



## **ANNUAL REPORT BY MASMOVIL IBERCOM, S.A.'s AUDIT AND COMPLIANCE COMMITTEE ON ITS OWN OPERATIONAL PERFORMANCE AND ACTIVITIES DURING THE 2017 FINANCIAL YEAR**

### **1. INTRODUCTION**

The Audit and Compliance Committee of Masmovil Ibercom, S.A. (the “**Company**” or “**MASMOVIL**”) commenced its operations following its establishment by the Company’s Board of Directors at a meeting held on 21 July 2015, when MASMOVIL’s shares were still listed on the *Mercado Alternativo Bursátil* (a sub-market of the Spanish stock exchange organisation) in the “Companies in Expansion” segment.

In addition, in view of the forthcoming admission of the Company’s shares for trading on the Madrid, Barcelona, Bilbao and Valencia stock exchanges in July of last year, the Board of Directors, meeting on 22 May of the same financial year, agreed to amend the Regulations governing the Board and its Committees in order to bring them into line with the listed companies statute set out in Title XIV of the current Spanish Capital Companies Act and the Code of Good Governance for Listed Companies, which had been approved by agreement of the Board of the Spanish National Securities Markets Commission on 18 February 2015. In this regard, Articles 14, 15 and 16 of the said Regulations govern the composition and operational regulations for the Audit and Compliance Committee.

One of the powers that the Regulations governing the Board of Directors attributes to the Board of Directors involves making an assessment of the quality and performance of, inter alia, the Audit and Compliance Committee, to which end it collects the reports that it requires from the said Committee. In addition, recommendation 36, paragraph b) of the Code of Good Governance for Listed Companies establishes that, when making its assessment of the various committees, the Board of Directors will work from the reports that the committees submit to the Board.

This report refers to the activities of the Audit and Compliance Committee during the financial year ending 31 December 2017.

Pursuant to the contents of recommendation 6 of the Code of Good Corporate Governance for Listed Companies, this present report shall be published on the Company’s website sufficiently in advance of the date on which the 2018 Ordinary General Meeting of Shareholders is held.

### **2. COMPOSITION**

Article 14 of the Board of Directors’ Regulations establishes that the Audit and Compliance Committee shall comprise five (5) Non-Executive Directors appointed by the Board of Directors, the majority of whom must be Independent Directors. The members of the Committee shall be appointed on the basis of their knowledge and experience in accounting, auditing and risk management matters.

Thus, on 4 November 2016, MASMOVIL's Board of Directors appointed the current members and allocated their duties on the Committee as follows:

- ✓ Borja Fernández Espejel (Chairman) is an Independent Director. He was appointed Director at the Extraordinary General Meeting of Shareholders held on 4 November 2016.
- ✓ Eduardo Díez-Hochleitner Rodríguez (Member) is an Independent Director. He was appointed Director at the Ordinary General Meeting of Shareholders held on 29 June 2015.
- ✓ Josep María Echarri Torres is a Proprietary Director (representing the Inveready Group). He was appointed Director by co-option by the Board of Directors on 2 December 2016 and his appointment was ratified by the Extraordinary General Meeting of Shareholders on 1 March 2017.
- ✓ Pilar Zulueta de Oya (Member) is an Independent Director. She was appointed Director at the Extraordinary General Meeting of Shareholders held on 4 November 2016.
- ✓ Don Robert Sudo (Member) is a Proprietary Director (representing PLT VII MAS, S.à r.l. - Providence). He was appointed Director at the Extraordinary General Meeting of Shareholders held on 4 November 2016.

The Secretary to the Audit and Compliance Committee is the Secretary to the Board of Directors, Alberto Castañeda González.

### **3. OPERATION**

It is established that the Audit and Compliance Committee will meet whenever it is convened by its Chairman, or when a meeting is requested by at least two (2) of its members, or at the request of the Board of Directors and, in any case, it will meet regularly to report on the interim financial statements and the annual accounts.

