S&P Global
Ratings

Environmental, Social, And Governance Evaluation

Másmóvil Ibercom S.A.

Summary

MasMovil is Spain's fourth-largest telecom operator, providing fixed and mobile voice and internet services to business and retail customers. The group generated revenue of €1.68 billion and served around 9 million subscribers through its brands Yoigo, MasMovil, Pepephone, Llamaya, and Lebara, as of Dec. 31, 2019. Over the last 10 years, the group has managed to significantly expand its network coverage, size, and service offering, mainly through acquisitions, maintaining a sustained expansion strategy. Growth accelerated in recent years with its listing on the Madrid Stock Exchange in 2017, and the acquisitions of Pepephone and Yoigo in 2016, Llamaya in 2017, Lebara in 2018, and Lycamobile Spain in 2020. One of MasMovil's specificities is its hybrid network model, through which it leases part of its network while owning the rest. As such, MasMovil stands in between traditional Mobile Network Operators (MNOs) and Mobile Virtual Network Operators (MVNOs).

MasMovil's ESG evaluation score of 67 reflects its relatively recent but growing awareness and commitment to sustainability, the company's adequate preparedness for strategic risks, and the medium exposure of the telecoms sector to environmental and social risks. The company has prioritized the formalization of a robust governance framework in order to accompany and structure its rapid expansion over the past years. It has also consistently put customer engagement at the core of its strategy, secured multiple long-term roaming agreements, and more recently focused on data protection, cybersecurity, and talent management. Although some indicators lack granularity, we note that MasMovil made progress in terms of reporting of sustainability metrics. However, the company has yet to formalize other aspects of its sustainability strategy, such as how it assesses ESG risks stemming from its contractors, and completes the integration of the information systems of its recent acquisitions.

This ESG Evaluation does not address the potential impact of the proposed takeover by private equity groups Cinven, KKR, and Providence Equity Partners, announced on June 1, 2020. We view this as an event that could potentially impact MasMovil's ESG Evaluation, either positively or negatively. Should the proposed transaction result in a change in ownership, we would evaluate the new board's composition, its ability to provide oversight of the management team, and awareness of plausible long-term disruptions, among other factors. We would also seek to understand the sustainability strategy, policies, and commitments of MasMovil's new owners.

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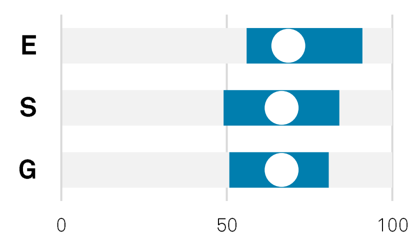
ESG Profile Score:

67/100



Entity-specific attainable and actual scores

Preparedness Opinion:

Adequate

Further Adjustment

+ 0

ESG Evaluation

67 /100

A higher score indicates better sustainability

Component Scores

Environmental Profile

Sector/Region Score	41/50
Greenhouse gases	Good
Waste	Lagging
Water	Good
Land use	Good
General factors (optional)	None
Entity-Specific Score	28/50
E-Profile (30%)	**69/100**

Social Profile

Sector/Region Score	34/50
Workforce and diversity	Good
Safety management	Good
Customer engagement	Strong
Communities	Good
General factors (optional)	None
Entity-Specific Score	33/50
S-Profile (30%)	**67/100**

Governance Profile

Sector/Region Score	31/35
Structure and oversight	Good
Code and values	Good
Transparency and reporting	Developing
Financial and operational risks	0
General factors (optional)	None
Entity-Specific Score	36/65
G-Profile (40%)	**67/100**

