**REGISTERED NUMBER: 12497729 (England and Wales)**

# LORCA JVCo LIMITED

Annual report and consolidated financial statements for the year ended 31 December 2022

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| **REGISTERED NUMBER:** | 12497729 |
| **COMPANY SECRETARY:** | INTERTRUST (UK) LIMITED<br>1 Bartholomew Lane<br>London<br>England<br>EC2N 2AX |
| **PRINCIPAL BANKERS:** | Barclays Bank<br>Leicester<br>Leicestershire<br>England<br>LE87 2BB |
| **INDEPENDENT AUDITORS:** | KPMG LLP<br>15 Canada Square<br>London<br>England<br>E14 5GL |

The Directors present their strategic report on the affairs of Lorca JVCO Limited (the "Company") for the year ended 31 December 2022.

The Directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

## REVIEW OF THE BUSINESS

The Company is a holding company formed as part of a group operating in the Telecoms industry in Spain and as a consequence of the business combination performed in previous years has consolidated the Group into the fourth largest telecommunications operator in terms of number of customers in Spain.

Fixed Broadband services continued to grow to reach 16.5 million lines by the end of 2022, driven by the residential market and the development of ultrafast FTTH broadband networks, which now account for more than 80% of accesses to the detriment of xDSL technology over copper pairs; while the marketing of convergent service packages (fixed and mobile communications) with higher capacities and speeds was further consolidated, reaching a penetration rate of over 86%.

The Spanish market continues to be enormously competitive. More than 8 million users changed their landline or mobile phone provider in Spain during 2022 thanks to portability, the regulated procedure that allows you to switch to another operator for free and keep your number. The Group has led net portability among large operators also during 2022, managing to seize more than 50,000 mobile lines and more than 120,000 fixed lines from its competitors.

In this environment, the Group has consolidated its business model based on a multi-brand and multi-service positioning. In this regard, some other achievements have been made including:

Operational area:

- Launch of Liga Smartbank and more sports content through a distribution agreement with DAZN.
- Launch of "EnergyGO Solar", an energy service based on solar panels created in partnership with Otovo as an expert.
- Launch of Connected Alarm with notice to the police, strengthening the alliance with Sicor Seguridad from El Corte Ingles
- MM Group, Alsa, GMV, Indra, Masermic, Renault and SIGMA join forces for the development of future autonomous 5G connected vehicles
- MM Group has reached 1 million customers to whom it offers some type of financial service through its financial company Xfera Consumer Finance and the “MoneyGO” commercial brand.
- MM Group together with Indra, join to create an innovative ecosystem that promotes the development of solutions and advanced 5G services for transportation

In infrastructure and technology:

The Group now has access to a footprint of 28 million FTTH BUs through a combination of own network and wholesale agreements with third parties.

During 2022, different agreements have been closed to sell FTTH BUs: 1.1 million BUs to Bidasoa Topco, SL for close to Euro 580 million in July and c. 0.5 million FTTH BUs for Euro c. 189 million to Ucles Infraco, S.L.U.

**RESULTS AND PERFORMANCE**

During the 2022 financial year, the Group, once the acquisition of the Euskaltel Group has been consolidated and synergies has been achieved accordingly to the plan, has consolidated itself as the fourth telecommunications operator in Spain, which has generated significant increases in billing, results and customers.

The Group continues to be interested in corporate operations aligned with its strategy of growth, profitability, search for synergies and savings. The following acquisitions were completed in 2022:

- Acquisition of Cabonitel Group
- Acquisition of Solucions Valencianes I Noves Tecnologies S.L. (SVINT)

At the date of acquisition of control of Cabonitel, the Group was already considering its disposal which was subsequently formalised through a sale agreement with a third party on 29 September 2022. At 31 December 2022, the sale has not been completed since certain regulatory conditions have not been fulfilled, among them the approval by the Portuguese Anti-trust Authorities.

Alongside the acquisition of Euskaltel, the Group has signed strategic agreements with the main operators in the sector, which will allow the Group to obtain significant cost savings, incorporate wholesale access for the Group to FTTH infrastructures of other operators, carry out the joint deployment of FTTH networks and reduce the operational risks inherent in the migration of customers to the Group's own network as of 2022.

As of 31 December 2022, the Group had almost 12 million active mobile lines and more than 3,3 million fixed broadband customers.

The Group presents consolidated revenue and Reported EBITDA figures of 2,894 million euros and 1,152 million euros, respectively. Adjusted EBITDA reaches 1,199 million euros and consolidated profit before tax of 421 million euros. The ratio of Reported EBITDA to revenue is 40% and 41% to Adjusted EBITDA.

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Profit the year from continuing operations | 443,577 | 189,200 |
| Income tax (expense) | (25,720) | (61,667) |
| Net interest expense | 363,830 | 242,817 |
| Depreciation and amortisation expenses | 930,199 | 680,878 |
| **EBITDA** | **1,711,886** | **1,051,228** |
| Finance income | (2,058) | (5,796) |
| Interest on finance leases | 10,508 | 10,018 |
| Change in fair value of financial instruments | (1,361) | 3,033 |
| Exchange differences | 1,465 | 169 |
| (Impairment) and gain/(loss) from disposal of financial instruments | (715) | 1,061 |
| Share of net profit /(loss) of associates and joint ventures accounted for using the equity method | 24,513 | 780 |
| Extraordinary operations | 3,485 | - |
| Result from loss of control of a subsidiary | (595,391) | - |
| **Reported EBITDA** | **1,152,332** | **1,060,493** |
| Integration, migration and other expenses (*) | 47,340 | 93,270 |
| Impairment and gain or loss on disposal of fixed assets | (333) | (205,130) |
| **Adjusted EBITDA** | **1,199,339** | **948,633** |

***(*) Integration, migration and other expenses** relates to indemnities, incentive plans, contributions made to the Euskaltel Foundation and expenses for advisory services related to non-recurring projects. For the year ended 31 December 2022, other expenses also included certain costs incurred for advisory services in connection with the Euskaltel acquisition and costs related to the JV project.*

***EBITDA** Earnings before interest, taxes, depreciation and amortisation.*

***Reported EBITDA**: Reported EBITDA is calculated on the basis of EBITDA, adjusted for financial income, the stock option appreciation rights plan, lease interest, other financial expenses, variation in the fair value of financial instruments, exchange differences, impairment and profit /loss on disposals of financial instruments and the results of equity-method companies. The purpose of reported EBITDA is to present the Group's business earnings or losses. Reported EBITDA excludes non-cash variables which may vary significantly depending on the accounting policies applied. Amortisation/ depreciation is a non-monetary variable and therefore of limited interest to investors.*

***Adjusted EBITDA**: Adjusted EBITDA is reported EBITDA less integration and migration costs and profit / loss on fixed asset disposals.*

During the 2022 financial year, the Group maintained the same debt structure as in 2021, as follows:

(i) Euro 2,200 million through a syndicated financing agreement without maintenance covenants (TLB), accruing interest at a rate of Euribor + 4.25% per annum, which was signed on 3 July 2020 by the subsidiary Lorca FinCo Plc.

(ii) Euro 800 million ("Facility B2") of the term loan facility mentioned in point (i) above, accruing interest at a rate of Euribor + 3.75% per annum which was signed on 5 August 2021 by the subsidiary Lorca FinCo Plc.

(iii) Euro 500 million in the form of a revolving credit facility (RCF) accruing interest at a rate of Euribor + 3.5% per annum, the terms of which are associated with the (i) the Net senior debt / EBITDA ratio (based on the definition of EBITDA established in the agreement) and (ii) certain criteria relating to sustainability. This credit facility was signed on 3 July 2020 by the subsidiary Lorca FinCo Plc.

(iv) An additional Euro 250 million revolving credit facility (RCF) (Revolving Facility 2) accruing interest at a rate of Euribor + 3.25% per annum, which was signed on 5 August 2021 by the subsidiary Lorca FinCo Plc. As of 31 December 2022, the Group had available the full amount of this line of credit.

These debts are secured by a package of guarantees, the most important of which is that corresponding to the shares/holdings in the Company's principal subsidiaries and Lorca Telecom BidCo, as well as the shares of Lorca Holdco Ltd. To mitigate the volatility of the interest rate risk the Group has outstanding interest hedging structures (swaps and caps). At the date of issue of these consolidated financial statements, the Group has interest rate hedging instruments with a notional amount of Euro 1,000 million.

(v) Euro 800 million related to issued senior secured bonds with a fixed annual coupon of 4.00%, maturing in September 2027. The bonds were issued by the subsidiary Lorca Telecom BondCo, S.A.U.

(vi) Euro 2,050 million related to a tap of the senior secured bonds of Euro 1,550 million maturing on 30 September 2027 and (ii) senior unsecured bonds amounting to Euro 500 million maturing in September 2027.

**TECHNICAL INFORMATION**

In 2022, the Group continued its plan to optimise networks to support traffic growth resulting from increased usage due to the consolidation of teleworking.

During the year, the footprint of our own FTTH network was increased to 14,769 thousand dwelling units, including the Euskaltel Group's FTTH footprint. This, combined with the footprint arising from wholesale agreements with other operators, represents a global coverage for the Group of 28,056 thousand dwelling units at the year-end. The Group continues positioned itself as a wholesale service provider offering services to third parties in ~1,200 towns representing a footprint of 3,135 thousand dwelling units.

As regards the fixed network, in 2022 work continued on adapting the FTTH network to support XGSPON technology (which will be able to provide customers with up to 10 Gbps symmetrical speeds). It has also been consolidated unique Hardware for GMM and EKT router WIFI 6 getting improvement in cost and logistic process. Additionally, WIFI Mesh has also been launched allowing for coverage extension and improving customer experience.

In relation to mobile networks, thanks to the Group agreement reached with other independent operator for the joint deployment of 5G in the country's main cities from the signing of the agreement to end 2022, a total of 6,107 5G sites were set up within the framework of the pilot tests being carried out for the launch of this technology, of which 2,354 are virtual active sharing mode arrangements. In addition, 3,400 sites have been activated in RaaS (Radio as a Service) mode. This agreement allows the Group to offer 5G technology to its customers and gain clear efficiencies in investment, cost and time to market compared to a mass roll-out of its own. During 2022 Group Euskaltel has gained access to this 5G coverage.

The transmission network activity has undergone continuous evolution in response to business needs. In 2022, we continued to absorb the significant growth in customers by providing the networks with sufficient capacity to carry users with higher traffic profiles, from 5.7 Tbps in 2021 to 6.9 Tbps in 2022, ensure availability through redundant routes and prepare the environment to scale the necessary capacity going forward. As regards developments in 2022, the Group increased the number of transmission lines by 828, implementing the contracts negotiated in previous years.

On the core network side, capacity expansions continued in 2022 to absorb the organic growth of customers from different Group brands (including last acquisitions). By December 2022, more than 3 million customers (Euskaltel Group, Lyca, Lebara) were migrated to use Mobile Group's own network coverage, as well as national and international roaming agreements.

In terms of services, the VoLTE (Voice over LTE) service has been integrated to provide VOICE services to customers with exclusive 4G coverage. More than 1,700,000 Group customers have been migrated to use this VOICE service over 4G coverage.

In the systems area, we have worked on further consolidating the Group's various technology stacks and seeking greater development efficiency and synergies.

Qvantel's migration project to MasStack (RFS Yoigo) was launched at the end of 2021, through which we aim to shut down all the Yoigo branded systems between 2022 and 2023 and integrate the entire customer portfolio into MasStack, our multi-branded systems suite that already serves MASMOVIL, Llamaya and Guuk, among others.

Our B2B capabilities have been strengthened with the addition of the Euskaltel Group thanks to the R-branded systems, which have historically developed good sales capabilities and business-oriented products. Throughout 2022, multiple initiatives and launches has been implemented to strengthen this stack as a point of reference for the Group's B2B business.

The Group remains firmly committed to distinctive quality as the best commercial lever, which explains why in 2022 we reduced again the number of customers who had non-optimal experiences in the network, mobile and landline service areas, as well as an extra focus on TV service, together with business processes and customer service, fell by more than 35%.

Along these lines, various external players continuously attest to the Group's services as market leaders. That is the case, this year again, of the latest independent study on Spain for the second half of 2022 (non-public) by Umlaut, a world leader in the telecommunications network performance monitoring sector, in which the Group is the leading operator in broadband connectivity quality, above all other relevant competitors. The study evaluated download and upload speeds and latencies in both active and passive test modes by hundreds of thousands of real customers.

In terms of home services, this year we have launched a quality plan for TV service, together with our partner Agile. As a result, internal processes have been made more efficient and customer complaints have been reduced a 25%. Regarding fixed installations, we go ahead relaying on the FON (Smart WiFi) agent in most of our CPEs, enabling more efficient monitoring and automatic management of WiFi in the home, which is leading to a reduction in complaints and greater customer satisfaction. For the same purpose, installations of new CPEs (routers) with WiFi6 technology (more than 400.000 in January) are speeding up, as well as the introduction of WiFi Mesh product in 5k customers, as the next step towards the best network at home.

Additionally, during 6 months in the year, we have executed a comprehensive Fix Up program for international roaming, involving 8 teams, with more than 17 people, 6 workstreams on track, with 19 actions deployed. With great results in terms of increased satisfaction, along with a clear reduction of customer calls around 50%.

## FUTURE DEVELOPMENTS

The 2022 financial year has been a year of strengthening the Group's position as the fourth Spanish operator, both at an operational and commercial level, integrating the different businesses and capturing synergies under the umbrella of a single Group that carries out its activity with a multi-brand and multi-service strategy.

On 23 July 2022, the Group and Orange announced an agreement to combine their operations in Spain. The combination of the activities will take the form of a 50-50 joint venture co-controlled by both parties and with equal governance rights. The agreement between the parties includes a right to trigger an Initial Public Offering (IPO) under certain conditions for both parties after a defined period and, in such a scenario, an option for Orange to take control of the combined entity at the IPO price. The transaction is subject to approval from the antitrust authorities and other relevant administrative authorities and is expected to close during the second half of 2023.

The Joint Venture will provide services to more than 7 million fixed broadband customers and more than 20 million mobile customers and will create a sustainable player with the financial capacity and scale to continue investing to foster the future of infrastructure competition in Spain for the benefit of consumers and businesses. The joint venture, which will bring together complementary businesses, will lead to significant efficiency gains, allowing the combined entity to accelerate investments in FTTH (Fiber-to-the-Home) and 5G. The Group resulting of this combination will lead the mobile and FTTH lines in the Spanish market.

If the Group obtain the approval of the antitrust authorities and other relevant administrative authorities, the integration process will be launched. The Group expects to continue with the upward trend achieve in recent years, supported by a consolidated organisation and a multi-brand and multi-product commercial strategy focused on increasing the level of customer satisfaction.

This investment-oriented project will allow the acceleration of the necessary investments at the national level in the network -fiber optics and 5G-, which will benefit the consumer with a greater acceleration in the availability of these new technologies and in the level of customer satisfaction with the services of the MASMOVIL Group.

The addition of MASMOVIL together with Euskaltel has given rise to a Group with more than 11.4 million lines, revenues of approximately Euro 2,550 million, 27 million homes connected to fiber, and more than 1,700 employees, with a strong presence throughout the territory national and capable of facing the necessary investments to continue competing in the Spanish telecommunications market. The new Group will maintain its strong commitment to Euskadi and the territories of Galicia and Asturias, prioritizing investments and maintaining the Euskaltel, R and Telecable brands.

During 2022, the Group has obtain material progress on the the integration process of the Euskaltel Group that began in 2021. In another order of things, the Group plans to maintain its favourable evolution of recent years, supported by an organization consolidated, an efficient combination of own and third-party fixed and mobile network assets and a multi-brand and multi-product commercial strategy focused on increasing the level of satisfaction of our customers.

## FINANCIAL INSTRUMENTS

At 31 December 2022, the Group uses derivative financial instruments to hedge the risks to which its business activities, operations and future cash flows are exposed.

To mitigate the volatility of the interest rate risk the Group has outstanding interest hedging structures (swaps and caps). At the date of issue of these consolidated financial statements, the Group has interest rate hedging instruments with a notional amount of Euro 1,000 million.

## PRINCIPAL RISKS AND UNCERTAINTIES

As a result of the activities carried out by the Group, there are risks inherent to the sector, macroeconomic environment, regulatory framework and operations that must be identified and controlled through the risk management systems established by the Company.

In this regard, the Risk Management and Control Policy approved by the Board of Directors establishes the principles and guidelines aimed at controlling and mitigating the risks identified at any given time. These actions are materialized through a Comprehensive Risk Management system based on the “COSO” model (“Committee of Sponsoring Organizations of the Treadeway Commission”) that covers financial, regulatory, strategic, operational, corporate governance and reputational risks.

The Group’s risk control and management model is based on the continuous review and updating of the Company’s risk map, which has been designed in line with the Group’s strategies. Once the risks have been identified and classified (according to their impact and probability of occurrence), the action plans necessary to mitigate these risks are formalized, also assessing the residual risk and risk tolerance levels.

Risk management is monitored by the Group's Internal Audit Department in accordance with policies approved by the Board of Directors. Risk management is a major issue within the company and is therefore a function that forms part of the Board of Directors' ongoing analysis and review.

### Potential financial risks:

The Group’s activities are exposed to various financial risks: market risk, credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance.

The Finance Department identifies, evaluates and mitigates financial risks in close collaboration with Internal Audit and the Group's operating units. The Board of Directors provides written guidelines for overall risk management and for specific areas such as foreign exchange risk, interest rate risk, liquidity risk and investment of cash surpluses.

### Credit risk

The Group has no significant concentration of credit risk and maintains policies to ensure that sales are made to customers with an appropriate credit history.

The Group has formal procedures in place to identify the impairment of trade receivables. These procedures draw on current default experience for the last 12 months to estimate rates of default on commercial receivables and recognise the expected credit loss at inception. The main components of impairment are individually significant exposures and a collective loss component for groups of assets in respect of losses incurred but not yet identified.

Value adjustments for customer insolvency, the review of individual balances based on customer credit ratings, current market trends and an analysis of past insolvencies on an aggregate level require a high level of judgement. As regards the measurement adjustment arising from the aggregate analysis of historical default, a decrease in the volume of balances gives rise to a reduction in measurement adjustments and vice versa.

**Financial risk**

Financial risk arises through the Company's holdings in financial assets and financial liabilities. The key financial risk is that proceeds from financial assets are insufficient to fund obligations arising from distributions to its shareholders as they fall due. The most important components of financial risk are interest rate risk; market risk; and liquidity risk.

**Interest rate risk**

The Group's interest rate risk arises mainly from loans with institutional investors and some credit institutions. These loans are issued at variable rates and expose the Group to interest rate risk in future cash flows.

A rise in the reference rates, in this case Euribor, could make the cost of financing the Group more expensive and, in this way, withdraw resources from the Group's activity destined for other purposes. The Group's current policy is to maintain a low level of leverage at variable rates.

To mitigate this risk, the Group has contracted hedging instruments.

**Market risk**

Market risk is the risk that changes in market prices, for example in exchange rates and interest rates, affect the Group's income or the value of the financial instruments it holds. The objective of market risk management is to manage and control exposures to this risk within reasonable parameters while optimising profitability.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled through the delivery of cash or other financial assets. The Group's approach to managing liquidity is to ensure, to the greatest extent possible, that it will always have sufficient liquidity to meet its obligations when due, both under normal and stressed conditions, without incurring unacceptable losses or risking the reputation of the Group.

The Group carries out prudent liquidity risk management, based on maintaining sufficient cash and marketable securities, the availability of financing through a sufficient amount of committed credit facilities and sufficient capacity to settle market positions. Given the dynamic nature of the underlying businesses, the Group's Financial Management aims to maintain flexibility in financing through the availability of contracted lines of credit.

**Potential non-financial risks:**

According to the latest version of the Corporate Risk Map presented to the Board of Directors, the main non-financial risks to which the Group is exposed, as well as the main mitigation measures, are summarised below:

- Integration of legacy systems and alignment with the Group's strategic objectives: there are several projects aimed at mitigating this risk: SAP Hana implemented in 2020, including all Group companies (except Euskaltel Group); MASdata project to standardize the Group’s reporting information and improve transparency with a multi-brand data warehouse; and MASstack project to standardize the Group’s legacy systems on multi-brand platforms (CRM, pricing, billing and commissions).
- Risk of security breaches in systems and networks: new information security policies and procedures approved by the Cybersecurity Committee; existence of a cybersecurity master plan; security controls / logical access to critical systems (IAM - Identity Access Management and PAM - Privileged Access Management projects); Unified Cybersecurity Operations Center (CSOC) for all Group companies; Continuous improvement of detection and prevention mechanisms; ISO27001 (extended scope to include telecommunications services) and National Security Scheme at Euskaltel group level.
- Reputational damage and sanctions for non-compliance with privacy/data protection rules (at group level): implementation of the data governance system in 2022: Data Protection Office, Privacy Committee and appointment of Data Champions; External data protection audits performed in 2021 and 2022; training and awareness courses on personal data protection.
- Continuous improvement of the Business Continuity Plan (BCP): ISO 22301 certification for telecommunication services renewed at Euskaltel group level; Group BCP documentation aligned to ISO 22301, considering Risk & Business Impact Analysis (RA & BIA), including 3 new contingency plans: Cybersecurity, loss of Tier1 sites and loss of headquarters (pre-audit performed in December 2022 and certification expected for Q2 2023).
- ESG risks (operational and reputational with stakeholders): S&P ESG Rating of 67/100 reiterated in 2022; Fitch ESG rating project launched; CEO designated as member of the Board responsible for overseeing ESG; Adherence to the U.N. Global Compact; ISO 14001 and 50001 certifications and B-Corp certification obtained; Net Zero CO2 emissions Scope 1&2 achieved since 2020, scope 3 project launched.

Although many of these risks could have a significant impact on the Group’s operations, the probability of occurrence is considered to be adequately addressed by the control mechanisms implemented, as well as the mitigation measures put in place, which has allowed the impact and probability of occurrence to be kept within the tolerance levels approved by the Board of Directors.

## DIRECTORS’ DUTIES – S172 COMPANIES ACT 2006

### Directors’ duties to promote the long-term success of the company

The directors of the company act, behave and carry out their activities to promote the long-term success of the company for the benefit of its shareholders, employees, customers and stakeholders. Directors engage with stakeholders to reflect their insights and views when making decisions on strategy, Group objectives, operational effectiveness, plans and initiatives and committing to deliver social value and social outcomes in the communities the Group operates in.

In this sense, and in order to identify the most relevant issues for the Company and its stakeholders, throughout 2022 the Group, together with an external expert (PwC), carried out an update of the materiality matrix, which includes all the material aspects for the company and its business model, as well as the current context of the telecommunications sector, with the aim of identifying the most significant issues for the company's stakeholders.

This process included the evaluation of different reporting standards, such as the Global Reporting Initiative (GRI) , as well as a sector benchmark and information from reference frameworks for the telecommunications sector, such as CSA (Corporate Sustainability Assessment) and MSCI, in addition to an internal assessment process through interviews with company employees.

As a result of this exercise of reviewing and updating material issues, a total of 22 relevant aspects have been identified, represented through a materiality matrix, and prioritized according to the importance of each of them for the company and its stakeholders. Critical issues are mainly grouped into the areas cybersecurity, risk associated with climate change, ecological impact and reporting of non-financial information.

In this regard, based on the applicable specialized frameworks and best practices, the expectations of the Group’s key stakeholders have been considered in reporting the Group’s strategy and performance. These expectations and/or relevant aspects for stakeholders and the Company itself are set out in the Group’s materiality matrix.

### Stakeholder relations

The Group’s Corporate Social Responsibility Policy approved by the Board of Directors refers to existing relations with the different stakeholders.

The **relationship with shareholders and investors** is based on the principles of loyalty, transparency and the responsible exercise of the rights and fulfilment of the duties of shareholders and bondholders. This relationship should be based on informed participation of shareholders and bondholders, notably through the Company’s General Shareholders’ Meeting and Bondholders’ Meetings. The Group maintains various channels of communication with shareholders and investors: corporate website, General Shareholders’ Meeting, Bondholders’ Meeting and a specific e-mail address, as well as a specific Investor Relations department.

The **relationship with the Group’s employees** is framed within the framework of promoting well-being and a good working environment and fostering their performance within the Group, while encouraging training and equal opportunities. Employees have various internal communication channels, such as intranet, e-mail, newsletters, briefings on financial and non-financial targets and results, mobile applications, and an Ethics

Committee to safeguard their rights and those of the Company, as well as an Ethics Channel to which they can address queries or report irregularities. This channel is completely confidential and has a management procedure linked to the Ethics Committee.

There is a Human Resources Policy approved by the Board of Directors. The objective of the Human Resources Policy is to implement a human resources management model in the Group that allows it to attract, promote and retain talent and foster the personal and professional growth of all the people who belong to its human resources team, as well as to align the interests of the professionals with the strategic objectives of the Group.

This Policy is complemented by the provisions of the Equal Opportunities Policy, also approved by the Board of Directors, which aims to be the backbone of a favourable environment for employees by promoting effective equality among men and women. This policy develops the basic principles of action among which the quality of employment, equality of opportunity and equity and respect for diversity are of note.

In this regard, in 2021, the Board of Directors approved the Talent Diversity Plan, which aims to go beyond the limits of the organization, allowing the Group to become a point of reference in the society, becoming a social agent for the promotion of diversity and integration. The Group is aware that it owes its success to the diversity of people who work in and with it, and to all those customers who have placed their trust in the Group by contracting its services. For this reason, diversity and social innovation have been incorporated as cross-cutting aspects throughout the Group, which is a key element in placing people at the centre and backbone of the organization.

The Group remains committed to proper management of its employees and to ensuring compliance with their fundamental rights, eliminating any kind of discrimination in the workplace through the various internal procedures and the Group’s Code of Ethics, and with its suppliers through mandatory compliance with the Suppliers’ Code of Ethics. At all times, respect for human rights as recognised in national legislation and compliance with international standards is required.

The Group also rejects child labour and forced labour and is committed to respecting freedom of association and collective bargaining, as well as to implementing due diligence procedures for the identification of risks in this area and to verifying these procedures.

The Group is not aware of any inappropriate behaviour or complaints that violate human rights, nor of any cases or complaints related to any type of discrimination.

**Customer relations** are governed by the principles that involve compliance with responsible advertising, customer health and safety, and service quality monitoring. In 2022, customer satisfaction remained a strategic priority for the Group. We understand that a superior customer experience compared to other operators in the market is a sustainable competitive advantage that is at the core of our continued growth in the market.

This year has been marked by the integration of processes, systems and customer practices of the brands incorporated since the acquisition of Euskaltel Group and a renewed effort to improve the Group's pre-existing brands.

The **relationship with suppliers** is fluid, involving them throughout the value chain of the various companies that make up the Group by means of their adherence to the principles set out in the Group's Supplier Code of Ethics. Suppliers have a personalized and confidential ethics mailbox to which they can address any queries or report irregularities.

In September 2022, the Board of Directors approved the modification to the Group's Purchasing Policy, in order to reinforce its commitment to the protection of the environment and public health, the conservation of natural resources, the reduction of the environmental impact of hazardous materials and the reduction of CO2 emissions.

The Procurement Policy aims to establish a global framework for the control and management of risks arising from the procurement of equipment and materials, as well as the contracting of works and services throughout the Group.

As stipulated in the Policy, the Purchasing Department is responsible for maintaining an active relationship with suppliers and ensuring control of the risks associated with them, with the Area requesting a service or product being responsible for monitoring compliance with contractual conditions and service level agreements, where applicable.

In accordance with the aforementioned policy, all suppliers working with the Group must be homologated. This process is managed through an external tool whereby the following documentation is requested: adherence to the Suppliers' Code of Ethics, financial statements for the last two years, certificate of being up to date with Social Security and tax payments, breakdown of staff, environmental certificates, among others.

As part of the homologation process, in addition to the documentation requested, the Purchasing Department carries out a qualitative assessment that in some specific cases includes visits to suppliers' facilities, especially in the case of personnel-intensive suppliers and/or suppliers with a potential environmental impact. In 2022, a total of 301 suppliers have been assessed, of which 152 have been homologated, for meeting all criteria set by the Group and described in its policies and plans, including social and environmental criteria.

**Corporate Governance Statement**

The Group believes that corporate governance is one of the most effective tools to convey confidence to investors, as well as to foster control over the financial and non-financial aspects of the Group, providing an environment of checks and balances necessary to reinforce good business practices and to nurture credibility and stability, and help drive growth and wealth generation.

In this regard, in recent years, the Group has promoted the creation of value through an updated corporate governance system. Therefore, the corporate policies include the Corporate Social Responsibility Policy and the Corporate Governance Policy, approved by the Board of Directors.

The Rules of Procedure of the Board of Directors of the Company establish as non-delegable powers of this body the setting of the general policies and strategies of the Company. All the policies approved by the Board of Directors are published on the Group's intranet, which is accessible to all employees.

In this respect, as established in the Corporate Social Responsibility Policy, the commitments undertaken by the Group are as follows:

- Regulatory compliance.

- Support for the *United Nations Global Compac*t, which the Group joined in 2020.
- Ethical commitment.
- Promotion of free market practices.
- Development of advanced corporate governance practices.
- Promoting channels of communication and dialogue.

The Group has a set of bodies, control mechanisms and internal rules that make up its Corporate Governance System, the purpose of which is, among others, to direct and regulate the Group's organization in a transparent and efficient manner, promoting its common interest and that of its stakeholders, as reflected in its Corporate Governance Policy. This Policy is complemented by the Code of Ethics and the following internal regulations: Regulations applicable to its governing bodies, various Corporate Policies and Protocols and the Compliance Model, as well as a series of policies and procedures for each area, for a better and more orderly management of the business and the different processes.

The Company's governing bodies and their main responsibilities are described below:

- **The General Shareholders' / Bondholders' Meeting** represents all shareholders / bondholders and is the highest decision-making body of the Company.
- **The Board of Directors** is the body in charge of managing and representing the Company, without prejudice to the powers granted to the General Shareholders' / Bondholders' Meeting and is the highest supervisory and controlling body.

Likewise, at Lorca Telecom Bidco, S.A.U. level, the following committees were established (both of them with an independent Chairman):

- The **Audit and Control Committee** is the consultative committee responsible for the Group's internal control, internal audit, and risk management systems, as well as for the relationship with the external auditor. The meetings of the Audit and Compliance Committee are attended, whenever deemed appropriate by its Chairman, by the External Auditor, the Internal Auditor, the Chief Financial Officer, and the Group *Compliance Officer*, as well as by any member of the Group's staff whose activity may be related to the functions performed by the aforementioned Committee.

- The **Appointments and Remuneration Committee** is the consultative committee in charge of appointing or re-electing directors, proposing their remuneration and is involved in the ESG (Environmental, Social and Governance) aspects of the Group. The latter grants this Committee responsibility for issues such as stakeholder relations strategy, review of the corporate social responsibility policy, monitoring of related practices and performance evaluation.

**Conduct and Ethics**

The Group's corporate values are honesty, integrity, and compliance. It therefore maintains a firm commitment to the fight against corruption and bribery, which resulted in the approval by the Board of Directors in 2022, of a new version of the Group's Code of Ethics, originally approved on 22 May 2017, a fundamental rule of the Company and its subsidiaries, which sets out the values and principles that should guide the behaviour of all those who are part of the Group.

Through the Human Resources Area, campaigns have been carried out for adherence to the Code of Ethics, which has been signed by all Group employees, including new recruits, who receive it as part of the welcome pack, and must return a signed copy, which is kept by the Human Resources Area. In addition, the Group carries out various mandatory training courses and awareness activities to promote knowledge and compliance with the rules of conduct set out in the Code of Ethics among its staff.

All employees have at their disposal a confidential ethical channel through which all enquiries received have been assessed and answered. Throughout 2022, there have been no allegations or reports of corruption or bribery in the Group.

The policies and procedures implemented by the Group to fight corruption and bribery, in addition to the aforementioned Code of Ethics, are the Suppliers' Code of Ethics, the Crime, Fraud and Corruption Prevention Policy, the Policy on Acceptance and Delivery of Gifts and Invitations, the Money Laundering Prevention Policy, the Protocol for Action with Public Administrations and Political Parties and the Criminal Risk Prevention Manual, all approved by the Board of Directors.

The Suppliers' Code of Ethics includes a specific section on anti-corruption and anti-bribery requirements in which it is stated that the supplier undertakes to endorse several of the premises stipulated in the Group's Crime, Fraud and Corruption Prevention Policy.

The Group also has several internal rules governing various matters, such as the Conflicts of Interest Policy and the Rules for the treatment of restricted information.

The Group has developed a criminal prevention plan where effective controls have been implemented and potential offences have been detailed, and a crime prevention manual has been drawn up. In this regard, the Compliance Officer reports directly to the Board of Directors, on a regular basis, on the degree of compliance with the internal regulatory compliance function. In this sense, and in compliance with the provisions of the Group's governance rules, the Group's Compliance Officer fosters a culture of compliance, transparency, ethics, and internal control in all areas, with the commitment of senior management, and promotes the effective supervision of the Group's non-financial risks, with an emphasis on the prevention of criminal risks.

In this regard, and in accordance with the provisions of the Regulations of the Board of Directors, the Compliance Officer must inform the Audit and Control Committee in the case of any irregularity of potential transcendence, especially financial and accounting irregularities within the Group.

Likewise, Grupo Euskaltel, acquired in 2021, has implemented a Criminal Risk Management System and an Anti-Bribery Management System, certified by AENOR under the UNE 19601 and ISO 37001 standards, respectively. Both certifications are expected to be extended to the entire Group in Q1 2023, as the external audit has been already completed.

**Mission, vision and values**

The Group's objective is to create value in the long term and in a sustainable manner, ensuring the care and protection of the environment, social development and business ethics based on the principles of transparency and good corporate governance, the leadership of which is promoted by the Board of Directors of the Company.

In 2020, as a sign of its commitment to the environment, social responsibility, and good corporate governance, the Group reviewed and updated its Mission, Vision and Values, including aspects such as the positive impact on society. The Mission and Vision were defined as follows:

- ***Mission:*** *Connecting people with the latest technology available and ensuring the best customer experience.*

- ***Vision:*** *To be the telecommunications company with the highest customer satisfaction rate in Europe and a positive impact on people, our shareholders, and the planet.*

The Values were also updated, including Sustainability, which is a statement of intent on the Group's commitment to making a positive impact. The Group's Values are as follows:

- ***Customer first***
    - *We look after them and ensure they are trouble-free.*
    - *We quickly identify any need to provide them with the best solution.*
    - *We innovate to create tangible, quality benefits for them.*

- ***Positive attitude***
    - *We smile and work with enthusiasm and honesty.*
    - *We dare to do things differently.*
    - *We enjoy working, learn from mistakes and celebrate successes together.*

- ***Simplicity***
    - *We are pragmatic and quick.*
    - *We look for simple solutions.*
    - *We avoid unnecessary bureaucracy.*

- ***Sustainability***
    - *We prioritize long-term value over short-term profits.*
    - *We seek a positive impact on our customers, employees, partners, shareholders and society.*
    - *We care for our surroundings and the environment.*

**Board composition**

The Board is comprised of 12 directors who bring a range of skills and experience. The directors are listed on the first page of the Directors Report. The Board structure comprises a mix of non-executive directors and 2 executive directors (Group's CEO and Managing Director). The directors have a broad range of skills and experience with differential as well as complementary skill sets. The mix of skills is a key feature in determining the Board's effectiveness.

Although the Board is reasonably diverse in terms of knowledge, skills, experience and nationalities, its balance in terms of gender and race can be improved. Currently there are two women represented at the Board. The Board is committed to diversity and is taking steps to improve practices and processes across the Group.

