

MASMOVIL IBERCOM, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts and Consolidated Directors' Report
31 December 2016

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 2016

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

<i>In thousands of Euros</i>	NOTE	31/12/2016	31/12/2015
Assets			
Intangible assets	5	737,259	121,984
Property, plant and equipment	6	403,948	96,082
Other investments	7	16,982	2,942
Prepayments for non-current assets	8	31,498	-
Deferred tax assets	18	235,801	13,233
Total non-current assets		1,425,488	234,241
Non-current assets held for sale	2 a)	401	401
Inventories		1,193	142
Trade and other receivables	9	187,794	120,233
Current tax assets		3,829	611
Other investments	7	5,543	4,027
Prepayments for current assets		2,498	749
Cash and cash equivalents	4	236,079	30,498
Total current assets		437,337	156,661
Total assets		1,862,825	390,902
Equity			
Capital	10	1,995	1,177
Share premium	10	246,652	87,470
Retained earnings and other reserves	10	(62,645)	(1,881)
Own shares	10	(375)	(1,241)
Other equity instruments	10	70,022	3,510
Translation differences		(44)	(10)
Equity attributable to equity holders of the Parent		255,605	89,025
Total equity		255,605	89,025
Liabilities			
Loans and borrowings	11	434,125	2,003
Derivative financial instruments	11	27,727	-
Other payables	11	5,756	5,522
Finance lease payables	11	34,350	243
Other financial liabilities	11	181,998	52,128
Provisions	12	101,181	130
Government grants	13	11,798	2,218
Deferred tax liabilities	18	59,391	4,885
Other non-current liabilities	17	75,289	68,584
Total non-current liabilities		931,615	135,713
Loans and borrowings	11	35,939	10,797
Derivative financial instruments	11	72,741	-
Other payables	11	939	1,244
Finance lease payables	11	6,782	102
Other financial liabilities	11	136,159	111,521
Trade and other payables	14	383,803	41,738
Provisions	12	39,242	762
Total current liabilities		675,605	166,164
Total liabilities		1,607,220	301,877
Total equity and liabilities		1,862,825	390,902

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

Consolidated Statement of Comprehensive Income for the year ended 31 December 2016

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

<i>In thousands of Euros</i>	NOTE	31/12/2016	31/12/2015
Revenue	19 a)	401,020	130,249
Other operating income		9,832	3,299
Merchandise, raw materials and consumables used	19 b)	(262,871)	(89,498)
Employee benefits expenses	19 c)	(28,221)	(14,696)
Depreciation and amortisation expense	5, 6	(41,204)	(10,382)
Other operating expenses	19 d)	(119,103)	(18,487)
Results from operating activities		(40,547)	485
Finance income	15 f)	4,852	36
Finance costs	15 f)	(25,350)	(2,537)
Net finance cost		(20,498)	(2,501)
Loss for the year from continuing operations, before income tax		(61,045)	(2,016)
Income tax income	18	2,994	509
Loss for the year from continuing operations		(58,051)	(1,507)
Loss for the year		(58,051)	(1,507)
Loss for the year attributable to:			
Equity holders of the Parent		(58,051)	(1,507)
Loss for the year		(58,051)	(1,507)
Other comprehensive income			
Items to be reclassified to profit or loss			
Translation differences of financial statements of foreign operations		(34)	(6)
Other comprehensive income, net of taxes		(34)	(6)
Total comprehensive income for the year		(58,085)	(1,513)
Basic loss per share (expressed in Euros)			
Loss for the year	10	(3.847)	(0.136)
Diluted loss per share (expressed in Euros)			
Loss for the year	10	(2.863)	(0.136)

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Consolidated Statement of Changes in Equity for the year ended 31 December 2016

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

<i>In thousands of Euros</i>	Attributable to equity holders of the Parent							Equity
	Capital	Share premium	Other reserves	Retained earnings	Own shares	Translation differences	Other equity instruments	
Balance at 1 January 2015	1,051	66,470	(1,062)	144	(1,326)	(4)	-	65,273
Loss for the year	-	-	-	(1,507)	-	-	-	(1,507)
Other comprehensive income	-	-	-	-	-	(6)	-	(6)
Total comprehensive income for the year	-	-	-	(1,507)	-	(6)	-	(1,513)
Capital increases (note 10)	126	21,000	-	-	-	-	-	21,126
Own shares (note 10)	-	-	766	-	85	-	-	851
Changes in investments in subsidiaries	-	-	-	-	-	-	3,510	3,510
Application of loss for the year	-	-	-	-	-	-	-	-
Reserves	-	-	144	(144)	-	-	-	-
Other movements	-	-	(222)	-	-	-	-	(222)
Balance at 31 December 2015	1,177	87,470	(374)	(1,507)	(1,241)	(10)	3,510	89,025
Loss for the year	-	-	-	(58,051)	-	-	-	(58,051)
Other comprehensive income	-	-	-	-	-	(34)	-	(34)
Total comprehensive income for the year	-	-	-	(58,051)	-	(34)	-	(58,085)
Capital increases (note 10)	818	159,182	-	-	-	-	-	160,000
Transaction costs (note 10)	-	-	(1,945)	-	-	-	-	(1,945)
Own shares (note 10)	-	-	(261)	-	866	-	-	605
Issue of other compound instruments (note 10)	-	-	-	-	-	-	66,253	66,253
Issue of share-based payments (note 20)	-	-	-	-	-	-	259	259
Application of loss for the year	-	-	-	-	-	-	-	-
Reserves	-	-	(1,507)	1,507	-	-	-	-
Other movements (note 10)	-	-	(507)	-	-	-	-	(507)
Balance at 31 December 2016	1,995	246,652	(4,594)	(58,051)	(375)	(44)	70,022	255,605

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

Consolidated Statement of Cash Flows for the year ended 31 December 2016

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

In thousands of Euros

	NOTE	31/12/2016	31/12/2015
Cash flows from operating activities			
Loss for the year from continuing operations		(58,051)	(1,507)
Adjustments for:			
Depreciation and amortisation	5, 6	41,204	10,382
Impairment losses on trade receivables		5,081	1,946
Exchange (gains)/losses		(71)	36
Change in provisions	12	353	79
Government grants taken to income	13	(584)	(239)
Proceeds from disposals of assets		2,533	239
Finance income	15	(4,781)	(36)
Finance costs	15	25,350	2,263
Income tax income	18	(2,994)	(509)
Changes in working capital			
- Inventories		(1,051)	(27)
- Trade and other receivables		(47,908)	(397)
- Other assets		10,480	(482)
- Trade and other payables		58,595	3,122
- Other liabilities		(1,139)	(1,022)
Cash flows from operating activities		27,017	13,848
Interest paid		(17,304)	(2,257)
Interest received		326	36
Net cash from operating activities		10,039	11,627
Cash flows from investing activities			
Acquisition of property, plant and equipment	6	(62,286)	(4,078)
Acquisition of intangible assets	5	(27,055)	(7,792)
Acquisition of subsidiaries, net of cash and cash equivalents	4	(539,646)	(8,354)
Acquisition of financial assets		(1,870)	(1,969)
Net cash used in investing activities		(630,857)	(22,193)
Cash flows from financing activities			
Proceeds from issuance of share capital	10	158,055	-
Proceeds from bonds and other marketable securities		119,595	27,199
Proceeds from loans and borrowings		466,052	6,289
Proceeds from other financial liabilities		42,694	3,721
Proceeds from redemption of own shares and other own equity instruments	10	66,858	85
Payments of loans and borrowings		(1,953)	-
Payments of other financial liabilities		(24,902)	(5,032)
Net cash flows from financing activities		826,399	32,262
Net increase in cash and cash equivalents		205,581	21,696
Cash and cash equivalents at 1 January		30,498	8,802
Cash and cash equivalents at 31 December		236,079	30,498

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

Notes to the Consolidated Annual Accounts at 31 December 2016

(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.A. 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, Másmovil Ibercom, S.A. (hereinafter the Company or the Parent). Its registered office is located at Parque Empresarial Zuatzu, Edificio Easo, 2ª 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) 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. Management support services are expressly included within this section.

This section expressly includes management support services relating to finance, tax and accounting administration, collections, payments, cash management, human resources and personnel management, IT services, purchases and any other service necessary to carry out its statutory activity.

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

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

The Parent, MASMOVIL IBERCOM, S.A., has been listed on the Alternative Stock Market for Growing Companies since 30 March 2012, and is in the process of gaining entry to the Spanish automated quotation system, which is expected to be completed in July 2017. As the switch to the Spanish automated quotation system will be done through a listing, the involvement of external advisors and financial institutions is very limited. Consequently, the expenses incurred during 2016, which have been recognised under other operating expenses in the consolidated income statement, and the expenses forecast to be incurred in 2017 in relation to this process have not been nor are they expected to be significant.

The Group has performed various acquisitions in 2016 and 2015 (see note 4) and carried out mergers between Group companies in 2015 (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. The consolidated annual accounts for 2016 are the first to 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 Masmovil Group at 31 December 2016 and consolidated results of operations and changes in consolidated equity and cash flows of the Group for the year then ended.

The Group adopted IFRS-EU on 1 January 2014 and applied IFRS 1 First-time Adoption of International Reporting Standards on that date. The consolidated financial statements for 2014 and 2015 prepared under IFRS-EU reflect the differences of applying IFRS-EU in consolidated equity at 1 January 2014, 31 December 2014 and 31 December 2015 and in the Group's consolidated losses for 2014 and 2015. Those consolidated financial statements are available at the website of the Alternative Stock Market.

The directors of the Parent consider that the consolidated annual accounts for 2016, authorised for issue on 27 April 2017, 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 2016 and 2015 with the strategic aim of becoming one of the leading integrated telecommunications operator in Spain (see note 4).

The companies consolidated for the first time through business combinations in 2016 were as follows:

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

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

The companies consolidated for the first time in 2015 were as follows:

- Neo Operador de Telecomunicaciones S.L.U.
- Embou Nuevas Tecnologías S.L.
- Ebasis Sistemas S.L.

Moreover, on 25 May 2015 the Parent incorporated Masmovil Broadband, S.A. for the purposes of granting the right to use the fibre-optic network to Jazz Telecom S.A.U. and granting Group companies the right to use the copper network.

On 19 May 2015 the European Commission approved the merger operation between Orange, S.A. and Jazztel, plc. subject to compliance with certain commitments on the part of Orange, S.A.

In this context, in order to comply with the commitments made by Orange, S.A., on 31 July 2015 Jazz Telecom, S.A.U. and the subsidiary Masmovil Broadband, S.A. signed the following agreements:

- Sales and purchase agreement (SPA) for components of a fibre-optic network owned by Jazz Telecom S.A.U. with a price of Euros 89,000 thousand (excluding VAT).
- Contract transferring the rights of use of 40% of the fibre-optic network, whereby the Company has extended to Jazz Telecom, S.A.U. the irrevocable right to use the components of a fibre-optic network during 35 years. This agreement is renewable and has a price of Euros 69,000 thousand plus a monthly maintenance fee.
- Framework agreement under which Jazz Telecom, S.A.U. is to provide the Company with the rights to use the copper network of Telefónica de España, S.A., for a period of four years, subject to renewal for another single four-year period, for Euros 29,000 thousand, plus a monthly fee per line.

On 30 December 2015 the subsidiary Masmovil Infraestructuras, S.L.U. assumed Masmovil Broadband, S.A.U.'s position in relation to compliance with all obligations and entitlement to all rights under the last contract concerning the indirect service in the copper network (xDSL) and its appendices.

In addition to granting the right to use the fibre-optic network to Jazz Telecom S.A.U., the principal activities of Masmovil Broadband S.A. include granting Group companies the right to use this network as well as the copper network.

Furthermore, with a view to simplifying and organising the corporate structure by business activity, the following mergers were carried out between Group companies in 2015:

- (i) Merger by absorption of Ebasis Sistemas S.L. by Embou Nuevas Tecnologías S.L.
- (ii) Merger by absorption of Neo Operador de Telecomunicaciones S.L. by Xtra Telecom S.A.U.

(iii) Merger by absorption of Digital Valley Technologies, S.L. by Xtra Telecom S.A.U.

(iv) Merger by absorption of Quantum Telecom, S.A. by Xtra Telecom S.A.U.

At 31 December 2016 and 2015, the Group holds a 49% interest in Com&Media Proyectos y Servicios, S.L., the fair value of which has been recognised under non-current assets held for sale due to the sale agreement arranged with the founders of this company.

b) Basis of preparation of the consolidated annual accounts

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

- Financial instruments (see note 3 (i));
- Non-current assets held for sale (see note 3 (f)).

c) Comparative information

The consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and notes for 2016 include comparative figures for the prior year. The comparative figures for 2015 differ from those in the annual accounts approved by the shareholders on 15 June 2016 as the latter were prepared under the standards for the preparation of consolidated annual accounts issued in Spain.

d) Going concern basis

The Group's board of directors has prepared the consolidated annual accounts on a going concern basis on the understanding that the Company's business will generate profit and positive cash flows in the coming years.

At 31 December 2016, the Group's working capital is negative in an amount of Euros 238,268 thousand. In light of the corporate transactions carried out during the year and the particular features of the Group's working capital, cash requirements in 2017 are not expected to exceed current financing capacity.

The Group's principal activity is the provision of telecommunications services to the consumer sector, a business which is characterised by a short DSO, which, coupled with a DPO of 37.53 days means the Group's resources can be optimised while operating with negative working capital. The difference between accounts receivable and accounts payable at 31 December 2016 is Euros 196,009 thousand. In the opinion of the Group's directors, no circumstances are expected in 2017 which will negatively impact the Group's existing working capital structure.

The Group has access to certain working capital financing facilities, including tranche E of the senior financing facility for Euros 30,000 thousand which at 31 December 2016 had not been drawn down. Additionally, on 27 March 2017, the Group renewed Euros 15,000 thousand of its listed promissory notes on the Alternative Fixed-Income Market (MARF) for a period of one year.

Finally, the Group's current liabilities include Euros 120 million corresponding to the issue of a long-term note with final maturity in October 2009, subordinated to senior debt and convertible into Parent shares. This note has been recognised under current liabilities as the creditor has an early settlement option. Nonetheless, given the Parent's share price and its impact on the note's valuation, it is highly unlikely that the early settlement option will be exercised in 2017 as doing so would generate substantial losses for the creditor.

e) Functional and presentation currency

The figures disclosed in the 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 tests goodwill for impairment on an annual basis. The calculation of the recoverable amount of a cash-generating unit (CGU) to which goodwill has been allocated requires the use of estimates. The recoverable amount is the higher of fair value less costs to sell and value in use. The Group generally uses cash flow discounting methods to calculate these values. Discounted cash flow calculations are based on five-year projections in the budgets approved by the Group. The cash flows take into consideration past experience and represent the Group's best estimate of future market performance. From the fifth year cash flows are extrapolated using individual growth rates. The key assumptions employed when determining fair value less costs to sell and value in use include growth rates, the weighted average cost of capital and tax rates.