ESG Profile (including any adjustments) **67/100**

Capabilities

Awareness	Good
Assessment	Good
Action	Good

Embeddedness

Culture	Good
Decision-making	Good

Preparedness Opinion **Adequate**

ESG Evaluation **67/100**

A higher score indicates better sustainability

ESG Profile

67/100

Overview

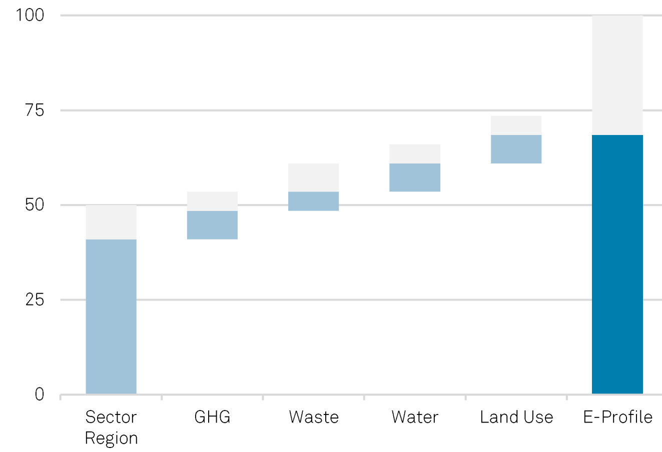
MasMovil's E profile score of 69 is primarily supported by our view of the sector's medium exposure to environmental risks. We also view positively some of the company's environmental initiatives, such as water recycling at its data centers and the replacement of diesel power generators by hybrid power generators. On the other hand, our assessment remains somewhat negatively affected by the overall lack of formalization of the company's environmental policies, the limited granularity of its performance indicators, and the lack of initiatives around waste management, unlike many of its global peers.

Unlike its E profile score, MasMovil's S profile score of 67 is constrained by the sector's higher exposure to social risks such as data protection and relations with local communities. This sector exposure is partly offset by the company's excellent track record on customer satisfaction and engagement with local communities, as well as our view of the management's strong commitments on data privacy and investment in tech and talent. However, the company's limited engagement on issues such as online security and gender diversity, compared to some global peers, weigh negatively in our assessment.

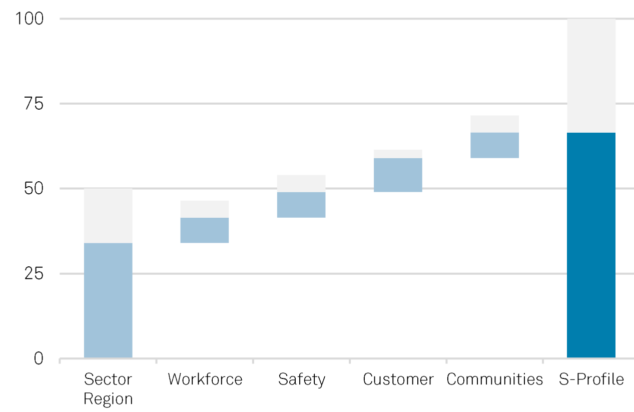
MasMovil's G profile score of 67 reflects our view of the company's ability to strengthen its governance structure and systems over the past years, including on cybersecurity. The company has put a code of conduct and standard governance policies in place, and developed a robust risk-management framework of cyber-risks over the past years, in line with its global peers. We also see the board as relatively independent, with a diversified skills mix, and see ongoing progress on gender diversity. While we view positively the recent improvement in MasMovil's public disclosure, we believe its sustainability reporting still lacks the comprehensiveness and historical length of many regional peers.

Component score (incl. adjustments) | Potential score | Profile score

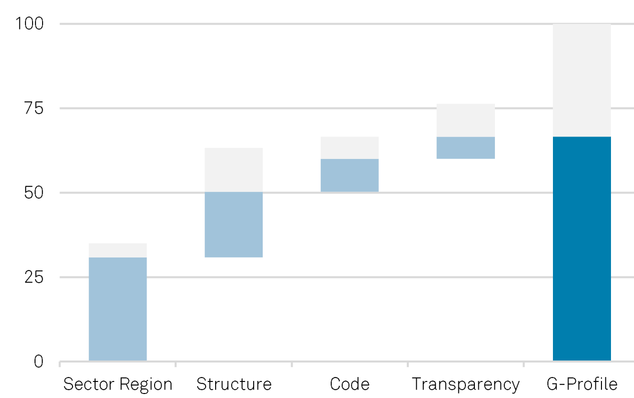
Environmental Profile (30%)



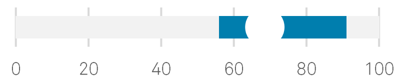
Social Profile (30%)



Governance Profile (40%)



Environmental Profile



69/100

Sector/Region Score (41/50)

Our Sector/Region score reflects the exposure to environmental risks of telecom companies operating in Spain.