**Remuneration**

The members of the Board of Directors of Lorca JVco Ltd. do not receive any remuneration or allowances as Directors of the company. Furthermore, no severance payments were made to members of the Board of Directors during the financial year

2022, nor are there any provisions for severance payments outstanding at the date of publication of this report.

Following the principles developed in the Equal Opportunities Policy and the Diversity Plan approved by the Board of Directors, the Group understands that equal pay is a fundamental right of its employees. For this reason, the Group strives to ensure that remuneration is equitable for both genders. In addition, other aspects such as seniority and the assumption of greater responsibilities throughout the career are also rewarded.

**Board and Committees of Lorca JVCO during 2022:**

Main actions and outcomes of the Board during 2022 are the following:

(a) On 23 July 2022, the Group and Orange announced an agreement to combine their operations in Spain. The combination of the activities will take the form of a 50-50 joint venture co-controlled by both parties and with equal governance rights. At the date of these consolidated financial statements the transaction is subject to approval from the antitrust authorities and other relevant administrative authorities and is expected to close during the second half of 2023, at the latest.

(b) On 20 July 2022 the Group reached an agreement with a group of investors to sell its 100% share interest in EKT Cable y Telecomunicaciones, S.L. (EKT Cable) to the company Bidasoa BidCo, S.L. (Bidasoa BidCo). The transaction was completed on 27 July 2022 following compliance with the conditions precedent established in the agreement. The Group simultaneously acquired a 49% shareholding in Bidasoa TopCo, S.L. (Bidasoa TopCo), a company which had been wholly owned by the group of investors until that time and which indirectly owned 100% of the share capital of Bidasoa BidCo.

(c) On 1 April 2022 the Group acquired control of Cabonitel, S.A. (Cabonitel) through the acquisition of the remaining ownership interest of 50.01% in its share capital. At the time of this acquisition the Group was already considering the subsequent disposal of Cabonitel, which was formalised on 29 September 2022. At the date of these consolidated financial statements the sale has not been completed since certain regulatory conditions are pending fulfilment.

(d) During 2022, considering the current scenario of rising interest rates and in order to mitigate the volatility of the interest rate risk the Group has appoved interest hedging structures (swaps and caps). At 31 December 2022, the Group has interest rate hedging instruments with a notional amount of Euro 1,000 million.

## EVOLUTION OF THE WORKFORCE

At year-end 2022, the Group's workforce consisted of 1,818 employees, of whom 1,081 are men and 737 are women.

| *Age* | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Women | Men | Total | Women | Men | Total |
| *Below 30 years* | 54 | 85 | 139 | 56 | 102 | 158 |
| *From 30 to 50 years* | 515 | 674 | 1.189 | 529 | 754 | 1283 |
| *Over 50 years* | 168 | 322 | 490 | 141 | 292 | 433 |
| *Total* | **737** | **1,081** | **1,818** | **726** | **1,148** | **1,874** |

The majority of employees are in the 30-50 age range, accounting for 65% of total employees. The percentage of women out of the total workforce has increased to 41% compared to 39% at the end of 2021.

| Professional category | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Women | Men | Total | Women | Men | Total |
| ***Managers*** | 18 | 97 | 115 | 29 | 118 | 147 |
| ***Technical personnel*** | 108 | 310 | 418 | 103 | 314 | 417 |
| ***Admin. personnel*** | 120 | 96 | 216 | 112 | 90 | 202 |
| ***Other personnel*** | 491 | 578 | 1.069 | 482 | 626 | 1,108 |
| ***Total*** | **737** | **1,081** | **1,818** | **726** | **1,148** | **1,874** |

The Group, through its different internal policies and regulations, commits to applying an appropriate talent attraction and selection process, based on the candidate's personal academic and professional merit and the Group's needs.

An equal opportunity policy is always applied, irrespective of race, nationality, gender, age, marital status, sexual orientation, disability and religious or political beliefs.

In addition, within the framework of talent development, numerous initiatives have been deployed within the Group in order to take on the best talent: committed to the company and professional development, engaged, challenged and aligned with the Group's transforming vision.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS

Although the Group's activities have a low direct environmental impact, the Group is aware of the importance and relevance of environmental protection and has established various measures over the last few years to improve its environmental performance. In September 2022, the Board of Directors approved a new version of the Sustainability, Environmental and Energy Management Policy that establishes the basic principles of action to mitigate its effect on climate change and reduce its environmental impact.

It sets out the environmental issues and best practices to be applied in business decisions and processes, as well as compliance with current legislation, which the Group's employees must consider in their actions.

The basic principles covered by the Policy are:

- The inclusion of environmental considerations and best practices in business decisions and processes as an integrated communications operator, as well as compliance with current environmental legislation, the adoption, where possible, of future implementing regulations.
- The performance, prior to the start of any activity or process, of a study to assess its impact on the environment.
- Examination of any significant environmental effects of the Group's various activities.
- The adoption of the necessary measures to prevent and eliminate any pollution or accidental emissions into the natural environment.
- The adoption of the necessary measures to minimize, recover and recycle waste, as far as possible, ensuring appropriate management where no other alternatives exist.
- The adoption of the necessary measures to save on raw materials, including, where possible, their reuse.
- The adoption of the necessary energy and water saving measures.

- Supporting the procurement of environmentally sustainable and energy efficient products and services.
- Supporting design activities that consider energy performance improvement.
- The establishment of programs where objectives and targets are set to continuously improve environmental performance and the interaction of our products, services, offices, technical centres and communications infrastructures with the environmental aspects affected by the activity, as well as their periodic review.
- The prevention of pollution, the reduction of environmental impacts and the efficient use of resources in the deployment, upgrading and maintenance of the communications network, offices and technical centres, as well as in the provision of services.
- The training and environmental awareness of employees, to ensure that their work is carried out with the utmost respect for the environment, also promoting environmental respect among key suppliers.

Appointment of the CEO as ESG director:

The Group is convinced that sustainability is inherent to business activity. In this sense, the Group's objective is to create value in the long term and in a sustainable manner, ensuring the care and protection of the environment, social development and business ethics, based on the principles of transparency and good corporate governance, whose leadership is promoted by the Company's Board of Directors.

For this reason, the MASMOVIL Group considers it necessary for sustainability to be led by the Board of Directors, which is why during the meeting of the Board of Directors last December, it was unanimously decided to appoint Meinrad Spenger, CEO of the Group, as the director responsible for the supervision of all issues related to ESG (Environmental, Social and Governance).

Creation of the ESG (Environmental, Social and Governance) Department:

The Group decided that it was necessary to centralize and coordinate all ESG-related activities within a single line of management in the company.

To this end, as of 2020, full responsibility for ESG-related initiatives was given to the Investor Relations (IR) department team which, led by a General Manager of the company and reporting directly to the CEO, was renamed IR & ESG. Since then, the IR & ESG team has focused on generating value in environmental, social and governance issues.

Responsible management model:

The group develops and transversally deploys a responsible management model, based on the identification of potential sustainability impacts and risks that may arise from our activities and the development and implementation of various commitments, policies, management procedures and mitigation measures, to act accordingly on the identified impacts.

The Group’s responsible management model is based on the implementation of sustainable practices in all our activities, promoting their application throughout our value chain, from our employees and collaborators to our customers.

ESG Strategic Plan:

Throughout the first half of 2022, the Group's ESG Strategic Plan was defined. This plan is committed to creating long-term positive impact, value creation and risk reduction, with an action plan and concrete measures in the short and medium term.

The plan revolves around our Mission, Vision and Values as a group, which are the levers on which we base our long-term ESG strategy.

There are 5 basic pillars on which we base our strategy and which are aligned with the SDGs of the United Nations Global Compact:

1. Connectivity and bridging the digital breach.
2. Environment
3. Community
4. Employees
5. Governance

Around these 5 pillars, the Group defines a series of performance indicators or KPIs, in order to measure and evaluate ESG performance and define the actions to be taken in the short and medium term.

New ESG Policy:

In September 2022, the new ESG Policy came into force, which complements and replaces the previous corporate social responsibility policy. Within the scope of ESG, the aspects related to the environment are framed and detailed within the "Sustainability, Environment and Energy Management Policy".

In this regard, as established in the Group's ESG Policy, the commitments undertaken are as follows:

- Regulatory compliance.
- Support for the United Nations Global Compact, to which the Group adhered in 2020.
- Ethical commitment.
- Promotion of free market practices.
- Development of advanced corporate governance practices.
- Promotion of communication and dialogue channels.
- Contribute to the creation of sustainable value for society, citizens, customers, suppliers, shareholders and communities in which the Company and its Group companies carry out their activities.
- To take into account the social return on the Company's investments, such as the generation of employment and wealth with a long-term vision that seeks a better future, without compromising present results.
- Promote education and culture.
- Protect vulnerable groups.
- Establish strong and permanent ties, taking into consideration the interests of its human team, shareholders and the financial community, regulatory bodies, customers, suppliers, the media, society in general and the environment (the "Stakeholders").

First telecommunications operator in Europe to obtain the "B Corp" certification:

In September 2021, the Group, as part of its strong commitment to generate a positive impact on people and the planet, has become the first major B Corp telecommunications company, among the more than 4,000 international companies that are part of this community. This recognition verifies the company's compliance with the highest standards of social and environmental impact, governance, public transparency and legal responsibility.

To obtain this certification, the Group passed a rigorous verification by B Lab to verify that its social purpose of being the Spanish telecommunications company with the greatest positive impact on society is reflected in all its policies aimed at creating social value for all its stakeholders: employees, suppliers, customers, communities, the environment and shareholders.

The companies that are part of the B Corp community belong to a global movement that encourages businesses to improve the world, transform the economy and contribute to redefining the meaning of business success, based 100% on the well-being of people, communities and the planet. Thus, B Corp reviews, evaluates and certifies the company's social and environmental performance and how its business model positively impacts its employees, the communities it serves and the environment.

The Group leads in customer satisfaction indexes, the quality of its network connectivity, being the fastest in Spain, and efficient business management, which has also been an important asset for the achievement of this certificate.

As a company belonging to the B Corp movement, the Group has made a legal commitment, through a change in its bylaws, to consider the impact of its decisions on all its stakeholders. This commitment helps to protect its mission in business operations and provides the Group with more value in evaluating the investments the Company makes.

The Group has worked for just over a year to complete the certification process in record time. This period has served to detail in depth its performance with the environment, customers, suppliers, employees and governance and to implement improvements and future strategies to exceed the high standards required by B Lab, the organization that promotes the B Corp movement worldwide.

Environmental management:

Given its commitment and concern for ensuring respect for the environment, and in its desire to achieve a more sustainable working environment, the Group continues to disseminate environmental awareness messages, both externally, through its networks and corporate website, and internally, using its intranet and internal communications.

As mentioned in the previous section, the Group obtained the “ISO14001”” certification for environmental management, which highlights the environmental measures that have been implemented in recent years.

Finally, in its Consolidated Financial Statements for 2022, the Group has not recognised any specific environmental provisions in addition to the provision for site decommissioning, which includes the estimated cost of decommissioning, removal, or rehabilitation of telecommunications infrastructure, which are recognised as an increase in the cost of the tangible fixed assets to which they relate. Likewise, as the Environmental Liability Law does not apply to its activity, the Group has not established environmental guarantees derived from this legislation.

Fight against climate change and efficient use of resources:

Although the Group's activities have a low environmental impact, it is essential to manage and reduce this impact, for which we have defined an environmental strategy based on three main lines of action:

- Responsible use of natural resources: we measure and define targets for improving our consumption. We prioritize the use of recycled materials at all times and encourage their use among our stakeholders. We have a paperless office that favours the reduction of paper use and green printers with identification request to reduce the impact of unnecessary copies or the elimination of bins and wastebaskets.
- Circularity and management of electronic waste: both the waste from the facilities and from network operations is managed through authorized waste managers. The commitment to the circular economy is complemented by the application of strict policies for the reuse of customer equipment, having achieved a reuse rate of over 90% for decommissioned customer equipment.

  In this respect, the ratio of installed equipment coming from refurbished equipment during the year has risen from 37% in 2020 to 45% in 2022, thanks to the Group's re-use programme.

- Promotion of environmental certifications and initiatives: in addition to having a Sustainability model and an environmental and energy management system, it is important that this is endorsed by independent third parties, thus, it has certifications with ISO 14001 Environmental Management and ISO 50001 Energy Management standards, Carbon Disclosure Project Rating (CDP), Global Compact Progress Report and B Corp certification. This commitment also extends to the supply chain, requiring similar certifications or commitments from our suppliers.

The Group is aware of the importance and relevance of environmental protection, so environmental management and the fight against climate change are a key pillar in the transformation towards a responsible business model. Our objective is to align our business model with our environmental commitments and goals, so carbon neutrality and emissions reduction are a priority to achieve a responsible management of the environmental impacts that our activity may produce.

The Group's commitment to the environment involves controlling the impacts of its activities. Therefore, the aim is to improve the energy efficiency of its facilities in order to minimize $CO_2$ emissions. All the electricity consumption of the Group in 2022 is sourced from renewable energies with a certificate of origin.

The Group, in the course of its business, does not generate a significant negative impact in terms of greenhouse gas emissions, and therefore this is not considered a material aspect for the Group. In fact, since year 2020 the Group achieved Zero Net $CO_2$ Emissions, being the first European telecommunications operator to achieve it, which was achieved again in 2021 (after the integration of Grupo Euskaltel) and 2022.

Approved by the Board and signed on its behalf by:
Meinrad Spenger
Director
Date: 24 March 2023

## DIRECTOR'S REPORT

The directors present their annual report on the affairs of Lorca JVCO Limited (the "Company"), together with the audited financial statements, for the year ended 31 December 2022.

### PRINCIPAL ACTIVITIES

The Company is a holding company formed as part of a group operating in the Telecoms industry in Spain.

### DIRECTORS

The Directors of the Company who served during the period and up to the date of signing were:

- Stefano Bosio (Appointed on 21 September 2020)
- Ignacio Cobo Bachiller (Appointed on 4 March 2020)
- Josep Maria Echarri Torres (Appointed on 24 September 2020)
- Jose German Lopez (Appointed on 28 December 2020)
- Jorge Quemada Saenz-Badillos (Appointed on 21 September 2020 – Termination of appointment on 8 July 2022)
- Thomas Railhac (Appointed on 4 March 2020)
- Jean-Pierre Saad (Appointed on 4 March 2020)
- Meinrad Spenger (Appointed on 28 December 2020)
- Robert Sudo (Appointed on 21 September 2020)
- Begoña Araujo-Perez (Appointed on 12 March 2021)
- Cristina Serna García-Conde (Appointed on 12 March 2021 – Termination of appointment on 17 November 2022)
- Anthony Frank Elliot Ball (Appointed on 10 June 2021)
- Miguel Juan Segura Martin (Appointed on 8 July 2022)
- Alicia Guindulain Lebrero (Appointed on 17 November 2022)

### POLITICAL DONATIONS AND CHARITABLE CONTRIBUTIONS

The Group made no political and charitable donations during the year.

### DIVIDENDS PAID AND DECLARED

During the year under review, no dividend was paid or proposed.

### EVENTS AFTER THE BALANCE SHEET DATE

Events after the balance sheet date can be found in note 29.

### GOING CONCERN

The directors, after carrying out necessary enquiries, believe that the Group has adequate sources of funding to meet any future investments and to pay its expenses, and is well placed to manage its business risk successfully.

As a consequence of the above, the directors have a reasonable expectation that the Group has adequate resources and procedures in place to manage its business risks and continue in existence for the foreseeable future. Accordingly, the Group has adopted the going concern basis in the preparation of the financial statements.

See Note 2(d) Basis of preparation for further information on how the Directors reached this conclusion.

**FINANCIAL INSTRUMENTS**

The financial risk management objectives and policies for the Group can be found within the Strategic Report.

**THE GROUP'S RESEARCH AND DEVELOPMENT ACTIVITIES**

From the outset, the Group has been strongly committed to R&D activities as a lever for technological capacity-building and as a means of differentiating itself from other telecommunication operators. The Group's R&D strategy is supported by programmes and tools that enable these activities to be subsidised and financed in order to increase the scope and chances of success of its R&D&I initiatives and to benefit from tax deductions linked to its R&D activity.

Concerning calls for public grants on a national level, in 2022 the Group continued its participation, as one of the main cooperating partners, in the implementation of two projects awarded in calls aimed at promoting the development of 5G technology pilot projects within the framework of the National 5G Plan and the National Plan for Smart Territories implemented by Red.es, a public agency attached to the Ministry of Economic Affairs and Digital Transformation.

The Group has worked intensively on the deployment of its own fiber network to offer high and very high-speed broadband services in areas that currently do not have coverage. The purpose of these projects is to improve the functionality and quality of digital services and thus improve well-being and quality of life while the Group's own network infrastructure grows. In 2022, the Group went ahead with 17 deployment projects approved under the Next Generation Broadband Extension Scheme ("PEBA") for grant award in 2018 and 2019.

**DIRECTORS' THIRD PARTY AND PENSION SCHEME INDEMNITY PROVISIONS**

The Company has granted the directors with qualifying third-party indemnity provisions within the meaning given to the term by section 234 and 235 of the Companies Act 2006. This is in respect of liabilities to which they may become liable in their capacity as director of the company. Such indemnities were in force throughout the financial year and will remain in force at the date of this report

**TREASURY POLICIES**

The objectives of the Company are to manage the Company's financial risk, secure cost-effective funding for the Company's operations, and to minimise the adverse effects of fluctuations in the financial markets on the company's financial assets and liabilities, on reported profitability and on the cash flows of the Company.

The Company finances its activities with a combination of intercompany loan arrangements and shareholders' equity. Other financial assets and liabilities such as trade debtors and trade creditors, arise directly from the Company's operating activities.

**Derivatives and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)

- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The full fair value of hedging derivatives is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

## DOMICILE AND LEGAL FORM

The company is limited by shares and registered in England and Wales. The Company is UK tax resident.

## INDEPENDENT AUDITORS

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

## DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each Director has taken all the steps that he/she ought to have taken as a Directors to make him/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Approved by the Board and signed on its behalf by:

Meinrad Spenger
Director
Date: 24 March 2023

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the situation of the group and parent company and of the group's profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LORCA JVCO LIMITED

### Opinion

We have audited the financial statements of Lorca JVCo Limited ("the Company") for the year ended 31 December 2022 which comprise the consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, and related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

- we have not identified and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

**Fraud and breaches of laws and regulations – ability to detect**

*Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of component auditors and directors and inspection of policy documentation as to the Company's high- level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management.
- Using analytical procedures to identify any unusual or unexpected relationship.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue includes a large number of low-value transactions, none of the revenue streams are complex, there is limited judgement in revenue recognition.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included entries posted with an unexpected corresponding entry to revenue and cash.

*Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards) and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non- compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law and certain aspects of company legislation recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

*Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

**Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**Matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**Directors' responsibilities**

As explained more fully in their statement set out on page 27, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Gemma Hancock (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*
15 Canada Square,
London
E14 5GL

Date: 24 March 2023

## Consolidated statement of profit or loss for the year ended 31 December 2022

| *Thousand Euro* | NOTE | 31/12/2022 | 31/12/2021 |
|---|---|---|---|
| Revenue | **22 a)** | 2,894,216 | 2,465,019 |
| Other operating income | **22 e)** | 249,436 | 83,679 |
| Supplies | **22 b)** | (1,185,817) | (958,326) |
| Employee benefits expenses | **22 c)** | (131,395) | (109,195) |
| Depreciation and amortisation expenses | **5, 6 and 7** | (930,199) | (680,878) |
| (Impairment) and gain/(loss) from disposals of assets | **5, 6 and 22 f)** | 333 | 205,130 |
| Other operating expenses | **22 d)** | (674,441) | (625,814) |
| Result from loss of control of a subsidiary | **11 and 27 b)** | 595,391 | - |
| **Operating income** | | **817,524** | **379,615** |
| Finance income | **18 f)** | 2,058 | 5,796 |
| Finance expenses | **18 f)** | (374,338) | (252,835) |
| Change in fair value of financial instruments | | 1,361 | (3,033) |
| Exchange differences | | (1,465) | (169) |
| (Impairment) and gain/(loss) from disposal of financial instruments | | 715 | (1,061) |
| **Net finance expense** | | **(371,669)** | **(251,302)** |
| Share of net loss of associates and joint ventures accounted for using the equity method | **11** | (24,513) | (780) |
| **Income before income tax** | | **421,342** | **127,533** |
| Income tax credit | **21 a)** | 25,720 | 61,667 |
| **Profit for the year from continuing operations** | | **447,062** | **189,200** |
| Loss for discontinued operations after tax | **27 a)** | (3,485) | - |
| **Profit for the year** | | **443,577** | **189,200** |
| **Profit/(loss) for the year attributable to:** | | | |
| Equity holders of the Parent Company | | 443,744 | 188,866 |
| Non-controlling interests | | (167) | 334 |
| **Profit for the year** | | **443,577** | **189,200** |

The explanatory notes form an integral part of the consolidated financial statements.

## Consolidated statement of comprehensive income for the year ended 31 December 2022

| | NOTE | 31/12/2022 | 31/12/2021 |
|---|---|---|---|
| **Profit/(loss) for the year** | | **443,577** | **189,200** |
| *Items that may be reclassified to profit or loss* | | | |
| Gains on cash flow hedges | **18 e)** | 10,097 | - |
| Hedging gains reclassified to profit or loss | | 81 | - |
| Income tax relating to these items | **21** | (2,545) | - |
| Net gains on cash flow hedges - associates | **18 e)** | 13,453 | - |
| **Other comprehensive income for the year, net of tax** | | **21,086** | - |
| **Total comprehensive income for the year** | | **464,663** | **189,200** |
| **Total comprehensive income for the year is attributable to:** | | | |
| Equity holders of the Parent Company | | 464,830 | 188,866 |
| Non-controlling interests | | (167) | 334 |
| | | **464,663** | **189,200** |
| **Total comprehensive income for the year attributable to owners of Lorca JVCO Limited arises from:** | | | |
| Continuing operations | | 468,315 | 188,866 |
| Discontinued operations | **27** | (3,485) | - |
| | | **464,830** | **188,866** |

The explanatory notes form an integral part of the consolidated financial statements.

## Consolidated statement of financial position as of 31 December 2022

| *Thousand Euro* | NOTE | 31/12/2022 | 31/12/2021 |
|---|---|---|---|
| **Assets** | | | |
| Goodwill | 5 | 4,470,529 | 4,466,008 |
| Intangible assets | 5 | 3,151,323 | 3,518,685 |
| Property, plant and equipment | 6 | 1,949,456 | 1,995,628 |
| Rights of use | 7 | 216,017 | 228,454 |
| Costs of obtaining contracts with customers | 8 | 189,560 | 133,145 |
| Contract assets | 8 | 47,593 | 44,961 |
| Investments accounted for using the equity method | 11 | 147,096 | 61,753 |
| Derivative financial instruments | 18 (e) | 24,701 | - |
| Other investments | 10 | 35,354 | 14,014 |
| Prepayments for non-current assets | | 84,512 | 54,949 |
| Deferred tax assets | 21 | 122,669 | 94,814 |
| **Total non-current assets** | | **10,438,810** | **10,612,411** |
| Inventories | 9 | 14,411 | 33,038 |
| Trade and other receivables | 12 | 400,216 | 422,103 |
| Costs of obtaining contracts with customers | 8 | 157,388 | 88,545 |
| Contract assets | 8 | 111,173 | 99,609 |
| Current tax assets | | 6,541 | 14,944 |
| Derivative financial instruments | 18 (e) | 2,013 | - |
| Other investments | 10 | 30,624 | 70,504 |
| Prepayments for current assets | | 32,306 | 22,492 |
| Cash and cash equivalents | 18 (b) | 26,973 | 152,495 |
| Assets classified as held for sale | 27 | 215,856 | 21,581 |
| **Total current assets** | | **997,501** | **925,311** |
| **Total assets** | | **11,436,311** | **11,537,722** |
| **Equity** | | | |
| Share capital | 13 | 20,512 | 20,512 |
| Share premium | 13 | 2,030,662 | 2,030,662 |
| Retained earnings | 13 | 554,333 | 87,816 |
| Other reserves | 13 | 21,086 | - |
| **Equity attributable to equity holders of the Parent** | | **2,626,593** | **2,138,990** |
| Non-controlling interests | | (206) | (622) |
| **Total equity** | | **2,626,387** | **2,138,368** |
| **Liabilities** | | | |
| Loans and borrowings | 14 | 3,098,824 | 3,576,371 |
| Derivative financial instruments | 18 (e) | - | 836 |
| Other payables | 14 | 172,102 | 211,089 |
| Lease liabilities | 14 | 176,641 | 188,193 |
| Other financial liabilities | 14 | 2,804,394 | 2,875,888 |
| Provisions | 15 | 80,191 | 128,670 |
| Trade and other payables | 17 | 66,046 | 55,563 |
| Government grants | 16 | 7,904 | 5,483 |
| Deferred tax liabilities | 21 | - | 34,243 |
| Other non-current liabilities | 20 | 225,992 | 217,502 |
| **Total non-current liabilities** | | **6,632,094** | **7,293,838** |
| Liabilities related to non-current assets held for sale | 27 | 143,857 | - |
| Loans and borrowings | 14 | 100,370 | 16,337 |
| Current income tax liabilities | | 14,612 | 10,490 |
| Other payables | 14 | 295,764 | 367,875 |
| Lease liabilities | 14 | 45,678 | 46,360 |
| Other financial liabilities | 14 | 316,986 | 415,412 |
| Trade and other payables | 17 | 1,210,446 | 1,193,854 |
| Provisions | 15 | 50,117 | 55,188 |
| **Total current liabilities** | | **2,177,830** | **2,105,516** |
| **Total liabilities** | | **8,809,924** | **9,399,354** |
| **Total equity and liabilities** | | **11,436,311** | **11,537,722** |

The consolidated financial statements on pages 32 to 131 were authorised for issue by the Board of Directors on 24 March 2023 and were signed on its behalf.

**Meinrad Spenger** — **Director**

**David Pérez Renovales** — **Finance Director**

**LORCA JVCO LIMITED** registered number 12497729

The explanatory notes form an integral part of the consolidated financial statements.

## Consolidated statement of changes in equity for the year ended 31 December 2022

| *Thousand Euro* | Equity attributable to equity holders of the Parent Company | | | | | Non-controlling interests | **Total** |
|---|---|---|---|---|---|---|---|
| | Capital | Share premium | Retained earnings | Other reserves | **Total equity** | | |
| **Balance a 1 January 2021** | **18,500** | **1,831,538** | **(65,469)** | **-** | **1,784,569** | **2,666** | **1,787,235** |
| Profit for the year | - | - | 188,866 | - | **188,866** | 334 | **189,200** |
| **Total comprehensive income for the year** | **-** | **-** | **188,866** | **-** | **188,866** | **334** | **189,200** |
| Capital increase (note 13) | 2,012 | 199,124 | - | - | **201,136** | **-** | **201,136** |
| Non-controlling interest transactions | - | - | (35,378) | - | **(35,378)** | (3,622) | **(39,000)** |
| Other movements | - | - | (203) | - | **(203)** | - | **(203)** |
| **Balance at 31 December 2021** | **20,512** | **2,030,662** | **87,816** | **-** | **2,138,990** | **(622)** | **2,138,368** |
| | | | | | | | |
| **Balance a 1 January 2022** | **20,512** | **2,030,662** | **87,816** | **-** | **2,138,990** | **(622)** | **2,138,368** |
| Profit for the year | - | - | 443,744 | - | **443,744** | (167) | **443,577** |
| Other comprehensive income (note 18 (e)) | - | - | - | 21,086 | **21,086** | - | **21,086** |
| **Total comprehensive income for the year** | **-** | **-** | **443,744** | **21,086** | **464,830** | **(167)** | **464,663** |
| Non-controlling interest transactions (note 13 (b) and (d)) | - | - | 23,257 | - | **23,257** | 583 | **23,840** |
| Other movements | - | - | (484) | - | **(484)** | - | **(484)** |
| **Balance at 31 December 2022** | **20,512** | **2,030,662** | **554,333** | **21,086** | **2,626,593** | **(206)** | **2,626,387** |

The explanatory notes form an integral part of the consolidated financial statements.

## Consolidated statement of cash flows for year ended 31 December 2022

| *Thousand Euro* | NOTE | 31/12/2022 | 31/12/2021 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit for the year from continuing operations | | 447,062 | 189,200 |
| Loss for the year from discontinued operations | | (3,485) | - |
| **Profit /(loss) for the year** | | **443,577** | **189,200** |
| Adjustments for: | | | |
| Depreciation and amortisation expenses | 5; 6 y 7 | 930,199 | 680,878 |
| Impairment losses from trade receivables | 12 | 56,899 | 45,382 |
| Exchange differences | | 1,465 | 169 |
| Change in fair value of financial instruments | 10 | (1,361) | 3,033 |
| Change in provisions | 15 | 6,543 | 1,636 |
| Government grants recognised | 16 | (765) | (1,305) |
| Release to profit or loss of costs of obtaining contracts with customers | 8 | 147,028 | 47,410 |
| Transfer to profit or loss of contract assets | 9 | 159,564 | 126,905 |
| Impairment and Gain on disposal of non-current assets | 22 f) | (333) | (225,432) |
| Impairment and result from disposals of financial instruments | 11 | (596,106) | 20,302 |
| Finance income | 18 f) | (2,058) | (5,796) |
| Finance expenses | 18 f) | 374,338 | 252,835 |
| Share of net loss of associates and joint ventures accounted for using the equity method | | 24,513 | 780 |
| Other income and expenses | | 10,312 | 43,295 |
| Income tax credit | 21 a) | (25,720) | (61,667) |
| **Changes in working capital** | | | |
| - Assets classified as held for sale | 27 | (50,418) | (14,839) |
| - Inventories | | 18,627 | (18,742) |
| - Trade and other receivables | 12 | (35,013) | (94,156) |
| - Cost of obtaining contracts with customers | 8 | (272,286) | (222,081) |
| - Contract assets | 9 | (173,760) | (164,738) |
| - Other assets | | (35,928) | (62,058) |
| - Trade and other payables | 17 | (22,170) | 87,668 |
| - Provisions | 15 | (60,093) | (45,638) |
| **Cash flow from operating activities** | | **897,054** | **583,041** |
| Interest paid | 26 | (301,503) | (159,746) |
| Income tax received/paid | | (29,746) | (48,542) |
| **Net cash flow from operating activities** | | **565,805** | **374,753** |
| **Cash flow from investing activities** | | | |
| Proceeds from sale of intangible assets | | 31,863 | 14,368 |
| Proceeds from sale of financial assets | | 25,911 | 600 |
| Proceeds from sale of property, plant and equipment | 6 | 64,918 | 313,006 |
| Proceeds from disposal of subsidiaries | | 579,250 | - |
| Payments for acquisition of financial assets | | (4,484) | - |
| Payments for acquisition of property, plant and equipment | 6 | (469,543) | (292,678) |
| Payments for acquisition of intangible assets | 5 | (196,123) | (357,575) |
| Acquisition of subsidiaries, net of cash and cash equivalents | 4 | (87,614) | (1,937,676) |
| **Net cash flow used in investing activities** | | **(55,822)** | **(2,259,955)** |
| **Cash flow from financing activities** | | | |
| Proceeds from issue of share capital | 13 | - | 1,136 |
| Proceeds from bank borrowings | 26 | 1,611,937 | 3,933,449 |
| Proceeds from government grants | 16 | 3,186 | - |
| Proceeds from other financial liabilities | 26 | - | 2,558,283 |
| Payments for lease liabilities including interest | 26 | (59,875) | (44,091) |
| Payments for bank borrowings | 26 | (2,004,100) | (3,979,764) |
| Payment for other financial liabilities | 26 | (186,653) | (512,701) |
| **Net cash flow from financing activities** | | **(635,505)** | **1,956,312** |
| **Net increase in cash and cash equivalents** | | **(125,522)** | **71,110** |
| Cash and cash equivalents at the beginning of the period | 18 b) | 152,495 | 81,385 |
| **Cash and cash equivalents at 31 December** | | **26,973** | **152,495** |

The explanatory notes form an integral part of the consolidated financial statements.

## Notes to the consolidated financial statements for the year ended 31 December 2022

### 1. Nature, activities and formation of the Group

Lorca JVCo Limited (hereinafter, the Company, the Parent Company or Lorca JVCo) is a private company limited by shares that was incorporated and domiciled on 4 March 2020 in England and Wales (United Kingdom) under the Companies Act 2006. The address of the registered offices is 1 Bartholomew Lane, London, EC2N 2AX.

The Company is the parent company of a Group formed by the subsidiaries and associates (hereinafter, Lorca JVCo Group or the Group) detailed in Appendix I, which forms an integral part of this note. The main shareholder of the Company is Lorca Aggregator Limited, which is also the ultimate parent of the Group, an entity domiciled in Jersey. The Company is ultimately owned mostly by funds and investment vehicles managed or advised by PEP VII-A International Ltd and PEP VIII International Ltd (Providence), Cinven Capital Management (VII) General Partner Limited (Cinven), and Kohlberg Kravis Roberts & Co. L.P. (KKR).

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group consolidated financial statements.

Judgments made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates that may have a significant risk of material adjustment in the next period are discussed in note 2 f).

**Formation of the Group**

On 22 September 2020 a public offering was completed through which Lorca Telecom BidCo, S.A.U. (Lorca Telecom BidCo), a wholly owned subsidiary of the Company, acquired a controlling interest in the share capital of MásMóvil Ibercom, S.A., Parent Company of the MásMóvil Group.

MásMóvil Group is the fourth largest telecommunications operator in Spain and engages in fixed and mobile telephony, and internet services for residential, corporate and operator customers through its main brands: Yoigo, MASMOVIL, Pepephone, Llamaya, Lebara, Lycamobile and Hits Mobile.

On 10 August 2021, the Group, through a voluntary tender offer performed by its subsidiary Kaixo Telecom, S.A.U. (Kaixo Telecom), acquired 97.67% of the shares of Euskaltel, S.A. (Euskaltel), followed by the acquisition squeeze-out, which was settled on 31 August 2021. Following the completion of the acquisition squeeze-out, Euskaltel became an indirect wholly owned subsidiary of Lorca JVCo. The companies that, along with Euskaltel, comprise the Euskaltel Group, and the percentage of ownership of the Euskaltel in each (direct and/or indirect) are as follows: R Cable y Telecable Telecomunicaciones, S.A.U. (100%) and EKT Cable y Telecomunicaciones, S.L.U. (100%).

Euskaltel Group principal activity is the rendering, management, installation, operation and marketing and sale of telecommunications networks and services in accordance with prevailing legislation, as well as the marketing and sale of goods required to carry out these services. Euskaltel's main facilities are located at the Bizkaia Technology Park. Following on from its strategy to expand into neighbouring regions (Navarra, La Rioja, León, Cantabria and Cataluña), in May 2020 the Euskaltel Group launched its national expansion plan via the Virgin telco brand.

On 23 July 2022, the Group and Orange announced an agreement to combine their operations in Spain.

The combination of the activities will take the form of a 50-50 joint venture co-controlled by both parties and with equal governance rights. The agreement between the parties includes a right to trigger an Initial Public Offering (IPO) under certain conditions for both parties after a defined period and, in such a scenario, an option for Orange to take control of the combined entity at the IPO price.

The joint venture, which will bring together complementary businesses, will lead to significant efficiency gains, allowing the combined entity to accelerate investments in FTTH (Fiber-to-the-Home) and 5G.

