Annual Report

For the Year Ended
31 December 2016

CONTENTS

ZEGONA COMMUNICATIONS

	Page
STRATEGIC REPORT |	
Chairman's Statement	1
Strategy and Business Model	2
Business and Financial Review	4
Risks	13
Corporate Responsibility	17
GOVERNANCE |	
Directors and Officers	19
Corporate Governance Report	21
Directors' Report	33
Directors' Responsibility Statement	36
Directors' Remuneration Report	37
Independent Auditor's Report	50
FINANCIAL STATEMENTS |	
Consolidated Statement of Comprehensive Income	54
Consolidated Statement of Other Comprehensive Income	55
Consolidated Statement of Financial Position	56
Company Statement of Financial Position	57
Consolidated Statement of Changes in Equity	58
Company Statement of Changes in Equity	59
Consolidated Statement of Cash Flows	60
Company Statement of Cash Flows	61
Notes to the Financial Statements	62
OTHER INFORMATION |	
Notice of Annual General Meeting	97
Explanatory Notes to the Resolutions	102
Advisers	106

I am pleased to present Zegona's annual report for the year ended 31 December 2016. It has been an exciting and productive first full year for Zegona. The Company was launched via an IPO in March 2015, with the objective of acquiring businesses in the European TMT[1] sector with a 'Buy-Fix-Sell' strategy to deliver shareholder returns through fundamental business improvements. Our first acquisition was the purchase of Telecable, the leading telecommunications operator in the Asturias region of Spain. Zegona acquired Telecable for €640 million in August 2015 and our first full year of ownership has confirmed our view that Telecable is a compelling investment. This has been driven by the company's market leading position and strong cash generation, coupled with attractive dynamics in the Spanish telecoms market and a recovery in the Spanish economy.

Strategy

During 2016, Zegona has continued to work closely with the Telecable management team to further develop the business and the services it provides. In addition to this, Zegona has continued to pursue new acquisition opportunities that provide scope to deliver further value to shareholders. Zegona remains focused on acquiring strategically sound businesses in the European TMT sector that require active change to realise their full value, utilising a 'Buy-Fix-Sell' strategy to deliver shareholder returns through fundamental business improvements.

Performance

Telecable performed strongly during 2016. The business succeeded in investing for the future at the same time as it fundamentally improved cash returns. A strong Spanish economy and further evidence of industry price repair and Telecable's excellent market positioning, has allowed it to deliver strong performance across our key financial metrics during 2016, including Revenue[2] growth[3] of 3.0% and Cash Flow[2] growth of 9.7%. Zegona has continued to work closely with the Telecable management team to implement a number of key strategic initiatives that we are confident leave the business in a strong position to continue its growth into 2017 and beyond. These include product and service enhancements such as increasing customer data allowances, upgrading broadband speeds, the provision of a market-leading football product and a new innovative 4G mobile access agreement with Telefonica that allows us to provide a much better mobile proposition.

Leadership

Zegona is a young and growing business and we have always recognised that our capabilities must evolve alongside our operations. I am delighted that since our last report we have welcomed Ashley Martin to the Board as the Chairman of the Audit and Risk Committee, Dean Checkley as Chief Financial Officer and Menno Kremer as Investment Director. I am confident that these appointments greatly enhance our capability to pursue attractive new investment opportunities and enable us to deliver value through the implementation of our Buy-Fix-Sell strategy while at the same time maintaining high standards of corporate governance.

Outlook

As we look across the broader European TMT landscape, the dynamic forces of consumer consumption, industry consolidation and convergence are creating significant opportunities for new acquisitions. In fact, since creating Zegona almost two years ago, it is my personal view that the market environment to execute our core Buy-Fix-Sell strategy has never been better. We are seeing a steady increase in the number of new opportunities and are confident that additional acquisitions satisfying our disciplined financial criteria will be identified.

Dividend

For 2016 we paid a total dividend of 4.5p per share. When we bought Telecable we set a policy to pay a progressive dividend to shareholders and I am delighted to announce that we intend to increase the dividend in 2017 by 11% to 5.0p per share.

Annual General Meeting

Zegona's annual general meeting ("AGM") will be held on 17 May 2017 at 12 p.m., at 10 Snow Hill, London, EC1A 2AL. Further details on the AGM and the business to be conducted on the day can be found on pages 97 to 105. My board colleagues and I look forward to meeting you in May.

Eamonn O'Hare
Chairman and Chief Executive Officer
5 April 2017

Vision

- Execute a Buy-Fix-Sell strategy in the TMT sector.
- Focus on businesses that require active change and fundamental improvement to realise their full value.
- Target significant long term growth in shareholder value.

Opportunity

Changing market dynamics in the telecommunications and media industry create multiple investment opportunities:

- **Demand for data and speed**: Data consumption is growing strongly with customers willing to pay for speed. Up to 1GBps is now offered in some markets but network roll-outs and upgrades need to be efficient.
- **Digital convergence**: The fixed/mobile divide is increasingly disappearing for users, meaning significant growth in more valuable quad play[4] customers who are combining mobile and fixed services. This has driven an increase in M&A activity and improvements in economics for converged players since mobile data delivery is heavily dependent on fixed networks.
- **Industry consolidation**: The sector has seen heightened M&A activity. Many private equity owners are looking to sell assets acquired pre-financial crisis and industry players are focusing on cost reduction and price repair to rebuild margins. Consolidation has also created opportunity as businesses are spun out of corporates to meet regulatory requirements and strategic objectives, creating opportunity for Zegona.
- **Broad range of attractive assets**: Zegona's flexibility in terms of size, geography and category opens a broad universe of attractive target assets. We have identified many businesses of an appropriate scale across a number of categories, including; mobile only players, mid-sized cable, Direct to Home, satellite pay TV, smaller fixed incumbents, B2B and network infrastructure/towers.

Advantage

A number of factors make Zegona well positioned to access attractive deals and deliver value:

- **Strong, aligned management team**: Zegona's management team has a proven track record of delivering superior business performance and investor returns. The team has extensive real world experience in senior operational roles in large public companies. The team's interests are also strongly aligned with shareholders as they participate in long-term incentive schemes that link management remuneration directly to growth in shareholder value.
- **Entrepreneurial focus**: Zegona has considerable freedom in the projects it pursues and the ways it creates value. Unlike most private equity businesses, Zegona is free to choose the optimal period to hold assets and can realise value using a range of approaches, of which a sale of the asset is only one. This also permits a focus on fundamental business improvements that are value accretive rather than relying on high leverage and multiple expansion. Zegona is also able to act quickly on acquisition opportunities while still maintaining financial discipline. This is especially attractive to potential sellers and a key differentiator.
- **Major global investors**: A small number of global public equity investors with a long term outlook own more than 85% of Zegona. The successful placement of £257 million of equity in order to finance the acquisition of Telecable in 2015 underlines investor confidence in Zegona's strategy.

1 Telecommunications, Media and Technology.

2 All references to Revenue, EBITDA and Cash Flow throughout this Strategic Report (save where referred to as reported or statutory) are to Adjusted Revenue, Adjusted EBITDA or Adjusted Cash Flow for 2016 or to pro-forma 12 month Adjusted Revenue, pro-forma 12 month Adjusted EBITDA or pro-forma 12 month Adjusted Cash Flow for 2015. Please see the section on Non-GAAP measures on page 9 for further information.

3 All references to "growth", "grew" or "up" in reference to Telecable operating and financial results in the Strategic Report are to percentage changes compared with the relevant 2015 pro-forma 12 month comparative balance.

4 Quad play: customers with four services (pay TV, fixed voice, broadband and mobile)

Strategy

Zegona delivers value through a three step, Buy-Fix-Sell strategy:

BUY: Zegona evaluates potential acquisitions using a disciplined set of financial and strategic criteria. The Company is only prepared to acquire businesses at the right price given its rigorous valuation approach and focus on shareholder returns. Zegona focusses on:

- Acquisitions in a target enterprise value range of £1-3 billion
- TMT, network-based communications and entertainment businesses, primarily in Europe
- Strategically sound businesses with established market positions and limited expected downside risk, but which have scope for fundamental improvement that is realistically achievable
- Moderate leverage (usually 3-4x EBITDA)
- Multiple realistic exit options pre-defined

FIX: Many businesses across the TMT sector currently deliver sub-optimal returns which could be significantly improved. Zegona has a hands-on relationship with acquired businesses, working closely with management to deliver fundamental business improvements. We would expect that any acquired business would look very different at exit compared to entry. Zegona focusses on:

- Changing the businesses' market positions
- Actively managing the business to drive operational improvements
- Instilling strong discipline around cost efficiency
- Investing savings in products, services and other value accretive activities to drive top line growth
- Focusing on operating profitability and cash generation
- Value enhancing bolt-on acquisitions/divestments

SELL: Buyer interest is stimulated as the performance of each acquired asset improves, providing the Company with a range of exit options. In this regard:

- Zegona identifies the optimal time to sell, with flexibility to adapt to market changes and other opportunities, to maximise shareholder value
- Zegona's public company structure allows shareholders to realise value at any time and provides multiple options for value crystallisation
- Following a successful disposal, value will be reinvested or returned to shareholders, with the opportunity for surplus cash to be returned by way of special dividend or share buy-back

GROUP FINANCIAL HIGHLIGHTS[5]

For a reconciliation from adjusted measures to their GAAP equivalents please see the section on Non-GAAP measures on page 9. Telecable was acquired on 14 August 2015, therefore whilst 2016 results include a full twelve months of performance, amounts for 2015 in the consolidated financial statements only include the trading of Telecable for the 4 months and 17 days post acquisition period.