Meetings of the Committee shall be held at the Company's registered office or at any other location decided by the Chairman and indicated in the announcement of the meeting. Meetings shall be validly constituted when the majority of members are present or represented, and the Committee's reports shall be adopted following a vote in favour by a majority of the members present at the meeting. In the event of a tie, the Chairman or the person acting in the Chairman's place shall have the casting vote.

Meetings of the Audit and Compliance Committee must be attended, whenever deemed appropriate by its Chairman, by the Company's external auditor, internal auditor and Compliance Officer, and by any member of the Company's or the Group's personnel when their activities relate to the duties performed by the said Committee.

### **4. DUTIES**

The duties of the Audit and Compliance Committee are regulated under Article 15 of the Board of Directors' Regulations, and particularly include the following:

a) With regard to auditing:

- i) Overseeing the efficacy of the Company's internal monitoring, its internal auditing and, where applicable, its risk management systems, and discussing with the accounts auditor or auditing firms any significant weakness in the internal monitoring system that it has detected during its own audit, where applicable, though without compromising its own independence.
- ii) Overseeing the process for the preparation and submission of the regulatory financial information and submitting recommendations or proposals to the Board Of Directors aimed at safeguarding the integrity of such information, and reviewing compliance with the relevant regulatory requirements, the proper demarcation of the consolidation perimeter and the correct application of accounting criteria.
- iii) Submitting proposals to the Board of Directors for the selection, appointment, re-election and replacement of the Accounts Auditor.
- iv) Establishing the relevant relationships with accounts auditors or auditing firms in order to receive information on issues that may represent a threat to their independence, for subsequent examination by the Committee.
- v) Prior to the issue of the audit report on the accounts, issuing an annual report expressing an opinion on whether the independence of the accounts auditors or auditing firms has been compromised.

b) With regard to internal control and reporting systems:

- i) Monitoring the preparation and integrity of financial information prepared in relation to the Company and, where appropriate, the group.
- ii) Monitoring the independence of the internal audit function where applicable; proposing the selection, appointment, reappointment and removal of the head of internal audit.
- iii) Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any major irregularities they detect at the company in the course of their duties, especially financial or accounting irregularities.

c) With regard to the External Auditor:

- i) In the event of the External Auditor's resignation, examining the circumstances that have caused it.
- ii) Ensuring that the remuneration of the External Auditor does not compromise its quality or independence.

- iii) Ensuring that the Company notifies any change of Auditor to the CNMV as a significant event, accompanied by a statement of any potential disagreements arising with the outgoing Auditor and the reasons for these.
- d) With regard to Corporate Reputation:
  - i) Being aware of, promoting, directing and overseeing the Company's actions in matters of corporate reputation and reporting on such matters to the Board of Directors.
  - ii) Promoting the implementation of improvements in the management of intangible assets such as reputation, brand image, intellectual capital, transparency and ethics.

## 5. MEETINGS HELD, DOCUMENTS ANALYSED AND ATTENDEES

During the 2017 financial year, the Audit and Compliance Committee has held ten (10) meetings, which were attended by all of the Committee's members.

The following is a list of the meetings held, the documents that were analysed by the Committee at each meeting, *inter alia*, and the people who were invited to attend the meetings:

- a) Committee Meeting of 24 January 2017:
  - i) Draft budget for 2017.
  - ii) CVs of the candidates for the position of head of the Internal Auditing Department and the Compliance Department.
  - iii) Information on the Leveraged Purchasing Plan and the Employees' Stock Options Plan.
- b) Committee Meeting of 31 March 2017:
  - i) Draft of Individual Annual Accounts and Individual Management Report for the 2016 financial year.
  - ii) Draft of Consolidated Annual Accounts and Consolidated Management Report for the 2016 financial year.
  - iii) Other financial and business information.
- c) Committee Meeting of 27 April 2017:
  - i) Draft of Individual Annual Accounts and Individual Management Report for the 2016 financial year.
  - ii) Draft of Consolidated Annual Accounts and Consolidated Management Report for the 2016 financial year.