The transaction is supported by a non-recourse debt package of Euro 6,600 million that will finance, among other things, a payment of Euro 5,850 million euros up-streamed to the Orange and the Group shareholders.

The transaction is subject to approval from the antitrust authorities and other relevant administrative authorities and is expected to close during the second half of 2023.

## 2. Basis of preparation

The Group financial statements consolidate those of the Company and its subsidiaries and equity account the Group's interest in associates and joint ventures. The Parent Company financial statements present information about the Company as a separate entity and not about its group. The Group financial statements have been prepared and approved by the directors in accordance with UK-adopted International Accounting Standards ("UK-Adopted IFRS"). The Company has elected to prepare its parent company financial statements in accordance with FRS 101. These are presented on pages 132 to 145.

### a) Group structure

The following transactions have occurred during 2022:

Acquisition of 100% of the share capital of Solucions Valencianes I Noves Tecnologies S.L. (SVINT). Further information about this acquisition is included in note 4.1 a).

On 1 April 2022 the Group acquired control of Cabonitel, S.A. (Cabonitel) through the acquisition of the remaining ownership interest of 50.01% in its share capital for an amount of Euro 46.6 million. At the time of this acquisition the Group was already considering the subsequent disposal of Cabonitel, which was formalised on 29 September 2022. At 31 December 2022, the sale has not been completed since certain regulatory conditions are pending fulfillment. Hence, the Group has classified the assets and liabilities of Cabonitel within "non-current assets held for sale" and the results from its activities as "discontinued operations" (see notes 4.1 b), 11 and 27).

On 20 July 2022 the Group reached an agreement with the company Bidasoa Aggregator, S.L. (Bidasoa Aggregator), in which a related party of the Group has a significant influence (see note 23) to sell its 100% share interest in EKT Cable y Telecomunicaciones, S.L. (EKT Cable) to the company Bidasoa BidCo, S.L. (Bidasoa BidCo). The transaction was completed on 27 July 2022 following compliance with the conditions precedent established in the agreement. The Group simultaneously acquired a 49% shareholding in Bidasoa TopCo, S.L. (Bidasoa TopCo), a company which had been wholly owned by Bidasoa Aggregator until that time and which indirectly owned 100% of the share capital of Bidasoa BidCo. The Group has concluded that it has significant influence over Bidasoa TopCo (see note 11).

On 25 October 2022 the Group has acquired the remaining non-controlling interest (45,73%) in Energía Colectiva, S.L. (see note 4.2 a)).

The Group carried out the following acquisitions in 2021 which were fully consolidated as from the acquisition date:

- Euskatel Group: Further information about this acquisition is included in note 4.2.b).
- Energía Colectiva, S.L.: Please refer to 4.2.a).

During 2021 the Group increased its shareholding by an additional 50% interest in certain subsidiaries of the Ahímas Group:

- Ahimas Comunitelia, S.L.
- E-Conectia Uniasser, S.L.
- Schedia Ingeniería, S.L.
- Astronetz Poniente, S.L.
- Ahimas Next Almería, S.L.
- Rebeloak, S.L.

At the time of acquisition of these subsidiaries of the Ahímas Group, no non-controlling interest were recognised since the Group considered the existing purchase options over the non-controlling interests to be substantive at the acquisition date. As a result of the acquisitions during 2021, the liabilities recorded in connection with those purchase options have been derecognised.

At 31 December 2020 the Group held a 50% share in Innovaciones Tecnológicas del Sur, S.L. ("Innovasur") through its subsidiary Spotting Brands Technologies, S.L., but the underlying non-controlling interest was accounted as an anticipated acquisition and was fully consolidated recognising a derivative purchase option as a financial liability. As a consequence of a purchase-sale agreement to acquire FTTH network signed with Innovasur during 2021, said purchase option was cancelled in June 2021 and the Group began to consolidate its 50% share through the equity method.

As of 31 December 2021, the Group considered the companies SPF Franquicia Tarifa S.L. and Ahí+ Sur S.L. (subsidiaries of the Ahímas Group) in which it owned 50% of the voting rights to be subsidiaries (see note 3 a) (ii)), on the understanding that it controlled them given the cross put and call options between these companies and Spotting Brand Technologies, S.L., a subsidiary of Xfera Móviles, S.A.U.

At 31 December 2020 the Group held the 70% of the existing issued shares of Guuk Telecom, S.A. (hereinafter Guuk Telecom). On 1 February 2021 the company approved a capital increase of Euro 1,600 thousand diluting the Group's share to 60%. On 28 October 2021, the Group acquired the 40% of non-controlling interest of Guuk Telecom for Euro 8,775 thousand. The Group recognised a decrease in non-controlling interests of Euro 2,740 thousand and a decrease in equity attributable to other shareholders of Euro 4,434 thousand. At 31 December 2021 the Group held 100% of the share capital of the company.

On 16 June 2021, the Group, through its subsidiary Xfera Móviles, S.A.U. (Xfera) and together with others minority shareholders, incorporated Comlocal, S.L. (Comlocal). The activities of this company comprise the acquisition, integration and management of operators or companies dedicated to the commercialization of telecommunications services aimed at residential customers. At 31 December 2022 the Group held a 100% interest in Comlocal (a 89.98% interest at 31 December 2021).

### b) Historical cost convention

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

- Certain financial instruments (see note 3 (h));
- Certain assets and liabilities related to the business combinations (see note 4).

### c) Comparative information

These consolidated financial statements present, for the purposes of comparison, the consolidated figures on the consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and the notes to the consolidated financial statements, in addition to the consolidated figures relating to 2022, those for the preceding period.

In addition, the acquisitions of the Euskaltel Group on 10 August 2021 and of Energía Colectiva, S.L. on 8 February 2021 should be considered for comparative purposes when reading the consolidated statement of profit or loss and the consolidated statement of cash flows.

### d) Going concern

The Directors of the Company have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of the approval of these consolidated financial statements. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

This is based on the predictable nature of the Group’s cash flows in the short and medium term given the predominantly subscription-based revenue model and the ability of the Group to secure very long-term contracts for its most significant industrial costs, mainly national roaming and transmission agreements.

This is reinforced by the fact that the Group operates in a sector which has proven resilient even in the most recent crisis – access to data and voice is indeed critical for both business and personal activities, in all scenarios. This has been reflected in the Group's performance since the outbreak of the COVID-19 pandemic or the war in Ukraine, which has had no significant impact on the Group achieving its objectives.

The Directors have prepared forecasts until the end of March 2024 considering the current financial position of the Group (see note 14). These forecasts include a severe but plausible downside scenarios analysis to test the robustness of its cash flow and liquidity in case of adverse events, including extreme ones, with no further funding through notes programme in the Alternative Fixed Income Market (MARF) as well as through notes programme in the ECP program (Euro-Commercial Paper Programme) registered in Euronext Dublin (see note 14 (d)).

The results of these tests confirm the resilience of the Group in tested scenarios. Additionally, the Group has shown the ability to adjust promptly a significant part of its operating expenses and capital expenditures in case of unexpected headwind. These forecasts demonstrate that the Group’s current financial structure will enable it to meet its financing needs, showing a “springing covenant” level lower than the cap stated in the TLB (see note 14 (a)) for at least the next 12 months following the date on which these consolidated financial statements were approved by the Directors.

The Group presents negative working capital totalling Euro 1,180,812 thousand at 31 December 2022 (negative working capital totalling Euro 1,180,206 thousand at 31 December 2021), which is a common circumstance in the business in which it engages and in its financial structure, and this is not considered by the Directors to be a barrier to the normal performance of the Group's business. The Directors of the Company do not believe that cash requirements in the short and medium term will exceed its current financing capacity, taking into consideration the particularities of working capital within its business.

The Group's primary business is the rendering of telecommunications services which operates with a reduced payment collection period which, associated with a supplier payment period of 56.06 days (56.38 days in 2021) allows the Group's resources to be optimized since they operate with negative working capital.

The Group has available financing facilities at 31 December 2022, notably RCF tranche (Euro 750 million) which has a maturity of 2027 (see note 14 (a)). At the date of these consolidated financial statements, the Group has not drawn down against this facility. This credit facility can be used for Group's general corporate purposes. It has an "springing covenant" defined as consolidated Senior Net Debt leverage ratio (consolidated Senior Net debt/EBITDA (as EBITDA is defined in the facility)). This "springing covenant" has to be lower than the cap stated in the TLB and it is activated at the time the drawndown amount exceeds 40% of the total credit facility.

In addition, the financing structure completed in 2021 (see note 14 (a)) allows the Group to be leveraged to a large extent so as to increase senior and subordinated debt subject to certain ratios (Net debt/EBITDA (as EBITDA is defined in the facility)), calculated depending on the purpose of the additional financing.

During 2021, the Group and a leading international infrastructure fund (InfraFund) entered into an agreement to jointly set up a new infrastructure company (InfraCo). The Group have a significant, but minority stake in the InfraCo (49.9% of the InfraCo's capital) (see note 11). During 2022, the Group entered in a new agreement to extend the roll-out of the previous agreement in additional 468 thousand Building Units (BUs) to be deployed in the footprint until 2024. At 31 December 2022 the Group has sold to the InfraCo 305 thousand BUs. The remainder BUs are expected to be deployed during 2023 (see note 9), and cashflows associated to the sale of these BUs by Euro 66 million have been included in the forecasts with a total deployment cost for those BUs not yet deployed of Euro 17 million approximately, which have been also included in the forecasts.

Furthermore, through the subsidiary MásMóvil Ibercom, S.A.U., the Group registered a notes programme in the MARF for a maximum of Euro 300 million and a notes programme in the ECP program (Euro-Commercial Paper Programme) for an amount of Euro 200 million, registered in Euronext Dublin (see note 14 (d)). At 31 December 2022, a total of Euro 153,700 thousand and Euro 76,206 thousand, respectively of each programme, have been drawn (see note 14 (d)).

At 31 December 2022 the Group has available short-term lines of credit totalling Euro 33,144 thousand (Euro 109,150 thousand at 31 December 2021). At the date of these consolidated financial statements, the Group has drawn Euro 92,594 thousand against these short-term lines of credit (see note 14 (a)).

### e) Functional and presentation currency

All items included in the Group's consolidated financial statements are measured using the currency of the primary economic environment in which each Group company operates (functional currency).

The consolidated financial statements are presented in Euro which is the functional and presentation currency of Lorca JVCo Limited. Monetary amounts in these financial statements are rounded to the nearest thousand euro.

**f) Relevant accounting estimates, assumptions and judgments used when applying the Group accounting policies**

Relevant accounting estimates judgments and other estimates and assumptions have been made when applying the Group's accounting policies to prepare the consolidated financial statements in conformity with UK-adopted IFRS. A summary of the items requiring a greater degree of judgment, or which are more complex, or where the assumptions and estimates made are significant to the preparation of these consolidated financial statements, is as follows.

***Significant accounting estimates and assumptions***

- The measurement of the impairment on trade receivables is based on assumptions regarding non-compliance risk and expected credit loss rates. Group Management uses judgments when developing these assumptions and determining the variables to use in the calculation of the expected loss from a customer or trade receivable. These judgments are based on historical uncollectibility experience over the past 12 months, trade receivable non-collection percentages, existing market conditions as well as prospective estimates made at the collection date (see note 3 (h)).

- The Group tests goodwill and other intangible assets with an indefinite useful life, principally its trademarks, for impairment on an annual basis (see note 3 (d)). The calculation of the recoverable amount of a Cash Generating Unit (CGU) to which the goodwill and trademarks have been assigned requires the use of estimates. The recoverable amount is the higher of fair value less costs to sell and value in use.

  The Group uses the discounted cash flow method to calculate the value in use of the trademarks and goodwill. The calculation of discounted cash flows is based on five-year projections of the consolidated budget approved by the Group. The cash flows take into consideration earlier experience and represent the Group's best estimate of the future performance of the market. Cash flows beyond this five-year period are extrapolated by using terminal growth rates. Key assumptions used to calculate fair value less costs to sell and value in use include rates of growth, weighted average cost of capital and tax rates in force.

  Following the acquisition of the Euskaltel Group during 2021, the Group reorganized the management of its operations and reevaluated its CGUs accordingly.

  The current business model is based on a single, centralized management of the Group's assets, based on its own network and agreements to use other third-party networks. The commercial policy is defined centrally for all the Group trademarks, considering the different customer profiles.

  Among the assets acquired as part of the Euskaltel business combination, an FTTH (Fiber-to-the-Home) network in process of deployment was acquired. These assets together its operations have been disposed of in July 2022. Please refer to note 11 for further details on this disposal.

  As of 31 December 2022, the Group only has one CGU that encompasses all the Group assets. At 31 December 2021, the Group had two CGUs: Lorca CGU and EKT Cable

CGU, the latter encompassing the assets related to the network infrastructure acquired as part of the Euskaltel Group.

- The calculation of liabilities for unfavourable contracts, guarantees and litigation is subject to a high degree of uncertainty (see note 3 (l)). The Group recognises liabilities for unfavourable contracts in business combinations when the terms of the contract are unfavourable relative to market terms. Those estimates are subject to potential changes based on new information.

- The Group analyses the useful life of assets with a definite useful life based on common practices in the sector and, if appropriate, internal technical reports (see notes 3 (d) and 3 (e)).

- The Group recognises deferred tax assets in accordance with the accounting policy stated in note 3 (n). The estimates regarding the recognition and recoverability of deferred tax assets use earnings projections for Group companies, based on the tax regulations applicable to the tax group. Those projections are taken into account provided they may be reliably estimated, bearing in mind the different circumstances established in current tax legislation.

***Other significant judgments in the application of accounting policies***

- Determination of whether a contract falls within the scope of IFRS 16 (see note 3 (g));
- Provisions subject to judgment and estimates (see note 3 (l));
- Evaluation of control of Group companies (see note 3 (a)).

***Effects of climate-related matters***

Although the Group is not particularly exposed to uncertain future events or situations derived from factors related to climate change in its business operations, it is strongly committed to environmental issues and the conservation of natural resources, by developing initiatives to reduce CO2 emissions, the development of low carbon economies, energy efficiency processes to replace copper with fiber optics, reuse of network equipment and optimization of the life cycle of products, waste management or the inclusion of the green energy offer through its brands.

The effects of the initiatives developed are taken into consideration when preparing the variety of estimates necessary to prepare the financial statements and, consequently, are considered in the measurement of the Group's assets and liabilities. In particular, climate issues have been considered when addressing the following estimates impacting the consolidated financial statements: impairment of non-financial assets, asset retirement obligations and restoration costs, adaptation costs, estimation of useful lives and residual values, and fair value measurement.

***Changes in estimates***

Although the estimates are calculated by the Directors based on the best information available, future events may require changes to these estimates in subsequent periods. Any effect on the consolidated financial statements of adjustments to be made in subsequent periods would be recognised prospectively.

***Determination of fair values***

Certain of the Group's accounting and disclosure policies require to determine the fair value of financial and non-financial assets and liabilities. The Group has established a control framework for determining fair values. As part of the control framework, the Group has designated personnel with general responsibility for overseeing all relevant fair value calculations, who report directly to Group's Management.

These employees regularly revise significant, unobservable inputs and valuation adjustments. If third party information such as pricing services or broker quotes are used when determining fair values, the valuation team checks whether this information complies with UK-adopted IFRS 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: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

- Level 2: The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined using valuation techniques that maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.The classification of the financial instruments in the different levels of fair value hierarchy is included in note 18 (f).

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 18 (f): Financial instruments and fair value.

**g) Mandatory standards, amendments and interpretations for all years starting on 1 January 2022**

- IAS 16 (Amendment) "Property, plant and equipment: proceeds before intended use": The deduction from the cost of property, plant and equipment of any proceeds from the sale of articles produced while the entity is preparing the asset for its intended use is prohibited. Sales revenue from such samples, together with production costs, are now recognised in the income statement. The amendment also clarifies that an entity is testing whether the asset is functioning properly when it assesses the asset's technical and physical performance. The financial return from the asset is not relevant to this assessment. An asset could be able to be operated as intended by management and be subject to depreciation before it has reached the level of operating performance expected by management.

- IAS 37 (Amendment) "Onerous contracts: cost of fulfilling a contract": The amendment explains that the direct cost of fulfilling a contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. It also clarifies that, before a separate provision for an onerous contract is established, an entity will recognise any impairment loss that has occurred on the assets used to fulfil the contract, instead of on the assets dedicated to that contract.

- IFRS 3 (Amendment) "Reference to the Conceptual Framework": IFRS 3 has been updated to refer to the 2018 Conceptual Framework when determining what constitutes an asset or a liability in a business combination (it previously referred to the 2001 Conceptual Framework). A new exception has also been added in IFRS 3 for liabilities and contingent liabilities.

- Annual IFRS improvements. Cycle 2018 – 2020: The amendments affect IFRS 1, IFRS 9, IFRS 16 and IAS 41 and apply to annual periods beginning on or after 1 January 2022. The main amendments relate to:

    - IFRS 1 “First-time adoption of IFRS”: IFRS 1 allows an exemption for a subsidiary that adopts IFRS after its parent. This amendment allows entities that have applied this exemption to also measure cumulative translation differences using the amounts reported by the parent based on the parent's date of transition to IFRS.
    - IFRS 9 “Financial instruments”: The amendment addresses which costs must be included in the 10% test for derecognition of financial liabilities. The costs or fees may be paid to third parties or to the lender. According to the amendment, costs of fees paid to third parties will not be included in the 10% test.
    - IAS 41 “Agriculture”: This amendment removes the requirement to exclude taxation cash flows when measuring fair value under IAS 41.
    - IFRS 16 “Leases”: modification of the illustrative example 13 of the standard to remove the illustration of lessor payments in connection with lease improvements, thereby removing any potential confusion over the treatment of lease incentives.

The effective date of these amendments is 1 January 2022. The implementation of these standards has not had a significant impact in the consolidated financial statements.

**h) Standards, amendments and interpretations that have not yet entered into force but which may be early adopted:**

- IAS 1 (Amendment) "Disclosure of accounting policies": IAS 1 has been amended to improve disclosures of accounting policies in order to provide investors and the other main users of financial statements with more useful information. The effective date of these amendments is 1 January 2023.

- IAS 8 (Amendment) "Definition of accounting estimates": IAS 8 has been amended to help distinguish between changes in accounting estimates and changes in accounting policies. The effective date of these amendments is 1 January 2023.

- Amendment to IAS 12 "Deferred tax related to assets and liabilities arising from a single transaction": In specific circumstances under IAS 12, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. ("initial recognition exemption"). Previously there was some uncertainty about whether this exemption applies to transactions such as leases and decommissioning obligations where both an asset and liability are recognised at the same time upon initial recognition. The amendment clarifies that the exemption does not apply and so there is an obligation to recognise deferred taxes on such transactions. The amendment is effective in the years beginning on or after 1 January 2023, although early application is permitted.

- IFRS 17 "Insurance contracts". replaces IFRS 4 "Insurance Contracts", by introducing substantial changes in the accounting of insurance contracts with the aim of achieving greater homogeneity and increasing comparability among entities. The new standard fundamentally changes the accounting for all entities that issue insurance contracts and investment contracts with discretionary participation features. In June 2020, the IASB amended the standard with the aim of helping entities in the implementation of the standard and to facilitate the understanding of the financial statements, although the amendment maintained the fundamental principles of the original standard. The standard is applicable for annual periods beginning on or after 1 January 2023, allowing early application if IFRS 9, "Financial Instruments" is applied on or before the date of initial application of IFRS 17. The Group is not expecting any major impact regarding this standard.

- Amendment to IFRS 17 "initial application of IFRS 17 and IFRS 9 – comparative information".

The Group has not early applied these amendments.

**i) Standards, amendments and interpretations to existing standards that cannot be early adopted:**

At the date these consolidated financial statements were prepared, the IASB and IFRS Interpretation Committee had published the standards, amendments and interpretations indicated below:

- IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associates or joint ventures": These amendments clarify the accounting treatment of sales and contributions of assets between an investor and its associates and joint ventures, which will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business." The investor will recognize the total gain or loss when the non-monetary assets constitute a "business". If the assets do not meet the definition of a business, the investor recognizes the gain or loss to the extent of the interests of other investors. The adjustment will only apply when an investor sells or contributes assets to its associate or joint venture.

Originally, these amendments to IFRS 10 and IAS 28 were prospective and effective for annual periods beginning on or after 1 January 2016. However, at the end of 2015, the IASB decided to postpone the enforcement date (without setting a new specific date), since it is planning a broader revision that could result in the simplification of the accounting of these transactions and of other aspects of the accounting of associates and joint ventures.

- IFRS 16 (Amendment) “Lease liability in a sale and leaseback”: IFRS 16 includes requirements on how to account for a sale and leaseback on the date the transaction is carried out. However, it did not specify how to record the transaction after that date. This amendment explains how to record a sale and leaseback after the date of the transaction.

  The effective date of this amendment is 1 January 2024, although early adoption is permitted.

- IAS 1 (Amendment) “Classification of liabilities as current or non-current": These amendments issued in January 2020 clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. That classification is unaffected by expectations or events after the year-end date (for example, receipt of a waiver or breach of an agreement). The amendment also clarifies what IAS 1 means when an entity will exercise its right to defer settlement of a liability. The effective date of this amendment is 1 January 2022, although early adoption is permitted. However, in July 2020 there was a modification deferring the effective date of the January 2020 amendment by one year to annual reporting periods beginning on or after 1 January 2023. Nevertheless, in October 2022 there was a modification that, among other changes, changed the effective date to annual reporting periods beginning on or after 1 January 2024. If after October 2022, this amendment is early applied for a previous period, the amendment to IAS 1 issued in October 2022 must be also applied.

- IAS 1 (Amendment) "Non-current liabilities with conditions ("covenants")": The IASB has issued an amendment to IAS 1 "Presentation of financial statements", in response to concerns raised about the application of previous amendments to it. (in January and July 2020) in relation to the classification of liabilities as current or non-current, which would have entered into force for the years beginning on or after 1 January 2023.

  The new amendment aims to improve the information provided when the right to defer payment of a liability is subject to compliance with conditions (“covenants”) within twelve months after the reporting period.

  The new modification is effective for years beginning on or after 1 January 2024 and cancels the previous modifications. The early application of the modification is allowed.

## 3. Significant accounting policies

### a) Basis of consolidation

### *i) Business combinations*

*Acquisitions from third parties*

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 is the fair value of the assets acquired and the equity instruments issued, and of the liabilities incurred or assumed at the acquisition date, plus any asset or liability resulting from a contingent consideration arrangement.

The consideration transferred excludes any payment that does not form part of the exchange for the acquired business. Acquisition-related costs are recognised as an expense as they are incurred.

At the acquisition date the Group recognises the assets acquired and the liabilities assumed at fair value. Non-controlling interests in the acquiree are recognised according to the proportionate share of the non-controlling interest in the acquiree’s net identifiable assets.

The liabilities assumed include contingent liabilities to the extent that they represent present obligations arising from past events and 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 fair value of the consideration transferred, plus the amount of any non-controlling interest recognised, and the fair value of the net assets acquired is recognised as goodwill. A gain on a bargain purchase occurs where the consideration transferred and the non-controlling interest recognised is less than the value of the identifiable net assets. A gain on a bargain purchase is recognised in the consolidated statement of profit or loss.

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

The potential benefit of the acquiree’s 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 during 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.

The derivative instruments are initially recognised at fair value and subsequent gains and losses are measured and recognised at fair value through profit or loss in the consolidated statement of profit or loss.

*Non-controlling interests*

Non-controlling interests in subsidiaries are recognised at the acquisition date at fair value or at the proportional part of the fair value of the identifiable net assets.

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, are determined in accordance with the ownership interest at reporting date, 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.

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

***ii) Subsidiaries***

Subsidiaries are 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 the investment and has the ability to use this control to influence the amount of these returns. The Company has control 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 controlled by the Group is presented in Appendix I.

The income, expenses and cash flows of subsidiaries are included in the consolidated financial statements 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 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 Company.

When the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

### *iii) Associates*

Associates are all entities over which the Group has significant influence. Significant influence is the power to intervene in the decisions regarding financial and operating policies at a company, without having control or joint control over that entity. This is generally the case where the Group holds between 20% and 50% of the voting rights. When evaluating the existence of significant influence, the potential voting rights that may be exercised or converted at the end of each period must be considered, including the potential voting rights held by the Group or another company. Investments in associates are accounted for using the equity method of accounting.

Information related to Group´ associates entities is presented in Appendix I.

Under the equity method of accounting, the investments are initially recognised at cost, which includes transaction costs, and adjusted thereafter to recognise the Group's share of the post-acquisition consolidated profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group. When the transaction meets the definition of a business, the Group has opted to recognize, according to IFRS 10 approach, the gain or loss in full in profit or loss.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 3(h).

In general, transactions with associates are accounted in the moment of its initial recognition by its fair value. In this case, if the agreed price differs from the fair value, the difference will be accounted depending to the economic environment of the operation. The latest valuation will be measured in line with what the regulations stablished.

### b) Transactions and balances in foreign currency

Transactions in foreign currency are translated to the functional currency through the application of the spot rates between the functional and foreign currency on the dates on which the transactions are completed.

Monetary assets and liabilities denominated in foreign currencies are converted to Euro by applying the year-end exchange rate while non-monetary assets and liabilities carried at historical cost are translated by applying the exchange rates used on the date the transaction took place.

Lastly, non-monetary assets carried at fair value have been translated to Euro by applying the exchange rate on the date on which they were measured.

In the consolidated statement of cash flows, cash flows from foreign currency transactions have been translated into Euro 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 consolidated 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 Euro of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of 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 the consolidated profit or loss.

**c) Cash and cash equivalents**

Cash and cash equivalents include cash and demand deposits at banks. This caption also includes other highly liquid short-term investments provided they are easily convertible into specific cash amounts and the risk of value changes is insignificant. For such purposes, investments maturing in less than three months as from the acquisition date are included.

In those cases where the Group formalises contracts under which cash account balances become unavailable in order to secure the execution of those contracts, these balances remain presented under cash and other cash equivalents insofar as the directors consider that the Group will not meet any of the conditions requiring the contracts' early termination and therefore the enforcement of the guarantee. This criterion is similarly followed in presenting cash and equivalents at the start and end of the year in the consolidated cash flow statement. Note 18 (b) includes information on the Group's available cash at year end and, if applicable, unavailable current cash account balances related to the guarantees granted.

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

**d) Intangible assets**

*i) Goodwill*

Goodwill is determined using the same criteria as for business combinations (see note 4).

Goodwill is not amortised but is tested for impairment annually or more frequently where events or circumstances indicate that the asset may be impaired. Goodwill on business combinations is allocated to the Group’s Cash Generating Units (CGU), or to the CGUs integrated in the Group which are expected to benefit from the synergies of the business combination and the criteria described in section (f) (impairment of this note) are applied. Following initial recognition, goodwill is stated at cost less accumulated impairment losses.

In assessing the impairment of goodwill, the analysis is done at the Lorca CGU level (see note 2(f)).

*ii)* *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 and maintenance expenses connected with IT applications are charged to expenses when incurred.

*iii)* *Patents, trademarks and licences*

Patents, trademarks and licences are initially recognised at their cost of acquisition or fair value if they have originated as a result of a business combination.

Acquired licences primarily relate to the rendering of mobile telephony services and are presented at cost or assigned cost.

The Group, through Euskaltel Group signed a contract with Virgin Enterprises Limited under which the latter assigned the right of use of its brand to the Euskaltel Group. The majority of the corresponding consideration comprises sales-related variable payments.

*iv)* *Internally generated intangible assets*

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 enough economic benefits;
- The Group has sufficient technical and financial (or other) resources to complete the 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 the Group's internally generated assets comprises the costs directly related to the development of these assets. The cost of production is capitalised by crediting the costs attributable to the asset to the work carried out by the Group on its assets under other operating income in the consolidated statement of profit or loss.

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 expensed in the period incurred.

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 periods.

*v)* *Other intangible assets*

Other intangible assets mainly include the customer portfolios acquired through the various business combinations carried out by the Group. Those assets are initially measured at fair value and are amortised on a straight-line basis in accordance with their estimated useful lives. The useful life of these assets is calculated based on the type of customer, historic attrition rates and averages in the industry.

*vi)* *Rights of use*

This relates to the rights to indirectly access the network of other operators, which are measured at the amount actually paid, or at fair value in the event that they were originated in a business combination. These rights of use are originated as a result of the agreements that the Group signs with other operators for access to their network as well as mutualisation agreements, which give the Group the right to long-term access to the infrastructure of those operators and, therefore, indirect access to a large additional number of building units. The rights of use are amortised based on the life of the signed contract.

*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 internally generate capital gains and trademarks is recognised in the consolidated statement of profit and loss when it is incurred.

*viii)* *Useful life and amortisation*

The Group assesses whether the useful life of each intangible asset is finite or indefinite. For such purposes, an intangible asset is understood to have an indefinite useful life when there is no foreseeable limit to the period during which it 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 they may be impaired.

The Group considers the “Yoigo”, “Pepephone”, “MásMóvil”, “Euskaltel”, “R” and “Telecable” brands to be the only significant assets, along with goodwill, 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 |
| Software | Straight-line | 3 - 5 |
| Patents, licenses, trademarks and similar items | Straight-line | 3 - 15 |
| Other intangible assets | Straight-line | 3 - 9 |
| Rights of use | Straight-line | 20 - 35 |

For such purposes, the acquisition cost or attributed cost less residual value is considered the amortisable amount.

The cost of licences is amortised on a straight-line basis from the moment they start generating income to the Group according to the purpose they were acquired for, considering the remaining concession period.

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

The Group reviews the residual value, useful life and amortisation method of the intangible assets at each year end. Modifications to the initially established criteria are recognised as a change in an accounting estimate.

The Group measures and determines impairment to be recognised or reversed based on the criteria in section (f) “Impairment of non-financial assets”.

**e) Property, plant and equipment**

*i) Initial recognition*

Property, plant and equipment are initially presented at fair value obtained in the business combinations (note 4). Additions to property, plant and equipment subsequent to the business combination are recognised at cost or deemed cost, less accumulated depreciation and any accumulated impairment losses.

The cost of property, plant and equipment includes the purchase price and any costs directly related to installation through to commissioning, less trade discounts or rebates. The cost of an item of property, plant and equipment also 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. This estimation is capitalised as an increase in the cost of the related asset, giving rise to the recognition of a provision (see note 15), 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 consideration obtained and the carrying amount of the item concerned) is recognised in the consolidated statement of 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 the consolidated statement of profit or loss when incurred.

*iii) Agreements to share infrastructure*

In seeking to obtain the maximum efficiency of its investments, the Group signs agreements to share infrastructure with other operators. These sublease agreements establish that the infrastructure work needed to install the sublessee’s equipment must be paid by the sublessee, even when the lessor retains the ownership of the infrastructure. Investments made in locations leased by the Group are recognised as property, plant and equipment crediting accruals, whereas those made at locations subleased by the Group are settled at the date of installation and recognised as prepayments. The accruals and prepayments are taken to the consolidated statement of profit or loss as lease income or expenses, respectively, over the lease term.

*iv) Depreciation*

Depreciation of property, plant and equipment is charged, from the date on which they are installed and ready for use, by distributing the depreciable amount on a systematic basis over the assets' useful lives. For such purposes, the acquisition cost less residual value is considered the depreciable amount. 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.

Leased assets are depreciated over the shorter of the lease term and useful life, unless the Group is reasonably certain that it will obtain ownership of the asset at the end of the lease period, in which case they are amortised systematically over their useful lives.

The depreciation of property, plant and equipment is calculated as follows:

| | Depreciation method | Estimated years of useful life |
|---|---|---|
| Buildings | Straight-line | 30 |
| Mobile network infrastructure | Straight-line | 30 |
| Mobile network equipment | Straight-line | 7 - 10 |
| Mobile network core | Straight-line | 5 |
| Fibre-optic network (internal plant) | Straight-line | 15 |
| Fibre-optic network (external plant) | Straight-line | 35 |
| Fixtures, fittings, tooling and furnishings | Straight-line | 3 - 10 |
| Routers, installation fees | Straight-line | 2 – 4 |
| Other fixed assets | Straight-line | 4 - 15 |

The HFC network assets incorporated through the acquisition of the Euskaltel Group (see notes 1 and 4.2.b)), that will be replaced by a FTTH network, are depreciated using the sum-of-units-produced method over an estimated average period of 2.5 years.

The Group reviews the residual value, useful life and depreciation method of property, plant and equipment at year end. Modifications to the initially established criteria are recognised as a change in an accounting estimate.

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

**f) Impairment of non-financial assets subject to amortisation or depreciation**

It is the Group's policy to assess the existence of any indication that may point to the potential impairment of non-financial assets subject to amortisation or depreciation, in order to verify whether the carrying value of such assets exceeds their recoverable value.

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 value of assets is the higher of fair value less costs to sell and value in use. An asset's value in use is measured based on the future cash flows the Group expects to derive from the 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 to 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 when comparing the carrying amounts of the assets with their recoverable amounts, are charged to the consolidated statement of profit or loss.

The recoverable amount of each individual asset is calculated unless the asset does not generate cash flows which are largely independent of the cash flows corresponding to other assets or asset groups. 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 that 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 requirements 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 CGU´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 CGU´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 are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis based on the carrying value of each asset limited to the higher between their fair value less costs to sell, 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 on other assets are only reversed if there is a change in the estimates used to determine the asset’s recoverable value.

A reversal of an impairment loss for a CGU is allocated to the non-current assets of each CGU, 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, if no impairment loss would have been recognised.

A reversal of an impairment loss is recognised in the consolidated statement of profit or loss.

Following the recognition of the impairment or its reversal, depreciation/amortisation for the following periods are adjusted taking into account the 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 statement of profit or loss.

**g) Right of use - Leases**

The Group assesses at inception whether a contract contains a lease. That analysis requires the use of judgment in order to determine whether there is an identified asset and whether the Group has the right to substantially obtain all the economic rewards deriving from the use of the identified asset and has the right to direct the use of that asset.

For each lease contract, the Group initially recognises the corresponding right-of-use asset and a lease liability.

In order to measure the lease liability, the amounts pending payment (less, if appropriate, any incentives receivable) at inception of the lease contract that the Group should pay over the lease term, discounted using the discount rate, are taken into account. The Group uses as the discount rate the incremental interest rates suited to each type of contract asset and term.

In order to measure the right of use asset, the amount of the lease liability is taken as a starting point, increased by payments and incentives prior to inception and restoration costs and indirect initial costs.

The Group recognises the depreciation of the asset recognised along with the annual financial charge associated with the lease liability in the consolidated statement of profit or loss. The Group recognises in both the consolidated statement of financial position and consolidated statement of profit or loss the tax effect associated with the difference between the application of IFRS 16 and those criteria applicable for tax purposes.

When the Group has been subrogated to the position of lessee under a lease contract as a result of a business combination, the related liability will be measured at the present value of the outstanding payments on the lease at the acquisition date as if the contract taken on were a new lease at that date. The right of use asset is recognised for the same amount as the lease liability, adjusted to reflect the favourable or unfavourable conditions of the lease relative to market conditions.

The right of use assets are tested for impairment like other assets with a finite useful life.

In terms of the consolidated statement of cash flows, cash payments on the principal and the interest of the lease liability are classified in financing activities.

The exemptions provided under IFRS 16 for short-term and low-value leases have been applied to non-strategic assets (low value IT assets, furniture, housing, etc.).

Leases when the Group is the lessor relate to telecommunications infrastructure shared in accordance with agreements entered into with other operators. Assets leased to third parties under lease contracts are classified according to their nature, increased, where applicable, by the amount of the directly attributable contract costs.