Entity-Specific Score (28/50)

Greenhouse gas emissions — Good

- As with industry peers, MasMovil's most material greenhouse (GHG) emissions within its control are associated with its electricity consumption (scope 2). The group uses electricity to power its network -including its radio base stations, exchanges, and data centres, and support growing mobile traffic.
- MasMovil started to track its scope 1 and scope 2 GHG emissions in 2019, which is a sign of progress since 2018. While it does not have a formal strategy to manage GHG emissions, it has taken some initiatives to reduce its GHG emissions, such as replacing two diesel generators with one hybrid generator.
- The company's scope 1 and 2 emissions intensity (about 2.5 CO_2e tons per USD million of revenue) is lower than most of its peers. We believe this is partly due to the specificities of the Spanish telecom market, where operators share their infrastructure more than in other countries, as well as the low carbon intensity of the Spanish electricity mix.
- On the other hand, our assessment is constrained by MasMovil's lack of tracking of its scope 3, which include emissions from leased networks. We believe this category of emissions is particularly material given 43% of the company's fiber network is leased (as of year-end 2019).

Waste — Lagging

- We view MasMovil's waste management policy as less formalized than many of its global peers. The company started to track some waste metrics in 2019, including the amount of electronic and packaging waste generated. However, it does not measure other metrics such as recovery or recycling rate, unlike many global peers.
- MasMovil has identified the management of electrical and electronic waste (e-waste) in its sustainability policy and included a commitment to minimize the generation of waste and contribute to a circular economy. However, its policy does not include some important components, such as responsibilities to implement the policy, remediation processes in case of a policy breach, and review of suppliers' practices.
- We expect the waste impact of the company to increase as it continues to deploy new mobile sites. In 2019, this resulted in an increase in waste generated by the company compared to 2018. Orange will deploy future mobile sites as per the agreement signed in October 2019 and, therefore, they won't have a negative impact on Masmovil's waste metrics.

Water — Good

- Our score reflects MasMovil's tracking of its water metrics and use of water recycling technologies at its data centers, which we view as standard practices in the industry.
- MasMovil tracked its annual water use in 2018 and 2019, in line with most telecom peers. The company's water intensity, estimated as m3 by USD million of revenue, has declined over the past two years and remained below industry average. We believe this performance is partly due to MasMovil's hybrid network model and use of closed circuit cooling system at its data centers.

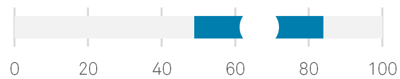
Land use — Good

- Spain is one of the most exposed European countries to biodiversity risks. Local biodiversity could be negatively affected by MasMovil's operations, in particular the construction of new network infrastructure and the expansion of existing infrastructure. Those activites are mostly conducted by contractors of MasMovil, hence represent an indirect risk for the company.
- While MasMovil's environmental policy mentions biodiversity, the group does not engage with its contractors on the topic. Most of the company's global peers also report limited information on biodiversity.
- MasMovil has collaborated with Cellnex, SITEP, and Mobile World Capital to develop firefighting drones. The drones will use 5G to provide real-time information to emergency services, which may help preserve local biodiversity in the fire-prone areas of Spain.

General factors (None)

- We have not made any adjustments to the environmental profile.

Social Profile



67/100

Sector/Region Score (34/50)

Our Sector/Region score reflects the exposure to social risks of telecom companies operating in Spain.