- iii) Other financial and business information prepared by MASMOVIL.
  - iv) Observations from the National Securities Markets Commission regarding the Accounts / Prospectus for the admission of the shares for trading on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges.
  - v) Interim Financial Statements to 31 March 2017.
  - vi) Internal Auditing Plan and Compliance Plan for the 2017 financial year.
  - vii) Civil liability insurance policy for Directors and Managers.
- d) Committee Meeting of 20 June 2017:
- i) Interim Consolidated Financial Statements to 31 March 2017.
  - ii) Information regarding the internal risk monitoring and management systems with regard to the process of issuing financial information ("ICFR"). Conclusions and recommendations for action.
  - iii) Updating of Internal Auditing Plan and Compliance Plan for the 2017 financial year.
  - iv) Criteria and procedures relating to MASMOVIL's treasury stock policy.
- e) Committee Meeting of 18 July 2017:
- i) Financial and business information as of June 2017.
  - ii) Information on the Group's Corporate Risk Map.
  - iii) Information on the Group's Criminal Risk Map.
  - iv) The National Securities Markets Commission's Technical Guidelines 3/2017, on the Audit Committees of Public Interest Organisations, and a report on compliance with the said guidelines.
  - v) Report on Good Corporate Governance Recommendations.
  - vi) Draft liquidity agreement with Santander Investment Bolsa Sociedad de Valores, S.A.
  - vii) Independence undertaking from the auditing firm KPMG Auditores, S.L., relating to the provision of non-auditing services (limited review of the Interim Consolidated Financial Statements) and fee proposal.
  - viii) Update of Compliance Plan for the 2017 financial year.
- f) Committee Meeting of 8 September 2017:

- i) Interim Consolidated Financial Statements to 30 June 2017.
  - ii) Update of Compliance Plan for the 2017 financial year.
  - iii) Information on the merger by takeover of the subsidiary Más Móvil Telecom 3.0, S.A.U. by its sole shareholder, Xfera Móviles, S.A.U.
- g) Committee Meeting of 26 September 2017:
- i) Information on the service provision agreement to be signed between MASMOVIL and Inveready.
  - ii) Information on the essential terms of the refinancing of the senior debt and the CAPEX financing line.
- h) Committee Meeting of 31 October 2017:
- i) Interim Consolidated Financial Statements for the third quarter of 2017.
  - ii) Financial and business information on the forecast for the end of the 2017 financial year.
  - iii) Update of the essential terms of the refinancing of the senior debt and the CAPEX financing line.
  - iv) Letter granting powers to the banks placing the refinancing.
  - v) Report on a guide price for the repurchase of Masmovil Broadband, S.A.U. bonds, issued by BEKA Finance, S.V., S.A.
  - vi) Information on corporate operations.
  - vii) Information on new payment conditions for vendor partners at Embou New technologies, S.L..U.
  - viii) Information on the merger between Group companies Xfera Móviles, S.A.U. and Masmovil Holdphone, S.A.U.
  - ix) Information on the Group's risk tolerance levels and information on the Risk Map.
  - x) Draft Protocol on how to act with the public authorities and political parties.
  - xi) Draft Policy on Cyber Security at the Group.
  - xii) Draft Code Of Ethics for Suppliers.
  - xiii) Draft of Procedure for the preparation and communication of the Company's financial information.
  - xiv) Information on related party transactions.

i) Committee Meeting of 28 November 2017:

- i) Financial and business information as of October 2017.
- ii) Information on the impact of application of the new International Financial Reporting Standards No. 9 ("Financial Instruments") and No. 15 ("Revenue from Contracts with Customers").
- iii) Draft Procedure for the selection and engagement of External Auditors and analysing their independence.
- iv) Information on the preliminary results relating to Internal Controls on Financial Reporting and Action Plans
- v) Update of the essential terms of the refinancing of the senior debt and the CAPEX financing line.
- vi) Fee proposal for the auditing of MASMOVIL's individual and consolidated annual accounts for the 2017 financial year.
- vii) Independence undertaking from the auditing firm KPMG Auditores, S.L., relating to the provision of non-auditing services (issue of technical report in favour of XTRA Telecom, S.A.U.) and fee proposal.
- viii) Related party transactions.

j) Committee Meeting of 20 December 2017.