The calculation of provisions for onerous contracts, warranties and litigation is subject to a high degree of uncertainty. The Group recognises provisions for onerous contracts when estimated total costs exceed the economic benefits expected to be received under the contract. These estimates are subject to change based on new information.

The Group analyses the useful lives of fixed assets with finite lives using customary practices in the sector and, where applicable, internal technical reports.

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 (o));

Recoverability of capitalised tax credits (see note 3 (q)).

Changes in accounting estimates

Although estimates are calculated by the Company's directors based on the best information available at 31 December 2016, 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 (f): Financial instruments and fair value.

g) Standards and interpretations effective as of 1 January 2016

The consolidated annual accounts for 2016 have been prepared using the same accounting principles and the following standards and amendments adopted by the European Union, which are obligatory from 1 January 2016 onwards:

- Improvements to IFRS (2010-2012 Cycle). The improvements affect the following standards:
IFRS 2 Share-based Payments, definition of the vesting period;
IFRS 3 Business Combinations, subsequent measurement of contingent consideration;
IFRS 8 Operating Segments, segment aggregation criteria applied by management;
IFRS 13 Fair Value Measurement, measurement of short-term receivables and payables
IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, applicable asset revaluation methods;
IAS 24 Disclosures on hiring key management personnel from another entity.
Effective for annual periods beginning on or after 1 February 2015.
- Amendments to IAS 19 Employee Benefits. The amendments simplify the accounting of employee contributions to defined benefit plans that are independent of the number of years of employee service. As a result, these contributions may be recognised as a reduction in the service cost in the year in which the service is rendered, rather than attributing contributions to all years of employee service. Effective for annual periods beginning on or after 1 February 2015.
- Amendments to IAS 16 and IAS 38, clarification of acceptable methods of depreciation and amortisation. The amendments to IAS 38 Intangible Assets state that a revenue-based method is presumed to be an inappropriate method of amortisation. This presumption can only be rebutted when the revenue and consumption of the intangible asset are highly correlated and the intangible asset is expressed as a measure of revenue. The amendments to IAS 16 Property, Plant and Equipment state that revenue-based depreciation methods should be discontinued. Effective for annual periods beginning on or after 1 January 2016.
- Improvements to IFRS (2012-2014 Cycle). The improvements affect the following standards:
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, recognition and measurement of reclassifications of non-current assets held for sale or held for distribution to owners;
IFRS 7 Financial Instruments: Disclosures, disclosures on entities' continuing involvement.

IAS 19 Employee Benefits, on determination of the discount rate and the exchange rate used for high quality corporate bonds;

IAS 34 Interim Financial Reporting, on the use of cross-references in the consolidated interim accounts to other consolidated accounts prepared by management;

Effective for annual periods beginning on or after 1 January 2016.

- Amendments to IAS 1 Presentation of Financial Statements. Further emphasis is placed on materiality. An entity need not provide a specific disclosure required by an IFRS if the information is not material, even if it represents minimum disclosure requirements. Effective for annual periods beginning on or after 1 January 2016.

Applying these standards has not had a significant impact on the consolidated annual accounts for 2016.

h) EU-adopted standards and interpretations – not effective from 1 January 2016 – that the Group expects to adopt as of 1 January 2017 or at a later date (none has been adopted early)

- IFRS 15 Revenue from Contracts with Customers. New revenue recognition standard (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31). Effective for annual periods beginning on or after 1 January 2018.

In May 2014 the International Accounting Standards Board (IASB) issued IFRS 15, which will regulate the recognition of revenue from contracts with customers and is effective for reporting periods beginning on or after 1 January 2018. The Group is currently prioritising the integration of all the information systems and processes of its companies, including those acquired in 2016, so that the changes deriving from this standard are implemented across the board. Nonetheless, it has launched a project to analyse any potential impacts, and as the telecommunications sector is one of the sectors which will be most affected by this standard, the impacts are expected to be significant. In any event, the accounting impacts are expected to involve recognising revenue in advance. During 2017, the plan will continue towards definitive implementation, prior to effective application on 1 January 2018.

- 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. Effective for annual periods beginning on or after 1 January 2018.

In July 2014, IFRS 9 Financial Instruments was issued. IFRS 9 sets out the requirements for classification, measurement, impairment and derecognition of financial assets and liabilities, as well as a new hedge accounting model. The changes introduced by IFRS 9 will affect the recognition of financial assets and derivative financial instruments as of 1 January 2018. The Group is in the process of implementing the new criteria, but given the relevance of the items potentially affected and the complexity of the estimates, it is not possible at present to reasonably quantify the impact that application of this standard will have.

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

- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses. This amendment clarifies that unrealised losses on debt instruments measured at fair value (available-for-sale financial instruments) but at cost for tax purposes can give rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount by holding the debt instrument until maturity or by selling the debt instrument. Effective for annual periods beginning on or after 1 January 2017.
- Amendments to IAS 7: Disclosure initiatives. This amendment incorporates disclosure requirements relating to financing activities in the statement of cash flows. Mandatory application foreseen for annual periods beginning on or after 1 January 2017.
- Amendments to IFRS 2: Share-based Payments. Amendments relating to the classification and measurement of share-based payment transactions. Effective for annual periods beginning on or after 1 January 2018.
- Annual improvements to IFRS, 2014-2016 Cycle. 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.
Effective for annual periods beginning on or after 1 January 2018 (1 January 2017 in the case of IFRS 12).
- IFRS 16 Leases. This new standard on leases supersedes IAS 17. Effective for annual periods beginning on or after 1 January 2019.

On 13 January 2016 IFRS 16 Leases was issued, effective for periods beginning on or after 1 January 2019 and a replacement for IAS 17. Under the new requirements, and with certain exceptions, lessees must recognise a right-of-use asset at the present value of the future lease payments, and a lease liability. Analysis of the potential impact of the standard has begun by obtaining a list of the Group's leases and analysing their main characteristics (amount, renewal options, identification of the existence of control over specific assets). Note 16 shows the amounts corresponding to operating leases, where it can be observed that the main impacts of the new standard will be the recognition of the assets and liabilities derived from the agreements over the use of other operators' infrastructures and the lease of space to build its own infrastructure.

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 (see note 4).

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 or groups of CGUs which are expected to benefit from the synergies of the business combination and the criteria described in section (g) (impairment) 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.

The cost of internally generated assets is calculated using the same criteria established for determining production costs of inventories.

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

Other intangible assets include incremental and specific costs related to amounts disbursed for each new contract and are amortised on a straight-line basis over the period in which profits are expected to be obtained from the commercial relationship with the customer of between three and six years, providing the customer does not terminate the commercial relationship early, in which case the amount left to be amortised is taken to expense.

This item also includes the amount at which customer relations arising from the acquisition of Yoigo and Pepephone (see note 5) were recognised. These assets are initially measured at fair value and are amortised on a straight-line basis over their estimated useful life of between five and nine years.

The useful life of these assets is calculated based on the type of customer (prepaid/postpaid), historical churn rates and sector averages.

vi) Rights of use

Rights of use reflect the rights of indirect access to the copper network of Telefónica de España, S.A., provided to the Group by Jazz Telecom, S.A.U. (see note 5).

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, licences, trademarks and similar rights	Straight-line	3 - 15
Other intangible assets	Straight-line	3 - 9
Rights of use	Straight-line	8

Rights of use are amortised over a period of eight years, as the directors do not consider that there are any doubts that the contract will be extended for a further four years (see note 2 (a)).

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 depreciable amount is the cost or deemed cost of an asset, less its residual value.

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 (g) 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, plus the initial estimate of the 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.

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. The present value 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:

	Depreciation method	Estimated years of useful life
Buildings	Straight-line	5 - 6
Mobile network infrastructures	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 (g) Impairment.

f) 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.

g) 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.

h) 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.

i) 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 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.

j) Hedge accounting

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

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.

k) 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.

l) 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.

m) 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.

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

n) 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.

o) 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 profit or loss.

The tax effect and expected gains on the disposal of assets are not taken into account in measuring a provision.

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 profit or loss when they arise.

p) 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 with access to handset financing, either with its own facilities or through the banks, over a period of 24 months, plus a final instalment or 'instalment 25'. Once the contract between the parties expires, the customer has the option of acquiring the handset by paying the final instalment or returning the handset to the Group, which then assumes the final instalment on behalf of the customer. The Group estimates a provision for commercial transactions to cover possible risks derived from defaults on financing and handset returns, the impact of which on the income statement is an increase in the cost of supplies when the financing commences.

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

q) **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 Masmovil Broadband, S.A.U., Masmovil Infrastructures, S.L.U., Masmovil Investments, S.L.U., Masmovil Telecom 3.0, S.A.U. and Xtra Telecom, S.A. and is headed by the latter. In 2016, Masmovil Phone & Internet, S.A.U., Masmovil Holdphone, S.A.U. and Embou Nuevas Tecnologías, S.L.U. were incorporated into 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 Group companies and associates.

The amount of the debt (credit) relating to the subsidiaries is recognised with a credit (debit) to payables (receivables) to/from Group companies and associates.

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.

r) 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 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.

s) 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 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.

t) 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 o).

u) 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.

As explained in note 2, after the acquisitions carried out in 2015 and 2016 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 Goodwill recognised in 2016**

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

<i>In thousands of Euros</i>	Country	Cost of the business combination, net of cash received	Fair value of identifiable net assets	Provisional goodwill (note 5) (1)
Subsidiaries				
Xfera Móviles, S.A.U.	Spain	566,841	394,497	172,344
Pepe World, S.L.	Spain	148,159	21,354	126,805
		715,000	415,851	299,149

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:

<i>In thousands of Euros</i>	Xfera Móviles, S.A.U.	Pepeworld, S.L.U.
Revenue	669,740	49,244
Results from operating activities	23,524	(1,261)
Depreciation and amortisation	(59,491)	(5,888)
Profit/(loss) 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 operating expenses in the consolidated statement of comprehensive income and Euros 11,957 thousand corresponding to integration costs (see note 19 (d)). The profit of Pepeworld S.L.U. at 13 September 2016 includes Euros 2,563 thousand in respect of bonuses paid to employees for the success of the corporate transaction.

a) Acquisition of Xfera Móviles, S.A.

On 5 October 2016, the Group, through its subsidiary Masmovil 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 has 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;
- And 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 (Masmovil Ibercom, S.A.) for a total of up to Euros 275,500 thousand (see note 11). This issue was subscribed by the former non-controlling interests of Yoigo 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:
 - 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 Masmovil Ibercom 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 earnout.

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 Yoigo, 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 Yoigo whereby the debt was settled with a cash payment of Euros 29,138 thousand (see note 24), thus entailing an expense of approximately Euros 72 thousand in 2017.

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	Provisional 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	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
Assets	868,196	4,964	873,160
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)
Liabilities	(384,615)	(94,048)	(478,663)
Identifiable net assets acquired	483,581	(89,084)	394,497
Cost of the business combination, net of cash received			566,841
Goodwill (note 5)			172,344

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 Yoigo 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, and cross-selling in Yoigo'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 Yoigo'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: 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. 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.U. and Pepe Energy, S.L.)

On 13 September 2016, the Group, through Masmovil 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 on consolidation are as follows:

<i>In thousands of Euros</i>	Carrying amount of the acquired company	Fair value adjustments	Provisional fair value
Trademark (note 5)	-	8,594	8,594
Other intangible assets (note 5)	587	69,349	69,936
Property, plant and equipment	172	-	172
Other non-current assets	8	-	8
Deferred tax assets (note 18)	249	9,474	9,723
Other current assets	3,908	-	3,908
Assets	4,924	87,417	92,341
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)
Liabilities	(13,607)	(57,380)	(70,987)
Identifiable net assets acquired	(8,683)	30,037	21,354
Cost of the business combination, net of cash received			148,159
Goodwill (note 5)			126,805

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:** 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 the 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.

The fair values included in the business combinations are considered provisional as, although an appraisal has been carried out with the aid of an independent expert, due to the proximity of the transactions to year end, new information could be available that modifies the initially recognised amounts. Any adjustment made during the appraisal period (not exceeding a maximum of twelve months from the acquisition date established in the standard) will be recognised as if it had been known at the acquisition date.

4.2 Goodwill generated in 2015 with measurement completed in 2016

Details of the net assets acquired and goodwill recognised on business combinations during 2015 are as follows:

<i>In thousands of Euros</i>		Country	Cost of the business combination, net of cash received	Fair value of identifiable net assets	Goodwill
Subsidiaries					
Neo Operador de Telecomunicaciones S.L.	Spain		28,494	8,615	19,879
Embou Nuevas Tecnologías S.L.	Spain		5,503	904	4,599
Ebesis Sistemas S.L.	Spain		789	75	714
			34,786	9,594	25,192

Had the acquisitions taken place on 1 January 2015, the Group's revenue and the loss for the year ended 31 December 2015 would have risen and fallen by Euros 3,126 thousand and Euros 637 thousand, respectively.

a) Acquisition of Embou Nuevas Tecnologías, S.L.

On 10 April 2015, the Group, through its Parent, acquired a 100% interest in Embou Nuevas Tecnologías, S.L., transferring 100% of the shares to the subsidiary Mas Movil Telecom 3.0, S.A.U. The registered office of the acquiree is in Zaragoza and its statutory activity is the provision of consultancy and advisory services to companies in the field of telecommunications and new technologies, the coordination, processing and preparation of studies and the sale of IT materials.

The purchase price was paid as follows:

- A cash payment of Euros 1,750 thousand.
- A variable price contingent on the acquiree reaching and meeting certain targets in 2015, 2016, 2017 and 2018. If these targets are met in each of the years, the seller shall be paid Euros 485 thousand for 2015 and 2016, Euros 970 thousand for 2017 and Euros 1,000 thousand for 2018. At the 2016 closing date, the fair value of this deferred payment has been estimated at Euros 1,308 thousand (Euros 1,528 thousand in 2015);

- A deferred price involving the delivery of 175,000 shares of the Parent (MASMOVIL IBERCOM, S.A.) to the buyer on 2 January 2018, valued at the time of the transaction at Euros 3,150 thousand (Euros 18 per share), and recognised under other equity instruments (see note 10).