Entity-Specific Score (33/50)

Workforce and diversity — Good

- MasMovil has an 'equal opportunity' policy on workforce and diversity, which is complemented by oversight at board and executive levels. MasMovil is focused on integrating the workforce of the companies it has recently acquired, mostly through training and career development. The company's management conducts regular and comprehensive employee surveys to track satisfaction across its organization. While those surveys show an overall high degree of engagement of its staff, it also highlights employees' expectations for improved recognition and talent retention.
- 36% of the MaMovil's employees were women in 2019, broadly in line with global peers and up from 33% in 2018. However, the percentage of women among male-dominated roles has declined in 2019. The company only has one women in its executive team, and has not set any targets or commitments to improve gender diversity.

Safety management — Good

- MasMovil has a safety policy in place for its direct operations, complemented by oversight at board and executive levels, in line with industry standards. The company has tracked safety metrics of its direct employees over the past two years.
- The company has significant indirect safety risks from its contractors, who construct and maintain its network infrastructure. Although the company reports that it assesses its contractors' safety practices, it provides limited information on the scope, frequency, and results of those assessments.

Customer engagement — Strong

- Customer satisfaction and service quality are at the core of MasMovil's strategy and business expansion. The company has achieved above-average net promoter score over the past three years according to an independent study (38 vs. six in average in the Spanish telecom industry in Q1 2020), through digitalization, simplification of services, pricing transparency, and a Spain-based resolution service available 24 hours a day. The compensation of the executive team includes customer acquisition and satisfaction targets. While MasMovil faced higher customer complaints than other Spanish operators in 2019 according to the Spanish ministry of telecommunications, we believe this is partly due to its higher number of gross adds (new subscribers excluding customers lost).
- Similarly to its global peers, MasMovil recognizes that protection of customer data is one of its most material risks. The company has a privacy policy in place, a commitment to train employees, and recently appointed a data privacy officer.
- We could revise our assessment to good from strong if we observed a rapid deterioration in customer satisfaction compared to peers, an increase in customer incidents, or the company's inability to manage growing exposure to potential data breaches.

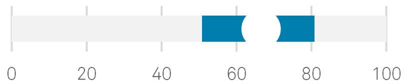
Communities — Good

- MasMovil has developed initiatives to support local employment and entrepreneurship. Unlike some of its global peers, the company decided to maintain its client resolution service in Spain, contributing to job creation in the country. The company also created a startup accelerator “Masventures”, which offers local startups the chance to integrate their products and services within the group. In 2019, MasMovil funded one start-up through Masventures. In addition, MasMovil has dedicated a sizable amount of the marketing budget of its Yoigo brand to the creation of “pienso, luego actuo,” a platform showcasing projects with a positive social impact from Spanish entrepreneurs and their alignment with the United Nations Sustainable Development Goals.
- On the other hand, we believe MasMovil has undertaken limited initiatives to address rising concerns of local communities on topics such as cyberbullying and health impacts of electromagnetic frequency radiation; though we acknowledge that only a small number of companies in the industry are proactively interacting on these topics. Some initiatives undertaken by most-advanced companies include providing support to customers on cyberbullying and online safety - especially for younger customers, as well as engaging with local stakeholders on potential health effects of electromagnetic waves.

General factors (None)

- We have not made any adjustments to the social profile.

Governance Profile



67/100

Sector/Region Score (31/35)

Our Sector/Region score reflects the governance standards of companies headquartered in Spain.

Entity-Specific Score (36/65)

Structure and oversight — Good

- MasMovil's good score reflects the company's efforts to formalize and strengthen its governance practices since 2017, in order to support and structure its rapid growth. In particular, the company has adopted a policy to select board members that stipulates transparency, diversity, nondiscrimination, and expertise requirements, as well as a purchasing policy, for instance.
- The board has 12 members, including the CEO, a member of the executive committee, an independent chairman with extensive financial, media and ESG expertise, and five other independent directors. The company has established two committees: the Audit Committee and the Appointments and Remuneration Committee. Both committees have a majority of independent members, including the Chairman.
- We see the board as relatively diversified with three women, two non-Spanish members and an adequate mix of skills - a majority of board members have a financial background, while the rest bring experience from the media and telecom industries. It has short tenure - less than three years - which we believe reflects the recent changes in the group's capital structure and shareholder base.