Lease income is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred to obtain a lease are added to the carrying value of the underlying asset and are recognised as an expense over the lease term on the same basis as lease income. The related leased assets are included in the consolidated statement of financial position in accordance with their nature.

**h) Financial instruments**

*i)* *Classification of financial instruments*

For measurement purposes, the Group classifies financial instruments into the categories of financial assets and liabilities at fair value through profit or loss, as financial assets and liabilities at amortised cost and financial assets measured at fair value through other comprehensive income, separating the equity instruments designated as such from other financial assets. The classification depends on the business model used by the Group to manage financial assets and the contractual terms of the cash flows.

The Group classifies a financial asset at amortised cost, if it fits within the framework of a business model the aim of which is to maintain financial assets to obtain contractual cash flows and the contractual terms of the financial asset give rise, on specific dates, to cash flows that are solely payments of principal and interest on the amount of the unpaid principal (SPPI).

The Group classifies a financial asset at fair value through other consolidated comprehensive income if it fits within the framework of a business model the aim of which is achieved by obtaining contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise, on specific dates, to cash flows that are SPPI.

The business model is determined by the Group's key personnel and at a level that reflects the way in which they jointly manage groups of financial assets to deliver on a specific business objective. The Group's business model represents the way in which it manages its financial assets in order to generate cash flows.

The financial assets which are classified within a business model the aim of which is to hold assets to receive contractual cash flows are managed with a view to generating cash flows in the form of contractual receipts over the life of the instrument. The Group manages the assets held in its portfolio in order to receive contractual cash flows. In order to determine whether cash flows are obtained through the receipt of contractual cash flows from financial assets, the Group considers the frequency, value and timeline of sales in previous years, the reasons for those sales and expectations concerning future sales activities. Nonetheless, sales as such do not determine the business model and therefore cannot be considered on a stand-alone basis. Rather, the information on past sales and future sales prospects offers indicative data of how the Group's stated objective can be delivered in terms of managing financial assets and more specifically, the way in which the cash flows are obtained.

For assets measured at fair value, gains and losses are recognised in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, it will depend on whether the Group has made an irrevocable option at the time of initial recognition to record equity investments at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing these assets changes.

*ii)* *Measurement*

At the moment of initial recognition, the Group values a financial asset at fair value, plus, for financial assets not at fair value through profit or loss, the costs of the transaction directly attributable to the acquisition. Transaction costs of financial assets at fair value through profit or loss are expressed in profit or loss.

*iii)* *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.

*iv)* *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 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 expenses when incurred.

After initial recognition, they are recognised at fair value while any variations are reflected in the consolidated results. Fair value is not reduced by the transaction costs that may be incurred owing to the assets' possible sale or disposal through other means.

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.

*v)* *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.

*vi)* *Debt instruments*

The measurement of debt instruments depends on the Group's business model to manage the asset and the characteristics of the cash flows from the asset. The Group's debt instruments mainly consist of trade and other receivables that the Group classifies as financial assets at amortised cost.

Financial assets at amortised cost are assets that the Group holds to collect contractual cash flows when these cash flows are solely payments of principal and interest and they are measured at amortised cost. Interest income on these financial assets includes financial income based on the effective interest method.

*vii) <u>Equity instruments</u>*

The Group holds financial assets, mainly equity instruments, that are measured at fair value. When Group management has opted to present gains and losses in the fair value of equity investments in other comprehensive income, following initial recognition, the equity instruments are measured at fair value, the gain or loss being recognised in other comprehensive income, notwithstanding being reclassified to reserves at the time the instruments are redeemed.

Dividends from such investments continue to be recognised in the profit or loss for the year as Other Income when the Group's right to receive payment is established.

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

*viii) <u>Impairment</u>*

The Group assesses on a prospective basis expected credit losses on debt instruments recognised at amortised cost. The Group uses the practical expedients permitted by IFRS 9 to measure expected credit losses on trade receivables using a simplified approach, thereby eliminating the need to assess when there has been a significant increase in the credit risk. The simplified approach requires expected losses to be recognised from the time of initial recognition of the receivables such that the Group determines expected credit losses as a probability weighted estimate over the financial instrument's expected life.

The practical expedient employed is the use of a provision matrix based on segmentation into groups of homogeneous assets, applying historical information on default rates for such groups and using reasonable information on future economic terms.

Following the analysis of the Group's trade receivables, three groups of homogeneous assets were identified: residential, corporate and wholesale. These groups have different characteristics in terms of the management of collection and recoverability of balances, specific matrices having been developed for them.

Default rates are calculated based on current default experience during the past year given the highly dynamic nature of the market and are adjusted for differences between current and historical economic terms, taking into account projected information which is reasonably available.

*ix) <u>Derecognition of financial assets</u>*

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.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

*x) <u>Financial liabilities</u>*

Financial liabilities, including trade and other payables, which are not classified as 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. Following initial recognition, liabilities classified in this category are carried at amortised cost using the effective interest method.

*xi)* *<u>Derecognition and modifications of financial liabilities</u>*

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 the 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 as an extinguishment of the financial liability, any costs or fees incurred are recognised as part of the consolidated profit 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 consolidated profit or loss.

i) **Derivatives and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 18(f). Movements in the hedging reserve in shareholders' equity are shown in note 13(c).

The full fair value of hedging derivatives is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

*i)* *<u>Cash flow hedges that qualify for hedge accounting</u>*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within finance income or expense.

Where option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the options as the hedging instrument.

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised within Other comprehensive income (OCI) in the costs of hedging reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset, both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss (e.g. through cost of sales).

- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

*ii)* *<u>Derivatives that do not qualify for hedge accounting</u>*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other gains/(losses).

### j) Inventories

The Group mainly records under this heading the Building Units (BUs) that are built for sale instead of for its own use. The transfer of control of the BUs typically occurs at the point in time when there is a certificate stating that the BUs are ready to operate and the deed of delivery is executed.

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

The cost value of inventories is subject to adjustment against consolidated profit or loss in those cases where cost exceeds net realisable value. The net realisable value of merchandise is understood to be the estimated selling price less costs to sell.

The reduction in the previously recognised value is reversed against consolidated profit or loss if the circumstances that caused the impairment no longer exist or when there is clear evidence of an increase in the net realisable value as a result of a change in the economic circumstances.

The reversal of the fall in value is limited to the lower of cost and new net realisable value of inventories.

## k) Government grants

Government grants are recognised when there is reasonable assurance that the conditions associated with their grant and collection will be met.

*i)* *Capital grants*

Capital grants awarded in the form of monetary assets are credited to government grants in the consolidated statement of financial position and released to other income as the assets financed are depreciated.

*ii)* *Interest rate grants*

Financial liabilities that include implicit aid in the form of the application of below market interest rates are recognised at inception 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.

## l) 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 and, where material, the financial effect of discounting, provided the disbursements to be made in each period can be reliably determined. The discount rate is a pre-tax rate and takes into account the time value of money and specific risks not considered in the cash flows related to the provision at each closing date.

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

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

Reimbursement rights enforceable to third parties in order to settle the provision are recognised as a separate asset when actual collection is practically assured. Any income deriving from the reimbursement is recognised in the consolidated profit or 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 profit or loss caption in which the related expense was recognised, and any surplus is accounted for in the heading Other operating income.

*ii)* *Liabilities for unfavourable contracts*

In the context of business combinations, the Group records liabilities for unfavourable contracts to recognise the impact of those contracts whose contractual terms are unfavourable compared to market terms. For its estimation, the Group considers the difference between the contractual and market conditions, as well as the potential penalties in the event of early cancellation of the contracts.

*iii)* *Provisions for dismantling, 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 related element of 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 the consolidated profit or loss. The Group assesses whether the increase in the value of the property, plant and equipment is indicative of impairment.

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

**m) Revenue recognition**

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

The Group recognises revenues when performance obligations are considered satisfied by providing telecommunication services to customers or transferring control over a good.

Volume discounts, prompt payment and any other discounts, as well as the interest added to the nominal amount of the consideration, are recognised at the time at which it is probable that the conditions determining their granting as a reduction in the income for sales or the rendering of services.

*i)* *Sale of goods*

Revenue from the sale of goods is recognised when the Group:

- Has transferred control over the assets to the buyer;
- The buyer has full autonomy over the channel and the selling price and there is no unsatisfied obligation that could affect the receipt of the assets by the buyer;
- The delivery takes place when the products have been sent to the location established by the buyer (distributor), the risk of loss and obsolescence has been transferred to the buyer and it has accepted the assets in accordance with the sale agreement, the acceptance clauses have expired or the Group has objective evidence that all acceptance criteria have been met.

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 sale is recognised.

*ii)* *Revenue from providing services*

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

Usage based revenues (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.

Commercial package offers that combine several products or services are analysed to determine whether it is necessary to separate the different performance obligations, applying the appropriate revenue recognition policy in each case. Total revenues for the package are distributed among the various identified performance obligations based on their respective independent selling prices, i.e. the independent selling price of each performance obligation with respect to the total independent selling price of the product or service.

*iii)* *Contract assets*

Contracts with tie-in periods in which discounts or terminal subsidies exist are recognised as a customer contract asset under "Contract assets" and are recognised on a straight-line basis as a reduction in revenue over the estimated life of the contract provided that the obligation to provide telecommunications services is fulfilled.

These assets are presented in the Group’s consolidated statement of financial position under current or non-current items, based on whether they will be taken to profit or loss within 12 months or afterwards.

Lease income and other services is recognised as the service is rendered.

*iv)* *Commercial provisions*

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

The Group estimates a provision for sales transactions to cover the possible risks deriving from the failure to make payment for the financing and the purchase of terminals, taking into consideration the market value of the terminal if acquired from the customer. The difference between the promised amount under the Cuota 25 plan and the expected market value of the terminal after 24 months (minimum term) will reduce the revenue generated by the service contract with the customer, thereby generating a month-to-month contractual liability that is cancelled at the time at which the customer exercises or not the sale option.

*v)* *Costs of obtaining contracts with customers*

The incremental costs that are directly attributable to obtaining and retaining convergent and non-convergent contracts with customers, and which may be individually identified and reliably measured, when considered probable that the payments made will be recovered and are expected to be recovered in more than 12 months, are initially recognised as an asset under the heading Costs of obtaining contracts with customers and are released to the consolidated statement of profit or loss under "Supplies" over the term of the contract with the customer.

The Group has identified the fees paid for obtaining and retaining contracts, the commissions paid to distributors and the various sales platforms as costs of obtaining contracts with customers.

The Group allocates to the consolidated profit or loss the costs on a systematic basis which is consistent with the transfer to customers of the related goods or services. This is updated to reflect significant changes in the expected timeline of the transfer of the related goods or services to customers.

The Group performs an analysis regarding the average period between the payment of a fee to obtain a new contract and the moment at which a retention event occurs that generates a new fee. Such an event is associated with the signing of a new contract or a substantial modification to the contractual conditions agreed with a customer, and it has determined that the amortization period ranges between 24 to 72-month depending on the type of service (mobile telephony, convergence customers), retention approach, frequency of retention commercial activities, churn rate, etc. The difference in the amortisation period is due to the different retention approach for the different types of customers which is determined by behavior observed in these cases, primarily due to the recognition of incremental costs for non-converging customers, which represent a higher relative weight in the customer base, for which more frequent retention activities take place.

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

**n) Income tax**

The income tax income/(expense) includes both current 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 or deferred income tax is recognised in the consolidated statement of profit or loss unless it arises from a transaction or economic event that has been recognised in the same year or in a different year against equity or from a business combination.

The Group's parent company of the Tax Group is Lorca Aggregator Limited represented in common territory of Spain by Lorca Telecom BidCo, S.A.U., which files consolidated tax returns with Lorca Telecom BondCo, S.A.U., MásMóvil Ibercom S.A.U., Xfera Móviles, S.A.U., MásMóvil Broadband, S.A.U., Xtra Telecom, S.A.U., Embou Nuevas Tecnologías, S.L.U., Pepeworld, S.L.U., Pepe Energy, S.L., Pepe Mobile, S.L.U., The Bymovil Spain, S.L.U., Senior Telecomunicaciones y Servicios Avanzados, S.L., Spotting Brands Technologies, S.L., Comlocal, S.L., Kaixo BondCo Telecom, S.A.U. and R Cable y Telecable Telecomunicaciones S.A.U.

Additionally, certain companies with tax residence in the Basque Country, namely Euskaltel, S.A.U., Kaixo Telecom, S.A.U. and Guuk Telecom, S.A.U. file their corporate income tax return on a consolidated regimen. The Group's parent company of the Tax Group is Lorca Aggregator Limited represented in the Basque Country of Spain by Euskaltel, S.A.U.

The accrued income/expense tax expense of the tax consolidated companies is determined by taking into account, in addition to the factors related to individual taxation, the following:

- Temporary and permanent differences arising from the elimination of results on intercompany transactions between tax-consolidated companies derived from the process for determining the consolidated tax base.

- 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.

Temporary differences deriving from eliminations of results between tax-consolidated companies are recognised in each company that generated the results and are measured at the tax rate applicable to it.

With respect to the portion of tax losses derived from tax-consolidated companies which have been offset by the remaining tax-consolidated companies, reciprocal receivable and payable balances arise between those companies. Any tax-loss carryforward that cannot be offset by the remaining tax-consolidated companies is recognised as a deferred tax asset pertaining to the tax group.

*i)* *<u>Recognition of deferred tax liabilities</u>*

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

- they arise on the initial recognition of goodwill or on an asset or liability in a transaction that is not a business combination and, on the transaction date, has no effect on the reported result or tax base;

- they relate to differences associated with investments in subsidiaries and joint ventures over which the Group has the capacity to control the moment of its reversal and it is not probable that its reversal will occur in the foreseeable future.

*ii)* *<u>Recognition of deferred tax assets</u>*

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 the public administration. 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.

- It relates to temporary differences associated with investments in subsidiaries and joint ventures insofar as the temporary differences will reverse in the foreseeable future and taxable income is expected to be generated in the future to offset the differences.

Tax planning opportunities are only taken into account in assessing the recovery of the deferred tax assets if the Group intends to adopt them or is probable to adopt them.

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. 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.

The Group reviews the carrying amount of deferred tax assets at year-end in order to write down the amount recognised where it is unlikely that sufficient taxable income will be available against which to offset the assets.

Deferred tax assets that do not meet the above-mentioned conditions are not recognised in the consolidated statement of financial position. At year end, the Group reassesses whether the conditions to recognise deferred tax assets that have not been previously recognised are met.

*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.

*v)* *Tax uncertainties*

If the Group determines that it is not probable that the tax authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, it considers that uncertainty in the calculation of the taxable base, tax bases, tax-loss carryforward credits, deductions and tax rates. The Group determines the effect of the uncertainty in the corporate income tax return using the expected amount method when the range of possible outcomes is diverse, or the most probable outcome method, when the outcome is binary or concentrated in a value. In those cases in which the tax asset or liability calculated using these criteria exceeds the amount presented in the tax self-assessments, the asset or liability is presented as a current or non-current item in the consolidated statement of financial position in accordance with the expected date of recovery or settlement and taking into consideration, if appropriate, the amount of any late-payment interest on the liability when accruing in the consolidated statement of profit or loss. The Group records changes in facts and circumstances regarding tax uncertainties as a change in estimates.

### o) Prepayments for current/non-current assets

In addition to what is mentioned in note 3 (e) (iii), the Group recognises under this heading the payments made in advance which accrue after the end of the reporting period or have a multi-annual character. The concepts are charged to the consolidated statement of profit or loss during its accrual period.

### p) Environmental information

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

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

### q) Segment reporting

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

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

After the acquisitions carried out, the Group has become a one-stop telecommunications operator, with an integrated management model that comprises different types of customers with a convergent service offer.

### r) Non-current assets (or disposal groups) held for sale and discontinued operation

Non-current assets (or disposal groups) are classified as held for sale where their carrying amount will be recovered essentially through a sale transaction and not through continuing use, and the sale is deemed highly probable. In order to classify non-current assets (or disposal groups) as held for sale, they must be available for disposal in their current condition, exclusively subject to the usual terms and conditions of sale transactions, and the transaction must also be deemed highly probable.

The Group measures non-current assets (or disposal groups) held for sale at the lower of carrying amount and fair value less costs to sell, except assets such as deferred tax assets, assets arising from employee remuneration, financial assets and investment property, which are recognised at fair value, and rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent reduction in the value of the asset (or disposal group), less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell of an asset or disposal group, although this may not exceed the cumulative impairment loss previously recognised. The loss or gain not previously recognised at the date of sale of a non-current asset or disposal group is recognised on the date it is written off. The Group charges initial and subsequent impairment losses on assets held in this category to results from continuing activities in the consolidated statement of profit or loss, unless they relate to a discontinued activity.

Non-current assets (including those that are part of a disposal group) are not depreciated while classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets and disposal group assets classified as held for sale are disclosed separately from the other assets in the consolidated statement of financial position. Disposal group liabilities classified as held for sale are disclosed separately from the other liabilities in the consolidated statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

**s) Classification of assets and liabilities as current and non-current**

In the consolidated statement of financial position, assets and liabilities are generally classified on the basis of maturity, i.e. as current where the maturity period is 12 months or less and as non-current where maturity is in more than 12 months.

**t) Consolidated cash flows statement**

In the consolidated of cash flows statement, prepared under the indirect method, the terms employed have the following meanings:

- Cash flows: inflows and outflows of cash and cash equivalents understood to be changes in the value of short-term, highly liquid investments.

- Operating activities: The Group's main sources of revenue and the investments not included in cash and cash equivalents.

- Investing activities: acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of equity and of liabilities and do not form part of operating activities.

**u) Treasury shares in the Parent Company**

The acquisition of equity instruments of the Parent Company 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 profit or loss on transactions with own equity instruments are not recognised.

The subsequent redemption of the treasury shares of the Parent Company 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.

## 4. Business combinations

### 4.1. Business combinations in 2022

#### a) SVINT

On 28 January 2022, the Group acquired 100% of the share capital of SVINT (see note 2 (a)).

Details of the country of origin, acquisition price, net assets acquired and goodwill recorded for this business combination are as follows:

| *Thousand Euro* | Country | Cost of business combination | Goodwill |
|---|---|---|---|
| SVINT | Spain | 5,567 | 5,179 |
| | | **5,567** | **5,179** |

The acquired businesses generated consolidated revenues of Euro 1,806 thousand and consolidated profits of Euro 465 thousand between the acquisition date and the end of 2022.

Had the business been acquired on 1 January 2022, Management estimates that total revenue would have been Euro 1,967 thousand and total consolidated profit of loss would have been Euro 492 thousand.

Details of the acquisition price, the fair value of the net assets acquired, and the goodwill recognised are as follows:

**SVINT**

| *Thousand Euro* | Fair Value |
|---|---|
| Intangible assets (note 5) | 5 |
| Property, plant and equipment (note 6) | 91 |
| Other investments (non-current) | 13 |
| Inventorires | 26 |
| Trade and other receivables | 204 |
| Cash and cash equivalents | 388 |
| **Assets** | **727** |
| Financial debt | (6) |
| Trade and other payables | (333) |
| **Liabilities** | **(339)** |
| Identifiable net assets acquired | 388 |
| Goodwill (note 5) | **5,179** |
| Cost of the business combination | **5,567** |

The most important factor considered when recognising goodwill has been the valuation of expected synergies from the business combination, especially the reduction of commercial costs.

#### b) Cabonitel

The business combination through which control of Cabonitel was acquired has been accounted for as the acquisition of a subsidiary exclusively with a view to resale. The Group has decided to apply the option included in IFRS 5 and has not carried out an individual fair value measurement of the assets and liabilities acquired but, instead, the identifiable liabilities have been measured at fair value and this amount has been added to the fair value less costs to sell to determine the value of the assets acquired.

### 4.2. Business combinations in 2021

Details of the country of origin, acquisition price, net assets acquired and goodwill recorded for business combinations in the year ended 31 December 2021 are as follows:

| *Thousand Euro* | Country | Cost of business combination | Fair value of net assets identified | Goodwill |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| Energía Colectiva, S.L. | Spain | 1,001 | (2,093) | 2,171 |
| Euskaltel Group | Spain | 1,965,099 | 357,646 | 1,607,453 |
| | | **1,966,100** | **355,553** | **1,609,624** |

The acquired businesses generated consolidated revenues and consolidated profit or loss between the acquisition dates and the end of 2021, as follows:

| *Thousand Euro* | Energía Colectiva, S.L. | Euskaltel Group | Total |
|---|---|---|---|
| Revenues | 79,861 | 274,854 | 354,715 |
| Profit/ (loss) after taxes | 846 | (125,629) | (124,783) |

Had the businesses been acquired on 1 January 2021, the main financial indicators would have changed as follows in 2021:

| *Thousand Euro* | Energía Colectiva, S.L. | Euskaltel Group | Total |
|---|---|---|---|
| Revenues | 84,751 | 670,601 | 755,352 |
| Profit/ (loss) after tax | 633 | (192,705) | (192,072) |

#### a) Acquisition of Energía Colectiva, S.L.

On 8 February 2021, the Group, through its subsidiary Xfera Móviles, S.A.U., acquired 4.26% of the shares of the electricity supply company Energía Colectiva, S.L. (Energía Colectiva), which operates under the Lucera trademark, for an amount of Euro 1,001 thousand. On the same date, subscribed a share capital increase of Euro 3,000 thousand in said company, increasing its ownership to 54.27% of its capital. As a consequence, the Group gained control over the company.

Details of the acquisition price, the fair value of the net assets acquired, and the goodwill recognised are as follows:

| *Thousand Euro* | Fair value |
|---|---|
| Intangible assets (note 5) | 582 |
| Property, plant and equipment (note 6) | 43 |
| Rights of use (note 7) | 91 |
| Cost of obtaining contracts with customers (note 8.1) | 38 |
| Contract assets (note 8.2) | 606 |
| Other investments (non-current) | 13 |
| Deferred tax assets | 62 |
| Trade and other receivables | 4,680 |
| Other investments (current) | 7 |
| Cash and cash equivalents | 576 |
| **Assets** | **6,698** |
| Financial debt | (2,312) |
| Trade and other payables | (6,164) |
| Other liabilities | (201) |
| Provisions (non-current) | (114) |
| **Liabilities** | **(8,791)** |
| Identifiable net assets acquired | (2,093) |
| Non-controlling interest | 923 |
| Goodwill (note 5) | 2,171 |
| Cost of the business combination | **1,001** |

The most important factor considered when recognising goodwill by Euro 2,171 thousand has been the valuation of expected synergies from the business combination, especially the reduction of commercial costs.

Xfera and the remaining shareholders signed an investment agreement to rule the governance of the company, the relationship between the shareholders and to include certain exit mechanisms (cross put and call options) for the non-controlling shareholders.

The Group determined that it had control over this subsidiary based on the relevant facts and circumstances surrounding the acquisition of this investment and the exposure of the Group to the variable returns of this investment since February 2021.

According to the characteristics of the sold put options over the non-controlling interests, a financial liability for an amount of Euro 30,943 thousand was recorded by the Group considering the higher amount that the Group may be obliged to disburse (see note 14 d)). This financial liability was recorded debiting retained earnings since the non-controlling shareholders will bear the risk and rewards of its investment until the exercise of the put option. Subsequent changes in the fair value of this financial liability would be recorded in the consolidated statement of profit or loss.

Likewise, the call option over the non-controlling shareholding held by the Group represented a derivative financial asset that was not recorded since its economic value tended to zero.

On 25 October 2022 the Group has acquired the remaining non-controlling interest in Energía Colectiva for an amount of Euro 7,007 thousand. The financial liability recorded in connection with the sold put option over the non-controlling interests and the non-controlling interests of Euro 599 thousand has been derecognised, recording an increase in reserves of Euro 29,828 thousand (see note 13).

**b) Acquisition of Euskaltel Group**

As mentioned in note 1, the Group acquired a controlling interest in Euskaltel Group, the parent of which is Euskaltel, S.A.U. The price for the acquired interest was Euro 1,965,099 thousand. The calculation of the consideration transferred is disclosed below:

| | |
|---|---|
| Consideration transferred for the acquisition: | |
| Price paid (Euro per share) | 11 |
| Number of shares | 178,645,360 |
| Total consideration for the acquisition (thousand Euro) | **1,965,099** |

Details of the acquisition price, the fair value of the net assets acquired, and the goodwill recognised are as follows:

| *Thousand Euro* | Carrying amount of the acquired business | Fair value adjustments | Fair value |
|---|---|---|---|
| Intangible assets (note 5) | 216,484 | 935,465 | 1,151,949 |
| Property, plant and equipment (note 6) | 1,214,304 | (15,603) | 1,198,701 |
| Rights of use (note 7) | 57,607 | - | 57,607 |
| Cost of obtaining contracts with customers (note8.1) | 106,279 | (106,279) | - |
| Non-current financial assets | 7,321 | - | 7,321 |
| Deferred tax assets (note 21) | 140,720 | - | 140,720 |
| Prepayments | 7,626 | - | 7,626 |
| Non-current assets held for sale | - | 30,914 | 30,914 |
| Inventories | 2,662 | - | 2,662 |
| Trade and other receivables | 93,053 | (16,151) | 76,902 |
| Current tax assets | 8,590 | - | 8,590 |
| Cash and cash equivalents | 83,149 | - | 83,149 |
| **Assets** | **1,937,795** | **828,346** | **2,766,141** |
| Provisions | (28,557) | (252,100) | (280,657) |
| Non-current loans and borrowings | (1,421,730) | (14,693) | (1,436,423) |
| Non-current lease liabilities | (49,675) | - | (49,675) |
| Other non-current liabilities | (12,315) | - | (12,315) |
| Government grants (note 16) | (11,419) | 11,419 | - |
| Deferred tax liabilities (note 21) | (52,387) | (139,884) | (192,271) |
| Current loans and borrowings | (2,955) | - | (2,955) |
| Current lease liabilities | (10,398) | - | (10,398) |
| Other financial liabilities | (150,000) | - | (150,000) |
| Other payables | (84,637) | - | (84,637) |
| Trade and other payables | (165,461) | - | (165,461) |
| Current income tax liabilities | (1,090) | - | (1,090) |
| Other current liabilities | (22,613) | - | (22,613) |
| **Liabilities** | **(2,013,237)** | **(395,258)** | **(2,408,495)** |
| Identifiable net assets acquired | | | 357,646 |
| Goodwill (note 5) | | | **1,607,453** |
| Cost of the business combination | | | **1,965,099** |

On 10 August 2021, the Group through its subsidiary Kaixo Telecom, S.A.U. obtained control of the Euskaltel Group through the acquisition of 97.67% of the share capital of Euskaltel. Additionally, on 31 August 2021, following a squeeze out process, the Group acquired the remaining share capital, thus becoming the single shareholder of the Euskaltel Group.

The most important factor considered when recognising goodwill was the valuation of expected synergies and other benefits from the business combination, which primarily derive from the trade agreements arranged with third parties by the Group. Specifically, the entry of the Euskaltel Group into the Group would significantly optimise the service costs of mobile telecommunications networks and the costs of access to the FTTH network due to being able to use the mobile and FTTH networks deployed by the Group and be party to the wholesale agreements concluded with third parties. Sinergies were also expected from the plans to attract new customers in Euskaltel's core territories leveraging on its incumbent market positioning and by expanding the Euskaltel Group's products nationwide.

The fair value calculation methods for the main assets and liabilities of the acquired business are as follows:

- Customer relationships: The Group identified customer relationships as the primary intangible asset. The fair value was measured at the acquisition date through segmentation by product (post-paid, convergence packages), by trademark (Euskaltel, R and Telecable) and residential/business customers, using the Multi-Period Excess Earnings Method (MEEM). Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) net of contributory asset charges, attributable solely to the intangible asset over its remaining useful life. The key parameters used in the measurement of this intangible asset were the attrition rate, gross monthly billing by user, a 14% contributory asset charges rate for convergence packages and enterprise and 4.2% for mobile customers, and a range between 5.9%-6.9% discount rate.

- Trademarks are identifiable assets as arising from contractual and/or other legal rights and are also separable assets. The trademarks owned by the Euskaltel Group whose fair value was recognised are Euskaltel, R and Telecable. The fair value of these intangible assets was calculated by applying the Relief from Royalty Method. The most significant parameters employed were a royalty of 1.5% for the Euskaltel trademark, 1.25% for R and Telecable, based on royalties observed in the sector, a discount rate of 7.9% and a growth rate into perpetuity of 1.77%.

- Property, plant and equipment: The fair value of the fixed assets was analyzed by nature, using the DRC valuation method for most of them. The valuation, which also took into account the reduction in the useful life of the HFC network assets as a result of the change to an FTTH network, resulted in the recording of a negative net fair value adjustment amounting to Euro 8 million. In addition, a reduction of Euro 7.6 million was recorded in connection with the reclassification to Non-current assets held for sale relating to the disposal of the TV business

- Costs of obtaining contracts with customers amounting to Euro 106,279 thousand were written off as part of the purchase price allocation exercise. This asset was not considered to qualify as an acquired asset in the business combination since it represented past outflows that were apportioned over time, and its value was implicitly embedded in the measurement of the value of the customer relationships.

- Non-current assets held for sale: The adjustment related to the fair value less costs to sell of the TV business which was sold after the acquisition of the Euskaltel Group.

- Trade and other receivables: This caption contained the adjustment to recognize the fair value of trade receivables.

- Provisions: this line item contained provisions for unfavourable contracts that were re-measured based on market conditions at the acquisition date, which included cancelation fees with service providers. Thus, the calculation was based on the difference between the annual cost incurred for those contracts up to their completion date, the costs that would have been incurred by similar contracts under market conditions and the consideration of any early cancellation penalties that might be incurred (see note 15).

- Loans and borrowings: This line item contained adjustments to recognise the fair value of the long-term borrowings acquired and refinanced (see note 14 a)), which included the derecognition of the financing costs received from third parties that were capitalised in Euskaltel Group by Euro 14,693 thousand, since they did not qualify as a recognizable asset.

- Deferred tax liabilities: these items were estimated by applying the tax rate applicable to the acquired group to the difference between the accounting basis and tax basis for the assets acquired and the liabilities assumed.

Goodwill was considered to be fully deductible for tax purposes.

Acquisition costs totalled Euro 34,876 thousand and were recognised in other operating expenses (see note 22 d)).

## 5. Intangible assets

Details of intangible assets and movements are as follows:

| *Thousand Euro* | ***Goodwill*** | ***Computer Software*** | ***Patents, trademarks and licences*** | ***Development*** | ***Other intangible assets*** | ***Prepayments*** | ***Rights of use*** | ***Total*** |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **Balance at 1 Janauary 2021** | 2,857,885 | 131,825 | 419,988 | 1,260 | 1,286,794 | - | 612,576 | 5,310,328 |
| Additions from business combinations (note 4.2) | 1,609,624 | 68,261 | 113,853 | 181 | 907,293 | 41 | 62,902 | 2,762,155 |
| Additions | - | 70,686 | 1,337 | 58 | 23,027 | - | 262,467 | 357,575 |
| Disposals | (1,501) | (5,153) | - | - | - | - | (21,291) | (27,945) |
| Transfers (note 6) | - | (2,692) | 55 | (55) | (1,555) | (41) | 8,634 | 4,346 |
| **Balance at 31 December 2021** | 4,466,008 | 262,927 | 535,233 | 1,444 | 2,215,559 | - | 925,288 | 8,406,459 |
| Additions from business combinations (note 4.1) | 5,179 | 5 | - | - | - | - | - | 5,184 |
| Additions | - | 81,862 | 43 | - | 12,863 | - | 16,813 | 111,581 |
| Disposals | (658) | (220) | - | - | - | - | (37,741) | (38,619) |
| Transfers | - | 492 | (14) | - | (479) | - | 1 | - |
| **Balance at 31 December 2022** | 4,470,529 | 345,066 | 535,262 | 1,444 | 2,227,943 | - | 904,361 - | 8,484,605 |
| | | | | | | | | |
| **Amortisation and impairment losses** | | | | | | | | |
| **Balance at 1 Janauary 2021** | - | (9,762) | (4,591) | (309) | (47,159) | - | (8,628) | (70,449) |
| Amortisation charge for the year | - | (46,263) | (8,648) | (785) | (232,334) | - | (63,468) | (351,498) |
| Disposals | - | - | - | 70 | 22 | - | 741 | 833 |
| Transfers | - | (2) | - | - | - | - | (650) | (652) |
| **Balance at 31 December 2021** | - | (56,027) | (13,239) | (1,024) | (279,471) | - | (72,005) | (421,766) |
| Amortisation charge for the year | - | (74,391) | (7,361) | (348) | (294,728) | - | (70,915) | (447,743) |
| Disposals | - | - | - | - | - | - | 6,756 | 6,756 |
| **Balance at 31 December 2022** | - | (130,418) | (20,600) | (1,372) | (574,199) | - | (136,164) | (862,753) |
| | | | | | | | | |
| **Carrying amount** | | | | | | | | |
| **Balance at 31 December 2021** | 4,466,008 | 206,900 | 521,994 | 420 | 1,936,088 | - | 853,283 | 7,984,693 |
| **Balance at 31 December 2022** | 4,470,529 | 214,648 | 514,662 | 72 | 1,653,744 | - | 768,197 | 7,621,852 |

**Goodwill**

Goodwill arising on business combinations in 2022 and 2021 (see notes 4.1 and 4.2) has been allocated to the Lorca CGU (See note 2.f)), since the whole CGU will benefit from the synergies of the acquisitions. Synergies arise mainly through the optimization of the cost of using mobile telecommunications networks and the costs of the FTTH network borne to the transaction date, due to being able to use the mobile and FTTH networks deployed by the Group and be party to wholesale agreements concluded with third parties.

The recoverable amount of the CGU has been determined based on value-in-use calculations. These calculations use cash flow projections from the business plan approved for a five-year period. After five years, cash flows are extrapolated using the terminal growth rates applicable to the industry in which the Group operates.

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

- Post-tax discount rate: 7.5% (7% in 2021) Group management performs impairment tests using post-tax discount rates in the understanding that estimates are made by market participants on a post-tax basis using the CAPM (Capital Asset Pricing Model) methodology when estimating the cost of own capital for the purposes of calculating that discount rate. Using the iterative method, the pre-tax discount rate would be 8.66% (9.71 % in 2021).

- Sales growth in the budgeted period: a range between 5% and 8% (between 2% and 10% in 2021), based on the evolution of the Group's business in 2022 and the strategic investment and growth plans. The growth levels are maintained until the end of 2023, at which time the Group estimates that it will reach maturity in the market as a result of the completion of its own network expansion plan and the infrastructure mutualisation plan with other operators. Starting from that year, average growth levels will be in line with those projected for the sector.

- Perpetual growth rates: 1.84% (1.75% in 2021). In order to determine this rate, market sources have been used to obtain inflation expectations for Spain in the long term. The average of the inflation from various macroecomic sources for the 2024-2025 years has been selected. EBITDA (Earnings before interest, taxes, depreciation and amortisation) margin/Revenue: around 39.9% (39.9% in 2021), in line with the figure envisaged in the business plan and consistent with analysts' estimates.

- CAPEX/Revenue ratio: in line with the business plan and consistent with maintenance capital investment needs to perpetuity.

- The Group determines gross margins and budgeted sales based on past experience and forecast market performance. The average weighted growth rates are coherent with the projections included in industry reports and consistent with the Group's evolution over the past few years, as well as the expectations that it has for coming years.

No goodwill impairment losses were recognised in 2022, neither in 2021.

The Group has carried out a sensitivity analysis of the key assumptions used to determine the value of goodwill recognised:

- Discount rate: +3%
- EBITDA: -20% in the base scenario.
- Combination of assumptions: +1% discount rate, -5% EBITDA and -5% in revenue and cost of sales, applied to the base scenario.