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

Thousands of Euros	Carrying amount of the acquired company	Fair value adjustments	Fair value
Intangible assets	-	2,511	2,511
Property, plant and equipment	497	-	497
Inventories	6	-	6
Deferred tax assets	5	-	5
Other current assets	328	-	328
Other non-current assets	301	-	301
Assets	1,137	2,511	3,648
Current financial debt	(180)	-	(180)
Non-current financial debt	(1,584)	-	(1,584)
Other current liabilities	(347)	-	(347)
Deferred tax liabilities	(5)	(628)	(633)
Liabilities	(2,116)	(628)	(2,744)
Identifiable net assets acquired	(979)	1,883	904
Cost of the business combination, net of cash received			5,503
Provisional goodwill (note 5)			4,599

b) Acquisition of Ebesis Sistemas, S.L.

On 10 April 2015, the Group, through its Parent, acquired a 100% interest in Ebesis Sistemas S.L., transferring 100% of the shares to Mas Movil Telecom 3.0, S.A.U. The registered office of the acquiree is in Zaragoza and its principal activity is the provision of telecommunications services, the development of software applications, the provision of IT security audit and consultancy services and the maintenance and support of IT and communications equipment.

The purchase price was paid as follows:

- A cash payment of Euros 200 thousand.
- A deferred price of Euros 300 thousand. At the 2016 reporting date, the fair value of this deferred payment has been estimated at Euros 187 thousand (Euros 269 thousand in 2015);
- The delivery of 20,000 shares of the Parent (MASMOVIL IBERCOM, S.A.) to the buyer on 2 January 2016, valued at the time of the transaction at Euros 360 thousand (Euros 18 per share) and recognised under other equity instruments (see note 10 (c)).

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

Thousands of Euros	Carrying amount of the acquired company	Fair value adjustments	Fair value
Property, plant and equipment	76	-	76
Other current assets	267	-	267
Assets	343	-	343
Non-current financial debt	(161)	-	(161)
Other current liabilities	(107)	-	(107)
Liabilities	(268)	-	(268)
Identifiable net assets acquired	75	-	75
Cost of the business combination, net of cash received			789
Provisional goodwill (note 5)			714

c) Acquisition of Neo Operador de Telecomunicaciones, S.L.U.

On 14 May 2015, the Group, through Xtra Telecom, S.A.U., acquired 100% of the share capital of Neo Operador de Telecomunicaciones, S.L.U. The registered office of the acquiree is in Madrid. The statutory activity of the acquiree includes the establishment and operation of national public radio access landlines on the 3.4 to 3.6 Ghz bandwidth, and the provision of services for lines eligible for lease.

The cost of the transaction was Euros 28,640 thousand for the acquisition of 4,050,000 shares of Euro 1 par value each. The seller received a cash payment of Euros 7,515 thousand and the remaining Euros 21,125 thousand in newly issued shares of the Parent (MASMOVIL IBERCOM, S.A.) in a debt-for-equity swap. A total of 1,252,606 ordinary MASMOVIL IBERCOM shares of Euros 0.10 par value each was delivered, and a share premium of Euros 16.864739785 per share plus a cash adjustment of Euros 0.50 (see note 10).

Prior to the transaction, the Group had no investment in the acquiree.

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

Thousands of Euros	Carrying amount of the acquired company	Fair value adjustments	Fair value
Intangible assets	376	5,889	6,265
Property, plant and equipment	1,602	-	1,602
Other current assets	5,080	-	5,080
Deferred tax assets	201	-	201
Other non-current assets	9	-	9
Assets	7,268	5,889	13,157
Non-current financial debt	(16)	-	(16)
Other current liabilities	(3,054)	-	(3,054)
Deferred tax liabilities	-	(1,472)	(1,472)
Liabilities	(3,070)	(1,472)	(4,542)
Identifiable net assets acquired	4,198	4,417	8,615
Cost of the business combination, net of cash received			28,494
Provisional goodwill (note 5)			19,879

5. Intangible Assets

Details of intangible assets and movement are as follows:

<i>In thousands of Euros</i>	Goodwill	Computer software	Patents, trademarks and licences	Development	Other intangible assets	Advances	Rights of use	Total
Cost								
Balance at 1 January 2015	53,065	6,179	244	9,302	7,612	47	-	76,449
Business combinations (note 4)	25,192	-	-	-	8,776	-	-	33,968
Additions	-	1,054	716	2,258	3,764	-	20,215	28,007
Disposals	-	-	-	-	-	(22)	-	(22)
Transfers	-	2,351	-	(2,708)	-	357	-	-
Balance at 31 December 2015	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
Amortisation and impairment losses								
Balance at 1 January 2015	-	(2,364)	(69)	(3,760)	(2,152)	-	-	(8,345)
Amortisation for the year	-	(1,355)	(53)	(1,290)	(5,330)	-	(63)	(8,091)
Transfers	-	18	-	-	-	-	-	18
Balance at 31 December 2015	-	(3,701)	(122)	(5,050)	(7,482)	-	(63)	(16,418)
Amortisation for the year	-	(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 2016	-	(8,391)	(4,364)	(7,077)	(16,899)	-	(2,634)	(39,365)
Impairment								
Impairment	-	-	-	(379)	-	-	-	(379)
Impairment at 31 December 2016	-	-	-	(379)	-	-	-	(379)
Carrying amount								
At 1 January 2015	53,065	3,815	175	5,542	5,460	47	-	68,104
At 31 December 2015	78,257	5,883	838	3,802	12,670	382	20,152	121,984
At 1 January 2016	78,257	5,883	838	3,802	12,670	382	20,152	121,984
At 31 December 2016	377,406	24,223	182,702	9,596	125,369	382	17,581	737,259

Goodwill

Goodwill arising on business combinations in 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. Goodwill arising prior to 2016 is allocated to the Masmovil Telecom 3.0, S.A.U. CGU and the XTRA Telecom, S.A.U. CGU in amounts of Euros 37,544 thousand and Euros 40,713 thousand, respectively.

For goodwill arising on business combinations in 2016, given the scarce interval of time between the date of acquisition and the reporting date, the Group has considered the best estimate of its recoverable amount to be the fair value at the acquisition date.

The recoverable amount of the Masmovil Telecom 3.0, S.A.U. and XTRA Telecom, S.A.U. 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 industry in which the Group operates.

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

- Post-tax discount rate: 7.3% (10.3% before tax).
- Sales growth for the budgeted period: between 1% and 5%.
- Perpetual growth rates: 0.5%.
- EBITDA margin/non-current revenue: around 30%, in line with that contemplated in the business plan and consistent with analysts' estimates.
- CAPEX/Revenue ratio: around 10%, 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 2015 and 2016.

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 2016 and actual figures.

Computer software

Computer software additions for 2016 and 2015 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 Yoigo and Pepephone were rolled out.

Patents, trademarks and licences

This caption includes the valuations of the "Yoigo" and "Pepephone" brands at Euros 88,644 thousand and Euros 8,594 thousand, respectively, based on independent expert appraisals.

Given the scarce interval of time between the date of acquisition of these brands and the reporting date, the Group has considered the best estimate of its recoverable amount to be the fair value at the acquisition date. In subsequent years, the recoverable amount of these brands will be determined based on their value in use.

Licences 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 telephony business from which future income is expected to be earned.

Other intangible assets

Other intangible assets include the customer portfolio received in the business combination (see note 4), valued at Euros 123,692 thousand (Euros 13,739 thousand at 31 December 2015). This valuation was calculated by estimating the cash flows generated by these customers.

Amortisation of the portfolio commences on the acquisition date. Accumulated amortisation at 31 December 2016 is Euros 12,590 thousand (Euros 4,941 thousand at 31 December 2015).

At 31 December 2016 additions of incremental and specific costs related to customer contracts amount to Euros 9,993 thousand (Euros 2,647 thousand at 31 December 2015).

Rights of use

Rights of use include the indirect right of use over Telefónica de España S.A.'s copper network, derived from the framework contract signed on 31 July 2015 for an amount of Euros 29,000 thousand (excluding VAT) (see note 2(a)).

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, discounted at a market rate (approximately 6.5%), and amounts to Euros 20,215 thousand. This amount was recognised as a liability under other financial liabilities (see note 11 (d)).

Intangible assets pledged as collateral

At 31 December 2016, rights of use have been pledged as collateral for the issue of bonds of the subsidiary Masmovil Broadband (see note 11 (d)).

Impairment

The Group has analysed intangible assets for any indications of impairment. As the results proved negative, no impairment test was performed.

6. Property, Plant and Equipment

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

<i>In thousands of Euros</i>	Land	Buildings	Technical installations and machinery	Other installations, equipment and furniture	Other property, plant and equipment	Fibre-optic network	Under construction and advances	Total
Cost								
Balance at 1 January 2015	284	583	9,389	2,746	2,350	-	-	15,352
Business combinations (note 4)	-	-	2,071	58	46	-	-	2,175
Additions	-	4	2,527	813	633	89,186	101	93,264
Disposals	-	-	(8)	-	-	-	-	(8)
Transfers	-	2,148	(3,094)	-	-	-	-	(946)
Balance at 31 December 2015	284	2,735	10,885	3,617	3,029	89,186	101	109,837
Business combinations (note 4)	-	-	252,546	-	5,165	-	9,581	267,292
Additions	-	-	13,219	462	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	287,135	4,079	9,297	114,505	26,416	442,441
Depreciation and impairment losses								
Balance at 1 January 2015	-	(185)	(6,714)	(2,431)	(2,082)	-	-	(11,412)
Depreciation for the year	-	(18)	(1,316)	(102)	(241)	(614)	-	(2,291)
Transfers	-	-	-	-	(18)	-	-	(18)
Balance at 31 December 2015	-	(203)	(8,030)	(2,533)	(2,341)	(614)	-	(13,721)
Depreciation for the year	-	(16)	(15,520)	(72)	(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)	(30,208)	(2,605)	(1,256)	(3,988)	-	(38,459)
Impairment at 1 January 2015	-	-	(34)	-	-	-	-	(34)
Impairment at 31 December 2015	-	-	(34)	-	-	-	-	(34)
Impairment at 31 December 2016	-	-	(34)	-	-	-	-	(34)
Carrying amount								
At 1 January 2015	284	398	2,675	315	268	-	-	3,906
At 31 December 2015	284	2,532	2,821	1,084	688	88,572	101	96,082
At 1 January 2016	284	2,532	2,821	1,084	688	88,572	101	96,082
At 31 December 2016	284	323	256,893	1,474	8,041	110,517	26,416	403,948

Technical installations and machinery from business combinations primarily relate to Yoigo's mobile telephone network (telecommunications infrastructure (16%) and equipment (84%)).

The main additions in the years ended 31 December 2016 and 2015 comprise:

- Technical installations and machinery, basically the roll-out and optimisation of the mobile telephone network, including the expansion of 4G coverage.
- Property, plant and equipment under construction and advances, primarily the work carried out in Masmovil Broadband, S.A. related to the network roll-out. They also include the Yoigo mobile telephone network assets recognised based on percentage of completion. Property, plant and equipment under construction will be transferred to operating technical installations as the network construction is completed and delivered.

No interest has been capitalised at 31 December 2016 or 2015.

Fibre-optic network

At 31 December 2016 and 2015 the fibre-optic network includes the cost of acquisition of the items making up the fibre-optic network acquired from Jazz Telecom S.A.U. by the subsidiary Masmovil Broadband, S.A., plus costs capitalised for the network launch, based on the SPA arranged in 2015 amounting to Euros 89,000 thousand, excluding VAT. At 31 December 2015 the total amount recognised under other financial liabilities was Euros 107,690 thousand (see note 11 (d)), including VAT, which was settled in full in January 2016.

The fibre-optic network is comprised of external plant (90%) and internal plant (10%).

Property, plant and equipment located abroad

At 31 December 2016 the Group has property, plant and equipment located abroad comprising IT equipment with a carrying amount of Euros 68 thousand (Euros 85 thousand at 31 December 2015).

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 2016 and 2015 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 (e)).

The items included under fibre-optic network have been pledged as collateral for the issue of bonds of the subsidiary Masmovil Broadband (see note 11 (d)).

Purchase commitments

At 31 December 2016 the Group has binding commitments to purchase property, plant and equipment amounting to Euros 9,967 thousand, in relation to the expansion of its telecommunications network in the coming years.

Impairment of property, plant and equipment

The Group has analysed property, plant and equipment for any indications of impairment. As the results proved negative, no impairment test was performed.

7. Other Investments

Details of other investments are as follows:

<i>In thousands of Euros</i>	31/12/2016	31/12/2015
Non-current		
Equity instruments	2,172	1,705
Security and other deposits	1,958	911
Other financial assets	12,852	326
	16,982	2,942
Current		
Equity instruments	19	-
Loans to companies	4,300	1,422
Security and other deposits	828	430
Other financial assets	396	2,175
	5,543	4,027

At 31 December 2016 other non-current financial assets primarily reflect:

- An option held by the subsidiary Xfera Móviles, S.A.U. to purchase all the shares of Neutra Network Services, S.L.U. (hereinafter Neutra) for Euros 4,000 thousand. The acquisition is contingent on certain contractual conditions precedent. If these conditions are met, the Company must pay Euros 1,000 thousand to close the transaction.
- Non-current instalments of the financing provided by the Group to customers for handset acquisitions amount to Euros 5,638 thousand. This financing is repayable in 24 monthly instalments and is completely independent of the financing provided directly to customers by financial institutions.
- Asset reflecting an entitlement to receive compensation of Euros 2,856 thousand in relation to the tax contingency recognised under provisions in the same amount, arising from the business combination of Neo Operador de Telecomunicaciones, S.L.U. as its former shareholders assume responsibility for this liability (see notes 4.2 and 12).

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

8. Prepayments for Non-current Assets

At 31 December 2016 prepayments for non-current assets amount to Euros 31,498 thousand 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 notes 3e) and h)).

9. Trade and Other Receivables

Details of trade and other receivables are as follows:

	31/12/2016	31/12/2015
Trade receivables	166,191	115,149
Advances to suppliers	-	57
Other receivables	1,497	677
Public entities, other	24,898	6,252
	<u>192,586</u>	<u>122,135</u>
Impairment	<u>(4,792)</u>	<u>(1,902)</u>
	<u>187,794</u>	<u>120,233</u>

At 31 December 2015 trade receivables primarily included the balance receivable from Jazztel for the sale of the IRU of the fibre-optic network acquired from Jazztel amounting to Euros 83,490 thousand. This amount was settled in February 2016.