Code and values — Good

- MasMovil published in June 2017 a Corporate Social Responsibility Policy, which lays out its commitment to create value in a sustainable manner, fairly reward all those who contribute to the firm's success, and take social returns into account. The company also approved its code of ethics, highlighting its commitment to non-discrimination, fundamental rights to equal opportunities, and more generally its focus on human rights. Employees have received training on these policies and are encouraged to report any breaches.
- MasMovil's decision to link the ratchet of its revolving credit facility (RCF) and capex facility to an ESG assessment illustrates the company's commitment to improving its sustainability profile over time, in our view, and further supports our good assessment.
- There is a short vesting period of three years and overall limited long-term incentives in executive compensation, including on ESG topics. This partly reflects the recent formation of MasMovil Group and the company's focus on achieving its shorter-term objectives to sustain its growth trajectory in the long run.

Transparency and reporting — Developing

- While MasMovil's non-financial reporting has improved since 2018, we believe it remains relatively less developed than other publicly-listed companies in Spain and more broadly in Europe. The company started to disclose some social and environmental metrics for the past two years, which are audited by its external auditor. While we view this positively, we believe its sustainability reporting still lacks the comprehensiveness and historical length of many regional peers. We will continue to monitor the company's sustainability reporting as it continues to formalize its sustainability policies.
- MasMovil reports publicly information on its governance, in line with the Spanish governance code. Its reporting covers the group's key stakeholders, the current status of non-financial risk management, as well as some key performance indicators (KPIs) such as gender pay gap at managerial and employee-levels, and customer complaints. We believe its financial reporting is in line with industry peers.

Adjustments including financial and operational risks — None

- We view positively MasMovil's decision to replace one of the two directors representing Providence Equity partners--one of its strategic shareholders--by an independent director. We will continue to monitor changes to MasMovil's ownership structure as the company continues to grow.

Preparedness Opinion

Preparedness	Low	Emerging	**Adequate**	Strong	Best in class

Awareness	Developing	**Good**	Excellent
Assessment	Developing	**Good**	Excellent
Action	Developing	**Good**	Excellent
Culture	Developing	**Good**	Excellent
Decision-making	Developing	**Good**	Excellent

Summary

Our assessment of MasMovil's preparedness as adequate reflects our view that the company's board and management have demonstrated their ability to manage strategic risks, and make decisions to strengthen the company's future resilience during its transformational growth phase. The company has transitioned from a small virtual to the no. 4 Spanish integrated fixed and mobile network operator over the past three years, by securing access to an extended mobile and fixed network and putting customer satisfaction and transparent pricing at the core of its growth strategy. On the other hand, our assessment is limited by our view that MasMovil is still implementing its action plans on some of its strategic risks such as resilience, consistency, and integration of information systems across its recently acquired businesses. We also see limited emphasis by the company on its emerging and strategic risks beyond its five-year action plan, such as changes in the competitive or regulatory environment, 5G deployment or tech-related disruptions, which may differ from some more established and mature companies.

Awareness	Developing	**Good**	Excellent

We assess MasMovil's awareness as good because the company is aware of its most material strategic risks and is monitoring their evolution on a regular basis. The board and members of the executive committee are able to articulate the nature and dynamics of most strategic financial and nonfinancial risks faced by the company. Key strategic financial risks include goodwill combined with future recovery of its sizable deferred tax asset, and the sustainability of its debt structure. Key nonfinancial risks include cybersecurity, protection of customer data, 'internet of things', network availability, dependence on suppliers, failure to integrate acquired companies and their respective systems of information, as well as talent management and retention, notably in IT and new technologies. Strategic financial risks are identified and evaluated by the chief risk officer and reported to the audit committee at least annually. Strategic nonfinancial risks are identified and evaluated by the chief strategic officer, the chief compliance officer, and the unit controllers, and reported at least annually to the board and at least twice per year to the appointment and remuneration committee and the audit committee.