The sensitivity analysis performed did not reveal the existence of any impairment of goodwill.

**Computer software**

Software additions during the year ended 31 December 2022 and 2021 relate primarily to investments in the acquisition and development of IT solutions needed by the activity of the Group.

**Patents, trademarks and licences**

*Trademarks*

This item includes the assigned values of the “Yoigo”, “MásMóvil” and “Pepephone” trademarks, as well as the assigned values of the “Euskaltel”, “R” and “Telecable” trademarks, according to the independent expert valuations performed for the business combinations mentioned in note 4.2.b). All were allocated to the Lorca CGU.

There follows a summary by trademark of indefinite useful life estimated by the Group, and their carrying amount:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| **Trademark** | | |
| Yoigo | 162,335 | 162,335 |
| MásMóvil | 108,142 | 108,142 |
| Pepephone | 33,790 | 33,790 |
| Euskaltel | 59,372 | 59,372 |
| R | 32,874 | 32,874 |
| Telecable | 15,926 | 15,926 |
| Ahí+ | 3,437 | 3,437 |
| | **415,876** | **415,876** |

The recoverable amount of the trademarks is determined based on value-in-use calculations. These calculations use cash flow projections from the business plan approved for a five-year period. 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 are the same used for the goodwill impairment test.

The sensitivity analysis performed did not reveal the existence of any risk of the impairment of the value assigned to the trademarks with an indefinite useful life.

*Licences*

Licences amounting to Euro 94,225 thousand (Euro 100,023 thousand in 2021) reflect the cost attributed to mobile telephony service licences obtained or acquired for the following bands:

- 1800 MHz, valid to 2030;
- 2100 MHz, valid to 2030;
- 2600 MHz, valid to 2030;
- 3500 MHz, valid to 2030.

Those initial periods are subject to extension options.

**Development costs**

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

**Other intangible assets**

This heading primarily includes the measurement of customer portfolios acquired through business combinations which at 31 December 2022 and 2021 presented a cost of Euro 1,956,187 thousand and the necessary cost prior to the entry into operation of the 3500 MHz frequencies amounting to Euro 63,926 thousand (Euro 52,111 thousand in 2021).

**Rights of use**

The Group has reached relevant strategic agreements for wholesale access to third-party infrastructures (mobile and FTTH networks) and for the joint deployment of FTTH networks with other operators, which allows improvements in their networks, stability in costs convergent business, improvements in unit prices for data transmission and the use of future technologies with sufficient flexibility to accommodate the growth of the Group, as well as mutualisation telecommunications infrastructure agreements that allow access to a relevant number of additional BUs.

The Group and Bidasoa TopCo (see note 2 (a)) has entered into an agreement for the roll-out of a FTTH network which includes a bitstream contract formerly signed by the Group with other telecommunications operator. As a part of the transaction, the Group has received an IRU amounting to Euro 15,883 thousand in order to be able to comply with the service commitments with other telecommunications operators. Additionally, as part of the sale of the EKT business agreement, during 2022, the Group has sold to EKT Cable 68 thousand BUs booked as inventories (see note 9). Disposals of Right of use which a carrying amount of Euro 30,984 thousand refers to the IRU sold to EKT Cable as a part of the transaction.

The Group will provide to EKT Cable operating, maintenance, supply and transmission services. The transaction will not have an impact on the Group's own FTTH network footprint or on the Group's customer base since the existing customers on the sold network are maintained through the simultaneous signing of a 25-year bitstream services contract. In the context of this transaction, the Group is committed to guarantee a minimum amount of revenue to the InfraCo in the event of not reaching certain volume of operations. At the date of issuance of these consolidated financial statements the directors of the Company have a reasonable expectation that any disbursement in connection with these commitments is not deemed probable.

In addition, during 2022, the Group has negotiated different wholesale collaboration agreements with Uclés InfraCo, S.L. (hereinafter, "InfraCo") (see note 6).

During 2021 the Group completed the following relevant transactions with operators in the Spanish market:

- On 22 June 2020, the Group signed with a telecommunications operator a global agreement effective since 1 January 2021, consisting of:

i) a new network sharing agreement, through which the Group will earn an irrevocable right to use (IRU) over a certain number of GPON ports in a 6 million footprint network (355 thousand ports simultaneously used until 2029 and 715 thousand ports thereafter and until 2059 if the agreement is extended by the Group in 2029) which will give access to a relevant number (until c.6.5 millions) of additional BUs as well as access to future deployments. The Group will only pay the operation and maintenance of the GPON ports used;

ii) a new wholesale agreement for the use of mobile alongside with a new network sharing agreement. The mobile wholesale agreement envisages a reduction in the unit cost per GB consumed, an increase in the size of the data "buckets" and other aspects related to the migration of mobile lines of Lyca customers.

Consequently, the main additions in 2021, amounting to Euro 230,043 thousand, related to these agreements. The new wholesale FTTH agreement included a minimum annual payment commitment for the use of the mobile network and FTTH for the next 5 years from 1 January 2021, renewable for another 5-year period at the Group's discretion. The agreement establishes that, subject to a material cancelation fee, the Group can cancel the FTTH agreement and the network sharing agreement, in whole but not in part, after 5 years (2024). The directors of the Company have a reasonable expectation that the Group will renew these agreements at the end of the fifth year. At the date of issuance of these consolidated financial statements the directors of the Company do not expect any losses in connection with these commitments.

On 30 September 2021, the Group included as part of this agreement the subsidiaries from the Euskaltel Group(see note 4.2.b)), that will benefit thereafter from the network sharing agreements. The inclusion of the Euskaltel Group in the IRU does not affect the simultaneous ports usage figures, as the minor overlap with Euskaltel’s own network will be compensated with higher penetration rates in the rest of the BUs (due to the inclusion of Euskaltel Group’s customers). Additionally, this agreement includes penalties for the cancelation of the previous contracts between this telecommunications operator and Euskaltel Group by a nominal value of Euro 37,467 thousand that were included in the fair value of the provisions for unfavourable contracts in the purchase price allocation process performed (see note 4.2.b).

- On 27 January 2021, the Group signed an agreement with the same operator in the Spanish market by which the Group is granted an IRU over the FTTH network associated with certain BUs of said operator, for a period of 45 years. The total price of the right of use is Euro 14,368 thousand. This IRU was subsequently sold to InfraCo (see note 6).

- On 24 November 2021, the Group signed with other telecommunications operator a global agreement. The Group has included, as part of previous agreements of MásMóvil Group, the new subsidiaries acquired through the Euskaltel business combination (see note 4.2.b)), that will benefit thereafter from the network sharing agreements. This amendment has not had any impact on the rights of use already recorded. However, the cancelation of the contracts between this telecommunications operator and Euskaltel Group has achieved a reduction and deferral of the penalties since the Group maintain a significant volume of Euskaltel business under the network of this operator. Total amount of the penalties by a nominal value of Euro 188,965 thousand has been included in the fair value of the provisions for unfavourable contracts in the purchase price allocation process performed (see note 4.2.b)). The payment will be deferred in time and will be settled with the payment of penalties and certain payments based on performance targets.

The Group therefore continues to develop the strategy started in prior year of reaching agreements with telecommunications infrastructure operators to extend its own network (co-investment) and to increase wholesale access to third-party networks.

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

Additionally, at 31 December 2022 this heading also includes 16,450 thousand (Euro 17,316 thousand in 2021) relating to the IRU received from the InfraCo in 2021 in order to fulfil its commitments with other telecommunications operators.

Therefore, right-of-use additions in 2022 and 2021 relate mainly to the above mentioned mutualisation agreements signed during 2022 and 2021 with other telecommunications infrastructure operators giving access to a relevant number of additional BUs.

In addition, at 31 December 2022 this heading includes the amount of Euro 24,014 thousand (Euro 24,874 thousand at 31 December 2021) relating to the usufruct retained by the Group in order to fulfil the commitments arising from the irrevocable assignment to Jazz Telecom, S.A.U. (note 20) of the use of 40% of the BUs in its FTTH network and the indirect right-of-use of Jazz Telecom S.A.U.'s copper network under the framework agreement signed on 31 July 2015.

**Impairment losses on intangible assets**

The Group has analysed the possible existence of indicators of impairment of intangible assets, taking into consideration the industry in which it operates and the financial forecasts made by Group’s management. As a result of the analysis performed, the conclusion is that there is no need to recognise impairment on intangible assets. Same conclusion reached as of 31 December 2021.

**Purchase commitments**

At 31 December 2022, the Group has firm purchase commitments for intangible assets amounting to Euro 31,737 thousand (Euro 24,891 thousand in 2021) mainly deriving from the FTTH network mutualisation agreement signed with other operators.

## 6. Property, plant and equipment

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

| *Thousand Euro* | **Land and buildings** | **Network equipment** | **Other PP&E** | **PP&E in progress and prepayments** | **Total** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at 31 December 2020** | 1,571 | 705,251 | 32,313 | 43,944 | 783,079 |
| Additions from business combinations (note 4.2) | 90,041 | 512,088 | 538,027 | 58,588 | 1,198,744 |
| Additions | - | 316,313 | 11,249 | 106,148 | 433,710 |
| Disposals | (8) | (87,095) | (4,321) | (1,103) | (92,527) |
| Transfers to assets held for sale | 385 | 71,153 | 7,748 | (140,385) | (61,099) |
| **Balance at 31 December 2021** | 91,989 | 1,517,710 | 585,016 | 67,192 | 2,261,907 |
| Additions from business combinations (note 4.1) | - | 91 | - | - | 91 |
| Additions | - | 292,055 | 6,995 | 146,807 | 445,857 |
| Disposals | - | (149,546) | (7,804) | (630) | (157,980) |
| Transfers | (304) | 81,641 | 33,607 | (114,944) | - |
| **Balance at 31 December 2022** | 91,685 | 1,741,951 | 617,814 | 98,425 | 2,549,875 |
| **Depreciation** | | | | | |
| **Balance at 31 December 2020** | (6) | (26,363) | (1,759) | - | (28,128) |
| Depreciation charge for the year | (1,984) | (262,033) | (22,480) | - | (286,497) |
| Disposals | - | 46,588 | 984 | - | 47,572 |
| Transfer to assets held for sale | - | 282 | 492 | - | 774 |
| **Balance at 31 December 2021** | (1,990) | (241,526) | (22,763) | - | (266,279) |
| Depreciation charge for the year | (4,767) | (373,402) | (54,718) | - | (432,887) |
| Disposals | - | 90,943 | 7,804 | - | 98,747 |
| Transfers | - | (5) | 5 | - | - |
| **Balance at 31 December 2022** | (6,757) | (523,990) | (69,672) | - | (600,419) |
| **Carrying amount** | | | | | |
| **Balance at 31 December 2021** | **89,999** | **1,276,184** | **562,253** | **67,192** | **1,995,628** |
| **Balance at 31 December 2022** | **84,928** | **1,217,961** | **548,142** | **98,425** | **1,949,456** |

**Network equipment**

This caption includes the assets that make up the fixed and mobile telecommunications network.

The Group has entered into collaboration agreements for the joint deployment of the FTTH network, where each party deploys its own network and assigns use to the other party while retaining ownership of the asset (mutualisation). Third parties' right of use of the Group's own infrastructures is charged to other non-current liabilities (see note 20), while the right of use granted to the Group of the infrastructures deployed by third parties is carried as an intangible asset (see note 5).

Additions in 2022 and 2021 primarily relate to the capitalisation of fibre equipment and related installations in customers' homes, as well as to the deployment of the fixed and mobile network.

In 2021 the Group and a leading international infrastructure fund (InfraFund) entered into an agreement to jointly set up a new infrastructure company Uclés Infraco, S.L. (InfraCo). The Group has a significant, but non-controlling stake in the InfraCo (49.9% of the InfraCo's capital see note 11). During 2022 the Group has sold 36 thousand BUs of the FTTH network for a total amount of Euro 15,507 thousand fully collected, and has granted to the InfraCo an IRU amounting to Euro 6,881 thousand (see note 20) and a bitstream contract formerly signed by the Group with other telecommunications operator. These transactions have generated a gain of Euro 8,211 thousand, which is recognised under the heading "Impairment and result from disposal of assets" in the consolidated statement of profit or loss (see note 22 (f)). As part of the same agreement, during 2022 the Group has sold to the InfraCo 103 thousand BUs booked as inventories (see note 9).

During 2021 the Group sold 939 thousand BUs of the FTTH network for a total amount of Euro 332,272 thousand fully collected. The sale was recorded as the disposal of a business including fixed assets with a carrying amount of Euro 53,949 thousand and an IRU amounting to Euro 14,368 thousand (see note 5). The transaction generated a gain of Euro 214 million, which was recognised under the heading "Impairment and result from disposal of assets" in the consolidated statement of profit or loss (see note 22 (f)).

Additionally, on 22 December 2022 the Group and InfraCo has entered in a new agreement to extend the sale of a business including the roll-out of the previous agreement in additional 468 thousand BUs to be deployed in the footprint until 2024. During 2022 the Group has sold 28 thousand BUs for a total amount of Euro 11,537 thousand and granted an IRU amounting to Euro 5,320 thousand (see note 20) fully collected. The transaction has generated a gain of Euro 5,900 thousand recognised under the heading "Impairment and result from disposal of assets", in the consolidated statement of profit or loss (see notes 22 (f)). As part of the same agreement, during 2022 the Group has sold to the InfraCo 277 thousand BUs booked as inventories (see note 9).

The Group will provide to the InfraCo operating, maintenance, supply and transmission services. The transaction will not have an impact on the company's own FTTH network footprint or on the Group's customer base since the existing customers on the sold network are maintained through the simultaneous signing of a 25-year bitstream services contract. In the context of this transaction, the Group is committed to guarantee a minimum amount of revenue to the InfraCo in the event of not reaching certain volume of operations. At the date of issuance of these consolidated financial statements the directors of the Company expect to reach the minimum volume of operations, therefore no disbursements are expected.

Apart from the transfer mentioned in the preceding paragraphs, the rest of the transfers that took place in 2022 and 2021 basically relate to the degree of completion of the telecommunications network.

During 2020 the Group reached an agreement with another operator for the deployment of 2.2 million FTTH new-build BUs between 2020 to 2023, of which the Group had committed to deploy 500,000 BUs, with the option of deploying a further 250,000. The BUs deployed, as agreed, cover the entire footprint of both the Group and the other operator, and both parties have committed to exclusive wholesale bitstream use in the newly deployed network for a period of 20 years.

The Group recognises the disposal of routers and associated installation costs that were collected from the homes of customers that decide to terminate their telecommunications service contract, which are not recoverable for subsequent use and have been sold by the Group to third parties at a loss of Euro 18,288 thousand (Euro 14,011 in 2021) (note 22 f)).

No interest was capitalised in 2022 and 2021.

**Insurance**

The Group has taken out insurance policies to cover the risks to which its property, plant and equipment are exposed. The coverage provided by these policies is considered to be sufficient.

**Property, plant and equipment subject to guarantees**

At 31 December 2022 and 2021, no material items of property, plant and equipment were pledged as security.

**Purchase commitments**

At 31 December 2022, the Group has purchase commitments for property, plant and equipment totalling Euro 54,555 thousand (Euro 82,324 thousand in 2021) with which to expand its telecommunications network in the coming years.

**Impairment of property, plant and equipment**

The Group has analysed the possible existence of indicators of the impairment of property, plant and equipment taking into account the industry in which it operates and the financial forecasts drawn up by Group Management. The analysis evaluates the existence of circumstances that could indicate that the carrying amount of the property, plant and equipment owned by the Group may not be recoverable.

No impairment recognised in property, plant and equipment as a result of the analysis.

## 7. Leases

This note provides information on leases in which the Group is the lessee. Information on leases where the Group is the lessor is included in note 19. The main types of lease agreements identified by Group management, as well as the main judgments applied when determining the terms of the lease, are as follows:

- Lease agreements covering mobile telephony network locations: rights to use identifiable spaces in the mobile telephony infrastructures of other telephony operators or infrastructure operators and spaces in specific locations. The Group has not applied any significant judgments regarding the terms of the leases under these agreements since there are initial mandatory compliance periods of between 8 and 15 years (with possible termination only in circumstances that may be classified as remote or after making full payment of outstanding amounts), and the Group does not have any unilateral extension options. As a result, the term of these leases is generally the outstanding mandatory compliance period. There are certain exceptions where the Group is entitled to a unilateral extension right and early termination, although they are not relevant.

- OBA contracts and fibre-optic networks: rights to use identifiable spaces in technical facilities (OBA) to house the Group's active equipment, as well as the pipelines for the installation of fibre-optic networks. The Group has the right, but not the obligation, to use the relevant underlying assets for an indefinite period. As a result, the term of the leases is associated with the period over which the possibility of covering the operating needs satisfied by these assets with other assets or alternative means may be deemed to be remote. Although the use of assets or other alternative means in this respect could be considered to be remote, taking into account the period covered by the Group's business plans and the rate at which relevant changes could take place Group management considers that the term of these contracts cannot be established for a period exceeding 5 years.

- Transmission line contracts: rights to use groups of assets making up fibre-optic networks ("dedicated networks"). The Group has not applied any significant judgments regarding the terms of the leases under these agreements since there are initial mandatory compliance periods (with possible termination only in circumstances that may be classified as remote or after making full payment of outstanding amounts), and the Group does not have any unilateral extension options. As a result, the term of these leases is generally the outstanding mandatory compliance period.

- Housing contracts: rights to use identifiable spaces in properties, technical telecommunications facilities or infrastructures of public bodies or third parties to house the Group's equipment. As a general rule, the term of the lease initially taken into consideration is that which is mandatory. However, when the mandatory compliance period is less than the time during which the possibility of covering the operating needs for which these assets will be used with other assets or alternative means may be deemed to be remote, Group management uses the latter (without exceeding the maximum period of the right granted to the Group in accordance with the contract). As was the case with the OBA and the cabling pipelines, although the use of assets or other alternative means in this respect could be considered to be remote, taking into account the period covered by the Group's business plans and the rate at which relevant changes could take place. Group management considers that the term of these contracts cannot be established for a period exceeding 5 years, which is used as a reference for these contracts.

- Other contracts: rights of use relating to the lease of offices, vehicles and other assets not directly related to operations. The lease terms are generally the minimum periods established in the agreements.

The payments associated with short-term lease agreements are recognised as an expense in the consolidated statement of profit or loss. A short-term lease agreement is any for a term of 12 months or less.

The payments associated with low-value lease agreements are recognised as an expense in the consolidated statement of profit or loss. A “low-value lease agreement” is considered to be any whose underlying asset assigned for use has a value of less than Euro 5 thousand. Movements in the rights of use are as follows:

| *Thousand Euro* | **Rights of use** |
|---|---|
| **Cost** | |
| **Balance at 31 December 2020** | 200,261 |
| Additions from business combinations (note 4.2) | 57,698 |
| Additions | 37,619 |
| Disposals | (21,662) |
| **Balance at 31 December 2021** | 273,916 |
| Additions | 44,747 |
| Disposals | (9,748) |
| **Balance at 31 December 2022** | **308,915** |
| **Amortisation** | |
| **Balance at 31 December 2020** | (8,828) |
| Amortisation charge for the year | (42,884) |
| Disposals | 6,250 |
| **Balance at 31 December 2021** | (45,462) |
| Amortisation charge for the year | (49,569) |
| Disposals | 2,133 |
| **Balance at 31 December 2022** | **(92,898)** |
| **Carrying amount** | |
| **Balance at 31 December 2021** | **228,454** |
| **Balance at 31 December 2022** | **216,017** |

The liabilities related to these lease contracts as of 31 December 2022 and 2021 are detailed in note 14(c).

## 8. Costs of obtaining contracts with customers and contract assets

### 8.1. Costs of obtaining contracts with customers

This relates to the capitalization of certain costs to obtain contracts with customers as described in note 3 (m). Set out below is an analysis of these costs showing movements during 2022 and 2021:

| | 31/12/2022 | |
|---|---|---|
| *Thousand Euro* | **Non-current** | **Current** |
| Balance at 1 January 2022 | 133,145 | 88,545 |
| Additions | 160,929 | 111,357 |
| Transfer to profit or loss | - | (147,028) |
| Transfers to current | (104,514) | 104,514 |
| Balance at 31 December 2022 | **189,560** | **157,388** |

| | 31/12/2021 | |
|---|---|---|
| *Thousand Euro* | **Non-current** | **Current** |
| Balance at 1 January 2021 | 30,421 | 16,560 |
| Additions from business combinations (note 4.2) | 32 | 6 |
| Additions | 117,594 | 104,487 |
| Transfer to profit or loss | - | (47,410) |
| Transfers to current | (14,902) | 14,902 |
| Balance at 31 December 2021 | **133,145** | **88,545** |

### 8.2. Contract assets

This relates to the capitalisation of discounts and subsidies which are taken to the consolidated statement of profit or loss on a straight-line basis as mentioned in note 3 (m). Movements in these assets during 2022 and 2021 are as follows:

| | 31/12/2022 | |
|---|---|---|
| *Thousand Euro* | **Non-current** | **Current** |
| Balance at 1 January 2022 | 44,961 | 99,609 |
| Additions | 74,916 | 98,844 |
| Transfer to profit or loss | - | (159,564) |
| Transfers to current | (72,284) | 72,284 |
| Balance at 31 December 2022 | **47,593** | **111,173** |

| | 31/12/2021 | |
|---|---|---|
| *Thousand Euro* | **Non-current** | **Current** |
| Balance at 1 January 2021 | 31,975 | 74,156 |
| Additions from business combinations (note 4.2) | 518 | 88 |
| Additions | 56,767 | 107,971 |
| Transfer to profit or loss | - | (126,905) |
| Transfers to current | (44,299) | 44,299 |
| Balance at 31 December 2021 | **44,961** | **99,609** |

## 9. Inventories

Details of inventories and movements are as follows:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| BUs | 13,952 | 27,345 |
| Advanced payments to suppliers | 50 | 5,032 |
| Other inventories | 409 | 661 |
| | **14,411** | **33,038** |

BUs caption includes the Bus related to the roll-out of the InfraCo and EKT Cable agreements (see notes 5 and 6). The profit generated by the sale of these BUs is recognised under the heading “Other operating Income” in the consolidated statement of profit or loss (see notes 22 (e)).

During 2022, the Group has sold 103 thousand BUs (100 thousand BUs during 2021) of the FTTH network related to InfraCo business agreement (see note 6) for a total amount of Euro 39,950 thousand (Euro 32,870 thousand in 2021) fully collected. The transaction has generated a profit of Euro 30,003 thousand (Euro 25,344 thousand in 2021). The transaction includes the transfer of 604 additional BUs by Euro 267 thousand that had been sold in January 2023 (see note 2 (d)).

Additionally, on 22 December 2022 the Group and InfraCo has entered in a new agreement to extend the roll-out of the previous agreement. During 2022 the Group has sold 277 thousand BUs for a total amount of Euro 105,132 thousand fully collected. The transaction generated a profit of Euro 80,253 thousand. The transaction includes the transfer of approximately 163 thousand additional BUs by a total amount of Euro 65,787 thousand, which are expected to be deployed approximately 159 thousand BUs during 2023 and 4 thousand BUs (see note 2 (d)).

On 27 July 2022 the Group completed EKT Cable transaction (see notes 5 and 11). Since 27 July 2022 to 31 December 2022 the Group has sold 68 thousand BUs for a total amount of Euro 6,245 thousand fully collected, which generated a profit of Euro 1,371 thousand. The transaction includes the transfer of approximately 32 thousand additional BUs that are expected to be deployed during 2023.

At 31 December 2022 and 2021 no impairment of inventories were identified.

Related to the BUs, the Group has taken out the same insurance policies mentioned in property, plant and equipment to cover the risks to which its BUs are exposed. The coverage provided by these policies is considered to be sufficient.

## 10. Other investments

Details of other investments are as follows:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| **Non-current** | | |
| Equity instruments | 1,812 | 1,487 |
| Loans to companies | 2,427 | 3,848 |
| Deposits and guarantees | 8,008 | 1,441 |
| Other financial assets | 23,107 | 7,238 |
| | **35,354** | **14,014** |
| **Current** | | |
| Loans to companies | 16,708 | 66,218 |
| Deposits and guarantees | 3,119 | 2,724 |
| Other financial assets | 10,797 | 1,562 |
| | **30,624** | **70,504** |

### Equity instruments

This caption relates to investments in companies where the Group holds an interest lower than 15%.

During 2022, the main addition relates to the acquisition of a non-controlling interest in Open Cable Telecomunicaciones, S.L. for an amount of Euro 171 thousand.

During 2021, additions related to the acquisition of a non-controlling interest in Kenmei Technologies, S.L. for an amount of Euro 500 thousand.

### Loans to companies

Current and non-current loans to companies reflect a receivable from the former shareholders of Pepemobile, S.L. as a result of the court judgment ordering them to pay damages to Xfera Móviles, S.A.U.'s subsidiary for breach of contract.

As of 31 December 2021, current loans to companies included credit facilities granted by the subsidiary MásMóvil Ibercom, S.A.U. to the associate Cabonitel, S.A. for Euro 53,162 thousand (see note 23). This loan has been settled when the Group has acquired control Cabonitel during 2022 (see note 11).

### Other financial assets

Other non-current financial assets mainly include accounts receivable from service telecommunication providers for an amount of Euro 18,811 thousand (Euro 4,066 thousand in 2021).

Additionally, the Group recognizes under other non-current financial assets long-term instalments receivable on financing granted to the Group's customers to buy telephone terminals in the amount of Euro 3,915 thousand (Euro 2,782 thousand in 2021). This financing has a 24-month term and is completely independent of the financing provided by financial institutions directly to customers.

Other current financial assets include Euro 10,500 thousand of banking fees paid in advance related to the non-recourse debt package that will finance the transaction with Orange (note 1).

The Group’s exposure to credit risk, liquidity risk and market risk is described in note 18.

### *Fair value*

For the majority of the other investments, the fair values are not materially different from their carrying amounts, since the interest receivable on those financial assets is either close to current market rates or the assets are of a short-term nature. The table below shows the fair values of the assets which are not measured at fair value.

| *Thousand Euro* | 31/12/2022 | | 31/12/2021 | |
|---|---|---|---|---|
| | **carrying amount** | **fair value** | **carrying amount** | **fair value** |
| Other non-current financial assets | 23,107 | 22,216 | 7,238 | 7,026 |

The fair values for other non-current financial assets were calculated based on cash flows discounted using a current lending rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

## 11. Investments in associates consolidated through the equity method

The Lorca JVCo Group comprises several companies in which the Group has significant influence, either through the incorporation together with other investors or the acquisition of shares.

The following table shows the associates at 31 December 2022 and 2021. Except for Bidasoa TopCo, S.L., the companies listed below have share capital composed only by ordinary shares. All the shares are held directly by the Group. The ownership interest is the same as the percentage of voting rights held.

| *Thousand Euro* | Country of incorporation | % of ownership | | Carrying amount | |
|---|---|---|---|---|---|
| | | **31/12/2022** | **31/12/2021** | **31/12/2022** | **31/12/2021** |
| **Associates** | | | | | |
| Medbuying Technologies Group, S.L. | Spain | 49.00% | 49.00% | 4,921 | 4,909 |
| Inversiones Locua, S.L. (through Spotting Development, S.L.) | Spain | 31.66% | 31.66% | 13,028 | 13,712 |
| Xfera Consumer Finance, Establecimiento Financiero de Crédito, S.A. | Spain | 49.00% | 49.00% | 9,349 | 6,559 |
| Onlycable Comunicación, S.L. | Spain | 71.25% | 75.00% | 31,720 | 33,773 |
| Innovaciones Tecnológicas del sur | Spain | 50% | 50% | 3,927 | 2,800 |
| Ucles Infraco, S.L. | Spain | 49.9% | 49.9% | 12,496 | - |
| Cabonitel, S.A. | Portugal | 100.00% | 49.99% | - | - |
| Bidasoa Topco, S.L. | Spain | 49.00% | - | 71,655 | - |
| | | | | 147,096 | 61,753 |

- **Medbuying Technologies Group, S.L.**

Xfera Móviles S.A.U., Global Dominion Access, S.A. and Euskaltel, S.A. set up the company Medbuying Technologies Group S.L. to engage in the purchase and sale of all kinds of mobile telephony and technology devices.

- **Inversiones Locua, S.L. through Spotting Development, S.L.**

The Group, through its company Xfera Móviles, S.A.U., is the sole shareholder of Spotting Development, S.L., whose only asset is the investment of 31.6635% in the share capital of Inversiones Locua, S.L. (ILocua). ILocua participation is consolidated by the equity method.

- **Xfera Consumer Finance, Establecimiento Financiero de Crédito, S.A.**

Xfera Móviles S.A.U., together with Banco Cetelem, S.A.U., set up the hybrid payment entity Xfera Consumer Finance, Establecimiento Financiero de Crédito, S.A. This company began to do business in 2020, once the pertinent Bank of Spain authorisation had been granted. During 2022 the Group made additional capital contributions of Euro 4,410 thousand (Euro 2,058 thousand in 2021).

- **Onlycable Comunicación, S.L. (through Spotting Brands Technologies, S.L.)**

On 15 December 2020, the Group, through Spotting Brand Technologies, S.L., which belongs to the Ahímas Group, acquired a 75% interest in Onlycable Telecomunicaciones, S.L. whose corporate purpose is the provision of all types of telecommunications, core carrier and value added services, through wire, cable or fibre. The Group has consolidated this company applying the equity method considering the current shareholder's agreements between the companies.

As a result of the purchase price allocation of the Ahímas Group, the Group increased the fair value of its share in Onlycable in Euro 20,469 thousand. At 31 December 2022, the Group holds a 71,25% in Onlycable.

- **Uclés InfraCo, S.L.**

On 29 April 2021, the Group, through its subsidiary MásMóvil Broadband S.A.U., signed a purchase-sale agreement with Uclés Holdco S.L.U. to acquire a 49.9% share in Uclés InfraCo S.L. by an amount of Euro 1 thousand. During 2022 the Group has made additional capital contributions of Euro 26,631 thousand.

The Group did not recognise at 31 December 2021 losses of Uclés InfraCo, S.L. since it had already been fully written down at year end.

- **Cabonitel, S.A.**

At 31 December 2021 the Group, through its subsidiary MásMóvil, had a 49.9% interest in Cabonitel, S.A. (Cabonitel). The remaining ownership interest of 50.01% was held by GAEA Inversión SCR, S.A. (GAEA). Cabonitel is a Portuguese company which owns the Portuguese telecommunications operator Nowo Communications S.A. (NOWO).

The Group and GAEA had granted each other certain reciprocal put and call options over their shareholdings in Cabonitel that, if exercised, would grant the Group control over Cabonitel. The exercise of such put and call options was contingent on obtaining the authorisation by the Portuguese Anti-trust Authorities (ANACOM). As of 31 December 2021, the Directors concluded that the options did not grant the Group control over Cabonitel, hence the shareholding was recorded as an associate and the options were recorded as derivative financial instruments measured at fair value through profit or loss (the economic value of such instruments tended to zero). The shareholding in this associate was fully written down due to cumulative losses.

On 15 February 2022, ANACOM made public its decision not to oppose the change of shareholders in Cabonitel considering unlikely that it would create significant impediments to competition in the Portuguese market or in a substantial part of it.

On 1 April 2022 the Group has acquired the remaining 50.01% ownership interest from GAEA for an amount of Euro 46.6 million through the cancellation of a credit for an amount of Euro 40 million (see note 10) and Euro 6.6 million in cash.

At the date of acquisition of control of Cabonitel, the Group was already considering its disposal which was subsequently formalised through a sale agreement with a third party on 29 September 2022 for Euro 72 million. At 31 December 2022, the sale has not been completed since certain regulatory conditions have not been fulfilled, among them the approval by the Portuguese and EU Anti-trust Authorities. Cabonitel´s assets and liabilities are consequently presented as held-for-sale in the consolidated financial statements as of 31 December 2022, and the results of its operations as discontinued operations (see notes 4.1 and 27).

- **Bidasoa TopCo, S.L.**

As mentioned in note 2 a), on 20 July 2022 the Group reached an agreement with Bidasoa Aggregator to sell its 100% share interest in EKT Cable to Bidasoa BidCo for Euro 579.3 million (see note 27) fully paid. The transaction was completed on 27 July 2022 following compliance with the conditions precedent established in the agreement.

The Group simultaneously acquired a 49% shareholding in Bidasoa TopCo, a company which had been wholly owned by Bidasoa Aggregator until that time and which indirectly owned 100% of the share capital of Bidasoa BidCo. The Group was granted a call option to purchase the remaining share capital of Bidasoa TopCo after five years from the effective date of the agreement, to be exercised during a time period of 6 months, at a variable price based on the performance of the business plan.

The share capital of Bidasoa Aggregator in Bidasoa TopCo enjoys certain preferential economic rights, such as dividend distributions and preferred quote in the event of a sale to a third party or liquidation, until these shareholders reach a pre-established rate of return.

After evaluating the design and purpose of the transaction, relevant activities and who exercises power over them, the exposure to variable returns on the investment, the existence of potential voting rights, as well as the agreements between the shareholders, the Group has concluded that it has significant influence over Bidasoa TopCo and that it is Bidasoa Aggregator who has control over it, given that the rights over the relevant activities are basically derived from the voting rights, with Bidasoa Aggregator holding the majority of them.

The Group has opted to recognise its interest in Bidasoa TopCo at fair value and to recognise the total gain of Euro 595,391 thousand on the sale of the EKT Cable business in the consolidated statement of profit or loss (see note 27).

In addition, the Group has recognised the call option as a financial instrument at fair value through profit or loss. The fair value of the call option at the transaction date amounted to Euro 15.9 million, and Euro 16.8 million at 31 December 2022, (see note 18 e)), using the assessment of independent experts for this valuation.

## Summarised financial information regarding associates

A summary of the financial information regarding the associates that have been identified as material and/or significant for the Group is presented below. The information presented reflects the amount included in the financial statements for the relevant associate and not the interest of Lorca JVCo Group in those amounts:

| | At 31 December 2022 | | | |
|---|---|---|---|---|
| ***Summarized balance sheet (unaudited) -*** *Thousand Euro* | **Medbuying Technologies** | **Xfera Consumer Finance** | **Ucles Infraco S.L.** | **Bidasoa Topco S.L.** |
| Current assets | 78,414 | 213,624 | 185,290 | 41,414 |
| Non-current assets | 6 | 1,143 | 551,430 | 856,702 |
| Current liabilities | (68,377) | (195,688) | (185,291) | (30,444) |
| Non-current liabilities | - | - | - | (686,550) |
| **Net assets** | 10,043 | 19,079 | 551,429 | 181,122 |
| *Reconciliation to carrying amounts* | | | | |
| Opening net assets 1 January | 10,019 | 13,386 | - | - |
| Profit/ (loss) for the year | 24 | (3,307) | (28,327) | (15,084) |
| Other comprehensive income for the year | - | - | - | 27,456 |
| Capital increase | - | 9,000 | - | 168,750 |
| **Closing net assets** | 10,043 | 19,079 | (28,327) | 181,122 |
| Group's share in % | 49.00% | 49.00% | 49.90% | 49.00% |
| Group's share in thousand Euro | 4,921 | 9,349 | (14,135) | 88,750 |
| Additional shareholder’s contribution | - | - | 26,631 | - |
| Call option | - | - | - | (16,800) |
| Other | - | - | - | (295) |
| **Carrying amount** | 4,921 | 9,349 | 12,496 | 71,655 |

| | At 31 December 2021 | |
|---|---|---|
| ***Summarized balance sheet (unaudited) -*** *Thousand Euro* | **Medbuying Technologies** | **Xfera Consumer Finance** |
| Current assets | 72,178 | 126,259 |
| Non-current assets | 8 | 1,454 |
| Current liabilities | (62,167) | (114,327) |
| Non-current liabilities | - | - |
| **Net assets** | 10,019 | 13,386 |
| *Reconciliation to carrying amounts* | | |
| Opening net assets 1 January | 10,000 | 10,797 |
| Profit/ (loss) for the year | 19 | (1,611) |
| Capital increase | - | 4,200 |
| **Closing net assets** | 10,019 | 13,386 |
| Group's share in % | 49.00% | 49.00% |
| Group's share in thousand Euro | 4,909 | 6,559 |
| **Carrying amount** | 4,909 | 6,559 |

The Group also has interests in a number of individually immaterial associates. The following table analyses, in aggregate, the carrying amount and share of profit or loss of these associates.

| | 31/12/2022 | 31/12/2021 |
|---|---|---|
| Aggregate carrying amount of individually immaterial associates | 49,360 | 50,285 |
| Aggregate amounts of the group's share of profit: | (1,379) | 4,919 |

## 12. Trade and other receivables

A breakdown of trade and other receivables is as follows:

| *Thousand Euro* | 31/12/2022 | 31/12/2021 |
|---|---|---|
| Trade receivables | 476,740 | 437,916 |
| Other receivables | 19,205 | 24,489 |
| Other receivables from Public Administrations | 13,981 | 12,509 |
| | 509,926 | 474,914 |
| Impairment adjustments | (109,710) | (52,811) |
| | **400,216** | **422,103** |

Other receivables from Public Administrations relate mainly to balances refundable in respect of Value Added Tax ("VAT").