At 31 December 2016 trade receivables amount to Euros 161,399 thousand (Euros 29,757 thousand in 2015 excluding the effect of the Jazztel balance).

Movement in impairment is as follows:

<i>In thousands of Euros</i>	31/12/2016	31/12/2015
<i>Current</i>		
Balance at 1 January	(1,902)	(935)
Charges	(5,929)	(2,017)
Reversals	419	71
Applications	2,620	979
Balance at 31 December	<u>(4,792)</u>	<u>(1,902)</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) Capital and share premium

Capital

At 31 December 2016 the share capital of Masmovil Ibercom is represented by 19,951,100 shares of Euros 0.10 par value each, all fully paid (11,766,956 shares of Euros 0.10 par value each at 31 December 2015). All shares have the same voting and profit-sharing rights.

At 31 December 2016 the shares are held by numerous shareholders, mainly PLT VII Holco Sarl (Providence) with 18.0% and Onchena, S.L. with 17.1%. At 31 December 2015 the principal shareholders were Mr José Eulalio Poza Sanz with 11.3% and Neo Sky 2002, S.A. with 10.3% (less than 10% at 31 December 2016).

As agreed by the shareholders at their general meeting held on 23 June 2016, the Company increased its share capital by Euros 818 thousand by issuing 8,184,144 new shares of Euros 0.10 par value each, with a share premium of Euros 19.45 per share or a total of Euros 159,182 thousand. The new shares were subscribed and paid for through a monetary contribution.

The costs incurred for the issue of the new shares totalled Euros 1,945 thousand and were recognised directly in equity.

As agreed by the shareholders at their general meeting on 29 June 2015, the Company increased its share capital by Euros 126 thousand through a debt-for-equity swap by issuing 1,252,606 shares of Euros 0.10 par value each, of the same class and series as the outstanding shares, at an issue price of Euros 16.864839785 per share between capital and share premium.

The costs incurred for the issue of the shares totalled Euros 84 thousand and were recognised directly in equity.

Share premium

The share premium amounting to Euros 246,652 thousand at 31 December 2016 (Euros 87,470 thousand at 31 December 2015) derives from the capital increases carried out in 2016 and prior years.

At 31 December 2016 and 2015 the share premium is freely distributable except for the amount of development expenditure to be amortised (see note 5).

b) Retained earnings and other reserves

At 31 December 2016 retained earnings and other reserves are negative in an amount of Euros 62,645 thousand (Euros 1,881 thousand negative in 2015), which includes losses for the year of Euros 58,051 thousand (losses of Euros 1,507 thousand in 2015).

The application of the Parent's losses for the year ended 31 December 2016 proposed by the directors and approved by the shareholders at their general meeting was as follows:

<i>In thousands of Euros</i>	<u>31/12/2016</u>	<u>31/12/2015</u>
Basis of allocation		
Loss for the year	(19,509)	(1,881)
	<u>(19,509)</u>	<u>(1,881)</u>
Application		
Prior years' losses	(19,509)	(1,881)
	<u>(19,509)</u>	<u>(1,881)</u>

Other reserves

(i) Legal reserve

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 2016 and 2015 the legal reserve amounts to Euros 119 thousand.

(ii) Own shares

At their extraordinary general meeting held on 23 March 2012, the shareholders of MASMOVIL IBERCOM, S.A. authorised the acquisition of own shares up to a maximum of 10% of share capital, at a price of no more than 30% above or below the average share price in the prior month. This acquisition was authorised for a period of five years from the date this decision was taken.

On 3 November 2014 the board of directors authorised the acquisition of own shares by the Company within the limits set by shareholders at the abovementioned general meeting. This agreement expressly established that, inter alia, the purpose of the Company acquiring its own shares was to counterbalance the acquisition of companies. As a result of this agreement, an own share purchase programme was launched on 6 November 2014.

In 2016 the Parent sold own shares with an acquisition value of Euros 8,098 thousand (Euros 9,128 thousand in 2015), resulting in a Euros 261 thousand decrease in reserves (Euros 766 thousand increase in reserves in 2015) due to the difference between the average acquisition price and the sales price.

At the 2016 year end, the Parent holds 14,939 own shares acquired at a weighted average cost of Euros 25.11 per share (55,180 own shares at a weighted average cost of Euros 22.49 at 31 December 2015).

The following own share transactions were carried out in 2016 and 2015:

	Number of shares	
	2016	2015
At 1 January	55,180	98,010
Additions	354,133	371,744
Disposals	(394,374)	(414,574)
At 31 December	14,939	55,180

c) Other equity instruments

In 2016 other equity instruments increased by Euros 66,253 thousand due to the issue of convertible bonds.

On 23 September 2016, as approved by the shareholders of the Parent at their general meeting on 16 August 2016, the Company issued bonds with a nominal value of Euros 165,000 thousand, convertible into Masmovil Ibercom, S.A. 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. ("Providence"). They were issued at a unit nominal value of Euros 100,000 (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 98,747 thousand (see note 11) and an equity component of the remaining Euros 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. This equity component is included under other equity instruments.

In 2015 the value of other equity instruments increased to Euros 3,510 thousand due to the deferred share-based payment used for the purchases of Embou and Ebasis (see note 4.2).

d) Earnings 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:

	2016	2015
Loss for the year attributable to equity holders of the Parent (in thousands of Euros)	(58,051)	(1,507)
Weighted average number of ordinary shares outstanding (in thousand of shares)	15,088	11,089
Basic loss per share (in Euros)	(3.847)	(0.136)

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

<i>In thousands of shares</i>	2016	2015
Shares outstanding at 1 January	11,712	10,416
Effect of shares issued in 2016	3,431	635
Effect of own shares	(55)	38
Weighted average number of ordinary shares outstanding at 31 December	15,088	11,089

Diluted

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

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

	2016	2015
Loss for the year attributable to equity holders of the Parent (in thousands of Euros)	(53,132)	(1,507)
Weighted average number of diluted ordinary shares outstanding (in thousand of shares)	18,561	11,089
Diluted loss per share (in Euros)	(2.863)	(0.136)

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

<i>In thousands of shares</i>	2016	2015
Weighted average number of ordinary shares outstanding	15,088	11,089
Effect of the conversion of convertible bonds	3,473	-
Weighted average number of diluted ordinary shares outstanding	18,561	11,089

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

<i>In thousands of shares</i>	2016	2015
Weighted average number of ordinary shares outstanding	15,088	11,089
Effect of the conversion of convertible bonds	3,348	-
Weighted average number of diluted ordinary shares outstanding	18,436	11,089

Effect of the conversion of convertible bonds includes convertible shares corresponding to the convertible bonds subscribed by “Providence”, explained in section (c) of this note (7,619 thousand shares), those corresponding to the note issued by the Group subscribed by the former non-controlling interests of Yoigo (5,771 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.

e) 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 thousands of Euros</i>	31/12/2016		31/12/2015	
	Non-current	Current	Non-current	Current
Loans and borrowings	434,125	35,939	2,003	10,797
Other payables	5,756	939	5,522	1,244
Finance lease payables	34,350	6,782	243	102
Other financial liabilities	181,998	136,159	52,128	111,521
Derivative financial instruments	27,727	72,741	-	-
	683,956	252,560	59,896	123,664

a) Loans and borrowings

Details of loans and borrowings are as follows:

<i>In thousands of Euros</i>	31/12/2016		31/12/2015	
	Non-current	Current	Non-current	Current
Loans	434,125	14,197	2,003	2,504
Credit facilities	-	19,619	-	8,281
Interest accrued at maturity	-	922	-	6
Other loans and borrowings	-	1,201	-	6
	434,125	35,939	2,003	10,797

The terms and conditions of the loans are as follows:

<i>In thousands of Euros</i>						31/12/2016		
Company	Currency	Fixed or variable rate	Effective interest rate	Maturity	Nominal	Current	Non-current	Total
Various 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
Banco Bilbao Vizcaya Argentaria, S.A. (Elkargi)	EUR	Variable	3.66%	2018	300	60	45	105
Kutxabank, S.A.	EUR	Variable	0.60%	2017	268	10	-	10
Kutxabank, S.A.	EUR	Variable	2.59%	2017	63	7	-	7
Kutxabank, S.A. (Luzaro)	EUR	Variable	3.45%	2017	210	39	-	39
Banco Popular Español, S.A.	EUR	Variable	4.25%	2021	400	42	161	203
Cajas Rurales Unidas, Sociedad Cooperativa de Crédito	EUR	Variable	4.00%	2021	367	38	145	183
Cajas Rurales Unidas, Sociedad Cooperativa de Crédito	EUR	Variable	3.50%	2017	250	28	-	28
Banco de Sabadell, S.A.	EUR	Variable	3.00%	2021	440	32	137	169
Caixabank, S.A.	EUR	Variable	1.75%	2019	500	165	198	363
Banco Santander, S.A.	EUR	Variable	1.15%	2017	190	190	-	190
Banco Popular Español, S.A.	EUR	Variable	4.81%	2017	200	70	-	70
Deutsche Bank, S.A.	EUR	Variable	3.52%	2017	400	23	-	23
Banco de Sabadell, S.A.	EUR	Variable	4.75%	2017	100	17	-	17
Banco Popular Español, S.A.	EUR	Variable	4.64%	2017	150	13	-	13
Banco Popular Español, S.A.	EUR	Variable	5.56%	2017	150	11	-	11
Deutsche Bank, S.A.	EUR	Variable	4.00%	2017	400	18	-	18
Banco Santander, S.A.	EUR	Fixed	1.15%	2017	1,762	1,762	-	1,762
Banco Santander, S.A.	EUR	Fixed	1.15%	2017	1,075	1,068	-	1,068
Banco Santander, S.A.	EUR	Fixed	1.15%	2017	105	105	-	105
Banco Santander, S.A.	EUR	Fixed	1.15%	2017	500	28	-	28
Banco Popular Español, S.A.	EUR	Fixed	5.50%	2017	300	28	-	28
Bankia, S.A.	EUR	Fixed	2.21%	2017	500	142	-	142
Banco Popular Español, S.A.	EUR	Fixed	5.88%	2017	200	7	-	7
Bankinter, S.A.	EUR	Fixed	4.76%	2017	400	43	-	43
Banco Santander, S.A.	EUR	Fixed	2.08%	2019	600	120	248	368
Other (*)						19,619	-	19,619
Interest						922	-	922
Other loans and 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

Non-current and current loans and borrowings amounting to Euros 337,233 thousand and Euros 10,131 thousand, respectively, relate to a syndicated loan extended by several financial institutions for a nominal amount of Euros 356,059 thousand, arranged by the Group on 5 October 2016 in various tranches:

- Tranche A: Euros 42,200 thousand, payable by the subsidiary Masmovil Holdphone, S.A.U. Interest is accrued at a variable rate pegged to Euribor (Euribor + 3.5%) and is settled monthly, while the principal is repayable every six months up to 2021.

- Tranche B: Euros 148,400 thousand, payable by Yoigo which also acts as guarantor. Interest is accrued at a variable rate pegged to Euribor (Euribor + 3.5%) and is settled monthly, while the principal is repayable every six months up to 2021.
- Tranche C: Euros 165,459 thousand, payable by Yoigo which also acts as guarantor. Interest is accrued at a variable rate pegged to Euribor (Euribor + 3.5%) and is settled monthly, while the principal is repayable every six months up to 2021 following a grace period of 18 months.
- Tranche D: guarantees provided on behalf of the former non-controlling interests of Yoigo.
- Tranche E: up to Euros 30,000 thousand, considered as a credit facility available for all the Group's entities, with the Group entities acting as guarantor. The Group has not drawn down any amount at the date the accompanying consolidated annual accounts for the year ended 31 December 2016 were authorised for issue.

The following assets are pledged as collateral for these loans: all the shares of Masmovil Telecom 3.0, S.A.U., Xtra Telecom, S.A.U., Masmovil Broadband, S.A.U., Pepeworld, S.L.U, Pepemobile, S.L. and Pepe Energy, S.L.

In December 2016 the Group arranged an interest rate derivative to cover this new syndicated loan (see note 15 (e)). The fair value of the derivative at 31 December 2016 is Euros 1,098 thousand.

The syndicated loan includes the obligation to comply with the following financial leverage ratios: Senior net debt/EBITDA and Total net debt/EBITDA. The first test will be conducted using the interim financial statements for the first quarter of 2017. There is also the obligation not to exceed a certain level of CAPEX in 2016 and 2017. For the purposes of calculating debt, and therefore the leverage ratios and CAPEX, Masmovil Broadband, S.A.U. has been excluded from the scope.

Junior subordinated loan

Non-current loans and borrowings amounting to Euros 95,958 thousand relate to a junior subordinated loan arranged by the Parent with Société Générale, Sucursal en España on 29 September 2016 for a maximum amount of Euros 95,500 thousand, falling due on 30 June 2022. This loan accrues annual interest as follows:

- 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 interest is eligible for capitalisation every six months.

This debt is secured by the guarantees provided by the Masmovil Ibercom Group's main subsidiaries: Masmovil Phone & Internet, S.A.U, Masmovil Holdphone, S.A.U., Xtra Telecom, S.A.U., Masmovil Telecom 3.0., S.A.U., Pepemobile, S.L. and Pepeworld, S.L.

The junior subordinated loan includes the obligation to comply with the following financial leverage ratios: Senior net debt/EBITDA and Total net debt/EBITDA. The first test will be conducted using the interim financial statements for the first quarter of 2017. There is also the obligation not to exceed a certain level of CAPEX in 2016 and 2017. For the purposes of calculating debt, and therefore the leverage ratios and CAPEX, Masmovil Broadband, S.A.U. has been excluded from the scope.

The financial ratio covenants attached to both the senior and junior debt contracts are stricter than those in the non-controlling interests' note.

b) Other payables

At 31 December 2016 and 2015 other payables mainly reflect loans extended by public entities (Ministry of Industry, Tourism and Trade), which accrue effective interest at rates ranging from 0.00% to 4.00%, and total Euros 6,408 thousand at 31 December 2016 (Euros 5,880 thousand at 31 December 2015). The current portion of other payables amounts to Euros 738 thousand at 31 December 2016 (Euros 1,055 thousand in 2015), whilst the non-current portion amounts to Euros 5,670 thousand (Euros 4,825 thousand at 31 December 2015).

