of Quantum Telecom and Xtra Telecom (wholesale operators) in the last few months.
 3. The difficult market conditions, which saw a significant decrease in the volume of international traffic as a result of the expansion of “over the top” services that replaced internet voice calls (WhatsApp, Skype, etc.).
- Despite the above, during the semi-annual period, the company kept its profitability rates on revenue from the Wholesale business similar to those achieved in prior periods, and it is hoped that these levels are maintained in the second half of the fiscal year.

Profitability Analysis

The **Gross Margin** of the semi-annual period increased to € 16.9M. The efficient management of direct costs made by the company during the first six months of the year, together with the contribution of the companies acquired, whose profitability is greater than the Group average, allowed MASMOVIL to **increase** the **Gross Margin** on Income to **28.6%**, despite being affected by the company's decision to reduce the Wholesale activity.

At the same time, during the semi-annual period and especially in the second quarter, the company assumed an **increase in operating costs**, allowing it to lay the basis for the acquisition of broad band assets for later use through a convergent business strategy, which was not considered in the Business Plan announced last January:

- On the one hand, the **management team** was **complemented** by professionals with broad experience in the telecommunications sector and in financial markets, strengthening MASMOVIL's capacity to fully take advantage of opportunities for growth in the market of converging offers, in light of the fact that the majority of these professionals have directed similar growth projects in the past.
- On the other hand, the company has **intensified its business efforts** (by launching, for example, a television advertising campaign), beyond the efforts initially considered in the Business Plan.
- At the same time, the delay in the actual closure of the acquisition of Neo (the initial estimate, reflected in MASMOVIL's budget, was to complete the transaction at the beginning of the year, but the actual closing took place in the middle of May) in turn caused a significant delay in MASMOVIL's capacity to rationalize its structural costs.

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- Lastly, the **financial statement** was **strengthened** by the issuance of corporate bonds, obtaining a credit rating whose cost, like the costs of the issuance of the bonds, was not considered in the Business Plan.

Despite this, the **EBITDA** reached € 2.8M during the first six months of the year, a **127% increase** in respect to the first half of 2014.

3. Analysis of the Consolidated Statement of Financial Position (not audited)

Statement of Financial Position	12/31/2014	06/30/2015	% Variation
NON-CURRENT ASSETS	84,853	131,178	55%
Goodwill	53,064	89,382	68%
Intangible assets	15,040	15,461	3%
Property, plant and equipment	3,906	6,299	61%
Investments in Group companies	0	5,661	-
Long-term financial investments	2,219	4,677	111%
Deferred tax assets	10,624	9,698	- 9%
CURRENT ASSETS	41,696	60,614	45%
Inventories	166	159	- 4%
Trade and other receivables	29,349	26,527	- 10%
Short-term financial investments	2,712	2,289	- 16%
Prepayments and accrued income	667	0	- 100%
Cash	8,802	31,640	259%
TOTAL ASSETS	126,549	191,792	52%
EQUITY	65,635	103,105	57%
Shareholders' Equity	65,273	102,477	57%
Grants, donations, and bequests	362	628	74%
NON-CURRENT LIABILITIES	16,283	46,293	184%
Long term borrowings	15,211	45,061	196%
Deferred tax liabilities	1,072	1,233	15%
CURRENT LIABILITIES	44,631	42,394	- 5%
Short-term borrowings	8,241	12,036	46%
Trade and other payables	34,005	28,427	- 16%
Prepayments and accrued income	2,385	1,930	-
TOTAL NET EQUITY AND LIABILITIES	126,549	191,792	52%

The comparison between the Consolidated Balance Sheet at June 30, 2015 and the balance sheet for the closing of the fiscal year 2014 shows the increase in size experienced by the Group during the first half of 2015.

- In the first six months of the year, the company increased the value of its assets by more than 50%, from € 126M to € 192M.
- Equity reached € 103M, 57% greater than the Equity recorded at the end of 2014.