€m	2016	2015
Revenue[2]		
– Reported	140.8	53.0
– Adjusted	138.5	52.2
EBITDA[2]		
– Reported	53.8	11.5
– Adjusted	61.2	21.5
Operating Profit		
– Reported	3.4	(7.7)
Capital Expenditure/Capex		
– Reported	25.6	12.3
Cash Flow[2]		
– Reported	40.0	(0.9)
– Adjusted	35.6	9.2
Loss before tax		
– Reported	(10.9)	(16.4)

5 Throughout this report, monetary amounts (including totals) are reported in € million and rounded to one decimal place. Percentage movements, totals and sub-totals are calculated using actual numbers and rounded to the nearest one decimal place, except RGUs per customer.

TELECABLE SEGMENT REVIEW

Telecable is the sole operating business of the Zegona Group and is the leading quad play cable telecommunications operator in the Asturias region of north west Spain. Telecable was acquired on 14 August 2015, therefore while 2016 results include a full 12 months of performance, amounts for 2015 in the consolidated financial statements only include the trading of Telecable for the four months and 17 days post acquisition period. Zegona believes that in order to provide users of this report with a meaningful understanding of Telecable's performance, the full year of 2016 should be compared with the full year of 2015. We therefore present and discuss the performance of Telecable in 2015 as if it had been acquired by Zegona on 1 January 2015 and refer to them as pro-forma 12 month amounts. Where relevant, we also include those numbers that were presented in our 2015 annual reports and accounts and a reconciliation between pre acquisition and post acquisition amounts.

€m	2016	2015 Pro-forma 12 months(1)	Change (%)
Consumer	100.8	99.0	1.9%
Business	37.6	35.5	6.2%
Total Revenue(1)	**138.5**	**134.4**	**3.0%**
EBITDA(1)	65.1	65.0	0.2%
Capex(1)	25.6	28.9	(11.7)%
Cash Flow(1)	39.6	36.1	9.7%

(1) Adjusted Revenue, EBITDA and Cash Flow, please refer to the section on Non-GAAP measures on page 9 for further information.

As in prior years and throughout this Strategic Report, the alternative performance measures shown above are used to describe the Group's performance. These measures are not recognised under IFRS or other generally accepted accounting principles (GAAP). Management and the Board of Directors manages and assesses the performance of the business using these measures and believe they provide more useful information to shareholders. This is because they believe them to be more representative of underlying trading and they are the key measures upon which performance and value creation are evaluated by TMT market participants. All of these measures are defined on page 9 of this report and a summary of the adjustments between the alternative measure and the relevant statutory amount is also provided. The most comparable relevant statutory amounts are:

€m	2016	2015 Pro-forma 12 months(1)	Change (%)
Statutory revenue	140.8	136.6	3.1%
Operating profit/(loss)	11.2	12.5	(11.2)%
Additions of intangible assets and property plant and equipment	25.6	28.9	(11.7)%

(1) A reconciliation between the 2015 pro-forma amount and pre acquisition and post acquisition amounts are also included in the section on Non-GAAP measures on page 9.

Telecable financial overview and key developments

Telecable's results in 2016 were in line with our expectations and represent a strong performance across our key financial metrics of Revenue[2] and Cash Flow. Telecable's total Revenue[2] for the year was €138.5 million, which represents 3.0% growth compared to 2015. This growth was driven by an impressive performance in the Consumer Mobile and business sectors with growth of 10.3% and 6.0% respectively. Across the broader Consumer sector performance was solid with 1.9% growth compared to 2015. To counter the competitive nature in this sector the focus has been on upselling products and enhancing the overall value proposition to drive growth in customer lifetime value.

EBITDA[2] for the year was €65.1 million, which represents 0.2% growth compared to 2015 because increases in Revenue[2] were broadly offset by the combined impact of three factors (1) the first year of a substantial investment in premium football content that we expect will generate returns in future years, (2) higher mobile access costs from our legacy mobile access agreement that we expect will be substantially reduced when Telecable transitions to its new agreement in the first half of 2017, and (3) effective management of other costs such as handsets, networks, operations and headcount that delivered a 5.7% saving across these categories.

Capex for the year decreased by 11.7% to €25.6 million. This was driven by strong cost control and a focus on effective capital expenditure. Key Capex productivity improvements included increased online sales, lower network maintenance costs and development of customer self-help and self-install programmes. The combination of higher EBITDA[2] and lower Capex delivered Cash Flow generation of €39.6 million, 9.7% growth compared to 2015.

Building on the financial performance and business improvements delivered during 2016, Zegona continues to have great confidence in Telecable's prospects. Telecable posted robust growth in both Revenue[2] and Cash Flow during 2016. This performance was driven by a number of underlying factors that we expect will continue to be maintained in 2017, these include:

- Robust Spanish economy: The Spanish economy grew strongly in 2016, with GDP increasing by 3.2%[6]. This was well ahead of the Euro area average of 1.7%[7]. Growth is expected to continue at a dynamic pace, with forecasts projecting growth of 2.4%[7] in 2017.
- Sustained industry price repair: All major telecoms operators in Spain began to increase consumer prices in 2015 and price increases have continued through 2016 and into 2017. Telecable successfully increased Consumer prices twice during 2016, and again in February 2017. This was executed through our 'more-for-more' strategy whereby an enhanced product is offered for a slightly higher price.
- Product and service enhancements: Telecable offers high quality products that have been continually enhanced since acquisition. Improvements delivered during 2016 include increasing the minimum broadband speed to 200Mbps, doubling mobile data allowances, offering the broadest suite of premium football content in the Spanish market, developing a 4K set top box and improving OTT[8] offerings. These improvements have helped Telecable to deliver record ARPU[9] and increase the number of products supplied per customer in 2016.
- Innovative new mobile access agreement: During 2016, Telecable signed an agreement with Telefonica that provides access to the highest quality mobile network in Spain on highly attractive terms. The agreement will enable Telecable to offer customers a market leading mobile service, including high-speed 4G data, while increasing mobile margins. The service and financial advantages gained through this agreement will help Telecable to drive convergence and accelerate the growth in its mobile business.
- Operational efficiency and cost discipline: A focus on operational efficiency and cost control across cost of goods, operating expenditure and capital expenses has contributed to a 9.7% increase in Cash Flow during 2016 and sustaining this focus is expected to continue to deliver similar improvements in 2017.

6 Source, Instituto Nacional de Estadistica

7 Source, Trading Economics 2016-2020 outlook

8 Over The Top

9 ARPU: Average Revenue Per User, expressed as a monetary amount per month. Business and Consumer ARPU is fixed and mobile Revenue (Adjusted Revenue as defined in the section on Non-GAAP measures on page 9), divided by the number of customers and divided by twelve. Postpaid ARPU includes all postpaid mobile Revenues (also Adjusted Revenue as defined in the section on Non-GAAP measures on page 9), divided by the number of customers and divided by twelve).

Consumer

	Consumer – summary pro forma operating results(1)		
	2016	2015(2)	Change (%)
Revenue (€m)(3)	100.8	99.0	1.9%
Customers (AOP K)(4)	138	144	(3.8)%
RGUs (K)(5)	451	456	(1.0)%
RGUs/Customer(5)	3.31	3.23	2.4%
ARPU (€/month)	60.8	57.4	5.9%

(1) Includes consumer mobile
(2) Pro-forma results for the full year ended 31 December 2015
(3) As defined in the section on “Non-GAAP measures” on page 9
(4) AOP: Average number over the relevant period
(5) RGU: Revenue generating unit, includes all services (fixed voice, fixed broadband, pay-TV and mobile), measured at the end of the period (“EOP”)

Telecable Consumer Revenue[2] was €100.8 million in 2016, a 1.9% increase compared to 2015. The growth in Telecable’s high value quad-play customers and improved Consumer ARPU (5.9% growth from €57.4 per month in 2015 to a full year record of €60.8 per month in 2016) were important drivers of this performance. These increases more than offset the impact of a reduction in total customers resulting from short term promotional activity from other operators who have invested in deploying FTTH[10] in Asturias in recent years. This deployment now appears to be largely complete. ARPU growth was driven by a €2 per month price increase for fixed-line and bundled products in January 2016 and a second price increase of €3 per month in September. These price increases were supported by improvements in the consumer proposition including doubling mobile data allowances, doubling the minimum broadband speed to 200Mbps, launching a high-end 500Mbps broadband service, and expanding the premium content available to Telecable customers (including significant investments in La Liga and Champions League Football).

