Cellnex Telecom, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2016 and Consolidated Directors' Report, together with Independent Auditor's Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Cellnex Telecom, S.A.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Cellnex Telecom, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of Cellnex Telecom, S.A. and Subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain, identified in Note 2 to the accompanying consolidated financial statements, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Parent's directors of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Cellnex Telecom, S.A. and Subsidiaries as at 31 December 2016, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2016 contains the explanations which the Parent's directors consider appropriate about the situation of Cellnex Telecom, S.A. and Subsidiaries, the evolution of their business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2016. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Cellnex Telecom, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Ana Torrens

16 February 2017

Cellnex Telecom, S.A. and Subsidiaries

Consolidated Financial Statements for the Year ended 31 December 2016 and Consolidated Directors’ Report

Translation of a report originally issued in Spanish prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

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Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 23). In the event of a discrepancy the Spanish-language version prevails.

CELLNEX TELECOM, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2016

(Thousands of Euros)

	Notes	31 December 2016	31 December 2015
ASSETS			
NON-CURRENT ASSETS			
Goodwill	Note 7	380,217	216,002
Other intangible assets	Note 7	1,035,166	582,645
Property, plant and equipment	Note 6	1,048,445	935,813
Investments in associates	Note 8	3,551	3,514
Financial investments	Note 9	11,640	12,530
Trade and other receivables	Note 10	36,332	27,710
Deferred tax assets	Note 15.d	29,181	28,899
Total non-current assets		**2,544,532**	**1,807,113**
CURRENT ASSETS			
Inventories		2,023	3,383
Trade and other receivables	Note 10	155,039	164,054
Receivables from associates	Note 20.c	113	119
Financial investments	Note 9	921	921
Cash and cash equivalents	Note 11	192,851	51,000
Total current assets		**350,947**	**219,477**
TOTAL ASSETS		**2,895,479**	**2,026,590**
NET EQUITY			
Share capital and attributable reserves			
Share capital	Note 12.a	57,921	57,921
Treasury shares	Note 12.a	(2,694)	-
Share premium	Note 12.b	338,733	338,733
Reserves	Note 12.c	36,000	10,422
Profit for the year	Note 12.g	39,817	47,290
		469,777	**454,366**
Non-controlling interests	Note 12.f	81,424	82,851
Total net equity		**551,201**	**537,217**
NON-CURRENT LIABILITIES			
Borrowings	Note 13	1,683,960	979,261
Provisions and other liabilities	Note 16.a	176,604	125,384
Employee benefit obligations	Note 16.b	2,496	2,563
Deferred tax liabilities	Note 15.d	290,281	183,246
Total non-current liabilities		**2,153,341**	**1,290,454**
CURRENT LIABILITIES			
Borrowings	Note 13	17,732	9,094
Employee benefit obligations	Note 16.b	6,276	8,230
Payables to associates	Note 20.c	-	179
Trade and other payables	Note 14	166,929	181,416
Total current liabilities		**190,937**	**198,919**
TOTAL NET EQUITY AND LIABILITIES		**2,895,479**	**2,026,590**

The accompanying Notes 1 to 23 and Appendices I and II attached form an integral part of the consolidated balance sheet at 31 December 2016

CELLNEX TELECOM, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

(Thousands of Euros)

	Notes	2016	2015
Services		670,413	575,365
Other operating income		34,172	36,419
Operating income	Note 17.a	**704,585**	**611,784**
Staff costs	Note 17.b	(97,471)	(89,258)
Other operating expenses	Note 17.c	(343,680)	(306,750)
Change in provisions	Note 17.d	250	1,138
Losses on fixed assets	Note 17.e	(176)	(117)
Depreciation and amortisation	Note 17.f	(176,779)	(153,500)
Operating profit		**86,729**	**63,297**
Financial income	Note 17.g	1,179	394
Financial costs	Note 17.g	(46,954)	(27,861)
Net financial profit		**(45,775)**	**(27,467)**
Profit of companies accounted for using the equity method	Note 8	65	34
Profit before tax		**41,019**	**35,864**
Income tax	Note 15.c	(633)	12,601
Consolidated net profit		**40,386**	**48,465**
Attributable to non-controlling interests	Note 12.f	569	1,175
Net profit attributable to the Parent Company		**39,817**	**47,290**
Earnings per share (in euros per share):			
Basic	Note 12.e	0.17	0.20
Diluted	Note 12.e	0.17	0.20

The accompanying Notes 1 to 23 and Appendices I and II attached form an integral part of the consolidated income statement corresponding to the year ended 31 December 2016.

CELLNEX TELECOM, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

(Thousands of Euros)

	2016	2015
PROFIT FOR THE YEAR	40,386	48,465
Income and expenses recognised directly in net equity, transferable to the consolidated income statement:		
Variation in cash flow hedges Parent Company fully and proportionately consolidated companies	-	41
Total consolidated comprehensive income	**40,386**	**48,506**
Attributable to:		
- Parent Company shareholders	39,817	47,321
- Non-controlling interests	569	1,185
Total consolidated comprehensive income	**40,386**	**48,506**

The accompanying Notes 1 to 23 and Appendices I and II attached form an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2016.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 23). In the event of a discrepancy the Spanish-language version prevails.

CELLNEX TELECOM, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(Thousands of Euros)

	Share capital	Treasury shares	Share premium	Reserves	Profit for the year	Non-controlling interests	Net equity
At 1 January 2015	**57,921**	**-**	**338,733**	**42,601**	**57,471**	**4,666**	**501,392**
Comprehensive earnings for the year	-	-	-	31	47,290	1,185	48,506
Distribution of 2014 profit	-	-	-	57,471	(57,471)	-	-
Changes in the scope of consolidation and others	-	-	-	(80,414)	-	77,000	(3,414)
Interim dividend for 2015	-	-	-	(9,267)	-	-	(9,267)
At 31 December 2015	**57,921**	**-**	**338,733**	**10,422**	**47,290**	**82,851**	**537,217**
At 1 January 2016	**57,921**	**-**	**338,733**	**10,422**	**47,290**	**82,851**	**537,217**
Comprehensive earnings for the year	-	-	-	-	39,817	569	40,386
Distribution of 2015 profit	-	-	-	47,290	(47,290)	-	-
Dividends	-	-	-	(21,083)	-	(1,996)	(23,079)
Treasury Shares	-	(2,694)	-	(265)	-	-	(2,959)
Foreign exchange reserve	-	-	-	(364)	-	-	(364)
At 31 December 2016	**57,921**	**(2,694)**	**338,733**	**36,000**	**39,817**	**81,424**	**551,201**

The accompanying Notes 1 to 23 and Appendices I and II attached form an integral part of the statement of changes in the consolidated equity corresponding to the year ended 31 December 2016.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 23). In the event of a discrepancy the Spanish-language version prevails.

CELLNEX TELECOM, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

(Thousands of Euros)

	Notes	2016	2015
Profit for the year before tax		**41,019**	**35,864**
Adjustments to profit-			
Depreciation	Notes 6 and 7	176,779	153,500
Gains/(losses) on derecognition and disposals of non-current assets	Note 17.e	176	117
Changes in provisions	Note 17.d	(250)	(1,138)
Interest and other income	Note 17.g	(1,179)	(394)
Interest and other expenses	Note 17.g	46,954	27,861
Share of results of companies accounted for using the equity method	Note 8	(65)	(34)
Other income and expenses		890	921
		264,324	**216,697**
Changes in current assets/current liabilities-			
Inventories		2,282	(2,714)
Trade and other receivables		29,884	8,386
Other current assets and liabilities		(14,235)	(4,710)
		17,931	**962**
Cash flows generated by operations		**282,255**	**217,659**
Interest paid		(24,311)	(9,995)
Interest received		1,103	196
Income tax paid		(11,477)	(13,913)
Employee benefit obligations and current provisions		(2,864)	(2,427)
Other receivables and payables		7,200	46,399
Total net cash flow from operating activities (I)		**251,906**	**237,919**
Business combinations and changes in scope of consolidation	Note 5	(525,358)	(668,670)
Purchases of property, plant and equipment and intangible assets		(228,563)	(140,494)
Non-current financial investments		(16,087)	(1,053)
Total net cash flow from investing activities (II)		**(770,008)**	**(810,217)**
Purchase of treasury shares		(2,949)	-
Proceeds from issue of bank borrowings	Note 13	271,745	674,885
Bond issue	Note 13	801,804	591,174
Repayment and redemption of bank borrowings	Note 13	(381,619)	(723,830)
Net repayment of other borrowings (Profits)		(6,608)	(1,348)
Dividends paid		(21,083)	(8,075)
Dividends to non-controlling interests		(1,996)	(399)
Dividends received		28	-
Total net cash flow from financing activities (III)		**659,322**	**532,407**
Foreign exchange differences		**631**	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS (I)+(II)+(III)		**141,851**	**(39,891)**
Cash and cash equivalents at beginning of year	Note 11	51,000	90,891
Cash and cash equivalents at end of year		**192,851**	**51,000**

The accompanying Notes 1 to 23 and Appendices I and II attached form an integral part of the consolidated statement of cash flows corresponding to the year ended 31 December 2016.

Cellnex Telecom, S.A. and Subsidiaries

Notes to the consolidated financial statements for the year ended on 31 December 2016

1. General information

Cellnex Telecom, S.A., (hereinafter, the "Parent Company" or "Cellnex") was incorporated in Barcelona on 25 June 2008. Its registered office is at Avenida del Parc Logistic No. 12-20, Barcelona. On 1 April 2015, it changed its name from Abertis Telecom Terrestre, S.A.U. to Cellnex Telecom, S.A.

The Company's corporate purpose, as set out in its bylaws, includes:

- The establishment and operation of all kinds of telecommunication infrastructures and/or networks, as well as the provision, management, marketing and distribution, on its own account or on account of third parties, of all types of services based on or through such infrastructures and/or networks.

- The planning, technical assistance, management, organisation, coordination, supervision, maintenance and conservation of such installations and services under any type of contractual arrangement allowed by law, especially administrative concessions.

The Parent Company may undertake these activities directly or indirectly through the ownership of shares or equity investments in companies with a similar corporate purpose or in any other manner allowed by law.

Cellnex Telecom, S.A. is the parent of a group of companies engaged in the management of terrestrial telecommunications infrastructures.

Initial public offering and admission to trading of Cellnex shares (IPO)

On 19 March 2015 the Board of Directors of the Parent Company, pursuant to the authority conferred on it at the General Shareholders' Meeting of Abertis Infraestructuras, S.A. on the same date, unanimously agreed to request admission to officially trade on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia and on the subsequent initial public offering of shares on the Spanish Securities Market, a process that was successfully completed. As a result, 100% of the shares of the Parent Company have been listed on the market since 7 May 2015, of which a total of 66% were subject to the initial public offering by Abertis Infraestructuras, S.A. due to the exercising of the over-allotment option (green-shoe) by the coordinating banks (see Note 12.a).

2. Basis of presentation

a) Basis of presentation

The consolidated financial statements of Cellnex Telecom, S.A. and Subsidiaries for the year ended on 31 December 2016, which have been based on the accounting records kept by the Parent Company and by the other companies that make up the Group, were authorised for issue by the Directors of the Parent Company at the meeting of the Board of Directors held on 16 February 2017.

These consolidated financial statements have been prepared in accordance with the regulatory financial reporting framework applicable to the Group which is established by the International Financial Reporting Standards ("IFRS") adopted by the European Union (hereinafter, "EU-IFRS") and taking into consideration all of the accounting principles and standards and the valuation criteria that must be

applied, as well as the Commercial Code, the Spanish Limited Liability Companies Act and other applicable commercial legislation, so that they show a true image of the equity and financial situation of the Cellnex Group at 31 December 2016 and the results of its operations, the changes in net equity and the consolidated cash flows that have occurred within the Group during the financial year ended on that date.

Given that the accounting principles and valuation criteria applied when preparing the Group's consolidated financial statements at 31 December 2016 may differ from those used by some of the companies within the Group, the adjustments and reclassifications needed to standardise the principles and criteria, and adapt them to the EU-IFRS, have been carried out as part of the consolidation process. These adjustments have not had a significant impact on the Group's consolidated annual accounts.

The consolidated financial statements of Cellnex Telecom, S.A., as well as its individual annual accounts and the annual accounts of the companies forming part of the Group will be submitted to their respective General Meetings of Shareholders/Partners or Shareholder/Sole Shareholder within the legally established deadlines. The Directors of the Parent Company consider that these accounts will be approved without any significant changes.

Moreover, the Group's consolidated financial statements corresponding to the financial year ended on 31 December 2015 were approved by the shareholders of the Parent Company on 30 June 2016.

b) Adoption of IFRSs

The Cellnex Group's consolidated financial statements are presented in accordance with EU-IFRSs, in conformity with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002. In Spain, the requirement to prepare consolidated financial statements in accordance with EU-IFRSs is also regulated by Final Provision Eleven of Law 62/2003, of 30 December, on tax, administrative, labour and social security measures.

The principal accounting policies and measurement bases adopted by the Group are presented in Note 3.

(i) Standards and Interpretations effective during the present year

The following new accounting standards, amendments and interpretations came into force in 2016:

New standards, amendments and interpretations		**Obligatory Application in Annual Reporting Periods Beginning On or After:**
Amendments to IAS 19, Defined Benefit Plans: Employee Contributions (issued in November 2013)	The amendments were issued to allow employee contributions to be deducted from the service cost in the same period in which they are paid, provided certain requirements are met.	1 February 2015 [(1)]
Improvements to IFRSs, 2010-12 cycle (issued in December 2013)	Minor amendments to a series of standards.	1 February 2015 [(1)]
Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)	Clarify the acceptable methods of depreciation and amortisation of property, plant and equipment and intangible assets, which do not include methods that are based on revenue.	1 January 2016
Amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)	Provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.	1 January 2016
Amendments to IASs 16 and 41, Bearer Plants (issued in June 2014)	Bearer plants shall be measured at cost rather than at fair value.	1 January 2016
Improvements to IFRSs, 2012-2014 cycle (issued in September 2014)	Minor amendments to a series of standards.	1 January 2016
Amendments to IAS 27, Equity Method in Separate Financial Statements (issued in August 2014)	The amendments permit the use of the equity method in the separate financial statements of an investor.	1 January 2016

Amendments to IAS 1, Disclosure Initiative (issued in January 2014)	Various clarifications in relation to disclosures (materiality, aggregation, order of specific items within the notes to the financial statements, etc.).	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities (issued in December 2014)	Clarifications on the consolidation exception for investment entities.	1 January 2016

[(1)] The date established for entry into force of these improvements was on or after 1 July 2014.

The Group has applied the aforementioned standards and interpretations since their entry into force, which has not given rise to any significant change in its accounting policies.

(ii) Standards and interpretations issued but not yet in force

At the date of formal preparation of these consolidated financial statements, the following standards, amendments and interpretations had been published by the International Accounting Standards Board (IASB) but had not come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union.

New standards, amendments and interpretations		**Obligatory Application in Annual Reporting Periods Beginning On or After:**
Approved for use in the European Union		
IFRS 15, Revenue from Contracts with Customers (issued in May 2014)	New revenue recognition standard (supersedes IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31).	1 January 2018
IFRS 9, Financial Instruments (issued in July 2014)	Replaces the requirements in IAS 39 relating to the classification, measurement, recognition and derecognition of financial assets and financial liabilities, hedge accounting and impairment.	1 January 2018
Not yet approved for use in the European Union [(1)]		
Clarifications to IFRS 15 (issued in April 2016)	Relate to the identification of performance obligations, principal versus agent considerations, the granting of licenses and whether the licence transfers to a customer either at a point in time or over time, as well as to the transition requirements.	1 January 2018
IFRS 16, Leases (issued in January 2016)	Replaces IAS 17 and the related interpretations. The main change in the new standard is the introduction of a single lessee accounting model which requires a lessee to recognise all leases in the balance sheet (with certain limited exceptions) with an impact similar to the current finance leases (there will be depreciation of the right-of-use asset and a finance cost due to the amortised cost of the liability).	1 January 2019
Amendments to IAS 7, Disclosure Initiative (issued in January 2016)	Additional disclosure requirements for the purpose of improving the information provided to the users of financial statements.	1 January 2017
Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016)	Clarification of the principles established in relation to the recognition of deferred tax assets due to unrealised losses.	1 January 2017
Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (issued in June 2016)	Limited amendments to clarify specific matters such as the effects of vesting conditions on the measurement of a cash-settled share-based payment, the classification of share-based payment transactions with net settlement features and certain aspects of modifications to a share-based payment.	1 January 2018
Amendments to IFRS 4, Insurance Contracts (issued in September 2016)	Provides entities, within the scope of IFRS 4, with the option to apply IFRS 9 (“overlay approach”) or a temporary exemption therefrom.	1 January 2018
Amendments to IAS 40, Transfers of Investment Property (issued in December 2016)	The amendment clarifies that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use of the property.	1 January 2018
Improvements to IFRSs, 2014-2016 cycle (issued in December 2016)	Minor amendments to a series of standards (different effective dates).	1 January 2018

IFRIC 22, Foreign Currency Transactions and Advance Consideration (issued in December 2016)	This interpretation determines 'the date of the transaction' for the purpose of determining the exchange rate to use in advance consideration transactions in a foreign currency.	1 January 2018
Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)	Clarification in relation to the gain or loss resulting from such transactions involving a business or assets.	No set date

(1) The status of approval of the standards by the European Union can be consulted on the EFRAG website.

The Group has not considered the early application of the standards and interpretations detailed above and, in any event, application thereof will be considered by the Group once they have been approved, as the case may be, by the European Union.

The Parent Company's Directors are nevertheless evaluating the potential impact of the future application of these standards.

Adoption of IFRS 15 and IFRS 16

IFRS 15 – Revenue from Contracts with Customers (IFRS 15) - was issued by the IASB in May 2014 and should be applied from accounting periods starting from 1 January 2018, although early adoption is permitted. This standard has been endorsed by the European Union.

IFRS 15 replaces IAS 18 – Revenue and IAS 11 – Construction Contracts and is based on the principle that revenue should be recognised when the control of the good or service is transferred to the customer. It establishes a five step process to determine what revenue should be recognised:

- Identification of contracts with customers
- Identification of the different performance obligations
- Determination of the price
- Assignment of the price to each of the performance obligations
- Revenue recognition as each obligation is satisfied

IFRS 16 – Leases (IFRS 16) – was issued by the IASB in January 2016. As indicated in the standard, it will be applicable for accounting periods commencing from 1 January 2019. The standard allows early adoption for those entities that have already applied IFRS 15 at the initial adoption date of IFRS 16 o earlier. To date this standard has not yet been endorsed by the European Union.

IFRS 16 deals with the accounting treatment of contracts that are or contain a lease, both from the lessee and the lessor point of view, as defined by the standard. It should be noted that this standard deals in greater detail with the question as to whether a contract is or contains a lease, when compared with the current standard. The effects of the adoption of IFRS 16 for contracts under which the entity acts as a lessor or a lessee, can be summarised as follows:

- From the lessee point of view the adoption of IFRS 16 will mean that the majority of lease contracts will be recorded on the balance sheet, and the distinction between operating and finance leases will be eliminated. The effect on the balance sheet will generally result in the recognition of an asset (the right to use the lease asset) and a finance liability for the payment of rentals. An optional exemption is included in the standard for short term leases and leases of low value. The income statement will also be affected as the total expense will normally be higher in the first years of the lease and lower in the final years. Moreover, the current operating expense will be replaced by interest and depreciation expenses (except in those cases where the payments are variable). On the other hand the operating cashflows will be higher, to the extent that the cash payments for the principal of the lease liability will be classified in financing activities.

- From the lessor's point of view the accounting for a contract that is or contains a lease will not change significantly.

IFRS 15 expressly excludes from its scope all lease contracts. As a consequence, the determination as to whether a contract is or contains a lease once IFRS 16 has been adopted will determine which of the two standards, IFRS 15 (applicable to contracts for the delivery of goods or services) or IFRS 16 (applicable to leases), will be applied to record the corresponding revenue. In addition, IFRS 16 indicates that, for those contracts that are or contain a lease, IFRS 15 should be applied to assign the value to each separate component, which is especially relevant to those cases in which the contract contains components of a service and components of a lease. Finally, as indicated above, the early adoption of IFRS 16 requires the prior adoption of IFRS 15.

Due to the relevance and interconnection between the two standards, the Group has commenced a simultaneous process to analyse the impact of both on the main transactions performed to date, and to the possible types of transactions that are expected to arise in the coming years.

This process has been structure in the following parts:

a) Determination of what types of transactions would be subject to both standards. This workstream was commenced in 2016 and has the following objectives:

    i. Individually for each business segment, determine if Cellnex's contracts with its customers are or contain leases and what components are present;

    ii. For each business segment what type of contract with suppliers are or contain leases and, as appropriate, which components should be differentiated.

b) Determination of how these contracts or types of contracts analysed should be accounted for in accordance with IFRS 15 or 16.

c) Due to the high volume of contracts in which it is expected that Cellnex will be a lessee, definition of the methodology to standardise the application of the judgements and the calculation of key data for the accounting treatment (such as lease duration or interest rates to be used.)

d) Identification of the operating implications at the process and information systems level.

e) Implementation and evaluation of the transition options.

At the date of the approval for issue of these consolidated financial statements the Group has commenced the workstreams for points a), b) and c) and these still have to be completed. Group Management estimates that this work will be finalised during the first half of 2017, and the workstream for points d) and e) will also be commenced in this timeframe. Group Management further estimates that the work in relation to the identification and quantification of the effects, if any, of the application of IFRS 15 will also be completed during the first half of 2017, at least as concerns existing contracts. It is probable that the work in relation to IFRS 16 will extend throughout 2017, and may even be finalised in 2018. In relation to the possible effects of IFRS 16, the Group has non cancellable operating lease commitments of EUR 307,154 (Note 17.c). However, some of these commitments could be covered by the exemptions for short term or low value leases. In addition, the evaluation of key factors, which would mainly be the duration to be considered to record the corresponding right of use and associated lease liability could affect this amount. As a consequence, even though the aforementioned amount could be taken as an approximation to the potential effect as concerns those contracts where Cellnex is the lessee, the application of IFRS 16 could result in different amounts which have not yet been determined.

c) *Presentation currency of the Group*

These consolidated financial statements are presented in Euros because the Euro is the currency of the main economic area in which the Group operates.

d) *Responsibility for the information provided and accounting estimates and judgements made*

The preparation of the consolidated financial statements under IFRS requires certain accounting estimates to be made and certain elements of judgement to be considered by the Management of the Company. These are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events, which are considered reasonable under the circumstances. Although the estimates considered have been made with the best information available as of the date of preparing these consolidated financial statements, in accordance with IAS 8, any future amendment to these estimates would be applied prospectively as of that moment, acknowledging the effect of the change on the estimate made in the consolidated income statement for the financial year in question.

The main estimates and judgements considered in preparing the consolidated financial statements are as follows:

a) Useful lives of property, plant and equipment (see Note 3.a).

The determination of useful lives of property, plant and equipment requires estimates of the assets' level of use and of expected technological changes. Assumptions regarding the level of use, technological framework and their future development, based on which the useful lives are determined, entail a significant degree of judgment, since the time and nature of future events are difficult to foresee.

b) Useful lives of intangible assets (see Note 3.b).

The intangible assets associated with the telecom infrastructures are amortised over the shorter of the term of the corresponding ground lease taking into consideration renewals or up to 20 years, as the Company considers these intangibles to be directly related to the infrastructure assets.

c) The measurement of non-financial assets and goodwill in order to determine the existence of impairment losses on these assets (see Notes 3.a, 3.b and 3.c).

The determination of impairment losses requires the use of estimates on the recoverable amount based on impairment tests. The estimated recoverable amount for non-financial assets and goodwill is based mainly on impairment tests performed using discounted cash flows.

d) Derivatives or other financial instruments (see Notes 3.d, 3.e, 9 and 13).

The fair value of financial instruments traded on official markets is based on the market prices at the consolidated balance sheet date. The quoted market price used for financial assets is the current bid price.

The fair value of the financial instruments not quoted on active markets is determined using valuation techniques. The Group uses various methods and makes assumptions based on the existing market conditions at each consolidated balance sheet date. To determine the fair value of the remaining financial instruments, other techniques, such as estimated discounted cash flows, are used. The fair value of the interest rate swaps is calculated as the present value of the estimated cash flows.

The carrying amount, less the provision for impairment losses on accounts receivable and payable, is similar to their fair value.

The fair value of financial liabilities, for the purposes of presenting financial information, is estimated by discounting future contractual cash flows at the current market interest rate the Group would have access to for similar financial instruments.

When financial assets not measured at fair value through profit or loss are initially recognised, the Group measures them at their fair value plus transaction costs directly attributable to the acquisition or issue of the financial asset. In this sense, the Group determines the classification of its financial assets at initial recognition.

e) Fair value of assets and liabilities in business combinations (see Note 5).

The identifiable assets acquired and the identifiable liabilities and contingencies assumed in a business combination are initially measured at their acquisition-date fair value, regardless of the scope of non-controlling interests. The excess of the acquisition cost over the fair value of the Group's share in the identifiable net assets acquired is recognised as goodwill. If the acquisition cost is lower than the fair value of the acquired subsidiary's net assets, the difference is recognised directly in the consolidated statement of comprehensive income for the financial year.

f) Provisions for staff obligations (see Notes 3.m and 16).

The calculation of pension expenses, other post-retirement expenses or other post-retirement liabilities requires the application of several assumptions. At the end of each financial year, the Group estimates the provision needed to meet the commitments for pensions and similar obligations, in accordance with the advice of independent actuaries. Changes affecting these assumptions may result in different amounts for the expenses and liabilities recorded. The most significant assumptions for measuring pension and post-retirement benefits liabilities are retirement age, inflation and the discount rate used. The assumptions about social security coverage are also essential for determining other post-retirement benefits. Any future changes to these assumptions would have an impact on the future pension expenses and liabilities.

g) Deferred tax assets and income tax (see Notes 3.l and 15).

The calculation of the income tax expense requires the interpretation of tax legislation in the jurisdictions where the Group operates. The determination of expected outcomes with regards to outstanding disputes and litigation requires significant estimates and judgements to be made. The Group assesses the recoverability of deferred tax assets based on the estimates of future taxable income and the ability to generate sufficient income during the periods in which these deferred taxes are deductible.

h) Provisions: the probability of occurrence and the amount of the undetermined contingent liabilities (see Notes 3.o and 16).

The Group makes an estimate of the amounts to be settled in the future, including those corresponding to contractual obligations and outstanding litigation. These estimations are subject to interpretations of the current facts and circumstances, forecasts of future events and estimates of the financial effects of these events.

The consolidated financial statements have been prepared on the basis of historical cost, except in the cases specifically mentioned in these Notes, such as the items measured at fair value.

The consolidated financial statements have been prepared on the basis of uniformity in recognition and measurement. When a new standard amending existing measurement bases becomes applicable, it is applied in accordance with the transition criterion provided in the standard.

Certain amounts in the consolidated income statement and the consolidated balance sheet were grouped together for the sake of clarity. These items are disclosed in the Notes to the consolidated financial statements.

The distinction presented in the consolidated balance sheet between current and non-current items was made on the basis of whether they fall due within one year or more, respectively.

In addition, the consolidated financial statements include all additional information considered necessary for their correct presentation under the company law in force in Spain.

Finally, the figures contained in all the financial statements forming part of the consolidated financial statements (consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes to net equity, consolidated statement of cash flows) and the Notes to the consolidated financial statements are expressed in thousands of euros.

e) Comparative information

As required by the IFRS, the information relating to the financial year ended on 31 December 2015 contained in these consolidated financial statements for 2016 is submitted solely and exclusively for the purpose of comparison.

f) **Materiality**

In deciding what information to disclose in the Notes on the various items of the consolidated financial statements or other matters, the Group assessed their materiality in relation to these consolidated financial statements for 2016.

g) Consolidation principles

(i) Methods of consolidation

Subsidiaries

Subsidiaries are all companies in which the Group directly or indirectly controls the financial and operational policies, so that it exercises control over the investee company while maintaining the exposure or right to the variable results from the investment and the ability to use this control in order to influence the amount of these returns. This is generally accompanied by an ownership interest of more than the half of the voting rights. Additionally, to assess if the Group controls another company, the following are considered: the power over the investee; exposure or rights to variable returns of the investment; and the ability to use this power over the investee to affect the amount of the investor’s returns. The subsidiary companies are consolidated as from the date on which control is transferred to the Group and they are excluded from consolidation on the date in which the control ceases.

The Group consolidates subsidiaries using the full consolidation method.

Appendix I to these Notes provides details on all the subsidiaries included in the scope of consolidation at 31 December 2016.

Associates

Associates are companies over which the Group exercises significant influence and with which it has a long-term relationship that fosters and influences its business even though it has a small representation in the management and control bodies. Along with this representation, the Group generally holds between 20% and 50% of the company’s voting rights, unless it can be clearly demonstrated that such influence does not exist or unless the Group holds less than 20% of those rights and it can be clearly demonstrated that said influence does exist.

The investments in associates are recorded using the equity method and are initially recognised at cost. The investments of the Parent Company in associates include, as per IAS 28, goodwill (net of any accumulated impairment losses) identified in the acquisition, and are recognised under "Investments in associates" in the consolidated balance sheet.

In the case of associates acquired in stages, IAS 28 does not specifically define how to determine the cost of the acquisition. Therefore, the Group interprets the cost of an investment in an associate acquired in stages to be the sum of the amounts paid at each acquisition plus the share of the profits and other changes in shareholders' equity less any impairment that may have arisen.

Thereafter, the Group's share of the profit (loss) and reserves of associates is recognised in the consolidated income statement and as consolidation reserves (other comprehensive income), respectively, with the value of the shareholding as the balancing entry in both cases. Dividends received and/or accrued after acquisitions are adjusted against the amount of the investment.

If the Group's share of the losses of an associate is equal to or greater than the value of its financial investment, including any other outstanding account receivable not guaranteed, further losses will not be recognised unless obligations have been incurred, guarantees have been furnished or payments have been made on behalf of the associate, which would entail the recognition of a financial liability.

Appendix II to these Notes provides details on the associates included in the scope of consolidation using the equity method at 31 December 2016.

(ii) Standardisation of accounting reference periods and valuation

The reporting periods for all companies included in the scope of consolidation end on 31 December. For the purposes of the consolidation process, the respective financial statements prepared under IFRS principles were used. In accordance with current legislation, these companies present individual annual accounts as set forth in the applicable standards.

The measurement bases applied by the Group companies are largely consistent. However, where necessary, adjustments were made to standardise the measurement bases and ensure that the accounting policies of the companies included in the scope of consolidation were uniform with the policies adopted by the Group.

(iii) Business combinations

The subsidiaries acquired by the Group are accounted for using the acquisition method in accordance with the revised IFRS 3. Acquisition cost 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. Costs that are directly attributable to the transaction are recognised directly in the consolidated income statement for the year in which the transaction takes place.

The identifiable assets acquired, the contingent assets and liabilities assumed and any non-controlling interest in a business combination are initially measured at their acquisition-date fair value. For each business combination, the Group may elect to recognise any non-controlling interest in the acquiree at fair value or according to the proportionate share of the non-controlling interest in the acquiree's net identifiable assets.

The excess over the fair value of the net assets identified in the transaction is recognised as goodwill arising on consolidation, which is allocated to the corresponding Cash-Generating Units (hereinafter, CGUs).

The Group makes a provisional allocation of the purchase price for the business combination at the acquisition date; this initial assessment is reviewed, as appropriate, within 12 months from the date control is obtained.

The resulting goodwill is allocated to the various CGUs expected to benefit from the business combination's synergies, regardless of any other acquired assets and liabilities allocated to these CGUs or groups of CGUs.

However, if the acquisition cost is below the fair value of the acquiree's net assets, such as in a bargain purchase, the difference is recognised as a gain directly in the consolidated statement of comprehensive income.

Goodwill arising on consolidation is not systematically amortised and is subject to an annual impairment test, as indicated in Note 3.b.iv.

In a business combination achieved in stages, when control is obtained, the assets and liabilities of the business acquired, including any previously held interest, must be remeasured at fair value. Any resulting gain or loss with respect to previously recognised assets and liabilities must be recognised in the consolidated income statement, without generating any additional goodwill.

In the case of acquisitions of associates in stages, goodwill is calculated for each acquisition based on the cost and the interest in the fair value of the net assets acquired on each acquisition date.

As indicated in Note 2.g.i., goodwill relating to acquisitions of associates and multi-group companies is included as an increase in the value of the respective investment and is recognised in accordance with Note 3.b.iv.

(iv) Elimination of inter-company transactions

Inter-company transactions and balances are eliminated, as are unrealised gains vis-a-vis third parties on transactions between or among Group companies. Unrealised losses are also eliminated, unless there is evidence of an impairment loss on the transferred asset.

Gains and losses from transactions between the Group and its associates and multi-group companies are recognised in the Group's financial statements only to the extent that they arise from the interests of other investors in associates and multi-group companies not related to the investor.

(v) Transactions with non-controlling interests

Transactions with non-controlling interests are recognised as transactions with the owners of the Group's equity. Therefore, in purchases of non-controlling interests, the difference between the consideration paid and the corresponding proportion of the carrying amount of the subsidiary's net assets is recognised with an impact on net equity. Likewise, gains or losses through the disposal of non-controlling interests are also recognised in the Group's net equity.

In the event that it ceases to have control or significant influence, the remaining investment is remeasured at its fair value, and any gain or loss relative to the previously recognised investment is recognised with an impact in the year's consolidated income statement. Additionally, any amount previously recognised in other comprehensive income with regards to this company is recorded as if the Group had directly sold all the related assets and liabilities. Should this occur, the amounts previously recognised under other comprehensive income would be reclassified to the consolidated income statement for the year. If the decrease in the investment in an associate does not imply a loss of significant influence, the proportional share previously recognised under other comprehensive income is reclassified to the consolidated income statement.

(vi) Translation of financial statements denominated in foreign currencies

The financial statements of the foreign companies, none of which operate in a hyperinflationary economy, presented in a functional currency (that of the main economic area in which the entity operates) other than the presentation currency of the consolidated financial statements (the euro), are translated to euros using the year-end exchange rate method, according to which:

- Equity is translated at the historical exchange rate.
- Items in the income statement are translated using the average exchange rate for the period as an approximation of the exchange rate at the transaction date.
- The other balance sheet items are translated at the year-end exchange rate.

As a result, exchange differences are included under "Reserves – Translation differences" in equity in the consolidated balance sheet.

(vii) Other

Currency translation differences arising from the translation of a net investment in a foreign operation and from loans and other instruments in a currency other than euro designated as hedges of those investments are recognised in equity. When the investment is sold, any exchange differences are recognised in the consolidated income statement as part of the gain or loss on the sale.
Adjustments to goodwill and to fair value arising from the acquisition of a foreign operation are considered assets and liabilities of the foreign operation and are translated using the year-end exchange rate.

h) Changes in the scope of consolidation

The most significant changes in the scope of consolidation and in the companies included in it during the 2016 financial year were as follows:

Name of the Company	Company with direct shareholding and % acquired/maintained		Consolidation method
Acquisitions/incorporations:			
Commscon Italy, S.r.L. [(1)]	Cellnex Italia, S.r.L.	100%	Full
Cellnex Netherlands, B.V. (formerly Protelindo Netherlands, B.V.) [(2)]	Cellnex Telecom, S.A.	100%	Full
Towerlink Netherlands, B.V. (formerly Protelindo Towers, B.V.) [(2)]	Cellnex Netherlands, B.V. (formerly Protelindo Netherlands, B.V.)	100%	Full
Cellnex France, S.A.S. [(3)]	Cellnex Telecom, S.A.	100%	Full
Shere Group Limited [(4)]	Cellnex Telecom, S.A.	100%	Full
Shere Midco Ltd [(4)]	Shere Group Limited	100%	Full
Shere Group Netherlands BV [(4)]	Shere Midco Ltd	100%	Full
Shere Masten BV [(4)]	Shere Group Netherlands BV	100%	Full
Watersite Holding Limited [(4)]	Shere Midco Ltd	100%	Full
Radiosite Limited [(4)]	Shere Midco Ltd	100%	Full
QS4 Limited [(4)]	Shere Midco Ltd	100%	Full
Shere Consulting Limited [(4)]	Shere Midco Ltd	100%	Full
Sirtel S.r.L. [(5)]	Cellnex Italia, S.r.L.	100%	Full

[(1)] Acquisition Date – 22/06/2016 [(2)] Acquisition Date – 1/07/2016 [(3)] Incorporation Date – 8/07/216 [(4)] Acquisition Date – 15/10/2016
[(5)] Acquisition Date – 20/12/2016

i) Commscon Italy, S.r.L.