Movements in the provision for estimated credit losses (see note 22(d)) are as follows:

| *Thousand Euro* | 31/12/2022 | 31/12/2021 |
|---|---|---|
| Opening balance | **(52,811)** | **(7,429)** |
| Charges | (60,475) | (50,574) |
| Reversals | 3,576 | 5,192 |
| Closing balance | **(109,710)** | **(52,811)** |

The Group's exposure to credit risk, liquidity risk and market risk is described in note 18.

### *Fair value*

The fair values of Trade and other receivables do not materially differ from their carrying amounts since they have a short-term nature.

## 13. Equity

Details and movements of equity are shown in the consolidated statement of changes in equity.

### a) Share capital

| | 31/12/2022 | 31/12/2021 |
|---|---|---|
| **Authorised:** | | |
| 2,051,173,558 shares of Euro 0.01 each | 20,512 | 20,512 |
| | **20,512** | **20,512** |
| **Issued and fully paid:** | | |
| 102,551,041 ordinary shares issued of Euro 0.01 each | 1,026 | 1,026 |
| 1,948,622,516 preferred shares issued of Euro 0.01 each | 19,486 | 19,486 |
| **At 31 December 2022, 2,051,173,558 shares of Euro 0.01 each** | **20,512** | **20,512** |

Ordinary and preferred shares have the same main rights, especially voting rights. Preferred shares shall be entitled in priority to any payment of dividend.

On 10 August 2021 the Parent Company's shareholders carried out a capital increase of 1,135,296 shares, new shares with a par value of Euro 0.01 each resulting in a share premium of Euro 1,123,943.

On 22 December 2021 the Parent Company's shareholders carried out a capital increase of 200,000,000 shares with a par value of Euro 0.01 each resulting in a share premium of Euro 198,000,000.

Share subscriptions are as follows:

| | Date | Number of shares | Nominal (€) | Amount paid (€) | Share capital (€) | Share premium (€) | Total |
|---|---|---|---|---|---|---|---|
| **Total as at 31 December 2020** | | **1,850,038,261** | | | **18,500,383** | **1,831,537,877** | **1,850,038,260** |
| Ordinary | 10/08/2021 | 49,872 | 0.01 | 1 | 499 | 49,373 | 49,872 |
| | 22/12/2021 | 9,999,255 | 0.01 | 1 | 99,993 | 9,899,262 | 9,999,255 |
| **Total ordinary** | | **10,049,127** | | | **100,492** | **9,948,635** | **10,049,127** |
| Preferred | 10/08/2021 | 1,085,424 | 0.01 | 1 | 10,854 | 1,074,570 | 1,085,424 |
| | 22/12/2021 | 190,000,745 | 0.01 | 1 | 1,900,007 | 188,100,738 | 190,000,745 |
| **Total preferred** | | **191,086,169** | | | **1,910,861** | **189,175,308** | **191,086,169** |
| **Total as at 31 December 2021** | | **2,051,173,557** | | | **20,511,736** | **2,030,661,820** | **2,051,173,556** |
| Ordinary | - | - | - | - | - | - | - |
| Preferred | - | - | - | - | - | - | - |
| **Total as at 31 December 2022** | | **2,051,173,557** | | | **20,511,736** | **2,030,661,820** | **2,051,173,556** |

Lorca JVCo management has evaluated the rights of the preferred shares and has concluded that the Company does not have an unconditional obligation to deliver cash or another financial asset to settle the obligation. If there is a commitment to distribute cash, the approval and distribution is subject to approval by the Company's Board of Directors and this is discretionary as to its timing and amount. For this reason, the Company classifies the preferred shares as equity instruments.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

**b) Retained earnings**

During 2021, the non-controlling interest transaction mainly included Euro 30,943 thousand in connection with the present value of the amount to be reimbursed regarding the put option related to Energía Colectiva business combination (see notes 4.2.a) and 14 (d)). This financial liability was recorded debiting retained earnings since the non-controlling shareholders bore the risk and rewards of its investment until the exercise of the put option.

During 2022, as a result of the acquisition of the non-controlling shareholding in Energía Colectiva for an amount of Euro 7,007 thousand, the financial liability and the non-controlling interests of Euro 599 thousand have been written down, crediting reserves by Euro 29,828 thousand.

Additionally, this caption records the impact of the acquisition of the non-controlling shareholdings of Comlocal and other associates and the sale of the 10% of the shareholding of Senior Telecomunicaciones y Servicios Avanzados S.L. (see Non-controlling interest of this note)

**c) Other reserves**

Other reserves mainly include the cash flow hedge reserve (see note 18 (e)). The cash flow hedge reserve is used to recognise the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges, as described in note 3 (i).

**d) Non-controlling interest**

The Group held a 89.98% interest in Comlocal, S.L. as of 31 December 2021. On 16 September 2022 the Group has acquired the remaining non-controlling interest of 10.02% in the share capital of Comlocal, S.L. for Euro 350 thousand. The Group has recognised a decrease in non-controlling interests for an amount of 150 thousand and a debit to reserves of Euro 200 thousand. At 31 December 2022, the Group held 100% of the shares for a total amount of Euro 1,697 thousand.

During 2022, the Group sold 10% of Senior Telecomunicaciones y Servicios Avanzados S.L., through its subsidiary Xfera for an amount of Euro 285 thousand. Currently, the Group holds 82% of the share capital of the company for a total amount of Euro 2,329 thousand.

As mentioned in notes 4.2.a) and Retained earnings of this note, on 16 September 2022 the Group has acquired the remaining non-controlling interest in Energía Colectiva and non-controlling interests of Euro 599 thousand has been derecognised.

## 14. Financial liabilities

Details of financial liabilities are as follows:

| | 31/12/2022 | |
|---|---|---|
| *Thousand Euro* | Non-current | Current |
| Loans and borrowings | 3,098,824 | 100,370 |
| Other payables | 172,102 | 295,764 |
| Lease liabilities | 176,641 | 45,678 |
| Other financial liabilities | 2,804,394 | 316,986 |
| Trade and other payables (note 17) | 66,046 | 1,088,980 |
| | **6,318,007** | **1,847,778** |

| | 31/12/2021 | |
|---|---|---|
| *Thousand Euro* | Non-current | Current |
| Loans and borrowings | 3,576,371 | 16,337 |
| Derivative financial instruments | 836 | - |
| Other payables | 211,089 | 367,875 |
| Lease liabilities | 188,193 | 46,360 |
| Other financial liabilities | 2,875,888 | 415,412 |
| Trade and other payables (note 17) | 55,563 | 1,105,490 |
| | **6,907,940** | **1,951,474** |

## a) Loans and borrowings

This heading records the financing agreements with various national and international banks. The purpose of these financing agreements was the refinancing of the debt structure of the acquired MásMóvil and Euskaltel Groups (see notes 1 and 4), and the financing of part of the acquisition price of such Groups and its future developments.

Details of loans and borrowings are as follows:

| | 31/12/2022 | | 31/12/2021 | |
|---|---|---|---|---|
| *Thousand Euro* | Non-current | Current | Non-current | Current |
| Loans | 3,097,289 | 4,632 | 3,576,371 | 15,600 |
| Credit lines | - | 92,594 | - | 236 |
| Other loans and borrowings | 1,535 | 3,144 | - | 501 |
| | **3,098,824** | **100,370** | **3,576,371** | **16,337** |

The terms and conditions of loans and borrowings at 31 December 2022 are as follows:

| *Thousand Euro* | | | | | | | | **31/12/2022** |
|---|---|---|---|---|---|---|---|---|
| Company | Currency | Fixed or variable rate | Effective interest rate | Maturity | Nominal | Current | Non-current | Total |
| Various financial institutions (Senior Debt) | EUR | Variable | 4.25% - 5.5% | 2027 | 2,200,000 | 3,299 | 2,117,974 | 2,121,273 |
| Various financial institutions (Senior Debt) | EUR | Variable | 3.75% - 4.5% | 2027 | 1,000,000 | 1,333 | 979,315 | 980,648 |
| Other loans and credit policies | EUR | Fixed / Variable | - | 2023-2025 | - | 95,738 | 1,535 | 97,273 |
| | | | | | | 100,370 | 3,098,824 | 3,199,194 |

The terms and conditions of loans and borrowings at 31 December 2021 are as follows:

| *Thousand Euro* | | | | | | | | **31/12/2021** |
|---|---|---|---|---|---|---|---|---|
| Company | Currency | Fixed or variable rate | Effective interest rate | Maturity | Nominal | Current | Non-current | Total |
| Various financial institutions (Senior Debt) | EUR | Variable | 4.250% | 2027 | 2,200,000 | 3,824 | 2,102,565 | 2,106,389 |
| Various financial institutions (Senior Debt) | EUR | Variable | 3.75% | 2027 | 1,000,000 | 5,967 | 975,451 | 981,418 |
| Various financial institutions (Senior Debt) | EUR | Fixed | 2.50% | 2027 | 500,000 | 2,917 | 494,191 | 497,108 |
| Other loans and credit policies | EUR | Fixed / Variable | - | 2022-2025 | - | 3,629 | 4,164 | 7,793 |
| | | | | | | 16,337 | 3,576,371 | 3,592,708 |

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

See note 18 for further information regarding the Group's exposure to interest rate, currency and liquidity risks.

The aforementioned financing is structured as follows:

(i) Euro 2,200 million through a syndicated financing agreement without maintenance covenants (TLB), accruing interest at a rate of Euribor + 4.25% per annum, the terms of which are linked to (i) the Net senior debt / EBITDA ratio (based on the definition of EBITDA established in the agreement), and (ii) certain criteria relating to sustainability. This loan, which was signed on 3 July 2020 by the subsidiary Lorca FinCo Plc, was placed among institutional investors. The loan is repayable in a single payment (bullet repayment) after 7 years (September 2027). At 31 December 2022 and 2021, the Group had drawn down the full amount of this loan. The bank costs associated with this loan amounted to Euro 117 million were treated as part of the amortised cost of the loan.

(ii) On 5 August 2021, a new tranche of the term loan facility by Euro 800 million ("Facility B2") was signed by the subsidiary Lorca FinCo Plc. Additionally, on 25 October 2021 this new tranche was increased by Euro 200 million. This new tranche of the loan accrues interest at a rate of Euribor + 3.75% per annum. At 31 December 2022 and 2021 the Group had drawn down the full amount of this new tranche of the loan. The bank costs associated with this loan have amounted to Euro 27 million and were treated as part of the amortised cost of the loan.

(iii) Euro 500 million in the form of a revolving credit facility (RCF) accruing interest at a rate of Euribor + 3.5% per annum, the terms of which are associated with the (i) the Net senior debt / EBITDA ratio (based on the definition of EBITDA established in the agreement) and (ii) certain criteria relating to sustainability. This credit facility, which was signed on 3 July 2020 by the subsidiary Lorca FinCo Plc, has been granted by various financial institutions. This credit facility can be used to meet the Group's operational needs and has a “springing covenant” which is triggered at the time the drawndown amount exceeds 40% of the total credit facility. At 31 December 2022, the Group had available the full amount of this line of credit (see note 2 (d)).

(iv) An additional Euro 250 million revolving credit facility (RCF) (Revolving Facility 2) accruing interest at a rate of Euribor + 3.25% per annum, the terms of which are associated with the (i) the Net senior debt / EBITDA ratio (based on the definition of EBITDA established in the agreement) and (ii) certain criteria relating to sustainability. This credit facility was signed on 5 August 2021 by the subsidiary Lorca FinCo Plc, can be used to meet the Group’s operational needs and has a “springing covenant” which is activated at the time the drawn down amount exceeds 40% of the total credit facility. At 31 December 2022, the Group had available the full amount of this line of credit (see note 2 (d)).

This debt is secured by a package of guarantees, the most important of which is that corresponding to the shares/holdings in the Company’s principal subsidiaries and Lorca Telecom BidCo, as well as the shares of Lorca Holdco Ltd.

To mitigate the volatility of the interest rate risk the Group has outstanding interest hedging structures (swaps and caps). At the date of issue of these consolidated financial statements, the Group has interest rate hedging instruments with a notional amount of Euro 1,000 million. See note 18 (e) for further information regarding the valuation of these hedging instruments.

On 26 March 2021, the Group signed an Assets bridge financing by Euro to 500 million accruing interest at rate Euribor +2.5% subscribed by the subsidiary Lorca FinCo Plc. This bridge financing had a maturity of 60 months from the first provision and the Group had drawn down the full amount of this asset bridge financing on 6 August 2021. On 27 July 2022, the asset bridge financing was fully repaid using the funds obtained from the sale of EKT Cable y Telecomunicaciones, S.L. (see note 27).

At 31 December 2022 the Group has available short-term lines of credit totalling Euro 33,144 thousand (Euro 109,150 thousand at 31 December 2021). At the date of these consolidated financial statements, the Group has drawn Euro 92,594 thousand against these short-term lines of credit (see note 2 (d)).

## b) Other payables

This note provides information regarding the contractual terms of other debts that are measured on an amortised cost basis. See note 18 for further information regarding the Group’s exposure to interest rate, currency and liquidity risks.

The heading “Other payables” essentially records payables to asset suppliers relating to the deployment of the telecommunications network showing a current and non-current balance of Euro 288,839 thousand (Euro 359,732 thousand in 2021) and Euro 161,030 thousand (Euro 193,184 thousand in 2021), respectively.

This heading also records the balance relating to the loans granted by public entities (Ministry of Industry, Tourism and Commerce) whose effective interest rate varies between 0% and 4% and are for a total of Euro 8,785 thousand at 31 December 2022 (Euro 10,372 thousand at 2021). The current tranche amounts to Euro 1,453 thousand at 31 December 2022 (Euro 1,510 thousand at December 2021), while the non-current tranche totals Euro 7,332 thousand (Euro 8,862 thousand in 2021).

**c) Lease financial liabilities**

This heading records the amount of the liabilities relating to the lease agreements.

**d) Other financial liabilities**

The balance of “Other financial liabilities” essentially includes the following items and transactions:

*Non-current*

- Euro 2,800,215 thousand (Euro 2,791,105 thousand at 2021) corresponding to bonds issued.

  During 2020, the Group issued senior secured bonds amounting to a total of Euro 800 million, with a fixed annual coupon of 4.00%, maturing in September 2027. The bonds were issued by the subsidiary Lorca Telecom BondCo, S.A.U. and the funds obtained have been used to cancel the bridge financing facility concluded by MásMóvil Group, as well as to acquire part of the shares of the MásMóvil Group.

  These bonds were issued in two operations:

  a. An initial issue amounting to Euro 720 million at par value (7,200,000 bonds with a par value of Euro 100,000), on 30 September 2020.
  b. Subsequently, on 10 November 2020, there was an issue of 800,000 fungible bonds (same coupon and same maturity) which were placed among investors at 101.375% of their par value, the amount obtained totalling Euro 81 million.

  Both issues form part of the same bond issue contract and shall pertain, to all intents and purposes, to a single series (collectively, the “Bonds”) and the information memorandum in respect of them has been entered in the official registers of the Luxembourg stock market and they are listed on the Euro MTF Market.

  The issue expenses in respect of these Bonds amounted to Euro 2,088 thousand and were treated as part of their amortised cost.

  Additionally, on 13 October 2021, the Group issued both (i) a tap of the senior secured bonds of Euro 1,550 million maturing on 30 September 2027 and (ii) senior unsecured bonds amounting to Euro 500 million maturing in September 2027. These bonds were issued in two operations:

  - Tap of the Senior secured bonds by Euro 1,550 million, issued at par value, with a fixed annual coupon of 4.00%. The bonds were issued by the subsidiary Lorca Telecom BondCo, S.A.U., which is indirectly wholly owned by Lorca JVCo. The issue expenses in respect of these bonds amounted to Euro 44 million and were treated as part of their amortised cost. As this is a Tap of the previous bond, it forms part of the same bond issue contract and shall pertain, to all intents and purposes, to a single series (collectively, the "Bonds") and the information memorandum in respect of them has been entered in the official registers of the Luxembourg stock market and they are listed on the Euro MTF Market.

- Senior Unsecured bonds by Euro 500 million with a fixed annual coupon of 5.125%. These bonds were issued by the subsidiary Kaixo BondCo Telecom, S.A.U. The issue expenses in respect of these bonds amounted to Euro 14 million and were treated as part of their amortised cost.

- Euro 3,699 thousand (Euro 2,473 thousand in 2021) correspond to deferred payments related to business combinations.

At 31 December 2021 this heading recorded Euro 30,943 thousand related to the present value of the amount to be reimbursed regarding the put option sold to the Energía Colectiva business combination (see note 13.b)). As a result of the acquisition of the remaining non-controlling interest in Energía Colectiva during 2022 the financial liability has been derecognised.

Additionally, this heading recorded Euro 41,649 thousand at 31 December 2021 which corresponded to promissory notes issued by the Group through its subsidiary MásMóvil Ibercom, S.A.U., maturing on 31 March 2023. All the promissory notes were issued within the framework of the Promissory Notes Programme amounting to Euro 300,000 thousand, which was registered on the MARF on 22 October 2020. The promissory notes were issued at interest rates of between 0.2% and 0.28% per annum.

*Current*

- Euro 229,906 thousand (Euro 346,025 thousand in 2021) correspond to promissory notes (see note 2 (d)), as follow:

  (i) Euro 153,700 thousand (Euro 197,700 thousand in 2021) correspond to promissory notes issued by the Group through its subsidiary MásMóvil Ibercom S.A.U, as part of the same program mentioned in non-current “Other financial liabilities” of this note.

  (ii) Euro 76,206 thousand (Euro 148,325 thousand at 31 December 2021) correspond to Euskaltel promissory notes program issued by the Group through its subsidiary Euskaltel, S.A.U., all of them issued under the ECP program (Euro-Commercial Paper Programme) for an amount of Euro 200 million, registered in Euronext Dublin on 24 March 2021. The notes have been issued at an average interest rate of 0.16% per annum.

- Euro 28,928 thousand at 31 December 2022 (Euro 26,788 thousand at 31 December 2021) correspond to deferred payments in respect of business combinations.

- Euro 34,891 thousand at 31 December 2022 (Euro 32,898 thousand at 31 December 2021) corresponding to interest accrued on the bonds issued.

- Euro 10,483 thousand at 31 December 2022 (Euro 5,445 thousand at 31 December 2021) corresponding to the amount payable to Jazz Telecom S.A.U. as a result of the agreement signed regarding the assignment of the indirect right held by the latter company to use the copper line network maintained by Telefónica de España, S.A. to the subsidiary MásMóvil Broadband, S.A, with maturity date of 2 December 2023.

- Euro 9,594 thousand at 31 December 2022 correspond to the debt payable to EKT Cable y Telecomunicaciones, S.L., who was part of the VAT Group until June 2022.

## e) Fair value

For the short-term financial liabilities, their fair values are not materially different from their carrying amounts.

Fair values of the financial liabilities which are not measured at fair value are presented in the table below:

| *Thousand Euro* | **31/12/2022** | | **31/12/2021** | |
|---|---|---|---|---|
| | **carrying amount** | **fair value** | **carrying amount** | **fair value** |
| Non-current loans and borrowings | 3,098,824 | 3,098,824 | 3,576,371 | 3,576,371 |
| Other non-current payables | 172,102 | 235,073 | 211,089 | 222,250 |
| Other non-current financial liabilities | 2,804,394 | 2,574,225 | 2,875,888 | 2,977,907 |
| Non-current trade and other payables | 66,046 | 69,679 | 55,563 | 55,563 |

Non-current loans and borrowings mainly include the TLB which has a variable interest rate. The fair value has been estimated as the present value of expected payments discounted using a risk-adjusted discount rate. They are classified as level 1 fair values in the fair value hierarchy (see note 2(f)) due to the use of observable inputs.

The fair values for other non-current payables which includes payables to asset suppliers and loans granted from public entities, were calculated based on cash flows discounted using a current lending rate. They are classified as level 3 fair values in the fair value (see note 2(f)).

The bonds recorded under other non-current financial liabilities are listed on the Luxembourg Euro MTF Market, and the fair value is based on their respective quoted market prices at the reporting date. They are classified as level 1 fair values in the fair value hierarchy (see note 2(f)) due to the use of observable inputs.

Non-current trade and other payables recorded he liabilities for payments in connection with the termination of unfavourable contracts.  The liabilities were calculated based on discounted cash flows using a current lending rate. They are classified as level 3 fair values in the fair value (see note 2(f)).

## 15. Provisions

Details of provisions are as follows:

| *Thousand Euro* | 31/12/2022 Non-current | 31/12/2022 Current | 31/12/2021 Non-current | 31/12/2021 Current |
|---|---|---|---|---|
| Provision for unfavourable contracts | 67,553 | 39,790 | 116,793 | 44,028 |
| Provision for commercial transactions | 3,650 | 7,391 | 2,259 | 7,664 |
| Dismantling of sites provision | 6,780 | - | 6,780 | - |
| Provision for employee benefits | - | 311 | - | 852 |
| Provisions for other liabilities | 2,208 | 2,625 | 2,838 | 2,644 |
| | **80,191** | **50,117** | **128,670** | **55,188** |

Movements in provisions are as follows:

| *Thousand Euro* | Provision for unfavourable contracts | Provision for commercial transactions | Dismantling of sites provision | Provision for employee benefits | Provisions for other liabilities | Total |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2020** | 38,104 | 10,647 | 7,817 | 10,801 | 6,880 | 74,249 |
| Additions from business combinations (note 4.2) | 252,100 | - | - | 26,799 | 1,872 | 280,771 |
| Charge for the year | 2,409 | 2,005 | - | 601 | 1,254 | 6,269 |
| Applications | (131,792) | - | - | (36,799) | (4,207) | (172,798) |
| Reversals | - | (2,729) | (1,037) | (550) | (317) | (4,633) |
| **Balance at 31 December 2021** | **160,821** | **9,923** | **6,780** | **852** | **5,482** | **183,858** |
| Charge for the year | 6,615 | 3,502 | - | - | 235 | 10,352 |
| Applications | (60,093) | - | - | - | - | (60,093) |
| Reversals | - | (2,384) | - | (541) | (884) | (3,809) |
| **Balance at 31 December 2022** | **107,343** | **11,041** | **6,780** | **311** | **4,833** | **130,308** |

### Provision for unfavourable contracts

At 31 December 2022, this item mainly includes:

(i) A provision of Euro 75,503 thousand (Euro 125,300 thousand in 2021) for telecommunication service penalties relating to the Euskaltel Group acquisition (see note 4.2(b)). Applications by Euro 56,412 (Euro 42,764 thousand in 2021) have been released to profit or loss to offset the impact of the unfavourable contracts.

(ii) A provision of Euro 29,431 thousand (Euro 33,112 thousand in 2021) relating to the agreement of the Group company Xfera Móviles, S.A.U. for the provision of telecommunications services, the price of which is considered to be above market price. This provision is applied over the remaining term of the agreement, which expires in 2030.

### Provision for commercial transactions

Xfera Móviles, S.A.U. offers its customers subscription services providing access to a terminal financing model, primarily through bank borrowings, for a term of 24 months, plus a final payment (“Cuota 25”). At the maturity date of the financing contract, the customer has the option of paying the final instalment or selling the terminal to the Group for the amount of the “Cuota 25”. The Group estimates a provision to cover the possible risks deriving from default on the financing and terminal purchases, taking into consideration the market value of the terminal if acquired from the customer.

**Provision for dismantling of sites**

The dismantling of sites provision reflects the estimated cost of decommissioning, removing or restoring the sites of telecommunication infrastructures. It is recognised as an increase in the value of the assets and is calculated using the estimated unit cost of decommissioning and the hypothetical contract completion date based on the past experience.

**Provision for employee benefits**

This provision includes an estimate of severance and indemnity costs that have yet to be paid.

**Provisions for other liabilities**

Provisions for other liabilities include the estimated risk of litigation or claims in progress.

## 16. Government grants

Movements in non-refundable government grants are as follows:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Balance at 1 January | 5,483 | 3,406 |
| Grants received during the year | 3,186 | 3,382 |
| Grants released to income (note 22 (e)) | (765) | (1,305) |
| Balance at 31 December | **7,904** | **5,483** |

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

## 17. Trade and other payables

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

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| **Non-current** | | |
| Trade payables | 66,046 | 55,563 |
| | 66,046 | 55,563 |
| **Current** | | |
| Trade payables | 1,033,911 | 1,056,991 |
| Public authorities, other taxes | 121,466 | 88,364 |
| Accrued wages and salaries | 15,911 | 17,203 |
| Customer advances | 21,002 | 9,147 |
| Other payables | 18,156 | 22,149 |
| | 1,210,446 | 1,193,854 |
| | **1,276,492** | **1,249,417** |

The Group's exposure to foreign currency and liquidity risk in relation to trade and other payables is described in note 18.

### *Fair value*

The fair values of Trade and other payables do not materially differ from their carrying amounts since they have a short-term nature. Please refer to note 14 e) for the fair value of non-current trade and other payables.

## 18. Financial risk management and fair value

### *General*

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

- credit risk.
- liquidity risk.
- market risk.

This note contains information on the Group's exposure to each of the risks indicated, its objectives, policies and procedures for measuring and managing each risk, and the way in which the Group manages capital.

### *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 designed to identify and analyse the risks undertaken by the Group, define suitable risk limits and controls, and control risks and the observance of limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the Group's activities. The Group, through its management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's overall risk management programme focuses on minimising uncertainty in financial markets and the potential adverse effects on the Group's financial performance. The Group employs derivatives to hedge certain risks.

### a) Credit risk

Credit risk is the risk of financial loss to which the Group is exposed if a client or counterparty of a financial instrument fails to comply with their contractual obligations and mainly stems from trade receivables and investment instruments.

### *Exposure to credit risk*

The maximum exposure to credit risk for loans and other receivables in the consolidated statement of financial position at the reporting date is as follows:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Loans to companies (note 10) | 18,653 | 70,066 |
| Deposits and guarantees (note 10) | 11,127 | 4,165 |
| Other financial assets (note 10) | 33,904 | 8,800 |
| Trade and other receivables (note 12) | 386,235 | 409,594 |
| | **449,919** | **492,625** |

*Trade and other receivables*

The Group has no significant concentrations of credit risk and maintains policies to ensure that sales are made to customers with an appropriate credit history.

When the Group offers its own financing facilities for the purchase of terminals, the accounts receivable from customers are recognised under “Trade and other receivables” for the short-term part and in “Other non-current financial assets” for the long-term portion (see note 10).

The Group has policies to limit exposure to risk in respect of trade receivables and financial institutions, exposure to risk affecting the recovery of receivables being managed as part of ordinary activities. The Group ensures that services are rendered to customers with an adequate credit history.

The Group has formal procedures to identify the impairment of trade receivables. Through these procedures the Group estimates, based on the experience of customer insolvencies from the past 12 months, the percentages of trade receivables default and registers the impairment credit expected at the commencement. The main components of impairment are individually significant exposures and a collective loss component for groups of similar assets in respect of losses incurred but not yet identified.

Trade receivables are initially measured at fair value, which coincides with the face value, less the expected loss over the projected life of the receivable.

There are no significant overdue receivables for which a loss allowance was not recorded, and trade receivables from business combinations have been recognised at market value and thus net of their related loss allowances.

**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, in both normal and difficult conditions, so as to avoid incurring unacceptable losses or risking its reputation.

The Group applies a prudent policy to cover its liquidity risks, based on having sufficient cash and marketable securities as well as sufficient financing through credit facilities to settle market positions. Given the dynamic nature of its underlying business, the Group's Finance Department aims to be flexible with regards to financing through drawdowns on contracted credit facilities.

At 31 December 2022, the Group’s available cash resources amount to Euro 26,973 thousand (Euro 152,495 thousand in 2021). Net cash from operating activities during the year 2022 was positive in the amount of Euro 585,744 thousand (net cash from operating activities in 2021 was positive in the amount of Euro 563,953 thousand).

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

| *Thousand Euro* | 31/12/2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **Contractual cash flows** | **Less than 1 year** | **More than 1 and less than 2 years** | **More than 2 and less than 3 years** | **More than 3 and less than 4 years** | **More than 4 and less than 5 years** | **More than 5 years** |
| Loans and bank borrowings | 3,199,194 | 3,300,814 | 100,370 | 444 | - | - | 3,200,000 | - |
| Other payables | 467,866 | 467,867 | 295,764 | 30,637 | 24,231 | 23,662 | 23,650 | 69,923 |
| Lease liabilities | 222,319 | 222,320 | 45,678 | 38,947 | 28,807 | 21,952 | 19,793 | 67,143 |
| Other financial liabilities | 3,121,380 | 3,171,165 | 316,986 | 484 | - | 1,222 | 2,852,473 | - |
| Trade and other payables | 1,155,026 | 1,156,660 | 1,088,980 | 11,280 | 11,280 | 11,280 | 11,280 | 22,560 |
| | 8,165,785 | 8,318,826 | 1,847,778 | 81,792 | 64,318 | 58,116 | 6,107,196 | 159,626 |

| *Thousand Euro* | 31/12/2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **Contractual cash flows** | **Less than 1 year** | **More than 1 and less than 2 years** | **More than 2 and less than 3 years** | **More than 3 and less than 4 years** | **More than 4 and less than 5 years** | **More than 5 years** |
| Loans and bank borrowings | 3,592,708 | 3,720,500 | 16,337 | 2,980 | 749 | 384 | 19 | 3,700,031 |
| Derivative financial instruments | 836 | 836 | - | 836 | - | - | - | - |
| Other payables | 578,964 | 579,434 | 367,875 | 42,822 | 24,247 | 24,160 | 23,692 | 96,638 |
| Lease liabilities | 234,553 | 234,554 | 46,359 | 64,605 | 33,853 | 25,904 | 18,116 | 45,717 |
| Other financial liabilities | 3,291,300 | 3,313,858 | 415,411 | 10,974 | - | - | 35,000 | 2,852,473 |
| Trade and other payables | 1,161,053 | 1,161,890 | 1,105,490 | 11,280 | 11,280 | 11,280 | 11,280 | 11,280 |
| | 8,859,414 | 9,011,072 | 1,951,472 | 133,497 | 70,129 | 61,728 | 88,107 | 6,706,139 |

## 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 purpose of market risk management is to manage and keep exposures to this risk within reasonable parameters while at the same time optimising profitability.

The Group may trade in the bonds issued, the loans or debt securities or loans of any other series issued by the Group at any time and from time to time in the open market or otherwise by means other than a redemption, whether by tender offer, open market purchases and sales, negotiated transactions or otherwise, and such purchases may be at prices below par. Any such purchases may be with respect to a substantial amount of the bonds or another series of debt, with the attendant reduction in the trading liquidity of such class or series.

***Interest rate risk***

Interest rate risk affecting the Group mainly derives from loans with institutional investors and some credit institutions. These loans accrue interest at variable rates (see note 14), exposing the Group to interest rate risk on future cash flows.

An increase in the benchmark rates, in this case the Euribor, could increase the cost of the Group's funding and thus reduce funds generated from the Group's business that may be used for other purposes. The Group currently has a policy of low leverage at variable rates.

To mitigate this risk, the Group has contracted hedging instruments (see note 14 (a)).

Variable- and fixed-interest rate financial assets and liabilities are as follows:

| | Net book value | |
|---|---|---|
| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
| ***Fixed-interest debt*** | | |
| Financial assets | 18,653 | 70,066 |
| Financial liabilities | (3,156,599) | (3,705,867) |
| | (3,137,946) | (3,635,801) |
| ***Variable-interests debt*** | | |
| Financial liabilities | (3,329,925) | (3,333,906) |
| | (3,329,925) | (3,333,906) |

*Sensitivity analysis*

At 31 December 2022, a 100 basis points (“bps”) increase in interest rates, with other variables remaining constant, would have reduced the post-tax result by Euro 34,681 thousand (Euro 26,456 thousand at 31 December 2021) mainly due to increased borrowing costs on variable-rate loans.

## d) Capital management

The Group manages its capital structure and adjusts it based on changes in economic conditions. In order to maintain and adjust the capital structure, the Directors assess and where appropriate, adopt the most appropriate policies in relation to dividend payments, investment self-financing, term loans, etc.

The Group’s capital management is focused on safeguarding its capacity to continue to operate as a going concern, and ensure its sustained growth, so as to provide shareholders returns and at the same time assure an optimal capital structure to cut cost of capital, the current focus being to fulfil the debt ratios stipulated in the financing operations mentioned in note 14 (a).

## e) Derivatives

The Group has the following derivative financial instruments in the following line items in the balance sheet:

| | **31/12/2022** | **31/12/2021** |
|---|---|---|
| **Current assets** | | |
| Interest rate swaps – cash flow hedges | 2,013 | - |
| Total current derivative financial instrument assets | 2,013 | - |
| **Non-current assets** | | |
| Interest rate swaps – cash flow hedges | 7,901 | - |
| Call option Bidasoa (note 11) | 16,800 | - |
| Total non-current derivative financial instrument assets | 24,701 | - |
| **Non current liabilities** | | |
| Interest rate swaps – cash flow hedges | - | 836 |
| Total current derivative financial instrument liabilities | - | 836 |

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as "held for trading" for accounting purposes and are accounted for at fair value through profit or loss.

The Group's accounting policy for its cash flow hedges is set out in note 3 (i).

***Fair value***

The fair value for the interest rate swaps is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices.

They are classified as level 2 fair values in the fair value hierarchy (see note 2 (f)) due to the use of observable inputs.

The Group's hedging reserve relate to the following hedging instruments:

| | Cash flow hedge reserve |
|---|---|
| | **Interest rate swaps** |
| **Opening balance 1 January 2022** | - |
| Add: change in fair value of hedging instrument recognised in OCI | 10,097 |
| Less: reclassified from OCI to profit or loss | 81 |
| Less: Deferred tax | (2,545) |
| Add: change in fair value of hedging instrument recognised in OCI – associates (net of tax) | 13,453 |
| **Balance 31 December 2022 (note 13)** | 21,086 |

Hedge ineffectiveness in relation to the interest rate swaps amount to Euro 30 thousand in 2022.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, there is an economic relationship.