Consumer Mobile

	Consumer Mobile – summary pro forma operating results(1)		
	2016	2015(2)	Change
Revenue (€m)(3)	28.8	26.1	10.3%
Postpaid(4) Customers (AOP K)	80	74	8.1%
Postpaid Lines (AOP K)	118	102	16.6%
Postpaid ARPU (€/month)	20.2	21.2	(4.5)%
Mobile Penetration (%)(5)	56%	51%	5.1 ppt
Quad Play (%)(6)	37%	35%	2.2 ppt

(1) Also included in Consumer numbers
(2) Pro-forma results for the full year ended 31 December 2015
(3) As defined in the section on “Non-GAAP measures” on page 9
(4) Postpaid customers: Mobile customers whose services are billed at the end of each month, Postpaid Lines: Postpaid mobile lines activated.
(5) Customers with both fixed and mobile services (EOP) divided by total fixed customers (EOP)
(6) Quad Play %: Quad play customers (EOP) over total customers (EOP)

10 Fibre to the home

Consumer Mobile is a key area of growth for Telecable. Consumer Mobile Revenue[2] increased to €28.8 million in 2016, up 10.3% compared to 2015. This significant increase was driven by a 16.6% growth in the number of postpaid lines, offset by a 4.5% reduction in Postpaid ARPU resulting from lower out-of-allowance charges. Mobile penetration within Telecable's fixed Consumer customers increased to 56% and quad-play penetration reached a record high of 37% during 2016. In addition, Telecable continues to expand its Wifisfera WiFi service, resulting in 65k connected customers at the end of 2016, up 7.6% compared to 2015. Continuing these positive trends is an important part of Zegona's strategy for Telecable as we drive increased convergence across our customer base. We expect Consumer Mobile to continue its strong growth, given Telecable's still relatively low mobile penetration and the transformational effect of Telecable's new mobile access agreement. This agreement will allow us to offer substantially improved converged customer propositions, including 4G data services, at a much lower cost than in 2016 when it becomes effective in the first half of 2017.

Business

	Business – summary pro forma operating results(1)		
	2016	**2015(2)**	**Change (%)**
Revenue (€m)(3)	37.6	35.5	6.2%
Customers (AOP K)	20	20	1.7%
RGUs (K)	93	91	2.1%
RGUs/Customer	4.6	4.4	3.6%
ARPU (€/month)	152	145	4.3%

(1) Also includes business mobile

(2) Pro-forma results for the full year ended 31 December 2015

(3) As defined in previous tables

Zegona places a high priority on growing Telecable's SOHO[11] and Enterprise businesses. Business Revenue[2] increased to €37.6 million in 2016, representing growth of 6.2% compared to 2015. This growth was driven by ARPU growth of 4.3% and a 1.7% increase in the number of Business customers. RGU growth was 2.1% as each customer subscribed to more products on average. The investment we are making in premium football content is supporting our Business segment growth, in particular in bars and restaurants. We believe there is significant potential to grow Business Revenue[2], given Telecable's relatively low market share in Asturias of only 28%.

Capex

In 2016, Capex was €25.6 million compared to €28.9 million in 2015 while Capex as a percentage of Revenue[2] in 2016 was 18.5% which compares favourably with 21.5% in 2015. This is a trend we expect to continue. While Telecable continues to make significant investments in its business to drive top-line growth it has also succeeded in making substantial improvements in its Capex productivity, focusing more effectively on those higher priority developments which drive sustained business growth. Capex in 2016 included customer premise equipment and installation costs of €6.1 million, sales commission costs of €6.6 million, and network and IT costs of €8.3 million. Other Capex, including OTT, Wifisfera and one-off projects, was €4.5 million.

Net Debt

Telecable's Net Debt[12] was €256.5 million as at 31 December 2016, consisting of a €274.0 million senior credit facility and €0.8 million other debt, offset by a cash balance of €18.3 million. This compares favourably with 2015 where Net Debt was €266.8 million. Zegona also held an additional €4.1 million of cash, reducing Zegona's total net debt to €252.4 million as at 31 December 2016. Telecable's senior credit facility is non-amortising, with a bullet repayment due in August 2022. Telecable also has a €20 million revolving credit facility, which has never been drawn.

11 SOHO: Small Office Home Office, small businesses, typically with fewer than 5 employees.

12 as defined in Telecable's senior credit facility

Telecable's debt was assigned a B1 corporate family rating (CFR) by Moody's[13] in January 2016, which was reviewed and reconfirmed in February 2017. This rating continues to be in line with or better than many far larger European cable operators and is the highest rating of any European TMT company of Telecable's size. Moody's in-depth review as part of its rating process confirmed the underlying strength of Telecable's business.

ZEGONA CENTRAL COSTS SEGMENT REVIEW

Costs are incurred by all Zegona Group entities supporting the corporate activities of the Group, including staff and premises costs related to Zegona's management team, ongoing costs of maintaining the corporate structure, evaluating new acquisition opportunities and executing acquisition and disposal activities. These central costs totalled €8.2 million in 2016 compared to €13.1 million in 2015 and include (1) €4.0 million recorded within operating profit and EBITDA related to Zegona's underlying corporate costs (2015: €3.0 million), (2) €3.8 million recorded within operating profit but outside EBITDA of one-off deal and project costs, principally advisory and other professional fees incurred in relation to the potential acquisition of the Yoigo business in Spain which was terminated on 22 June 2016 (2015: €3.0 million) and, (3) €0.4 million recorded within Finance Costs related to foreign exchange hedging costs to fix the Euro FX rate for the payment of Zegona's 2016 dividend for the period between announcement and payment.

NON-GAAP MEASURES

Certain discussions and analyses set out in this Annual Report include measures which are not defined by generally accepted accounting principles (GAAP) such as IFRS. This information, along with comparable GAAP measurements, is useful to investors because it provides a basis for measuring operating performance, ability to retire debt and invest in new business opportunities. Management uses these financial measures, along with the most directly comparable GAAP financial measures, in evaluating operating performance and value creation. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP. Non-GAAP financial measures as reported may not be comparable with similarly titled amounts reported by other companies. In the following sections we set out our definitions of the following Non-GAAP measures and provide reconciliations to relevant GAAP measures:

- Adjusted Revenue
- EBITDA and Adjusted EBITDA
- Capex
- Adjusted Cash Flow

Zegona believes that in order to provide users of this report with a meaningful understanding of Telecable's performance, the full year of 2016 should be compared with the full year of 2015. In addition to a reconciliation to the nearest GAAP equivalent for the full year 2015 we also provide the same reconciliation for the relevant measures for the performance of the Telecable business both for the full year as discussed in this document and the amounts for the post-acquisition period that were reported in our Annual Report for 2015.

Adjusted Revenue

Adjusted Revenue is statutory revenue after adjusting for certain items that together, in the opinion of Zegona, result in a more meaningful understanding of underlying performance that properly reflects those items that are within the control of the business:

- **Interconnection and portability revenues**. These are required to be included within revenue under IFRS, with an offsetting cost recorded within cost of sales, however they are not within the control of the business. Interconnection rates are set by the relevant regulatory body and revenues earned are ultimately a function of the level of inbound and outbound activity on Telecable's networks compared to other networks.
- **Certain marketing campaign related revenues**. These are included within other income under IFRS, however they are within the control of the business.

13 Moody's has assessed the credit rating of Parselaya, S.L., the parent company of Telecable.

A reconciliation of Adjusted Revenue to the closest equivalent GAAP measure, statutory revenue, is provided below:

€m	2016	2015 Telecable Full year	2015 Telecable Pre acquisition[(1)]	2015 Group Consolidated[(1)]
Adjusted Revenue	**138.5**	**134.4**	**82.3**	**52.2**
Interconnection revenue	2.7	2.5	1.6	1.0
Other revenue	(0.4)	(0.4)	(0.2)	(0.2)
Statutory revenue	**140.8**	**136.6**	**83.6**	**53.0**

(1) The pre-acquisition period is 1 January 2015 to 14 August 2015. The post-acquisition period is 15 August 2015 to 31 December 2015.

EBITDA and Adjusted EBITDA

Zegona uses Adjusted EBITDA, in conjunction with other GAAP and Non-GAAP financial measures to assess its operating performance. Zegona believes it is both useful and necessary to report Adjusted EBITDA as a performance measure because it enhances the comparability of profit across businesses, it is commonly used as the key metric for valuing TMT businesses in mergers and acquisition transactions, and it is used by management for planning, reporting and incentive purposes.

EBITDA is operating profit excluding depreciation of Property, Plant and Equipment ("PP&E") and amortization of intangible assets (as defined in our financial statements).

Adjusted EBITDA is EBITDA excluding:

- Impairment losses and losses on the disposal of assets ("Loss on disposal of PP&E"),
- Long term management incentive compensation and share based payment expenses ("Incentive costs"),
- Significant items that are not considered by management to be reflective of the underlying performance of the Group ("Significant project costs" as disclosed in note 6 to the financial statements). These are typically identifiable costs incurred in the course of mergers and acquisition transactions.