- i) Financial and business information as of November 2017.
- ii) Information on the preliminary targets set by MASMOVIL's management for the 2018 financial year.
- iii) Update of the essential terms of the refinancing of the senior debt and the CAPEX financing line.
- iv) Information on corporate operation with Cellnex Telecom.
- v) Information on the final results relating to Internal Controls on Financial Reporting and Action Plans
- vi) Internal Auditing Plan for the 2018 financial year.
- vii) Information on the proposed cancellation of the participation loans held by Masmovil Phone & The Internet, S.A.U. against Xfera Móviles, S.A.U.
- viii) Draft Purchasing Policy.
- ix) Related party transactions.

All of these meetings were attended by Eloy Gómez, head of the Internal Auditing Department. Meetings were also attended by managers from the Group and by external advisors and experts, depending on the issues being discussed. These people included the following:

- ✓ Meinrad Spenger, CEO.
- ✓ José María del Corro, CFO.
- ✓ Javier Marín, Director of Investor Relations and Corporate Finance.
- ✓ Juan Luis Delgado, Director of the Legal and Compliance Department.
- ✓ María de la Torre, Compliance Officer.
- ✓ Fernando Molina, Director of Technology.
- ✓ The Group's External Auditors (KPMG).

In addition, over the last financial year, members of the Committee took part, along with the other members of the Board of Directors, in three training sessions organised specifically for them by MASMOVIL's management, relating to the following issues:

- ✓ "Compliance and best practices in matters involving inside information".
- ✓ "Cybersecurity".
- ✓ "Ethics, Corporate Governance and Compliance".

Finally, it should be added that some of the Committee's members, together with other directors and members of MASMOVIL's management, held a meeting with representatives of the Spanish National Securities Markets Commission to prepare the application for the admission of the Company's shares for trading on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, in July of last year.

## **7. ACTIVITIES OF THE AUDIT AND COMPLIANCE COMMITTEE**

During the 2017 financial year, the action taken by the Audit and Compliance Committee focused on the following areas:

- a) Annual accounts and other regular financial information. Prospectus for the admission of MASMOVIL's shares for trading on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges.

During the early months of the last financial year, the Committee analysed, reviewed and reported favourably to MASMOVIL's Board of Directors on the preparation of the individual and consolidated annual accounts for the 2016 financial year, as part of the process for the admission of the Company's shares for trading on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, which was successfully completed in July 2017.



In this regard, the Committee held discussions with the people responsible for the preparation of the accounts regarding matters such as the valuation of some of the Company's financial assets, the most important transactions and events during this period (mainly the operations to acquire Pepephone and Yoigo during the 2016 financial year), changes to accounting policy and other relevant information. It examined the conclusions of the external auditor's study of the individual and consolidated annual accounts for that financial year, and it listened to the remarks and queries raised by the Spanish National Securities Markets Commission in relation to the Prospectus for the admission of the shares for trading.

In addition, the Committee analysed and issued a favourable report to the Board on the terms and conditions for the refinancing of the Group's senior debt, which was successfully completed during the month of December 2017.

b) Relations with the accounts auditor:

The Accounts Auditor has been asked by the members of the Committee on four occasions to submit reports on issues falling within its responsibility.

The Committee has also monitored the auditing fees paid, including those relating to other professional services rendered to MASMOVIL and the Group to which it belongs, and it should be particularly mentioned that these other professional services rendered during the 2017 financial year were not in conflict with their auditing work, and the rules on disqualification set out in Spanish Account Auditing Act 22 of 20 July 2015 were respected.

The Committee has confirmed that there are no objective reasons for questioning the independence of the Accounts Auditor (by obtaining undertakings confirming their independence and reviewing the fees received for auditing and other services, based on the internal limits established).