The net financial debt of the Group at the end of the semi-annual period was slightly more than € 23M (the company had € 34M in cash on hand) compared to € 12M in net financial debt at the end of 2014. The variation in the level of net debt principally corresponds to the payments made during the semi-annual period or future debts for acquisitions, as well as the financial debt incorporated by these acquisitions.

During the semi-annual period the company completed the acquisition of Ebasis, Embou, and Neo, for which it used its existing cash on hand as well as payment in the form of newly issued shares;

- The acquisition of Ebasis and Embou entailed the disbursement of € 1.95M and the contribution of 195,000 Group shares to be furnished in 2016 (20,000 shares) and 2018

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(175,000 shares). In addition, there was an “earn-out” (variable payment), which is stated as increased debt at fair value which is situated slightly below the sum of 2 million euro.

- The price for the Neo transaction increased to € 27.1M and was structured through a combination of a payment in cash (€ 6M) and in shares (the issuance of 1,252,606 shares in a capital increase by offsetting loans).

At the same time, on June 23 the issuance of corporate bonds for the sum of € 27M was successfully completed:

- Prior to the issuance of the bonds, Axesor, the rating agency accredited by ESMA at the European level, published the concession to MASMOVIL of a credit rating of “BB with a positive outlook”. According to Axesor’s report, the principal strengths of the company consist of:
 - Adequate positioning with favorable prospects of consolidation.
 - Convergent offerings of services to successfully compete on the market.
 - Strategy focused on inorganic growth but maintaining a solid and balanced financial structure.
 - Potential for growth in profitability through the acquisition process and the restructuring of the group.
 - Adequate liquidity situation favored by the high degree of financial flexibility as a listed company.
- The issuance of the corporate bonds consists of 270 “Senior” corporate bonds with a par value of € 100,000 each. The bonds were underwritten by 16 institutional investors and are currently quoted on the MARF. The bonds issued have a term of 5 years; their expiration date is June 30, 2020, and they include an annual coupon with an interest rate of 5.50%.

4. Pro forma Income Statement and degree of fulfillment of the Business Plan

Taking into account the results obtained in the first half of the year, the impact of the acquisitions performed during this period and the foreseeable evolution of the business by the various companies that comprise the MASMOVIL Group, the pro-forma forecasts¹ for the company for the entire 2015 fiscal year, as well as a comparison with the Business Plan, are analyzed:

- The company **hopes** to achieve total income in excess of € 146M, which represents **double digit growth** for the **second half of the year** with a constant perimeter over the pro-forma figure of the first half.
- The pro-forma **Gross Margin** comes to €23.3M in the first half of the year, which allows us to extrapolate a sum of € 50M for the entire fiscal year, which represents a **96% achievement** of the Business Plan.

The company's success in reducing direct costs has allowed it to reach a **Gross Margin overpro-forma Income** of more than 33%, **10% greater** than expectations at the beginning of the year and reflected in the **Business Plan** (29.4%).

The company hopes to maintain a gross margin on sales for the entire fiscal year similar to the amount recorded in the first half of the year, allowing it to fulfill the current Business Plan by over 100%.

- As detailed above, the **effort made** to lay the bases that would allow the **acquisition of broad band assets** and their later use through a convergent business **strategy** forced the company to reduce the pro-forma **EBITDA** for the first half of the year.

Nevertheless, it is worthwhile pointing out that the measures put into effect or in the process of implementation by the company allow us to **forecast an increase** in the **EBITDA margin** for the **second half** of the year.

These **measures** affect not only the **generation of income** in those businesses with lower performance in the first half of the year (Wholesale) but also the **rationalization** of the **structures** (we hoped to complete the acquisition of Neo at the beginning of the year, but this did not occur until May).

With this, the company **hopes to reach** almost **90%** of the **forecast EBITDA on sales** stated in the Business Plan from last January and 73% in EBITDA, with approximately one half of the deviation being due to the impact of the strategic decision of the company to reduce the wholesale activity.