The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item the Group uses the hypothetical derivative method to assess effectiveness.

The fair value of the derivatives obtained through valuation techniques at the contract date revealed the existence of a loss at inception. This loss is caused by the credit risk spread and the commissions applied by the financial institutions and explain the difference between the fair value and the transaction price. Since these inputs are based on unobservable data the Group has chosen to defer the loss throughout the life of the derivative financial instruments.

The aggregated difference deferred at the contract date amounted to Euro 3,785 thousand, and to Euro 3,571 thousand as of 31 December 2022 (Euro 213 thousand were recognised in the statement of profit or loss during 2022).

The valuation technique to measure the fair value for the call option Bidasoa considers, among others, the present value of the expected future payments, discounted using a risk-adjusted discount rate. The fair value of this call option was categorised as Level 3 at 31 December 2022 as the fair value was determined based on unobservable inputs.

## f) Financial instruments and fair value

The carrying amounts of financial instruments classified by category are presented below. For those financial instruments measured at fair value, the fair value hierarchy levels are shown.

The fair values and the hierarchy levels of the financial assets and liabilities not measured at fair value are indicated in notes 10 and 14 respectively.

| **2022** | | | | | | **Fair value** | | |
|---|---|---|---|---|---|---|---|---|
| *Thousand Euro* | **Financial assets at fair value through profit or loss** | **Financial assets at fair value through other comprehensive income (FVOCI)** | **Financial assets at amortised cost** | **Financial liabilities at amortised cost** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| **Financial assets not measured at fair value** | | | | | | | | |
| Trade and other receivables | - | - | 386,235 | - | 386,235 | - | - | - |
| Cash and cash equivalents | - | - | 26,973 | - | 26,973 | - | - | - |
| Other investments (note 10) | - | - | 65,496 | - | 65,496 | - | - | - |
| | **-** | **-** | **478,704** | **-** | **478,704** | **-** | **-** | **-** |
| **Financial assets measured at fair value** | | | | | | | | |
| Interest rate swaps – cash flow hedges | - | 9,914 | - | - | 9,914 | - | 9,914 | - |
| Call option Bidasoa | 16,800 | - | - | - | 16,800 | - | - | 16,800 |
| | **16,800** | **9,914** | **-** | **-** | **26,714** | **-** | **9,914** | **16,800** |
| **Financial liabilities not measured at fair value** | | | | | | | | |
| Loans and bank borrowings | - | | - | 3,199,194 | 3,199,194 | - | - | - |
| Lease liabilities | - | | - | 222,319 | 222,319 | - | - | - |
| Other financial liabilities | - | | - | 3,121,380 | 3,121,380 | - | - | - |
| Other payables | - | | - | 467,866 | 467,866 | - | - | - |
| Trade and other payables | - | | - | 1,155,026 | 1,155,026 | - | - | - |
| | **-** | | **-** | **8,165,785** | **8,165,785** | **-** | **-** | **-** |

| **2021** | | | | | **Fair value** | | |
|---|---|---|---|---|---|---|---|
| *Thousand Euro* | **Financial assets at fair value through profit or loss** | **Financial assets at amortised cost** | **Financial liabilities at amortised cost** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| **Financial assets not measured at fair value** | | | | | | | |
| Trade and other receivables | - | 409,594 | - | 409,594 | - | - | - |
| Cash and cash equivalents | - | 152,495 | - | 152,495 | - | - | - |
| Other investments (note 10) | - | 84,518 | - | 84,518 | - | - | - |
| | **-** | **646,607** | **-** | **646,607** | **-** | **-** | **-** |
| **Financial liabilities measured at fair value** | | | | | | | |
| Derivatives | 836 | - | | 836 | - | 836 | - |
| | **836** | **-** | **-** | **836** | **-** | **836** | **-** |
| **Financial liabilities not measured at fair value** | | | | | | | |
| Loans and bank borrowings | - | - | 3,592,708 | 3,592,708 | - | - | - |
| Lease liabilities | - | - | 234,553 | 234,553 | - | - | - |
| Other financial liabilities | - | - | 3,291,300 | 3,291,300 | - | - | - |
| Other payables | - | - | 578,964 | 578,964 | - | - | - |
| Trade and other payables | - | - | 1,151,906 | 1,151,906 | - | - | - |
| | **-** | **-** | **8,849,431** | **8,849,431** | **-** | **-** | **-** |

There were no transfers of assets and liabilities between levels during the year ended 31 December 2022 and 2021.

The financial income and expense resulting from financial assets and liabilities are as follows:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| **Financial income** | | |
| Other financial income | 2,058 | 5,796 |
| | 2,058 | 5,796 |

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| **Financial expenses** | | |
| Borrowing costs | 181,684 | 159,100 |
| Debentures and other financial liabilities | 134,365 | 69,026 |
| Lease liabilities costs | 10,508 | 10,018 |
| Other financial expenses | 47,781 | 14,691 |
| | 374,338 | 252,835 |

## 19. Leases

*Leases as lessor*

The Group has operating lease agreements in relation to the sharing of telecommunications infrastructure under agreements signed with other operators. Lease income in 2022 amounted to Euro 3,498 thousand (Euro 3,337 thousand in 2021).

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

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Up to one year | 1,949 | 2,692 |
| Between 1 and 5 years | 3,493 | 5,788 |
| More than 5 years | - | - |
| | **5,442** | **8,480** |

## 20. Other non-current liabilities

The Group has entered into long-term strategic agreements with various operators for wholesale access to FTTH infrastructures, where each of the parties deploys a proprietary network and assigns its use to the other party, maintaining the ownership of the asset (mutualisation). This caption includes the right of use of the Group's FTTH infrastructures by an operator, which is taken to the profit or loss over a range of 20-25 years, based on the initial term of the agreement without extensions, which matches the approach adopted to amortise the right of use held by the Group (see note 5).

In 2015, the subsidiary MásMóvil Broadband, S.A.U. acquired a fibre-optic network from Jazz Telecom, S.A.U. Both companies simultaneously concluded an irrevocable assignment agreement for the use of 40% of that network by Jazz Telecom, S.A.U. (see note 5), which is being taken to the consolidated statement of profit or loss over the 35-year period of the agreement.

The relevant movements in other non-current liabilities are as follows:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Opening balance | 217,502 | 175,687 |
| Additions (notes 5 and 6) | 21,187 | 53,306 |
| Transfer to current liabilities | (12,697) | (11,491) |
| Closing balance | **225,992** | **217,502** |

## 21. Income tax

### a) Reconciliation of income tax

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| **Current income tax** | | |
| Current period | (39,036) | (76,174) |
| Tax deductions from previous years | (562) | 9,442 |
| Others | 394 | 856 |
| | (39,204) | (65,876) |
| **Deferred tax balances** | | |
| Deferred taxes originated and reversed during the year | 55,497 | (3,847) |
| Tax-losses carryforwards capitalised | 22,028 | 155,641 |
| Offsetting of tax-losses carryforwards | (13,289) | (25,155) |
| Others | 688 | 904 |
| | 64,924 | 127,543 |
| | 25,720 | 61,667 |

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Profit from continuing operations before income tax expense | 421,342 | 127,533 |
| Loss from discontinued operation before income tax expense | (3,485) | - |
| | **417,857** | **127,533** |
| Tax using the UK corporation tax rate of 19% | (79,393) | (24,231) |
| Effect of tax rates in foreign jurisdictions | (25,071) | (7,652) |
| Different tax rates applied in the Group companies | (680) | (190) |
| Tax deductions recognised during the year | 1,745 | 1,698 |
| Fines and penalties | (120) | (692) |
| Permanent differences | 139,030 | 12,630 |
| Previous year's tax credits recognised and applied during the year | (193) | 107,944 |
| Tax deductions | 3,663 | 9,442 |
| Other adjustments | (13,261) | (37,282) |
| **Total income/(expense) tax** | 25,720 | 61,667 |

Other adjustments mainly refer to consolidation adjustments. Permanent differences mainly include EKT Cable transaction adjustment (see note 11).

During the year ended 31 December 2022, the Group has recorded as an asset an amount of Euro 22,028 thousand in Deferred tax related to current year tax losses (Euro 155,641 thousand at 31 December 2021). The recognition is based on a recoverability analysis based on a 10-year projection of the 2023-2027 Business Plan, being considered probable that Group will obtain taxable profits which will enable it to offset the capitalised tax losses within a period of no more than ten years counted as from the year end date, in light of the analysis made of its capacity to generate taxable income, given its economic potential and profitability. The key assumptions considered in the analysis are as follows:

- The figures in the 2023-2027 Business Plan have been projected over 10 years, with the profit before taxes for 2027 through to 2033 remaining constant.
- The impact of known taxable timing differences, both present and future, has been estimated.

The Group has carried out a sensitivity analysis of the key assumptions used, growth rates and EBITDA, concluding as a result that the tax credits capitalized are recoverable.

For the companies belonging to the tax group represented in the Spanish Basque Country territory by Euskaltel (see note 4 (n)), the recognition of tax loss carryforwards is based on the Group's business plans which show that this tax group will have sufficient future taxable profits to offset the tax credits capitalised over a period of between 23 and 25 years.

The current effective tax rate for the year is 19%. The UK Government announced on 14 October 2022 that the UK corporation tax rate will increase to 25% from 1 April 2023 as already enacted in the UK Finance Act 2021.

### b) Deferred tax assets and liabilities recognised

Deferred tax assets and liabilities are attributable to the following:

| | 31/12/2022 | | | 31/12/2021 | | |
|---|---|---|---|---|---|---|
| *Thousand Euro* | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Intangible assets | 740 | (454,773) | (454,033) | 782 | (498,665) | (497,883) |
| Property, plant and equipment | 2,744 | (42,783) | (40,039) | 11,334 | (50,886) | (39,552) |
| Right of use | 8,936 | - | 8,936 | 7,930 | - | 7,930 |
| Provisions | 42,694 | - | 42,694 | 53,979 | - | 53,979 |
| Financial instruments | - | (2,545) | (2,545) | | | |
| Non-deductible financial expenses | 23,500 | - | 23,500 | 10,535 | - | 10,535 |
| Tax credits for tax-losses carryforwards | 401,824 | - | 401,824 | 393,053 | - | 393,053 |
| Tax credits for deductions | 151,299 | - | 151,299 | 146,999 | - | 146,999 |
| Other | - | (8,967) | (8,967) | - | (14,490) | (14,490) |
| **Net assets and liabilities** | **631,737** | **(509,068)** | **122,669** | **624,612** | **(564,041)** | **60,571** |

Movements in deferred tax assets and liabilities during 2022 and 2021 are as follows

| | 31/12/2022 | | | | |
|---|---|---|---|---|---|
| *Thousand Euro* | At 1 January 2022 | Recognised in profit/(loss) | Recognised in equity | Transfers | At 31 December 2022 |
| Intangible assets | (497,883) | 43,850 | - | - | (454,033) |
| Property, plant and equipment | (39,552) | (487) | - | - | (40,039) |
| Right of use | 7,930 | 1,006 | - | - | 8,936 |
| Provisions | 53,979 | (11,285) | - | - | 42,694 |
| Cash Flow hedges | - | - | (2,545) | - | (2,545) |
| Non-deductible financial expenses | 10,535 | 12,965 | - | - | 23,500 |
| Tax credits for tax-losses carryforwards | 393,053 | 8,739 | 32 | - | 401,824 |
| Tax credits for deductions | 146,999 | 4,300 | - | - | 151,299 |
| Other | (14,490) | 5,836 | - | (313) | (8,967) |
| **Net assets and liabilities** | 60,571 | 64,924 | (2,513) | (313) | 122,669 |

| | 31/12/2021 | | | | | |
|---|---|---|---|---|---|---|
| *Thousand Euro* | At 1 January 2021 | Business combinations (note 4.1) | Recognised in profit/(loss) | Transfers | Recognised in equity | At 31 December 2021 |
| Intangible assets | (322,724) | (222,323) | 46,096 | 1,068 | - | (497,883) |
| Property, plant and equipment | 10,529 | (43,613) | (6,467) | (1) | - | (39,552) |
| Right of use | 5,198 | 616 | 2,116 | - | - | 7,930 |
| Provisions | 26,650 | 70,095 | (41,698) | (1,068) | - | 53,979 |
| Non-deductible financial expenses | 3,453 | - | 3,763 | 3,319 | - | 10,535 |
| Tax credits for tax-losses carryforwards | 262,630 | 3,253 | 130,486 | (3,316) | - | 393,053 |
| Tax credits for deductions | - | 147,060 | 1,727 | - | (1,788) | 146,999 |
| Other | 749 | (6,577) | (8,481) | (2) | (179) | (14,490) |
| **Net assets and liabilities** | (13,515) | (51,489) | 127,542 | - | (1,967) | 60,571 |

Details of deferred tax assets and liabilities that are expected to be realised or reversed after more than 12 months are as follow:

| *Thousand Euro* | **31/12/2022** | | **31/12/2021** | |
|---|---|---|---|---|
| | **Current** | **Non-current** | **Current** | **Non-current** |
| Deferred tax assets related to temporary differences | 15,718 | 62,896 | 11,631 | 72,928 |
| Tax credits for tax-losses carryforwards | 12,893 | 388,931 | 97,325 | 295,729 |
| Tax deductions | - | 151,299 | - | 146,999 |
| Total assets | 28,611 | 603,126 | 108,956 | 515,656 |
| Deferred tax liabilities | (8,338) | (500,730) | (79,218) | (484,823) |
| Net | **20,273** | **102,396** | **29,738** | **30,833** |

Detail of deferred tax assets and liabilities recognised in the Spanish common territory and the Basque country is as follows:

| | **31/12/2022** | | |
|---|---|---|---|
| | **Assets** | **Liabilities** | **Net** |
| Common Territory | 405,397 | (332,602) | 72,795 |
| Basque Country | 226,340 | (176,466) | 49,874 |
| **Net assets and liabilities** | 631,737 | (509,068) | **122,669** |

| | **31/12/2021** | | |
|---|---|---|---|
| | **Assets** | **Liabilities** | **Net** |
| Common Territory | 363,906 | (291,356) | 72,550 |
| R Cable | 33,623 | (67,866) | (34,243) |
| Basque Country | 227,083 | (204,819) | 22,264 |
| **Net assets and liabilities** | 624,612 | (564,041) | **60,571** |

The Group has the following unused deductions at 31 December 2022 and 31 December 2021:

| *Thousand Euro* | **Year** | **2022** | **2021** |
|---|---|---|---|
| **Deductions generated prior to consolidation** | 2001 | 17,759 | 17,759 |
| | 2002 | 10,467 | 10,467 |
| | 2003 | 17,311 | 17,311 |
| | 2004 | 16,388 | 16,388 |
| | 2005 | 12,512 | 12,512 |
| | 2006 | 10,415 | 10,415 |
| | 2007 | 12,809 | 12,809 |
| | 2008 | 13,936 | 13,936 |
| | 2009 | 860 | 860 |
| | 2010 | 1,018 | 1,018 |
| | 2011 | 1,131 | 1,131 |
| | 2012 | 931 | 931 |
| | 2013 | 18,713 | 18,663 |
| | 2014 | 286 | 286 |
| | 2015 | 334 | 334 |
| | 2016 | 431 | 431 |
| | 2017 | 474 | 220 |
| | 2018 | 3,458 | - |
| | 2019 | 2,711 | - |
| | 2020 | 2,128 | - |
| | 2021 | 4,433 | 621 |
| **Deductions generated on consolidation** | 2017 | - | 254 |
| | 2018 | - | 3,430 |
| | 2019 | - | 2,677 |
| | 2020 | - | 2,093 |
| | 2021 | - | 5,939 |
| | 2022 | 4,516 | - |
| **Total** | | **153,021** | **150,485** |

Most of these deductions have been recognised as deferred tax assets.

The Group must keep the assets in respect of which tax relief has been obtained on investments for a five-year period.

The Group has the following tax-loss carryforwards ("BINs" in its Spanish abbreviation) at 31 December:

| Year generated | | Generated base | Type | Tax-losses carryforwards | Unrecognised tax losses |
|---|---|---|---|---|---|
| | | *Thousand Euro* 2022 | | | |
| BINs generated prior to consolidation | 2002 | 26,661 | 25% | 6,665 | - |
| | 2003 | 74,592 | 25% | 18,648 | - |
| | 2004 | 59,049 | 25% | 14,762 | - |
| | 2005 | 71,877 | 25% | 17,969 | - |
| | 2006 | 383,163 | 25% | 95,791 | - |
| | 2007 | 80,446 | 25% | 20,112 | - |
| | 2008 | 140,363 | 25% | 34,942 | 149 |
| | 2009 | 176,998 | 25% | 44,129 | 145 |
| | 2010 | 98,623 | 25% | 24,656 | - |
| | 2011 | 32,359 | 25% | 8,074 | 16 |
| | 2012 | 5,748 | 25% | 1,255 | 182 |
| | 2013 | 16,238 | 25% | 3,897 | 162 |
| | 2014 | 5,299 | 25% | - | 1,325 |
| | 2015 | 6,055 | 25% | - | 1,514 |
| | 2016 | 30,155 | 25% | 1,675 | 5,863 |
| | 2017 | 8,575 | 25% | 301 | 1,842 |
| | 2018 | 3,760 | 25% | 641 | 299 |
| | 2019 | 2,465 | 25% | 281 | 335 |
| | 2020 | 59,062 | 25% | 14,083 | 683 |
| | 2020** | 4,696 | 24% | 1,127 | - |
| | 2021 | 5,141 | 25% | 1,253 | 77 |
| | 2021* | 184,572 | 24% | 44,297 | - |
| | 2022** | 1,967 | 25% | - | 492 |
| BINS generated on consolidation | 2020 | 86,193 | 25% | 21,548 | - |
| | 2022** | 106,262 | 24% | 25,502 | - |
| **Total** | | **1,671,497** | | **401,824** | **13,084** |

(**): BINs generated under Basque Country
(*): BINs generated under Common Territory

At the year-end, the Group tests for impairment all capitalized and uncapitalized tax credits, at Group and subsidiary level.

In 2015 the tax authorities undertook a VAT inspection of the subsidiary Xtra Telecom, S.A.U. (Xtra), as the successor of Xtra Telecom, S.L. (a company acquired by the Másmóvil Group on 1 August 2014), in relation to a part of its wholesale business from May 2011 to December 2014. The period subject to inspection is prior to the acquisition of the Xtra business by the Group and, any contingencies would be covered by the representations and warranties agreed with the former owner of Xtra and included in the sale and purchase agreement. The Group considers that the inspection should not affect the current Directors or Management of the Group, or the Parent Company or the present consolidated financial statements.

On 21 February 2018, the Tax Agency served notice of the commencement of VAT inspection proceedings to be carried out in the subsidiaries Xtra Telecom, S.A.U. and Quantum Telecom, S.A. (which was merged with Xtra Telecom, S.A.U. in December 2015), in relation to the wholesale business for the years 2015 and 2016. On 12 March 2019, Xtra, acting on its own behalf and in the name of Quantum Telecom, S.A. signed the assessments on a contested basis, and on 11 April 2019, presented submissions to the Tax and Customs Control Unit of the Large Taxpayers Central Office. On 16 September 2019, the Tax Administration notified

Assessment Decisions and Penalty Proceeding Decisions to both companies. It should be noted that the Tax Administration considered unlawful the offsetting of the amounts reported in the returns for January and February of 2015, totalling Euro 367 thousand, because they formed part of the balance declared for offset as at 31 December 2014; such amounts were disallowed during the inspection in respect of the period 2011-2014 and the case file was referred to the Public Prosecution Service. On 9 February 2021, the Tax Agency served notice of the assessment proposal and commencement of the submissions phase given that no complaint had been brought by the prosecutor's office, as a result of which the inspection proceedings in respect of that period were resumed. On 4 May 2022, the Company lodged a contentious-administrative appeal with the National High Court against the decision of the Central Economic-Administrative Court rejecting the claims filed against (i) the settlement agreement in respect of Value Added Tax for the financial year 2015; and (ii) the penalty agreement in respect of Value Added Tax for the financial year 2015 (partial).

During 2021 and 2022 the Tax Authorities have communicated the commencement of tax audits proceedings in three Group companies over the main taxes to which these entities are subject covering different tax periods which range between 2015 and 2020. At date of issue this consolidated financial statements, the tax audits proceedings are on-going.

In accordance with prevailing Spanish legislation, taxes cannot be considered definitive until they have been inspected by the taxation authorities or the four-year limitation period has lapsed.

In view of the different treatment afforded by tax legislation to certain transactions, additional tax liabilities could arise in the event of an inspection. In any event, the Parent Company's Directors do not consider that any such liabilities would have a significant impact on these consolidated annual accounts taken as a whole.

## 22. Revenue and expenses

### a) Revenue

Revenues break down as follows:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Business and wholesale | 594,206 | 452,291 |
| Residential | 2,300,010 | 2,012,728 |
| | **2,894,216** | **2,465,019** |

The Group operations are located in Spain.

The Group is mainly engaged in providing landline and mobile telephone services, and broadband services.

The Group distinguishes the following types of customers:

- Residential: customers in this group are offered landline, mobile and broadband services.
- Business: these customers are offered landline, mobile and broadband services, as well as other value-added services such as data centres, cloud, virtual PBX, email and video-conferencing.
- Wholesale: voice services are sold to other industry operators, without offering access since the customers have their own network.

**b) Supplies**

An analysis is as follows:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Consumption of goods purchased for resale | 184,082 | 181,819 |
| Other supplies | 719,863 | 601,718 |
| Subcontracted work | 281,787 | 174,789 |
| Impairment of goods purchased for resale | 85 | - |
| | **1,185,817** | **958,326** |

Other supplies include, mainly, roaming, interconnection services, bitstream and other added value services.

**c) Employee benefits expenses**

Employee remuneration expenses break down as follows:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Wages, salaries and other welfare expenses | 103,511 | 86,110 |
| Social Security contributions | 27,884 | 23,085 |
| | 131,395 | 109,195 |

The Group's average headcount during the year 2022 and 2021 by category considering the acquisition date of the business combinations (see note 4) is as follows:

| | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Board of directors | 12 | 13 |
| Management | 119 | 111 |
| Technical personnel | 419 | 330 |
| Administrative personnel | 220 | 150 |
| Other employees | 1,122 | 846 |
| | **1,892** | **1,450** |

At year-end 2022 and 2021, the distribution by gender of Group personnel and directors of the Company was as follows:

| | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Board of directors | 12 | 12 |
| Management | 115 | 147 |
| Technical personnel | 418 | 417 |
| Administrative personnel | 216 | 202 |
| Other employees | 1,069 | 1,108 |
| | **1,830** | **1886** |

Directors' remuneration paid in respect of qualifying services during 2022 is Euro 1,988 thousand (Euro 1,324 thousand during the year ended 31 December 2021) (JVCo Directors are not remunerated in respect of qualifying services, so all the amount is related to Directors of subsidiaries).

During 2022 there are no gains made by directors on the exercise of share options as well as there are no money or other assets paid to or receivable by directors under long-term incentive schemes in respect of qualifying services. The total amount that is attributable to the highest paid director in respect of qualifying services is Euro 1,302 thousand (Euro 666 thousand during the year ended 31 December 2021).

### d) Operating expenses

Details of other operating expenses are as follows:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Infrastructure services | 33,620 | 36,049 |
| Spectrum royalties | 53,171 | 50,725 |
| Repairs and maintenance | 135,765 | 99,922 |
| Independent professional services | 239,302 | 244,571 |
| Transport | 2,564 | 2,067 |
| Insurance fees | 3,695 | 2,436 |
| Banking and similar services fees | 15,379 | 15,940 |
| Advertising, publicity and public relations | 87,425 | 85,928 |
| Supplies | 18,020 | 14,150 |
| Other services | 9,097 | 8,520 |
| Levies and other Taxes | 19,504 | 20,124 |
| Losses, impairment and changes in provisions (note 12) | 56,899 | 45,382 |
| | **674,441** | **625,814** |

Infrastructure services primarily include the rendering of telecommunications infrastructure network services, cost related to network services, transmission-access services and leases with a term of less than one year or for a low value.

In 2022, independent professional services mainly include Euro 109 million related to call centers services (Euro 106 million in 2021), Euro 50 million related to specific services related to the core infrastructure network (Euro 45 million in 2021), Euro 2 million related to expenses arising from the integration of the companies acquired (Euro 35 million in 2021), Euro 12 million of lawyers, tax and auditors' services (Euro 20 million in 2021) and Euro 12 million related to post sales services (Euro 12 million in 2021).

### e) Other operating income

Details of other operating income are as follows:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Excess of provision (note 15) | 2,384 | 2,789 |
| Work carried-out by the Group for its assets | 40,112 | 27,782 |
| Lease revenue (note 19) | 3,498 | 3,337 |
| Other income | 202,677 | 48,466 |
| Grants transferred to profit and loss (note 16) | 765 | 1,305 |
| | **249,436** | **83,679** |

During 2022, the Group has recognised income amounting to Euro 111,627 thousand (Euro 25,344 thousand) under the heading "Other income" on the sale of network equipment and IRUs (see note 9). In addition, the caption "Other income" includes other services, among others, operating, maintenance, supplies and transmission by Euro 19,056 thousand, reconnection fees by Euro 12,076 thousand, network services revenue by Euro 6,878 thousand, marketing services by Euro 15,225 thousand and commissions fee by Euro 17,031 thousand. The remaining amount relates to other services to third parties.

### f) Impairment and result from disposals of assets

Details of impairment and result from disposal of assets are as follows:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Gain/loss on disposal of non-current assets (note 5 and 6) | 19,349 | 225,432 |
| Impairment/loss on disposals of non-current assets (note 5 and 6) | (19,016) | (20,302) |
| | **333** | **205,130** |

## 23. Related parties

### a) Parent entity

The Group is controlled by the following entity:

| | | | Ownership interest | |
|---|---|---|---|---|
| *Name* | Type | Place of incorporation | 31/12/2022 | 31/12/2021 |
| Lorca Aggregator Limited | Ultimate parent entity and controlling party | Jersey | 86.08% | 86.08% |

### b) Related-party balances

At 31 December 2022, there are not any balances with related parties outstanding.

Details of balances with related parties at 31 December 2021 are as follows:

| | **31/12/2021** | | |
|---|---|---|---|
| *Thousand Euro* | Group companies | Other related parties | **Total** |
| **Current assets** | | | |
| Loans to companies (note 10) | - | 53,162 | 53,162 |
| **Total assets** | - | **53,162** | **53,162** |

At 31 December 2021, short-term loans granted to other related parties relate to payables in cash-pooling accounts with Cabonitel bearing interest of 1.1%.

### c) Related-party transactions

Details of transactions with related parties during 2022 are as follows:

| | **31/12/2022** | | |
|---|---|---|---|
| *Thousand Euro* | Directors and senior management of the Group | Related parties | Total |
| **Expenses** | | | |
| Salaries and allowances | 4,488 | - | 4,488 |
| Supplies | - | 25,962 | 25,962 |
| Professional services | - | 5,434 | 5,434 |
| **Total expenses** | **4,488** | **31,396** | **35,884** |

| | | | |
|---|---|---|---|
| **Income** | | | |
| Other operating income | - | 136,411 | 136,411 |
| Impairment and result from disposals of assets | - | 28,726 | 28,726 |
| Financial income | - | 695 | 695 |
| **Total income** | **-** | **165,832** | **165,832** |

| | **31/12/2021** | | |
|---|---|---|---|
| *Thousand Euro* | Directors and senior management of the Group | Related parties | Total |
| **Expenses** | | | |
| Salaries and allowances | 3,655 | - | 3,655 |
| Professional services | - | 4,590 | 4,590 |
| **Total expenses** | **3,655** | **4,590** | **8,245** |
| **Income** | | | |
| Other operating income | - | 25,344 | 25,344 |
| Impairment and result from disposals of assets | - | 214,294 | 214,294 |
| Financial income | - | 702 | 702 |
| **Total income** | **-** | **240,340** | **240,340** |

The Group has agreements with associates to roll out FTTH networks. These transactions have generated in 2022 income of Euro 117,355 thousand (Euro 25,344 thousand in 2021) (see note 9) which is recognised under the heading “Other operating income” and a gain of Euro 28,726 thousand (Euro 214,294 thousand in 2021) (see notes 5 and 6) under “Impairment and result from disposal of assets”. In addition, the caption “Other operating income” includes other services such as operating, maintenance, supplies and transmission of Euro 19,056 thousand.

In addition, during 2022 the Group has entered into transactions with companies over which a director of the parent company has significant influence and which are therefore considered to be related parties (see notes 5, 9 and 11).

During 2022 and 2021, transactions with associates were carried out on arm-length basis.

### d) Information on the Group's key personnel management

During 2022, the remuneration accrued for senior management personnel totalled Euro 2,501 thousand (Euro 2,331 thousand in 2021). It should be noted that two directors are on the Company’s subsidiaries payroll. Additionally, salaries and allowances include Euro 1,988 thousand (Euro 1,324 thousand during the year ended 31 December 2021) of Director’s remunerations (see note 22 (c)).

No advances or loans have been furnished to the directors and no guarantees have been given on their behalf. The Group has made no pension or life insurance commitments to former or current Board of directors of the Parent Company.

### e) Transactions other than ordinary business or on non-market terms carried out by the Parent Company's directors and senior management personnel

Besides the transactions with related parties disclosed above, in 2022 the Company's directors and senior managers did not affect any transactions outside the ordinary course of business or on non-market terms with the Company or with any other Group company.

## 24. Guarantees and contingencies

In addition to the guarantees referred to in note 14, at 31 December 2022 the Group has given several guarantees as set out below:

The Group has guarantees in place to secure commitments amounting to Euro 156,310 thousand (Euro 186,692 thousand in 2021), most notably in relation to corporate operations, the lease of premises, business agreements, a number of appeals lodged against settlements by local corporations and other public administrations and from the suspension of the settlement of the fee for reserving the radio public domain for the 3.5 GHz band.

The Group's subsidiary Xfera Móviles, S.A.U. offers its customers financing, using its own funds or under agreements with financial institutions, for the purchase of terminals as part of a subscription to telecommunications services. In the case of financing through financial institutions, Xfera Móviles, S.A.U. extends guarantees on behalf of its customers to cover potential defaults on the loan repayments, which is why it recognises a provision for commercial transactions (see note 15). Financing through financial institutions amounted to Euro 160 million at 31 December 2022 (Euro 124 million at December 2021).

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

## 25. 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 approving the regulation that establishes the conditions for protecting the public radio domain, restrictions on radio wave emissions and healthcare measures to protect from radio wave emissions.

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

## 26. Reconciliation of financial debt

The reconciliation of financial debt for the year ended 31 December 2022 is as follows:

| *Thousand Euro* | **At 1 January 2022** | **Cash flows** | **Payment of interests** | **Interests accrued in profit and loss** | **Other** | **At 31 December 2022** |
|---|---|---|---|---|---|---|
| Financial liabilities with financial institutions | 3,593,544 | (392,163) | (183,871) | 181,684 | - | 3,199,194 |
| Lease liabilities | 234,553 | (49,294) | (10,581) | 10,508 | 37,133 | 222,319 |
| Other financial liabilities | 3,291,300 | (157,582) | (117,632) | 134,365 | (29,071) | 3,121,380 |
| **Total Debt** | 7,119,397 | (599,039) | (312,084) | 326,557 | 8,062 | 6,542,893 |

| *Thousand Euro* | **At 1st January 2020** | **Cash flows** | **Payment of interests** | **Interests accrued in profit and loss** | **Debt from business combina-tions** | **Other** | **At 31 December 2021** |
|---|---|---|---|---|---|---|---|
| Financial liabilities with financial institutions | 2,105,874 | 11,964 | (129,079) | 159,100 | 1,441,690 | 3,995 | 3,593,544 |
| Loans from related parties | 200,935 | (21,775) | - | - | - | (179,160) | - |
| Lease liabilities | 191,094 | (35,993) | (8,098) | 10,018 | 60,073 | 17,459 | 234,553 |
| Other financial liabilities | 1,108,126 | 1,994,100 | (30,667) | 55,952 | 150,000 | 13,789 | 3,291,300 |
| **Total Deuda** | **3,606,029** | **1,948,296** | **(167,844)** | **225,070** | **1,651,763** | **(143,917)** | **7,119,397** |

## 27. Non-current assets held for sale

### a) Cabonitel

Upon the acquisition of control of Cabonitel (see notes 4.1 and 11), the Group has decided to subsequently dispose of its operations. The sale was agreed on 29 September 2022. However, it has not been completed since certain regulatory conditions are pending approval. Consequently, as of 31 December 2022 the related assets and liabilities are presented as "non-current assets and liabilities held for sale" in the consolidated financial statements.

As regards the overall result of the transaction, the Group has credited Euro 13.4 million to the consolidated statement of profit or loss as a result of the fair value measurement of the interest held prior to the acquisition of control, as well as the adjustment to measure the assets and liabilities acquired at fair value less costs to sell. Additionally, the Group has recognised financial instruments impairment for an amount of Euro 16,921 thousand at 31 December 2022.

This amount, together with the income and expenses attributable to the Cabonitel operations, is recognised under the heading "Profit/(loss) for discontinued operations after tax" in the 2022 consolidated statement of profit or loss. The discontinued operations presented in the consolidated statement of profit or loss in the comparative year do not include the income and expenses attributable to Cabonitel, as this company was an associate at 31 December 2021 and consolidated for by the equity method.

At 31 December 2022, the disposal group was stated at fair value less costs to sell and comprised the following assets and liabilities (see note 3 (r) and 4.1)):

| *Thousand Euro* | **31/12/2022** |
|---|---|
| **Total assets** | **215,856** |
| Provisions | (12,958) |
| Loans and borrowings | (49,611) |
| Trade payables | (61,239) |
| Other financial liabilities | (20,049) |
| **Total liabilities** | **(143,857)** |

There are no cumulative income or expenses included in OCI relating to the disposal group.

### b) EKT Cable y Telecomunicaciones, S.L.U.

At 31 December 2021, the Group reclassified to assets held for sale the assets of the subsidiary EKT Cable y Telecomunicaciones, S.L.U. (see note 2 (a)). The subsidiary was sold on 27 July 2022 (see notes 1, 5 and 11). The profit generated by this transaction was Euro 595,391 thousand which is recognised under the heading "Result from loss of control of a subsidiary" in the consolidated statement of profit or loss.

The carrying amounts of assets and liabilities as at the date of sale (27 July 2022) were:

| | **27/07/2022** |
|---|---|
| Non-current assets | 102,355 |
| Current assets | 21,941 |
| **Total assets** | **124,296** |
| Non-current liabilities | (125,066) |
| Current liabilities | (15,371) |
| **Total liabilities** | **(140,437)** |

## 28. Audit fees

The fees for services provided by the audit firm KPMG LLP for the audit of the Group's annual accounts for the financial years ended 31 December 2022 and 2021, irrespective of the invoice dates, are as follows:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Audit services of the Company | 210 | 191 |
| Audit services of the subsidiaries | 64 | 49 |
| Other assurance services | - | 130 |
| Other services | - | 160 |
| | **274** | **530** |

At 31 December 2021, other assurance services and other services were related mainly to limited reviews of the Group's interim consolidated financial statements for the first semester of 2021 and to the issuance of the comfort letter for the companies controlled by Lorca JVCo respectively.