The executive team and board members focus on potential risks that could affect the company’s five-year action plan, which may differ from some more established and mature companies that examine potential risks and opportunities over a longer-term horizon--including potential changes in competitive or regulatory environments, 5G deployment, or tech-related disruptions.

Preparedness

Assessment	Developing	**Good**	Excellent

We see MasMovil's assessment as good because it has put in place the policies and tools to assess its strategic risks, and has defined the processes to report the findings to the board of directors. The company assesses the likelihood and impact of financial and nonfinancial risks as part of its risk management process under a base-, best- and worst-case scenarios. Although we have limited visibility on the assumptions used to develop each of those scenarios, we understand the outcomes of those scenarios are regularly discussed and monitored at board-level. Exposure to nonfinancial risks is typically assessed qualitatively, for example through questionnaires. The company also uses consultants when necessary.

We limit the assessment to good because MasMovil has not developed comprehensive scenario analysis to explore how its strategy could be affected under multiple plausible scenarios.

Action Plan	Developing	**Good**	Excellent

MasMovil's action plan is good because the company has demonstrated its ability to manage its strategic and emerging risks in the past years. We believe MasMovil's capacity to expand its network through company and asset acquisitions, third-party roaming, and network leasing agreements have strengthened its ability to deliver on its future strategic objectives. In particular, the company has managed to negotiate mobile roaming agreements with all existing Spanish mobile network operators, as well as fixed network sharing and fiber co-development agreements with Orange and Telefonica. We believe those initiatives have given MasMovil access to a nationwide mobile network, and provided flexibility to switch provider in case of network disruption. In parallel, the company has accelerated the development of its fixed broadband activities, giving MasMovil's access to a larger number of households, while developing its own fibre network. As of Q1 2020, MasMovil's fiber-to-the-home footprint reached 24.4 million households, and we believe the company will continue expanding its network.

We limit our assessment to good because we believe the company is still implementing action plans to manage some of its strategic risks, such as resilience, consistency, and integration of information systems across its recently acquired businesses, as well as talent retention. Our assessment is also constrained by our limited visibility into the company's risk tolerance thresholds for some of its strategic risks.

Culture	Developing	**Good**	Excellent

We assess MasMovil's culture as good because its focus on customer satisfaction at all levels of the organization is aligned with its long-term strategic objectives. In our view, the company's recent growth demonstrates that its focus on customers has been relatively well understood by employees and well embedded in the company's culture.

In our view, forming a consistent corporate culture across the recently formed MasMovil Group may take time. The company recognizes the challenges associated with integrating people from its recent acquisitions, and has put in place initiatives to reinforce employee awareness and engagement across its subsidiaries: the top management communicates the strategy to existing employees through training and quarterly sessions with the CEO, and to new employees through immersion plans. In the most recent employee survey, the large majority of employees expressed high satisfaction rates on their work, team environment, and the company's strategy. Overall, we believe recent integrations, including that of Yoigo, have been well implemented due to a clear group strategy but also its multi-brand approach, allowing integrated companies to retain their specificities. We may revise our assessment to excellent from good as the company continues to demonstrate a consistent corporate culture, improves employee feedback on talent retention and shows how this is leveraged to meet its strategic objectives.

We also note that MasMovil actively attempts to preserve its start-up and entrepreneurial culture. The company wants to maintain agility and innovative thinking in its workforce. For example, its start-up accelerator MasVentures supports local projects that could help the company to improve customer experience and use new technologies such as block chain and machine learning. It also has an innovation mailbox that can be used by all employees. We believe keeping an entrepreneurial culture may become more challenging as the company pursues its growth and further formalizes its policies and procedures.