The acquisition of 100% of the share capital of the Italian company Commscon Italia, S.r.l. ("Commscon") was completed for an amount of EUR 19,904 thousand in the second quarter of 2016, through its Italian subsidiary Cellnex Italia, S.r.L. The actual cash outflow for the Group in relation to this transaction has been EUR 18,729 thousand following the incorporation of EUR 1,175 thousand of cash balances on the balance sheet of the acquired company (see Note 5).

Thus, following this acquisition, Commscon has been fully consolidated within the Cellnex Group as of it acquisition date, such that as at 31 December 2016 the value of all of its assets and liabilities has been included in the consolidated balance sheet and the corresponding impact of operations in the consolidated income statement for the period.

ii) Cellnex Netherlands subgroup (formerly Protelindo Netherlands subgroup)

In the second quarter of 2016 Cellnex Telecom reached an agreement to acquire 100% of the share capital of Protelindo Netherlands, B.V. (which, in turn, owns all the shares of Protelindo Towers, B.V.), a subsidiary of the Indonesian telecommunications towers group PT Sarana Menara Nusantara for EUR 112 million. As a result of the acquisition, Cellnex directly owns all the shares of Protelindo Netherlands B.V. and, consequently, all the shares of Protelindo Towers B.V. The enterprise value in relation to this transaction was EUR 109 million considering the incorporation of EUR 3 million of cash balances and receivables on the balance sheet of the acquired company (see Note 5).

Thus, following this acquisition, Protelindo Netherlands has been fully consolidated within the Cellnex Group as of the acquisition date, such that as at 31 December 2016 the value of all of its assets and liabilities has been included in the consolidated balance sheet and the corresponding impact of operations in the consolidated income statement for the period.

On 1 July 2016 Protelindo Netherlands B.V. changed its name to Cellnex Netherlands B.V. ("Cellnex Netherlands"). On 24 October 2016 Protelindo Towers B.V. changed its name to Towerlink Netherlands B.V.

iii) *Cellnex France, S.A.S.*

In the third quarter of 2016 the Group created the subsidiary Cellnex France, S.A.S. ("Cellnex France") with a share capital of EUR 20 thousand. Subsequently, Cellnex signed an agreement with Bouygues Telecom, S.A. for the acquisition, through Cellnex France, of 230 telecom infrastructures for a total consideration of approximately EUR 80 million (see Note 6). In the final quarter of 2016 Cellnex and Bouygues Telecom closed the second phase of the agreement with the acquisition of 270 additional telecom infrastructures for a total consideration of EUR 67 million. Thus, the total investment in the acquisition of the 500 telecom infrastructures amounted to EUR 147 million (see Note 6).

The telecom infrastructures acquired from Bouygues Telecom are being effectively integrated in Cellnex and operated by the company in a gradual process that allows the completion of the formal administrative procedures with landlords and local administrations. It is expected that this process will take place from September 2016 until the end of 2017.

This transaction represents the beginning of a long-term cooperation with one of France's leading mobile operators. In addition to the acquisition of the portfolio of telecom infrastructures, Cellnex signed a 20-year contract to provide services to Bouygues Telecom. This contract states that the income will start to accrue when the administrative procedures with landlords have been completed.

iv) *Shere Group subgroup*

In the third quarter of 2016 the Group signed a contract with Arcus Infrastructure Partners and other minority shareholders to purchase 100% of the share capital of Shere Group Limited, owner of 1,004 sites located in the Netherlands and UK for an enterprise value of EUR 393 million. The transaction was completed following several administrative authorizations.

Thus, following this acquisition, Shere Group has been fully consolidated within the Cellnex Group as of the acquisition date, such that as at 31 December 2016 the value of all of its assets and liabilities has been included in the consolidated balance sheet and the corresponding impact of operations in the consolidated income statement for the period.

The changes to the scope of consolidation that occurred during the 2015 financial year with a significant impact on the consolidated financial statements for that financial year were as follows:

Name of the Company	Company with direct shareholding and % acquired/maintained		Consolidation method
Acquisitions/incorporations:			
Cellnex Italia, S.r.L. (formerly Smartowers Italy, S.r.L.) (1)	Cellnex Telecom, S.A.	100%	Full
Galata, S.p.A. (2)	Cellnex Italia, S.r.L. (formerly Smartowers Italy, S.r.L.)	90%	Full
Cellnex UK Limited (3)	Cellnex Telecom, S.A.	100%	Full

(1) Incorporation date - 19/02/2015 (2) Acquisition date - 26/03/2015 (3) Incorporation date – 15/09/015

v) *Cellnex Italia, S.r.L. (formerly Smartowers Italy, S.r.L.)*

In the first quarter of 2015, Cellnex incorporated the Italian company Smartowers Italy, S.r.l. with a share capital of EUR 10 thousand, in order to proceed with the subsequent acquisition of Galata, S.p.A. ("Galata"). On 9 July 2015 its name was changed to Cellnex Italia, S.r.L. ("Cellnex Italia").

vi) *Galata, S.p.A. (Galata)*

Cellnex completed the acquisition from Wind Telecomunicazioni, S.p.A. of 90% of the share capital of the Italian company Galata for a total of EUR 693 million through its subsidiary, Cellnex Italia, S.r.L.

After the aforementioned acquisition, Galata was fully consolidated in the Cellnex Group from the date of acquisition, such that at the end of 31 December 2015 the value of all its assets and liabilities was included in the consolidated balance sheet and the corresponding impact of all its operations was included in the consolidated income statement for the period (see Note 5).

vii) *Cellnex UK Limited*

In the third quarter of 2015, Cellnex incorporated the British company Cellnex UK Limited with a share capital of 1 pound sterling. The company is currently inactive.

Additionally, on 7 July 2015, the following operations occurred between companies within the scope of consolidation in which Cellnex holds a 100% shareholding, and as such this did not have an impact on the consolidated financial statements for 2015:

- Acquisition by Smartowers, S.r.L. of 100% of the shares of TowerCo, S.p.A., until then owned by Cellnex Telecom, S.A., for its carrying amount of EUR 94.6 million.

- To finance the acquisition, Cellnex Telecom, S.A. made an equity contribution to Smartowers, S.r.L. for the same amount.
- Subsequently, on 9 July 2015 the bylaws of Smartowers S.r.L. were amended, so from that date it became Cellnex Italia S.r.L., with its registered office in Rome.

3. Accounting policies and measurement bases

The main accounting policies used when preparing the consolidated financial statements, in accordance with those established by the International Financial Reporting Standards adopted by the European Union (EU-IFRS), as well as the interpretations in force when drawing up these consolidated accounts, were as follows:

a) Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and any accumulated impairment losses.

With reference to the acquisition of telecom infrastructures, the price agreed upon in the commercial sale and purchase agreement refers to the acquisition of an asset with two components: the physical asset (tower and other equipment and fixtures) and an intangible asset 'customer network service contracts and network location' in order to be able to provide the service to mobile operators. This is in turn related to the subsequent services contract with the mobile operator and the subrogation of all the rental contracts with third parties that the mobile operator previously had, and which includes the corresponding operating permits or licences. Thus, despite there being two types of assets, and given that the intangible portion cannot be segregated as an intangible asset, the accounting treatment applied records the full amount of the purchase under the "Property, plant and equipment", which is depreciated according to the useful life thereof on the basis of technical studies.

Grants related to assets received reduce the cost of acquisition of property, plant and equipment, and are recognised when the entity complies with conditions attaching to collection. These grants are taken to profit or loss on a straight-line basis over the useful life of the asset financed, with a reduction in the depreciation charge for the year.

Staff costs and other expenses, as well as net borrowing costs directly related to property, plant and equipment, are capitalised as part of the investment until the assets are put to use.

Costs incurred to renovate, enlarge or improve items of property, plant and equipment which increase the capacity or productivity or extend the useful life of the asset are capitalised as part of the cost of the related asset, provided that the carrying amount of the assets replaced and derecognised from inventories is known or can be estimated.

The costs of upkeep and maintenance are charged to the consolidated income statement in the year in which they are incurred.

The depreciation of property, plant and equipment is calculated systematically, using the straight-line method, over the useful life of the assets, based on the actual decline in value caused by their use and by wear and tear.

The depreciation rates used to calculate the depreciation of the various items of property, plant and equipment are as follows:

Asset	Useful life
Buildings and other constructions	7-50 years
Plant and machinery	3-17 years
Tooling	3-14 years
Other facilities	3-14 years
Furniture	5-10 years
Computer equipment	3-5 years
Other property, plant and equipment	4-13 years

When an asset's carrying amount exceeds its estimated recoverable amount, the carrying amount is immediately reduced to its recoverable amount, and the effect is taken to the consolidated income statement for the year, and the related provision is recognised. The Group therefore periodically determines whether there is any indication of impairment.

Gains or losses arising from the sale or disposal of an asset in this item are determined as the difference between carrying amount and sale price, and are recognised in the accompanying consolidated income statement under "Losses on fixed assets".

Provision for asset retirement obligation

This relates to the Group's best estimate of the legal obligation in relation to the retirement of tangible assets with long useful lives, such as, for example, infrastructures for mobile telecommunications operators. It is calculated using estimates of the present value of the cash payments required to dismantle the assets, taking into consideration all the information available at the balance sheet date.

b) Goodwill and other intangible assets

The intangible assets indicated below are stated at acquisition cost less accumulated amortisation and any impairment losses, useful life being evaluated on the basis of prudent estimates. Any grants related to assets reduce the cost of acquisition of the intangible asset and are recognised when the entity complies with the conditions attaching to collection. Grants are credited to profit and loss on a straight-line basis over the useful life of the asset financed, with a reduction in the amortisation charge for the year.

The carrying amount of intangible assets is reviewed for possible impairment when certain events or changes indicate that their carrying amount may not be recoverable.

(i) Computer software

Refers mainly to the amounts paid for access to property or for usage rights on computer programmes, only when usage is expected to span several years.

Computer software is stated at acquisition cost and amortised over its useful life (between 3 and 5 years). Computer software maintenance costs are charged to the consolidated income statement in the year in which they are incurred.

(ii) Intangible assets in telecom infrastructures

This heading records the amounts paid in the business combinations that correspond to the fair value of the net assets acquired, mainly consisting of:

- *Concession intangible assets*

  The contracts signed with mobile operators and the locations of the telecom infrastructures used.

  The amount recognised represents the discounted cash flow that the site where the infrastructure is located will generate from the various operators. This asset is depreciated in the period over which the Group is able to obtain income from the network coverage area. In this case, the only intangible asset recorded by the Group corresponds to the business combination of the company TowerCo S.p.A. (see Note 5) and it is amortised on a straight-line basis until 2038.

- *Customer Network Services Contracts*

  This intangible asset relates to the customer base existing at the acquisition date due to the Group's infrastructure service contracts with the anchor carrier and to the future returns expected to be generated because of the relationships with customers beyond the periods covered by the contracts.

- *Network Location*

  This intangible asset represents the incremental revenues and cashflows from addition infrastructure service agreements with carriers not yet present at the date of acquisition. The Network Location is considered an intangible asset, valued independently from the remaining intangible assets, because it meets the requirement of separability, given that the excess available capacity can be used to offer network access services to third parties.

  For the valuation of these intangible assets the Company has used the Multi-Period Earnings methodology, according to the financial projections of the different businesses affected. This method considers the use of other assets in the generation of the projected cashflows of a specific asset in order to isolate the economic benefit generated by the intangible asset. The contribution of the other assets such as fixed assets, working capital, labour and other intangible assets to the total cash flows is estimated through charges for contributing assets. This adjustment is made to separate the value of the specific assets from the portion of the purchase price that has already been allocated to net tangible assets and other intangible assets used. Therefore, the value of intangible assets is the present value of cash flows after potentially attributable taxes, net of the return on the fair value attributable to the tangible and intangible assets.

Acquired Customer Network Services and Network Location intangibles are amortised over the shorter of the term of the corresponding ground lease taking into consideration lease renewals or up to 20 years, as the Company considers these intangibles to be directly related to the infrastructure assets.

(iii) Other intangible assets

This heading includes the concessions for use acquired by the Group, which are measured at acquisition or production cost and amortised on a straight-line basis over the contractual period of between 10 and 40 years.

(iv) Goodwill

Goodwill generated in various business combinations represents the excess of the acquisition cost over the fair or market value of all the Group's or the Company's identifiable net assets acquired at the acquisition date.

Given that goodwill is considered as an asset of the acquired company/group (except that generated prior to 1 January 2004), in the application of the IFRS 1 they were considered as assets of the acquiree.

Any impairment of goodwill recognised separately (that of subsidiaries and joint ventures) is reviewed annually through an impairment test (or in intermediate periods if there are signs of impairment), to determine whether its value has declined to a level below the carrying amount, and any impairment loss is recognised in consolidated profit or loss for the year, as applicable (see Notes 3.c). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill included in the carrying amount of the investment in associates is not tested separately. Rather, under IAS 36, whenever there is an indication that the investment may be impaired, the total carrying amount of the investment is tested for impairment by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with the carrying amount.

The loss or gain on the sale of an entity includes the carrying amount of its goodwill.

c) Impairment losses on non-financial assets

The Group assesses, at each reporting date, whether there is an indication than an asset may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required (in the case of goodwill), the Group estimates the asset's recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows that the asset is expected to generate are discounted to their present value using an interest rate that reflects the current time value of money and the risks specific to the assets.

In the event that the asset analysed does not generate cash flows that are independent of those from other assets (as is the case for goodwill), the fair value or value in use of the cash-generating unit that includes the asset (smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets) is estimated. In the event of an impairment loss for a cash-generating unit, the loss is first allocated to reduce the carrying amount of any goodwill allocated and then to the other assets pro rata on the basis of the carrying amount of each asset.

Impairment losses (excess of an asset's carrying amount over the recoverable amount) are recognised in the consolidated income statement for the year.

With the exception of goodwill, where impairment losses are irreversible, the Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

An impairment loss recognised in prior periods is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. In such a case, the carrying amount of the asset is increased to its recoverable amount. The increased carrying amount shall not exceed the carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised for the asset in prior years. This reversal would be recognised in the consolidated income statement for the year.

d) Investments and other financial assets (excluding derivative financial instruments)

When financial assets not measured at fair value through profit or loss are initially recognised, the Group measures them at their fair value plus transaction costs directly attributable to the acquisition or issue of the financial asset.

The Group determines the classification of its financial assets at initial recognition. At 31 December 2016, financial assets were classified into the following categories:

(i) Current and non-current financial investments

This heading of the consolidated balance sheet includes, with regards to the acquisitions of telecom infrastructures undertaken by the Group, the multi-annual commercial costs assumed by the Group, in order to obtain the service provision services agreements with the mobile telephone operators that will generate future economic profit, through the purchase, from these operators, of the telecom infrastructures, the dismantling of which has been agreed to along with the related cost. It must be noted that the dismantling expenses do not represent a legal obligation to dismantle the telecom infrastructures, but rather a commercial decision made by the Group and these costs will be capitalised as they are incurred.

These amounts are recognised as an advance of the subsequent services agreement with the mobile telephone operator, which is recognised in the accompanying consolidated income statement on a straight-line basis as a reduction to “revenue from services rendered” according to the term of the services agreement entered into with the operator.

(ii) Trade and other receivables

This heading mainly corresponds to:

- Loans granted to associates, multi-group or related parties, which are measured at amortised cost using the effective interest method. This value is reduced by the corresponding valuation adjustment for the impairment of the asset, as applicable.

- Deposits and guarantees recognised at their nominal value, which does not differ significantly from their fair value.

- Trade accounts receivable, which are measured at their nominal amount, which is similar to fair value at initial recognition. This value is reduced, if necessary, by the corresponding provision for bad debts (impairment loss) whenever there is objective evidence that the amount owed will not be partially or fully collected. This amount is charged against the consolidated income statement for the year.

The Group derecognises financial assets when they expire or the rights over the cash flows of the corresponding financial asset have been assigned and the risks and benefits inherent to their ownership have been substantially transferred, such as in the case of firm asset sales, non-recourse factoring of trade receivables in which the Group does not retain any credit or interest rate risk, sales of financial assets under an agreement to repurchase them at fair value and the securitisation of financial assets in which the transferor does not retain any subordinated debt, provide any kind of guarantee or assume any other kind of risk.

However, the Group does not derecognise financial assets, and it recognises a financial liability for an amount equal to the consideration received in transfers of financial assets in which substantially all the risks and rewards of ownership are retained, such as in the case of note and bill discounting, with-recourse factoring, sales of financial assets subject to an agreement to buy them back at a fixed price or at the selling price plus a lender’s return and the securitisation of financial assets in which the transferring group retains a subordinated interest or any other kind of guarantee that absorbs substantially all the expected losses.

At least at each reporting date, the Group determines whether there is any indication that an asset or group of assets is impaired, so that any impairment loss can be recognised or reversed in order to adjust the carrying amount of the assets to their value in use.

e) Derivative financial instruments

The Group uses derivative financial instruments to manage its financial risk, arising mainly from changes in interest rates and exchange rates (see Note 4). These derivative financial instruments, whether or not classified as hedges, were classified either at fair value (both initially and subsequently), using valuations based on the analysis of discounted cash flows using assumptions that are mainly based on the market conditions at the reporting date and adjusting for the bilateral credit risk in order to reflect both the Group's risk and the counterparty's risk.

According to IAS 39, all derivative financial instruments are recognised as assets or liabilities on the consolidated balance sheet at their fair value, with changes in fair value recognised in consolidated income statement for the year. However, with hedge accounting, the effective portion of the hedge (fair value hedges, cash flow hedges and hedges of a net investment in a foreign currency) is recognised in equity.

At the inception of the hedge, the Group documents the relationship between the hedging instruments and the hedged items, as well as its risk management objective and the strategy for undertaking the hedge. The Group also documents how it will assess, both initially and on an ongoing basis, whether the derivatives used in the hedges are highly effective for offsetting changes in the fair value or cash flows attributable to the hedged risk.

The fair value of the derivative financial instruments used for hedging purposes is set out in Note 13, and the change in the hedging reserve recognised in consolidated in consolidated equity is set out in Note 12.

Hedge accounting, when considered to be such, is discontinued when the hedging instrument expires or is sold, terminated or exercised or when it no longer qualifies for hedge accounting. Any accumulated gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net accumulated gain or loss recognised in equity is transferred to net profit or loss for the year.

Classification on the balance sheet as current or non-current will depend on whether the maturity of the hedge at year-end is less or more than one year.

The criteria used to account for these instruments are as follows:

(i) Cash-flow hedge

The positive or negative variations in the valuation of the derivatives qualifying as cash flow hedges are charged, in their effective portion, net of the tax effect, to consolidated equity under "Reserves – Hedging reserves", until the hedged item affects the income (or when the underlying part is sold or if it is no longer probable that the transaction will take place), which is when the accumulated gains or losses in net equity are released to the consolidated income statement for the year.

Any positive or negative differences in the valuation of the derivatives corresponding to the ineffective portion are recognised directly in profit or loss for the year under "Change in fair value of financial instruments".

This type of hedge corresponds primarily to those derivatives entered into by the Group companies that convert floating rate debt to fixed rate debt.

(ii) Hedges of a net investment in a foreign operation

In certain cases, Cellnex finances its activities in the same functional currency in which its foreign investments are held so as to reduce the currency risk. This is carried out by obtaining financing in the corresponding currency or by entering into cross currency and interest rate swaps.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised in equity, while the ineffective portion of the gain or loss is recognised immediately in the consolidated income statement for the year.

Cumulative gains or losses in equity are included in the income statement on disposal of the foreign operation.

(iii) Derivatives not recognised as hedges

In the case of derivatives that do not qualify as hedging instruments, the positive or negative difference resulting from the fair value adjustments are taken directly to the income statement for the year.

The Group does not use any derivative instruments which do not qualify as hedging instruments.

(iv) Fair value and valuation techniques

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, irrespective of whether that price is directly observable or estimated using another valuation technique.

For financial reporting purposes, fair value measurements are classified into level 1, 2 or 3 depending on the extent to which inputs used are observable and the importance of those inputs for measuring fair value in its entirety, as described below:

- Level 1 - Inputs are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 - Inputs are based on quoted prices for similar assets or liabilities in active markets (not included in level 1), prices quoted for identical or similar assets or liabilities in markets that are not active, techniques based on valuation models for which all relevant inputs are observable in the market or can be corroborated by observable market data.

- Level 3 - In general, inputs are unobservable and reflect estimates based on market assumptions to determine the price of the asset or liability. Unobservable data used in the valuation models are significant in the fair values of the assets and liabilities.

In order to adopt IFRS 13, the Group must adjust the valuation techniques it uses for obtaining the fair value of its derivatives. The Group includes an adjustment for bilateral credit risk in order to reflect both its own risk, as well as counterparty risk in the fair value of its derivatives.

To determine the fair value of its derivatives, the Group uses valuation techniques based on expected total exposure (which includes both current exposure as well as potential exposure) adjusted for the probability of default and loss given default of each counterparty.

The expected total exposure of the derivatives is obtained using observable market inputs such as interest rate, exchange rate and volatility curves in accordance with the market conditions at the measurement date. The inputs used for the probability of default by the Group and by the counterparties are estimated on the basis of the credit default swap (CDS) prices observed in the market.

In addition, in order to reflect the credit risk in the fair value the market standard of 40% is applied as a recovery rate, which relates to the CDS in relation to senior corporate debt.

As at 31 December 2016 and 2015 the Group had no derivative financial instruments.

f) Inventories

Inventories comprise mainly technical equipment which, after installation, will be sold. Inventories are measured at acquisition price, less any necessary valuation adjustments and the corresponding impairment.

g) Net equity

The share capital is represented by ordinary shares.

The costs of issuing new shares or options, net of tax, are recognised directly against equity, as a reduction to reserves.

Dividends on ordinary shares are recognised as a reduction to equity when approved.

Acquisitions of treasury shares are recognised at their acquisition cost and are deducted from equity until disposal. The gains and losses obtained on the disposal of treasury shares are recognised under "Reserves" in the consolidated balance sheet.

h) Earnings per share

Basic earnings per share are calculated by dividing consolidated profit or loss for the year attributable to the Company by the weighted average number of ordinary shares outstanding during the year, excluding the average number of shares of the Company held by the Group.

Diluted earnings per share are calculated by dividing the consolidated profit or loss for the year attributable to ordinary shareholders adjusted for the effect attributable to the dilutive potential ordinary shares by the weighted average number of ordinary shares outstanding in the year, adjusted by the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares of the Parent Company. For these purposes, it is considered that the shares are converted at the beginning of the year or at the date of issue of the potential ordinary shares, if the latter were issued during the current period.

i) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, demand deposits in banks and highly liquid, current investments with a maturity of three months or less.

The Group is not subject to any limits regarding drawing down funds beyond those established in certain contracts for bank borrowings (see Note 13).

j) Treasury Shares

If any Group company or the Parent Company acquires treasury shares of Cellnex, these are recognised in the consolidated balance sheet under "Treasury shares" and deducted from consolidated equity and measured at their acquisition cost without recognising any valuation adjustment.

When these shares are sold, any amount received, net of any additional directly attributable transaction costs and the corresponding effect of the tax on the gain generated, is included in equity attributable to shareholders of the Parent Company.

k) Financial liabilities

Borrowings, debentures and similar liabilities are initially recognised at fair value, including the costs incurred in raising the debt. In subsequent periods, they are measured at amortised cost. Any difference between the funds obtained (net of the costs required to obtain them) and the repayment value, if any

and if significant, is recognised in the consolidated income statement over the term of the debt at the effective interest rate.

Borrowings with floating interest rates hedged with derivatives that change the interest rate from floating to fixed are measured at fair value of the hedged item. Changes in the borrowings are taken to income, thus offsetting the impact on profit and loss of the change in the derivative instrument's fair value. The borrowings with floating interest rates hedged with derivatives are not significant.

The Group considers that the terms of financial liabilities are 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% different from the discounted present value of the remaining cash flows of the original financial liability.

Financial liabilities are derecognised when the obligations giving rise to them cease to exist. In the case of an exchange of debt instruments between the Group and a third party with substantially different terms, the Group derecognises the original financial liability and recognises the new financial liability. The difference between the carrying amount of the original liability and the consideration paid, including attributable transactions costs, is recognised in the consolidated income statement for the year.

l) Income tax

The income tax expense (credit) is the total amount accrued in this connection during the year, representing both current and deferred tax.

Both the current and the deferred tax expense (credit) are recognised in the consolidated income statement. However, the tax effect from items that are recognised directly in other comprehensive income or in equity is recognised in other comprehensive income or in equity.

The deferred taxes are calculated using the balance sheet liability method based on the temporary differences that arise between the tax bases of the assets and liabilities and their carrying amounts in the consolidated financial statements, according to the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date and which are expected to apply when the corresponding deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities that arise from temporary differences with subsidiaries, jointly controlled entities and/or associates are always recognised, unless the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not be reversed in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which to offset the deductible temporary differences or the unused tax losses or unused tax credits can be utilised. Any deferred tax assets that arise due to temporary differences with subsidiaries, jointly controlled entities and/or associates are recognised if, in addition, it is probable that they will be reversed in the foreseeable future.

The recoverability of deferred tax assets is assessed when they are generated, and at the end of each reporting period, depending on the earnings forecasts for the companies included in their respective business plans.

Lastly, the tax effect that may arise as a result of including the results and reserves of the subsidiaries in the Company is not included in the accompanying consolidated financial statements since, pursuant to IAS 12, it is considered that no transfers of reserves that are subject to additional taxation will be made. Given that the Company controls the timing of the distribution, it is not probable that such distribution will occur in the foreseeable future, but rather that the results and reserves will be used as finance resources at each company.

m) Employee benefits

Under the respective collective bargaining agreements, different Group companies have the following obligations with their employees:

(i) Post-employment obligations:

Defined contribution obligations

In relation to defined contribution employee welfare instruments (which basically include employee pension plans and group insurance policies), the Group makes fixed contributions to a separate entity and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. Consequently, the obligations under this type of plan are limited to the payment of contributions, the annual expense of which is recognised in the consolidated income statement for the year as the obligations arise.

Defined benefit obligations

Defined benefit obligations relate mainly to bonuses or payments for retirement from the company and temporary and/or life-time annuities.

With regard to these obligations, where the company assumes certain actuarial and investment risks, the liability recognised on the balance sheet is the present value of the obligations at the reporting date less the fair value of any plan assets at that date not arranged with related parties.

The actuarial valuation of the defined benefits is made annually by independent actuaries using the projected unit credit method to determine both the present value of the obligations and the related current and past service costs. The actuarial gains and losses arising from changes in the actuarial assumptions are recognised in the year in which they occur. They are not included in the consolidated income statement, but presented in the consolidated statement of comprehensive income.

(ii) Other long-term benefits

Regarding other long-term employee benefits, relating mainly to length of service at the company, the liability recognised on the balance sheet coincides with the present value of the obligations at the reporting date as they do not include any plan assets.

The projected unit credit method is used to determine both the current value of the liabilities at the balance sheet date and the cost of the services provided in the current and prior years. The actuarial gains and losses that arise from changes in the actuarial assumptions are recognised, unlike the post-employment liabilities, in the year in which they occur on the consolidated income statement for the year.

(iii) Severance pay

Severance pay is given to employees as a result of the decision to terminate their work contract before the normal retirement age or when the employee voluntarily accepts to resign in exchange for such compensations. The Group recognises these benefits when it is demonstrably committed to terminate the employment of the employees in accordance with a formal detailed plan without the possibility of withdrawal or to provide severance pay. If a mutual agreement is required, a provision is only recorded in situations in which the Group has decided to give its consent to the resignation of the employees when this has been requested by them.

(iv) Share-based payments

As indicated in Note 16, until April 2015 the Group had a management compensation plan consisting of the distribution of options on Abertis Infraestructuras, S.A. shares, the then sole shareholder of the Parent Company that can only be settled only in equity.

This plan was measured at its fair value at the grant date using a generally accepted financial calculation method, which, inter alia, took into account the option exercise price, volatility, exercise term, expected dividends and the risk-free interest rate.

The cost of the plan was charged to the consolidated income statement as a staff cost as it accrued during the period of time specified for the employee to remain in the company's employ to exercise the option, and without any measurement adjustment, as set forth in IFRS 2. Nevertheless, at the end of the reporting period, the Group reviewed its original estimates of the number of options expected to be exercisable (which relates, inter alia, to the impact of any bonus share issue), and recognised, if applicable, the impact of this review on the consolidated income statement by making the corresponding adjustment to consolidated equity, as accrued during the period of time specified for the employee to remain in the company's employee in order to exercise the option.

(v) Obligations arising from plans for termination of employment

Provisions for obligations relating to plans for termination of employment of certain employees (such as early retirement or other forms of employment termination) are calculated individually based on the terms agreed with the employees. In some cases, this may require actuarial valuations based on both demographic and financial assumptions.

(vi) Long Term Incentive Plan – LTI

The amounts considered by the Group in relation to the Long Term Incentive Plan which was formalised in 2015 with the objective to retain key personnel and incentivise the sustainable creation of value for the shareholders, is based on the variables described in Note 20.a.

n) Government grants

Government grants related to property, plant and equipment are deducted from the carrying value of the non-current assets in question and are taken to income over the expected useful lives of the assets concerned. In addition, the Group accounts for grants, donations or gifts and inheritances received as follows:

a) Non-refundable capital subsidies, donations and legacies: these are measured at the fair value of the amount or the asset received, based on whether or not they are monetary grants, and they are taken to income in proportion to the period depreciation taken on the assets for which the grants were received or, where appropriate, on disposal of the asset or on the recognition of an impairment loss, except for grants received from shareholders or owners, which are recognised directly in non-current liabilities and do not give rise to the recognition of any income.

b) Refundable grants: while they are refundable, they are recognised as non-current liabilities.

c) Operating subsidies: They are posted to the results at the time they are granted, except if they are used to finance the operating losses of future financial years, in which case they are recorded in said financial years. If they are granted to finance specific expenses, they are recorded as the financial expenses are accrued.

o) Provisions and contingencies

On the date of drawing up these consolidated financial statements, the Group differentiates between:

a) Provisions, understood as credit balances covering present obligations at the reporting date as a result of past events which could give rise to a loss for the Group, which is certain as to its nature but uncertain as to its amount and/or timing.

b) Contingent liabilities, understood as possible obligations arising as a result of past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the consolidated entities.

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable (i.e., more likely than not) 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.

Where the effect of the time value of money is material, the amount of the provision is the present value of the future cash flows estimated to settle the present obligation.

Provisions recognised relate to the estimated amounts required to meet probable or certain liabilities stemming from ongoing litigation, compensation or other items resulting from the Group's activity that entail future payments that have been measured on the basis of currently available information. They are recognised as soon as the liability or obligation requiring compensation or payment to a third party arises, and bearing in mind the other conditions set forth in IFRSs.

i) Provision for asset retirement obligation

This relates to the Group's best estimate of the legal obligation in relation to the retirement of tangible assets with long useful lives, such as, for example, infrastructures for mobile telecommunications operators. It is calculated using estimates of the present value of the cash payments required to dismantle the assets, taking into consideration all the information available at the balance sheet date.

Due to the uncertainties inherent to the estimations necessary for determining the amount of the provision, the actual expenses may differ from the amounts originally recognised on the basis of the estimates made.

p) Revenue recognition

Revenue from the rendering of services is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. The register of income should occur based on the actual flow of goods and services, irrespective of when the corresponding collections are made. Any collection that may be obtained for all of a service performed during a given period of time will be considered unearned revenue recognised on the liability side of the consolidated balance sheet under "Provisions and other liabilities" and "Trade and other payables", and will be taken to the consolidated income statement when the benefits of the service are received.

The various services are provided through services agreements for the infrastructure, in order to distribute the broadcasting or mobile signals, for a certain amount and for a certain length of time. The Group recognises revenue on a straight-line basis over the period in which the services are provided as established in the respective contracts.

The various activities that contribute to the Group's revenue from the rendering of services are organised and administered separately based on the nature of the services provided:

- Broadcasting infrastructure activity: broadcasting activities consist of the distribution and transmission of television and FM radio signals, as well as the operation and maintenance of radio broadcasting networks, the provision of connectivity for media content, OTT radio broadcasting services (over-the-top multi-screen services) and other services.

The provision of these services requires unique, large mast infrastructure that only the Group has in Spain; knowledge of how to manage the radio spectrum; and the capacity to comply with very demanding levels of service.

- Telecom Infrastructure Services: this activity consists of providing a wide range of integrated network infrastructure services which allows access to the Group's wireless infrastructure to mobile network operators and other wireless and broadband telecommunications network operators, which in turn, allows the operators to offer their own telecommunications services to its customers.

  The services that the Group provides to its customers include infrastructure support services, which in turn include the access of infrastructure networks to telecommunications operators that use wireless technologies. The Group acts as a neutral carrier for mobile network operators and other telecommunications operators that normally require complete access to the infrastructure network to provide services to the end customers.

  Additionally the consolidated income statement for the year includes income from re-charging costs related to infrastructure services activities for mobile telecommunications operators to third parties.

- Other Network Services: this activity consists of providing connectivity services for telecommunications operators (other than broadcasting operators), radio communication, operation and maintenance services, commercial services, Smart Cities/IoT ("Internet of Things") and other services.

  The Group provides integral solutions for essential services and government bodies as a multi-service and neutral service supplier. The Group's services include public protection and disaster relief (PPDR) services (including TETRA and digital mobile radio technologies), public safety and emergency networks such as maritime networks, Smart Cities, IoT, small cells and commercial activities.

  The Group classifies Other Network Services into five groups: (i) connectivity services; (ii) PPDR services; (iii) operation and maintenance; (iv) Smart Cities/IoT ("Internet of Things"); and (v) other services.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividends income from investments is recognised when the shareholders' right to receive payment has been established, e.g., when the shareholders' meetings of the investees approve the dividend payment.

q) Expense recognition

Expenses are recognised in the consolidated income statement when there is a decrease in the future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets. The register of an expense should occur based on the actual flow of goods and services, irrespective of when the corresponding payments are made. Any payment that may be made for all of a service received during a given period of time will be considered a prepaid expense recognised on the asset side of the consolidated balance sheet under "Trade and other receivables" and will be taken to the consolidated income statement when the service is received by the Group.

Expenses are recorded immediately when a payment generates no future economic benefits or when it does not comply with the requirements to be registered as an asset.

An expense is also recorded when a liability is recorded and no corresponding asset is simultaneously recorded as would be the case for liabilities for guarantees.

r) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases:

(i) Operating leases

Expenses from operating leases are taken to the income statement on an accruals basis. Any collection or payment that might be made when arranging an operating lease will be treated as a prepaid lease collection or payment, which will be allocated to profit or loss over the lease term in accordance with the time pattern in which the benefits of the leased asset are provided or received.

(ii) Finance leases

For finance leases in which the Group acts as the lessee, the Group recognises the cost of leased assets in the balance sheet based on the nature of the leased asset and, simultaneously, a liability for the same amount. This amount is the fair value of the leased asset at the inception of the lease or, if lower, the present value of the minimum lease payments, plus the purchase option, when there is no reasonable doubt that it will be exercised. The calculation does not include contingent payments, service costs or taxes that can be passed on by the lessor. The total finance charge on the lease is taken to the income statement for the year in which it is incurred, using the effective interest method. Contingent payments are expensed on an accruals basis. The assets recognised for these types of transactions are depreciated on the basis of their nature using criteria similar to those applied to other items of property, plant and equipment.

s) Activities affecting the environment

Each year, costs arising from legal environmental requirements are either recognised as an expense or capitalised, depending on their nature. The amounts capitalised are depreciated over their useful life.

It was not considered necessary to make any provision for environmental risks and expenses, given that there are no contingencies in relation to environmental protection (see Note 18).

t) Related Party Transactions

The Group carries out all its transactions with related parties on an arm's length basis. Also, given that transfer prices are adequately documented, the Group’s Directors consider that there are no significant risks that could give rise to material liabilities in the future.

u) Consolidated statement of cash flows

The following terms are used in the consolidated statement of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and equivalent financial assets, which are short-term, highly liquid investments that are subject to a low risk of changes in value.
- Operating activities: the principal revenue-producing activities and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that produce changes to the size and composition of the net assets and of the liabilities which do not form part of the operating activities.