This note provides information regarding the contractual terms of other payables, 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.

c) Finance lease payables

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

31/12/2016			
<i>In thousands of Euros</i>	Furniture	Technical installations	Total
Cost	44	44,362	44,406
Accumulated depreciation and impairment losses	(44)	(138)	(182)
Carrying amount at 31 December 2016	-	44,224	44,224

31/12/2015			
<i>In thousands of Euros</i>	Furniture	Technical installations	Total
Cost	44	280	324
Accumulated depreciation and impairment losses	(44)	(98)	(142)
Carrying amount at 31 December 2015	-	182	182

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

<i>In thousands of Euros</i>	31/12/2016			31/12/2015		
	Minimum payments	Interest	Present value	Minimum payments	Interest	Present value
Up to 1 year	7,609	(827)	6,782	118	(16)	102
Between 1 and 5 years	30,312	(6,743)	23,569	261	(18)	243
More than 5 years	12,969	(2,188)	10,781			
	50,890	(9,758)	41,132	379	(34)	345
Less current portion	(7,609)	827	(6,782)	(118)	16	(102)
Total non-current	43,281	(8,931)	34,350	261	(18)	243

d) Other financial liabilities

At 31 December 2016 and 2015 other financial liabilities primarily comprise the following:

Non-current

- Euros 101,695 thousand of convertible bonds payable to related parties (see note 10 (c)), which includes Euros 2,948 thousand in finance costs accrued in 2016.
- Euros 29,829 thousand of bonds issued by the subsidiary Masmovil Broadband, S.A.U. According to the issue document dated 21 July 2016, as agreed by its sole shareholder on 31 May 2016, Masmovil Broadband issued eight-year bonds (five-year grace period for the principal and three equal repayments of a third of the principal each in the final three years) for a total nominal amount of Euros 30,000 thousand, and a maximum issue of 300 bonds. The information document for inclusion will be registered with the MARF. The bonds will pay an annual coupon of 5.75%. Interest accrued up to 31 December 2016 amounts to Euros 841 thousand. The related issue costs amounted to Euros 1,012 thousand and are considered part of the amortised cost of the bonds.
- Euro 27,363 thousand of bonds issued by the Parent in 2015. According to the payment agent contract dated 24 June 2015, as agreed by the board of directors on 13 May 2015, the Parent issued five-year bonds for a maximum total nominal amount of Euros 27,000 thousand, and a maximum issue of 270 bonds. The information document for inclusion will be registered with the MARF. The bonds will pay an annual coupon of 5.5%. Interest accrued up to 31 December 2016 amounts to Euros 1,485 thousand, of which Euros 742.5 thousand is payable (Euros 742.5 thousand accrued and payable at 31 December 2015). The costs of issuing the aforementioned bonds amounted to Euros 543 thousand and are considered part of the amortised cost of the bonds.

- Euros 20,936 thousand reflects the revalued amount payable to Jazz Telecom S.A.U. as a result of the contract entered into for the indirect right to use the Telefónica de España, S.A. copper network granted by Jazz Telecom, S.A.U. to the subsidiary MasMovil Broadband, S.A. (see note 5), plus Euros 1,221 thousand of accrued interest payable (Euros 398 thousand in 2015).

The non-current portion of the total amount payable amounts to Euros 20,936 thousand, while the current portion amounts to Euros 2,420 thousand (Euros 20,310 thousand and Euros 303 thousand, respectively, in 2015).

- Deferred payments amounting to Euros 1,442 thousand for business combinations from 2014 to 2015 (Euros 3,722 thousand at 31 December 2015) (see note 4).

Current

- Euros 71,541 thousand comprising a portion of the note issued by the Group in the Yoigo acquisition (see note 4). This note is considered a hybrid instrument insofar as it can be broken down into debt at amortised cost and a derivative instrument that includes the rights to early settlement, conversion and the earnout. As the derivative instruments are bound together and cannot be separated, they have been measured and recognised as a single instrument, considered as a liability at fair value through profit or loss. The debt at amortised cost was measured at Euros 82 million on the date of the agreement, and the derivative instrument at Euros 113.8 million. The debt at amortised cost accrues interest at an effective rate of 14%, in line with other subordinated debt issued by the Group and other similar market transactions. In October 2016 a new agreement was reached with one of the former Yoigo shareholders, whereby the debt was repaid with a cash payment of Euros 20,626 thousand, generating a gain of Euros 4,457 thousand. A Euros 2,387 thousand finance cost has been recognised for the accrual of the debt at amortised cost. Without prejudice to the above, the maximum amount payable by the Group would amount to Euros 200 million, in addition to the payment made to one of the non-controlling interests mentioned in note 24.

- Masmovil 2016 promissory notes programme

At 31 December 2016 other financial liabilities reflect the Masmovil 2016 promissory notes programme amounting to Euros 29,807 thousand. According to the basic information document for the inclusion of promissory notes on the Alternative Fixed-Income Market (MARF) dated 30 September 2016, the Parent has issued promissory notes for a maximum amount of Euros 30,000 thousand. The maximum number of promissory notes outstanding at any time may not exceed 300 of a nominal value of Euros 100 thousand each. The promissory note programme has a duration of one year. The nominal interest is set in each issue. At 31 December 2016 the outstanding amount totals Euros 30,000 thousand, issued at an average rate of 1.67% in 2016. Interest accrued up to 31 December 2016 amounts to Euros 94 thousand. The related issue costs amounted to Euros 46 thousand and are considered part of the amortised cost of the promissory notes.

- Other financial liabilities primarily comprise Euros 27,643 thousand payable to fixed-asset suppliers for the telecommunications network roll-out.
- Deferred payments amounting to Euros 2,212 thousand for business combinations from 2014 to 2015 (Euros 2,724 thousand at 31 December 2015) (see note 4).

- At 31 December 2015 the current portion reflected the Euros 89,000 thousand, plus VAT, payable to Jazz Telecom S.A.U. under the sale-purchase agreement to acquire assets of the fibre-optic network acquired from Jazz Telecom S.A.U. The amount was paid in January 2016.

e) Derivative financial instruments

These mainly include Euros 99,370 thousand of the note issued by the Group and explained above. Euros 72,741 thousand has been classified as current, which, together with the amount recognised in other liabilities, corresponds to the amount the creditors could demand in 2017 if they exercised their early cancellation option explained in note 4.1. The remainder, Euros 26,629 thousand, has been classified as non-current. The fair value at 31 December 2016 has not varied compared to its original amount as, according to the dynamic valuation model used by the directors, fair value, in light of the current business outlook and the Group's credit risk, will not be modified until the weighted average share price for the last 90 sessions exceeds Euros 40.5696 per share. The weighted average share price for the last 90 sessions at 31 December 2016 was Euros 25.37 per share.

f) Other information on payables

Details of bank loans secured by mortgages (see note 6) and their balances at 31 December 2016 and 2015 are as follows:

<i>In thousands of Euros</i>	Guarantee	31/12/2016	31/12/2015
Kutxabank, S.A.	Mortgage	12	39
Kutxabank, S.A.	Mortgage	8	18
Banco Popular Español, S.A.	Mortgage	203	243
Cajas Rurales Unidas, Sociedad Cooperativa de Crédito	Mortgage	183	223
Banco de Sabadell, S.A.	Mortgage	169	199
		575	722

Bonds issued by the subsidiary Masmovil Broadband S.A.U., which at 31 December 2016 amount to Euros 29,829 thousand, are secured with the following collateral:

- First lien pledge on the shares of Masmovil Broadband S.A.U,
- First lien pledge on the shares Masmovil Broadband has in Masmovil Investments, S.L.U. and Masmovil Infraestructuras, S.L.U
- First lien pledge on the credit rights to the bank accounts of the subsidiaries Masmovil Broadband S.A.U., Masmovil Investments, S.L.U. and Masmovil Infraestructuras, S.L.U.
- First lien pledge on the present and future credit rights deriving from material contracts (including construction and maintenance contracts for the FTTH network, insurance contracts, any marketing and sale contracts with third parties in the event the network is rolled out) of the subsidiaries Masmovil Broadband S.A.U., Masmovil Investments, S.L.U. and Masmovil Infraestructuras, S.L.U.

- Pledge on the irrevocable rights of use in favour of the subsidiary Masmovil Broadband S.A.U. and of its subsidiaries Masmovil Investments, S.L.U. and Masmovil Infraestructuras, S.L.U., if applicable, existing at the issue date and which may be subscribed after the issue date (see note 5).
- Mortgage guarantee on all the elements belonging to the fibre-optic network (see note 6).

These types of pledges are typical in bond issues of this type.

12. Provisions

Details of provisions at 31 December 2016 and 2015 are as follows:

<i>In thousands of Euros</i>	31/12/2016		31/12/2015	
	Non-current	Current	Non-current	Current
Provision for loss-making/onerous contracts	57,497	37,894	-	-
Provision for commercial transactions	29,354	-	-	-
Provision for decommissioning	8,374	-	-	-
Provision for commitments with personnel	2,470	-	-	-
Provisions for other liabilities	500	773	-	762
Other provisions	2,986	575	130	-
	<u>101,181</u>	<u>39,242</u>	<u>130</u>	<u>762</u>

Movement in provisions is as follows:

<i>In thousands of Euros</i>	Provision for loss-making/onerous contracts	Provision for commercial transactions	Provision for decommissioning	Provision for commitments with personnel	Provisions for other liabilities	Other provisions	Total
Balance at 1 January 2015	-	-	-	-	1,374	130	1,504
Reversals	-	-	-	-	(612)	-	(612)
Balance at 31 December 2015	-	-	-	-	762	130	892
Business combinations (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 (note 7)	-	-	-	-	8	3,408	3,416
Balance at 31 December 2016	<u>95,391</u>	<u>29,354</u>	<u>8,374</u>	<u>2,470</u>	<u>1,273</u>	<u>3,561</u>	<u>140,423</u>

Provision for loss-making/onerous contracts

At 31 December 2016 this includes a Euros 57,497 thousand provision in relation to an agreement entered into by Yoigo for the rental of towers, which is considered above market prices. This provision will be reduced and cancelled over the rental period ending in 2030. These also include a Euros 37,894 thousand provision for Pepephone's contract with Telefónica relating to an MVNO contract, equal to the penalty amount established in the contract. As a new contract was signed with Telefónica in December 2016, this provision will be applied in full in 2017 (see note 4).

Provision for commercial transactions

Since 2013 the subsidiary Yoigo has offered its customers financing, with own resources or through agreements with financial institutions, for the acquisition of handsets with a subscription to the services offered by the company. Provisions for commercial transactions reflect the estimated potential liabilities deriving from failure to pay the financing and from the option offered to customers of paying the final instalment or residual value in full by handing in the handset. Charges to these provisions are recognised as an expense when they are made.

Provision for decommissioning

This provision reflects the estimated cost of dismantling, removal or restoration of telecommunications infrastructure, and is recognised as a Euros 8,374 thousand increase in assets, calculated according to the estimated unit cost of dismantling and the hypothetical contract terminations based on experience obtained since launch. The Group reviews its estimates at least at year end and updates them when necessary so as to reflect the provision at its fair value.

Provision for commitments with personnel

At the 2016 year end the Group has made provision for termination benefits agreed with certain personnel amounting to Euros 2,470 thousand.

13. Government Grants

Movement in non-refundable government grants is as follows:

<i>In thousands of Euros</i>	31/12/2016	31/12/2015
Balance at 1 January	2,218	461
Grants received during the year	9,956	1,924
Grants recognised in income	(584)	(167)
Other movements	208	-
Balance at 31 December	11,798	2,218

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 thousands of Euros</i>	31/12/2016	31/12/2015
Trade payables	363,425	36,848
Taxation authorities, other taxes	11,774	1,627
Personnel	3,714	1,155
Other payables	4,890	2,108
	383,803	41,738

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:

<i>In thousands of Euros</i>	31/12/2016	31/12/2015
	Days	Days
Average supplier payment period	37.53	56.25
Transactions paid ratio	40.04%	67.39%
Transactions payable ratio	25.86%	17.38%
 Total payments made, in Euros	 1,103,173	 87,298
Total payments outstanding, in Euros	35,904	25,032

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 thousands of Euros</i>	31/12/2016	31/12/2015
Loans to associates	4,300	1,422
Equity instruments	2,191	1,705
Deposits and guarantees	2,786	1,341
Other financial assets	13,248	2,501
Trade and other receivables	187,794	120,233
Non-current assets held for sale	401	401
	210,720	127,603

Trade and other receivables

The Group does not have significant concentrations of credit risk. Current trade receivables amount to Euros 161,399 thousand (Euros 29,757 thousand at 31 December 2015, excluding the balance receivable from Jazztel for the sale of the IRU of the fibre-optic network acquired from Jazztel amounting to Euros 83,490 thousand (see note 9)).

In relation to the provision for 'instalment 25' described in note 12, in the majority of handset financing contracts with certain customers, the Group merely acts as guarantor. Consequently, there is no credit risk as there are no accounts receivable from these customers. 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 the reporting date the maximum exposure to credit risk associated with trade and other receivables, with a breakdown by geographical area, is as follows:

<i>In thousands of Euros</i>	31/12/2016	31/12/2015
Spain	168,716	111,348
Europe	14,320	6,134
USA and Canada	4,758	1,215
Other countries	-	1,536
	187,794	120,233

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. The Group's strategy for managing potential liquidity risks is disclosed in note 2 (d).

The Group's liquidity position for 2016 and 2015 is based on the following:

- At 31 December 2016 cash available amounts to Euros 236,079 thousand (Euros 30,498 thousand at 31 December 2015). The net cash generated by operating activities totals Euros 10,052 thousand (Euros 11,627 thousand in 2015).

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

In thousands of Euros

		31/12/2016							
	Carrying amount	Contractual cash flows	Less than 1 year	More than 1 year and less than 2	More than 2 years and less than 3	More than 3 years and less than 4	More than 4 years and less than 5	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 payables	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	0	-	-	-	-	
	<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>	

In thousands of Euros

		31/12/2015							
	Carrying amount	Contractual cash flows	Less than 1 year	More than 1 year and less than 2	More than 2 years and less than 3	More than 3 years and less than 4	More than 4 years and less than 5	More than 5 years	
Loans and borrowings	12,800	12,821	10,806	610	698	487	125	95	
Other payables	6,766	6,901	1,269	939	727	1,143	1,354	1,469	
Finance lease payables	345	345	102	113	67	63	-	-	
Other financial liabilities	163,649	166,407	111,521	11,686	4,506	4,572	26,196	7,926	
Trade and other payables	40,111	40,111	40,111	-	-	-	-	-	
	<u>223,671</u>	<u>226,585</u>	<u>163,809</u>	<u>13,348</u>	<u>5,998</u>	<u>6,265</u>	<u>27,675</u>	<u>9,490</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, so the Group has arranged hedging instruments to convert the majority of its debt to a fixed rate, thus avoiding interest rate risk on future cash flows. The Group's current policy is to maintain low leverage at variable rates through interest rate derivatives.