Decision-making	Developing	Good	Excellent

Decision-making is good because the CEO and the board have demonstrated their involvement and commitment to the company's long-term and sustainable success. The objective to turn MasMovil into the no. 4 telecom operator has been successful due to, among other things, the board's decision to take advantage of the Orange-Jazztel merger--resulting in the acquisition of fiber business units and the access to an ADSL network--negotiate additional network-access agreements, and acquire Yoigo in 2016. The board and management have also proved their ability to anticipate technological shifts, for example by acquiring 5G spectrum at a cost-competitive price ahead of the official auctions, thereby strategically positioning the company for 5G rollout.

We view the company's use of an ESG-linked ratchet of its RFC and capex facility as a strong incentive for top management to consider sustainability factors in its strategic and financial decisions over time. We also view positively the inclusion of a target to maintain high customer satisfaction as part of executive compensation, which supports the alignment of executive decisions with MasMovil's long-term strategy. The appointments and remuneration committee and board of directors may incorporate other sustainability objectives in executive compensation based on a qualitative assessment of the company's progress.

Sector And Region Risk

Primary sector(s)	Telecom
Primary operating region(s)	Spain

Sector Risk Summary

Environmental exposure

The telecom sector is experiencing a rapid rise in energy consumption driven by the explosion of data usage and processing across its networks. The growth in data traffic directly results in higher electricity consumption and indirectly relates to global greenhouse gas emissions. Telecom-related emissions are mostly Scope 2 (related to energy consumption) and come from both the production of devices (including smartphones) and their usage (in data centers, networks, and direct consumer usage). Environmental responsibility for telcos also includes the end-of-life implications of handsets and equipment used in telecom networks. In many countries, especially in emerging market, there are no facilities to recycle handsets. The telecom sector has more limited exposure to water and land use risks, with the exception of water consumption in data centers. In addition to its effect on the environment, the sector is exposed to climate risks because a notable portion of its operating infrastructure (as well as customers) is exposed to extreme weather conditions like hurricanes, tornadoes, ice storms, or flooding.

Social exposure

Data privacy and network stability are the main social factors for telecoms because they are responsible for transmitting information. Failure to protect people's privacy could have significant regulatory and reputational implications for a telco. Also, debate over the societal impact of excessive social media use and the effects of misinformation could increase social pressure to reduce or change usage patterns. Rising health concerns around potential radiation from telecom equipment and devices could affect consumer perceptions of telecom service providers. Telcos are also large employers, typically with a significant unionized workforce (in particular for incumbent players), so human capital management is another key social risk. Given the sector's large and ethnically diverse customer base, community relationships and sensitivity are low but important social-cohesion risks. Safety management risks stem from the industry's technicians and personnel building, and maintaining the telecom infrastructure including towers and data centers. Given the sector's expansive reach and visibility, consumer confidence in telcos' community engagement, social equity, and corporate citizenship also contribute to our social risk assessment.

Regional Risk Summary

Spain has a strong rule of law and institutions despite undergoing important internal political challenges including from regional independence movements. Spain's corporate governance framework for listed companies has two components: binding provisions from the company law and voluntary recommendations of the Spanish Corporate Governance Code published in 2015 by the Comisión Nacional del Mercado de Valores (CNMV), Spain's national securities commission. In

January 2020 the CNMV started to review the code, proposing amendments to executive pay, voting rights, and increasing gender quotas on boards to 40% from 30%--all on a comply-orexplain basis only. The code followed significant legal reforms such as the Law 31/2014, which included binding votes on remuneration policy, stricter regulations on directors' classifications, and new ownership thresholds for shareholders' rights. By law, Spanish boards must establish committees for audits, remuneration, and nominations. Companies must disclose an annual corporate governance report. While the stock exchange does not have specific ESG requirements in its listing rules, companies of over 500 employees are implementing the EU Non-Financial Reporting Directive's recommendations, which mandate disclosing ESG (including diversity) risk.

This report does not constitute a rating action.