In the preparation of the consolidated statement of cash flows, “Cash and cash equivalents” were considered to include cash on hand, demand deposits at banks and other short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

v) Transactions in foreign currencies

Transactions in foreign currencies are translated into the functional currency of the Group (the euro) using the exchange rates prevailing at the date of the transaction. Exchange gains and losses arising on settlement of these transactions and translation of monetary assets and liabilities held in foreign currency at the closing rates are recognised in the consolidated income statement, unless they are deferred to equity, as in the case of cash flow hedges and hedges of net investments in foreign operations, as noted in section e) of this Note.

4. Financial and capital risk management

a) Financial risk factors

The Group's activities are exposed to various financial risks, the most significant of which are foreign currency risk, interest rate risk, credit risk, liquidity risk, inflation risk and risks related to Group Indebtedness. The Group can use derivatives and other protection mechanisms to hedge certain interest rate and foreign currency risks.

Financial risk management is controlled by the Corporate Finance and Treasury Department following authorisation by the most senior executive officer of Cellnex Telecom, as part of the respective policies adopted by the Board of Directors.

(i) Foreign currency risk

As the Group's presentation currency is the euro, fluctuations in the value of the currencies in which borrowings are instrumented and transactions are carried out with respect to the euro may have an effect in future commercial transactions, recognised assets and liabilities, and net investments in foreign operations.

The Group operates outside the euro area and holds assets primarily in United Kingdom. It is therefore exposed to foreign currency risks.

The strategy for hedging foreign currency risk in investments in non-euro currencies must tend towards a full hedge of this risk, and must be implemented over a reasonable period of time depending on the market and the prior assessment of the effect of the hedge.

The effects on the Group's equity would be partially offset by the impact on equity from the net investment hedges, which were entered into for the initial investment amount.

Despite the aforementioned the exposure to foreign currency risk is limited due the not significant size of the business in United Kingdom in comparison in the whole Group.

At 31 December 2015, practically all of the Group's transactions were denominated in Euros and, therefore, it was not exposed to foreign currency risk.

In relation to foreign currency risk, the contributions to the main aggregates of the consolidated income statement of the Group by companies operating in a functional currency other than the euro were as follows:

31 December 2016

Company	Functional currency	Thousands of Euros					
		Income	%	Gross operating income	%	Net profit	%
Shere Group UK	GBP	1,878	0.27%	(417)	0.48%	(644)	1.62%
Contribution in foreign currency		1,878	0.27%	(417)	0.48%	(644)	1.62%
Total Cellnex Group		704,585		86,729		39,817	

The contribution to the main aggregates of the consolidated balance sheet of the Group by companies operating in a functional currency other than the euro was as follows:

31 December 2016

Company	Functional currency	Thousands of Euros			
		Total assets	%	Equity	%
Shere Group UK	GBP	167,515	5.79%	(1,008)	(0.18%)
Contribution in foreign currency		167,515	5.79%	(1,008)	(0.18%)
Total Cellnex Group		2,895,479		551,201	

The estimated sensitivity of the consolidated income statement and of the consolidated equity to a 10% change in the exchange rate of the main currencies in which the Group operates with regard to the rate in effect at year-end is as follows:

Functional curremcy	Thousands of Euros 2016			
	Income	Gross operating income	Net profit	Equity [(1)]
10% change:				
GBP	188	42	64	13,474

[(1)] Impact on equity from translation differences arising in the consolidation process.

The effects on the Group's equity would be partially offset by the impact on equity from the net investment hedges, which were entered into for the initial investment amount.

At 31 December 2015, practically all of the Group's transactions were denominated in Euros and, therefore, it was not exposed to foreign currency risk.

(ii) Interest rate risk

The Group is exposed to interest rate risk through its current and non-current borrowings.

Borrowings issued at floating rates expose the Group to cash flow interest rate risk, while fixed-rate borrowings expose the Group to fair value interest rate risk. Additionally any increase in interest rates would increase the Group's finance costs related to variable-rate indebtedness and increase the costs of refinancing existing indebtedness and the cost of issuing new debt.

The aim of interest rate risk management is to strike a balance in the debt structure which makes it possible to minimise the volatility in the consolidated income statement in a multi-annual setting.

The Group may use derivative financial instruments to manage its financial risk, arising mainly from changes in interest rates. These derivative financial instruments were classified as cash flow hedges and recognised at fair value (both initially and subsequently). The required valuations were determined by analysing discounted cash flows using assumptions mainly based on the market conditions at the reporting date for unlisted derivative instruments (see Notes 3.e and 13).

The main financing granted from third parties by the Group in 2016 and 2015 (see Note 3.e and 13) is not covered by interest rate hedging mechanisms.

(iii) Credit risk

Each of the Group's main business activities (Telecom Infrastructure Services, Broadcasting Infrastructure and Other Network Services) obtain a significant portion of income from a limited number of customers, many of which are long-term customers and have high-value contracts with the Group.

Telecommunications operators are the Group's main customers in its activities relating to the Telecom Infrastructure Services; television and radio broadcasting operators (television channels and radio stations) are the main clients in its activities relating to broadcasting infrastructure; and certain central, regional and local government authorities, emergency and security forces, the public service sector and telecommunications operators are the main customers in its activities relating to Other Network Services.

The Group is sensitive to changes in the creditworthiness and financial strength of its main customers due to the importance of these key customers to the overall revenues. The long-term nature of certain Group contracts with customers and the historically high renewal ratio of these contracts helps to mitigate this risk. The Group depends on the continued financial strength of its customers, such as telecommunications operators, media broadcasters and public administrations which operate with substantial leverage and are not all investment grade or do not have a credit rating.

Given the nature of the Group's business, it has significant concentrations of credit risk, since there are significant accounts receivable as a result of having a limited number of customers. To mitigate this credit risk, the Group has in place contractual arrangements to transfer this risk to third parties via non-recourse factoring of trade receivables in which case the Group would not retain any credit risk.

The credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, and other debt, including unsettled receivables and committed transactions.

To mitigate this credit risk, the Group carries out derivative transactions and spot transactions mainly with banks with strong credit ratings as qualified by international rating agencies. The solvency of these institutions, as indicated in each institution's credit ratings, is reviewed periodically in order to perform active counterparty risk management.

During the years for which information is reported, no credit limits were exceeded and management does not expect to incur losses as a result of default by any of the counterparties indicated above. The provision recognised for doubtful debts is not significant compared with the balance of accounts receivable at year-end.

(iv) Liquidity risk

The Group carries out prudent management of liquidity risk, which involves maintaining cash and having access to a sufficient amount of finance through established credit facilities as well as the ability to liquidate market positions. Given the dynamic nature of the Group's businesses, the policy of the

Finance Department is to maintain flexibility in funding sources through the availability of committed credit facilities. As a consequence, as at 31 December 2016, the Group has available liquidity of EUR 872,648 thousand (cash on hand EUR 192,851 thousand Note 11 plus available credit facilities of EUR 679,797 thousand Note 13) and has no immediate debt maturities (the maturities of the Group's financial obligations are detailed in Note 13.)

Finally, the Group considers that it has liquidity and access to medium and long-term financing that allow to the Group to ensure the necessary resources to meet the potential commitments for future investments.

(v) Inflation risk

After a long period of historically low inflation, there is a possibility that inflation could increase as a result of the easing policies of the European Central Bank and Bank of England. Although most of the Group's operating costs may rise as a result of higher inflation, the Group has the majority of its revenue generating contracts with its customers linked to inflation. As such, the Management does not expect that an increase in inflation should have a material impact in the business, prospects, results of operations financial condition and cash flows.

As at 31 December 2016 and 2015 the Group had no derivative financial instruments.

(vi) Risks Related to Group Indebtedness

Indebtedness may increase from time to time for potential new acquisitions, fundamental changes to corporate structure or joint ventures and issuances made in connection with any of the foregoing.

Group present or future leverage could have significant negative consequences on business, prospects, results of operations, financial condition, corporate rating downgrade (see Note 13) and cash flows, including:

- Placing at a possible competitive disadvantage to less leveraged competitors and competitors that may have better access to capital resources, including with respect to acquisitions and forcing ourselves to forego certain business opportunities;

- Requiring the dedication of a substantial portion of cash flow from operations to service Group debt, thereby reducing the amount of cash flow available for other purposes, including, among others, capital expenditures and dividends;

- Requiring us to issue debt or equity securities or to sell some of our core assets, possibly on unfavourable terms, to meet payment obligations;

- Accept some financial covenants in our financing contracts such as: debt limitation, cash restriction or pledge of assets.

- Leverage ratio increases can also affect the current corporate rating. A potential downgrade from a rating agency can make it more difficult and costly to obtain new financing.

At 31 December 2016, no financing contracts of the Group have financial covenants, it is not in default under any of payment obligations, either of principal or interest and can face future dividends payments.

b) Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern to deliver returns to its shareholders and to maintain an optimal capital structure and lower costs.

The Group monitors capital using a leverage ratio along with other financial ratios (e.g. net debt as a multiple of EBITDA and recurring leveraged free cashflow), in line with standard industry practice.

This leverage ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings, as given in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as given in the consolidated balance sheet, plus net debt.

During the year, the Group's capital structure changed significantly. The increase in borrowings in 2016 was caused by the asset purchases and business combinations carried out (see Notes 5, 6 and 7), and had a significant impact on, amongst others, the leverage ratio at 31 December 2016 compared with 2015. (See attached Consolidated Directors' Report)

As stated in the previous section 4.a.vi, the Group's borrowings may increase and its impact on the leverage ratio can affect the current corporate rating. A potential downgrade from a rating agency could make it more difficult and costly to obtain new financing.

The leverage ratios at 31 December were as follows:

	Thousands of Euros	
	31/12/2016	**31/12/2015**
Bank borrowings (Note 13)	281,839	378,195
Bonds issues (Note 13)	1,410,466	599,743
Other financial liabilities (Note 13)	9,387	10,417
Cash and cash equivalents (Note 11)	(192,851)	(51,000)
Net Borrowings [(1)]	**1,508,841**	**937,355**
Net equity (Note 12)	551,201	537,217
Total capital [(2)]	**2,060,042**	**1,474,572**
Leverage ratio [(1)/(2)]	**73%**	**64%**

5. Business combinations

Business combinations for 2016

The Company typically acquires telecommunications infrastructures from telecommunications carriers or other infrastructure operators and subsequently integrates those infrastructures into its existing network. The financial results of the Company's acquisitions have been included in the Company's consolidated financial statements for the year ended 31 December 2016 from the date of respective acquisition. The date of acquisition, and by extension the point at which the Company begins to recognise the results of an acquisition, may be dependent upon, among other things, the receipt of contractual consents, the commencement and extent of contractual arrangements and the timing of the transfer of title or rights to the assets, which may be accomplished in phases.

As a result of the business combinations performed during 2016 and 2015, the vast majority of the difference between the book value of the assets acquired and the purchase price paid has been assigned to assets subject to deprecation or amortization. Thus, the resulting goodwill mainly corresponds to the net deferred tax recognised resulting from the higher fair value attributed to the net assets acquired in comparison with their tax bases.

The main relevant business combinations for the 2016 year end are detailed below:

Acquisition of Commscon Italy, S.r.L.

As it indicated in Note 2.h. through its Italian subsidiary Cellnex Italia, S.r.l. the acquisition of 100% of the share capital of the Italian company Commscon Italia, S.r.l. (Commscon) was completed for an amount of EUR 19,904 thousand. The actual cash outflow for the Group in relation to this transaction has been EUR 18,729 thousand following the incorporation of EUR 1,175 thousand of cash balances on the balance sheet of the acquired company.

Commscon was founded in 2002 and specializes in the provision of mobile telephone network coverage services in areas catering for large numbers of people, such as airports, hospitals, stadiums and large office blocks. The network coverage is achieved using over 1,000 antennae nodes which are part of the DAS (Distributed Antenna Systems) operated by Commscon.

These infrastructures offer network coverage in sites such as the Milan, Genova and Brescia underground networks, San Siro stadium in Milan, la Juventus stadium in Turin, Milan-Malpensa airport, Bergamo and Milan hospitals, high-speed train tunnels, the Gran Sasso tunnel in Teramo and the historical centre of Milan.

The Group financed the acquisition of 100% of the share capital of Commscon using existing a mix of cash and credit facilities available.

Thus, following this acquisition, Commscon has been fully consolidated within the Cellnex Group such that as at 31 December 2016 the value of all of its assets and liabilities has been included in the consolidated balance sheet and the corresponding impact of operations in the consolidated income statement for the period.

The fair value of 100% of the net assets acquired (determined basically using discounted cashflows generated by the assets identified) amounts to EUR 13.1 million, therefore Goodwill for an amount of EUR 11.8 million has been registered, which includes the recognition of the deferred taxes for an amount of EUR 5 million relating to the step up in fair value assigned to the net assets acquired compared to their tax bases. In addition, a provision has been recognised for certain contingent consideration contemplated in the purchase contract for EUR 5 million, subject to the achievement of certain long-term growth objectives of Commscon.

The fair value at the date of acquisition of the assets and liabilities of the acquired business has been determined, for the most part, using valuation techniques. The main valuation methods used were the analysis of discounted cash flows generated by the identified assets, based on criteria similar to those mentioned in Note 3.c.

With regards to the acquisition of Commscon assets, the purchase price allocation (PPA) process was carried out without the participation of an independent third-party expert given that:

- IFRS 3 (Revised) does not require that PPA processes be carried out with an independent expert;

- The Group has an internal team with sufficient knowledge and experience in the sector in which the acquired business operates and in PPA processes.

The fair value of the net assets acquired includes the valuation of the intangible assets identified, consisting mainly of intangible assets that relate to contracts entered into with mobile operators.

The goodwill, which in turn includes the net recognition of any deferred taxes resulting from the higher fair value attributed to the net assets acquired in comparison with the tax bases (EUR 5 million), derives from the synergies and other additional future cash flows expected to arise following acquisition by the Group. Among other effects, this will allow the Group to strengthen and supplement its “Telecom Infrastructure Services” business in the terrestrial telecommunications field in the Italian market.

The assets and liabilities of Commscon, S.r.L. arising from the acquisition of all interest in the company are as follows:

	Thousands of Euros		
	Value acquired		
Debit/(Credit)	Fair value	Carrying Value	Revaluation
Cash and cash equivalents	1,175	1,175	-
Property, plant and equipment	1,181	1,181	-
Other intangible assets	21,092	3,180	17,912
Financial assets	301	301	-
Trade and other current assets	4,311	4,311	-
Trade creditors	(7,900)	(7,900)	-
Provisions	(2,000)	-	(2,000)
Deferred tax liabilities	(5,087)	-	(5,087)
Net assets acquired	**13,073**	**2,248**	**10,825**

	Thousand of Euros	
	Contribution since acquisition [(2)]	Proforma December 2016 [(3)]
Operating Income	4,577	9,155
Operating Expenses	(5,571)	(11,142)
Operating Loss	**(994)**	**(1,987)**
Net Loss [(1)]	**(725)**	**(1,450)**

[(1)] Net Profit including the additional depreciation of revalued assets.
[(2)] Impact of full consolidation of the 100% in the consolidated income statement from acquisition date.
[(3)] As if Commscon Italia S.r.L. had been acquired on 1 January 2016, and consequently that this company had been fully consolidated at 100% for the year ended 31 December 2016.

Finally, given the date on which the acquisition of Commscon was completed, at the date of signing these consolidated financial statements for the 2016 financial year, Cellnex is in the process of finalizing the allocation of the fair value of the assets and liabilities acquired by means of the analysis of the discounted cash flows generated by the assets identified, and therefore, in accordance with IFRS 3, the Group has one year from the dated of completion of the operation to complete the measurement process.

Acquisition of Protelindo Netherlands subgroup

As it indicated in Note 2.h., on 27 May 2016 Cellnex Telecom reached an agreement to acquire 100% of the share capital of Protelindo Netherlands, B.V. (which, in turn, owns all the shares of Protelindo Towers, B.V.), a subsidiary of the Indonesian telecommunications towers group PT Sarana Menara Nusantara for EUR 112 million . As a result of the acquisition, Cellnex directly owns all the shares of Protelindo Netherlands B.V. and, consequently, all the shares of Protelindo Towers B.V. The actual cash outflow for the Group in relation to this transaction was EUR 109 million following the incorporation of EUR 3 million of cash balances and receivables on the balance sheet of the acquired company.

On 1 July 2016 Protelindo Netherlands B.V. changed its name to Cellnex Netherlands B.V. On 24 October 2016 Protelindo Towers B.V. changed its name to Towerlink Netherlands B.V.

The Group financed the acquisition of 100% of the share capital of Protelindo Netherlands subgroup using existing cash and credit facilities.

Thus, following this acquisition, Protelindo Netherlands has been fully consolidated within the Cellnex Group such that as at 31 December 2016 the value of all of its assets and liabilities has been included in the consolidated balance sheet and the corresponding impact of operations in the consolidated income statement for the period.

The breakdown of the net assets acquired and goodwill generated by the purchase of 100% of Protelindo Netherlands subgroup, at the acquisition date, is as follows:

	Thousands of Euros
Total acquisition price	112,066
Fair value of the net assets acquired	76,759
Resulting goodwill	35,307

The fair value at the date of acquisition of the assets and liabilities of the acquired business has been determined, for the most part, using valuation techniques. The main valuation methods used were the analysis of discounted cash flows generated by the identified assets, based on criteria similar to those mentioned in Note 3.c.

With regards to the acquisition of Protelindo Netherlands subgroup, considering that IFRS 3 helps reassess the allocation process during a period of one year and given the complexity of identifying the acquired intangible assets, the Group has decided to make a purchase price allocation with the participation of an independent third party expert, having obtained the results as detailed below.

Thus, the fair value amount of the acquired net assets includes the valuation of the intangible assets identified that individually meet the identifiability criteria of IAS 38 (Intangible Assets), and consists of:

Customer Network Services Contracts

This intangible asset relates to the customer base existing at the acquisition date due to the Group's infrastructure service contracts and to the future returns expected to be generated because of the relationships with customers beyond the periods covered by the contracts.

Network Location

This intangible asset represents the incremental revenues and cashflows from addition infrastructure service agreements with carriers not yet present at the date of acquisition. The Network Location is considered an intangible asset and valued independently from the remaining intangible assets, because it meets the requirement of separability, given that the excess available capacity can be used to offer network access services to third parties.

The goodwill, which in turn includes the net recognition of any deferred taxes resulting from the higher fair value attributed to the net assets acquired in comparison with the tax bases (EUR 24.1 million), derives from the synergies and other additional future cash flows expected to arise following acquisition by the Group. Among other effects, this acquisition provides a first entry point into the Dutch market, which has a strong presence of independent telecom infrastructure operators and is highly dynamic in the context of networks based on Small Cells and DAS (Distributed Antennae Systems).

The assets and liabilities of Protelindo Netherlands arising from the acquisition of all interest in the subgroup are as follows:

	Thousands of Euros		
	Value acquired		
Debit/(Credit)	Fair value	Carrying Value	Revaluation
Cash and cash equivalents	2,291	2,291	-
Property, plant and equipment	19,183	19,183	-
Other intangible assets	96,400	-	96,400
Trade and other current assets	1,292	1,292	-
Trade creditors	(3,938)	(3,938)	-
Provisions	(15,596)	(2,383)	(13,213)
Deferred tax liabilities	(22,874)	1,226	(24,100)
Net assets acquired	**76,758**	**17,671**	**59,087**

	Thousand of Euros	
	Contribution since acquisition[2]	Proforma December 2016 [3]
Operating Income	4,193	8,386
Operating Expenses	(3,419)	(6,838)
Operating Loss	**774**	**1,548**
Net Loss [1]	**954**	**1,909**

[1] Net Profit including the additional depreciation of revalued assets.
[2] Impact of 100% of financial results in the consolidated income statement.
[3] As if Cellnex Netherlands had been acquired effective 1 January 2016, and consequently that this subgroup had been fully consolidated at 100% for the period ended 31 December 2016.

Finally, given the date on which the acquisition of Protelindo Netherlands subgroup was completed, at the date of signing these consolidated financial statements for the 2016 financial year, Cellnex is in the process of finalizing the allocation of the fair value of the assets and liabilities acquired by means of the analysis of the discounted cash flows generated by the assets identified, and therefore, in accordance with IFRS 3, the Group has one year from the dated of completion of the operation to complete the measurement process

Acquisition of Shere Group subgroup

As it indicated in Note 2.h., on 29 September 2016 the Group signed a contract with Arcus Infrastructure Partners and minority shareholders to purchase 100% of the share capital of Shere Group Limited, owner of 1,004 sites located in Netherlands and UK for an enterprise value of EUR 393 million. The transaction was completed following several administrative authorizations.

The 464 sites that Shere Group operates in the Netherlands are spread evenly throughout the country. They also complement the network of 261 sites that Cellnex acquired through the Protelindo acquisition (see Note 2.h), without duplication. The tenancy ratio of the infrastructures located in Shere Group's sites in the Netherlands stands at 2.7x.

Of the 540 sites located in the UK most are income rights contracts with only 47 owned masts and are concentrated mainly in England and Wales. The tenancy ratio of those sites is 1.6x.The Cellnex Group has financed the acquisition of 100% of the share capital of Shere Group subgroup using existing credit facilities.

Thus, following this acquisition, Shere Group has been fully consolidated within the Cellnex Group, such that as at 31 December 2016 the value of all of its assets and liabilities has been included in the consolidated

balance sheet and the corresponding impact of operations in the consolidated income statement for the period.

In relation to the aforementioned acquisition two Cash Generating Units (CGUs) have been identified, which are expected to benefit from the synergies of the business combination. The Group companies which form the subgroup Shere Group with domicile in the United Kingdom make up the CGU denominated Shere Group UK, whilst the Group companies of this subgroup with domicile in the Netherlands make up the CGU Shere Group Netherlands (see Note 2.h.)

The breakdown of the net assets acquired and goodwill generated by the purchase of 100% of Shere Group subgroup, at the acquisition date, is as follows:

	Thousands of Euros
Total acquisition price[(1)]	408,636
Fair value of the net assets acquired	293,690
Resulting goodwill	114,946

[(1)] The actual cash outflow for the Group in relation to this transaction was EUR 393 million following the incorporation of cash balances and receivables on the balance sheet of the acquired company.

The fair value at the date of acquisition of the assets and liabilities of the acquired business has been determined, for the most part, using valuation techniques. The main valuation methods used were the analysis of discounted cash flows generated by the identified assets, based on criteria similar to those mentioned in Note 3.c.

With regards to the acquisition of Shere Group subgroup, considering that IFRS 3 helps reassess the allocation process during a period of one year and given the complexity of identifying the acquired intangible assets, the Group has decided to make a purchase price allocation with the participation of an independent third party expert, having obtained the results as detailed below.

The potential value of the sites is mainly due to the characteristics and quality of the physical locations, which translates into a certain expectation of increasing their "customer ratio". This can be attributed to certain sets of intangible assets, of which each individual element is necessary to realise the full value.

Thus, the fair value amount of the acquired net assets includes the valuation of the intangible assets identified that individually meet the identification criteria of IAS 38 (Intangible Assets), and consists of:

Customer Network Services Contracts

This intangible asset relates to the customer base existing at the acquisition date due to the Group's infrastructure service contracts and to the future returns expected to be generated because of the relationships with customers beyond the periods covered by the contracts.

Network Location

This intangible asset represents the incremental revenues and cashflows from addition infrastructure service agreements with carriers not yet present at the date of acquisition. The Network Location is considered an intangible asset and valued independently from the remaining intangible assets, because it meets the requirement of separability, given that the excess available capacity can be used to offer network access services to third parties.

The goodwill, which in turn includes the net recognition of any deferred taxes resulting from the higher fair value attributed to the net assets acquired in comparison with the tax bases (EUR 90 million), derives from the synergies and other additional future cash flows expected to arise following acquisition by the Group.

Among other effects, this will allow the Group to strengthen and supplement its “Telecom Infrastructure Services” business in the terrestrial telecommunications field in the European market.

The assets and liabilities of Shere Group arising from the acquisition of all interest in the subgroup are as follows:

	Thousands of Euros		
	Value acquired		
Debit/(Credit)	Fair value	Carrying Value	Revaluation
Cash and cash equivalents	13,576	13,576	-
Property, plant and equipment	23,038	-	23,038
Investment Properties	-	282,964	(282,964)
Other intangible assets	364,063	-	364,063
Trade and other current assets	4,350	4,350	-
Trade creditors	(7,659)	(7,659)	-
Provisions	(13,532)	-	(13,532)
Deferred tax liabilities	(90,146)	-	(90,146)
Net assets acquired	**293,690**	**293,231**	**459**

	Thousand of Euros	
	Contribution since acquisition[2]	Proforma December 2016 [3]
Operating Income	5,612	22,449
Operating Expenses	(6,531)	(26,122)
Operating Loss	**(919)**	**(3,673)**
Net Loss [1]	**(1,177)**	**(4,708)**

[1] Net Profit including the additional depreciation of revalued assets.
[2] Impact of the 16 days and 2 months of full consolidation of the 100% in the consolidated income statement.
[3] As if Shere Group had been acquired effective 1 January 2016, and consequently that this subgroup had been fully consolidated at 100% for the period ended 31 December 2016.

Finally, given the date on which the acquisition of Shere Group subgroup was completed, at the date of signing these consolidated financial statements for the 2016 financial year, Cellnex is in the process of finalizing the allocation of the fair value of the assets and liabilities acquired by means of the analysis of the discounted cash flows generated by the assets identified, and therefore, in accordance with IFRS 3, the Group has one year from the dated of completion of the operation to complete the measurement process.

Business combinations for 2015

The business combination for the 2015 year end is detailed below:

Acquisition of Galata, S.p.A.

As regards the business combination described in Note 5 of the consolidated annual accounts for the 2015 financial year, considering that IFRS 3 allows the reassessment of the allocation process during a period of one year and given the complexity of identifying the acquired intangible assets, during the 2016 financial year, the Group has decided to reassess the identification of these assets, with the results detailed below.

The potential value of the sites is mainly due to the characteristics and quality of the physical locations, which translates into a certain expectation of increasing their “tenancy ratio”. This can be attributed to certain sets of intangible assets, of which each individual element is necessary to realise the full value.

Thus, the fair value amount of the acquired net assets includes the valuation of the intangible assets identified that individually meet the identification criteria of IAS 38 (Intangible Assets), and consists of:

Customer Network Services Contracts

This intangible asset relates to the customer base existing at the acquisition date due to the Group’s infrastructure service contracts and to the future returns expected to be generated because of the relationships with customers beyond the periods covered by the contracts.

Network Location

This intangible asset represents the incremental revenues and cashflows from addition infrastructure service agreements with carriers not yet present at the date of acquisition. The Network Location is considered an intangible asset and valued independently from the remaining intangible assets, because it meets the requirement of separability, given that the excess available capacity can be used to offer network access services to third parties.

Long-term lease agreements with the owners of the property (be it land or rooftops) where the sites are located are key to situating the towers on the sites in a stable and long-term manner in the desired location, and as such give rise to the existence of the site and its characteristics, its potential and the expected attributable future profitability.

Acquired Customer Network Services and Network Location intangibles are amortised over the shorter of the term of the corresponding ground lease taking into consideration lease renewals or up to 20 years, as the Company considers these intangibles to be directly related to the tower assets.

Therefore, the estimated future cash flows represented by these intangible assets, estimated on the premise described above is that which appropriately reflects the concept of the ‘greatest and best possible use’ of the intangible assets conceived by any market participant, in accordance with the definition of fair value in IFRS 13, and is compared with similar market levels. In the estimation, the incremental revenue relating to the “customer ratio” increase in the Business Plan derived from the acquisition of additional towers to be dismantled has not been included.

The value of the physical assets (masts, civil works, fences, cabins and other equipment) can be reliably measured separately based on their replacement cost. Additionally, the factors that determine their useful life are different to those of the “location intangible assets”, mainly due to physical and technical obsolescence, which suggests that their value be calculated separately from that allocated to intangible assets.

The goodwill, which in turn includes the net recognition of any deferred taxes resulting from the higher fair value attributed to the net assets acquired in comparison with the tax bases (EUR 170.6 million), derives from the synergies and other additional future cash flows expected to arise following acquisition by the Group. Among other effects, this will allow the Group to strengthen and consolidate its “Telecom Infrastructure Services” business in the terrestrial telecommunications field by beginning its geographical diversification, in this case, towards the Italian market.

The assets and liabilities of Galata, S.p.A. arising from the acquisition of 90% of the company were as follows:

	Thousands of Euros		
	Value acquired		
Debit/(Credit) Notes	Fair value	Carrying amount	Revaluation
Cash and cash equivalents	24,330	24,330	-
Property, plant and equipment	234,248	234,248	-
Other intangible assets	498,819	-	498,819
Financial assets	49,903	49,903	-
Trade and other current assets	1,559	1,559	-
Trade creditors	(22,848)	(22,848)	-
Provisions	(27,418)	(19,418)	(8,000)
Deferred tax assets/(liabilities), net	(159,223)	-	(159,223)
Net assets	**599,370**	**267,774**	**331,596**
Non-controlling interests[a]	(59,937)	(26,777)	(33,160)
Net assets acquired	**539,433**	**240,997**	**298,436**
Total acquisition price	693,000	693,000	
Cash and cash equivalents	(24,330)	(24,330)	
Cash outflow in the acquisition	**668,670**	**668,670**	

[a] The non-controlling interests are broken down as follows:

Non-controlling interests net assets acquired	59,937
Non-controlling interests goodwill	17,063
Total non-controlling interests	**77,000**

At the current date, the business combination described in Note 5 of the consolidated annual accounts for the 2015 financial year is considered to be definitive as twelve months have elapsed since the acquisition (end of March 2015). The comparative income statement for the year ended 31 December 2015 would not have been materially different due to the above consideration.

6. Property, plant and equipment

The changes in this heading in the consolidated balance sheets in 2016 and 2015 were as follows:

	Thousands of Euros			
	Land and buildings	Plant and machinery and other fixed assets	Property, plant and equipment under construction	**Total**
At 1 January 2016				
Cost	721,552	472,412	6,155	**1,200,119**
Accumulated amortisation	(102,345)	(161,961)	-	**(264,306)**
Carrying amount	**619,207**	**310,451**	**6,155**	**935,813**
Carrying amount at beginning of year	619,207	310,451	6,155	**935,813**
Changes in the consolidation scope (Note 5)	23,203	20,293	-	**43,496**
Additions	130,211	23,959	47,293	**201,463**
Disposals	(6,490)	(412)	-	**(6,902)**
Derecognition of depreciation	6,331	395	-	**6,726**
Transfers	3,638	2,253	(2,814)	**3,077**
Foreign exchange differences	-	54	-	**54**
Depreciation charge	(71,167)	(64,115)	-	**(135,282)**
Carrying amount at close	**704,933**	**292,878**	**50,634**	**1,048,445**
At 31 December 2016				
Cost	872,114	518,559	50,634	**1,441,307**
Accumulated amortisation	(167,181)	(225,681)	-	**(392,862)**
Carrying amount	**704,933**	**292,878**	**50,634**	**1,048,445**

	Thousands of Euros			
	Land and buildings	Plant and machinery and other fixed assets	Property, plant and equipment under construction	**Total**
At 1 January 2015				
Cost	442,579	433,568	7,385	**883,532**
Accumulated amortisation	(37,607)	(105,461)	-	**(143,068)**
Carrying amount	**404,972**	**328,107**	**7,385**	**740,464**
Carrying amount at beginning of year	404,972	328,107	7,385	**740,464**
Changes in the consolidation scope (Note 5)	234,248	-	-	**234,248**
Additions	43,695	43,344	3,059	**90,098**
Disposals	(93)	(1,873)	-	**(1,966)**
Derecognition of depreciation	41	1,814	-	**1,855**
Transfers	522	3,767	(4,289)	-
Other	601	(735)	-	**(134)**
Depreciation charge	(64,779)	(63,973)	-	**(128,752)**
Carrying amount at close	**619,207**	**310,451**	**6,155**	**935,813**
At 31 December 2015				
Cost	721,552	472,412	6,155	**1,200,119**
Accumulated amortisation	(102,345)	(161,961)	-	**(264,306)**
Carrying amount	**619,207**	**310,451**	**6,155**	**935,813**

The carrying amount recognised under “Land and buildings” includes infrastructures acquired at the centres in which the Group has installed its telecommunications equipment (land, towers and buildings – prefabricated and civil works).

“Plant and machinery and other fixed assets” includes mainly the telecommunications infrastructure network for broadcasting and others network services. It also includes all equipment necessary to ensure the operation of the technical equipment installed in any infrastructure (electrical and acclimatization).

“Property, plant and equipment under construction” includes the carrying amount of those items of property, plant and equipment acquired in the last days of the year that have still not been put into operation.

Movements in 2016

Changes in the scope of consolidation and business combinations

Additions in 2016 due to changes in the scope of consolidation and business combinations relate to the infrastructure for mobile telecommunications operators following the acquisitions detailed below (see Note 2.h and 5):

- Commscon (EUR 1,181 thousand),
- Cellnex Netherlands (EUR 19,183 thousand),
- Shere Group (EUR 23,038 thousand),
- Sirtel (EUR 94 thousand)

Signed acquisitions and commitments

In the Telecom Infrastructure Services business, the Group entered into framework agreements with mobile operators for the purchase of a certain amount of telecom infrastructures, which were subsequently executed through asset sale and purchase agreements.

Additions in the year include the acquisition of 230 mobile telephone towers for EUR 80 million acquired from Bouygues Telecom in the third quarter of 2016, through its subsidiary Cellnex France, S.A.S. In the final quarter of 2016 Cellnex Telecom and Bouygues Telecom closed the second phase of the agreement, which incorporated a further 270 towers involving an investment of EUR 67 million in addition to the EUR 80 million in the first package of assets. Thus, the cumulative investment in the acquisition of the 500 towers amounts to EUR 147 million.

The operation opens the way to long-term cooperation with one of France’s leading mobile operators. In addition to the acquisition of this portfolio of towers, Cellnex has signed a 20-year contract to provide services to Bouygues Telecom.

The Company typically acquires telecommunications infrastructures from telecommunications carriers or other tower operators and subsequently integrates those sites into its existing network. The financial results of the Company’s acquisitions have been included in the Company’s consolidated financial statements for the year ended 31 December 2016 from the date of respective acquisition. The date of acquisition, and by extension the point at which the Company begins to recognise the results of an acquisition, may be dependent upon, among other things, the receipt of contractual consents, the commencement and extent of contractual arrangement and the timing of the transfer of title or rights to the assets, which may be accomplished in phases.

At year-end 2016, the Group had not entered into any additional framework agreements with any other customer.

Other additions in 2016 related to the expansion of the Group's business and the maintenance of its operations, mainly relating to Digital Terrestrial Television equipment and signal transmission.

Movements in 2015

Changes in the scope of consolidation and business combinations

Additions in 2015 due to changes in the scope of consolidation and business combinations related to the infrastructure for mobile telecommunications operators located in Italy (EUR 234,248 thousand) following the acquisition of Galata, S.p.A. (see Note 2.h and 5).

Signed acquisitions and commitments

Additions in the 2015 financial year included the acquisition, on 26 January 2015, of 300 mobile telecommunication infrastructures for EUR 43.5 million acquired by virtue of the agreement signed in the 2014 financial year between On Tower Telecom Infraestructuras, S.A.U. (On Tower) and Telefónica Móviles España S.A. (hereinafter TME) for the restructuring and rationalisation of telecom infrastructures, through the Volta Extended project, of which EUR 22 million that were recognised under "Trade and other payables" in the consolidated balance sheet as pending payment. By means of this sale and purchase agreement, a services agreement was subsequently entered into with the same mobile telephone operators.

At year-end 2015, the Group had not entered into any additional framework agreements with any other customer.

There were also additions in 2015 related to the expansion of the Group's business and the maintenance of its operations, mainly relating to Digital Terrestrial Television equipment and signal transmission.

Additions by investment type

At 31 December 2016 and 2015, the detail of additions of property, plant and equipment, by type of investment, is as follows:

	Thousands of Euros	
Type of investment	**31/12/2016**	**31/12/2015**
Maintenance capital expenditures (1)	18,565	14,657
Expansion capital expenditures (2)	26,977	28,963
M&A capital expenditures (3)	155,921	46,478
Total	**201,463**	**90,098**

(1) Maintenance capital expenditures: investments in existing tangible or intangible assets, such as investment in infrastructure, equipment and information technology systems, and are primarily linked to keeping sites in good working order, but which excludes investment in increasing the capacity of sites.