Because Adjusted EBITDA does not take into account certain items that affect operations and performance, it has inherent limitations as a performance measure. To compensate for these limitations, we present Adjusted EBITDA in conjunction with other GAAP and Non-GAAP performance measures. Adjusted EBITDA should not be considered in isolation or as a substitute for a GAAP measure of operating performance. A reconciliation of EBITDA and Adjusted EBITDA to the closest equivalent GAAP measure, operating profit, is provided below. Rounded to the nearest € million, Incentive costs were zero in both 2016 and 2015:

€m	2016 Telecable	2016 Central costs	2016 Group consolidated
Operating profit/(loss)	**11.2**	**(7.8)**	**3.4**
Depreciation of PP&E	23.3	–	23.3
Amortisation of intangible assets	27.1	–	27.1
EBITDA	**61.6**	**(7.8)**	**53.8**
Loss on disposal of PP&E	3.6	–	3.6
Significant project costs[(1)]	–	3.8	3.8
Adjusted EBITDA	**65.1**	**(4.0)**	**61.2**

(1) As defined in note 6 to the financial statements

€m	2015				
	Telecable				
	Full year	Pre-acquisition[1]	Post acquisition[1]	Central costs	Group consolidated
Operating profit/(loss)	**12.5**	**10.1**	**2.4**	**(10.1)**	**(7.7)**
Depreciation of PP&E	24.9	14.2	10.7	–	10.7
Amortisation of intangible assets	16.1	7.7	8.5	–	8.5
EBITDA	**53.5**	**32.0**	**21.6**	**(10.1)**	**11.5**
Loss on disposal of PP&E	3.2	1.5	1.7	–	1.7
Significant project costs[2]	8.4	7.1	1.2	7.1	8.3
Adjusted EBITDA	**65.0**	**40.5**	**24.5**	**(3.0)**	**21.5**

(1) The pre-acquisition period is 1 January 2015 to 14 August 2015. The post-acquisition period is 15 August 2015 to 31 December 2015.

(2) As defined in note 6 to the financial statements.

Capex

Capex refers to additions of property, plant and equipment and intangible assets and is considered to be a good proxy for cash capital expenditure during the year. Zegona believes it is both useful and necessary to report Capex as it is a key metric used in valuing TMT businesses and, in conjunction with other measures, provides a good understanding of operating efficiency and cash generation. A computation of Capex is provided below. Rounded to the nearest € million, Central Cost capex was zero in both 2016 and 2015:

€m	2016	2015		
		Telecable		
		Full year	Pre-acquisition[1]	Group consolidated[1]
Additions of PP&E	13.7	17.3	10.7	6.6
Additions of intangible assets	11.9	11.6	6.0	5.6
Capex	**25.6**	**28.9**	**16.6**	**12.3**

(1) The pre-acquisition period is 1 January 2015 to 14 August 2015. The post-acquisition period is 15 August 2015 to 31 December 2015.

Adjusted Cash Flow

Adjusted Cash Flow is considered the best proxy for the cash flow generated by the trading activities of the business and is calculated as Adjusted EBITDA minus Capex (both as defined above). Zegona believes it is both useful and necessary to report Adjusted Cash Flow as it is a key metric for understanding the impact of Zegona's Buy-Fix-Sell strategy on the ability of operating businesses to generate enhanced cash returns to shareholders. Adjusted Cash Flow is calculated as follows:

	2016		
€m	**Telecable**	**Central costs**	**Group consolidated**
Adjusted EBITDA	65.1	(4.0)	61.2
Capex	25.6	–	25.6
Adjusted Cash Flow	**39.6**	**(4.0)**	**35.6**
Additions of PP&E			13.7
Additions of intangible assets			11.9
Significant project costs[1]			(3.8)
Net working capital adjustments[2]			(4.6)
Net interest paid[3]			(12.5)
Income tax paid			(0.3)
Net cash flows from operating activities			**40.0**

(1) As defined in note 6 to the financial statements

(2) Net increase or decrease in receivables, prepayments, inventories, payables, financial liabilities and deferred revenues per the Consolidated Statement of Cash Flows.

(3) Interest paid net of interest received per the Consolidated Statement of Cash Flows

	2015				
	Telecable				
€m	**Full year**	**Pre-acquisition[1]**	**Post acquisition[1]**	**Central costs**	**Group consolidated**
Adjusted EBITDA	65.0	40.5	24.5	(3.0)	21.5
Capex	28.9	16.6	12.3	–	12.3
Adjusted Cash Flow	**36.1**	**23.9**	**12.2**	**(3.0)**	**9.2**
Additions of PP&E					6.6
Additions of intangible assets					5.6
Significant project costs[2]					(8.3)
Net working capital adjustments[3]					(10.2)
Interest paid					(3.9)
Net cash used in operating activities					**(0.9)**

(1) The pre-acquisition period is 1 January 2015 to 14 August 2015. The post-acquisition period is 15 August 2015 to 31 December 2015.

(2) As defined in note 6 to the financial statements.

(3) Net increase or decrease in receivables, prepayments, inventories, payables, financial liabilities and deferred revenues per the Consolidated Statement of Cash Flows.

Principal Risks

The Directors have carried out robust assessments of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity. Further detail in relation to the principal risks faced by the Group is set out below.

Detailed consideration is given to all of these risk factors at meetings of both Telecable senior management and Zegona's Board.

Commercial risks

The principal commercial risks to which the Group is exposed are set out below:

Acquisition of targets

The success of the Group's acquisition strategy depends on identifying and successfully acquiring available and suitable targets. There is a risk that Zegona will not be able to obtain any consents or authorisations required to carry out an acquisition or procure the necessary financing, be this from equity, debt or a combination of the two. In making acquisitions, there is also a risk of unforeseen liabilities being later discovered which were not uncovered or known at the time of the due diligence process.

Further, as per the Group's strategy to buy and fix businesses that require active change and fundamental improvement to realise full value, once an acquisition is completed, there are risks that the Group will not succeed in driving strategic operational improvements to achieve the expected post-acquisition trading results or value which were originally anticipated, that the acquired products and technologies may not be successful or that the business may require significantly greater resources and investment than anticipated. If anticipated benefits are not realised or trading by acquired businesses falls below expectations, it may be necessary to impair the carrying value of these assets. The Group's return on shareholder investment may fall if acquisition hurdle rates are not met. The Group's financial performance may suffer from goodwill or other acquisition-related impairment charges, or from the identification of additional liabilities not known at the time of the acquisition.

Zegona has a disciplined approach to valuation and ultimately it is only prepared to make acquisitions at the right price and after undertaking a very structured and thorough due diligence process. When evaluating potential acquisitions we focus on targets that have strong fundamentals, high-quality offerings and leading market positions but which are underperforming their potential and have scope to generate sustainable performance and cash flow improvements.

Once a business has been acquired, it is Zegona's intention that management takes a hands-on role in delivering tangible improvement actions, including the development of strategic plans, restructuring opportunities and business development opportunities.

Key management

On a day-to-day basis, the Group is led by the executive Directors and the CFO. The absence of key management could result in the failure of the Group to achieve its objectives. The Group aims to retain its key staff by offering remuneration packages at market rates, and through long term incentivisation through the issue of management shares and other management incentive plans.

Economic downturn

There is a risk that deterioration in the Spanish economy, and more specifically the economy of the Asturias region, would have an adverse effect on the Group's business. Whilst this is outside of the Group's control, it is actively considered by the Board on an ongoing basis and influences the assessment of any further acquisition targets in the country.

Competitors

Telecable faces significant competition from established and new competitors that provide residential fixed-line telecommunications, mobile telecommunications, broadband internet and television services, as well as business telecommunications services in Spain. Any commercial actions taken by these competitors, which may include promotional activity, enhancement of service offerings, or network expansion may pose a threat to the Group, for example through the loss of customers or a reduction in our ability to raise or maintain prices. The

Group also faces potential competition from new entrants. To mitigate these risks, Zegona's Board and senior managers of Telecable actively monitor the actions of their competitors and any new entrants into the market, and ensure they have an understanding of the manner in which they conduct business. The Board aims to act swiftly and appropriately in response to any new ventures of current competitors or new entrants whom it believes pose a significant threat to the Group.

Technology

The sectors in which Telecable competes are subject to rapid and significant changes in technology which are difficult to predict. If the Group fails to introduce new or enhanced products, and keep pace with technological change, this could potentially have an adverse effect on its revenues, margins and market share. To compete effectively, the Group aims to successfully design and market its services, and anticipate and respond to various competitive factors affecting its markets utilising the extensive market experience of its management team.

Key business inputs

Key contracts, key suppliers including TV content, equipment and service suppliers, permits, licences and authorisations, are essential for the ongoing operation of Telecable's business. Management continually evaluate the business' requirements to ensure there is no adverse effect on the business' operations or profitability.

Brexit

Telecable operates in northern Spain and virtually all its revenues are derived from consumers and businesses in the Asturias region. These sales are undertaken in Euros. The vast majority of Telecable's costs of operations are also Euro-based. Therefore, it is not expected that Telecable's operations and its financial results will be materially impacted by any foreign exchange or other market impacts due to the United Kingdom's referendum decision to leave the European Union. Uncertainty is however likely to continue until the UK's future relationship with the EU becomes clearer and this could have an impact on the number or attractiveness of acquisition opportunities available to Zegona, although no such impact has been apparent so far. Given the complex negotiations involved, a clearer picture is not expected to emerge for some time and, with Article 50 only invoked in March 2017, it is too early to determine precisely what the likely effects on Zegona might be.