Details of fixed and variable-rate financial assets and liabilities at the reporting date are as follows:

		Carrying amount	
		31/12/2016	31/12/2015
<i>Fixed-interest instruments</i>			
Financial assets		4,300	1,422
Financial liabilities		(491,745)	(182,353)
		<u>(487,445)</u>	<u>(180,931)</u>
<i>Variable-interest instruments</i>			
Financial liabilities		(444,771)	(1,207)
		<u>(444,771)</u>	<u>(1,207)</u>

Sensitivity analysis

At 31 December 2016, a 100 b.p. increase in interest rates, with other variables remaining constant, would have increased the loss after tax by Euros 2,230 thousand (Euros 26 thousand in 2015), 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) Derivative financial instruments

The amount of Euros 99,370 thousand relates to a portion of the note issued by the Group, explained in note 11 (e).

The Group uses derivative financial instruments to hedge the risks to which its business activities, operations and future cash flows are exposed.

At 31 December 2016 in the context of these transactions and in accordance with the stipulations of the syndicated loan, the Group has arranged interest rate hedges with the lenders, for a nominal debt amount of Euros 356,059 thousand (see note 11). As these hedges were arranged in December, there have been no changes in fair value at 31 December 2016.

f) Financial instruments and fair value

The fair values of financial assets and liabilities not measured at fair value are not included because the Group estimates them to be similar to their carrying amounts as the majority of these instruments mature in the short term.

The carrying amounts and fair values of financial instruments, classified by category and including fair value hierarchy levels, are shown below. If the fair values of financial assets and liabilities not measured at fair value are not included, it is because the Group estimates them to be similar to their carrying amounts as the majority of these instruments mature in the short term.

2016	Carrying amount				Fair value			
	Available-for-sale							
	financial assets	Loans and receivables	Debts and payables	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Equity instruments	418	-	-	418	-	17	401	418
	418	-	-	418	-	17	401	418
Financial assets not measured at fair value								
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	-	-	-	-
	2,174	444,207	-	446,381	-	-	-	-
Financial liabilities measured at fair value								
Derivative financial instruments	-	-	100,468	-	-	100,468	-	100,468
	-	-	100,468	-	-	100,468	-	100,468
Financial liabilities not measured at fair value								
Loans and borrowings	-	-	511,196	511,196	-	-	-	-
Other financial liabilities	-	-	316,662	316,662	-	-	-	-
Deferred payments	-	-	1,495	1,495	-	-	1,495	1,495
Other payables	-	-	6,695	6,695	-	-	-	-
Trade and other payables	-	-	363,425	363,425	-	-	-	-
	-	-	1,199,473	1,199,473	-	-	1,495	1,495

2015	Carrying amount					Fair value			
Euros	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Debts and payables	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value									
Equity instruments	418	-	-	-	418	-	17	401	418
	418	-		-	418	-	17	401	418
Financial assets not measured at fair value									
Equity instruments	1,688	-	-	-	1,688	-	-	-	-
Security and other deposits	-	1,341	-	-	1,341	-	-	-	-
Trade and other receivables	-	120,233	-	-	120,233	-	-	-	-
Cash and cash equivalents	-	30,498	-	-	30,498	-	-	-	-
Other financial assets	-	3,615	308	-	3,923	-	-	-	-
	1,688	155,687	308	-	157,683	-	-	-	-
Financial liabilities not measured at fair value									
Loans and borrowings	-	-	-	13,145	13,145	-	-	-	-
Other financial liabilities	-	-	-	161,852	161,852	-	-	-	-
Deferred payments	-	-	-	1,797	1,797			1,797	
Other payables	-	-	-	6,766	6,766	-	-	-	-
Trade and other payables	-	-	-	36,848	36,848	-	-	-	-
	-	-	-	220,408	220,408	-	-	1,797	

During the years ended 31 December 2016 and 2015 no assets or liabilities were transferred between levels.

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

<i>In thousands of Euros</i>	31/12/2016		31/12/2015	
	Loans and receivables	Equity instruments	Loans and receivables	Equity instruments
Gain on the sale of liabilities and financial instruments (see notes 4 and 11(d))	4,457	-	-	-
Finance income at amortised cost	887	-	-	-
Exchange gains/(losses)	71	-	36	-
Gains/(losses) on the disposal of assets	-	-	-	(239)
Net gains/(losses)	<u>5,415</u>	<u>-</u>	<u>36</u>	<u>(239)</u>

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

<i>In thousands of Euros</i>	31/12/2016	31/12/2015
	Debts and payables	Debts and payables
Finance costs at amortised cost	(24,466)	(2,263)
Changes in fair value	(884)	-
	<u>(25,350)</u>	<u>(2,263)</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:

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

Operating Leases - Lessee

The Group has various types of operating lease agreements.

Operating lease payments have been recognised as an expense for the year as follows:

<i>In thousands of Euros</i>	31/12/2016	31/12/2015
Shared locations	13,583	-
Transmission lines	4,521	-
Offices	892	1,577
Vehicles	470	-
Licences	592	-
Other leases	3,701	-
	23,759	1,577

The total future minimum operating lease payments are as follows:

<i>In thousands of Euros</i>	31/12/2016	31/12/2015
Up to 1 year	65,343	368
Between 1 and 5 years	196,007	735
More than 5 years	192,642	-
Total	453,992	1,103

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.

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

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

On 31 July 2015 the subsidiary Masmovil Broadband, S.A.U. entered into a contract with Jazz Telecom, S.A.U. granting the right to use 40% of the fibre-optic network for Euros 69,000 thousand, whereby Masmovil Broadband, S.A.U. granted Jazz Telecom, S.A.U. the irrevocable right to use fibre-optic network assets for a period of 35 years. In 2016 the contract price increased by Euros 8,459 thousand due to new acquisitions.

Pursuant to the contractual conditions, other non-current liabilities reflect the income to be distributed over various years in the next 35 years, based on the duration of the contract and the directors' assumption that the contract extension will not be exercised.

Providing the service will not generate any operating cost for the Group.

Movement in other non-current liabilities in this regard is as follows:

<i>In thousands of Euros</i>	2016	2015
Opening balance	68,584	69,000
Additions	8,459	-
Transfer to profit and loss	(2,029)	(416)
Closing balance	75,014	68,584

Other items under non-current liabilities at 31 December 2016 amount to Euros 275 thousand.

18. Income Tax

a) Income tax income

Details of the income tax income are as follows:

<i>In thousands of Euros</i>	31/12/2016	31/12/2015
Current tax		
Present year	(294)	(131)
	(294)	(131)
Deferred taxes		
Source and reversal of temporary differences	3,481	640
Previously unrecognised deferred tax assets	(193)	-
	3,288	640
	2,994	509

b) Reconciliation of income tax

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

<i>In thousands of Euros</i>	31/12/2016	31/12/2015
Loss for the year from continuing operations, before income tax	(61,045)	(2,016)
Tax calculated at the corresponding rate	15,819	564
Permanent differences	523	(48)
Deductions and credits for the year	79	263
Prior years' adjustments	(1,606)	(525)
Unrecognised tax credits	(11,821)	-
Other adjustments	-	255
Income tax income	2,994	509

Unrecognised tax credits correspond to tax loss carryforwards generated by certain Group companies, the most significant of which were generated by the Parent in an amount of Euros 5,950 thousand, and which have not been capitalised as there is insufficient evidence as to their recoverability.

c) Deferred tax assets and liabilities recognised

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of Euros</i>	31/12/2016			31/12/2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangible assets	404	(54,527)	(54,123)	-	(2,100)	(2,100)
Property, plant and equipment	134	(1,374)	(1,240)	-	(1,061)	(1,061)
Goodwill	-	(2,869)	(2,869)	-	(1,717)	(1,717)
Provisions	47,658	(592)	47,066	-	-	-
Tax loss carryforwards	186,266	-	186,266	9,352	-	9,352
Deductions	849	-	849	1,255	-	1,255
Impairment	30	-	30	-	-	-
Other	460	(29)	431	2,626	(7)	2,619
Net assets and liabilities	235,801	(59,391)	176,410	13,233	(4,885)	8,348

d) Movement in deferred tax balances

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

<i>In thousands of Euros</i>	31/12/2016					
	Balance at 1 January	Recognised in profit/(loss)	Business combinations (note 4)	Other	Transfers	Balance at 31 December
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 carryforwards	9,352	8,017	168,897	-	-	186,266
Deductions	1,255	(17)	-	-	(389)	849
Impairment	-	-	-	-	30	30
Other	2,619	(1,621)	-	-	(567)	431
Net assets and liabilities	8,348	3,288	163,247	1,527	-	176,410

<i>In thousands of Euros</i>	31/12/2015					
	Balance at 1 January	Recognised in profit/(loss)	Business combinations (note 4)	Other	Translation differences	Balance at 31 December
Intangible assets	-	-	(2,100)	-	-	(2,100)
Property, plant and equipment	(479)	(525)	-	(57)	-	(1,061)
Goodwill	-	-	-	(1,717)	-	(1,717)
Tax loss carryforwards	8,930	910	-	(488)	-	9,352
Deduction rights	854	-	-	401	-	1,255
Other	673	255	201	1,490	-	2,619
Net assets and liabilities	9,978	640	(1,899)	(371)	-	8,348

Deferred tax assets deriving from unused 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 thousands of Euros</i>	31/12/2016	31/12/2015
Deferred tax assets related to temporary differences	37,804	2,626
Credits for tax loss carry forwards	177,920	9,352
Deductions and credits	849	1,255
Total assets	216,573	13,233
Deferred tax liabilities	(54,914)	(4,885)
Net	161,659	8,348

The Group has the following unused deductions at 31 December 2016 and 2015 available as follows:

Year	Thousands of Euros		Final year
	2016	2015	
2006	488	488	2021
2007	36	36	2022
2008	104	104	2023
2009	163	163	2024
2010	140	140	2025
2011	186	186	2026
2012	241	241	2027
2013	2,305	259	2028
2014	2,917	309	2029
2015	626	34	2030
	7,206	1,960	

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	Thousands of Euros	
	2016	2015
1999	1,555	1,528
2000	1,160	1,160
2001	6,263	1,640
2002	161,766	1,172
2003	78,753	4,162
2004	60,386	1,337
2005	71,877	-
2006	386,108	2,946
2007	81,570	1,124
2008	140,087	10,704
2009	176,998	7,299
2010	98,623	2,541
2011	33,391	2,972
2012	5,748	2,340
2013	16,246	658
2014	5,306	5,740
2015	10,745	9,725
2016 (provisional)	62,940	-
	1,399,522	57,048

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 2106 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 (q)).

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 Masmovil 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 2016 the Parent and its subsidiaries located in Spain have open to inspection by the taxation authorities all main applicable taxes since 1 January 2012.

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 Yoigo (see note 4) 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 Yoigo in the first quarter of 2017 and the renting of mobile networks to other Group companies (see note 4). The projections used to examine the recoverability of capitalised tax credits were based on a period of 11 years.

As disclosed in note 22 of the consolidated annual accounts for 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 which at the date of preparation of the consolidated annual accounts is at an initial stage, 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:

	31/12/2016			31/12/2015		
	Spain	International	Total	Spain	International	Total
<i>In thousands of Euros</i>						
Business and wholesale	115,329	1,152	116,481	98,692	1,628	100,320
Consumer	284,539	-	284,539	29,929	-	29,929
	<u>399,868</u>	<u>1,152</u>	<u>401,020</u>	<u>128,621</u>	<u>1,628</u>	<u>130,249</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 internet 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 thousands of Euros</i>	31/12/2016	31/12/2015
Merchandise used	73,603	9,838
Raw materials and other consumables used	147,460	35,833
Subcontracted work	41,808	43,827
	262,871	89,498

c) Employee benefits expense

Details of the employee benefits expense are as follows:

<i>In thousands of Euros</i>	31/12/2016	31/12/2015
Salaries and wages	23,719	11,743
Social Security contributions	4,502	2,659
Other employee benefits expenses	-	294
	28,221	14,696

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

	31/12/2016	31/12/2015
Board members	1	1
Management	53	22
Technicians	280	80
Administrative staff	54	47
Other	71	121
	459	271

At the 2016 and 2015 year end, the distribution by gender of Group personnel and the members of the board of directors is as follows:

	31/12/2016		31/12/2015	
	Men	Women	Men	Women
Board members	10	2	8	-
Senior management	11	-	11	-
Management	41	13	9	3
Technicians	209	86	70	16
Administrative staff	27	43	7	40
Other employees	40	31	85	61
	338	175	190	120

The distribution of employees with a disability rating of 33% or higher (or equivalent local rating) in 2016 is as follows:

	31/12/2016
Administrative staff	4
	4

d) Other operating expenses

Details of other operating expenses are as follows:

<i>In thousands of Euros</i>	31/12/2016	31/12/2015
Independent professional services	43,919	7,638
Leases	23,759	1,577
Advertising, publicity and public relations	12,420	3,497
Repairs and maintenance	12,046	360
Fees	11,671	-
Losses, impairment and changes in provisions	5,081	1,946
Supplies and other services	2,346	1,070
Other services	1,725	466
Transport	271	268
Insurance premiums and commissions	270	157
Other	5,595	1,508
	119,103	18,487

At 31 December 2016, independent professional services include expenses derived from the business combinations amounting to Euros 16,078 thousand, and the cost of integrating the companies acquired, of Euros 11,957 thousand (see note 4).

20. Related Parties

a) Related party balances

Details of balances with related parties at 31 December 2016 and 2015 are as follows:

	31/12/2016	
<i>In thousands of Euros</i>	Other related parties	Total
Assets		
Other financial assets	1,867	1,867
Total current assets	1,867	1,867
Total assets	1,867	1,867
Liabilities		
Bonds and other marketable securities (note 11)	167,948	167,948
Financial debt	56	56
Total current liabilities	168,004	168,004
Total liabilities	168,004	168,004

<i>In thousands of Euros</i>	31/12/2015	
	Other related parties	Total
Assets		
Other financial assets	377	377
Total current assets	377	377
Total assets	377	377
Liabilities		
Financial debt	1,720	1,720
Total current liabilities	1,720	1,720
Total liabilities	1,720	1,720

b) Related party transactions

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

<i>In thousands of Euros</i>	31/12/2015		
	Directors and Senior Management of the Parent	Other related parties	Total
Expenses			
Salaries	890	-	890
Other operating expenses	146	1,022	1,168
Total costs	1,036	1,022	2,058

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

In 2016 the directors of the Company received remuneration of Euros 185 thousand in their capacity as such (Euros 49 thousand in 2015). In 2016 senior management personnel accrued short-term employee benefits of Euros 2,010 thousand (Euros 841 thousand in 2015). 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. The Company has no pension or life insurance obligations with the Parent's former or current directors.