(2) Expansion capital expenditures: Investment to the network of tower infrastructures, equipment for radio broadcasting, network services, cash advances, land acquisitions and others that generate additional adjusted EBITDA.

(3) M&A capital expenditures: Investments in shareholdings of companies as well as significant investments in acquiring portfolios of sites (asset purchases).

Property, plant and equipment abroad

At 31 December 2016 and 2015 the Group had the following investments in property, plant and equipment located abroad:

	Thousands of Euros	
	Net book value	
	31 December 2016	31 December 2015
Italy	208,961	224,750
Netherlands	40,201	-
France	151,879	-
United Kingdom	1,290	-
Total	**402,331**	**224,750**

Fully depreciated assets

At 31 December 2016, fully depreciated property, plant and equipment amounted to EUR 395,553 thousand (EUR 218,531 thousand in 2015).

Change of control clauses

With regards to the Group's acquisitions of infrastructures from mobile telecommunications operators, the agreements signed with the selling party contain change of control provisions which state that if a direct competitor of such selling party becomes a controlling shareholder of the relevant Group Company, the selling party has the right to repurchase the aforementioned infrastructures.

Purchase commitments at year-end

At year-end the Group held purchase agreements for material assets amounting to EUR 8,549 thousand (EUR 4,110 thousand in 2015).

Impairment

At 2016 and 2015 year-end, the Directors of the Parent Company have not identified any indications of impairment related to the property, plant and equipment.

Despite this, and in view of the relevance of the recently acquired assets related to telecom infrastructures (those not related to business combinations), the Directors of the parent company have decided to disclose the hypotheses used to evaluate any loss due to impairment, as the price agreed upon in the purchase negotiations refers to an asset with two components: a physical asset (tower and other fixtures and fittings) and an intangible asset, 'customer network service contracts and network location' in order to be able to provide the service to mobile operators. This evaluation is based on the calculation of the fair value of the corresponding cash generating unit, which, in the case of the acquisitions mentioned above, relates to the companies On Tower Telecom Infraestructuras, S.A.U. and Cellnex France, S.A.S.

The fair value was calculated as follows:

- The period over which the related investment is expected to generate cash flows was determined.
- The respective revenue and expense projections were made using the following general criteria:

- For revenue, trends were forecast assuming an increase in the consumers' price index (CPI) in Spain and France, being the countries in which the business operates.

- For expenses, trends were considered in light of expected changes in the CPI for Spain and France and the projected activity of the business.

- In addition, the Group considered the impact of infrastructure maintenance to be carried out, using the best estimates available based on the Group's experience and taking into account the projected performance of the activity.

The cash inflow projections based on the revenue and expense projection made as set forth above were discounted at the rate resulting from adding, to the long-term cost of money, the risk premium assigned by the market to each country where the activity takes place and the risk premium assigned by the market to each business (over the long term in both cases).

Projections for the first five years are generally based on the budget and on the most recent medium-term projection and, after the sixth year, on the activity growth rate evident from the service contracts.

The most significant assumptions used in determining the fair value of the tangible fixed assets of On Tower Telecom Infraestructuras, S.A.U. and Cellnex France, S.A.S. were as follows:

2016

	Discount Rate BEFORE TAX	Activity growth rate[1]	Terminal growth rate "g"	Years of projected cash flows
On Tower Telecom Infraestructuras, S.A.U.	8.53%	2.50%	1.50%	Until 2040
Cellnex France, S.A.S.	8.48%	2.64%	1.50%	Until 2040

2015

	Discount Rate BEFORE TAX	Activity growth rate	Terminal growth rate "g"	Years of projected cash flows
On Tower Telecom Infraestructuras, S.A.U.	8.16%	2.10%	1.00%	5

[1] Relates to revenues. The compound growth rate or CAGR reflects the increments built into the contracts related to these assets.

With regards to the impairment tests carried out on the business of On Tower Telecom Infraestructuras, S.A.U. and Cellnex France, S.A.S., the recoverable amount obtained (determined based on the fair value as indicated previously) exceeds the carrying value of the assigned assets to such an extent that even if the hypothesis used were changed there would be no significant risk of impairment. The carrying amount of these assets stands at approximately EUR 530 million at 2016 year-end (EUR 408 million at 2015 year-end).

The impairment tests carried out demonstrate that the unit to which the assets are allocated is deemed capable of recovering the net carrying value recognised at 31 December 2016 and 2015. Consequently, there is no need to recognise any provision for impairment. In accordance with the sensitivity analysis performed, any changes in the discount rates of +50 basis points; in CPI of -50 basis points; in activity of -50 basis points, and in Opex +50 basis points could be made without recognising any impairment in the assets recognised by

the Group at 31 December 2016 and 2015.

Asset revaluation pursuant to Act 16/2012, of 17 December

With regard to assets located in Spain, in 2012 several Spanish Group companies took advantage of Act 16/2012, of 27 December, resulting in an increase in the value of the assets through an accounting revaluation for EUR 41 million in the separate financial statements of the Spanish companies, which is not included in the cost of the assets for IFRS purposes. The tax effect of this revaluation has been recorded as a deferred tax asset in the accompanying consolidated financial statements (Note 15).

Insurance

The Group takes out all insurance policies considered necessary to cover possible risks which might affect its property, plant and equipment. At 31 December 2016 and 2015, the Group's Directors considered that the insurance coverage was sufficient to cover the risks relating to its activities.

Other disclosures

At 31 December 2016 and 2015, the Group did not have significant property, plant and equipment subject to restrictions or pledged as collateral on liabilities.

7. Goodwill and other intangible assets

The changes in this heading in the consolidated balance sheets in 2016 and 2015 were as follows:

	Thousands of Euros			
	Goodwill	Intangible assets for telecom infrastructure services	Computer software and other intangible assets	**Total**
At 1 January 2016				
Cost	216,002	596,651	20,220	**832,873**
Accumulated amortisation	-	(22,782)	(11,444)	**(34,226)**
Carrying amount	**216,002**	**573,869**	**8,776**	**798,647**
Carrying amount at beginning of year	216,002	573,869	8,776	**798,647**
Changes in the scope of consolidation (Note 5)	162,597	483,665	-	**646,262**
Additions	-	-	8,694	**8,694**
Foreign exchange differences	1,618	4,852	-	**6,470**
Transfers	-	(3,255)	62	**(3,193)**
Amortisation charge	-	(37,387)	(4,110)	**(41,497)**
Carrying amount at close	**380,217**	**1,021,744**	**13,422**	**1,415,383**
At 31 December 2016				
Cost	380,217	1,081,913	28,976	**1,491,106**
Accumulated amortisation	-	(60,169)	(15,554)	**(75,723)**
Carrying amount	**380,217**	**1,021,744**	**13,422**	**1,415,383**

	Thousands of Euros			
	Goodwill	Intangible assets for telecom infrastructure services	Computer software and other intangible assets	**Total**
At 1 January 2015				
Cost	45,372	98,564	14,707	**158,643**
Accumulated amortisation	-	(2,396)	(7,082)	**(9,478)**
Carrying amount	**45,372**	**96,168**	**7,625**	**149,165**
Carrying amount at beginning of year	45,372	96,168	7,625	**149,165**
Changes in the scope of consolidation (Note 5)	170,630	498,819	-	**669,449**
Additions	-	-	4,692	**4,692**
Disposals	-	(6)	-	**(6)**
Other	-	95	-	**95**
Transfers	-	(112)	112	**-**
Depreciation and amortisation charge	-	(21,095)	(3,653)	**(24,748)**
Carrying amount at close	**216,002**	**573,869**	**8,776**	**798,647**
At 31 December 2015				
Cost	216,002	596,651	20,220	**832,873**
Accumulated amortisation	-	(22,782)	(11,444)	**(34,226)**
Carrying amount	**216,002**	**573,869**	**8,776**	**798,647**

Intangible assets for telecom infrastructure services

The breakdown of the net book value of intangible assets for telecom infrastructure services is set out below:

	Thousands of Euros	
	31/12/2016	**31/12/2015**
Concession intangibles	87,967	92,056
Customer network services contracts	792,234	413,606
Location intangibles	141,543	68,207
Net intangibles for telecom infrastructure service	**1,021,744**	**573,869**

Goodwill

Gross goodwill and the accumulated losses in value recognised at 31 December 2016 and 2015, respectively, are detailed as follows:

	Thousands of Euros	
	31/12/2016	**31/12/2015**
Gross goodwill	380,217	216,002
Accumulated valuation adjustments	-	-
Net goodwill	**380,217**	**216,002**

The detail of goodwill, classified by cash-generating unit, at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	31/12/2016	**31/12/2015**
Galata	170,630	170,630
Tradia Telecom	42,014	42,014
TowerCo	2,995	2,995
Adesal	363	363
Commscom	11,835	-
Cellnex Netherlands	35,307	-
Shere Group Netherlands	76,616	-
Shere Group UK [(1)]	39,949	-
Sirtel	508	-
Goodwill:	**380,217**	**216,002**

[(1)] This goodwill is related to assets in a non-euro currency (Sterling) thus its value in Euros is affected by the variations in the prevailing exchange rate.

The main variations in the 2016 financial year are due to changes in the scope of consolidation and business combinations, and correspond to the impact of the takeover of Commscon Italy, Protelindo Netherlands, Shere Group Netherlands, Shere Group UK and Sirtel amounting to EUR 11,835, 35,307, 76,616, 39,949 and 508 thousand, respectively, as at 31 December 2016.

The goodwill amounting to EUR 42,014 thousand at 31 December 2016 and 2015 relates to the difference between the carrying amount of the assets contributed in the capital increases through non-monetary contributions and the estimated market value of the line of business contributed by Centre de Telecomunicacions i Tecnologies de la Informació (CTTI) of the Catalonia Autonomous Community Government to Tradia Telecom, S.A.U. in 2000. This goodwill was allocated to the overall business corresponding to the activity of the company Tradia Telecom, S.A.U.

The variations in the 2015 financial year were due to changes in the scope of consolidation and business combinations, and corresponded to the impact of the takeover of Galata S.p.A. amounting to EUR 170,630 thousand at the date of acquisition (see Note 5).

Intangible assets in telecom infrastructure

Additions for the 2016 financial year due to changes in the scope of consolidation and business combinations correspond to the allocation of the purchase price resulting from the acquisitions of Commscon Italy, Protelindo Netherlands, Shere Group Netherlands, Shere Group UK and Sirtel and to intangible assets in telecom infrastructures amounting to EUR 18,180, 96,400, 119,826, 249,089 and 1,780 thousand, respectively (see Note 2.i and 5).

Additions for the 2015 financial year due to changes in the scope of consolidation and business combinations corresponded to the allocation of the purchase price resulting from the acquisition of Galata, S.p.A. and to intangible assets in telecom infrastructures amounting to EUR 498,819 thousand. (see Note 2.h and 5).

Impairment

As indicated in Notes 3.b and 3.c, at the end of each reporting period goodwill is assessed for impairment based on a calculation of the fair value of their respective cash-generating unit or their market value (price of similar, recent transactions in the market), if the latter is higher.

Prior to preparing revenue and expense projections, those projections made as part of the impairment tests for the prior year were reviewed to assess possible variances. In the review of the 2015 impairment tests with regard to the 2016 results, no significant variances were detected.

The fair value was calculated as follows:

- The period over which the related investment is expected to generate cash flows was determined.

- The respective revenue and expense projections were made using the following general criteria:

  - For revenue, trends were forecast assuming a different increase for each cash-generating unit of the consumers price index (CPI) in each country in which the assets are used or the business operates.
  - For expenses, trends were considered in light of expected changes in the respective CPIs and the projected performance of the business.
  - In addition, the Group considered the impact of infrastructure maintenance to be carried out, using the best estimates available based on the Group's experience and taking into account the projected performance of the activity.

  The cash inflow projections based on the revenue and expense projection made as set forth above were discounted at the rate resulting from adding, to the long-term cost of money, the risk premium assigned by the market to each country where the activity takes place and the risk premium assigned by the market to each business (over the long term in both cases).

Projections for the first five years are generally based on the budget and on the most recent medium-term projection approved by the Board of Directors and, after the sixth year, on the activity growth rate evident from the service contracts.

The most significant assumptions used in determining the fair value of the main cash-generating units in 2016 with the most relevant intangible assets and goodwill were as follows:

2016

Cash Generating Unit (CGU)	Discount rate BEFORE TAXES [(1)]
Tradia Telecom	7.91%
Towerco	9.39%
Galata	9.39%
Commscon	9.39%
Towerlink Netherlands	7.34%
Shere Group UK	7.73%
Shere Group Netherlands	7.34%

(1) The discount rate before tax has been calculated as the discount rate after tax (R) divided by 1 minus the tax rate of the corresponding country (t). That is: R/1-t.

The growth rate considered for all the CGUs, apart from Commscon and Tradia Telecom, is 2.0%, which represents a 0.5% increment on the 'terminal g' of 1.50% (apart from Tradia Telecom which represents 1.0%). Tradia's growth rate has been determined at 1.20% due to the broadcasting component, and Commscon's growth rate has been determined at 18.18% due to the highly dynamic market and growth opportunities.

All CGUs apart from TowerCo and Commscon have been projected until 2040 in line with the duration of the service contracts in the Telecom Infrastructure Services business segment. As the TowerCo business is based on a concession agreement with Atlantia, this CGU has been projected until the end of the concession in 2038. Commscon's business has different market dynamics and the average contract duration is 9 years. The terminal 'g' is in line with a general inflation rate.

The most significant assumptions used in determining the fair value of the main cash-generating units in 2015 with the most relevant intangible assets and goodwill were as follows:

2015

	Discount rate BEFORE TAXES	Growth rate	Growth rate rate terminal 'g'	Years of projected cash flows
Business of Tradia Telecom, S.A.U.	8.16%	0.00%	1.00%	5
Business of Towerco, S.p.A.	8.39%	1.39%	-	Until 2038
Business of Galata, S.p.A.	8.39%	2.19%	1.00%	5

With regards to the impairment tests performed both on the goodwill the recoverable amount obtained (determined based on the fair value as indicated previously) exceeds the carrying value of the goodwill and assigned assets to such an extent that even if the hypothesis used were changed significantly there would be no significant risk of impairment.

The impairment tests carried out demonstrate that the unit to which the recognised goodwill or intangible assets in telecom infrastructures are allocated is deemed capable of recovering the net value recognised at 31 December 2016 and 2015. Consequently, there is no need to recognise any provision for impairment. In accordance with the sensitivity analysis performed, any changes in the discount rates of +50 basis points; in CPI of -50 basis points; in activity of -50 basis points, and in Opex +50 basis points could be made without recognising any impairment to goodwill recognised by the Group at 31 December 2016

Intangible assets abroad

At 31 December 2016 and 2015, the Group had the following intangible assets located abroad:

	Thousands of Euros	
	Net book value	
	31 December 2016	**31 December 2015**
Italy	750,211	747,728
Netherlands	451,888	-
United Kingdom	160,357	-
Total	**1,362,456**	**747,728**

Fully amortised assets

At 31 December 2016, fully amortised intangible assets amounted to EUR 17,172 thousand (EUR 13,523 thousand in 2015).

Purchase commitments at year-end

The drawn up purchase agreements at 31 December 2016 amounted to EUR 502 thousand (EUR 1,649 thousand in 2015).

Other disclosures

At 31 December 2016 and 2015, the Group did not have significant intangible assets subject to restrictions or pledged as collateral on liabilities.

At 31 December 2016 and 2015, the detail of additions of intangible assets, by type of investment, is as follows:

	Thousands of Euros	
Type of investment	**31/12/2016**	**31/12/2015**
Maintenance capital expenditures [(1)]	2,858	3,223
Expansion capital expenditures [(2)]	3,738	1,469
M&A capital expenditures [(3)]	2,098	-
Total	**8,694**	**4,692**

(1) Maintenance capital expenditures: investments in existing tangible or intangible assets, such as investment in infrastructure, equipment and information technology systems, and are primarily linked to keeping sites in good working order, but which excludes investment in increasing the capacity of sites.

(2) Expansion capital expenditures: Investment to the network of tower infrastructures, equipment for radio broadcasting, network services, cash advances, land acquisitions and others that generate additional adjusted EBITDA.

(3) M&A capital expenditures: Investments in shareholdings of companies as well as significant investments in acquiring portfolios of sites (asset purchases).

8. Investments in associates

The changes in this heading in the consolidated balance sheet are as follows:

	Thousands of Euros	
	2016	**2015**
At 1 January	**3,514**	**3,480**
Profit for the year	65	34
Others	(28)	-
At 31 December	**3,551**	**3,514**

The shareholdings in associates accounted for using the equity method are detailed as follows:

	Thousands of Euros	
	Value of the shareholding	
	31 December 2016	**31 December 2015**
Torre Collserola, S.A.	2,683	2,678
Consorcio de Telecomunicaciones Avanzadas, S.A. (COTA)	868	836
Total	**3,551**	**3,514**

In addition to the impairment tests referred to above, the Group carried out impairment tests to determine the recoverability of the investments in associates. To carry out these tests, the Group considered future cash flow projections in a manner similar to that indicated in Note 7. No indication was found of a need to recognise any provision for impairment in the consolidated income statement for the 2016 and 2015 financial years.

9. Current and non-current financial investments

The changes in this heading in 2016 and 2015 were as follows:

	Thousands of Euros					
	2016			2015		
	Non-current	Current	**Total**	Non-current	Current	**Total**
At 1 January 2016	**12,530**	**921**	**13,451**	**13,451**	**921**	**14,372**
Additions	-	-	-	-	-	-
Charge to the consolidated income statement	-	(890)	(890)	-	(921)	(921)
Transfer	(890)	890	-	(921)	921	-
At 31 December	**11,640**	**921**	**12,561**	**12,530**	**921**	**13,451**

Current and non-current financial investments relate to the effect of the accounting treatment adopted by the Group in reference to the telecom infrastructures acquired, which are to be subsequently dismantled. These purchases are considered advances to customers and are recognised under these headings (Note 3.d).

The balances of the financial assets are reflected at their face value, there being no significant differences with regards to their fair value.

Additions

No additions were made during the 2016 and 2015 financial year.

Charge to the consolidated income statement

During 2016 and 2015, in line with the terms of the services agreements entered into with the operators, the corresponding amount of the total paid for the purchase of telecommunications infrastructure, treated as prepayment for the subsequent service agreements, was taken to the accompanying consolidated income statement. At 31 December 2016 and 2015, this amount was recorded as a reduction to revenues amounting to EUR 890 and 921 thousand respectively (see Note 17).

Transfers

The transfers from the 2016 and 2015 financial years are due to the classification under “Current financial investments” of the part that is expected to be charged during the next financial year to the consolidated income statement.

10. Trade and other receivables

The breakdown of this heading in the accompanying consolidated balance sheet at 31 December 2016 and 2015 is as follows:

	Thousands of Euros					
	31/12/2016			31/12/2015		
	Non-current	Current	**Total**	Non-current	Current	**Total**
Trade receivables	-	112,054	**112,054**	-	104,701	**104,701**
Allowances for doubtful debts (impairments)	-	(8,193)	**(8,193)**	-	(9,831)	**(9,831)**
Trade receivables	-	103,861	**103,861**	-	94,870	**94,870**
Other financial assets	29,327	36,148	**65,475**	19,806	52,690	**72,496**
Current tax assets	-	3,006	**3,006**	-	4,605	**4,605**
Receivables with other related parties (Note 20.c)	-	498	**498**	-	982	**982**
Other receivables	7,005	11,526	**18,531**	7,904	10,907	**18,811**
Other receivables	36,332	51,178	**87,510**	27,710	69,184	**96,894**
Trade and other receivables	**36,332**	**155,039**	**191,371**	**27,710**	**164,054**	**191,764**

Trade and other receivables are shown at amortised cost, which does not differ significantly from their nominal value.

Trade receivables

"Trade receivables" includes outstanding amounts from customers. At 31 December 2016 and 2015, the account had no significant past-due balances that were not provided for.

The balance of public-sector debtors as at 31 December 2016 and 2015, amounted to EUR 27,749 thousand and EUR 32,458 thousand, respectively.

At 2016 year-end the amount utilized under the non-recourse factoring agreements stood at EUR 46.3 million (EUR 44.5 million as at 2015 year-end). In this regard, the Group derecognises the receivables sold on a non-recourse basis as it considers that it has substantially transferred the risks and rewards inherent to their ownership to banks. As at 31 December 2016 the limit under the non-recourse factoring agreements stood at 242 million (EUR 106.5 million as at 2015 year-end).

Allowances for doubtful debts (impairments)

The changes in the allowance for doubtful debts in the years ended 31 December 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	**2015**
Opening balance at 1 January	**9,831**	**12,403**
Disposals	(1,585)	(1,569)
Net changes	(53)	(1,003)
Total	**8,193**	**9,831**

Disposals in 2016 and 2015 relate to previous balances that were fully provided for, and which the Group decided to completely derecognise, without this having any impact on the accompanying consolidated income statement.

Net changes relate to changes in the provision recognised under "Changes in provisions" in the accompanying consolidated income statement with regard to the previous year.

Other financial assets

At 31 December 2016 and 2015, the current and noncurrent portion of Other Financial Assets is mainly made up of amounts paid in advance for rentals to the landlords and owners of rooftops where the Group's sites are located of EUR 31,792 short term and 28,473 thousand long term (EUR 44,914 y 19,806 thousand respectively in 2015), amounts relating to energy costs of EUR 0 thousand (2.500 in 2015), amounts paid to professional advisors to achieve discounts in the lease contracts for EUR 2,100 thousand (1.559 in 2015). These amounts are taken to the consolidated income statement following a financial method over the term of the ground and rooftop lease contracts.

Of the above amounts EUR 28,473 thousand (EUR 19,806 in 2015) relates to extraordinary prepayments made to landlords and owners of rooftops in order to achieve savings in the contract rentals and EUR 31,792 thousand (EUR 28,068 thousand in 2015) relates to prepayments in the ordinary course of business.

The net investment in amounts paid in advance for rentals to the landlords and owners of rooftops during the year ended 31 December 2016 amounted to EUR 26,593 thousand (EUR 17,525 thousand in 2015).

The Group also includes the guarantees established as a result of the leases that the Group companies have agreed with third parties. No unexpired guarantees were renegotiated during the financial year.

Other receivables

'Other receivables' is made up of:

- Loans with service purchasers that are not strictly considered customers and with other trade debtors not included under other accounts. Advances to creditors, debtors and employees are also recognised under this heading.

- A receivable amounting to EUR 2,045 thousand related to the previous shareholding held in Teledifusión de Madrid, S.A. which does not accrue interest and has an agreed payment schedule, as is indicated in the payments agreement maturing in the 2020 financial year. The Group has not registered the receivable at its amortised cost as it considers that the impact of the financial restatement is not significant.

- The PROFITS (coordination) mechanism by which the Group plays the role of coordinator for certain aid programs under the National Plan for Scientific Research, Development and Technological Innovation (PROFIT) granted by the Spanish Ministry for Industry, Tourism and Trade and applies for this aid together with other companies. The Group includes in accounts receivable amounts that were previously assigned to third parties, received by the Group under the guise of PROFIT grants and refundable loans. The full amount of PROFIT grants received by the Group (including part of the amount assigned to third parties) is recognised under "Other non-current borrowings" and "Other current borrowings" (see Note 13).

There are no significant differences between the carrying amount and the fair value of the financial assets.

11. Cash and cash equivalents

The breakdown of "Cash and cash equivalents" at 31 December 2016 and 2015, is as follows:

	Thousands of Euros	
	31/12/2016	**31/12/2015**
Cash on hand and at banks	133,720	51,000
Term deposits at credit institutions maturing in less than 3 months	59,131	-
Cash and cash equivalents	**192,851**	**51,000**

12. Net equity

a) Share capital and treasury shares

i. Share capital

At 31 December 2016 and 2015, the share capital of Cellnex is represented by 231,683,240 cumulative and indivisible ordinary registered shares of EUR 0.25 par value each, fully subscribed and paid.

As indicated in Note 1, on 19 March 2015 the Board of Directors of the Parent Company, pursuant to the authority conferred on it at the General Shareholders' Meeting of Abertis Infraestructuras, S.A. on the same date, unanimously agreed to request admission to officially trade on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia and on the subsequent initial public offering of shares on the Spanish Securities Market, a process that was successfully completed. As a result, 100% of the shares of the Parent Company have been listed on the market since 7 May 2015, of which a total of 66% were subject to the initial public offering by Abertis Infraestructuras, S.A. due to the exercising of the over-allotment option (green-shoe) by the coordinating banks.

The number of shares subject to the initial public offering was set at 139,009,944 shares of EUR 0.25 par value each, offered to qualified investors through Global Collaborating Entities. Additionally, it was agreed to set the volume of the purchase option (over-allotment option) at 13,900,994 shares, to be granted by Abertis Infraestructuras, S.A.

The price of the initial public offering was set at EUR 14 per share

In accordance with the notifications about the number of corporate shares made to the National Securities Market Commission, the shareholders who hold significant shareholdings in the share capital of the Parent Company, both direct and indirect, at 31 December 2016 and 2015, are as follows:

Company	% ownership 2016	2015
Abertis Infraestructuras, S.A.	34.00%	34.00%
Ameriprise Financial, Inc [(1)]	-	8.86%
Threadneedle Asset Management Ltd [(2)]	7.76%	-
Blackrock, Inc [(3)]	5.54%	6.22%
Criteria Caixa, S.A.U.	5.00%	4.63%
	52.30%	**53.71%**

[(1)] At the close of the previous year the holding was held through Threadneedle Asset Management Holdings Limited of 8.63% and Columbia Management Investment Advisors, LLC of 0.23%. During 2016, these shareholder has transferred all voting rights held.
[(2)] Threadneedle Asset Management Ltd controls 7.76 % of the rights to vote across several investment funds and other accounts. None of the above mentioned funds and / or accounts have a shareholding higher than 3 %.
[(3)] Shareholding through Blackrock Advisors, LLC of 3.22% and the rest corresponds to managed collective institutions with a percentage lower than 3%. In addition, there is a total holding of 0.38% through financial instruments connected to shares in the Parent Company. At the yearend 2015, this shareholding was through Blackrock Advisors for 4.38% and the rest relates to managed collective institutions with a percentage lower than 3%.

Pre-emptive rights in offers for subscription of shares of the same class

In accordance with the agreements of the Annual General Shareholders' Meeting and in accordance with the terms established in article 297.1.(b) of the Spanish Limited Liability Companies Act, to delegate to the company's Board of Directors the power to increase the share capital, in one go or in various successive increases, by up to half of the current share capital at any time within five years of the date on which this decision was adopted. The granting of the power to exclude pre-emptive subscription rights is explicitly set out, in accordance with the provisions of article 506 of said Act (although this power will be limited to capital increases carried out up to an amount equivalent to 20% of the Company's share capital on the date that the decision became effective); and all of these powers may be delegated to any of the Board members.

Furthermore, in accordance with these AGSM ("Annual General Shareholders Meeting") agreements, the following powers were delegated to the Board of Directors of the Parent Company:

i. The power to issue convertible bonds up to an amount of EUR 750 million
ii. The power to purchase treasury shares up to a limit of 10% of the share capital of the Parent Company.

In addition, the Annual General Meeting of Shareholders on 30 June 2016 approved the modification of the AGM rules in order to adjust the drafting thereof to comply with the modification in article 406 of the Spanish Companies Act, which was altered due to article 45 of the Law 5/2015, such that the Board of Directors has the authority to agree the issuance and placement in regulated markets of bonds, and agree to confer guarantees for the issuance of bonds. The Annual General Shareholders' Meeting is authorized to agree the issuance of bonds convertible to shares or bonds that offer the bondholders a share in corporate earnings.

ii. Treasury shares

Pursuant to the authorisation granted by the Board of Directors in its meeting of 26 May 2016, Cellnex has made various purchases and sales of treasury shares.

The acquisition of treasury shares has been carried out by means of a liquidity contract[1] signed by Cellnex on 31 May 2016 with Santander Investment Bolsa, Sociedad de Valores, S.A.U. in order to manage its portfolio of treasury shares.

The liquidity contract lasts for twelve months and can be renewed tacitly at yearly intervals. The number of shares initially subject to the agreement amount to 139,000 shares and the amount transferred to the cash account amounts to 2,000 thousand Euros. As at 31 December 2016 the parent Company has registered a loss of 190 thousand Euros as a result of these operations and this has been taken as a reserve movement in the consolidated balance sheet.

As a result of the operations carried out, the balance of treasury shares as at 31 December 2016 represents 0.09% of the share capital of Cellnex Telecom, S.A. (0% as at 31 December 2015).

The use of the treasury shares held at year-end will depend on the agreements reached by the Corporate Governance bodies.

The movement in the portfolio of treasury shares in 2016 were as follows:

	Number (Thousands of Shares)	Average Price	Purchases/Sales (Thousands of Euros)
At 1 January 2016	-	-	-
Purchases	10,108	14.607	147,654
Sales	(9,911)	14.626	(144,960)
At 31 December 2016	**197**	**13.676**	**2,694**

b) *Share premium*

During 2013 and as a consequence of the group restructure which involved the contribution of the terrestrial telecommunications business to the Parent Company, the share premium increased by EUR 338,733 thousands.

At 31 December 2016 and 2015 there were no changes in this account.

c) *Reserves*

The breakdown of this account is as follows:

	Thousands of Euros	
	31 December 2016	**31 December 2015**
Legal reserve	11,584	11,584
Reserve from retained earnings	25,950	25,748
Reserves of consolidated companies	(1,170)	(26,910)
Foreign exchange differences	(364)	-
Reserves	**36,000**	**10,422**

[1] Liquidity contract in accordance with the CNMV circular 3/2007 of 19 December covering liquidity contracts for the purpose of their acceptance as market practice.

(i) Legal reserve

In accordance with the Consolidated text of the Spanish Limited Liability Companies Act, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve may not be distributed to shareholders unless the Company is liquidated.

The legal reserve may be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount.

Apart from the purpose mentioned above, the legal reserve may be used to offset losses unless it exceeds 20% of the capital and no other sufficient reserves are available for such purpose.
At 31 December 2016 and 2015, the legal reserve had reached the legally established minimum.

(ii) Reserves of consolidated companies

The breakdown of the Reserves of the companies included in the Group's scope of consolidation is as follows:

	Thousands of Euros	
	31 December 2016	**31 December 2015**
Retevisión I, S.A.U.	28,660	31,571
Tradia Telecom, S.A.U.	42,588	23,184
On Tower Telecom Infraestructuras, S.A.U.	(4,636)	(6,739)
Adesal Telecom, S.L.	555	2,512
Towerco, S.p.A.	9,350	2,239
Galata, Sp.A	4,494	-
Cellnex Italia, S.r.L.	(82,924)	(80,414)
Consorcio de Telecomunicaciones Avanzadas, S.A.	505	502
Torre de Collserola, S.A.	238	235
Total	**(1,170)**	**(26,910)**

(iii) Foreign exchange differences

The detail of this line item at 31 December is as follows:

	Thousands of Euros	
	31 December 2016	**31 December 2015**
Shere Subgroup (Sterling)	(364)	-
Total	**(364)**	**-**

d) *Interim dividend and proposed dividends*

The determination of the distribution of dividends is carried out based on the individual annual accounts of Cellnex Telecom, S.A., and within the framework of the commercial legislation in force in Spain.

The dividends to distribute to the shareholders are recorded as liabilities in the consolidated financial statements as soon as the dividends are approved by the General Shareholders' Meeting (or by the Board of Directors in the case of interim dividends) and until their payment.

During the 2016 financial year an interim dividend amounting to EUR 10,194 thousand was distributed, which represents EUR 0.04 gross for each of the shares that make up the share capital of Cellnex Telecom, S.A. (EUR 9,267 thousand at year-end 2015, representing EUR 0.04 gross per share).

The forecast accounting statement drawn up by Cellnex Telecom, S.A. in accordance with the legal requirements and which demonstrates the existence of sufficient profit in the period for the distribution of the aforementioned interim dividend, and of the liquidity required to make the payment, was as follows (EUR thousands):

Cellnex Telecom, S.A. forecast statement drawn up on 31 October 2016 for the distribution of the interim dividend

Net profit from the period between 1 January and 31 October 2016	21,855
To deduct:	
Legal reserve	-
Maximum possible distribution	21,855
Total 2016 interim dividend	**10,194**
Available in credit facilities of Cellnex Telecom, S.A. at 31 October 2016	615,000
Available in cash as at 31 October 2016	71,473
Receipts and payments foreseen up to 31 December 2016	(87,618)
Liquidity available before payment	**598,855**
Interim dividend	(10,194)
Liquidity available after payment	**588,661**

The Board of Directors of Cellnex Telecom, S.A. has adopted a resolution to pay a maximum total dividend of EUR 20 million against 2016 profit.

Thus, the Directors of Cellnex Telecom, S.A. will submit for approval of the Annual General Meeting of Shareholders the following proposal for the distribution of the results of the year ended 31 December 2016:

	Thousands of Euros
Basis of distribution (Profit and Loss)	**29,234**
Distribution:	
Interim Dividend	10,194
Final Dividend	9,806
Reserves	9,234
Total	**29,234**

e) Earnings per share

The table below shows the basic and diluted earnings per share calculated by dividing the net profit for the year attributable to the shareholders of Cellnex Telecom, S.A. by the weighted average number of shares outstanding during the year, excluding the average number of treasury shares held by the Group.

	Thousands of Euros	
	2016	**2015**
Profit attributable to the Parent Company	39,817	47,290
Weighted average number of shares outstanding (Note 12.a)	231,597,289	231,683,240
Basic EPS attributable to the Parent Company (euros per share)	0.17	0.20
Diluted EPS attributable to the Parent Company (euros per share)	0.17	0.20

f) Non-controlling interests

The balance of this heading in the Group's equity includes the interest of non-controlling shareholders in the fully consolidated companies. Additionally, the balance of "Profit attributable to non-controlling interests" in the consolidated statement of comprehensive income represents the share of non-controlling shareholders in the profit for the year.

The changes in this heading were as follows:

	Thousands of Euros	
	2016	**2015**
Balance at 1 January	**82,851**	**4,666**
Profit for the year	569	1,175
Dividends	(1,996)	-
Other	-	10
Change in scope of consolidation	-	77,000
Balance at 31 December	**81,424**	**82,851**

As regards the main non-controlling interest, the summarised financial information in relation to the assets, liabilities, operating results and cashflow relating to Galata, S.p.A. incorporated in the consolidation process is as follows:

	Thousands of Euros	
	31 December 2016	**31 December 2015**
Non-current assets	187,785	227,095
Current assets	146,999	95,501
Total assets	**334,784**	**322,596**
Non-current liabilities	19,089	15,360
Current liabilities	61,676	39,755
Total liabilities	**80,765**	**55,115**
Net assets	**254,019**	**267,481**

Income	210,886	169,842
Expenses	(156,564)	(132,952)
Gross operating profit	**54,322**	**36,890**
Profit attributable to the shareholders	**13,326**	**(1,291)**

Operating activities	(27,153)	37,040
Investment activities	(1,388)	(9,802)
Financing activities	(1,291)	2,594
Cashflows	**(29,832)**	**29,832**

g) *Profit for the year*

The contribution of each company in the scope of consolidation to consolidated profit/(loss) is as follows:

	Thousands of Euros	
Subsidiaries / Subgroup	**2016**	**2015**
Cellnex Telecom, S.A.	(41,309)	(23,961)
Retevisión I, S.A.U.	61,146	42,610
Tradia Telecom, S.A.U.	17,998	16,404
On Tower Telecom Infraestructuras, S.A.U.	(1,382)	2,103
Adesal Telecom, S.L.	1,547	1,017
Towerco, S.p.A.	4,073	7,134
Cellnex Italia, S.r.L.	3,378	(2,510)
Galata, S.p.A.	(4,131)	4,493
Commscon Italia, S.r.L.	(725)	-
Cellnex Netherlands, B.V. (antes Protelindo Netherlands, B.V.)	13	-
Towerlink Netherlands, B.V. (antes Protelindo Towers, B.V.)	941	-
Cellnex France, S.A.S.	(555)	-
Shere Group subgroup	(1,177)	-
Net profit attributable to the Parent Company	**39,817**	**47,290**

13. Borrowings

The breakdown of borrowings at 31 December 2016 and 2015 is as follows:

	Thousands of Euros					
	31 December 2016			31 December 2015		
	Non-current	Current	Total	Non-current	Current	Total
Syndicated financing	-	-	**-**	375,543	(1,021)	**374,522**
Bond issues	1,397,939	12,527	**1,410,466**	592,804	6,939	**599,743**
Loans and credit facilities	278,660	3,179	**281,839**	2,055	1,618	**3,673**
Other financial liabilities	7,361	2,026	**9,387**	8,859	1,558	**10,417**
Borrowings	**1,683,960**	**17,732**	**1,701,692**	**979,261**	**9,094**	**988,355**

Taking into consideration the cash balances held by the Group, during the year ended 2016, Cellnex has increased its net financial debt (which does not include any debt held by the Group companies registered using the equity method of consolidation) by EUR 572,516 thousand to EUR 1,499,454 thousand.