Financial risks

The Group's activities expose it to market risk, principally interest rate risk and currency risk. Financial instruments affected by market risk include loans, borrowings and deposits.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates comes from Telecable's Senior Credit Facility of €274 million, upon which interest currently accrues at EURIBOR plus 4.5%.

An increase in EURIBOR would result in a higher interest charge, however only a significant movement in EURIBOR would have a material impact on the Cash Flow position of the Group. Whilst considered unlikely, should a significant negative impact arise, sufficient working capital is provided through the Group's access to a revolving credit facility of up to €20 million which at the date of the approval of the Annual Report remains undrawn.

Foreign currency risk

Foreign currency translation risk exists due to the Company operating, and having equity denominated in, a different functional currency (GBP) to that of its operating subsidiaries (EUR) and the bulk of its likely acquisition targets. Transactional foreign currency risk is limited because the vast majority of Telecable's revenues and costs are denominated in the same currency. Whilst there are FX gains/losses on consolidation, the principal ongoing impact is on the Company's ability to re-translate the cash generated by Telecable in EUR into GBP for the purposes of returning it to shareholders.

Based on the anticipated cashflows of the Group and the Board's ability to reduce or delay any return to shareholders should it be necessary, the Board believes that this risk would not have a material effect on the Group in the ordinary course of business, however fluctuations in the GBP/EUR rate could have a material impact on the GBP value of the proceeds from any future sale of Telecable that Zegona may distribute to shareholders.

Similarly, fluctuations in the exchange rate between GBP and other European currencies could cause potential future acquisitions to become more expensive in GBP, and therefore less desirable since Zegona would expect to raise equity in GBP to fund a material portion of the acquisition price.

The Board and the finance department of Telecable control and monitor financial risk management in accordance with the internal policy and the strategic plan defined by the Board.

Longer term viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a three year period taking into account its current position, its prospects, the Group's strategy, the risk appetite of the Board and the principal risks and uncertainties which are described in detail in this Strategic Report.

Whilst the Board has no reason to believe the Group will not be viable over a longer period and planning for the Group reaches further than three years, the Directors consider a three year period to be appropriate as they are of the opinion that estimates input into this plan are more reliable over the next three years due to the nature of the fast changing telecommunications industry and Company's stated acquisition strategy. The Board reviews and renews the Group's three year plan at least annually and has considered whether it is aware of any specific relevant factors beyond the three year horizon and confirmed there are none.

The Board's assessment of the Group's viability is supported by comprehensive and detailed analysis and modelling. The model underpinning this statement uses a base case based on management's current three year plan with some additional elements of conservation deliberately included. This base case has then been stress tested using a number of scenarios. These scenarios simulate negative outcomes resulting from the occurrence of those principal non-financial risks discussed on pages 13 to 14 of this report that are considered to have a potential to threaten viability over the evaluation period together with expected achievable mitigating actions, to create severe but plausible scenarios. The impact of each scenario has been considered both individually and in combination.

The first, "Economic" scenario simulates a deterioration in the Spanish economy and incorporates the following principal commercial risks:

- Economic downturn
- Key business inputs

The second, "Competitor" scenario simulates a decline in Telecable's competitive position and incorporates the following principal commercial risks:

- Competitors
- Technology

Each scenario includes both a stressed case, and an extreme case. In each scenario, the stressed case is intended to represent a significant underperformance compared to management's current expectations, the occurrence of which is expected to be unlikely.

In the "Economic" scenario, the extreme case simulates an economic crisis in Spain of an equivalent severity to the worst experienced by Telecable in its history. In the "Competitor" scenario, the extreme case simulates a rapid and extremely severe loss in customer numbers and permanently retarded market share thereafter. The occurrence of either extreme scenario is expected to be remote.

Sensitivity of the Group's viability to interest rate and foreign currency risk, in combination with the commercial risks, has also been analysed.

The plans and projections used as part of this modelling consider the Group's cash flows, financing arrangements expected to be available to the Group, liquidity positions and forecast future funding requirements.

Based upon this assessment, the Board believes that the Company will be able to continue in operation and meet its liabilities as they fall due over the coming three years up to 31 December 2019.

In making this statement, the following qualifications and assumptions are made;

- The model is based on the Group as at the date of this Annual Report with no consideration of any further acquisitions or future disposals of continuing businesses. We note that any future acquisitions would be made with a disciplined financial approach including appropriate consideration of the debt and or equity funding required supporting both the acquisition itself and with sufficient headroom to cover business plans and associated risks.

Employees

The Group's employees are fundamental to the long-term success of the business.

The Board aims to ensure that all employees work in an environment that supports diversity and fosters a culture of dignity and respect. It is committed to supporting employment policies and practices that support equal opportunities, non-discrimination, and that comply with relevant local legislation and accepted practice. The Group's policies and practices of equal opportunities and non-discrimination ensure that an individual's ability, aptitude and talent are the sole determinants in recruitment, training, career development and progression opportunities, rather than their age, beliefs, disability, ethnic origin, gender, marital status, race, religion or sexual orientation.

Breakdown of employees as at 31 December by gender and seniority

	2016		
	Male	Female	Total
Zegona Board Directors	5	0	5
Subsidiary Board Directors	3	2	5
Telecable senior management	6	1	7
Staff of Telecable	118	59	177
Staff of Zegona	2	1	3
Total	**135**	**61**	**197**

Senior management is per the definition in Section 414C of the UK Companies Act 2006.

Corporate social responsibility

The Company recognises its obligations to act responsibly, ethically and with integrity in its dealings with staff, customers, neighbours and the environment as a whole. We are committed to being a socially responsible business.

Our people

Zegona values and respects the unique contributions of each individual. We are committed to ensuring that every employee is treated with dignity and respect, and has a meaningful opportunity to contribute to the Group's success.

Our employees are encouraged to actively engage with charitable activities and are supported in any such efforts.

Human rights

As part of our effort to conduct business in an ethical manner, we have not engaged in and will not engage in business practices or activities that compromise fundamental human rights.

Environmental matters

We are committed to minimising our impact on the environment and seek to encourage our employees to recycle, minimise energy wastage, and do their part to ensure that the Group as a whole acts responsibly.

Since 1 October 2013, the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 has required all UK quoted companies to report on their greenhouse gas (GHG) emissions, which are classified as either direct or indirect and which are divided further into Scope 1, Scope 2 and Scope 3 emissions. Direct GHG emissions are emissions from sources that are owned or controlled by Zegona. Indirect GHG emissions are emissions that are a consequence of the activities of the Group but that occur at sources owned or controlled by other entities.

Scope 1 emissions: Direct emissions from sources controlled by Zegona.

Scope 2 emissions: Indirect emissions attributable to the Group due to its consumption of purchased electricity.

Scope 3 emissions: Other indirect emissions associated with activities that support or supply the Group's operations.

The Group is required to report Scope 1 and 2 emissions for its reporting year to 31 December 2016. Scope 3 is not yet mandatory, however, the Group has again chosen to report Scope 3 emissions. The Group has no Scope 1 emissions.

	Global tonnes of CO_2	
	2016	**2015[1]**
Scope 2 (electricity)	2,239.8	977.2
Tonnes of CO_2 per €m revenue	15.91	18.45

	Global tonnes of CO_2e	
	2016	**2015[1]**
Scope 3 (water, business travel)	96.0	28.5
Tonnes of CO_2e per €m revenue	0.68	0.54

(1) The period from incorporation of Zegona to 31 December 2015

All emission factors have been selected from the emissions conversion factors published annually by Defra and the International Energy Agency.

The strategic report was approved by the Board of Directors on 5 April 2017 and is signed on its behalf by:

Eamonn O'Hare
Chairman and Chief Executive Officer

Eamonn O'Hare, Chairman and CEO (appointed 19 January 2015)

Eamonn has spent over two decades as a Board member and senior executive of some of the world's fastest growing consumer and technology businesses. From 2009 to 2013 he was CFO and main board director of the UK's leading entertainment and communications business, Virgin Media Inc. Eamonn helped lead the successful transformation of this business and its strategic sale to Liberty Global for US$24 billion, crystallising US$14 billion of incremental shareholder value. From 2005 to 2009, he served as the UK Chief Financial Officer of one of the world's largest retailers, Tesco plc. Before joining Tesco, Eamonn was CFO and main board director of Energis Communications and helped lead the turnaround of this high profile UK telecommunications company. Prior to this, he spent 10 years at PepsiCo Inc. in senior executive roles in Europe, Asia and the Middle East. Eamonn's early career was spent in the Aerospace industry with companies that included Rolls-Royce and British Aerospace.