The Committee has met with the Accounts Auditor in order to be informed regarding the planning of the annual accounts audit and the results of the first stage of its review.

c) Internal regulations (corporate and procedural policy):

In addition to the duties for which it is responsible in relation to reviewing the accounts and other financial information and proposing the approval of the accounts by the Board, as appropriate, the work of the Committee during the 2017 financial year was marked by the admission of MASMOVIL's shares for trading on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges and the resulting alignment of the Company's internal regulations with the listed companies statute.

Thus, the Committee reported favourably to the Board regarding approval of the following policies and procedures:

- ✓ Protocol on how to act with the public authorities and political parties.
- ✓ Group Cyber Security Policy.
- ✓ Code Of Ethics for Suppliers.

- ✓ Procedure for the preparation and communication of the Company's financial information.
- ✓ Purchasing Policy.

The Committee has also been informed about changes to regulations and about the impact of the new International Financial Reporting Standards No. 9 ("Financial Instruments") and No. 15 ("Revenue from Contracts with Customers") and the action to be taken in this regard, as well as being informed about the results of the assessment of the level of implementation of the best practices set out in the "CNMV's Technical Guidelines of 3/2017 on audit committees in public interest organisations".

d) Creation of the Internal Auditing and Compliance Departments and appointment of people to run them:

At the beginning of the 2017 Financial Year, the Committee analysed the different profiles required to perform internal auditing and compliance duties, and made a favourable report to the Board regarding the appointment of the people currently responsible for those duties, María de la Torre, Compliance Officer, and Eloy Gómez, head of the Internal Auditing Department.

e) Corporate operations and related party transactions:

The Committee has analysed and submitted favourable reports to the Board regarding several corporate operations that were completed during the last financial year and duly notified to the market authorities (*inter alia*, the sale to and subsequent lease-back from Cellnex Telecom of 551 mobile telephone sites). It also analysed the proposals from MASMOVIL's management regarding going ahead with the merger by takeover of some companies in the Group (including the merger by takeover of the subsidiary Más Móvil Telecom 3.0, S.A.U. by its sole shareholder, Xfera Móviles, S.A.U.

It has also analysed other corporate operations that currently remain ongoing.

Finally, the Committee has analysed potential related party transactions with significant shareholders, Directors and Managers, and has submitted favourable reports to the Board regarding their approval, as appropriate.

f) Internal risk monitoring and management systems relating to the financial reporting process (ICFR), Corporate Risk Map and Criminal Risk Map for the Group:

The Committee has monitored and overseen the design and implementation by MASMOVIL of its internal risk monitoring and management systems relating to the financial reporting process (ICFR), the Corporate Risk Map and the Criminal Risk Map for the Group, with particular emphasis on the risks detected by the Company and its plans for their correction.

g) Planning for the 2018 financial year:

Finally, at a meeting held on 20 December 2017, one of the important items discussed by the Committee was the presentation of the Internal Auditing Plan for the 2018 financial year, which was explained by the head of this department, Eloy Gómez.

## 8. ASSESSMENT

Bearing in mind that the Company's Audit and Compliance Committee has held its meetings in accordance with the procedures and formalities set out in the Company's Articles of Association and the Board of Directors' Regulations, and that it has exercised the powers entrusted in it under the said Articles and Regulations in the manner prescribed, it is concluded that the Audit and Compliance Committee has efficiently undertaken and performed the most important duties for which it is responsible, and that it has acted pursuant to the contents of the legislation in force and in accordance with the Company's Corporate Governance rules.

By virtue thereof, the Company's Audit and Compliance Committee hereby signs this report on its own operational performance and activities during the 2017 financial year.

In Madrid, on 27 February 2018.

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The Chairman  
Borja Fernández Espejel

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The Secretary  
Alberto Castañeda González

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Eduardo Díez-Hochleitner Rodríguez

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Josep María Echarri Torres

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Pilar Zulueta de Oya

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Robert Sudo