At 31 December 2016 and 2015 the average annual cost of all available borrowings would be 2.0% and 2.2% respectively if entirely drawn down. The average weighted interest rate for 2016 on bond issues and bank borrowings drawn down was 2.5% (1.7% in 2015).

This increase in the Group's net financial debt as at 31 December 2016 is due mainly to the contribution of the acquisitions performed during 2016.

On 31 December 2016 and 31 December 2015, the breakdown, by type of debt and maturity, of the Group's borrowings (not including debt with companies accounted for using the equity method) is as follows:

31 December 2016

	Thousands of Euros							
		Current	Non-current					
	Limit	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Total
Syndicated financing	500,000	-	-	-	-	-	-	**-**
Bond issues	1,415,000	15,254	-	-	-	-	1,415,000	**1,430,254**
Arrangement expenses	-	(2,727)	(2,808)	(2,892)	(2,978)	(3,067)	(5,316)	**(19,788)**
Loans and credit facilities	460,348	3,347	73,119	125,792	-	80,000	-	**282,258**
Arrangement expenses	-	(168)	(68)	(69)	(70)	(44)	-	**(419)**
Other financial liabilities	-	2,026	2,047	1,567	1,319	689	1,739	**9,387**
Total	**2,375,348**	**17,732**	**72,290**	**124,398**	**(1,729)**	**77,578**	**1,411,423**	**1,701,692**

31 December 2015

	Thousands of Euros							
		Current	Non-current					
	Limit	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Total
Syndicated financing	500,000	193	-	-	-	380,000	-	**380,193**
Arrangement expenses	-	(1,214)	(1,228)	(1,240)	(1,254)	(735)	-	**(5,671)**
Bond issues	600,000	8,094	-	-	-	-	600,000	**608,094**
Arrangement expenses	-	(1,155)	(1,194)	(1,234)	(1,276)	(1,319)	(2,173)	**(8,351)**
Loans and credit facilities	12,750	1,618	1,641	414	-	-	-	**3,673**
Other financial liabilities	-	1,558	1,894	1,915	1,435	1,182	2,433	**10,417**
Total	**1,112,750**	**9,094**	**1,113**	**(145)**	**(1,095)**	**379,128**	**600,260**	**988,355**

At 31 December 2016, the total limit of loans and credit facilities amounts to EUR 960,348 thousands (EUR 512,750 thousands in 2015), of which EUR 868,098 represent credit facilities and EUR 92,250 thousands represent loans (EUR 12,250 thousands and EUR 500,500 thousands in 2015 respectively).

EUR 267,598 thousand (EUR 0 thousand in 2015) of the EUR 868,098 thousand credit facilities can be drawn down either in Euros or in other currencies for the equivalent Euro value. The credit facilities in Euros are indexed to Euribor plus a margin and the credit facilities in other currencies are indexed to Libor plus a margin.

The Group holds credit facilities for an overall total of EUR 669,600 and EUR 120,500 thousand, which have not been drawn down at 31 December 2016 and 31 December 2015, respectively.

The Group's borrowings, according to the contractually agreed cashflows are denominated in the following currencies:

	2016 (*)	2015 (*)
Euro	1,543,307	1,002,377
Pound Sterling	178,592	-
Borrowings	**1,721,899**	**1,002,377**

(*) The amounts shown in the preceding table relate to the cash flows set forth in the contracts, which differ from the carrying amount of the borrowings due to the effect of applying IFRS criteria set down in IAS39 borrowings.

As described in Note 4.a the foreign exchange risk on the net investment of operations of group companies denominated in non Euro currencies is managed by means of borrowings denominated in the corresponding foreign currency.

In this regard, at 31 December 2016 the Group maintains borrowings in GBP, which acts as a natural hedge of the net investment in the Shere UK Group. The amount of these borrowings amount to GBP 152,907 thousand with a Euro value of EUR 178,592 thousand, and is held by means of various credit facilities denominated in GBP. These non-derivate financial instruments are assigned as net investment hedges against the net assets of the Shere UK Group. The maturity of these borrowings is between 2019 and 2021.

Syndicated financing

As described in Note 13 of the consolidated financial statements for the year 2015, during that financial year, the restructuring of the Parent Company's borrowings took place. This allowed it to extend the maturity profile of its bank debt, eliminate financial covenants as well as pledges on shares and take advantage of low interest rates over the long term.

During the 2015 financial year, Cellnex agreed a non-extinctive novation of the syndicated loans of EUR 800 million and EUR 300 million with the corresponding banks, through which Cellnex has managed to extend the average life of the debt with a loan of EUR 200 million maturing in five years and a credit facility of EUR 300 million maturing in five years plus two one-year extensions each.

As a result of the above, at 31 December 2015, EUR 4.5 million was deducted from "Bank borrowings", corresponding to liabilities that have been derecognised from the consolidated balance sheet as a result of the conversion of EUR 500 million of the above syndicated financing into a loan and credit facility of EUR 200 million and EUR 300 million respectively, upon considering that they meet the conditions established in IAS

39 regarding derecognition of financial assets. In this regard, the aforementioned operations have been partially recorded as a non-significant amendment to the pre-existing liability.

On 1 August 2016, in line with the bond issue of the same date described below, Cellnex agreed to a non-extinctive novation of the syndicated financing with the corresponding banks, through which Cellnex managed to extend the average life of the debt with a revolving credit facility of EUR 500 million maturing in five years plus two one-year extensions each.

As a consequence of this non-extinctive novation, the upfront fees previously capitalised as part of the amortised cost of the debt in the consolidated balance sheet, amounting to 5 million Euros, were taken to the consolidated income statement for the year ended 31 December 2016, under interest expense.

At 31 December 2016 the credit facility was not drawn down (EUR 180 million drawn down at the close of 2015).

The Group's bank borrowings were arranged under market conditions and, therefore, their fair value does not differ significantly from their carrying amount.

In accordance with the foregoing and with regard to the financial policy approved by the Board, the Group prioritises securing sources of financing at Parent Company level. The aim of this policy is to secure financing at a lower cost and longer tenure while diversifying its funding sources. In addition, this encourages access to capital markets and have greater flexibility in contracts that help us to follow the Group's growth strategy.

Clauses regarding changes in control

The syndicated loan includes a clause regarding changes in control, whether due to the acquisition of 50% of shares with voting rights or due to obtaining the right to appoint or dismiss the majority of the members of the Parent Company's Board of Directors.

Commitments and restrictions of syndicated financing

At 31 December 2016 and 31 December 2015, the Group has no restrictions regarding the use of capital resources derived from the syndicated financing formalised during the 2015 financial year.

Interest rate and fees of the syndicated financing

The interest rate applicable in each of the tranches is obtained by calculating the difference between the margin established in the syndicated financing agreement and the EURIBOR applicable in each interest period. The Group may select the EURIBOR period to be settled.

The revolving credit facility accrues a EURIBOR interest rate plus a margin of between 40 and 90 basis points. These margins may vary depending on the Group's "net debt: EBDITA" ratio. The credit facility also accrues an availability fee depending on the amount drawn and a non-availability fee of 0.35% over the margin of interest applied depending on the amount not drawn.

Submitted guarantees and financial ratios

At 31 December 2016 and 31 December 2015, and as a result of the aforementioned restructuring of the Group's financial debt, the submitted guarantees in earlier syndicated financing were eliminated.

The syndicated financing contract held at 31 December 2016 and 31 December 2015 is not linked to the Parent Company's compliance with financial ratios.

Bond Issue Programme – EMTN Programme

On 14 May 2015 the Group released a Euro Medium Term Note (EMTN) Programme through the Parent Company. This programme allows the issue of bonds totalling EUR 2,000 million on the Irish Stock Exchange.

Bond issue

The breakdown of the bond issuance is summarised below:

Thousands of Euros					
Issue	Duration	Maturity	Fixed coupon rate payable annually	Value of the issue	**31 December 2016**
27/07/2015	7 years	27/07/2022	3.125%	600,000	**600,000**
10/08/2016	8 years	16/01/2024	2.375%	750,000	**750,000**
16/12/2016	16 years	20/12/2032	3.875%	65,000	**65,000**

On 20 July 2015, in accordance with the Programme described below, Cellnex successfully completed the pricing of an issue of straight bonds (rated BBB- by Fitch Ratings and BB+ by Standard & Poor's) aimed at qualified investors for an amount of EUR 600 million maturing in July 2022 and a coupon rate of 3.125%. The closure and payment of this issue was carried out on 27 July 2015.

On 30 March 2016 Cellnex Telecom was added to the list of corporate bonds eligible for discount at the European Central Bank. This action falls within the Corporate Sector Purchase Programme (CSPP), which on 10 March completed the Asset Purchase Programme (APP) already deployed by the ECB.

On 19 May 2016 the Group renewed, through the Parent Company, the Euro Medium Term Note Programme program (EMTN program) that permits the issuance of bonds for a total of EUR 1,400 million.

Subsequently, on 1 August 2016, in accordance with the Programme described below, Cellnex successfully completed the pricing of an issue of straight bonds (rated BBB- by Fitch Ratings and BB+ by Standard & Poor's) aimed at qualified investors for an amount of EUR 750 million maturing in January 2024 and a coupon rate of 2.375%. The closure and payment of this issue was carried out on 10 August 2016.

In addition, on 1 November 2016 the Group released a supplement to the Euro Medium Term Note (EMTN) Programme through the Parent Company. This supplement increases the overall limit of programme by EUR 3,000 million.

On 13 December 2016, in accordance with the Programme described below, Cellnex successfully completed the pricing of a private placement of straight bonds (rated BBB- by Fitch Ratings) aimed at qualified investors for an amount of EUR 65 million maturing in December 2032 and a coupon rate of 3.875%. The closure and payment of this issue was carried out on 16 December 2016.

The bond issues have certain associated costs, customary in this type of transaction, such as arrangement expenses and advisers' fees amounting to EUR 13,196 thousand in relation to the bonds issued in 2016, that the Group defers over the life of the bonds and is, thus, taken to income following a financial criterion. In this regard, an amount of 19,788 and 8,351 was deducted from bond issues in the Consolidated Balance Sheet as at 31 December 2016 and 31 December 2015 respectively.

The upfront fees accrued in the consolidated income statement for the year ended 31 December 2016 in relation to the bond issues amounted to EUR 1,759 thousand (EUR 475 thousand in 2015). In addition, the payment of the amount for the aforementioned bond issue involved the derecognition of the upfront fees associated with the syndicated financing which was fully drawn down at the date of issue of the bonds and the payment of commissions and other costs amounting to EUR 4,983 thousand, which have been recorded under "Financial expenses" in the consolidated income statement at 31 December 2016 (EUR 4,656 thousand at 31 December 2015).

Clauses regarding changes in control

The issue of bonds includes a clause regarding changes in control, whether due to the acquisition of 50% of shares with voting rights or due to obtaining the right to appoint or dismiss the majority of the members of the Parent Company's Board of Directors.

In addition, this change in control would have to bring about a reduction in the rating of these bonds, provided that the rating agency states that the reduction of the credit rating is caused by the change in control.

Loans and credit facilities

During 2016 the Group signed new loans and credit facilities in addition to the syndicated financing detailed above, which did not exist at the prior year end. In the second and final quarters of 2016 the Group entered into two loan agreements amounting to EUR 80,000 thousand, with a variable interest rate of EURIBOR plus a margin, both with a single maturity date in 2021, and which are fully drawn down as at 31 December 2016.

At 31 December 2016 and 31 December 2015, the Group maintains loans and credit facilities with a total limit of EUR 460,348 thousand (EUR 12,750 thousand in 2015) and maturities in excess of one year. Of this amount, at 31 December 2016 the Group maintains EUR 179,797 thousand available for draw down in nominal terms (EUR 9,077 thousand in 2015).

The revolving credit facilities have maturity dates between 3 and 5 years (including renewals) and accrue interest at Euribor o Libor plus a margin between 80 and 120 basis points as at 31 December 2016.

The Group holds credit facilities for an overall total of EUR 368,098 and EUR 500 thousand at 31 December 2016 and 2015, respectively, which have been drawn down in amount of 198,498 thousand Euros at 31 December 2016 (0 thousand Euros at 2015 year-end).

At 31 December 2016 and 31 December 2015 the carrying value of the loans and credit facilities does not differ significantly from their fair value.

Clauses regarding changes in control

The loans and credit facilities include a clause regarding changes in control, which could be triggered by the acquisition of 50% of the shares of the Parent Company with voting rights or due to obtaining the right to appoint or dismiss the majority of the members of the Parent Company's Board of Directors.

Loans and credit facilities obligations and restrictions

At 31 December 2016 and 31 December 2015, the Group's aforementioned loan and credit facilities agreements with certain credit institutions include clauses regarding maturity and the obligation of early repayment if certain conditions, which are standard practice in the market, are not met by the borrower. At the date of signing of these consolidated financial statements, none of the grounds for early termination stipulated in these agreements applied to the Group.

Derivative financial instruments

From time to time the Group considers hedging the interest rate risk on a portion of the financing in euros bearing floating interest rates through IRSs. In an IRS, interest rates are swapped so that the Company receives a floating interest rate (EURIBOR) from the bank in exchange for a fixed interest rate payment for the same nominal amount. The floating interest rate received for the derivative offsets the interest payable on the borrowings. The end result is a fixed interest rate payment on the hedged borrowings.

In addition, from time to time the Group assesses the need to hedge the foreign exchange risk with the aim of minimising the exposure to possible adverse variations in exchange rates.

The Group determines the fair value of interest rate or foreign exchange derivatives by discounting cash flows on the basis of the implicit euro interest rate and exchange rate calculated on the basis of market conditions at the measurement date and adjusting this by the bilateral credit risk with the objective of reflecting its own and its counterpart's credit risk.

The Group performs potential interest rate and foreign exchange hedging operations in accordance with its risk management policy. These operations are intended to mitigate the effect that changes in interest and exchange rates could have on the future cash flows of the credit facilities and loans tied to variable interest rates, cashflows in foreign currencies and variations in investments in foreign currencies.

At 31 December 2016 and 31 December 2015, the Group has no derivative financial instrument contracts.

Other financial liabilities

"Other financial liabilities" relates mainly to certain grants awarded (arranged as repayable advances) to other Group companies (Retevisión-I, S.A.U. and Tradia Telecom, S.A.U.) under the Ministry for Industry, Tourism and Trade's PROFIT programme. According to the technical-financial terms of the grant resolutions, the repayable advances bear no interest (see Note 10).

Corporate rating

At 31 December 2016, Cellnex holds a long term "BBB-" (investment grade) with stable outlook according to the international credit rating agency Fitch Ratings Ltd. and a long-term "BB+" with stable outlook according to the international credit rating agency Standard & Poor's Financial Services LLC.

14. Trade and other payables

The detail of this heading at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	31 December 2016	31 December 2015
Trade payables	97,229	105,092
Other payables to Government Agencies (Note 15.b)	29,310	25,654
Other payables to related parties (Note 20.d)	1,403	39
Remuneration payable	9,850	7,747
Other payables	29,137	42,884
Trade and other payables	**166,929**	**181,416**

There is no significant difference between the fair value and the carrying amount of these liabilities.

At 31 December 2016 and 2015, "Trade payables" included mainly the amounts payable for trade purchases made by the Group and their related costs.

"Other payables to Government Agencies" includes all balances payable by the Group to the tax authorities as detailed in Note 15.b.

The most significant balance recognised under "Remuneration payable" relates to the bonus accrued by employees during the year, and which the Group will pay if the targets set are met.

Lastly, "Other payables" is formed mainly of payables to non-current asset suppliers. At the end of the previous year the most significant amount corresponded to the acquisitions described in Note 6 for EUR 22 million.

Information on deferral of payment to suppliers

The information required by the additional third decree of Law 15/2010 of 5 July (modified by the second final decree of Law 31/2014) prepared in accordance with the resolution issued by the Spanish Accounting and Auditing Institute (AAI) of 29 January 2016 in relation to the information to be disclosed in the annual consolidated report with regard to the average supplier payment period for commercial transactions, is set up below:

	Thousands of Euros	
	2016	**2015**
Total payments in the year	190,707	188,242
Total payments outstanding	11,707	9,180
Average payment period to suppliers (days)	39 days	38 days
Ratio of transactions paid (days)	40 days	39 days
Ratio of transactions outstanding (days)	24 days	32 days

In accordance with the AAI resolution, only the delivery of goods and services from the date Law 31/2014 of 3 December came into force have been taken into account, and only with regard to the Group companies situated in Spain and fully or proportionately consolidated.

For the sole purpose of the disclosure of information required by this resolution, the term 'suppliers' relates to the trade payables for debts with suppliers of goods or services included in the heading 'Trade and other payables' in the short term liabilities of the consolidated balance sheet. Moreover, only amounts relating to those Spanish entities included in the consolidated entity are considered for these purposes.

Average payment period to suppliers is understood to mean the period lapsed from the delivery of goods or services by the supplier to the actual payment of the transaction.

15. Income tax and tax situation

a) Tax information

The sole shareholder of Cellnex Telecom, S.A. up until 7 May 2015, Abertis Infraestructuras, S.A., completed the flotation (IPO) of the aforementioned company on that date. Thus, Cellnex Telecom, S.A has become the parent company of a new consolidated tax group for the purposes of Corporation tax in Spain in the 2015 financial year.

Cellnex files consolidated tax returns as the Parent Company of the tax group, the subsidiaries of which are composed of investees at least 75%-owned by it and with tax residence in Spain. The Group companies resident in Italy file consolidated Italian corporation tax returns from 2016 onwards. In addition, the Group companies resident in the Netherlands file consolidated Dutch tax returns, but there are two separate tax groups. The UK companies file Group Relief claims and surrenders as appropriate. The remaining companies included in the consolidation scope file individual corporation tax returns.

During the year ended 31 December 2016, Cellnex Telecom, S.A. has become the head of a new consolidated tax group for the purposes of Value Added Tax (VAT) in Spain.

Tax audits and litigation

At 31 December 2016, Group companies, in general, have all the taxes applicable to them and on which the statute of limitations has not expired as of that date open for review in each of the jurisdictions where they are located.

Cellnex believes that there will be no significant impact on equity in this consolidated financial statements arising from the tax inspections under way or from possible differences in interpreting current tax legislation in relation to the years open for review.

Additionally, during 2015 general inspection activities were opened for Abertis Infraestructuras, S.A. with regards to consolidated Corporation Tax for the 2010 and 2011 financial years and with regards to the Value Added Tax of the group of companies for the period July-December 2011. In this regard, it must be noted that in the 2010 and 2011 financial years both Cellnex Telecom, S.A. and its subsidiaries were subsidiaries of the Abertis consolidated tax group. With regards to value added tax, Adesal Telecom, S.L. also formed part of the group of VAT companies in the Abertis group during the period between July and December 2011.

During the year ended 31 December 2016 the scope of the inspection was extended to include the consolidated corporation tax situation for 2012 and 2013 and value added tax for the group of companies for the period February to December 2012 and 2013. In addition, in terms of value added, Adesal Telecom, S.L. and OnTower Telecom Infraestructuras, S.A.U. were included in the Abertis VAT group during the period between February and December 2012. Adesal Telecom, S.L., OnTower Telecom Infraestructuras, S.A.U., Retevisión-I, S.A.U. and Tradia Telecom, S.A.U. were included in the VAT Group for the period between February and December 2013.

At the date of issue for approval of these consolidated financial statements, no inspection activities had commenced for any Group company.

b) Balances for tax payable and receivable

The tax receivables held by the Group with the tax authorities at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	31/12/2016	**31/12/2015**
VAT receivable	1,266	1,655
Canary Islands tax refundable	-	128
Other taxes	1,740	2,822
Tax receivables	**3,006**	**4,605**

The current tax payables held by the Group with tax authorities at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	31/12/2016	**31/12/2015**
VAT payable	20,316	20,237
Corporation tax payable	2,060	-
Canary Island tax payable	107	119
Social security payable	1,669	1,626
Personal income tax withholdings	1,807	2,065
Other taxes	3,351	1,607
Tax payables	**29,310**	**25,654**

c) Corporation tax expense

The standard corporation tax rate in the main countries in which Cellnex conducts its operations is as follows:

	2016	2015
Spain [1]	25%	28%
Italy [2]	32%	32%
Netherlands	25%	-
United Kingdom	20%	-
France	33.3%	-

[1] Corporate Income Tax Law 27/2014, of 27 November, which entered into force on 1 January 2015, established a standard tax rate in Spain for taxpayers of 28% in 2015, and of 25% from 2016 onwards.

[2] The standard income tax rate in 2016 was 32.32% in Italy, which is made up of the IRES (Imposta sul Reddito delle Societa) at a rate of 27.5% and the IRAP (regional business tax in Rome) at a rate of 4.82%

The Italian Stability Law 2016 relating to the Imposta sul Reddito delle Societa (IRES), approved on 28 December 2015, which comes into force on 1 January 2017, establishes a general rate for companies subject to this tax of 24% in Italy.

The reconciliation of the theoretical tax and the tax expense recorded in the consolidated income statement for the year is as follows:

	Thousands of Euros	
	2016	2015
Consolidated profit before tax	41,019	35,864
Theoretical tax [1]	(9,556)	(9,427)
Impact on tax expense from (permanent differences):		
Non-deductible expenses	(287)	(1,436)
Notional Interest Deductions Italy	6,710	-
Income from transfer of know-how	2,828	2,272
Income tax expense for the year	**(305)**	**(8,591)**
Changes in tax rates	(14)	20,543
Other tax effects	(314)	649
Other tax effects	**(328)**	**21,192**
Income tax expense	**(633)**	**12,601**

[1] The theoretical tax charge is a blended rate calculated by applying the individual corporation tax rate in each country to the profit before tax of each individual Group company.

"Non-deductible expenses" in 2016 and 2015 include items that, in accordance with the tax legislation of the respective consolidated companies, are not taxable or deductible.

"Income from transfer of know-how" for the 2016 and 2015 financial years includes the reduction of income from certain intangible assets (Patent Box) in accordance with the provisions of Law 27/2014, of 27 November, regarding Corporation Tax.

"Changes in tax rate" in 2015 included the adjustment to the new tax rates made to the deferred tax assets and liabilities in accordance with Corporate Income Tax Act 27/2014, of 27 November. In 2015 this caption included the adjustment to the calculation of the tax expense accrued in the 2015 financial year as a result of the deferred tax originating from the acquisition of Galata, S.p.A. by Cellnex Italia, S.r.L., that involved a credit to the Income tax expense amounting to EUR 20,543 thousand, recorded under this caption. This adjustment was made during 2015 following the approval, on 28 December 2015, of the 2016 Italian Stability Law, which reduces the IRES rate from 27.5% to 24% with effect on 1 January 2017, given that, according to IAS 12, deferred tax assets and liabilities must be measured using the tax rates that are expected to be applied in the period in which the liability is cancelled, based therefore on the tax rates that have been substantively enacted at the end of the reporting period.

The main components of the income tax expense for the year (for fully consolidated companies) are:

	Thousands of Euros	
	2016	**2015**
Current tax	(12,640)	(11,956)
Deferred tax	11,853	23,036
Tax from prior years / other	154	1,521
Income tax expense	**(633)**	**12,601**

"Deferred tax" in 2016 and 2015 mainly relates to the impact of the deferred tax liabilities associated with the business combinations detailed below.

Tax withholdings and payments on account totalled EUR 11,208 thousand (EUR 13,020 thousand in 2015).

d) *Deferred taxes*

The balance of the recognised deferred assets and liabilities, as well as their movement during the financial year, was as follows:

	Thousands of Euros			
	2016		**2015**	
	Deferred tax asset	**Deferred tax liability**	**Deferred tax asset**	**Deferred tax liability**
At 1 January	**28,899**	**(183,246)**	**37,837**	**(55,997)**
Debits/(credits) in income statement	(947)	12,800	(8,938)	11,431
Debits/(credits) due to incorporation into scope and business combinations	1,229	(119,835)	-	(159,223)
Changes in tax rates	-	-	-	20,543
At 31 December	**29,181**	**(290,281)**	**28,899**	**(183,246)**

	Thousands of Euros	
	31/12/2016	**31/12/2015**
Reconciliation of movements		
Deferred tax asset debits in income statement	(947)	(8,938)
Deferred tax liability credits income statement	12,800	11,431
Changes in tax rates	-	20,543
Deferred tax expense in income statement	**11,853**	**23,036**

i) Deferred tax assets

The breakdown of the deferred tax assets is as follows:

	Thousands of Euros	
	31/12/2016	**31/12/2015**
Deferred tax assets:		
Provision for liabilities	5,982	7,903
Limit on depreciation and amortisation of fixed assets	7,561	10,631
Employee benefit obligations	2,417	1,650
Other provisions	1,702	853
Timing differences in revenue and expense recognition	1,751	550
Asset revaluation	7,436	4,953
Tax credits recognised:		
Limit on depreciation and amortisation of fixed assets	1,595	2,359
Asset revaluation	737	-
Total deferred tax assets	**29,181**	**28,899**

Provision for third-party liabilities / Employee benefit obligations

The Group has yet to avail itself of the tax credit recognised in 2012 for the collective redundancy procedure, which at year-end 2015 and 2014 had yet to be paid in full.

Limit on depreciation and amortisation of fixed assets

Act 16/2012, limiting the deductibility of the depreciation and amortisation expenses, was approved on 27 December 2012. In general, only 70% of the amortisation and depreciation for accounting purposes on property, plant and equipment, intangible assets and investment property for tax periods beginning in 2013 and 2014, which would have been tax deductible, will be deducted from the tax base. The amortisation and depreciation for accounting purposes that was not tax deductible is deducted on a straight line basis over a 10-year period or over the useful life of the asset from the first tax period that begins in 2015.

This heading also includes the limit on the amortisation of the asset revaluation given that it is amortised for tax purposes, from the first tax period beginning on or after 1 January 2015, over the tax periods in the remaining useful lives of the revalued asset, under the same terms and conditions related to renewals and extensions.

Asset revaluation

On 27 December 2012, Act 16/2012 was approved, which allowed the carrying amount of the assets to be recalculated in order to adjust such values for the effect of inflation and bring them closer to their actual value for Spanish companies. The Group adjusted the carrying amount of its assets in companies on an individual basis, initially assumed the tax cost of all assets and generated a future income tax savings which translated into deferred tax assets. This revaluation has not been included in these consolidated financial statements and only the future tax saving is reflected.

Deferred tax assets include unused tax credits and the temporary differences recognised at year-end.

The deferred tax assets indicated above were recognised in the consolidated balance sheet because the Company's Directors considered that, based on their best estimate of the Group's future earnings, it is probable that these assets will be recovered.

As at 31 December 2016 and 2015 the Group has tax losses of EUR 11,692 thousand available for carry forward against future trading profits (zero in 2015) which relates to GBP 10,010 thousand (zero in 2015). The potential deferred tax asset arising on the losses carried forward in the UK has not been recognised.

ii) *Deferred tax liabilities*

The breakdown of the deferred tax liabilities is as follows:

	Thousands of Euros	
	31/12/2016	**31/12/2015**
Deferred tax liabilities:		
Business combinations [1]	(274,318)	(163,096)
Accelerated depreciation and amortisation	(15,827)	(20,101)
Amortization goodwill in Spanish companies & others	(136)	(49)
Total deferred tax liabilities	**(290,281)**	**(183,246)**

[1] Tax effect associated with recognising, at fair value, the net assets and liabilities acquired in various business combinations and/or changes in the scope of consolidation.

Business combinations

The detail of the deferred tax liabilities recorded at 31 December 2016 and 2015 relating to the tax effect associated with recognising, at fair value, the net assets and liabilities acquired in various business combinations and/or changes in the scope of consolidation, is as follows:

	Incorporation	**2016**	**2015**
Acquisition Towerco	2014	24,997	26.164
Acquisition Galata	2015	129,818	136.932
Acquisition Commscon	2016	4,769	-
Acquisition subgroup Protelindo Netherlands	2016	23,498	-
Acquisition subgroup Shere Group	2016	90,730	-
Acquisition Sirtel	2016	506	
		274,318	**163.096**

Accelerated depreciation and amortisation

On 3 December 2010, Act 13/2010 was approved, which allowed for the accelerated depreciation of new items of property, plant and equipment and investment property used in business activities, and made available to the taxpayer in tax periods beginning in 2011, 2012, 2013, 2014 and 2015. This measure gave rise to a temporary difference between depreciation for accounting and for tax purposes.

Expected schedule for reversal the deferred tax assets and liabilities

In most cases, the use of the Group's deferred tax assets and liabilities is conditional upon the future performance of the business activities carried out by its various companies, the tax regulations of the

different countries in which they operate, and the strategic decisions to which they may be subject. Under the assumption used, it is estimated that the deferred tax assets and liabilities recognised in the consolidated balance sheet at 31 December 2016 and 2015 will be used as follows:

	Thousands of Euros		
	31/12/2016		
	Less than one year	More than one year	**Total**
Deferred tax assets	6,294	22,887	**29,181**
Deferred tax liabilities	(38,696)	(251,585)	**(290,281)**

	Thousands of Euros		
	31/12/2015		
	Less than one year	More than one year	**Total**
Deferred tax assets	7,623	21,276	**28,899**
Deferred tax liabilities	(12,107)	(171,139)	**(183,246)**

The factors taken into consideration for maintaining a deferred tax asset at 31 December 2016 and which support its future recoverability were as follows:

The deferred tax assets indicated above were recognised in the attached consolidated balance sheet as the Parent's Directors consider that, based on their best estimated of the tax group's future earnings it is probable that these assets will be recovered.

Thus, in 2016 and 2015, the Group generated taxable profit of EUR 38,774 thousand and EUR 30,803 thousand, respectively, in its Spanish companies which enabled the Group to use the deferred tax assets and maintain a taxable profit for both years.

16. Provisions and other liabilities and employee benefit obligations

a) Provisions and other liabilities

The detail of "Provisions and other liabilities" at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	31 December 2016	**31 December 2015**
Put option Galata S.p.A	85,294	81,315
Asset Retirement Obligation	31,486	18,248
National Competition Committee Sanction	16,000	16,000
Provision for other responsibilities [(1)]	34,097	9,262
Deferred income and other liabilities	9,727	559
Provisions and other liabilities	**176,604**	**125,384**

[(1)] Provision for other responsibilities captures mainly provisions for contingent liabilities made during the Purchase Price Allocation process which are a result of present obligations arising from past events, where the fair value can be reliably measured.

i) *Galata Put Option*

On 27 February 2015 a Put Option contract was signed in relation to the acquisition of Galata, S.p.A., which may be exercised wholly and not partially over the shares which represent the share capital of Galata owned by Wind and through said contract Wind may sell all the shares in Galata that it holds on that date to Cellnex Italia. The price for exercising the Put Option is EUR 77 million, increasing by 6% per annum and decreasing by the dividends paid by Galata to Wind over a maximum period of 4 years.

Cellnex has calculated the amount for exercising the Put Option at the end of the first year which is from when Wind may exercise the Put Option, such that the amount payable at the end of the first year (26 March 2016) is EUR 81,620 thousand. As at 31 December 2016 the Put Option amounted to EUR 85,294 thousand (EUR 81,315 thousand and EUR 80,414 thousand at 2015 year-end and at the time of acquiring company on 26 March 2015, respectively). During the year ended on 31 December 2016, EUR 3,978 thousand was recorded in the accompanying consolidated income statement to update the vale for the passage of time at 6% per annum.

ii) *Asset Retirement Obligation*

This caption includes the contractual obligation to dismantle and decommission the mobile telephone towers.

iii) *National Competition Committee Sanction*

This caption includes the possible sanction levied by the National Competition Committee on 19 May 2009 amounting to EUR 16,000 thousand (Note 16.c), which has been recorded in the consolidated balance sheet as the cash flow outflow has been estimated as probable.

iv) *Provision for other Responsibilities*

This caption includes the provisions for other liabilities relating to the acquisitions of Galata, Commscon Italy, Protelindo Towers and Shere Group amounting to EUR 8,000 thousand, EUR 2,000 thousand, EUR 13,213 thousand and EUR 6,532 thousand, respectively (see Note 5).

In addition as at 31 December 2016 this provision includes an amount relating to the long term liability derived from the cancellation of the rental contract relating to the building which housed certain corporate offices up to that date. The liability amounts to EUR 4,352 thousands based on the best estimation at the yearend date.

v) ***Deferred Income and*** *Other Liabilities*

This item includes amounts claimed from Group companies, Retevisión-I, S.A.U. and Tradia Telecom, S.A.U., in ongoing litigation at 31 December 2016 and other risks related to management of the Group. The amounts were estimated based on the amounts claimed or stipulated in court rulings issued at the end of each year shown and appealed against by the aforementioned companies. Labour-related lawsuits, for which provisions are made, amount to EUR 321 thousand and the civil proceedings to EUR 1,205 thousand (EUR 358 thousand and EUR 1,418 thousand respectively in 2015), the outcome of which has been estimated to cause an outflow of cash.

This caption also includes the recognition of a contingent consideration contemplated in the purchase contract of Commcon Italia S.r.L. for EUR 5 million, which is subject to the achievement of certain long term growth objectives of the company (see Note 5).

b) Employee benefit obligations

The detail of "Employee benefit obligations" at 31 December 2016 and 2015 is as follows:

	Thousands of Euros					
	31 December 2016			31 December 2015		
	Non-current	Current	**Total**	Non-current	Current	**Total**
Defined benefit obligations	1,932	236	**2,168**	2,004	163	**2,167**
Employee benefit obligations	564	6,040	**6,604**	559	8,067	**8,626**
Employee benefit obligations	**2,496**	**6,276**	**8,772**	**2,563**	**8,230**	**10,793**

i. Current and non-current defined benefit obligations

The pension commitments and obligations are covered using insurance policies/separate entities, with the amounts not included in the balance sheet. Nevertheless, this heading includes the hedges (relevant obligations and assets) for which there is a continued legal obligation or implied obligation to meet the agreed benefits.

Together with the above obligations, the liability side of the accompanying balance sheet includes EUR 1,932 thousand (EUR 2,004 thousand in 2015) under "Non-current provisions" and EUR 236 thousand (EUR 163 thousand in 2015) under "Current provisions", relating to the measurement of employee commitments arising from certain non-current obligations related to employees' length of service with the Group. The amounts recognised in 2016 and 2015 for these obligations as a decrease in staff costs were EUR 67 thousand and EUR 33 thousand and, as a finance cost, were EUR 20 thousand and EUR 16 thousand, respectively.

In relation to the Group's defined benefit obligations with employees, the reconciliation of the opening and ending balances of the actuarial value of these obligations is as follows:

	Thousands of Euros	
	2016	**2015**
At 1 January	**2,167**	**2,226**
Current service cost	94	103
Interest cost	20	16
Actuarial losses/(gains)	(26)	(135)
Benefits paid	(87)	(42)
At 31 December	**2,168**	**2,167**

The reconciliation of opening and ending balances of the actuarial fair value of the assets tied to these obligations is as follows:

	Thousands of Euros	
	2016	**2015**
At 1 January	-	-
Sponsor contributions	87	42
Benefits paid	(87)	(42)
At 31 December	-	-

The actuarial assumptions (demographic and financial) used constitute the best estimates on the variables that will determine the ultimate cost of providing post-employment benefits.