Eamonn is a non-executive director of Tele2 AG, one of Europe's fastest growing telecom operators offering mobile, fixed telephony, broadband and content services. He also serves as a non-executive director on the main board of Dialog Semiconductor Plc, a leading edge consumer technology business that provides critical components for the world's most successful mobile device brands. Eamonn earned and retained non-executive director fees in relation to these positions of £149,783 in 2016.

Eamonn has a degree in Aerospace Engineering from the Queen's University Belfast and an M.B.A from the London Business School.

Robert Samuelson, executive Director and COO (appointed 19 January 2015)

Robert was Executive Director Group Strategy of Virgin Media Inc. from 2011 to 2014, during which time he was centrally involved in the sale of the business to Liberty Global and in the post-merger integration process.

Prior to this, Robert was a Managing Partner at Virgin group with global responsibility for developing and realising returns from Virgin's telecommunications and media businesses. Before joining Virgin group, Robert was a Director at Arthur D Little Ltd, where he co-led the European Corporate Finance practice, providing strategic advice to major European telecommunications operators. His early career was spent with British Aerospace and Royal Ordnance in engineering and production management roles.

Robert studied Natural Sciences at Cambridge University and has an M.B.A. from Cranfield School of Management.

Robert is currently a member of the Audit and Risk Committee and Nomination and Remuneration Committee but will resign from both Committees at the AGM.

Mark Brangstrup Watts, non-executive Director (appointed 19 January 2015)

Mark founded Marwyn, the asset management and corporate finance group, in 2002 with James Corsellis. Mark is joint managing partner of Marwyn Capital LLP, which provides corporate finance advice, and Marwyn Investment Management LLP, which provides asset management solutions and investment advisory services. Mark is a director of Marwyn Asset Management Limited, a regulated fund manager and also a trustee of the Marwyn Trust, a charity focused on initiatives supporting education and entrepreneurship for young people in disadvantaged communities.

Marwyn has launched 17 companies in partnership with experienced management teams across a variety of sectors, typically executing buy and build strategies. Mark has held board positions on several Official List and AIM quoted companies, including Entertainment One Limited, Advanced Computer Software plc, Inspicio plc and Talarius plc.

Mark was educated at London University and serves on the Committee of the Royal Academy School.

Mark is currently a member of the Audit and Risk Committee and the Nomination and Remuneration Committee but will resign from the Audit and Risk Committee at the AGM.

Murray Scott, independent non-executive Director (appointed 31 July 2015)

Murray has almost 20 years of experience in the international telecommunications sector, ranging from the then start-ups Equant and Interoute, to BT plc, where he served as Chief Financial Officer for the UK Products sub-division of BT Global Services which had revenues of £1.6bn. Since leaving BT, Murray's most recent role was Corporate Services Director for the Integrated Services sub-division of Babcock plc.

Murray studied Natural Sciences at Cambridge University and qualified as a Chartered Accountant with KPMG in London.

Murray is a member of the Audit and Risk Committee and the Nomination and Remuneration Committee.

Richard Williams, independent non-executive Director (appointed 9 November 2015)

Richard has spent most of his career in European Telecommunications, most recently as a Director of Investor Relations at Altice, and prior to that, Virgin Media. Richard is a qualified Chartered Accountant and has held financial planning roles at Walt Disney and ITV Digital. He joined Telewest Communications in 1999 in an Investor Relations role, Telewest later merged with NTL and was rebranded to Virgin Media. Richard led Virgin Media's Investor Relations activity through to the acquisition of the company by Liberty Global in 2013. Richard then joined Altice, where he supported the company's IPO and Altice's acquisition of SFR and Portugal Telecom.

Richard is Chair of the Nomination and Remuneration Committee and is a member of the Audit and Risk Committee.

Ashley Martin, independent non-executive Director (appointed 6 February 2017)

Ashley brings a wealth of complementary experience to the Zegona Board of Directors. As Audit Committee Chair at Rightmove plc since 2009, Ashley has valuable insight into entrepreneurial, high-growth consumer technology businesses. Ashley has also enjoyed a successful executive career spanning 35 years in larger listed companies, with a particular focus on mergers and acquisitions. Ashley was most recently Global Chief Financial Officer of private equity-backed Engine Holding LLC, and was previously the Group Finance Director of Rok plc, the building services group, and Group Finance Director of the media services company, Tempus plc.

Ashley qualified as a Chartered Accountant with Armitage & Norton (now part of KPMG).

Ashley is Chair of the Audit and Risk Committee and a member of the Nomination and Remuneration Committee.

Overview

This report is presented separately for the sake of clarity. Nevertheless, it forms part of the Directors' Report and has been approved by the Board and signed on its behalf as though it were a part of the Directors' Report. The Directors recognise the importance of sound corporate governance commensurate with the size of the Group and the interests of shareholders. Whilst the Company is eligible for exemption from the Financial Reporting Council's requirements relating to corporate governance disclosures, the Directors have decided to provide such disclosures voluntarily and these are set out in these financial statements.

The following sections of this report show how Zegona applies the main provisions set out in the 2014 UK Corporate Governance Code (the "Code"), issued by the Financial Reporting Council ("FRC"), as required by the Listing Rules of the Financial Conduct Authority ("FCA") and meets the relevant information provisions of the Disclosure and Transparency Rules of the FCA. The statement of corporate governance covers the following areas:

- The structure and role of the Board and its committees, including Board effectiveness and evaluation
- Relations with the Company's shareholders and the AGM;
- The report of the Audit and Risk Committee; and
- The report of the Nomination and Remuneration Committee.

The Group's principal risks are described on pages 13 to 16. The Directors' Report on pages 33 to 35 also contains information required to be included in this statement of corporate governance.

The Board of Directors

The Group is led and controlled by an effective Board. The Board at the date of this report comprises two executive directors and four non-executive directors. The two executive directors are Eamonn O'Hare (Chairman and Chief Executive Officer) and Robert Samuelson (Chief Operating Officer). The non-executive directors are Mark Brangstrup Watts, Richard Williams, Murray Scott and Ashley Martin.

Biographical details of all directors and details of their Committee membership at the date of this report appear on pages 19 to 20. Consideration of the Board size and composition is kept under regular review by the Nomination and Remuneration Committee.

The Chairman and CEO is primarily responsible for the running of the Board and for the day to day running of the Group. All Board members have full access to the Group's advisers for seeking professional advice at the Company's expense and the Group's culture is to openly discuss any important issues and frequently engage with Board members outside formal meetings. The Group's wider organisational structure has clear lines of responsibility. Operating and financial responsibility for all subsidiary companies is the responsibility of the Board.

Board interaction

The Board meets formally at least six times a year but also meets additionally on an ad-hoc basis where necessary. Meetings are prepared for using a standing agenda which is updated to incorporate any ad-hoc business or matters of interest. The Board is presented with papers from management to support its discussions including financial information, investor relations, subsidiary management reporting and details of acquisition targets and deal progress.

The executive Directors actively and constructively encourage challenge and seek input from the non-executive Directors to draw on their extensive experience and knowledge. They believe that the role of the non-executive Directors in providing independent challenge is a vital component of an effective board.

Board committees

The Board has established two principal committees, the Audit and Risk Committee and the Nomination and Remuneration Committee, to assist it in the execution of its duties. If the need should arise, the Board may set up additional Committees as appropriate. The Committees' terms of reference are available on the Company's

corporate website, www.zegona.com or by request from the Company Secretary. Each of the Committees is authorised, at the Company's expense, to obtain legal or other professional advice to assist in carrying out its duties. No person other than a Committee member is entitled to attend the meetings of these Committees, except by invitation of the Chairman of that Committee.

Current membership of the Committees is shown on pages 27 and 31. The composition of these Committees is reviewed regularly, taking into consideration the recommendations of the Nomination and Remuneration Committee.

Independence of the Board

One of the Code's main principles is that "the board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively".

In applying this principle, the Code specifies that the Board should identify each non-executive Director it considers to be independent and determine whether such Directors are independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Code also requires the Board to state its reasons why, if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant.

The Board considers that Ashley Martin, Murray Scott, and Richard Williams are independent non-executive Directors for the purposes of the Code.

Each of them is considered by the Board to be independent in character and judgement. Until June 2013, Richard had worked with the executive Directors when at Virgin Media, however, they have not worked together between then and Richard's appointment.

A small part of Richard's role includes assisting the executive Directors in the design and delivery of the external investor relations strategy due to his extensive experience in this regard and the importance of this to the Company. Richard's annual fee has reflected the additional time required for such assistance commensurate with his responsibilities; however, the Board considers that Richard's contribution since his appointment amply demonstrates that that this does not affect his ability to act independently.

The Board strongly believes that each of Ashley, Murray and Richard have no relationships or circumstances which are likely to affect, or could appear to affect, their judgement as Directors.

Similarly, although Mark Brangstrup Watts represents a significant shareholder, is a partner in the Company's financial adviser and is interested in Core Investor Shares in Zegona Limited, the Board considers that he nonetheless has the characteristics of an independent non-executive Director on the basis that:

- his extensive experience as a non-executive Director means he is capable of maintaining the independent character and judgement necessary to fulfil the role;
- he does not fall within any of the other relationships or circumstances that are highlighted by the Code;
- he is independent of the executive Directors.