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 approved a stock options plan (hereinafter the Plan) on Group 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 Group 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. 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 Group 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. 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 Euros 259 thousand in 2016.

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 2016 and 2015 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

Details of the Group's guarantees at 31 December 2016 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 59,899 thousand: the administrative contracts granting B2 licences for Yoigo to render 3G mobile telephone services (UMTS) include investment, roll-out, technical, commercial, job creation, industry support and business plan commitments, compliance with which is secured by counter-guarantees from the Group. The amount reflects the guarantees pending release for future commitments associated with the 2100 MHz frequencies.
- The subsidiary Yoigo also has guarantees in place to secure commitments amounting to Euros 33,138 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.

The subsidiary Yoigo 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, Yoigo 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 at 31 December 2016 amounted to Euros 168 million.

In March 2017, the subsidiary Yoigo 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. Yoigo has appealed these notifications and has requested that the debt be suspended by extending the corresponding guarantees. The Company'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 Group do not consider that any risks exist in relation to the situations covered by the guarantees provided. Furthermore, there are no other potential significant law suits which could entail a risk for the Group.

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 Company 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. Audit Fees

KPMG Auditores, S.L., the auditors of the Group's consolidated annual accounts, invoiced the following fees and expenses for professional services during the years ended 31 December 2016 and 2015:

<i>In thousands of Euros</i>	<u>31/12/2016</u>	<u>31/12/2015</u>
For audit services	282	258
For other assurance services	50	-
For other services	204	97
	<u>536</u>	<u>355</u>

Other auditors invoiced the Group the following fees for professional services during the year ended 31 December 2016:

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

24. Events after the Reporting Period

On 30 January 2017 the acquisition of Llamaya Móvil, S.L.U.'s MVNO business unit by the subsidiary Masmovil Telecom 3.0, S.A.U. was formally completed for a fixed price of Euros 30.3 million plus an earnout of up to Euros 12 million, based on the performance of certain operating parameters. At the date these consolidated annual accounts were authorised for issue, the Group was studying the different impacts of the business combinations, and consequently, it does not have the necessary information required by IFRS 3.

On 3 February 2017, the Secretary of State for the Information Society and the Digital Agenda (SETSIAD) issued a draft resolution approving the deferral of compliance with certain undertakings associated with Yoigo's UMTS licence to 18 April 2020 (the date said licence expires), and the reduction of the joint floating guarantee from Euros 59,899 thousand to Euros 39,899 thousand. Yoigo responded to SETSIAD in favour of the draft resolution, and on 20 April 2017, the guarantees were reduced.

On 7 February 2017 the Group repurchased the financial instrument extended to one of the former non-controlling interests of Yoigo for Euros 29.1 million. This payment was made by increasing senior debt by Euros 24.3 million, with the remainder in cash. Doing so reduced borrowing costs on the refinanced Euros 24.3 million by around 680 b.p. per year with no significant impact on the Group's net financial debt (Euros 4.8 million). This also completely eliminated the earnout associated with the purchase of Yoigo from this shareholder (see note 4.1).

At their extraordinary general meeting held on 1 March 2017, the shareholders approved a Shares Appreciation Rights (SAR) plan for the CEO, management team and employees of the Group. The aim of this Plan is to establish a stable, long-term framework for Group management's variable remuneration in order to align management's interests with those of the shareholders. The Plan involves awarding Group management up to Euros 1.7 million in SRAs, with each SRA corresponding to the cash equivalent of the potential appreciation of the Group's shares, calculated over an average of 90 sessions, between the Plan approval date, 1 March 2017, and its settlement date, with a Plan duration of up to 3.5 years. Among other factors, payment is contingent on the beneficiary remaining on the Group's management team, the performance of certain Group operating variables, and compliance with individual targets, and the Plan may be liquidated in certain circumstances, basically due to a change in control of the Parent.

On 9 March 2017 the subsidiary Masmovil Broadband, S.A.U. issued project bonds amounting to Euros 39.3 million. The bonds are in addition to those issued on 27 July 2016 for Euros 30 million with the same characteristics. These bonds were issued to finance Masmovil Broadband, S.A.U.'s broadband roll-out plan.

On 17 March 2017, the Court of First Instance no. 52 of Madrid handed down a ruling on the lawsuit filed by Pepemobile, S.L. against Xfera Móviles, S.A.U. requesting that the wholesale access contract signed between both entities in 2014 be declared null and void, as well as an indemnity for damage and loss, and on the response to the lawsuit by Xfera Móviles, S.A.U. requesting that the lawsuit be dismissed, that Pepemobile, S.L. be declared in breach of contract, and an indemnity for damage and loss. The ruling, which is not yet definitive, reaches a relatively neutral solution, as it considers that both parties are in breach of contract and establishes cross payments with a net amount of less than Euros 1 million.

On 21 March 2017, as the first maturity of the inaugural tranche of the MASMOVIL promissory notes program, corresponding to the 6-month Euros 20 million, was approaching, the Company renewed this amount. Given the demand from investors, the Group managed to extend the period of Euros 15 million from the initial 6 months to 12 months at a nominal rate of 1.60%, and reduce the nominal rate for the remaining 6-month Euros 5 million from the inaugural 1.75% to 1.50%.

APPENDIX I. – Details of subsidiaries at 31 December 2016

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

Name	Registered office	Activity	Auditor	Shareholder	Percentage ownership	Percentage 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 services	KPMG	Xfera Móviles, S.A.U.	100.00%	100.00%	Full
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 services	KPMG	Xfera Móviles, S.A.U.	100.00%	100.00%	Full
Másmóvil Broadband, S.A.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid.	Telecommunications-related activities and services	KPMG	Xfera Móviles, S.A.U.	100.00%	100.00%	Full
Embou Nuevas Tecnologías, S.L.U.	Zaragoza, calle Bari 33, Edificio 1, 2 planta	Provision of telecommunications- and new technologies-related consultancy and advisory services	n/a	Mas Movil Telecom 3.0, S.A.U.	100.00%	100.00%	Full
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 telecommunications networks in Spain	n/a	Másmóvil Broadband, S.A.U.	100.00%	100.00%	Full
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 telecommunications networks in Spain	n/a	Másmóvil Broadband, S.A.U.	100.00%	100.00%	Full
Quantum Ltd (UK)	Fourth Floor, 30-31 Fumival Street, London, EC4A 1JQ	Provision of telephony services using other mobile network operators, mobile virtual network operator services, landline resale services, publicly available data transmission services, and nomadic voice services in the UK	n/a	Xtra Telecom, S.A.U.	100.00%	100.00%	Full
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%	Full
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%	Full
Xfera Móviles, S.A.U.	Avda. de la Vega, 15. Alcobendas	Telecommunications-related activities and services	Deloitte	Másmóvil Holdphone, S.A.U.	100.00%	100.00%	Full
Pepeworld, S.L.U.	Paseo de la Castellana, 8, Madrid	Holding company	n/a	Xfera Móviles, S.A.U.	100.00%	100.00%	Full
Pepe Energy, S.L.	Paseo de la Castellana, 8, Madrid	Electricity supply	n/a	Pepe World, S.L.U.	94.44%	94.44%	Full
Pepemobile, S.L.U.	Paseo de la Castellana, 8, Madrid	Provision of telecommunications-related services; provision of services relating to information technology and to the development, sale and distribution of computer programs and equipment	KPMG	Pepe World, S.L.U.	100.00%	100.00%	Full

APPENDIX I. – Details of subsidiaries at 31 December 2015

Name	Registered office	Activity	Auditor	Shareholder	Percentage ownership	Percentage 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 services	KPMG	MásMóvil Ibercom, S.A.	100.00%	100.00%	Full
MásMóvil Telecom 3.0, S.A.U.	C/ Anabel Segura, 11, Edificio Albatros A, 2ª, 28108, Alcobendas, Madrid	Telecommunications-related activities and services	KPMG	MásMóvil Ibercom, S.A.	100.00%	100.00%	Full
MásMóvil Broadband, S.A.U.	Vía de las Dos Castillas, Km. 33, Complejo Atica, Edificio I, Pozuelo de Alarcón, Madrid.	Telecommunications-related activities and services	KPMG	MásMóvil Ibercom, S.A.	100.00%	100.00%	Full
Embou Nuevas Tecnologías, S.L.U.	Zaragoza, calle Bari 33, Edificio 1, 2 planta	Provision of telecommunications- and new technologies-related consultancy and advisory services	n/a	Mas Movil Telecom 3.0, S.A.U.	100.00%	100.00%	Full
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 telecommunications networks in Spain	n/a	MásMóvil Broadband, S.¿	100.00%	100.00%	Full
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 telecommunications networks in Spain	n/a	MásMóvil Broadband, S.¿	100.00%	100.00%	Full
Quantum Ltd (UK)	Fourth Floor, 30-31 Fumival Street, London, EC4A 1JQ	Provision of telephony services using other mobile network operators, mobile virtual network operator services, landline resale services, publicly available data transmission services, and nomadic voice services in the UK	n/a	Xtra Telecom, S.A.U.	100.00%	100.00%	Full
Quantum Ltd (HK)	Rm. 2107, Lippo Centre Tower 2, 89 Queensway, Admiralty, Hong Kong	Provision of telecommunications-related services	n/a	Mas Movil Telecom 3.0, S.A.U.	100.00%	100.00%	Full

Consolidated Directors' Report for 2016

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

1. INTRODUCTION

2016 marked a turning point in the history of the Group. After the acquisitions of Yoigo and Pepephone and the mass launch of its bundled offering on proprietary broadband assets (FTTH and ADSL) and those acquired from the ORANGE Group, MASMOVIL has emerged as the fourth largest telecommunications operator in Spain.

The resulting Group generated consolidated revenues and EBITDA on a pro forma basis, i.e. considering the acquisitions of Yoigo and Pepephone had taken place with effect 1 January 2016, of Euros 1,120,004 thousand and Euros 88,299 thousand, respectively. Recurring EBITDA totalled Euros 118,897 thousand (10.62% as a percentage of revenues) (EBITDA less transaction costs, integration costs and bonuses paid to certain Pepephone employees for the success of the corporate transaction detailed in note 4). The latest available data shows that on 20 March 2017 the Group had 4,797 thousand mobile customers and 179 thousand fixed broadband customers.

It is important to highlight the marked industrial and strategic sense of the transactions carried out by the Group in 2016, which have culminated in substantial cost savings for the Group in excess of Euros 60 million in 2017, thanks to strategic agreements reached with the Orange group and the Telefónica group that were announced to the market through relevant events dated 10 October 2016 and 14 December 2016. The strategic agreement with Orange not only contributed to substantial cost savings for the Group, but also contained a significant agreement for wholesale access by the Group to Orange's FTTH infrastructures and the joint roll-out of FTTH networks, which has considerably boosted the Group's bundled offering. The agreement with the Telefónica group also contributed to improving Pepephone's competitive position and reducing the operating risks inherent to the replacement of the domestic roaming services provider by Yoigo.

2. TRANSFORMATION OF THE GROUP AND ITS NEW FINANCIAL STRUCTURE

The structure of the Group after the acquisitions of Yoigo and Pepephone coupled with the mass launch of the Group's bundled offering aimed at consumers, has been accompanied by a profound transformation of the Group's financial structure, all with the aim of creating a financial structure adapted to the new dimension and strategic needs of the Group

Corporate transactions, at a total cost of Euros 752,686 thousand (Euros 594,686 thousand in the case of Yoigo and Euros 158,000 thousand in the case of Pepephone) and the roll-out of FTTH infrastructures have been financed through a balanced combination of capital, instruments convertible into Group shares, borrowings from financial institutions and the issue of securities on the capital markets. Specifically, the Group has issued financial instruments, net of Tranche C of the syndicated loan, which, like restricted cash, serve as collateral for the subordinated convertible note, for an amount of Euros 935,082 thousand, of which Euros 897,082 thousand was issued in 2016 and Euros 38,000 by the Group on 9 March 2017.

53.45% of this amount, Euros 499,805 thousand, corresponds to capital or instruments convertible into Group shares, while the remaining Euros 435,277 thousand, or 46.55%, comprises borrowings from financial institutions (Euros 337,277 thousand) and issues on the capital markets (Euros 98,000 thousand). Euros 60,000 thousand comprises working capital financing facilities in the form of promissory notes listed on the MARF and revolving credit facilities, most of which have not been drawn down at the 2016 reporting date. Capital instruments or instruments convertible into Group shares correspond to the issue of ordinary Group shares totalling Euros 160,000 thousand, completed on 26 July 2016, the issue of subordinated convertible bonds totalling Euros 165,000 thousand, completed on 4 October 2016, and the issue of the convertible note subordinated to senior debt of Euros 174,805 thousand, net of the repurchase made on 5 October 2016. In line with accounting standards, Euros 269,645 thousand corresponding to part of the issue of subordinated convertible bonds and the convertible note subordinated to senior debt have been recognised as liabilities.

3. BUSINESS PERFORMANCE AND SITUATION OF THE GROUP

In line with the Group's corporate and financial performance, operating activity has been brisk due to excellent mobile and fixed number porting and the mass launch of its bundled offering on the roll-out of proprietary assets and the FTTH and ADSL assets acquired from the Orange group in October 2015.

Specifically, and according to information published by the Spanish Markets and Competition Authority (CNMC), in 2016 the Group secured 174,837 net mobile number portabilities and 51,879 net fixed broadband portabilities. These figures position the Group as the indisputable leader in net mobile number portability at domestic level and the third operator in terms of net fixed broadband portability behind only the Vodafone group (123,075 net portabilities) and the Orange group (93,287 net portabilities).

During 2016, significant acquisitions and corporate transactions arose from these operations, and the companies consolidated for the first time as a result of business combinations were as follows:

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

Additionally, on 1 June 2016, the Parent incorporated Masmovil Holdphone, S.A.U. and Masmovil Phone & Internet, S.A.U., in order to structure the acquisitions of these companies.