The main actuarial assumptions used at the reporting date are as follows:

	2016	2015
Annual discount rate	0.50%	1.00%
Salary increase rate	2.00%	2.00%

ii. *Current and non-current employee benefit obligations*

On 10 April 2015 it approved the Long Term Incentive Plan – LTI for certain employees, this accrues from May 2015 until 31 December 2017 and is payable once the Group's annual accounts corresponding to the 2017 financial year have been approved. The beneficiaries of the Plan are the Chief Executive Officer, the Senior Management and some key employees of the Cellnex Group (up to a maximum of 32 people). The amount to be received by the beneficiaries will be determined by the degree of fulfilment of two objectives, each with a weight of 50%:

- The accumulated appreciation of the Cellnex share calculated between the initial starting price of the IPO and the average price in the last quarter of 2017, weighted by the volume ("vwap"), following a scale of achievement.
- The attainment of certain performance parameters according to the market consensus and the constant scope of consolidation, following a scale of attainment.

The cost of the Long Term Incentive for Cellnex, anticipating that the maximum degree of fulfilment of the objectives will be obtained, is currently estimated at EUR 7.8 million.

Based on the best possible estimation of the amount of the related liability and taking into consideration all the available information, the Group has recognised a provision of EUR 2 million for this item as at 31 December 2016 (EUR 0 million at December 2015).

In 2012 the Group reached an agreement with the worker representatives of Retevisión-I, S.A.U. and Tradia Telecom, S.A.U. regarding a collective redundancy procedure to terminate up to 220 employment contracts in 2013 and 2014. On 21 December 2012, Retevisión-I, S.A.U. reached an agreement with the workers' legal counsel consisting, on the one hand, of income plans for employees 57 years of age or older and, on the other hand, lump-sum indemnity payments as a result of the voluntary termination of employment contracts for other employees not included in the annuity plan. The period during which employees could voluntarily participate in the annuity plan ended on 31 May 2013, whereas the period for claiming the lump-sum termination benefits ended on 15 November 2014. Within this collective redundancy procedure, an agreement was reached regarding a series of objective employment contract terminations in relation to personnel affected by the closure of certain maritime emergency response centres as a result of the reduction in the contract entered into with the Ministry of Public Works, giving rise to terminations at 31 March 2013.

On 21 December 2012, Tradia Telecom, S.A.U. reached an agreement with the workers' legal counsel consisting, on the one hand, of terminations in the form of early retirement for employees 57 years of age or older and, on the other hand, voluntary terminations with lump-sum indemnity payments as a result of terminating the employment contracts for other employees not included in the annuity plan. The period during which employees could voluntarily participate in the annuity plan ended on 31 May 2013. The period during which employees could avail themselves of the lump-sum termination benefits ended on 15 November 2014.

A provision was recognised for this collective redundancy procedure at 31 December 2012, estimating a cost of EUR 50,779 thousand for 220 employees. During the 2016 financial year, no staff left as a result of the execution of this agreement (No staff left in 2015).

The changes in this heading in 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	**2015**
Balance at 1 January	**8,067**	**10,912**
Benefits paid	(1,987)	(2,077)
Payment to income statement	(40)	(768)
Scope variation	-	-
Balance at 31 December	**6,040**	**8,067**

The balance payable at 31 December 2016 associated with the collective redundancy procedures carried out by the Group represent expected payments related to the process.

c) Contingent liabilities

At 31 December 2016, the Group has guarantees with third parties amounting to EUR 49,549 thousand (EUR 53,100 thousand at the close of 2015). These relate mainly to guarantees provided by financial institutions before public authorities in connection with grants and technical guarantees, and before third parties in connection with rental guarantees.

It should also be noted that on 19 May 2009, the Board of the National Competition Commission (CNC) imposed a fine of EUR 22.7 million on Abertis Telecom, S.A.U. (now Cellnex Telecom, S.A.) for abusing its dominant position in the Spanish market for transmitting and broadcasting TV signals, pursuant to article 2 of the Competition Act and article 102 of the Treaty on the Functioning of the European Union. The Group filed an appeal for judicial review with the National Appellate Court against the CNC fine, which was dismissed in the judgement passed on 16 February 2012. This judgement was appealed to the Supreme Court on 12 June 2012. On 14 April 2015 the appeal was resolved, upholding the appeal and annulling the decision of the CNC with regard to the amount of the fine, ordering the current CNC to recalculate that amount in accordance with the provisions of law 16/89. The CNMC has issued its decision recalculating the aforementioned amount, reducing it to 18.7 million Euros and this decision was appealed against to the National High Court on 29 September 2016. Based on the opinion of its legal advisers, at 31 December 2016 the Group has recorded a provision for a total of EUR 16 million (EUR 16 million at the close of 2015).

On 8 February 2012, the Board of the National Competition Commission (CNC) imposed a fine of EUR 13.7 million on Abertis Telecom, S.A.U. (now Abertis Telecom Satellites, S.A.U.) for having abused its dominant position, pursuant to article 2 of the Competition Act and article 102 of the Treaty on the Functioning of the European Union. The company allegedly abused its dominant position in wholesale service markets with access to infrastructure and broadcast centres of Abertis Telecom, S.A.U. for broadcasting DTT signals in Spain, and retail service markets for transmitting and distributing DTT signals in Spain by narrowing margins. On 21 March 2012, the Group filed an appeal for judicial review against the decision of the CNC with the National Appellate Court, also requesting a delay of payments with regard to the fine until the court passes a ruling on this matter. This delay was granted on 18 June 2012. On 20 February 2015 the National Appellate Court partially upheld the appeal, ordering the CNC to recalculate the fine as it considered that the criteria used at the time by the CNC were not appropriate. Notwithstanding the foregoing, an appeal was filed with the Supreme Court against the judgement of the National Appellate Court on the grounds that it is not only about the recalculation of the amount but also that the Group did not break any competition rules. Therefore, until the appeal before the Supreme Court is resolved, the CNC will not start the process of calculating the fine. With regard to

these proceedings, the Parent Company's Directors, based on the opinion of their legal advisers, consider the risk of this fine to be possible and, therefore, have not recognised any provision.

Moreover, and as a result of the spin-off of Abertis Telecom S.A.U. (now Abertis Telecom Satélites, S.A.U.) on 17 December 2013, Cellnex Telecom, S.A. assumed all rights and obligations that may arise from the aforementioned legal proceedings, as they relate to the spun-off business (terrestrial telecommunications). An agreement has therefore been entered into between Cellnex Telecom, S.A. and Abertis Telecom Satélites, S.A.U. stipulating that if the aforementioned amounts have to be paid, Retevisión-I, S.A.U. will be responsible for paying these fines. At 31 December 2016, Cellnex Telecom, S.A. has provided two guarantees amounting to EUR 36.4 million (EUR 36.4 million at the close of 2015) to cover the disputed rulings with the National Competition Commission explained above.

In relation to the digitalization and expansion of the terrestrial television networks in remote rural areas in Spain during the digital transformation process, the European Commission issued a decision concluding that Retevisión-I, S.A.U. and other operators of platforms for transmitting terrestrial and satellite signals had received state aid, in the amount of EUR 260 million, that is contrary to the Treaty on the Functioning of the European Union. The ruling ordered Spain to recover the amount of the aid received. The aid received by Retevisión-I, S.A.U. amounted to approximately EUR 40 million, as estimated by the European Commission, since the Spanish authorities failed to specify the exact amount in the return processes. The estimated calculations made by the Spanish government initially lowered this amount to some EUR 10 million. Both Spain and the European Commission are still to agree the criteria to be applied in these calculations. In this regard, Retevisión-I, S.A.U. appealed to the General Court of the European Union against that decision, which was rejected though a Ruling given on 26 November 2015. However, on 5 February 2016 an appeal was filed against this ruling before the European Court of Justice, given that there are serious legal grounds for this appeal to be successful and that it can be considered that the tenders called did not involve any state aid contrary to the treaty of the European Union. However, it is difficult to predict the interpretation that the European Court of Justice will adopt when it passes judgement.

The Spanish government, through the Secretary of State for the Information Society and Digital Agenda (“SESIAD”), ordered the various regional governments to issue recovery orders based on the calculations made. Recovery procedures began in Castilla y León, La Rioja, Aragón, Extremadura, Andalusia, the Balearic Islands, Madrid, Navarra, Valencia and Catalonia, and all of these were opposed on the basis that the amounts claimed are not legally valid given that the proceedings are pending resolution. The only proceeding which has been resolved by the courts was the first proceeding related to the Autonomous Community of Madrid, and on 31 March 2016 judgement was passed whereby the Superior Court of Justice of Madrid revoked the order, passed by the Community of Madrid, to recover the aid.

On 1 October 2014, the European Commission passed a ruling declaring that Retevisión-I, S.A.U. and other operators of platforms for transmitting terrestrial and satellite signals had received government aid in the amount of EUR 56.4 million to finance the digitalisation and expansion of the terrestrial television networks in remote areas of Castilla-La Mancha during the digital transformation process and that such state aid was not compatible with European legislation. The decision ordered Spain (through the regional government of Castilla-La Mancha) to recover the aid prior to 2 February 2015. On 29 October 2015, the Government of Castilla la Mancha began an aid recovery procedure amounting to EUR 719 thousand and this has been opposed, and on 4 July 2016 it was declared that this had lapsed ex oficio. Regardless of the above, on 15 December 2016 the General Court of the European Union passed as sentence that declined the appeals presented against it. Against that judgment it has been foreseen to interpose future appeal, as a result no amount has been provided for because the Group considers that the future appeal before the European Court of Justice can succeed.

The appeals filed with the European Court of Justice do not hold in abeyance the enforceability of the orders to return the aid.

d) *Contingent assets*

In December 2014 the Group filed a liability claim for damages incurred due to the shutdown of 9 national DTT channels, as a result of the judgement passed by the Supreme Court rendering the Spanish Council of Ministers' Resolution that awarded the licenses for these channels null and void, since such licenses were considered to be granted without regard to the law and as a result of certain aspects related to the liberation of the digital dividend in the National DTT Technical Plan, approved by Royal Decree 805/2014. Later, on 17 November 2016, an appeal for judicial review by the Supreme Court was filed against the dismissal regarding the claim for damages on behalf of the Council of Ministers. The damage caused was initially quantified at EUR 143 million, and subsequently recalculated to 77 million Euros taking into consideration the length of time these channels were shut shut down and how the national DTT multiplexes were occupied in the end by the newly awarded parties. Therefore, at 31 December 2016 and 31 December 2015, the Group had not recognised any amount in relation to this claim.

17. Revenue and expenses

a) *Operating income*

The breakdown of operating income by item for the 2016 and 2015 financial years is as follows:

	2016	2015
Services	673,003	576,286
Other operating income	34,172	36,419
Advances to customers	(2,590)	(921)
Operating income	**704,585**	**611,784**

Other operating income includes mainly income from re-charging costs related to infrastructure services activities for mobile telecommunications operators to third parties.

Advances to customers includes the amortization of amounts paid for sites to be dismantled and their corresponding dismantling costs, which are treated as advances to customers in relation to the subsequent services agreement entered into with the customer (mobile telecommunications operators). These amounts are deferred over the life of the service contract with the operator as they are expected to generate future economic benefits in existing infrastructures.

The total amount, by line of business, of the Group’s revenue expected from the service agreements (Telecom Infrastructure Services, Broadcasting Infrastructure and Other Network Services) entered into by the Group and that were in force at 31 December 2016 and 2015 are as follows (the amounts included in Telecom Infrastructure Services include the renewals until the contract matures, the re-invoiced costs, but do not include adjustments for inflation):

	Thousands of Euros			
	2016			
Contracted revenue	**Broadcasting infrastructure**	**Telecom Infrastructure Services**	**Other Network Services**	**Total**
Spain	198,436	107,280	58,041	**363,757**
Italy	-	222,964	-	**222,964**
Netherlands	-	26,204	-	**26,204**
France	-	9,934	-	**9,934**
United Kingdom	-	8,091	-	**8,091**
Less than one year	**198,436**	**374,473**	**58,041**	**630,950**
Spain	390,444	383,234	96,591	**870,269**
Italy	-	1,022,778	-	**1,022,778**
Netherlands	-	98,839	-	**98,839**
France	-	44,933	-	**44,933**
United Kingdom	-	21,892	-	**21,892**
Between one and five years	**390,444**	**1,571,676**	**96,591**	**2,058,711**
Spain	20,494	1,411,500	16,851	**1,448,845**
Italy	-	3,973,454	-	**3,973,454**
Netherlands	-	121,434	-	**121,434**
France	-	377,988	-	**377,988**
United Kingdom	-	26,182	-	**26,182**
More than five years	**20,494**	**5,910,558**	**16,851**	**5,947,903**
Domestic	609,374	1,902,014	171,483	**2,682,871**
International	-	5,954,693	-	**5,954,693**
Total	**609,374**	**7,856,707**	**171,483**	**8,637,564**

	Thousands of Euros			
	2015			
Contracted revenues	**Broadcasting infrastructure**	**Telecom Infrastructure Services**	**Other Network Services**	**Total**
Spain	213,053	121,129	64,983	**399,165**
Italy	**-**	214,224	**-**	**214,224**
Less than one year	**213,053**	**335,353**	**64,983**	**613,389**
Spain	382,508	370,679	122,277	**875,464**
Italy	-	739,258	-	**739,258**
Between one and five years	**382,508**	**1,109,937**	**122,277**	**1,614,722**
Spain	27,200	1,458,930	26,457	**1,512,587**
Italy	-	4,115,928	-	**4,115,928**
More than five years	**27,200**	**5,574,858**	**26,457**	**5,628,515**
Domestic	622,761	1,950,738	213,717	**2,787,216**
International	-	5,069,410	-	**5,069,410**
Total	**622,761**	**7,020,148**	**213,717**	**7,856,626**

b) Staff costs

The detail of staff costs is as follows:

	Thousands of Euros	
	2016	**2015**
Wages and salaries	74,981	67,311
Social Security contributions	16,502	16,164
Retirement fund and other contingencies and commitments	1,394	1,236
Other employee benefit costs	4,594	4,547
Staff costs	**97,471**	**89,258**

In the 2016 financial year, the increase in staff costs is mainly due to the incorporation of staff from the companies acquired (see Note 5).

The average number of employees at the Group, its subsidiaries and associates in 2016 and 2015, broken down by job category and gender, is as follows:

	2016			2015		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Chief Executive Officer	1	-	1	1	-	1
Senior Management	6	1	7	5	1	6
Middle management	98	22	120	76	18	94
Other employees	938	229	1,167	904	209	1,113
Average number of employees	**1,043**	**252**	**1,295**	**986**	**228**	**1,214**

The number of employees at the Cellnex Group at the end of the 2016 and 2015 financial years, broken down by job category and gender, was as follows:

	2016			2015		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Chief Executive Officer	1	-	1	1	-	1
Senior Management	6	1	7	5	1	6
Middle management	101	24	125	85	20	105
Other employees	939	231	1,170	914	219	1,133
Number of employees at year-end	**1,047**	**256**	**1,303**	**1,005**	**240**	**1,245**

At 31 December 2016, the Board of Directors of the Parent Company is formed of 9 members, all of which are male.

The increase in the number of employees is due to the change in consolidation scope resulting in the addition of the personnel from the companies acquired (see Note 5).

c) *Other operating expenses*

The detail of "Other operating expenses" in the consolidated income statement is as follows:

	Thousands of Euros	
	2016	**2015**
Repairs and maintenance	26,522	27,155
Leases	127,490	110,094
Utilities	72,604	60,194
Other operating costs	117,064	109,307
Total	**343,680**	**306,750**

Leases include a significant amount of costs which are recharged to the Group's principal customers (pass-through).

"Other operating costs" contains certain expenses that are non-recurring or that do not represent a cash flow, as detailed below

	Thousands of Euros	
	2016	**2015**
Costs related to acquisitions[(1)]	7,392	12,870
Tax associated with acquisitions [(2)]	2,344	1,396
Lease cancellation costs [(3)]	5,631	-
Prepaid expenses [(4)]	8,091	2,700
Total non-recurring expenses	**23,458**	**16,966**
Total recurring expenses	**93,606**	**92,341**
Total general services and other	**117,064**	**109,307**

[(1)] In 2015 this item related to IPO expenses and other associated expenses incurred as a result of the flotation which include acquisition costs for Galata and correspond to the costs for investment banks, legal, accounting, tax advisors and auditors, as well as bond issue expenses. In 2016 this items relates to the expenses incurred during the acquisition processes carried out during the year.

[(2)] In 2015 this item represent the 'Tobin tax' paid on the incorporation of Cellnex Italia, S.r.L. In 2016 this item relates to Real Estate Transfer Tax paid on the transfer of infrastructures in the Netherlands and stamp duty paid on the acquisitions in the United Kingdom

[(3)] This item relates to the non-cash provision made in relation to the consolidation of the Corporate offices in Madrid. This reorganisation took place in order to achieve significant savings in rental costs over the coming years.

[(4)] Prepaid Expenses – this item relates to prepaid ground rental costs (EUR 3,766 thousand), prepaid energy and agency fees incurred to renegotiate the rental contracts (EUR 4,325 thousand) and which are taken to the consolidated income statement over the life of the corresponding ground lease contract.

Additionally, in the 2016 and 2015 financial years, the accrual of advances to customers amounting to EUR 2,590 thousand was recognised as a reduction to revenue (EUR 921 thousand in the same period in 2015). See Note 17.a.

Operating lease commitments

Total future minimum rentals payable under operating leases are recurring, as all the current leases are considered essential for the Group's operations.

The detail of the operating lease payments undertaken by the Group is as follows:

Minimum operating lease payments	Thousands of Euros	
	2016	2015
Less than one year	78,270	70,599
Between one and five years	132,093	131,726
More than five years	96,791	99,298
Total	**307,154**	**301,623**

During the 2015 financial year the Parent Company Directors reassessed the accounting estimate of the amount of minimum payments for operating leases in order to adapt this to the internal business model and other companies in the industry.

The amounts were reassessed in order to recognise in the calculation of the minimum future payments for leases the contractual clauses for unilateral cancelation of the agreement upon payment of the corresponding penalty charge or in its absence if the prevailing legislation applicable to each lease allows the unilateral cancellation by the Group. This involved the re-evaluation of the amounts disclosed in Note 17.c of the 2015 consolidated annual accounts corresponding to the year ended 31 December 2014.

The change in accounting estimate for the minimum payments for operating leases described above has not had any impact on the consolidated balance sheet or the consolidated income statement for the year ended 31 December 2014.

d) Change in provisions

The detail of "Changes in provisions" in the consolidated income statement is as follows:

	Thousands of Euros	
	2016	2015
Allowance for doubtful debts (Note 10)	(53)	1,003
Provision for CNC fine (Note 16)	-	-
Other non-current provisions (Note 16)	303	135
Ending balance	**250**	**1,138**

e) Net profit from the disposal of fixed assets

The distribution of the Group's losses on the disposal or sale of assets (see Notes 6 and 7) is detailed as follows:

	Thousands of Euros							
	2016				2015			
	Cost	Accumulated amortisation	Selling price	**Net Result**	Cost	Accumulated amortisation	Selling price	**Net Result**
Spain	(490)	446	-	**(44)**	(1,972)	1,855	-	**(117)**
Italy	(6,412)	6,280	-	**(132)**	-	-	-	**-**
Netherlands	-	-	-	**-**	-	-	-	**-**
France	-	-	-	**-**	-	-	-	**-**
United Kingdom	-	-	-	**-**	-	-	-	**-**
Total	**(6,902)**	**6,726**	**-**	**(176)**	**(1,972)**	**1,855**	**-**	**(117)**

f) Depreciation and amortisation charge

The detail of “Depreciation and amortisation” in the consolidated income statement is as follows:

	Thousands of Euros	
	2016	**2015**
Intangible assets (Note 7)	41,497	24,748
Property, plant and equipment (Note 6)	135,282	128,752
Ending balance	**176,779**	**153,500**

g) Net interest expense

The breakdown of finance income and costs by item is as follows:

	Thousands of Euros	
	2016	**2015**
Finance income and interest from third parties	1,179	394
Total Interest income	**1,179**	**394**

	Thousands of Euros	
	2016	**2015**
Finance costs and interest arising from third parties	2,780	7,538
Interest expense	25,910	8,094
Bond issue costs	4,983	4,656
Exchange losses	39	-
Interest cost relating to provisions	503	1
Settlements of derivative financial instruments	-	2,240
Other finance costs	12,739	5,332
Total interest expense	**46,954**	**27,861**

18. Environmental information

It is Group policy to pay maximum attention to environmental protection and conservation, and each investee adopts the necessary measures to minimise the environmental impact of the infrastructure and the telecommunications networks that it manages and ensure the maximum degree of integration into the surrounding area.

The Group has an environmental policy applicable to all its companies and a comprehensive environmental management system that ensures compliance with local environmental legislation and continuously improves the environmental management processes for its activities and facilities.

At year-end 2016 and 2015, the Group did not recognise any provision for potential environmental risks as it estimated that there were no significant contingencies related to potential lawsuits, indemnities or other items as its operations comply with environmental protection laws and as procedures are in place to foster and ensure compliance.

The Group incurred environmental expenses on civil engineering projects, equipment and environmental permit projects. The acquisition cost of these activities at year-end 2016 amounted to EUR 5,032 thousand

(EUR 4,870 thousand in 2015), with accumulated depreciation and amortisation of EUR 2,244 thousand (EUR 2,017 thousand in 2015).

Expenses incurred to protect and improve the environment recognised directly in the income statement amounted to EUR 889 thousand (EUR 736 thousand in 2015) and related mainly to expenses arising from consultancy services and external waste management.

Potential contingencies, indemnities and other environmental risks which the Group could incur are sufficiently covered by its third-party liability insurance policies.

19. Segment reporting

The Group's business segment information included in this note is presented in accordance with the disclosure requirements set forth in IFRS 8, Operating Segments. This information is structured, firstly following a geographic distribution and secondly, by business segment.

Cellnex has recently expanded its business in Europe and its strategic objectives include the continuation of this growth initiative through the acquisition of assets and businesses, along with other growth opportunities both in the countries in which it is currently present and others. In this regard, as the Group continues to acquire sites in existing markets and is continuing to expand into new ones, the Group Management manages the results obtained by geographical location.

In addition, the business segments described below were established based on the organisational structure of the Cellnex Group prevailing as at 31 December 2016 and have been used by Group management to analyse the financial performance of the different operating segments.

The Group has organised its business into three different customer focused units, supported by an operations division and central corporate functions. Income from the provision of services relates mainly to:

- Telecom Infrastructure Services which consists of providing a wide range of integrated network infrastructure services which allows access to the Group's wireless infrastructure to mobile network operators and other wireless and broadband telecommunications network operators, which in turn, allows the operators to offer their own telecommunications services to its customers.

- Broadcasting Infrastructure activities, which consist of the distribution and transmission of television and FM radio signals, as well as the operation and maintenance of radio broadcasting networks, the provision of connectivity for media content, OTT radio broadcasting services (over-the-top multi-screen services) and other services. The broadcasting infrastructure activities were created in 2001 with the acquisition of Tradia Telecom, S.A.U. and the acquisition of Retevisión-I, S.A.U. in 2003.

- Other Network Services, including connectivity services for telecommunications operators (other than broadcasting operators), radio communication, operation and maintenance services, commercial services, Smart Cities/IoT ("Internet of Things") and other services.

Methodology and bases for Segment Reporting

The segmental reporting below is based on monthly reports drawn up by Group management and is generated by the same information system used to obtain all the accounting data at Group level.

Operating income of the corresponding segment corresponds to the ordinary revenues directly attributable to each segment and do not include interest income or dividends.

The majority of assets employed and underlying costs are derived from a shared network common to all operating business units. An allocation of such assets and costs to the business areas is not performed as part of the normal financial information reporting process used by the Group's Management for decision-

making, and Management is of the opinion that additional segmental reporting would not provide meaningful information for decision making.

The Management Committees are the maximum decision making authority. These committees evaluate the Group's performance based on the operating profit of each company, which are not the same as the above business areas.

Segmental reporting is set out below:

	Thousands of Euros				
	2016				
	Spain	Italy	Netherlands	Other countries	**Total**
Services	422,552	238,994	7,927	3,530	**673,003**
Other income	34,172	-	-	-	**34,172**
Advances to customers	(2,590)	-	-	-	**(2,590)**
Operating income	**454,134**	**238,994**	**7,927**	**3,530**	**704,585**
Personal expenses	(88,659)	(8,328)	(233)	(251)	(97,471)
Other operating expenses	(178,934)	(162,672)	(839)	(1,235)	(343,680)
Change in provisions	294	(10)	15	(49)	250
Losses on fixed assets	(44)	(132)	-	-	(176)
Depreciation and amortization	(98,693)	(68,690)	(6,597)	(2,799)	(176,779)
Operating profit	**88,098**	**(838)**	**273**	**(804)**	**86,729**

	Thousands of Euros		
	2015		
	Spain	Italy	**Total**
Services	401.899	174.387	**576.286**
Other income	36.417	2	**36.419**
Advances to customers	(921)	-	**(921)**
Operating income	**437,395**	**174,389**	**611,784**
Personal expenses	(83,347)	(5,911)	(89,258)
Other operating expenses	(184,052)	(122,698)	(306,750)
Change in provisions	1,138	-	1,138
Losses on fixed assets	(117)	-	(117)
Depreciation and amortization	(95,429)	(58,071)	(153,500)
Operating profit	**75,588**	**(12,291)**	**63,297**

There have been no significant transactions between segments during 2016 or 2015.

The Group has three customers that exceed 10% of its revenue. The total income from these customers in the 2016 and 2015 financial year amounted to EUR 339,752 thousand and EUR 286,197 thousand.

The assets and liabilities of each segment at 31 December 2016 and 2015 are as follows:

	Thousands of Euros				
	31 December 2016				
	Spain	Italy	Netherlands	Other countries	**Total**
Goodwill and intangible assets	52,927	750,211	451,888	160,357	**1,415,383**
Property, plant and equipment	646,113	208,962	40,201	153,169	**1,048,445**
Other noncurrent assets	53,027	26,422	1,226	29	**80,704**
Total noncurrent assets	**752,067**	**985,595**	**493,315**	**313,555**	**2,544,532**
Total current assets	**263,206**	**64,484**	**15,538**	**7,719**	**350,947**
TOTAL ASSETS	**1,015,273**	**1,050,079**	**508,853**	**321,274**	**2,895,479**
Borrowings	1,683,960	-	-	-	**1,683,960**
Other noncurrent liabilities	43,517	280,056	113,991	31,817	**469,381**
Total noncurrent liabilities	**1,727,477**	**280,506**	**113,991**	**31,817**	**2,153,341**
Borrowings	17,732	-	-	-	**17,732**
Other non-current liabilities	124,872	(30,142)	3,207	75,268	**173,205**
Total current liabilities	**142,604**	**(30,142)**	**3,207**	**75,268**	**190,937**
TOTAL LIABILITIES	**1,870,081**	**249,914**	**117,198**	**107,085**	**2,344,278**

	Thousands of Euros		
	31 December 2015		
	Spain	Italy	**Total**
Goodwill and intangible assets	50,919	747,728	**798,647**
Property, plant and equipment	711,063	224,750	**935,813**
Other noncurrent assets	52,404	20,249	**72,653**
Total noncurrent assets	**814,386**	**992,727**	**1,807,113**
Total current assets	**121,538**	**97,939**	**219,477**
TOTAL ASSETS	**935,924**	**1,090,666**	**2,026,590**
Borrowings	979,261	-	**979,261**
Other noncurrent liabilities	43,286	267,907	**311,193**
Total noncurrent liabilities	**1,022,547**	**262,907**	**1,290,454**
Borrowings	9,094	-	**9,094**
Other non-current liabilities	165,104	24,721	**189,825**
Total current liabilities	**174,198**	**24,721**	**198,919**
TOTAL EQUITY AND LIABILITIES	**1,196,745**	**292,628**	**1,489,373**

The information by business segment is set out below:

	Thousands of Euros			
	2016			
	Broadcasting infrastructure	Telecom Infrastructure Services	Other Network Services	**Total**
Services	235,234	351,443	86,326	**673,003**
Other income	-	33,686	486	**34,172**
Advances to customers	-	(2,590)	-	**(2,590)**
Operating income	**235,234**	**382,539**	**86,812**	**704,585**

	Thousands of Euros			
	2015			
	Broadcasting infrastructure	Telecom Infrastructure Services	Other Network Services	**Total**
Services	224,699	266,528	85,059	**576,286**
Other income	-	36,419	-	**36,419**
Advances to customers	-	(921)	-	**(921)**
Operating income	**224,699**	**302,026**	**85,059**	**611,784**

20. Related parties

a) Directors and Senior Management

The remuneration earned by the Parent Company's directors in the 2016 and 2015 financial years was as follows:

i. The members of the Board of Directors received EUR 870 thousand for exercising the duties in their capacity as directors of Cellnex Telecom, S.A. (EUR 520 thousand in 2015).

ii. For performing senior management duties, the Chief Executive Officer received EUR 900 thousand, corresponding to fixed and variable remuneration (EUR 872 thousand in 2015).

iii. The Chief Executive Officer did not obtain any gains on share options in the 2016 and 2015 financial years since they were exercised in full in 2013.

iv. In addition, the Chief Executive Officer of Cellnex Telecom, S.A. received, as other benefits, contributions made to cover pensions and other remuneration in kind in the amount of EUR 150 thousand and EUR 13 thousand, respectively (EUR 170 thousand and EUR 5 thousand in 2015).

Cellnex Telecom defines Senior Management as executives that perform management duties and report directly to the Chief Executive Officer. Fixed and variable remuneration for the 2016 financial year for members of Senior Management amounted to EUR 2,018 thousand (EUR 1,377 thousand in 2015).

In addition, members of Senior Management received, as other benefits, contributions made to cover pensions and other remuneration in kind to the amount of EUR 158 thousand and EUR 153 thousand, respectively. In 2015 they received EUR 172 thousand and EUR 128 thousand, respectively.

The Group has agreements with two members of Senior Management linked to those executives staying at the company until the second half of 2017.

On 10 April 2015 the Group approved the Long Term Incentive Plan – LTI for certain employees, including the Chief Executive Officer and the members of the Senior Management. This accrues from May 2015 until 31 December 2017 and is payable once the Group's annual accounts corresponding to the 2017 financial year have been approved. Among the beneficiaries are the CEO, Senior Management and several key employees of the Cellnex Group (up to a maximum of 32 staff). The amount receivable by the beneficiaries is determined by the degree of achievement of two objectives, with a weighting of 50% each:

- The cumulative revaluation of the Cellnex share price calculated between the IPO share price and the average price of the last quarter of 2017, weighted to the volume ('vwap'), following a sliding scale.
- Achievement of certain parameters relating to the results in accordance with the market consensus and with a constant consolidation scope, following a sliding scale.

The cost of the Long Term Incentive Plan for Cellnex if it were to reach the maximum level of achievement of the objectives is estimated at approximately EUR 7.8 million .

The Parent Company has taken out an executives and directors civil liability policy for the members of the Board of Directors, the Chief Executive Officer and all the directors of the Cellnex Telecom group at a cost amounting to EUR 111.1 thousand and EUR 67.4 thousand at 31 December 2016 and 2015, respectively.

b) Other disclosures on Directors

In accordance with the article 229 of the Spanish Limited Liability Companies Law, the directors have reported that neither they nor any persons related to them are involved in any situations that may lead to a direct or indirect conflict with the Company's interests.

c) Associates companies

The assets and liabilities held in associates of the Cellnex Group, at 31 December 2016 and 2015, are as follows:

	Thousands of Euros	
	31 December 2016	
	Assets	Liabilities
	Other commercial assets	Payables
Consorcio de Telecomunicaciones Avanzadas, S.A.	113	-
Total	**113**	**-**

	Thousands of Euros	
	31 December 2015	
	Assets	Liabilities
	Other commercial assets	Payables
Consorcio de Telecomunicaciones Avanzadas, S.A.	119	1
Torre de Collserola, S.A.	-	178
Total	**119**	**179**

The transactions performed by the Group with associates during 2016 and 2015 relate to services received from Torre Collserola, S.A. for EUR 2,510 and EUR 2,659 thousand.

d) Other related parties

Other related parties, in addition to the Abertis Group companies and associates, include shareholders (and their subsidiaries) of Cellnex Telecom, S.A. that exercise significant influence over it, those with a right to appoint a director and those with a stake above 5% (see Note 12.a).

In addition to the dividends paid to shareholders, the breakdown of the balances held and transactions performed with significant shareholders is as follows:

i. Loans and credit facilities received

At 31 December 2016, guarantees with the related party CaixaBank, S.A. were granted with a limit of EUR 23,327 thousand, which at year-end were drawn down in the amount of EUR 10,583 thousand.

At 31 December 2016, the main transactions with related party CaixaBank, S.A. were: (i) a loan for EUR 2,052 thousand (see Note 13), (ii) a non-recourse factoring agreement with a limit of EUR 97,000 thousand, which at year-end were drawn down in the amount of EUR 13,567 thousand (see Note 10), (iii) in addition, CaixaBank, S.A. participated in the syndicated loan by arranging a revolving credit facility of up to EUR 41,667 thousand, which is undrawn at 31 December 2016, (iv) a credit facility for EUR 500 thousand, undrawn at 2016 year-end, (v) an additional credit facility for EUR 150,000 thousand, not available at 2016 year-end (vi) a venture capital fund for EUR 210 thousand (see Note 13) and (vii) current account balances amounting to EUR 41,378 thousand.

ii. Financing and retirement obligations

The main transactions carried out by the Group with related parties in 2016 relate to payments to VidaCaixa, S.A Seguros y Reaseguros and SegurCaixa Adeslas, S.A. de Seguros Generales y Reaseguros in the amount of EUR 1,257 thousand and EUR 521 thousand, respectively for termination benefits and contributions to pension plans and life insurance policies.

iii. Services rendered and received

The transactions carried out with Abertis Group companies and associates during the 2015 financial year are as follows:

	Thousands of Euros			
	2016		**2015**	
	Services rendered	**Services received**	**Services rendered**	**Services received**
Abertis Group	**795**	**15,696**	**754**	**17,906**

During 2015 an agreement was signed between Abertis Infraestructuras, S.A. and the Group for the provision of corporate building management services in Madrid and Barcelona.

The Group also has an agreement with Hispasat, S.A., whereby the latter provides shared capacity services for certain satellite transponders over the entire life of the transponders, which is expected to last until 31 December 2022.

In addition, during 2016, the Group recognised a structuring fee of EUR 975 thousand with the related party Criteria Caixa, S.A.U. as an outstanding payment at 31 December 2016.

The Group carries out all its transactions with related parties on an arm's length basis. Also, given that transfer prices are adequately documented, the Group's Directors consider that there are no significant risks that could give rise to material liabilities in the future.

iv. Other

The assets and liabilities held by the Group in Abertis Group companies and associates are as follows:

	Thousands of Euros			
	2016		**2015**	
	Other commercial assets	**Payables**	**Other commercial assets**	**Payables**
Abertis Group	**498**	**1,403**	**982**	**39**

21. Other disclosures

The remuneration of the auditors for 2016 and 2015 is as follows:

	Thousands of Euros					
	2016			**2015**		
	Audit of financial statements	Tax advisory services	Other services	Audit of financial statements	Tax advisory services	Other services
Deloitte, S.L.	528	-	241	418	-	1,109
Rest of Deloitte	254	-	258	71	-	59
Total	**782**	**-**	**499**	**489**	**-**	**1,168**

22. Post balance sheet events

On 12 January 2017 Cellnex successfully completed the pricing of a bond issuance, aimed at qualified investors for an amount of EUR 335 million, maturing in April 2025 and with a coupon of 2.875%.

On 31 January 2017 Cellnex has reached an agreement with Bouygues Telecom for the acquisition and building of up to 3,000 sites in France. The agreement is structured around two projects. The first one relates to the acquisition of up to 1,800 urban sites in France for a total enterprise value of EUR 500 million. This acquisition relates to urban sites in the main cities of France (c.85% located in areas with a population above 400,000 inhabitants) which are to be gradually transferred to Cellnex France over a period of 2 years.

Cellnex and Bouygues Telecom have also agreed on a second project for the building of up to 1,200 urban sites for a total enterprise value of EUR 354 million. This build-to-suit project relates to urban sites to be built over an estimated period of 5 years.

Together, these projects are expected to generate annual EBITDA of approximately 61 million Euros on a run rate basis (once all of the sites have been acquired and built) excluding synergies.

These two projects are fully aligned with Cellnex's corporate purpose and with its international expansion strategy based on the acquisition of an initial portfolio of assets allowing for subsequent market consolidation, and represent a clear example of consistent delivery of the Company's equity story based on growth.