The Board is therefore confident that Mark's ability to fulfil the role of non-executive Director is not fettered.

Board and Committee attendance

Attendance at Board and Committee meetings for the year under review was:

	Formal Board Meetings		Ad-hoc Board Meetings		Nomination and Remuneration Committee Meetings		Audit and Risk Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Eamonn O'Hare	6	6	17	17	–	–	–	–
Robert Samuelson	6	6	17	14	5	5	13	13
Mark Brangstrup Watts	6	6	17	14	5	5	13	13
Murray Scott	6	5	17	13	5	5	13	11
Richard Williams	6	6	17	16	5	5	13	13

Board and Committee changes

The Board recognises that Zegona's governance arrangements will evolve in line with its size and strategic direction and as part of this evolution, during the year the Board recognised that it needed to increase the number of independent non-executive Directors and add additional finance capability to the Audit and Risk Committee.

Korn Ferry, a leading executive search consulting firm, was therefore engaged to identify a seasoned listed company non-executive director with a track record of chairing Audit Committees. Other than the engagement to search for an additional independent non-executive Director, the Company has no other connection with Korn Ferry. Following a rigorous series of interviews with members of the Board and management team, Ashley Martin was identified as the outstanding candidate and on the recommendation of the Nomination and Remuneration Committee, Ashley was appointed with effect from 6 February 2017. Biographical details about Ashley can be found on page 20.

Ashley has been provided with extensive written information on the Group through investor presentations, admission documents, the prospectus, budgets and other board pack materials as required. Ashley has also spent time with the Company's executive Directors and management discussing the Group's strategy, the universe of opportunities and operating and financial results and plans. In addition, Ashley has also met with the external auditor, KPMG LLP ("KPMG") and the Group's Broker, J.P. Morgan Securities plc and visited Telecable's offices in Asturias.

Zegona's management has long understood the value of a board of directors with the capability and experience to both support management and hold them to account. To further strengthen the independence of the Board's committees, Zegona has announced that Robert Samuelson will resign from the Nomination and Remuneration Committee and both Robert and Mark Brangstrup Watts will step down from the Audit and Risk Committee at the AGM. This will allow Robert and Mark to see through the ongoing activities as part of the audit process and answer any shareholder questions arising at the AGM before stepping down. Robert will then be in a position to focus his time on his executive role as Chief Operating Officer. As a result, the Audit and Risk Committee will be solely comprised of independent non-executive Directors with the Nomination and Remuneration Committee being comprised of a majority of independent non-executive Directors.

The Board believes that these changes further strengthen the independence and capability of these committees and demonstrate the positive intent of the Group to continue to challenge and enhance its corporate governance framework as the business grows and evolves.

Directors' terms of service

The Articles of Association of the Company require each Director to retire from office and offer himself for re-election or election, as the case may be, at each annual general meeting of the Company. Accordingly, each of

the Directors will retire from office at the Company's next Annual General Meeting and seek to be elected by the Company's shareholders.

The executive Directors have service contracts which may be terminated on no less than 12 months' notice by either party. The non-executive Directors each have current service contracts which can be terminated on 6 months' notice. All non-executive Directors continued service is dependent on annual re-election by shareholders and the annual board effectiveness review. Details of the unexpired terms of the service contracts are set out in the Directors' Remuneration Report.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by s234 of the Companies Act 2006. The indemnity was in force throughout the financial year and is currently in force. The Company also purchased and maintained throughout the period Directors' and Officers' liability insurance in respect of itself, its Directors and the Directors of Group Companies. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2016.

Conflicts of Interest

The Articles of Association of the Company provide for a procedure for the disclosure of and management of risks associated with Directors' conflicts of interest. Notwithstanding that no material conflict of interest has arisen in the period, the Board considers these procedures to have operated effectively.

Compliance with the UK Corporate Governance Code

The Code sets out a number of principles in relation to board leadership, effectiveness, accountability, remuneration and relations with shareholders. A copy of the Code is available on the Financial Reporting Council's website at www.frc.org.uk (the 2014 version of the Code is applicable to Companies for the year ended 31 December 2016).

Following Admission to the Main Market, save as set out below, the Board has voluntarily (as the Company has a Standard Listing) complied with the Code applicable to non-FTSE 350 companies, so far as practicable. Details and explanations of non-compliance with the Code are set out below:

Combined Chairman and CEO

- The Code recommends that the roles of Chairman and the Chief Executive should not be occupied by the same person; the Company does not comply with this requirement. The Board believes that Eamonn O'Hare's skills, knowledge and leadership enable him to effectively perform both roles and that, at this time, distinguishing between these roles would be of no additional benefit to the Group.

- There were no concerns raised through the Board effectiveness review in this regard, however, the Board remains cognisant of this area of non-compliance and considers the continued appropriateness of these two roles remaining combined on a regular basis giving due regard to shareholder concerns and the time commitment required for each role as the business evolves.

- In particular, the Board considers that, notwithstanding his role as CEO, Eamonn is capable of promoting a culture of openness and debate by facilitating the effective contribution of non-executive Directors and ensuring constructive relations between the executive and non- executive members of the Board.

- The Board believes that it remains effective with sufficient challenge being provided both at formal Board meetings and through informal interactions, both with members of the Board and the separate CEO of the Telecable Group, to ensure that Eamonn does not exercise unfettered powers of decision. In addition, the Company maintains a schedule of matters reserved to the Board which prevents Eamonn from authorising certain corporate actions without a formal resolution of the Board.

Independence of Board Committees

- During the period, and up to the appointment of Ashley Martin to both the Audit and Risk and Nomination and Remuneration Committees, the Committees were comprised of Robert Samuelson (executive Director), Murray Scott and Richard Williams (independent non-executive Directors) and Mark Brangstrup Watts. Whilst Mark has the characteristics of an independent non-executive Director he represents a significant shareholder, is a partner in the Company's financial adviser and is interested in Core Investor Shares in Zegona Limited. Following Ashley's appointment, the Committees comprised majority independent non-executive Directors. Robert will stand down from both Committees and Mark will stand down from the Audit and Risk Committee at the AGM.

The Code recommends, but does not require, the appointment of a Senior Independent Director ("SID"). During the period extensive consideration has been given to such an appointment, including as part of the independent corporate governance effectiveness review discussed below, with the Board concluding that its current focus should be on the successful integration of Ashley into the Board and Committee operations. The appointment of a SID will be kept under active review by the Board during 2017 taking into consideration any further expansion of the Group as such an appointment would, in future, provide significant benefit to the Board.

Evaluation of the Board, Committees and individual Directors

During the year, the Board conducted an annual evaluation of its own performance and that of its Committees by means of an online questionnaire requiring written responses from the Directors. To ensure independence and objectivity, the questionnaire was designed, administered and reviewed on a confidential basis by the Company Secretary. The questionnaire was drafted having regard to the balance of skills, experience, independence and knowledge contributed by its members, as well as the successful operation of the Board as a unit, its diversity and other factors relevant to its effectiveness.

The resulting report compiled by the Company Secretary, analysing responses and drawing anonymous conclusions, was sent to each Director for consideration at a meeting of the Nomination and Remuneration Committee in August 2016. The Chairman was invited to contribute to a portion of the meeting to discuss the results with the Committee. The meeting concluded with an independent session of the non-executive Directors to discuss the performance of the Chairman.

The findings of the review were positive, with recommendations made to serve as improvements to what was considered to be an effective board. These suggestions included refining the financial information in relation to the operating business that is tabled to Board meetings. The Board and Committees have started to make progress against the findings and will conduct a review against these objectives as part of the Board effectiveness evaluation to take place during 2017.

Independent corporate governance effectiveness review

The Board recognises that Zegona's governance arrangements will evolve in line with its size and strategic direction, and in response to external factors. The current arrangements are based on good governance principles reflective of the Company's entrepreneurial background and commensurate with the size of the Group and the interests of shareholders.

During the year, the Company engaged Ernst & Young LLP ("EY") to perform an independent assessment of the effectiveness of the current corporate governance arrangements in place, including the extent to which the Company has applied the key principles of the Code, with a view to assisting the Board and senior management in planning to evolve the corporate governance arrangements as the Group executes its strategy.

In line with the key observations of the report, the Board have enhanced the composition of the Audit and Risk Committee by appointing Ashley Martin and have committed to further strengthen the independence of both the Audit and Risk Committee and Nomination and Remuneration Committee at the AGM of the Company through the resignation of Robert Samuelson from both Committees and Mark Brangstrup Watts from the Audit and Risk Committee.

The review highlighted some other areas where the Company can further strengthen its current governance arrangements as events or circumstances evolve. The recommendations have been discussed at length by the Board and Zegona has committed to implement these in line with the timeframe suggested by EY.

Whistleblowing policy

All employees of the Group are encouraged to raise genuine concerns about possible improprieties in the conduct of our business, whether in matters of financial reporting or other malpractices, at the earliest opportunity and in an appropriate way. The Group has put in place a whistleblowing policy to facilitate this.