¹ Assuming the consolidation of Neo and Youmobile on January 1, 2015

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Finally, it is important to mention that the formal approval by the European Commission of the agreement reached with Orange for the assignment of the fixed broad band assets of Orange/Jazztel, which is expected to come in the next few weeks, represents a transformational highlight for MASMOVIL that would substantially change the expectations for the growth and profitability of the company. For this reason, the company is confident that it will shortly be able to communicate the new Business Plan resulting from this transaction, which is in an advanced state of preparation.

Pro-forma Consolidated Income Statement¹ (thousand €)

	1 st half 2015	2015 forecast	2015 Business Plan	% Fulfillment
Total income	67,549	146,281	176,045	83%
Gross Margin	23,340	49,950	51,786	96%
Gross Margin on income	34.6%	34.1%	29.4%	116%
EBITDA	4,192	11,531	15,762	73%
EBITDA Margin	6.2%	7.9%	9.0%	88%

¹ Assuming the consolidation of Neo and Youmobile on January 1, 2015

Note: The pro-forma Gross Margin for the 1st half 2015 is calculated with the same criteria as the criteria used in the Business Plan

5. Events after the closure of the semi-annual period

On **July 22, 2015**, we communicated the incorporation of three new independent Board Members into the Board of Directors, as a result of which the Board moves on to being composed of seven Board Members, three independent, three in-house, and one executive. In addition, the Board of Directors named Mr. Eduardo Diez-Hochleitner as the new Chairman of the Board. The former Chairman, Mr. Meinrad Spenger will continue on in the position of Chief Executive Officer.

Finally, the Board of Auditors will be composed of Mr. Josep María Echarri (Chairman), Mr. Carlos Abad Rico and Mr. José Eulalio Poza, and the Election and Salary Committee will be composed of Mr. Felipe Fernández Atela (Chairman), Mr. Germán López and Mr. Eduardo Diez-Hochleitner.

On **August 6, 2015**, the company communicated the signing by MASMOVIL and Orange of an agreement which extended their collaboration through 2022, renewing the current OMV (Virtual Mobile Operator) contract and extending it to December 31, 2022.

On **September 30, 2015**, the company communicated that it had reached an initial agreement with the current shareholders of Youmobile Telecom Spain S.L. for the acquisition of 50.01% of the company, an ethnic OMV specializing in residents of Chinese origin residing in Spain.

On **August 10, 2015**, MASMOVIL communicated, through Relevant Events that, on July 31, 2015, Orange (through Jazztel) and MASMOVIL Broadband S.L.U. (a 100% owned subsidiary of the MASMOVIL Group) had signed several agreements in relation to the following significant assets:

1. Jazztel sells MASMOVIL a total of 13 centers on its fiber optics network (FTTH) which currently gives access to approximately 720,000 homes in major cities in Spain.
2. MASMOVIL obtains wholesale access at a preferred price to Jazztel's entire xDSL copper cable network (business offer of ADSL, ADSL2+ and VDSL2) for a four-year period (which may be extended for 4 additional years), which allows MASMOVIL to immediately compete in 78% of the Spanish territory (18.6 million homes).

The agreements reached between the parties represent a transcendental highlight in the history of MASMOVIL because, thanks to these agreements, the company would gain the following benefits:

- The company acquires a significant fixed broadband network, with fixed infrastructure assets as strong as those of traditional operators;
- ... at an attractive cost.

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- ... and in only one transaction, thus saving the necessary time for implementation (Jazztel has been investing in its ADSL network since 2005 and in the fiber optics network since 2012).
- Thus exponentially increasing its business offerings both to companies and individuals.
- And also acquiring a cost structure that allows the company to compete much more efficiently on the market, which is becoming more convergent.

As we have mentioned above, the company is confident that it will shortly be able to communicate the new Business Plan resulting from this transaction and which is in an advanced state of preparation.

Madrid, September 30, 2015



Mr. Meinrad Spenger
Chief Executive Officer of MASMOVIL IBERCOM, S.A.