Cellnex is thus strengthening its position in France by becoming the 2nd largest independent tower operator, reinforcing its current long-term partnership with Bouygues Telecom and setting the foundations to continue capturing organic growth in the country through future densification needs.

Bouygues Telecom will be the anchor tenant of this portfolio of sites, with whom Cellnex has signed a tailor-made Master Service Agreement for an initial period of 15 years that can be extended up to 15 additional years, and with a 2% annual fixed fee escalator.

Upon completion of these projects, Cellnex France is expected to manage and operate a unique portfolio of above 3,500 sites in France, in high demand areas and ready to capture future organic growth.

Both projects are fully compliant with Cellnex's return and value creation policy, and will be financed through available cash and future cash flows from Cellnex France with no impact on the Company's current BBB- corporate rating.

23. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2.a). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Barcelona, 16 February 2017

APPENDIX I. Subsidiaries included in the scope of consolidation at 31.12.2016

Company	Registered office	Ownership interest: Cost (Thousands of Euros)	Ownership interest: %	Company holding the interest	Consolidation method	Activity	Auditor
Direct ownership:							
Retevision-I, S.A.U.	Av, Del Parc Logístic, 12-20 08040 Barcelona	368,938	100%	Cellnex Telecom, S.A.	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
Tradia Telecom, S.A.U.	Av, Del Parc Logístic, 12-20 08040 Barcelona	127,121	100%	Cellnex Telecom, S.A.	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
On Tower Telecom Infraestructuras, S.A.U.	Avda, Parc Logístic 12-20, 08040 Barcelona	28,457	100%	Cellnex Telecom, S.A.	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
Cellnex Italia, S.r.L. (formerly Smartowers Italy, S.r.L.)	Via Carlo Veneziani 58, 00148 Rome, Italy	789,610	100%	Cellnex Telecom, S.A.	Full consolidation	Holding Company	Deloitte
Cellnex UK Limited [(1)]	55 Old Broad Street, London, EC2M 1RX, United Kingdom	-	100%	Cellnex Telecom, S.A.	Full consolidation	Holding Company	-
Cellnex Netherlands, BV (formerly Protelindo Netherlands, BV)	Dr. Lelykade 22, Unit 9, 2583CM's - Gravenhage	112,066	100%	Cellnex Telecom, S.A.	Full consolidation	Holding Company	Deloitte
Cellnex France, S.A.S.	30 Rue Godot de Mauroy, 75009 Paris	80,000	100%	Cellnex Telecom, S.A.	Full consolidation	Holding Company	Deloitte
Shere Group Limited	River Court, Albert Dr, Woking GU21 5RP, United Kingdom	408,636	100%	Cellnex Telecom, S.A.	Full consolidation	Holding Company	Deloitte
Indirect ownership interest:							
Towerco, S.p.A.	Via Alberto Bergammini 50, Rome, Italy	94,600	100%	Cellnex Italia, S.r.L..	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
Galata, S.p.A.	Via Carlo Veneziani 56L, 00148 Rome, Italy	693,000	90%	Cellnex Italia, S.r.L.	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
Adesal Telecom, S.L.	Ausias March 20, Valencia	4,464	60.08%	Tradia Telecom, S.A.U.	Full consolidation	Provision of related services for terrestrial telecommunications concessions and operators	Deloitte
Gestora del Espectro, S.L. [(1)]	Av, Del Parc Logístic, 12-20 08040 Barcelona	3	100%	Retevision-I, S.A.U.	Full consolidation	Development, implementation, management and marketing of terrestrial telecommunications services	-

Company	Registered office	Ownership interest Cost (Thousands of Euros)	%	Company holding the interest	Consolidation method	Activity	Auditor
TowerLink Italia, S.r.L [(1)]	Via Carlo Veneziani 58, 00148 Rome, Italy	10	100%	Cellnex Italia, S.r.L..	Full consolidation	Terrestrial telecommunications infrastructure operator	-
Commscon Italia, Sr.L.	Via Carducci 32, 20123 Milano	24,904	100%	Cellnex Italia, S.r.L	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
Towerlink Netherlands, B.V. (formerly Protelindo Towers, B.V.)	Dr. Lelykade 22, Unit 9, 2583CM's - Gravenhage	63,634	100%	Cellnex Netherlands, BV	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
Sirtel, S.r.L.		1,930	100%	Cellnex Italia, S.r.L	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
Shere Midco Ltd	River Court, Albert Dr, Woking GU21 5RP, United Kingdom	188,161	100%	Shere Group Limited	Full consolidation	Holding Company	Deloitte
Shere Group Netherlands B.V.	Leeghwaterstraat 21, 2811 DT Reeuwijk, Netherlands	115,113	100%	Shere Midco Ltd	Full consolidation	Holding Company	Deloitte
Shere Masten B.V.	Leeghwaterstraat 21, 2811 DT Reeuwijk, Netherlands	189.003	100%	Shere Group Netherlands BV	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
Watersite Holding Limited	River Court, Albert Dr, Woking GU21 5RP, United Kingdom	29,704	100%	Shere Midco Ltd	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
Radiosite Limited	River Court, Albert Dr, Woking GU21 5RP, United Kingdom	31,879	100%	Shere Midco Ltd	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
QS4 Limited	River Court, Albert Dr, Woking GU21 5RP, United Kingdom	1,977	100%	Shere Midco Ltd	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
Shere Consulting Limited	River Court, Albert Dr, Woking GU21 5RP, United Kingdom	2,598	100%	Shere Midco Ltd	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte

(1) These companies have not submitted their financial statements for auditing as they are not required to do so.

This appendix forms an integral part of Note 2.h. to the 2016 consolidated financial statements with which it should be read.

Subsidiaries included in the scope of consolidation at 31.12.2015

Company	Registered office	Ownership interest: Cost (Thousands of Euros)	%	Company holding the interest	Consolidation method	Activity	Auditor
Direct ownership:							
Retevision-I, S.A.U.	Av, Del Parc Logístic, 12-20 08040 Barcelona	368,938	100%	Cellnex Telecom, S.A.	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
Tradia Telecom, S.A.U.	Av, Del Parc Logístic, 12-20 08040 Barcelona	127,121	100%	Cellnex Telecom, S.A.	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
On Tower Telecom Infraestructuras, S.A.U.	Avda, Parc Logístic 12-20, 08040 Barcelona	28,457	100%	Cellnex Telecom, S.A.	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
Cellnex Italia, S.r.L. (formerly Smartowers Italy, S.r.L.)	Via Carlo Veneziani 58, 00148 Rome, Italy	789,610	100%	Cellnex Telecom, S.A.	Full consolidation	Holding Company	Deloitte
Cellnex UK Limited [(1)]	55 Old Broad Street, London, EC2M 1RX, United Kingdom	-	100%	Cellnex Telecom, S.A.	Full consolidation	Holding Company	-
Indirect ownership interest:							
Towerco, S.p.A.	Via Alberto Bergammini 50, Rome, Italy	94,600	100%	Cellnex Italia, S.r.L..	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
Galata, S.p.A.	Via Carlo Veneziani 56L, 00148 Rome, Italy	693,000	90%	Cellnex Italia, S.r.L.	Full consolidation	Terrestrial telecommunications infrastructure operator	Deloitte
Adesal Telecom, S.L.	Ausias March 20, Valencia	4,464	60.08%	Tradia Telecom, S.A.U.	Full consolidation	Provision of related services for terrestrial telecommunications concessions and operators	Deloitte
Gestora del Espectro, S.L. [(1)]	Av, Del Parc Logístic, 12-20 08040 Barcelona	3	100%	Retevision-I, S.A.U.	Full consolidation	Development, implementation, management and marketing of terrestrial telecommunications services	-
TowerLink Italia, S.r.L [(1)]	Via Carlo Veneziani 58, 00148 Rome, Italy	10	100%	Cellnex Italia, S.r.L..	Full consolidation	Terrestrial telecommunications infrastructure operator	-

[(1)] These companies have not submitted their financial statements for auditing as they are not required to do so.

This appendix forms an integral part of Note 2.h. to the 2016 consolidated financial statements with which it should be read.

APPENDIX II. Associates included in the scope of consolidation at 31.12.2016

Company	Registered office	Ownership interest Cost (Thousands of Euros)	%	Assets	Liabilities	Income	Profit/(loss)	Company holding the interest	Consolidation method	Activity	Auditor
INDIRECT SHAREHOLDINGS											
Through Retevisión and Tradia Telecom											
Torre de Collserola, S.A.	Ctra. de Vallvidrera al Tibidabo, s/n. Barcelona	2,439	41.75%	17,679	11,253	4,364	(11)	Retevision-I, S.A.U.	Equity method	Construction and operation of terrestrial telecommunications infrastructure	Deloitte
Consorcio de Telecomunicaciones avanzadas, S.A. (COTA)	C/ Uruguay, parcela 13R, nave 6, Parque Empresarial Magalia, Polígono Industrial Oeste Alcantarilla (Murcia)	304	29.5%	3,379	432	1,784	200	Tradia Telecom, S.A.U.	Equity method	Provision of related services for terrestrial telecommunications concessions and operators	Other auditors

This appendix forms an integral part of Note 2.h. to the consolidated financial statements for 2016 with which it should be read.

Associates included in the scope of consolidation at 31.12.2015

Company	Registered office	Ownership interest Cost (Thousands of Euros)	%	Assets	Liabilities	Income	Profit/(loss)	Company holding the interest	Consolidation method	Activity	Auditor
INDIRECT SHAREHOLDINGS											
Through Retevisión and Tradia Telecom											
Torre de Collserola, S.A.	Ctra. de Vallvidrera al Tibidabo, s/n. Barcelona	2,439	41.75%	17,792	11,378	4,608	8	Retevision-I, S.A.U.	Equity method	Construction and operation of terrestrial telecommunications infrastructure	Deloitte
Consorcio de Telecomunicaciones avanzadas, S.A. (COTA)	C/ Uruguay, parcela 13R, nave 6, Parque Empresarial Magalia, Polígono Industrial Oeste Alcantarilla (Murcia)	304	29.5%	3,440	605	1,823	106	Tradia Telecom, S.A.U.	Equity method	Provision of related services for terrestrial telecommunications concessions and operators	Other auditors

This appendix forms an integral part of Note 2.h. to the consolidated financial statements for 2016 with which it should be read.

Cellnex Telecom, S.A. and Subsidiaries

Consolidated Directors' Report for the year ended 31 December 2016.

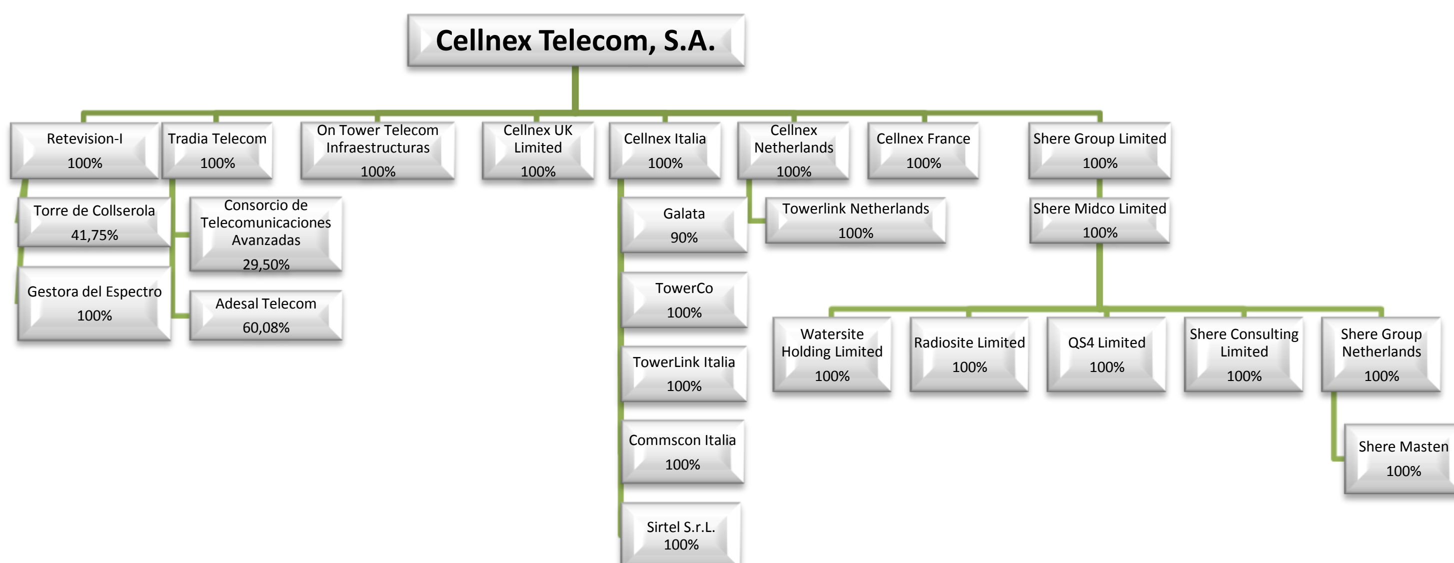
1. INFORMATION REQUIRED UNDER ARTICLE 262 OF THE SPANISH LIMITED LIABILITY COMPANIES ACT

1.1 Situation of the Group

The Cellnex Group provides services related to infrastructure management for terrestrial telecommunications to the following markets:

- Telecom Infrastructure Services
- Broadcasting Infrastructure
- Other Network Services

The organisational structure of the Cellnex Group at 31 December 2016 is as follows:



1.2 Significant events in 2016

The Group continues to be the leading neutral[(1)] Telecom Infrastructure Services provider for mobile network operators in Spain and Italy, during 2016 the Group has expanded Telecom Infrastructure Services to new countries: France, the Netherlands and the UK. In addition, the Group is the main Broadcasting Infrastructure provider in Spain with a majority share in the national and regional markets. The Group's business presents significant barriers to entry into its main markets, mainly due to its difficult-to-replicate total asset base of 16,828 sites and 1,072 nodes, which make a total of 17,900 infrastructures.

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(1) Neutral: without mobile network operator as controlling shareholder

On 20 June 2016, the IBEX 35 Technical Advisory Committee approved Cellnex Telecom's (CLNX: SM) inclusion in the benchmark index of Spain's stock exchange, the IBEX 35**.**

Telecom Infrastructure Services

The most significant events during the 2016 financial year were as follows:

i) ***Commscon Italy, S..r.L.***

The acquisition of 100% of the share capital of the Italian company Commscon Italia, S.r.l. ("Commscon") was completed in the second quarter of 2016, through its Italian subsidiary Cellnex Italia, S.r.L. This acquisition confirms the Group's commitment to developing and rolling out 'small cells' and accelerating its strategic positioning within the sector.

ii) ***Cellnex Netherlands subgroup (formerly Protelindo Netherlands subgroup)***

In the second quarter of 2016 Cellnex Telecom reached an agreement to acquire 100% of the share capital of Protelindo Netherlands, B.V. (which, in turn, owns all the shares of Protelindo Towers, B.V.), a subsidiary of the Indonesian telecommunications towers group PT Sarana Menara Nusantara. This acquisition reinforced the Group's international growth strategy: to acquire an initial portfolio of telecom infrastructures which allows for subsequent market consolidation. Cellnex is thus entering the Dutch market, which has a strong presence of independent telecom infrastructure operators and is highly dynamic in the context of networks based on Small Cells and DAS (Distributed Antennas Systems).

iii) ***Cellnex France, S.A.S.***

In addition in the third quarter of 2016 the Group created the subsidiary Cellnex France, S.A.S. ("Cellnex France") and subsequently signed an agreement with Bouygues Telecom, S.A. for the acquisition of 230 telecom infrastructures for a total consideration of approximately EUR 80 million (see Note 6 of the accompanying consolidated financial statements). In the final quarter of 2016 Cellnex and Bouygues Telecom closed the second phase of the agreement with the acquisition of 270 additional telecom infrastructures for a total consideration of EUR 67 million.

This transaction represents the beginning of a long-term cooperation with one of France's leading mobile operators. In addition to the acquisition of the portfolio of telecom infrastructures, Cellnex signed a 20-year contract to provide services to Bouygues Telecom.

iv) ***Shere Group subgroup***

In the third quarter of 2016 the Group signed a contract with Arcus Infrastructure Partners and other minority shareholders to purchase 100% of the share capital of Shere Group Limited, owner of 1,004 sites located in the Netherlands and UK. This acquisition represented the second portfolio of telecom infrastructures in the Netherlands and allows the strengthening of the relationship with current customers and also validates the Company's growth strategy based on the acquisition of an initial portfolio allowing for subsequent market consolidation. Additionally, the Group took its first step into the UK market with the objective to continue identifying and executing new growth opportunities.

On 14 December, Cellnex Italia signed an agreement with Linkem, the Italian operator with the highest market growth rates in broadband internet connections and the leader in fixed wireless services, to provide access to its portfolio of approximately 8,000 sites for the roll-out of Linkem's LTE network.

In addition to the aforementioned, the acquisition of Galata, carried out during 2015, consolidated the Group's position as a key player in the process to streamline the use of telecom infrastructures in Europe. The Group now has a unique portfolio of assets, which have enabled new business opportunities to be developed through the sharing of the infrastructure necessary in the roll out of fourth generation mobile telephones, involving the decommissioning of duplicated infrastructure.

The Telecom Infrastructure Services site portfolio as at 31 December 2016 is summarised below:

Framework Agreement	Project	Nº of Sites	Beginning of the contract	Contract Term in years [(3)]
Telefónica	Babel	1,000	2012	10+10+5
Telefónica and Yoigo (Xfera Móviles)	Volta I	1,211	2013	10+10+5 (Telefónica) Until 2030+8 (Yoigo)
Telefónica	Volta II	530	2014	10+10+5
Business combination	TowerCo purchase	321	2014	Until 2038
Telefónica and Yoigo (Xfera Móviles)	Volta III	113	2014	10+10+5 (Telefonica) Until 2030+8 (Yoigo)
Telefónica	Volta Extended I	1,090	2014	10+10+5
Neosky	Neosky	10	2014	10+10+5
Telefónica	Volta Extended II	300	2015	10+10+5
Business combination	Galata	7,377	2015	15+15 (Wind)
Business combination	Protelindo	261	2012 2016	+15 (KPN) +12 (T-Mobile)
Bouygues	Asset purchase	371	2016	20+5+5
Business combination	Shere Group	1,042	2011 2015 2015	+15 (KPN) +10 (T-Mobile) +15 (Tele2)
Shared with broadcasting business		1,832		
Dismantled sites [(1)]		(212)		
“Build to Suit” [(2)]		44		
Total Telecom Infrastructure Services site portfolio		**15,290**		

[(1)] At the date of the accompanying consolidated financial statements, the Group is in the process of dismantling a significant number of sites.

[(2)] Build to suit – towers that are built to meet the needs of the customer.

[(3)] Some of these contracts have clauses which prohibit partial cancellation and can therefore only be cancelled for the entire portfolio of sites (typically termed ‘all or nothing’ clauses.)

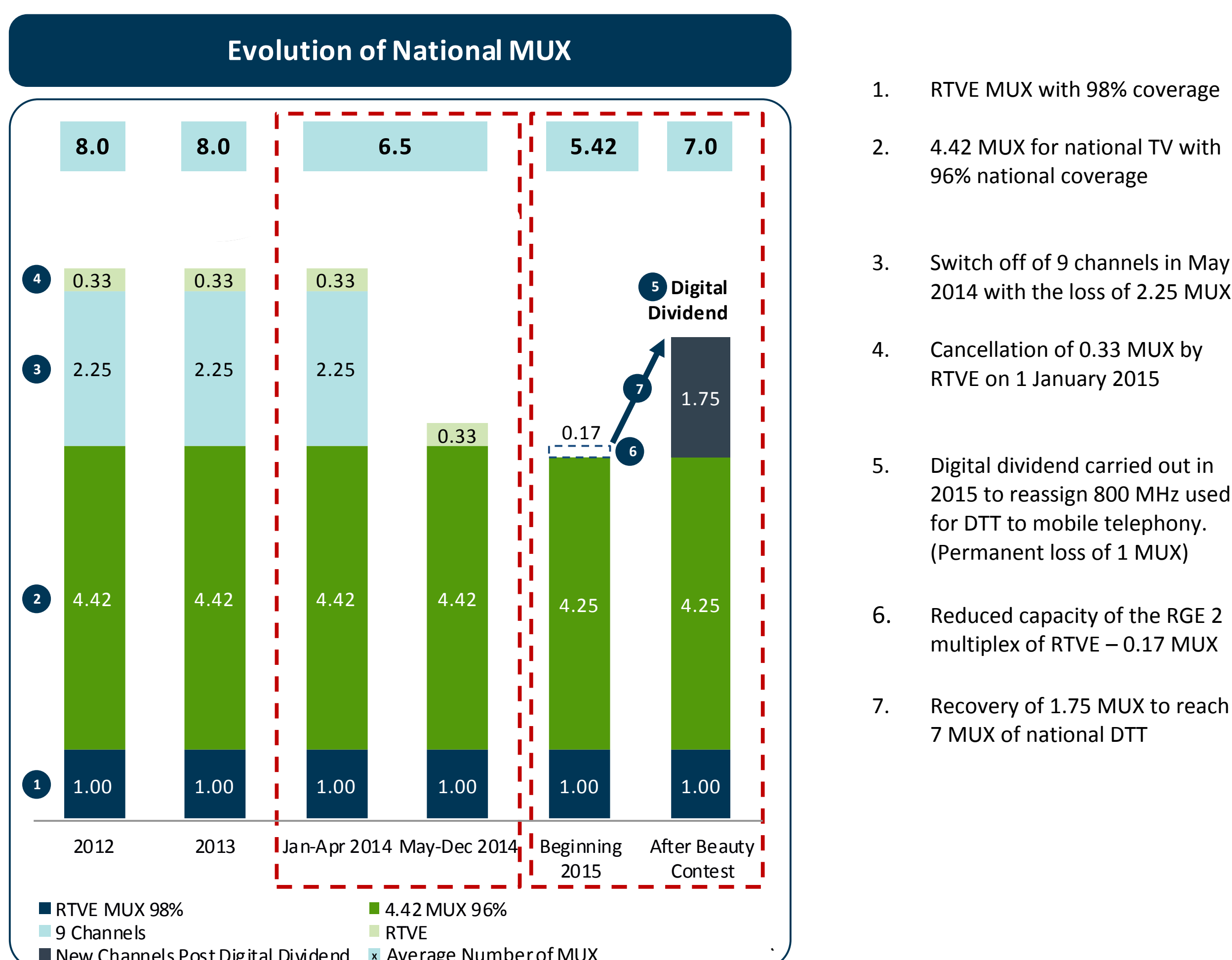
Following the acquisition of Commscon Italia, S.r.L. (see Note 5 of the accompanying consolidated financial statements) the Cellnex Group also maintains 1,072 antennae nodes with the Distributed Antenna Systems (“DAS”).

Broadcasting Infrastructure

The Royal Decree 805/2014, of 19 September 2014, approved the National Digital Terrestrial Television Technical Plan and regulated certain aspects of the release of the digital dividend, reducing the national multiplexes for digital terrestrial television to seven. This process of freeing up the 800MHz band was successfully completed on 31 March 2015.

Due to certain irregularities in the public tender process aimed at assigning channels to private operators, nine channels were shut down on 6 May 2014 (2.25 national multiplexes – MUX). In addition, due to the Audiovisual Act, Radio Televisión Española (RTVE) reduced the use of its second multiplex by 0.33 as part of the process of reassigning the spectrum to private radio broadcasters in 2015.

The following chart shows the development of the national MUX:



The Spanish Government, through order 677/2015 of 16 April 2015, modified the initial assignment of the capacity of the state digital multiplex RGE2 for RTVE, establishing it as half of the capacity of the RGE2 multiplex, when before it had been two-thirds of the capacity. Furthermore, through the resolution of 17 April 2015, the Government agreed to call a public tender to assign 6 new licenses. These tenders were for the

capacity pending assignment, namely 1.75 MUX (1.58 MUX plus a sixth of MUX from the reduction in capacity for RTVE discussed above) as a result of which the 7 planned national MUX will have been completed. During the last quarter of 2015, the 6 licenses were awarded and the corresponding income has started to be recovered during the second quarter of 2016.

The Group is awarded Broadcasting contracts on a regular basis, and in 2016 it was awarded the RTVE contact. In relation to this award, the DTT services have been extended until 2020 (with an option for an additional three years) and FM broadcast services until 2021 (with an option for an additional two years).

On 14 December 2016 the European Parliament and the Council of the European Union reached a political agreement on the decision to use the UHF Spectrum Band proposed by the European Commission, which will be obligatory for all member states of the European Union, once formally approved by the Council and the plenary of Parliament during the first quarter of 2017. It is a balanced decision since it guarantees that terrestrial TV will have priority of use of the spectrum in the Sub700 MHz band at least until 2030. Similarly, it assigns the 700 MHz band to the mobile services, with a target of 30 June 2020 but recognizing that some member states may need until 30 June 2022, facilitating the deployment of the new 5G networks, with a realistic timetable both for the new 5G technology to be available to a widespread customer base and to migrate current users of the 700 MHz band to the Sub700 MHz band, and it also facilitates member states to offset the migration costs of consumers and the Broadcast sector related to reassignment of the spectrum.

As always, the Group continues to research and implement better techniques, both in the provision of digital terrestrial television (DTT) services, and in the on-line distribution of audiovisual content.

Other Network Services

During 2016 the Group signed a new contract for Phase IV of the expansion of the TETRA network for railways on the Llobregat to Anoia line for the customer “Ferrocarrils de la Generalitat de Catalunya”, which will provide service to the freight railway lines of the port of Barcelona and the Manresa industrial zone.

Furthermore, also with regard to the TETRA network for railways, Cellnex has been awarded the Operation and Maintenance contract for Line 9 of the Barcelona Metro for the next two years and the operations and maintenance service for the Barcelona-Vallés line run by Ferrocarrils de la Generalitat de Catalunya for the next 15 months. In addition, in 2016 the contract for the full service for the TETRA network for the Police Department of the Jerez Town Council was signed for the next four years.

During the second quarter of 2016 a contract was also signed to extend the licenses of the Barcelona Wi-Fi network in order to expand this service to include city buses and the Group continues with a high activity in the management and operations of the infrastructures and telecommunications networks of the Barcelona Town Council.

Also within the security and emergency category, in 2016 the Spanish Global Maritime Distress and Safety System (GMDSS), which Cellnex is currently providing to the Spanish Merchant Navy Administration has been renewed for a further year.

Another noteworthy service is the sale of a fleet management solution for 397 ENAGAS vehicles. Finally, as regards connectivity services, Cellnex’s levels of activity as a wholesale supplier of connectivity for the main operators remain high.

In the third quarter of 2016 Cellnex implemented a communications service in three of the Balearia ferries operating on the Ibiza-Formentera maritime line, which will allow its customers to enjoy secure, free and quality internet and will also allow passengers to purchase tickets inside the ferry.

During the last quarter of 2016, Cellnex was awarded a contract to develop and operate the CityOS for the City of Barcelona for the next 30 months. This is an innovative operating system, that is part of the smart cities project, that makes the collection and analysis of information through all the services of the city more efficient, in order to help anticipate the needs and improve customer service. The ability to analyse data through CityOS will increase the efficiency and effectiveness of city services, making it possible to improve predictability and anticipate emergencies, provide real-time decision support and improve the quality of life of citizens, as well as the control they have over their data.

1.3 Business Performance and Alternative Performance Measures (APM)

i) Adjusted EBITDA

	Thousands of Euros	
	2016	**2015**
Broadcasting infrastructure	235,234	224,699
Telecom Infrastructure Services	382,539	302,026
Other Network Services	86,812	85,059
Operating income	**704,585**	**611,784**
Staff costs	(97,471)	(89,258)
Repairs and maintenance	(26,522)	(27,155)
Leases	(127,490)	(110,094)
Utilities	(72,604)	(60,194)
General and other services	(116,990)	(108,286)
Depreciation and amortisation charge	(176,779)	(153,500)
Operating profit	**86,729**	**63,297**
Depreciation and amortisation	176,779	153,500
Non-recurring expenses [2]	23,458	16,966
Advances to customers	2,590	921
Adjusted operating profit before depreciation and amortisation charge (Adjusted EBITDA [1])	**289,556**	**234,684**

(1) Adjusted EBITDA : Profit from operations before D&A and after adding back certain non-recurring and non-cash items (such as advances to customers and prepaid expenses).

(2) Non-recurring expenses mainly include expenses related to inorganic growth projects, tax associated with acquisitions, together with the amortization of advances to customer and to other pre-paid costs.

Non-recurring expenses are set out below:

	Thousands of Euros	
	2016	**2015**
Costs related to acquisitions[1]	7,392	12,870
Tax associated with acquisitions [2]	2,344	1,396
Lease cancellation costs [3]	5,631	-
Prepaid expenses [4]	8,091	2,700
Advances to customers [5]	2,590	921
Total non recurring expenses	**26,048**	**17,887**

[1] In 2015 this item related to IPO expenses and other associated expenses incurred as a result of the flotation which include acquisition costs for Galata and correspond to the costs for investment banks, legal, accounting, tax advisors and auditors, as well as bond issue expenses. In 2016 this items relates to the expenses incurred during the acquisition processes carried out during the year.

[2] In 2015 this item represent the 'Tobin tax' paid on the incorporation of Cellnex Italia, S.r.L. In 2016 this item relates to Real Estate Transfer Tax paid on the transfer of infrastructures in the Netherlands and stamp duty paid on the acquisitions in the United Kingdom

[3] This item relates to the non-cash provision made in relation to the consolidation of the Corporate offices in Madrid. This reorganisation took place in order to achieve significant savings in rental costs over the coming years

[4] Prepaid Expenses – this item relates to prepaid ground rental costs (EUR 3,766 thousand), prepaid energy and agency fees incurred to renegotiate the rental contracts (EUR 4,325 thousand) and which are taken to the consolidated income statement over the life of the corresponding ground lease contract.

[5] Advances to customers include the amortization of amounts paid for sites to be dismantled and their corresponding dismantling costs, which are treated as advances to customers in relation to the subsequent services agreement entered into with the customer (mobile telecommunications operators). These amounts are deferred over the life of the service contract with the operator as they are expected to generate future economic benefits in existing infrastructures.

- **Business indicators**

	Thousands of Euros	
	2016	**2015**
Total number of sites	**16,828**	**15,119**
Telecom infrastructure services [1]	15,290	13,578
Nodes [2]	**1,072**	-
Customer ratio – total [3]	**1.62**	**1.53**
Customer ratio – Spain	1.95	1.89
Customer ratio – Italy	1.31	1.25
Customer ratio – Netherlands	2.38	-
Customer ratio – France	1.24	-
Customer ratio – UK	1.53	-

(1) Telecom infrastructure services – Infrastructure for mobile network operators

(2) Nodes – Point of presence in relation to DAS.

(3) The customer ratio relates to the average number of carriers in each site. It is obtained by dividing the number of carriers by the average number of Telecom Infrastructure Services sites in the year.

- **Revenues and Results**

Income from operations for the year ended on 31 December 2016 reached EUR 705 million, which represents a 15% increase over the same period in 2015. This increase was mainly due to the expansion of the above-mentioned telecom infrastructure services for mobile network operators.

Telecom Infrastructure Services' income increased by 27% to EUR 383 million due to the aforementioned acquisitions. This business segment is characterised by solid growth driven by increasing demand for wireless data communication services, and by the growing interest of mobile network operators (MNO) in developing high quality networks that fulfil their consumers' needs in terms of uninterrupted coverage and availability of wireless bandwidth (based on new Long-Term Evolution "LTE" technologies), in the most efficient way. In recent years the Group consolidated its infrastructure network and long-term strategic relationships with its main customers, the mobile network operators. In addition to its current portfolio Group's Management has identified several potential acquisitions which are currently being analysed following its demanding capital deployment criteria. The Group owns a high-quality asset portfolio which is made up of selective assets in Spain, Italy, the Netherlands, France and the United Kingdom and performs the subsequent streamlining and optimisation of the tower infrastructure for Telecom Infrastructure Services. Its main added value proposals in this line of business consist of providing services to additional mobile network operators in its towers and therefore streamlining the customer's network. By increasing the ratio of customers to infrastructures, the Group will generate additional income with very little additional costs. This network streamlining may generate significant efficiencies for the Group and for the mobile network operators (MNO).

With regard to the Broadcasting Infrastructure business, income amounted to EUR 235 million which represents a 5% increase compared with the same period in 2015. This increase is due to the fact that during the first quarter of 2015 the Group broadcasted in simulcast parts of the national DTT channels in the 800 MHz band until they were freed up for the mobile network at the end of March 2015. This effect has been compensated with the switch on of the 6 TDT new licensed channels in Q2 2016.

Broadcasting Infrastructure activities are characterised by predictable, recurring and stable cash flows. Although this is a mature business in Spain, broadcasting activities have shown considerable resilience to adverse economic conditions, such as those experienced in Spain in recent years, this is due to the fact that the Group's income does not depend directly on macroeconomic factors, but rather on the demand for radio and television broadcasting services by broadcasting companies.

Other Network Services increased its income by 2%, to EUR 87 million, due largely to the IoT, Barcelona City Council Smart Cities and TETRA terminals projects.

Other Network Services constitutes a specialised business that generates stable cash flows with attractive potential for growth. Taking into account the critical nature of the services in which the Group collaborates, its customers require in-depth technical know-how that is reflected in the demanding service level agreements. The Group considers that it has a privileged market presence and geographical distribution, established relationships with government agencies and excellent infrastructure for emergencies and public services. The Group's aim is to maintain long-term relationships with its customers maximise the renewal rate of its contracts and expand its business through new contracts.

The main customers and projects to which the Group renders services include the Generalitat Valenciana with the implementation and maintenance of the Comdes network in Valencia, Barcelona Town Council with the deployment and maintenance of the Wi-Fi network for the city of Barcelona, the Spanish Merchant Navy with the Global Maritime Distress and Safety System service, Securitas Direct with the SIGFOX project, the Centre de Telecomunicacions of the Catalonian Generalitat with the management of the Rescat network of private communications for the emergency fleets, the deployment of the Tetra network for Line 9 of the Barcelona underground system, among others.

All of this has helped boost operating income and operating profit, with the latter also being impacted by the measures to improve efficiency and optimise operating costs.

In line with the increase in revenue, adjusted EBITDA was 23% higher than the same period in 2015, as a result of the assets acquired during 2015 and 2016, which reflects the Group's capacity to generate cash flows on a continuous basis.

The Group incorporates all increases in fair value as a consequence of the various business combinations at 100% of value, which causes the amortization of the corresponding intangible assets to be higher in relation to the previous year.

Operating profit grew by 37% compared with the same period in 2015 due to the inclusion of the subgroups Cellnex Netherlands, Cellnex France and Shere Group and the effect of annualising the Galata financial results.

Taking into account these considerations, the consolidated profit attributable to shareholders for the year ended on 31 December 2016 stood at EUR 40 million, a 39% increase compared with the Recurring Net profit in December 2015 of EUR 28.8 million.[1] The recurring net profit per share in 2016 was 0.17 Euros (0.12 Euros in 2015).

ii) Consolidated Cash Flow Generation

The ability of the Group to generate stable and growing cash flows allows it to guarantee the creation of value, sustained over time, for its shareholders. At 31 December 2016 and 2015 the Recurring Leveraged Free Cash Flow ("RLFCF") was calculated as follows:

	Thousands of Euros	
Recurring leveraged free cash flow	**2016**	**2015**
Adjusted EBTIDA[(1)]	289,556	234,684
Maintenance capital expenditures[(2)]	(21,423)	(17,880)
Changes in current assets/current liabilities[(3)]	17,931	962
Net payment of interest[(4)]	(23,208)	(9,799)
Income tax payment[(5)]	(11,477)	(13,913)
Recurring leveraged free cash flow	**251,379**	**194,054**

(1) See definition in the "Business Performance and Alternative Performance Measures" section of this Directors' Report.

(2) Maintenance capital expenditures: investment in existing tangible or intangible assets, such as investment in infrastructure, equipment and information technology systems, and are primarily linked to keeping sites in good working order, but which excludes investment in increasing the capacity of sites.

(3) Changes in current assets/current liabilities – see the relevant section in the Consolidated Statement of Cash Flows for the year ended 31 December 2016.