On the other hand, other entities affiliated with KPMG have billed the Group during the years ended 31 December 2022 and 2021, fees and expenses for professional services according to the following detail:

| *Thousand Euro* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Audit services | 1,198 | 1,228 |
| Other assurance services | - | 116 |
| Other services | 38 | 385 |
| | **1,236** | **1,729** |

At 31 December 2021, other assurance services were related mainly to limited review of the Group Proforma figures and other assurance services provided by KPMG Auditores, S.L. to subsidiaries of Lorca JVCo.

## 29. Events after the reporting date

On 10 January 2023 the Group has made an additional capital contribution to Uclés InfraCo S.L. of Euro 60 million.

Within the promissory note program that the subsidiary, MásMóvil Ibercom, S.A.U., has registered in the Alternative Fixed Income Market (see note 14), Euro 10,100thousand have been renewed during the months of January to March 2023 and promissory notes amounting to Euro 10,100 thousand have been cancelled. Furthermore, within the promissory note program that Euskaltel S.A.U. has registered in the ECP program (Euro-Commercial Paper Programme) Euro 20,200 thousand have been renewed during January to March 2023 and additional promissory notes amounting to Euro 20,200 thousand have been cancelled.

On 8 February 2023, the Group has increased the interest rate hedging instruments with an additional notional amount of Euro 500 million, to mitigate the volatility of the interest rate risk the Group has outstanding interest hedging structures (swaps and caps). At the date of issue of these consolidated financial statements, the Group has a total notional amount hedge by Euro 1,500 million.

## APPENDIX I. – Details of subsidiaries at 31 December 2022

| Name | Registered office | Activity | Auditor | Shareholder | Percentage ownership | Percentage of voting rights | Consolidation method |
|---|---|---|---|---|---|---|---|
| Lorca HoldCo Limited | 1 Bartholomew Lane, London, England, EC2N 2AX | Holding company | KPMG | Lorca JVCo Limited | 100% | 100% | Global |
| Lorca Telecom BidCo, S.A. | Avda. de Bruselas 38, Alcobendas (Madrid) | Activities and services in the field of telecommunications | KPMG | Lorca Telecom BidCo, S.A.U. | 100% | 100% | Global |
| Lorca Telecom BondCo, S.A.U. | Avda. de Bruselas 38, Alcobendas (Madrid) | Development of financing activities | KPMG | Lorca Telecom BidCo, S.A.U. | 100% | 100% | Global |
| Lorca FinCo PLC | 1 Bartholomew Lane, London, England, EC2N 2AX | Development of financing activities | KPMG | Lorca Telecom BidCo, S.A.U. | 100% | 100% | Global |
| Másmóvil Ibercom, S.A.U. | Parque Empresarial Zuatzu, Edificio Easo, 2da planta (Guipúzcoa) San Sebastián | Development of activities and services in the field of telecommunications | KPMG | Lorca Telecom BidCo, S.A.U. | 100% | 100% | Global |
| Xfera Móviles, S.A.U. | Avda. de Bruselas 38, Alcobendas (Madrid) | Activities and services in the field of telecommunications | KPMG | MásMóvil Ibercom, S.A. | 100% | 100% | Global |
| Másmóvil Broadband, S.A.U. | Avda. de Bruselas 38, Alcobendas (Madrid) | Activities and services in the field of telecommunications | KPMG | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Xtra Telecom, S.A.U. | Avda. de Bruselas 38, Alcobendas (Madrid) | Activities and services in the field of telecommunications | KPMG | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Embou Nuevas Tecnologías, S.L.U. | Calle Bari 33, Edificio 1, 2 planta, Zaragoza (Zaragoza) | Consultancy and business advisory services in the field of telecommunications and new technologies | KPMG | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Pepeworld, S.L.U. | Avda. de Bruselas 38, Alcobendas (Madrid) | Holding company | - | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Pepe Energy, S.L.U. | Avda. de Bruselas 38, Alcobendas (Madrid) | Electricity supply | - | Pepe World, S.L.U. y Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Pepemobile, S.L.U. | Avda. de Bruselas 38, Alcobendas (Madrid) | Telecommunications services; IT services; development, sale and distribution of IT programs and materials | KPMG | Pepe World, S.L.U. y Xfera Móviles, S.A.U. | 100% | 100% | Global |
| The Bymovil Spain, S.L.U. | Polígono Mies de Molladar D-9. Cartes (Cantabria) | Marketing and selling of electrical, electronic and telephone materials | KPMG | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Senior Telecomunicaciones y Servicios Avanzados S.L. | Calle María Tubau 8. Madrid | Provision and / or commercialization of telemedicine services and / or assistance | - | Xfera Móviles, S.A.U. | 92% | 92% | Global |
| Guuk Telecom, S.A.U. | Parque Empresarial Zuatzu, Edificio Easo, 2da planta Nº 8 (Guipúzcoa) San Sebastián | Activities and services in the field of telecommunications | - | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Cabonitel, S.A. | Alameda dos Oceanos 21101A, Lisboa, Portugal | Activities and services in the field of telecommunications | Deloitte Portugal | MASMOVIL Ibercom, S.A. | 100% | 100% | Global |
| Spotting Developments, S.L.U. | Calle Ramon y Cajal 2. Las Rozas de Madrid, (Madrid) | Activities and services in the field of telecommunications | - | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Xfera Consumer Finance Establecimiento Financiero de Crédito, S.A. | Calle Retama 3. Madrid | Personal loans and credits | Mazars | Xfera Móviles, S.A.U. | 49.00% | 49.00% | Equity method |
| Inversiones Locua, S.L. | Camino de las Ceudas, 2. Las Rozas de Madrid (Madrid) | Telecommunications services; IT services; development, sale and distribution of IT | - | Spotting Developments, S.L.U | 31.66% | 31.66% | Equity method |
| Medbuying Technologies Group, S.L. | Calle Jose Echegaray 1, Las Rozas de Madrid (Madrid) | Wholesale trade in radio and electronic equipment and materials | KPMG | Xfera Móviles, S.A.U. | 49.00% | 49.00% | Equity method |
| Spotting Brands Technologies, S.L.U. | Avda. de Bruselas 38, Alcobendas (Madrid) | Telecommunications services | - | Xfera Móviles, S.A.U. | 100% | 100% | Global |

| Name | Registered office | Activity | Auditor | Shareholder | Percentage ownership | Percentage of voting rights | Consolidation method |
|---|---|---|---|---|---|---|---|
| Ahimas Sur, S.L. | Las Rozas de Madrid (Madrid) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 50% | 50% | Global |
| SPF Franquicia Tarifa,S.L.U. | Las Rozas de Madrid (Madrid) | Activities and services in the field of telecommunications | - | Spotting Brands Technologies, S.L. | 100% | 100% | Global |
| Onlycable Comunicaciones, S.L. | c/ Verde Hierba, 7. Mairena de Aljarafe. (Sevilla) | Telecommunications services | KPMG | Alma Telecom S.L. | 71.25% | 71.25% | Equity method |
| Onlycable Fibra, S.L. | c/ Verde Hierba, 7. Mairena de Aljarafe. (Sevilla) | Telecommunications services | - | Onlycable Comunicación, S.L. | 71.25% | 71.25% | Equity method |
| Onlycable, S.L. | c/ Verde Hierba, 7. Mairena de Aljarafe. (Sevilla) | Telecommunications services | - | Onlycable Comunicación, S.L. | 71.25% | 71.25% | Equity method |
| Wiwai Telecomunicaciones, S.L. | c/ Verde Hierba, 7. Mairena de Aljarafe. (Sevilla) | Telecommunications services | - | Onlycable Comunicación, S.L. | 71.25% | 71.25% | Equity method |
| ISP Cable Networks Telecom España, S.L. | c/ Verde Hierba, 7. Mairena de Aljarafe. (Sevilla) | Telecommunications services | - | Onlycable Comunicación, S.L. | 71.25% | 71.25% | Equity method |
| Innovaciones Tecnológicas del Sur, S.L. | Mengíbar (Jaén) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 50% | 50% | Equity method |
| Energia Colectiva, S.L.U. | Calle Joan D'austria, 28 – Ptas. 3 Y 4, Valencia, (Valencia) | Electricity supply | KPMG | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Ucles Infraco, S.L. | Camino Cerro de los Gamos, 1, Pozuelo de Alarcon, 28224, Madrid | Activities and services in the field of telecommunications | PwC | Másmóvil Broadband, S.A. | 49.9% | 49.9% | Equity method |
| Comlocal, S.L. | Avda. de Bruselas 38, Alcobendas (Madrid) | Activities and services in the field of telecommunications | - | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Kaixo Bondco Telecom, S.A.U. | Avda. de Bruselas 38, Alcobendas (Madrid) | Development of financing activities | KPMG | Lorca Telecom Bidco, S.A.U. | 100% | 100% | Global |
| Kaixo Telecom, S.A.U. | Parque Empresarial Zuatzu (San Sebastián) | Activities and services in the field of telecommunications | - | MásMóvil Ibercom, S.A. | 100% | 100% | Global |
| Euskaltel, S.A.U. | CL Tecnológico, Derio (Bilbao) | Activities and services in the field of telecommunications | KPMG | Kaixo Telecom, S.A. | 100% | 100% | Global |
| R Cable y Telecable Telecomunicaciones S.A.U. | Calle Real 85 (La Coruña) | Activities and services in the field of telecommunications | KPMG | Kaixo Telecom, S.A. | 100% | 100% | Global |
| Bidasoa TopCo S.A. | Calle Gran via Diego Lopez de Haro 41-1, Bilbao, Bizkaia | Activities and services in the field of telecommunications | KPMG | Kaixo Telecom, S.A. | 49% | 49% | Equity method |

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| Name | Registered office | Activity | Auditor | Shareholder | Percentage ownership | Percentage of voting rights | Consolidation method |
|---|---|---|---|---|---|---|---|
| Lorca HoldCo Limited | 1 Bartholomew Lane, London, England, EC2N 2AX | Holding company | KPMG | Lorca JVCo Limited | 100% | 100% | Global |
| Lorca Telecom BidCo, S.A. | Avda. de Bruselas 38, Alcobendas (Madrid) | Activities and services in the field of telecommunications | KPMG | Lorca Telecom BidCo, S.A.U. | 100% | 100% | Global |
| Lorca Telecom BondCo, S.A.U | Avda. de Bruselas 38, Alcobendas (Madrid) | Development of financing activities | KPMG | Lorca Telecom BidCo, S.A.U. | 100% | 100% | Global |
| Lorca FinCo PLC | 1 Bartholomew Lane, London, England, EC2N 2AX | Development of financing activities | KPMG | Lorca Telecom BidCo, S.A.U. | 100% | 100% | Global |
| Másmóvil Ibercom, S.A.U | Parque Empresarial Zuatzu, Edificio Easo, 2da planta (Guipúzcoa) San Sebastián | Development of activities and services in the field of telecommunications | KPMG | Lorca Telecom BidCo, S.A.U. | 100% | 100% | Global |
| Xfera Móviles, S.A.U | Avda. de Bruselas 38, Alcobendas (Madrid) | Activities and services in the field of telecommunications | KPMG | MásMóvil Ibercom, S.A. | 100% | 100% | Global |
| Másmóvil Broadband, S.A.U | Avda. de Bruselas 38, Alcobendas (Madrid) | Activities and services in the field of telecommunications | KPMG | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Xtra Telecom, S.A.U | Avda. de Bruselas 38, Alcobendas (Madrid) | Activities and services in the field of telecommunications | KPMG | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Embou Nuevas Tecnologías, S.L.U. | Calle Bari 33, Edificio 1, 2 planta Zaragoza | Consultancy and business advisory services in the field of telecommunications and new technologies | KPMG | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Pepeworld, S.L.U. | Avda. de Bruselas 38, Alcobendas (Madrid) | Holding company | - | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Pepe Energy, S.L.U | Avda. de Bruselas 38, Alcobendas (Madrid) | Electricity supply | KPMG | Pepe World, S.L.U. y Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Pepemobile, S.L.U. | Avda. de Bruselas 38, Alcobendas (Madrid) | Telecommunications services; IT services; development, sale and distribution of IT programs and materials | KPMG | Pepe World, S.L.U. y Xfera Móviles, S.A.U. | 100% | 100% | Global |
| The Bymovil Spain, S.L.U. | Polígono Mies de Molladar D-9. Cartes (Cantabria) | Marketing and selling of electrical, electronic and telephone materials | KPMG | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Senior Telecomunicaciones y Servicios Avanzados S.L. | Calle María Tubau 8. Madrid | Provision and / or commercialization of telemedicine services and / or assistance | - | Xfera Móviles, S.A.U. | 92% | 92% | Global |
| Lycamobile S.L.U. (*) | Avda de Bruselas 38, Alcobendas (Madrid) | Activities and services in the field of telecommunications | KPMG | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Guuk Telecom, S.A.U | Parque Empresarial Zuatzu, Edificio Easo, 2da planta Nº 8 (Guipúzcoa) San Sebastián | Activities and services in the field of telecommunications | - | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Cabonitel, S.A. | Alameda dos Oceanos 21101A, Lisboa, Portugal | Activities and services in the field of telecommunications | Deloitte Portugal | MásMóvil Ibercom, S.A. | 50% | 50% | Equity method |
| Spotting Developments, S.L.U | Calle Ramon y Cajal 2. Las Rozas de Madrid, (Madrid) | Activities and services in the field of telecommunications | - | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| Inversiones Locua, S.L. | Camino de las Ceudas, 2. Las Rozas (Madrid) | Telecommunications services; IT services; development, sale and distribution of IT | - | Spotting Developments, S.L.U | 31.66% | 31.66% | Equity method |
| Xfera Consumer Finance Establecimiento Financiero de Crédito, S.A. | Calle Retama 3. Madrid | Personal loans and credits | Mazars | Xfera Móviles, S.A.U. | 49% | 49% | Equity method |
| Medbuying Technologies Group, S.L. | Calle Jose Echegaray,1 Las Rozas de Madrid (Madrid) | Wholesale trade in radio and electronic equipment and materials | KPMG | Xfera Móviles, S.A.U. | 49% | 49% | Equity method |
| Red LTE MM, S.L.U (**) | Avda. de Bruselas 38, Alcobendas (Madrid) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 100% | Global |
| Spotting Brands Technologies, S.L.U | Avda. de Bruselas 38, Alcobendas (Madrid) | Telecommunications services | KPMG | Xfera Móviles, S.A.U. | 100% | 100% | Global |
| TV Alcantarilla Comunicaciones, S.L.U (**) | Alcobendas (Madrid) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 100% | Global |
| Oriol Fibra, S.L.U (**) | Orihuela (Alicante) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 100% | Global |
| Ahi Mas Nash, S.L.U (**) | Avda. de Bruselas 38, Alcobendas (Madrid) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 100% | Global |
| Ahimas Vinfortel, S.L.U (**) | Avda. de Bruselas 38, Alcobendas (Madrid) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 100% | Global |

| Name | Registered office | Activity | Auditor | Shareholder | Percentage ownership | Percentage of voting rights | |
|---|---|---|---|---|---|---|---|
| Alma Telecom, S.L.U. (**) | Almansa (Albacete) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 100% | Global |
| Blu so Easy, S.L.U. (**) | Las Rozas (Madrid) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 100% | Global |
| Ahí+ Europa Network, S.L.U. (**) | Avda. de Bruselas 38, Alcobendas (Madrid) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 100% | Global |
| Wimax On Line, S.L.U. (**) | Lorca (Murcia) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 100% | Global |
| Ahimas Comunitelia, S.L.U. (**) | Avda. de Bruselas 38, Alcobendas (Madrid) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 100% | Global |
| Ahimas Sur, S.L. | Las Rozas (Madrid) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 50% | 50% | Global |
| SPF Franquicia Tarifa,S.L | Las Rozas (Madrid) | Activities and services in the field of telecommunications | - | Spotting Brands Technologies, S.L. | 50% | 50% | Global |
| E-Conectia Uniasser, S.L.U. (**) | Avda. de Bruselas 38, Alcobendas (Madrid) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 100% | Global |
| Schedia Ingeniería, S.L.U. (**) | Avda. de Bruselas 38, Alcobendas (Madrid) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 100% | Global |
| Astronetz Poniente, S.L.U. (**) | Roquetas de Mar (Almería) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 75% | Global |
| Onlycable Comunicaciones, S.L. | c/ Verde Hierba, 7. Mairena de Aljarafe. Sevilla. | Telecommunications services | - | Spotting Brands Technologies, S.L. | 75% | 75% | Equity method |
| Onlycable Fibra, S.L.U. | c/ Verde Hierba, 7. Mairena de Aljarafe. Sevilla. | Telecommunications services | - | Onlycable Comunicación, S.L. | 75% | 75% | Equity method |
| Onlycable, S.L.U. | c/ Verde Hierba, 7. Mairena de Aljarafe. Sevilla. | Telecommunications services | - | Onlycable Comunicación, S.L. | 75% | 75% | Equity method |
| Wiwai Telecomunicaciones, S.L. | c/ Verde Hierba, 7. Mairena de Aljarafe. Sevilla. | Telecommunications services | - | Onlycable Comunicación, S.L. | 75% | 75% | Equity method |
| ISP Cable Networks Telecom España, S.L. | c/ Verde Hierba, 7. Mairena de Aljarafe. Sevilla. | Telecommunications services | - | Onlycable Comunicación, S.L. | 75% | 75% | Equity method |
| Ahimas Next Almería, S.L.U. (**) | Avda. de Bruselas 38, Alcobendas (Madrid) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 100% | Global |
| Rebeloak, S.L.U. (**) | Avda. de Bruselas 38, Alcobendas (Madrid) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 100% | 50% | Global |
| Innovaciones Tecnológicas del Sur, S.L. | Mengíbar (Jaén) | Telecommunications services | - | Spotting Brands Technologies, S.L. | 50% | 54% | Equity Method |
| Energia Colectiva, S.L. | Calle joan D'austria, 28 - PTAS 3 Y 4, Valencia, 46002 , Valencia | Electricity supply | KPMG | Xfera Móviles, S.A.U. | 54% | 50% | Global |
| Ucles Infraco, S.L. | Camino Cerro de los Gamos, 1, Pozuelo de Alarcon, 28224 , Madrid | Activities and services in the field of telecommunications | PwC | Másmóvil Broadband, S.A. | 50% | 90% | Global |
| Comlocal, S.L. | Avda. de Bruselas 38, Alcobendas (Madrid) | Activities and services in the field of telecommunications | - | Xfera Móviles, S.A.U. | 90% | 100% | Global |
| Kaixo Bondco Telecom, S.A.U. | Avda. de Bruselas 38, Alcobendas (Madrid) | Development of financing activities | - | Lorca Telecom Bidco, S.A.U. | 100% | 100% | Global |
| Kaixo Telecom, S.A.U. | Parque Empresarial Zuatzu | Activities and services in the field of telecommunications | - | MásMóvil Ibercom, S.A. | 100% | 100% | Global |
| Euskaltel, S.A.U. | CL Tecnológico, Derio (Bilbao) | Activities and services in the field of telecommunications | KPMG | Kaixo Telecom, S.A. | 100% | 50% | Global |
| R Cable y Telecable Telecomunicaciones S.A.U. | Calle Real 85 | Activities and services in the field of telecommunications | KPMG | Kaixo Telecom, S.A. | 100% | 100% | Global |
| EKT Cable y Telecomunicaciones, S.A.U. | CL Tecnológico, Derio (Bilbao) | Activities and services in the field of telecommunications | KPMG | Kaixo Telecom, S.A. | 100% | 100% | Global |

(*) Entity absorbed by Xfera Móviles, S.A.U during 2022.
(**) Entities absorbed by Spotting Brands Technologies, S.L. during 2022

## LORCA JVCO LIMITED FINANCIAL STATEMENTS

| | NOTE | Year ended 31 Dec 2022 € | Year ended 31 Dec 2021 € |
|---|---|---|---|
| Administrative expenses | 4 | (648,703) | (1,511,922) |
| **Operating loss** | | **(648,703)** | **(1,511,922)** |
| Finance income | 6 | 3,791 | - |
| Finance costs | 7 | (9,142) | (11,181) |
| Impairment losses on financial assets | | (13,140,000) | - |
| **Net finance expense** | | **(13,145,351)** | **(11,181)** |
| **Loss on ordinary activities before taxation** | | **(13,794,054)** | **(1,523,103)** |
| Income tax expense | 8 | - | - |
| **Loss for the year** | | **(13,794,054)** | **(1,523,103)** |

There were no components of 'other comprehensive income' which are required to be separately disclosed during the current year.

All of the amounts above are in respect of continuing operations.

LORCA JVCO LIMITED
REGISTERED NUMBER: 12497729
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

| | Notes | 31 Dec 2022 € | 31 Dec 2021 € |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in subsidiary | **8** | 2,049,942,252 | 2,054,246,808 |
| Assets classified as held for sale | **9.2** | 72,000,000 | - |
| **Total non-current assets** | | **2,121,942,252** | **2,054,246,808** |
| **Current assets** | | | |
| Other current Assets | **10** | 3,106,721 | - |
| Cash at bank and in hand | **11** | 141,196 | 677,716 |
| **Total current assets** | | **3,247,917** | **677,716** |
| **Total assets** | | **2,125,190,169** | **2,054,924,524** |
| **Current liabilities** | | | |
| Creditors: amounts falling due within one year | **12** | (373,959) | (363,550) |
| Loans | **13** | (89,162,240) | (5,112,949) |
| **Total current liabilities** | | **(89,536,199)** | **(5,476,499)** |
| **Total liabilities** | | **(89,536,199)** | **(5,476,499)** |
| **Net assets** | | **2,035,172,249** | **2,049,448,025** |
| **Capital and Reserves** | | | |
| Share capital | **14** | 20,511,736 | 20,511,736 |
| Share premium | **14** | 2,030,661,820 | 2,030,661,820 |
| Accumulated deficit | **15** | (15,519,586) | (1,725,531) |
| **Total Equity** | | **2,035,653,970** | **2,049,448,025** |

The annual accounts of Lorca JVCo Limited were approved and authorised for issue by the Board of Directors and were signed on its behalf by:

**Meinrad Spenger**
**Director**

The accompanying notes on pages 135 to 145 form an integral part of these financial statements

## FOR THE YEAR ENDED 31 DECEMBER 2022

| | Share capital<br>€ | Share premium<br>€ | Accumulated deficit<br>€ | Total Equity<br>€ |
|---|---|---|---|---|
| **Balance as at 31 December 2020 and 1 January 2021** | **18,500,383** | **1,831,537,877** | **(202,429)** | **1,849,835,831** |
| Issue of share capital | 2,011,353 | 199,123,943 | - | 201,135,296 |
| Loss for the period | - | - | (1,523,103) | (1,523,103) |
| **Balance as at 31 December 2021** | **20,511,736** | **2,030,661,820** | **(1,725,532)** | **2,049,448,024** |
| Loss for the period | - | - | (13,794,054) | (13,794,054) |
| **Balance as at 31 December 2022** | **20,511,736** | **2,030,661,820** | **(15,519,586)** | **2,035,653,970** |

## 1. GENERAL INFORMATION

Lorca JVCO Ltd (the "Company") is a private company limited by shares and incorporated in England and Wales (United Kingdom) under the Companies Act 2006. The address of the registered office is 1 Bartholomew Lane, London, EC2N 2AX.

The Company is a holding entity and was established to raise funding through issuance of share capital to finance its holding activities.

The Company holds 100% share capital of Lorca Holdco Limited and as a result, indirectly holds 100% share capital of Lorca Telecom BidCo, S.A., Lorca Telecom BondCo S.A.U., Masmovil Ibercom S.A. and Lorca FinCo Plc.

The financial statements as at 31 December 2022 is for full year (12 Month) and consists of an entire calendar year with comparative figures relate to a 12 month period.

The Company's financial statements are presented in Euro ("€"), which is also the Company's functional currency and all values are rounded to the nearest Euro unit, unless otherwise indicated. In addition these financial statements present the statement of cash flows using the indirect method.

## 2. STATEMENT OF ACCOUNTING POLICIES

The Company's principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" and the Companies Act 2006. These financial statements have been prepared under the historical cost convention modified for the inclusion of certain financial instruments at fair value.

The Company has taken advantage of the following disclosure exemptions in preparing these annual accounts, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 10(d), 16, 111, 134 and 136 of IAS Presentation of Financial
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of IAS 8 IFRSs issued but not effective and;
  the requirements of paragraph 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting, Estimates and Errors;
- the requirements of paragraphs 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

### 2.2 Going Concern

The directors, after carrying out necessary enquiries, believe that the Company has adequate sources of funding to meet any future investments and pay its expenses, and is well placed to manage its business risk successfully.

As a consequence of the above, the directors have a reasonable expectation that the Company has adequate resources and procedures in place to manage its business risks for the foreseeable future. Accordingly, the Company has adopted the going concern basis in the preparation of the financial statements.

## 2.3 Foreign currency translation

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the date of the statement of financial position are translated at the foreign exchange rate ruling at that date. Foreign exchange differences are recognised in the statement of comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

## 2.4 Summary of significant accounting policies

### a) Expenses

All items of expenses are recognised on an accrual's basis.

### b) Taxation

*Current income tax*

Current income tax assets and liabilities are measured at the reporting date at the amount expected to be recovered from or paid to taxation authorities using the tax rates and laws that have been enacted or substantively enacted by the date of the statement of financial position.

*Deferred tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date, whereas the deferred tax assets will be recognised to the extent that they do not exceed the deferred tax liability.

Deferred tax liabilities are recognised for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

c) Investment in subsidiary

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investment in subsidiary is accounted for as financial assets at cost.

**d) Creditors**

Creditors are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value less transaction costs, if any. These are subsequently measured at amortised cost using the effective interest method. Given the nature of payables, however, and the short length of time involved between their origination and settlement, their amortised cost is the same as their fair value at the date of origination.

**e) Trade and other receivables**

Trade receivables are recorded initially at fair value and thereafter at net realisable value after deducting an allowance for impairment.

The Company makes judgments on a customer by customer basis as to its ability to collect outstanding receivables and provides an allowance for impairment based on a specific review of significant outstanding invoices.

Trade receivable balances are written off when the Company determines that it is unlikely that future remittances will be received.

## f) Cash at bank and in hand

Cash and cash equivalents comprise cash balances and call deposits.

## g) Financial assets

Financial assets are recognised on their trade date, when the Company becomes party to the contractual provisions of the instrument.

*Classification and measurement*

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, transaction costs.

All financial assets are classified as fair value through profit or loss.

*Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

## h) Financial liabilities

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as trade and other receivables and trade and other payables.

All financial liabilities are recognised initially at fair value and, in the case of trade and other receivables and trade and other payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

*Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

*Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

**i) Share Capital**

Share capital consists of ordinary shares which are classified as equity when there is no obligation to transfer cash or other assets.

**j) Share Premium**

The consideration received above the nominal value of the Ordinary shares is classified as share premium.

## 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Investment held by the underline subsidiary, are subject to open market Fluctuation during the financial year where no such indication to conduct impairment of the subsidiary.

## 4. ADMINISTRATIVE EXPENSES

Operating loss has been arrived at after charging:

| | **Year ended 31 Dec 2022 €** | **Year ended 31 Dec 2021 €** |
|---|---|---|
| Consulting expenses | - | (6,327) |
| Stock market expenses | - | (3,024) |
| Audit services | (449,800) | (1,090,819) |
| Legal and tax advice | (155,833) | (186,594) |
| Secretarial services | (28,148) | (127,317) |
| Outsourcing | (14,922) | (97,841) |
| **Total** | **(648,703)** | **(1,511,922)** |

## 5. DIRECTORS AND EMPLOYEES

The Company has no employees and services required are contracted from third parties. The directors received no remuneration from the Company in respect of qualifying services rendered during the period under review.

The Directors remuneration for the current period was borne by other affiliated companies. No recharge was made to the Company for the services of the directors in the current period as it is not possible to make an accurate apportionment of emoluments in respect of services to the Company.

## 6. FINANCE INCOME

| | **Year ended 31 Dec 2022 €** | **Year ended 31 Dec 2021 €** |
|---|---|---|
| Finance Income | 3,791 | - |
| | **3,791** | **-** |

## 7. FINANCE COSTS

| | **Year ended 31 Dec 2022 €** | **Year ended 31 Dec 2021 €** |
|---|---|---|
| Bank charges and commission | (9,142) | (11,181) |
| | **(9,142)** | **(11,181)** |

## 8. INCOME TAX EXPENSE

Analysis of the tax charge.

The tax charge on the profit on ordinary activities for the period were as follows:

| | Year ended 31 Dec 2022 | Year ended 31 Dec 2021 |
|---|---|---|
| **Current tax:** | **€** | **€** |
| Current tax on profits for the year/ period | - | - |
| **Total current tax** | **-** | **-** |

| | Year ended 31 Dec 2022 | Year ended 31 Dec 2021 |
|---|---|---|
| **Current tax:** | **€** | **€** |
| Current tax on profits for the year/ period | - | - |
| **Total current tax** | **-** | **-** |

The following table reconciles the tax income at the standard rate to the actual tax income:

| | Year ended 31 Dec 2022 € | Year ended 31 Dec 2021 € |
|---|---|---|
| Loss on ordinary activities before taxation | (13,794,054) | (1,523,103) |
| Theoretical income tax expense at 19.00% | (2,620,870) | (289,390) |
| *Tax effects of:* | | |
| Expenses not deductible for tax purposes | 2,620,870 | 289,390 |
| **Total income tax expense for the year/ period** | **-** | **-** |

### *Factors that may affect future tax charges*

The current effective tax rate for the financial period is 19%. The UK Government announced on 14 October 2022 that the UK corporation tax rate will increase to 25% from 1 April 2023 as already enacted in the UK Finance Act 2021.

## 9. NON-CURRENT ASSETS

### 9.1 Investment in subsidiary

Movements in the carrying value of the investments during the period were as follows:

The subsidiary undertaking of the Company is detailed below:

| | Year ended 31 Dec 2022 | Year ended 31 Dec 2021 |
|---|---|---|
| **Opening balance** | **€** | **€** |
| At the beginning of the period | 2,054,246,808 | 1,606,918,553 |
| Additions | - | 447,328,255 |
| Reductions | (4,304,556) | - |
| **At the end of the period** | **2,049,942,252** | **2,054,246,808** |

### 9.2 Assets classified as held for sale

At the date of acquisition of control of Cabonitel, the company was already considering its disposal which was subsequently formalised through a sale agreement with a third party on 29 September 2022 for Euro 72 million. At 31 December 2022, the sale has not been completed since certain regulatory conditions have not been fulfilled, among them the approval by the Portuguese Authority. Cabonitel´s assets and liabilities are consequently presented as held-for-sale in the consolidated financial statements as of 31 December 2022, and the results of its operations as discontinued operations.

| Name and registered address | Principal activity | Place of Incorporation and principal place of business | Proportion of ownership interest / voting rights held by the Company | Holding |
|---|---|---|---|---|
| Lorca Holdco Limited | Holding company | UK | 100% | Ordinary Shares |
| Cabonitel S.A. | Holding company | Lisbon | 100% | Ordinary Shares |

The indirect subsidiaries of the Company are listed in Appendix I of the Group consolidated financial statements.

## 10. OTHER CURRENT ASSETS

| | Year ended 31 Dec 2022 | Year ended 31 Dec 2021 |
|---|---|---|
| | **€** | **€** |
| Prepayments | 2,625,000 | - |
| Accounts receivables with associates | 481,721 | - |
| | **3,106,721** | **-** |

## 11. CASH AT BANK AND IN HAND

The amounts disclosed on the Company's statement of cash flows in respect of cash and cash equivalents are in respect of these statement of financial position amounts:

| | Year ended 31 Dec 2022 € | Year ended 31 Dec 2021 € |
|---|---|---|
| Cash at bank and in hand | 141,196 | 677,716 |
| | **141,196** | **677,716** |

## 12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Year ended 31 Dec 2022 € | Year ended 31 Dec 2021 € |
|---|---|---|
| Trade creditors | (373,959) | (363,550) |
| | **(373,959)** | **(363,550)** |

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

The amounts owed to Group undertakings are unsecured, interest free, have no fixed date of repayments and are payable on demand.

## 13. LOANS

| | Year ended 31 Dec 2022 € | Year ended 31 Dec 2021 € |
|---|---|---|
| Current account with group companies | (89,162,240) | (5,112,949) |
| | **(89,162,240)** | **(5,112,949)** |

The loans are payable as follows:

| | Year ended 31 Dec 2022 € | Year ended 31 Dec 2021 € |
|---|---|---|
| Payable on demand | (89,162,240) | (5,112,949) |
| **Total** | **(89,162,240)** | **(5,112,949)** |

## 14. SHARE CAPITAL

| | Year ended 31 Dec 2022 | Year ended 31 Dec 2021 |
|---|---|---|
| **Authorised:** | **€** | **€** |
| (FY2022: 2,051,173,558) shares of €0.01 each | 20,511,736 | 20,511,736 |
| | **20,511,736** | **20,511,736** |
| | | |
| **Issued and not fully paid:** | | |
| 102,551,0141 ordinary shares issued of €0.01 each | 1,025,511 | 1,025,511 |
| 1,948,622,516 preference shares issued of €0.01 each | 19,486,225 | 19,486,225 |
| **At 31 December 2022, 2,051,173,558 shares of €0.01 each** | **20,511,736** | **20,511,736** |

Share capital was issued at above par resulting in share premium of €2,030,661,820 (€2,030,661,820 in 2021).

Share subscriptions are as follows:

| | Date | Number of shares | Nominal | Amount paid | Share capital | Share premium | Total |
|---|---|---|---|---|---|---|---|
| | | | € | € | € | € | € |
| **Ordinary** | 8/10/2021 | 49,872 | 0.01 | 1.00 | 499 | 49,373 | 49,872 |
| | 12/22/2021 | 9,999,255 | 0.01 | 1.00 | 99,993 | 9,899,262 | 9,999,255 |
| **Total ordinary** | | **10,049,127** | | | **100,492** | **9,948,635** | **10,049,127** |
| **Preferred** | 8/10/2021 | 1,085,424 | 0.01 | 1.00 | 10,854 | 1,074,570 | 1,085,424 |
| | 12/22/2021 | 190,000,745 | 0.01 | 1.00 | 1,900,007 | 188,100,738 | 190,000,745 |
| **Total preferred** | | **191,086,169** | | | **1,910,861** | **189,175,308** | **191,086,169** |
| **Total as at 31 December 2021 and 1 January 2022** | | **2,051,173,557** | | | **20,511,736** | **2,030,661,820** | **2,051,173,556** |
| **Ordinary** | | - | - | - | - | - | - |
| **Preferred** | | - | - | - | - | - | - |
| **Total as at 31 December 2022** | | **2,051,173,557** | | | **20,511,736** | **2,030,661,820** | **2,051,173,556** |

Lorca JVCo management has evaluated the preferential rights associated with the preference shares and has concluded that the Company does not have an unconditional obligation to deliver cash or another financial asset to settle the obligation. If there is a commitment to distribute cash, the approval and distribution is subject to approval by the Company's Board of Directors and this is discretionary as to its timing and amount. For this reason, the Company classifies the preference shares as equity instruments.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

## 15. RETAINED EARNINGS

| | Year ended 31 Dec 2022 € | Year ended 31 Dec 2021 € |
|---|---|---|
| At the beginning of the year | (1,725,532) | (202,429) |
| Loss for the year | (13,794,054) | (1,523,103) |
| | **(15,519,586)** | **(1,725,532)** |

## 16. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Company does not have any capital commitments or contingent liabilities that have not been included in these financial statements.

## 17. CONTROLLING PARTY

The Company's immediate parent and controlling party is Lorca Aggregator Limited, a company incorporated in Jersey.

## 18. SUBSEQUENT EVENTS

There is no subsequent event after the reporting period that required disclosure in Financial Statements.