In light of the above, the situation of the Group at 31 December 2016 is as follows:

- (i) The annual accounts presented are the result of the consolidation of each of the companies acquired by the Group at the date of incorporation. This means that the figures reflected in the incorporated companies are for periods of less than one year.
- (ii) Given the substantial growth achieved through these acquisitions, the figures are not comparable with those of the prior year.
- (iii) Consolidated revenues for the year amounted to Euros 401,020 thousand (Euros 130,249 thousand in 2015), while EBITDA came to Euros 657 thousand, rising to Euros 31,255 thousand in recurring terms (Euros 10,867 thousand in 2015).

- (iv) As mentioned earlier, the Group presents consolidated revenues and EBITDA, amounting to Euros 1,120,004 thousand and Euros 88.299 thousand, respectively, on a pro forma basis, i.e., considering the acquisition of Yoigo and Pepephone took place with effect 1 January 2016. Recurring EBITDA stood at Euros 118,897 thousand.

<i>In thousands of Euros</i>	Consolidated MM Group	Xfera prior to incorporation in MM Group	Pepe prior to incorporation in MM Group	Proforma 2016
Total revenues	401,020	669,740	49,244	1,120,004
Amortisation and depreciation	(41,204)	(59,491)	(5,888)	(106,583)
Results from operating activities	(40,547)	23,524	(1,261)	(18,284)
EBITDA	657	83,015	4,627	88,299
Profit after tax	(58,051)	18,180	200	(39,671)
EBITDA recurrente				118,897

Aggregate figures for 2015, calculated as the sum of the consolidated annual accounts of the Group and the figures obtained from the individual annual accounts of Yoigo and Pepephone, excluding any pro forma adjustments, are as follows: (i) aggregate revenues of Euros 1,070,662 thousand, representing growth of 4.6% in 2016 compared to 2015 and (ii) EBITDA of Euros 102,823 thousand, which in recurring EBITDA terms for 2016 compared to aggregate EBITDA for 2015 represents growth of 15.6%.

<i>In thousands of Euros</i>	Yoigo	Pepephone	MMI	Total aggregate
Total revenues	878,073	62,340	130,249	1,070,662
<i>Total revenues (less handset sales)</i>	<i>635,598</i>	<i>62,340</i>	<i>130,249</i>	<i>828,187</i>
Amortisation and depreciation	(72,235)	(83)	(10,382)	(82,700)
Results from operating activities	6,489	13,149	485	20,123
EBITDA	78,724	13,232	10,867	102,823
Profit after tax	(1,866)	9,513	(1,507)	6,140

Additionally, in order to streamline and simplify the Group's corporate structure, a series of corporate transactions were carried out during the year among the different subsidiaries comprising the Group, including the contribution by the Group's parent to its subsidiary Xfera Móviles, S.A.U. through a non-monetary capital contribution, of 100% of the share capital of Masmovil Telecom, S.A.U., Xtra Telecom, S.A.U., Masmovil Broadband, S.A.U., Pepeworld, S.L.U. and Pepemobile, S.L.U., and 94.99% of the share capital of Pepe Energy, S.L.

During 2016, the Group's Parent (Masmovil Ibercom S.A.) continued to be listed on the Spanish alternative stock market (*mercado alternativo bursátil* or *MAB*), with its shares rising by 20.58% over the period (83% in 2015). At the 2016 reporting date, the Group's market capitalisation amounted to Euros 530,699 thousand (Euros 259,579 thousand at the 2015 close).

As mentioned earlier, a monetary capital increase was successfully carried out in 2016 for Euros 160,000 thousand. These new shares were issued at Euros 0.10 par value each, with a share premium of Euros 19.45 per share. This capital increase was subscribed by a large pool of professional domestic and international investors, notably PLT VII Holco Sarl (Providence) and Onchena, S.L., which at the closing date held an 18% and 17.1% stake in the Group, respectively.

In July 2016, the Group subsidiary Masmovil Broadband, S.A.U. successfully debuted on the debt market with the issue of a secure senior bond of Euros 30,000 thousand, completed by a tap on the same issue of an additional Euros 38,000 thousand on 9 March 2017. This issue received a BB credit rating with positive outlook from Axesora, rising to BB+ as a result of the healthy performance of the Group's fixed broadband business. The funds obtained from this issue allowed the Group to roll out its FTTH infrastructure.

4. OUTLOOK FOR THE GROUP

At the date the consolidated annual accounts were authorised for issue, the Group's sales performance remains brisk, with a rise in net customers compared to 2016 as a result of new rates from Yoigo and Pepephone, the launch of Yoigo's bundled offering and the repackaging of Pepephone's bundled offering.

Specifically, and according to information published by the CNMC, between 1 January 2017 and 17 March 2017, the latest data available, the Group secured 58,411 net mobile number portabilities and 19,637 net fixed broadband portabilities. These figures ratify the Group as the indisputable leader of net mobile number portabilities at domestic level, far ahead of the Euskaltel group, in second place with 7,621 thousand net portabilities, and as the second operator of net fixed broadband portabilities in the business sector, second only to the Vodafone group (39,388 net portabilities) but ahead of the Orange group (13,374 net portabilities). These figures show that the number of net customers secured has risen sharply compared to 2016, representing a quarterly increase of 19.15% in the mobile business and 44.05% in the bundled offering (compared to the quarterly average of portabilities recorded in 2016).

As regards the roll-out of infrastructures and to complement the proprietary network acquired from the Orange group and the agreements for wholesale access to the Orange group's FTTH infrastructure, the Group will forge ahead with its FTTH roll-out plan in accordance with the plans presented to the market, and maintain its target of reaching 2.3 million households.

Thanks to all of the above, the outlook for the Group remains very bright and signals significant growth potential in terms of revenue, and particularly EBITDA, due to the impact that the materialisation of a substantial portion of the contractual cost savings obtained from the aforementioned strategic agreements with the Orange group and the Telefónica group will have on the Group's consolidated annual accounts in 2017.

5. CORPORATE STRUCTURE

Details of the companies comprising the Group (in addition to MÁSMÓVIL IBERCOM, SA.), and the interest held by the Parent (direct and/or indirect) at 31 December 2016, and that form part of the consolidated group are as follows:

- Xfera Móviles, S.A.U. 100%
- Masmovil Telecom, S.A.U., 100%
- Xtra Telecom, S.A.U., 100%
- Masmovil Broadband, S.A.U., 100%

- Masmovil Infrastructures, S.L.U., 100%
- Masmovil Investments, S.L.U., 100%
- Pepeworld, S.L.U., 100%
- Pepemobile, S.L.U. 100%
- Pepe Energy, S.L. 94.99%
- Masmovil Holdphone, S.A.U., 100%
- Masmovil Phone & Internet, S.A.U., 100%
- Embou Nuevas Tecnologías, S.L.U., 100%
- Quantum, Ltd., 100%

The aim of this corporate structure is to maximise operating efficiency. However, in light of the recent acquisitions of Yoigo and Pepephone, it would be advisable to reorganise the consolidated Group further in order to simplify its corporate structure and generate new operating efficiencies.

6. BOARD OF DIRECTORS

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

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

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

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

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

The Board of Directors has two committees:

- Audit Committee
- Appointments and Remuneration Committee.

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

7. SHAREHOLDER STRUCTURE

The Group has been listed on the Spanish alternative stock market since 2012 and its current share capital is represented by 19,951,100 fully paid shares of Euros 0.1 par value each, of a single class.

At 31 December 2016, the shares were held by various shareholders, mainly by PLT VII Holco Sarl (Providence) with an 18.0% stake and Onchena, S.L. with a 17.1% stake.

8. MACROECONOMIC AND INDUSTRIAL BACKDROP

At macroeconomic level and according to data from the Spanish National Statistics Institute, the Spanish economy presented a GDP growth rate of 3.2% in 2015 and, according to IMF forecasts, 2016 growth will be slightly higher than in 2015 (3.3%). However, these same IMF estimates foresee a certain slowdown in the Spanish economy in 2017, in which growth is forecast at 2.3%.

At industry level, according to data provided by CNMC, revenues were up in annual terms for the first time since 2008 by 3.64% in the first half of 2016 compared to the same period in 2015. This growth was based on an increase in the unit prices of services and a slight increase in the sector's RGUs, an increase that was most evident in the fixed broadband business.

In this regard, the Spanish telecommunications market has been marked by four major trends:

The rise in prices for telecommunications services, which has put the 2016 telecommunications CPI at rates that were double the overall index. The Group has benefited from this trend by increasing its competitive level through the widening of its price differentials in relation to the telecommunications market's three major operators, which has cemented the acceleration of the level of net portability through a value-for-money business strategy.

The sectoral consolidation process initiated in 2014 (with the acquisitions of ONO and Canal+ by Vodafone and Telefónica, respectively), which gained pace in 2015 (with the acquisitions of Jazztel and R by Orange and Euskaltel, respectively), ended to a certain extent in 2016 with the acquisitions made by the Group. This consolidation process is one of the factors that may have influenced the increase in the telecommunications CPI.

Intensification of the bundling process in the marketing and sale of telecommunications services in Spain, such that nearly 70% of the decisions made to purchase telecommunications services in Spain have been associated with bundled packages. In this regard, the Group's bundled offering enables optimum exploitation of this market dynamic.

The proliferation of OTT content platforms are drastically changing the distribution of audio-visual content, which may have a substantial impact on the business model of telecommunications companies focused on quad-play solutions. In this regard, data from the CNMC in 2016 show that more than 10% of audio-visual content consumers opted for OTT services, up more than 35% on 2015.

9. RESEARCH AND DEVELOPMENT ACTIVITIES

In 2016 the Group confirmed its investment targets in research and development activities and dedicated resources to such tasks.

10. ACQUISITION OF OWN SHARES

In 2016 the Parent sold own shares with an acquisition cost of Euros 8,098 thousand (Euros 9,128 thousand in 2015), decreasing reserves by Euros 261 thousand (increase in reserves of Euros 766 thousand in 2015) due to the difference between the average acquisition cost and the selling price.

At the end of 2016, the Parent held 14,939 own shares acquired at an average weighted cost of Euros 25.11 per share (55,180 own shares at 31 December 2015 at an average weighted cost of Euros 22.49 per share).

11. DESCRIPTION OF THE MAIN RISKS AND UNCERTAINTIES FACED BY THE COMPANY

The main risks faced by the Group are as follows:

- Completion of the integration of new acquisitions.
- Launch of the new broadband offering under the Group's banners of Yoigo and Pepephone.
- Unification of the portfolio of services to customers.

Based on prior experience, Company management expects to complete this integration process to its satisfaction and bring the broadband project to a successful conclusion.

Key to this is the contribution of the economic situation and the market concentration process, which, as anticipated last year, is fostering a competitive environment more favourable to the Group's interests, thereby reducing uncertainties and leading to higher prices by Group competitors.

12. INFORMATION ON 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).

13. 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.

- Working capital: Calculated as current assets less current liabilities. This financial measure represents the Group's operating liquidity.
- Consolidated earnings before net interest expense and taxes (EBIT): Calculated based on consolidated earnings before interest and taxes.
- Consolidated earnings for the year before net interest expense, taxes, depreciation and amortisation (EBITDA): Calculated based on consolidated earnings for the year before net interest expense, taxes, depreciation and amortisation. It does not include 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.

14. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 30 January 2017 the acquisition of Llamaya Móvil, S.L.U.'s MVNO business unit by the subsidiary Masmovil Telecom 3.0, S.A.U. was formally completed for a fixed price of Euros 30.3 million plus an earnout of up to Euros 12 million, based on the performance of certain operating parameters.

On 3 February 2017, the Secretary of State for the Information Society and the Digital Agenda (SETSIAD) issued a draft resolution approving the deferral of compliance with certain undertakings associated with Yoigo's UMTS licence to 18 April 2020 (the date said licence expires), and the reduction of the joint floating guarantee from Euros 59,899 thousand to Euros 39,899 thousand. Yoigo responded to SETSIAD in favour of the draft resolution, and on 20 April 2017, the guarantees were reduced.

On 7 February 2017 the Group repurchased the financial instrument extended to one of the former non-controlling interests of Yoigo for Euros 29.1 million. This payment was made by increasing senior debt by Euros 24.3 million, with the remainder in cash. Doing so reduced borrowing costs on the refinanced Euros 24.3 million by around 680 b.p. per year with no significant impact on the Group's net financial debt (Euros 4.8 million). This also completely eliminated the earnout associated with the purchase of Yoigo from this shareholder (see note 4.1).

On 9 March 2017 the subsidiary Masmovil Broadband, S.A.U. issued project bonds amounting to Euros 39.3 million. The bonds are in addition to those issued on 27 July 2016 for Euros 30 million with the same characteristics. These bonds were issued to finance Masmovil Broadband, S.A.U.'s broadband roll-out plan.

At their extraordinary general meeting held on 1 March 2017, the shareholders approved a shares appreciation rights (SAR) plan for the CEO, management team and employees of the Group. The aim of this Plan is to establish a stable, long-term framework for Group management's variable remuneration in order to align management's interests with those of the shareholders. The Plan involves awarding Group management up to Euros 1.7 million in SARs, with each SAR corresponding to the cash equivalent of the potential appreciation of the Group's shares, calculated over an average of 90 sessions, between the Plan approval date, 1 March 2017, and its settlement date, with a Plan duration of up to 3.5 years. Among other factors, payment is contingent on the beneficiary remaining on the Group's management team, the performance of certain Group operating variables, and compliance with individual targets.

On 17 March 2017, the Court of First Instance no. 52 of Madrid handed down a ruling on the lawsuit filed by Pepemobile, S.L. against Xfera Móviles, S.A.U. requesting that the wholesale access contract signed between both entities in 2014 be declared null and void, as well as an indemnity for damage and loss, and on the response to the lawsuit by Xfera Móviles, S.A.U. requesting that the lawsuit be dismissed, that Pepemobile, S.L. be declared in breach of contract, and an indemnity for damage and loss. The ruling, which is not yet definitive, reaches a relatively neutral solution, as it considers that both parties are in breach of contract and establishes cross payments with a net amount of less than Euros 1 million.

On 21 March 2017, as the first maturity of the inaugural tranche of the MASMOVIL promissory notes program, corresponding to the 6-month Euros 20 million, was approaching, the Company renewed this amount. Given the demand from investors, the Group managed to extend the period of Euros 15 million from the initial 6 months to 12 months at a nominal rate of 1.60%, and reduce the nominal rate for the remaining 6-month Euros 5 million from the inaugural 1.75% to 1.50%.