[(1)] Recurring Net Profit is calculated as Net profit of December 2015 (€47.2Mn) adjusted for the impact of EUR 20.5 million in the deferred tax expense in relation to the change in the Corporation Tax rate in Italy in 2015, adjusted for minority interests – See Note 15 of the accompanying Consolidated Financial Statements as at 31 December 2016)

(4) Net payment of interest corresponds to the net of "Interest payments" and "Interest received" in the accompanying Consolidated Statement of Cash Flows for the year ended 31 December 2016.

(5) Income tax payment – see the relevant section in the accompanying Consolidated Statement of Cash Flows for the year ended 31 December 2016.

iii) Net Payment of Interest

The reconciliation between the net payment of interest according to the consolidated statement of cashflows and the net interest expense for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	**2015**
Interest Income (Note 17.g)	1,179	394
Interest Expense (Note 17.g)	(46,954)	(27,861)
Bond & loan interest accrued not paid	16,962	8,288
Bond issue costs – non-cash	4,983	4,656
Put Galata – non-cash	3,978	901
Amortized costs – non-cash	4,932	5,544
Interest accrued in prior year paid in current year	(8,288)	(1,721)
Payment of income tax as per the consolidated Statement of cashflows	**(23,208)**	**(9,799)**

iv) Income Tax Payment

The reconciliation between the payment of income tax according to the consolidated statement of cashflows and the current income tax expense for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	**2015**
Current tax expense (Note 15.c)	**(12,640)**	**(11,956)**
Payment of income tax prior year	(279)	(4,690)
Receipt of income tax prior year	-	611
Advance Group Relief Abertis Infraestructuras, S.A.	-	2,319
Income tax (receivable)/payable	1,223	(197)
Others	219	-
Payment of income tax as per the consolidated Statement of cashflows	**(11,477)**	**(13,913)**

v) Consolidated Balance Sheet and Capital Expenditure

Total assets at 31 December 2016 stood at EUR 2,895 million, a 43% increase compared with the year-end December 2015, as a result of the investments made during the 2016. Around 72% of total assets relates to property, plant and equipment and other intangible assets, in line with the nature of the Group's business related to the management of terrestrial telecommunications infrastructure. The increase in property, plant and equipment and other intangible assets is a result of the above-mentioned acquisitions.

Consolidated net equity amounted to EUR 550 million, a 2% increase on year-end 2015, mainly due to the profit generated during the year, the final dividend and the acquisition of treasury shares.

Total capital expenditure for the year ended 31 December 2016 and 2015, including property, plant and equipment, intangible assets, advance payments on ground rentals and business combinations are summarised as follows:

	Thousands of Euros	
	2016	**2015**
Maintenance capital expenditures [(1)]	21,423	17,880
Expansion capital expenditures [(2)]	57,307	47,957
M&A capital expenditures [(3)]	705,556	739,478
Total investment	**784,286**	**805,315**

(1) Maintenance capital expenditures: investments in existing tangible or intangible assets, such as investment in infrastructure, equipment and information technology systems, and are primarily linked to keeping sites in good working order, but which excludes investment in increasing the capacity of sites.

(2) Expansion capital expenditures: Investment to the network of tower infrastructures, equipment for radio broadcasting, network services, cash advances, land acquisitions and others that generate additional adjusted EBITDA.

(3) M&A capital expenditures: Investments in shareholdings of companies as well as significant investments in acquiring portfolios of sites (asset purchases).

The reconciliation of investments in the year to the accompanying Consolidated Financial Statements for the year ended 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	**2015**
Additions of tangible fixed assets (Note 6)	201,463	90,098
Additions of intangible fixed assets (Note 7)	8,694	4,692
Advance site rental payments (Note 10)	26,593	17,525
Business combinations (Note 5)	547,536	693,000
Total investment	**784,286**	**805,315**

The total investment above of EUR 784 million (EUR 805 million in 2015), which relates to accounting values, is equivalent to EUR 748 million investment (EUR 787 million in 2015) when adjusted for the cash acquired on the balance sheets incorporated and various accounting additions that do not represent cash outflows.

Advance site rental payments relate to amounts paid in advance to the landlords and owners of rooftops in order to secure reductions in the corresponding rental costs.

The reconciliation with the accompanying Consolidated Statement of Cash Flows for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	**2015**
Total investment	784,286	805,315
Less unpaid additions	-	(33,325)
Plus additions from prior year paid in current year	21,294	79,029
Business combinations	(547,536)	(693,000)
Advance site rental payments	(26,593)	(17,525)
Asset Retirement Obligation – non cash addition	(2,888)	-
Purchases of property, plant and equipment – Consolidated Statement of Cash Flows	**228,563**	**140,494**

1.4 Liquidity and Capital Resources

Bank borrowings and bond issues are broken down as follows:

	Thousands of Euros	
	31/12/2016	**31/12/2015**
Bank borrowings (Note 13)	281,839	378,195
Bond issues (Note 13)	1,410,466	599,743
Bank borrowings and bond issues	**1,692,305**	**977,938**
Cash and equivalents (Note 11)	(192,851)	(51,000)
Net bank borrowings and bond issues	**1,499,454**	**926,938**

Net bank borrowings and bond issues amounted to EUR 1,499 million, including a consolidated cash and cash equivalents position of EUR 193 million. The ratio of net bank borrowings and bond issues divided by the adjusted annualised EBITDA amounts to 4.6x[(4)] (3.7x in 2015)

At the year ended 31 December 2016, a total of EUR 46.3 million corresponding to factoring contracts had been drawn down (EUR 44.5 million at year end 2015).

At the date of issue for approval of the accompanying consolidated financial statements, the Group has an available liquidity of EUR 1,800 million, considering cash and equivalents and available credit facilities. The average annual cost at 31 December 2016 of all available borrowings would be 2.0% if entirely drawn down.

[(4)] Annualised adjusted EBITDA is calculated as 12 month run-rate of adjusted EBITDA annualising the effect of all acquisitions during the financial year.

Regarding the Corporate Rating, at 31 December 2016, Cellnex holds a long term “BBB-“ (investment grade) with stable outlook according to the international credit rating agency Fitch Ratings Ltd. and a long-term “BB+” with stable outlook according to the international credit rating agency Standard & Poor’s Financial Services LLC.

1.5 Main risks and uncertainties

The Cellnex Telecom Group has implemented a risk management model that has been approved and is monitored by the Audit and Control Committee, and is applicable to all business and corporate units in countries where the Group operates. The risk management model is aimed at effectively ensuring that the Group’s objectives are achieved.

The main risks to the fulfilment of the Group’s objectives are as follows:

Risk related to the industry and the business the Group operates

i) *Risk related to the environment in which the Group operates and risks stemming from the specific nature of its business*

The risks to which the Group is exposed as a result of its environment relate to declining demand as a result of the economic and political situation in the countries in which it operates, the creation of new, alternative technologies, or the entry of new competitors in its areas of activity. Likewise, a significant portion of the Group’s income comes from a small number of customers and, therefore, if the customers share the infrastructure in a significant manner, merge or have solvency and financial capacity problems, the ability to generate positive cash flows could be adversely affected.

To reduce its exposure to risks as a result of the environment in which it operates, the Group pursues a selective international expansion plan, diversification and growth policy, fostering understanding with Government Agencies to develop infrastructures. In addition, it has continued to implement an efficiency plan in order to streamline operating investments and expenditures.

ii) *Risk of increasing competition*

The Group may experience at any time increased competition in certain areas of activity from established and new competitors. The industry is competitive and customers have access to alternatives in telecom infrastructure services or broadcast infrastructure services, whereas for broadcasting TV the alternatives are more limited. Where the Group acts as a provider of services, competitive pricing from competitors could affect the rates and services income. In addition, competition in infrastructure services could also increase the cost of acquisition of assets and limit the Group’s ability to grow its business. Moreover, the Group may not be able to renew existing services agreements or enter into new services agreements. The higher prices for assets, combined with the competitive pricing pressure on services agreements, could make it more difficult to achieve return on investment criteria.

Increasing competition for assets and acquisitions in the context of the Group’s business expansion, which could make the acquisition of high quality assets significantly more costly. Some competitors are larger than the Group and may have greater financial resources, while other competitors may apply investment criteria with lower return on investment requirements.

iii) *Risk of infrastructure sharing*

While the Group believes the neutral carrier model presents certain advantages and there is a growing trend of externalization of the provision of wireless communications infrastructure, extensive sharing of

site infrastructure, roaming or resale arrangements among wireless service providers as an alternative to using the Group's services may cause entering new service agreements to slow down if carriers utilize shared equipment (either active or passive) rather than deploy new equipment, or may result in the decommissioning of equipment on certain existing sites because parts of the customers' networks may become redundant.

iv) *The expansion or development of Group business, including through acquisitions or other growth opportunities, involve a number of risks and uncertainties that could adversely affect operating results or disrupt operations*

It is an integral part of Group strategy to continue driving growth through the acquisition of assets, entities or minority interests, or other growth opportunities such as joint ventures or other mergers and acquisitions or other arrangements in the countries where the Group currently operates or elsewhere, which could require, among other matters, new debt, the issuance of shares to finance such acquisitions or other growth opportunities. Group's growth strategy is linked, among other factors, to the capacity to successfully decommission and build new infrastructure. In the ordinary course of the business, the Group reviews analyses and evaluates various potential transactions, assets, interests, activities or potential arrangements that the Group believes may add value to the business or the services provided. Anti-trust or similar legislation, however, may preclude ability to grow the portfolio of assets in a particular market or jurisdiction. Even if compliant with anti-trust legislation, the Group may not be able to consummate such transactions, undertake such activities or implement new services successfully or at all, which would negatively affect growth. Further, such transactions or activities could cause disruptions in, increase the risk of or otherwise negatively impact the Group's business.

As the Group continues its acquisitions and expands into new markets, the Group is subject to a number of risks and uncertainties, including failing to obtain the expected returns and financial objectives, increased costs, assumed liabilities, the diversion of managerial attention due to acquisitions and potential structural changes such as mergers or consolidations of competitors.

v) Operational risks

Operational risks relate to the integration of acquisitions; safety of users and employees; adaptation and quick response to technology changes in operating systems and the emergence of new technologies; maintenance and quality of infrastructures; training and retention of talent; integrity and security of information; internal and external fraud; dependence on suppliers; and business disruptions.

vi) Risks related to maintaining the rights over land where the Group's Infrastructures are located.

The Group owns the majority of its telecommunications infrastructures, however the vast majority of the land where they are located is operated and managed via lease contracts, sub-lease contracts or other types of contracts with third parties. Thus, for various reasons, the landlords could decide not to renew the ground lease contracts with the Group Company in question, thus the Group would lose its rights over the land or the land could be transferred to third parties, thus affecting Cellnex's ability to renew those contracts under commercially acceptable terms. The Group also has long-term rights to use third party towers and the non-compliance with its obligations would lead to the loss of the right to uses these infrastructures.

To minimise these risks, the Group has specific control policies, procedures, plans and systems for each area which are periodically reviewed and updated by specific external auditors for each area (financial reporting, quality, occupational risks, etc.). The Group also continually monitors and analyses its insurable risks and has implemented an insurance programme to ensure a level of coverage and risk in keeping with the policies that have been introduced.

vii) Risks inherent in the businesses acquired and the Group's international expansion.

The expansion and development of the Group's business, including the acquisitions and other growth opportunities, leads to a series of risks and uncertainties that could impact its financial statements. Recently Cellnex has expanded its business in Europe and one of its strategic objectives is to continue this growth process through the acquisition of assets, businesses and minority shareholdings or other growth opportunities both in the countries in which it operates currently and others.

Thus, since the Group continues to acquire telecommunication sites in existing markets and is continuing its expansion into new markets, it is subject to a series of risks and uncertainties.

Thus, any international expansion initiative is subject to additional risks such as the laws, regulations and complex business practices, among which the following would be included:

- Laws or regulations that tax or restrict the repatriation of profits or other reserves or limit the distributions of capital in any other way.

- Measures that restrict or revoke licences for the spectrum used or cause the activity to be suspended based on previous licences.

- Price fixing or similar laws around passive infrastructure sharing.

- Changes in existing or future tax laws, in the application of tax laws that could have an impact on the international operations or on the levies specifically directed at property (for example the RETT[(5)] – Real Estate Transfer Tax).

Likewise, as the Group is now present in new countries, it is directly exposed to each of these countries political and economic situations, and may be adversely affected by their instability. For instance, upcoming elections and the growth of anti-EU political parties, create market uncertainty in which it is unable to predict how the economic and political cycle in such locations will develop in the short-term or the coming years or whether there will be further deterioration in this cycle. Due to the growing presence in the United Kingdom, the Group faces the risk of political and economy uncertainty derived from the referendum held on June 23, 2016 where the choice to depart from the EU won. Although the process of negotiation of exiting the EU is still ongoing and the material consequences of the referendum are unclear, the global financial markets have reacted to this decision and have been volatile since the decision to leave was taken. The departure of the United Kingdom from the EU would require an economic adjustment to any new trade and investment relationships in the future, facing, in the meanwhile, the consequences of uncertainty on investment, activity and financial markets, undermining the confidence in the overall stability of the future relationship between the United Kingdom and the EU.

viii) Risk associated with significant agreements signed by the Group that could be modified due to change of control clauses

This risk is associated to the significant agreements signed by the Group companies which can be modified or terminated when a change of control provision is triggered. In general, a change of control clause could be triggered when a third party, either alone or in conjunction with others, effectively obtains (i) more

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[(4)] – RETT (Real Estate Transfer Tax) is a tax levied on the transfer of legal or beneficiary title to real estate assets. This tax is calculated on the gain between the fair value of the real estate asset transferred and the transaction price.

than 50% of shares with voting rights or (ii) the right to appoint or dismiss the majority of the members of the board of directors of the relevant company. However, in certain agreements, the definition of control and therefore the change of control make specific reference to the applicable law of the country where the agreement is signed.

As stated in Note 13, the syndicated facilities, the bond issues and the loans and credit facilities include certain change of control clauses which could trigger an early repayment of the debt. The inclusion of such clauses is usual for fixed income investors and financial entities looking for protection from new owners with riskier financial policies.

With regards to the significant agreements signed by the Group companies with its anchor customers, the change of control provisions are often limited to the events where the acquiring company is a direct competitor of the anchor customer. As such, it is usual to see that anchor customers are granted a purchase option in order to repurchase the infrastructures where they are receiving services. In addition, this purchase option can also be granted in the event that a direct competitor of the anchor customer acquires a significant portion of the shares or obtains voting or governance rights which can be exercised in a way that can negatively affect the anchor customer's interests. Finally, the purchase option can also be exercised if there is a manifest breach by a Group company of the contractual obligations under the services agreement with its customers.

ix) Regulatory and other similar risks

Risks related to changes in tax and legal regulations and socio-political changes are also significant given that the Group carries out an activity subject to government regulations, as well as the regulatory framework applicable in the European Union ("EU") which some of them could be applied or enforced retroactively, on the manner in which the Group carries out its business. The main rules applicable to the Group and its customers include the availability and granting of licences for use of the spectrum, the rates for its use, and the commercial framework for the sale of terrestrial radio broadcasting assets and the obligations imposed on the Group by the Spanish competition authorities in relation to its broadcasting infrastructure activities.

The Group mitigates the risks to which it is exposed from possible regulatory changes through coordination in the relevant areas to ensure that prevailing local legislation is adhered to and that it is able to anticipate regulatory changes.

x) Litigation

The Group is subject to the risk of legal claims and proceedings and regulatory enforcement actions in the ordinary course of business and otherwise. The results of legal and regulatory proceedings cannot be predicted with certainty. The Group cannot guarantee that the results of current or future legal or regulatory proceedings or actions will not materially harm the Group's business, prospects, financial condition, results of operations or cash flows, nor can it guarantee that it will not incur losses in connection with current or future legal or regulatory proceedings or actions that exceed any provisions that it may have set aside in respect of such proceedings or actions or that exceed any available insurance coverage, which may have a material adverse effect on the Group's business, prospects, results of operations, financial condition and cash flows.

xi) Technological risks

In a sector characterized by rapid technological change, it is essential to be able to offer the products and services demanded by the market and select the correct investments to be made.

The Group operates in markets that are highly competitive and subject to constant technological development. Therefore, as a consequence of both of these characteristics, it is subject to the effects of actions by competitors in these markets and to its ability to anticipate and adapt, in a timely manner, to constant technological changes, changes in customer preferences that are taking place in the industry, as well as economic, political and social circumstances.

Failure to do so adequately could have an adverse impact on the Group's business, financial condition, results of operations and cash flows.

New products and technologies are constantly emerging that may render some of the products and services offered by the Group obsolete. The incursion of new agents in the communications market, such as subscription distribution systems for television or video signals using broadband connections (IPTV) or the growth and deployment of Wi-Fi networks that is taking place on a global level make it necessary to update the business model, encouraging the search for additional revenues and efficiencies to the more traditional ones.

Risk related to the financial information

xii) Financial information, fraud and compliance risks

The Cellnex Group has a code of conduct (Ethics' Code) approved by the Board of Directors. The corporation prepares an Ethics' Code Framework which is adapted in each country by way of the drawing up of a local ethics regulation which combines observance of corporate guidelines with the specific features certain countries may have on particular matters. The Ethics' Code is communicated to all employees, is available on the corporate intranet and forms part of the training received by new staff. In addition, other mechanisms exist to ensure awareness by employees.

The Group has created a corporate compliance function to improve compliance with the Group's Ethics' Code, implemented through specific regulations for each country and the establishment of whistle-blowing channels and the supervision of oversight and control measures to prevent criminal acts. The main values and principles included in the Ethics' Code are: integrity, honesty, transparency, loyalty, commitment to and defence of Group interests, and responsibility in all actions. The Ethics' Code includes among its fundamental principles the commitment to strictly comply with the obligation of the Cellnex Group to offer reliable financial information prepared in accordance with applicable regulations, and the responsibility of its employees and management to ensure this is so, both by correctly carrying out of their functions and by notifying the governing bodies of any circumstance which might affect that undertaking.

To mitigate risks relating to financial reporting and to ensure the reliability of such information, Cellnex has established an Internal Control over Financial Reporting System (ICFRS). The Group has a corporate risk control unit that is responsible for carrying out tests to verify compliance with the policies, manuals and procedures defined for the ICFRS, and for validating the effectiveness of controls in place to mitigate the risks related to these processes.

xiii) Expected contracted revenue (backlog)

Expected contracted revenues from the service agreements (backlog) (Note 17.a) represents management's estimate of the amount of contracted revenues that the Group expects will result in future

revenue from certain existing contracts. This amount is based on a number of assumptions and estimates, including assumptions related to the performance of a number of the existing contracts at a particular date but do not include adjustments for inflation.

One of the main assumptions relates to the contract renewals, and in accordance with the site portfolio table in section 1.2, contracts for services have renewable terms including, in some cases, 'all or nothing' clauses (see definition in section 1.2) and in some instances may be cancelled under certain circumstances by the customer at short notice without penalty. Delays, payment defaults or cancellations could reduce the amount of backlog currently estimated, and consequently, could inhibit the conversion of that backlog into revenues.

<u>Financial risks</u>

xiv) Foreign currency risk

As the Group's presentation currency is the euro, fluctuations in the value of the currencies in which borrowings are instrumented and transactions are carried out with respect to the euro may have an effect in future commercial transactions, recognised assets and liabilities, and net investments in foreign operations.

From 2016 onwards, the Group now operates outside the euro area and holds assets primarily in United Kingdom. It is therefore exposed to foreign currency risks.

The strategy for hedging foreign currency risk in investments in non-euro currencies must tend towards a full hedge of this risk, and must be implemented over a reasonable period of time depending on the market and the prior assessment of the effect of the hedge.

The effects on the Group's equity would be partially offset by the impact on equity from the net investment hedges, which were entered into for the initial investment amount.

Despite the aforementioned the exposure to foreign currency risk is limited due the relatively small size of the business in United Kingdom in comparison in the whole Group.

At 31 December 2015, practically all of the Group's transactions were denominated in Euros and, therefore, it was not exposed to foreign currency risk.

xv) Interest rate risk

The Group is exposed to interest rate risk through its current and non-current borrowings.

Borrowings issued at floating rates expose the Group to cash flow interest rate risk, while fixed-rate borrowings expose the Group to fair value interest rate risk. Additionally any increase in interest rates would increase Group finance costs relating to variable-rate indebtedness and increase the costs of refinancing existing indebtedness and issuing new debt.

The aim of interest rate risk management is to strike a balance in the debt structure which makes it possible to minimise the volatility in the consolidated income statement in a multi-annual setting.

The Group can use derivative financial instruments to manage its financial risk, arising mainly from changes in interest rates. These derivative financial instruments are classified as cash flow hedges and recognised at fair value (both initially and subsequently). The required valuations were determined by analysing discounted cash flows using assumptions mainly based on the market conditions at the

reporting date for unlisted derivative instruments (see Notes 3.e and 13 of the accompanying consolidated financial statements).

The main financing granted from third parties by the Group in 2016 and 2015 (see Note 3.e and 13 of the accompanying consolidated financial statements) is not covered by interest rate hedging mechanisms.

xvi) Credit risk

Each of the Group's main business activities (Telecom Infrastructure Services, Broadcasting Infrastructure and Other Network Services) obtain a significant portion of income from a limited number of customers, many of which are long-term customers and have high-value contracts with the Group.

Telecommunications operators are the Group's main customers in its activities relating to the Telecom Infrastructure Services; television and radio broadcasting operators (television channels and radio stations) are the main clients in its activities relating to broadcasting infrastructure; and certain central, regional and local government authorities, emergency and security forces, the public service sector and telecommunications operators are the main customers in its activities relating to Other Network Services.

The Group is sensitive to changes in the creditworthiness and financial strength of its main customers due to the importance of these key customers to the overall revenues. The long-term nature of certain Group contracts with customers and the historically high renewal ratio of these contracts helps to mitigate this risk. The Group depends on the continued financial strength of its customers, such as telecommunications operators, media broadcasters and public administrations which operate with substantial leverage, some of them are not investment grade or do not have a credit rating.

Given the nature of the Group's business, it has significant concentrations of credit risk, since there are significant accounts receivable as a result of having a limited number of customers. To mitigate this credit risk, the Group has in place contractual arrangements to transfer this risk to third parties via non-recourse factoring of trade receivables in which case the Group would not retain any credit risk.

The credit risk also arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, and other debt, including unsettled receivables and committed transactions.

To mitigate this credit risk, the Group carries out derivative transactions and spot transactions mainly with banks with strong credit ratings as qualified by international rating agencies. The solvency of these institutions, as indicated in each institution's credit ratings, is reviewed periodically in order to perform active counterparty risk management.

During the years for which information is reported, no credit limits were exceeded and management does not expect to incur losses as a result of default by any of the counterparties indicated above. The provision recognised for doubtful debts is not significant compared with the balance of accounts receivable at year-end.

xvii) Liquidity risk

The Group carries out a prudent management of liquidity risk, which involves maintaining cash and having access to a sufficient amount of financing through established credit facilities as well as the ability to settle market positions. Given the dynamic nature of the Group's businesses, the policy of the Group is to maintain flexibility in funding sources through the availability of committed credit facilities. Due to this policy the Group has available liquidity of EUR 1,800 million, considering cash and available credit lines, as at the date of approval for issue of these consolidated financial statements, and has no immediate debt maturities (the maturities of the Group's financial obligations are detailed in Note 13.)

As a consequence of the aforementioned the Group considers that it has liquidity and access to medium and long-term financing that allows the Group to ensure the necessary resources to meet the potential commitments for future investments.

xviii) Inflation risk

The vast majority of the Group's services contracts are indexed to inflation through part of its operating expenses and infrastructure services agreements. The same is true of its other contracts.

xix) Risk related to Group indebtedness

Indebtedness may increase, from time to time, in the future for potential new acquisitions, fundamental changes to corporate structure or joint ventures and issuances made in connection with any of the foregoing.

Group present or future leverage could have significant negative consequences on business, prospects, results of operations, financial condition, corporate rating downgrade (see Note 13 of the accompanying consolidated financial statements) and cash flows, including:

- Placing the Group at a possible competitive disadvantage to less leveraged competitors and competitors that may have better access to capital resources, including with respect to acquisitions and forcing ourselves to forego certain business opportunities;

- Requiring the dedication of a substantial portion of cash flow from operations to service Group debt, thereby reducing the amount of cash flow available for other purposes, including, among others, capital expenditures and dividends;

- Requiring the Group to issue debt or equity securities or to sell some of its core assets, possibly on unfavourable terms, to meet payment obligations;

- Accept financial covenants in the Group financing contracts such as: debt limitation, cash restriction, pledge of assets.

- Leverage ratio increase can also affect the current corporate rating, a potential downgrade from a rating agency can make more difficult and costlier obtaining new financing.

At 31 December 2016, Group financing contracts do not have financial covenants, is not in default under any of payment obligations, either of principal or interest and can face future dividends payments.

A comprehensive list of risks to which the Group is exposed can be found in the public information released as at the date of the approval for issue of these consolidated financial statements.

1.6 Information relating to the deferred of payments to suppliers

See Note 14 of the accompanying consolidated financial statements.

1.7 Use of financial instruments

During the year ended 31 December 2016, the Group followed the policy for the use financial instrument in Note 4 of the consolidated report to the consolidated annual accounts.

1.8 R&D activities

During the 2016 financial year the Cellnex Telecom group continued to invest in research and development, carrying out various R&D projects both in Spain and abroad.

At international level, the European H2020 GrowSmarter project in the area of Smart Cities is notable: work has continued on the implementation of an urban resource IoT platform in the city of Barcelona in order to enable the integrated management of mobility and energy efficiency. In the area of energy efficiency, Cellnex has been working on the development of an “intelligent, energy efficient street lamp” for use in cities and shopping centres; and in the area of mobility the company has been working on the intelligent management of taxi ranks for the Metropolitan Institute of Taxis (Institut Metropolità del Taxi) using IoT technologies.

The iCity project (with the participation of Barcelona, London, Bologna and Genoa), COMPOSE (about the Internet of Things) led by IBM Israel and ACORN (research and development in the field of SDR, or Software Defined Radio, applied to IoT) have also been continued. For this last project Cellnex have received approval to publish an article in the magazine “IEEE Transactions on Communications” that has been written by the University of the Basque Country, which has been subcontracted by Cellnex to participate in the project. It is entitled “Incumbent and LSA Licensee Classification Through Distributed Cognitive Networks” and aims to investigate algorithms and corporate strategies to manage the cognitive network spectrum with direct application to Smart Cities, the IoT and connected vehicles.

Regarding the audiovisual industry there are important projects: TVRING, within the field of broadcasting and related to hybrid television through broadcasting and the Internet and Globalitv, which has European and Brazilian partners and intends to boost the European standard for Hybrid TV in Brazil. These two latter projects have passed the Final Review of the Commission.

At national level the following projects have been continued: REINVEL, which is developing a comprehensive solution for charging electric cars at parking meters; PLEASE, regarding 4k broadcasting and encoding solutions; and ONDADA, which is expanding coverage at sea for the marine safety platform and marine positioning of boats, AIS (“Automatic Identification System”).

Furthermore, the V2Arch project which aims to investigate appropriate technologies for vehicle-to-vehicle and vehicle-to-infrastructure communications has been started, as has the Solare2RF project, funded by the Basque Government, which aims to develop monitoring solutions and tools to improve energy efficiency at the Company’s sites.

To date, 3 national proposals have been put forward and 5 European proposals are being prepared, mostly in the area of IoT (Internet of Things) and 5G.

1.9 Corporate Responsibility Master Plan

In 2016 the Group commenced the roll out of the five pillars on which the Corporate Responsibility Master Plan 2016-2020 is built. This policy, approved by the Board of Directors, can be accessed on the Cellnex Telecom web page. https://www.cellnextelecom.com/en/politica-de-rc/.

The following figures illustrate the degree of performance and progress: 76% of the action plans that form the backbone of the Master Plan are already under way and 24% of the 92 indicators established have already been achieved.

One of the key aspects in the process of rolling out the Corporate Responsibility Master Plan is measuring compliance based on objective criteria. In 2016 the company implemented the Enablon platform as specialised

"software" for collecting data uniformly and for the whole Group, which are then reported using indicators from the Global Reporting Initiative (GRI).

Following this same approach of ensuring objective compliance, and based on the information reported to the Carbon Disclosure Project (CDP), which is one of the major global sustainability indices, it is noteworthy that Cellnex Telecom has been ranked as the best Spanish company to join the index in 2016. Also during the year, the company performed an internal "shadow rating" analysis to compare its progress against some of the major global sustainability indexes, including the Dow Jones Sustainability Index. In this way, Cellnex has identified where its strengths and weaknesses lie, and thus where to implement improvement measures.

2.0 Employees

In 2016 the Group implemented a “talent management” model aligned with the Group’s business strategy. With the Corporative Mission as a premise, a skills and leadership model has been defined aimed at capturing every employee’s contribution in achieving the results of the Group. In addition, an integral talent management tool (the Hub) has been implemented to assist in the evaluation and development of the Group’s employees, in the firm belief that the company’s success lies in the motivation and enthusiasm of its staff. This methodology allows the Group to develop talent indicators along with improvement and development indicators minimizing the subjectivity of the employee’s evaluation and enabling comparisons of the changes over time.

Furthermore, the 70/20/10 learning and development model has been implemented, which is a learning model where each employee is responsible for their own development and the corresponding line manager is responsible for supporting this, whereas the company’s responsibility is to facilitate the means for it to happen. As a result, almost 100% of the employees already have an Individual Development Plan.

Our program for managers, project managers and trainers is an example of a tailored development program implemented in 2016.

2.1 Other Information

Shareholder remuneration

During the 2016 financial year an interim dividend amounting to EUR 10,194 thousand was distributed, which represents EUR 0.044 gross for each of the shares that make up the share capital of Cellnex Telecom, S.A. (EUR 9,267 thousand at year-end 2015, representing EUR 0.04 gross per share).

Therefore, the Board of Directors of the Parent Company adopted a resolution to propose to the Annual General Meeting of Shareholders a final dividend of EUR 0.0423 gross per share against 2016 profit.

Thus, the maximum total dividend charged to 2016 profit will be EUR 20,000 thousand.

Business outlook

Following a year marked by the international consolidation and expansion of the Group, with the acquisitions executed in the year, in 2017 the Group will continue to analyse investment and growth opportunities that comply with the strict profitability and discipline requirements that the Group applies to all its investments.

The Group will maintain its focus on the potential investments in markets where it currently operates as well as other European markets in which investment opportunities are present and comply with its requirements. The priority continues to be to growth in the Telecom Infrastructure Services segment, for which there are clearly two growth paths:

1. Inorganic growth which is comprised of the acquisition of companies in the same sector as well as asset deals mainly from mobile network operators, such that, once acquired, the Group can offer additional services to the operators.

2. Organic growth, in the countries in which the Group operates, reaching service agreements with new customers that need to develop and implement their own network, along with agreements with current customers, offering services that allow them to rationalise their networks and optimise costs, through the dismantling of duplicate infrastructures and building new infrastructures in strategic sites that could offer service to one or more customers. This growth allows the Group to increase its ratio of customers by infrastructure and work with the operators to complete the deployment of 4G, reduce areas with no signal coverage and extend network densification.

With this growth strategy the Group pursues the following objectives: increase its customer base, diversify geographically in countries with strong credit ratings, create a European platform to deliver organic growth, be ready for the implementation of 5G networks and, as a result, its improve business risk profile.

In terms of day to day operations the Group will continue consolidating recent acquisitions, maintaining permanent contact with its customers from all business segments in order to improve and extend the services currently offered and to ensure the renewal of all contracts under the most advantageous conditions for all parties.

This outlook for the Group, along with the ongoing efforts to improve efficiency, allows us to expect higher on-going operating returns.

No new risks or uncertainties are expected other than those noted above that are inherent to the business or those indicated in the accompanying consolidated financial statements for the year ended on 31 December 2016. Nonetheless, the Group has strived and will continue to strive to optimise its management so as to have greater control over operating costs and investments.

Treasury shares

During the 2016 financial year Cellnex Telecom, S.A. has operated with treasury shares, maintaining a final balance of 197,000 shares at an average price of 13.673 Euros, and which represent 0.09% of the share capital of the Parent Company.

The acquisition of treasury shares has been carried out by means of a liquidity contract[6] signed by Cellnex on 31 May 2016 with Santander Investment Bolsa, Sociedad de Valores, S.A.U. in order to manage its portfolio of treasury shares.

Environment

It is Group policy to pay maximum attention to environmental protection and conservation, and each subsidiary company adopts measures to minimise the environmental impact of the infrastructure that it manages and ensure the maximum degree of integration into the surrounding area.

[6] Liquidity contract in accordance with the CNMV circular 3/2007 of 19 December covering liquidity contracts for the purpose of their acceptance as market practice.

Cellnex Telecom has an environmental policy based on respect for the environment and the protection and conservation of biodiversity, through the efficient use of resources and promoting preventive actions.

Thus, in addition to basing its activity on sustainability and responsibility principles, Cellnex has defined **Sustainable Business Development** as one of the basic pillars of the CR Master Plan.

The goals defined in the Plan under the Sustainable Business Development pillar are:

- Maintaining a level of integrated environmental management throughout the Cellnex Group;
- Promoting energy efficiency, increasing the use of renewable energy and implementing efficiency measures at the company premises;
- Opting for sustainable mobility;
- Implementing a Zero Waste culture;
- Reduce progressively its carbon footprint;
- Protecting and respecting the ecosystems affected by Cellnex's activity;
- Participating in the analysis of ERM in Spain;
- Promoting a sustainable culture within the Cellnex organisation;
- Measuring and communicating environmental performance, as well as reporting it annually in international organizations (CDP, GRI, DJSI, UNGC or FDTE).

With regard to quality control, the Group companies Retevisión-I, S.A.U., Tradia Telecom, S.A.U. and On Tower Telecom Infraestructuras, S.A.U. renewed their ISO 9001 Quality, ISO 14001 Environmental Management, OSHAS 18001 Occupational Health and Safety, UNE 166002 Research, Development and Innovation, ISO 17025 Competence of Testing and Calibration Laboratories and ISO 27001 Information Security certificates, underscoring their continued commitment to quality.

Post balance sheet events

On 12 January 2017 Cellnex successfully completed the pricing of a bond issuance, aimed at qualified investors for an amount of EUR 335 million, maturing in April 2025 and with a coupon of 2.875%.

On 31 January 2017 Cellnex reached an agreement with Bouygues Telecom for the acquisition and building of up to 3,000 urban sites in France, and it is structured around two projects. The first one relates to the acquisition of up to 1,800 sites for a total enterprise value of EUR 500 million and involves urban sites in the main cities of France (c.85% located in areas with a population above 400,000 inhabitants) which are to be gradually transferred to Cellnex France over a period of 2 years.

Cellnex and Bouygues Telecom have also agreed on a second project for the building of up to 1,200 sites for a total investment of EUR 354 million. This build-to-suit project relates to urban sites to be built over an estimated period of 5 years.

Together, these projects are expected to generate annual EBITDA of approximately EUR 61 million on a run rate basis (once all of the sites have been acquired and built) excluding synergies.

These two projects are fully aligned with Cellnex’s corporate purpose and with its international expansion strategy based on the acquisition of an initial portfolio of assets allowing for subsequent market consolidation, and represent a clear example of consistent delivery of the Company’s equity story based on growth.

Cellnex is thus strengthening its position in France by becoming the 2nd largest independent tower operator, reinforcing its current long-term partnership with Bouygues Telecom and setting the foundations to continue capturing organic growth in the country through future densification needs.

Bouygues Telecom will be the main customer of this portfolio of sites, with whom Cellnex has signed a tailor-made Master Service Agreement for an initial period of 15 years that can be extended up to 15 additional years, and with a 2% annual fixed fee escalator.

Upon completion of these projects, Cellnex France is expected to manage and operate a unique portfolio of above 3,500 sites in France, in high demand areas and ready to capture future organic growth.

Both projects are fully compliant with Cellnex's strict return and value creation policy, primarily based on recurring levered free cash flow per share accretion and an expected equity IRR of low double digit, and will be financed through available cash and future cash flows from Cellnex France with no impact on the Company's current BBB- corporate rating.

Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2.a of the accompanying consolidated financial statements). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Barcelona, 16 February 2017

3. ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report submitted by the Board of Directors of Cellnex Telecom, S.A. is included below, and consists of 55 pages numbered 1 to 55 both inclusive.