The aims of this policy are:

- to encourage workers to report suspected wrongdoing as soon as possible, in the knowledge that their concerns will be taken seriously and investigated as appropriate, and that their confidentiality will be respected;
- to provide workers with guidance as to how to raise those concerns; and
- to reassure workers that they should be able to raise genuine concerns in good faith without fear of reprisals, even if they turn out to be mistaken.

Share dealing

The Company has in place systems to ensure compliance by the Board, the Company, and its applicable employees in relation to dealings in securities of the Company and has adopted a share dealing code for this purpose. The Directors believe that the share dealing code adopted by the Board is appropriate for the Company's size and complexity. During the year, the Board adopted a manual to support the Company's share dealing code in complying with the EU Market Abuse Regulation (2014/596/EU) ("MAR"). The Board will comply with these provisions and will take all reasonable steps to ensure compliance by the Company's 'applicable employees'.

Relations with shareholders

The Directors are always available for communication with shareholders and frequently engage constructively with current and potential shareholders. All shareholders have the opportunity, and are encouraged, to attend and vote at the AGM of the Company during which the Board will be available to discuss issues affecting the Company. The Board stays informed of shareholders' views via regular meetings and other communications its members have with shareholders.

Annual General Meeting

The AGM of the Company will be held at 10 Snow Hill, London, EC1A 2AL at 12 p.m. on 17 May 2017. The AGM is an opportunity for shareholders to vote on certain aspects of the Company's business. The Directors will also be available to answer any shareholder questions prior to and after the meeting. The Company will arrange for the Annual Report and related papers to be posted to shareholders, and available on the website at www.zegona.com, so as to allow at least 20 working days for consideration before the AGM.

Audit and Risk Committee Report

I am pleased to present the 2016 report of the Audit and Risk Committee (the "Committee"). The Committee is an essential part of Zegona's governance framework, to whom the Board has delegated oversight of Zegona's financial reporting, internal controls, risk management and the relationship with the external auditor.

In discharging its duties, the Committee embraces its role of protecting the interests of shareholders with respect to the integrity of financial information published by the Group and the effectiveness of the audit. The Committee's role and responsibilities are set out in its terms of reference, which are available on the Company's website and from the Company Secretary at the Company's registered office. The key responsibilities were as follows:

Financial Reporting	• Reviewing and monitoring the integrity of the financial statements of the Group, including the Annual Report and Interim Report. • Reviewing and challenging the consistency of accounting policies and judgements, methods used to account for significant or unusual transactions and compliance with accounting standards. • Reviewing and considering the Annual Report to ensure that it is fair, balanced and understandable and advising the Board on whether it can state that this is the case. • Reviewing and challenging the going concern assumption and the assessment forming the basis of the longer-term viability statement.
Internal control and risk management	• Keeping under review the effectiveness of the Group's financial reporting, risk management and internal control systems and compliance controls, including the need for an internal audit function. • Reviewing the Group's arrangements for its employees to raise concerns in confidence about possible wrongdoing in financial reporting, in accordance with the Company's whistleblowing policy.
External audit	• Making recommendations to the Board on the appointment of the external auditor, overseeing the relationship and assessing the effectiveness of the external audit process.

The leadership and membership of the Committee since 1 January 2016 has been as follows:

Period	Chairman	Members
1 January 2016 – 4 March 2016	Mark Brangstrup Watts	Murray Scott Richard Williams Robert Samuelson
4 March 2016 – 6 February 2017	Murray Scott	Mark Brangstrup Watts Richard Williams Robert Samuelson
6 February 2017 – Present	Ashley Martin	Mark Brangstrup Watts* Richard Williams Murray Scott Robert Samuelson*

*Will resign from the committee at the AGM

The committee normally meets at least three times a year with additional meetings arranged if necessary. In 2016, the committee met in February, March, August, November and December and has subsequently met in January, March and April of 2017. The scheduling of these meetings is designed to be aligned with the financial reporting timetable, thereby enabling the Committee to review the Annual Report, the interim financial report and the audit plan ahead of the year-end audit and to maintain a view of the internal controls and processes throughout the year.

The Company Secretary acts as secretary to the Committee. The Committee invites the Chief Financial Officer to all meetings and other members of the finance team and senior representatives of the external auditor where appropriate to the business being considered. The Committee has the right to invite any other Directors and/or employees to attend meetings where this is considered appropriate.

Upon the resignation of Mark Brangstrup Watts and Robert Samuelson from the Committee at the AGM, the Committee will be comprised entirely of independent non-executive directors. The Board is satisfied that Ashley Martin's appointment on 6 February 2017 brings recent and relevant financial experience from senior executive and non-executive positions as described in his biography on page 20 and this experience complements the relevant financial skills that Murray Scott and Richard Williams bring to the Committee.

In discharging its duties, the Committee undertook the following recurring activities that receive annual scrutiny:

- Reviewed the Annual Report, including the going concern assumption and the assessment forming the basis of the longer-term viability statement. As part of this review, the Committee received reports from the external auditor on their audit of the Annual Report;
- Considered the processes in place to generate forecasts of cash flows and accounting valuation information, including the reasonableness and consistent use of assumptions;
- Reviewed the effectiveness of the Group's risk management and internal controls and disclosures made in the Annual Report on this matter, including the review of an annual assurance statement provided by management assessing the effectiveness of Zegona's risk management and internal control systems; and
- Reviewed and agreed the scope of the audit work to be undertaken by the external auditor.

In addition to these matters, the Audit and Risk Committee considered a number of other significant issues in relation to accounting, reporting, internal control and external audit as follows:

- Impairment of goodwill, intangible assets and other fixed assets: The judgements in relation to goodwill impairment testing relate to the assumptions applied in calculating the value in use of the cash-generating unit. The key assumptions applied in the calculation relate to the future performance expectations of the cash-generating units. The Committee has also considered the related disclosures within the financial statements. The impairment review was also an area of focus for the external auditor, who reported their findings to the Committee. The Committee considered management's approach, the assumptions applied and related disclosures and, having taken input from the external auditor, agreed with management's impairment assessment.
- Revenue recognition: The process underlying the accounting for revenue streams are highly automated and a risk exists that revenue may be incorrectly recorded due to inaccurate capture of tariff or billing data or due to billing customers at inaccurate rates. The Committee considered this risk and the controls surrounding it. In addition, the Committee reviewed a series of papers that considered the appropriate accounting under IAS 18 and IAS 2 for revenues and costs related to the sale of mobile handsets both before and after changes were made to the way handsets are sold and distributed in Telecable. The Committee considered management's approach and after having taken input from the external auditor, agreed with management's conclusion.
- Risk management and internal control: The committee reviewed management's updates to the Group's main control document, the Financial Position and Prospects ("FPP") document and concluded that they

were still appropriate given the developments in the business. The Committee also reviewed the annual update to the Telecable risk register.

- Non-audit fees: As discussed further below, under new EU and Competition Commission rules, effective from 17 June 2016, new restrictions on non-audit services apply. The Committee received an update on the latest guidance on the new rules governing the provision of non-audit services and considered the impact on the Group. The Committee closely monitors the non-audit services provided by the incumbent external auditor to ensure that these are appropriate and has adopted a formal policy for the approval of non-audit services.

- The impact of IFRS 15: The adoption of IFRS 15 on revenues from contracts with customers in 2018 will have a significant impact on how businesses recognise revenues and some of the associated costs. The Committee received two written and verbal updates from management on the progress in implementing IFRS 15 in the Group and some of the key technical issues that the implementation will pose. The Committee also reviewed management's proposed disclosures of the potential impact of IFRS 15 in this Annual Report and concluded that they provided the reader with a reasonable understanding of the effect that applying IFRS 15 will have.

The Committee reviews and makes recommendations with regard to the appointment and re-appointment of the external auditor. In making these recommendations, the Committee considers auditor effectiveness and independence, partner rotation and any other factors which may impact the external auditor's re-appointment. During the year, the Committee approved the appointment of KPMG to replace Deloitte LLP who resigned effective 18 November, 2016. During the process of appointing KPMG, the committee were impressed with the quality of the KPMG team and their understanding of Zegona and its industry. As part of the audit planning process, the committee met with KPMG to discuss their audit plan and strategy document, which included discussion around the significant risks and other focus areas including revenue recognition.

As the audit relationship is in its first year, the Audit and Risk Committee will seek feedback from the various participants in the 2016 audit process (committee members, executive Directors, Zegona and Telecable management and other participants) to consider its effectiveness. This will be discussed at the first meeting held after the finalisation of the financial statements. The assessment of effectiveness will include assessment of the audit partner, the audit team, their approach to the audits including planning and execution, communication, support and value.

Zegona has adopted a formal policy to ensure that there are appropriate safeguards in place to mitigate threats to auditor independence and each potential engagement is considered individually by the committee and no fees are paid to the auditor on a contingent basis. Based on these strict procedures, the committee remains confident that auditor objectivity and independence have been maintained and accepts that non-audit work must be controlled to ensure that it does not compromise the auditor's position. At each year end, KPMG submits a letter setting out how it believes its independence and objectivity have been maintained. KPMG is also required to rotate the audit partner responsible for the Group audit every five years and significant subsidiary audits every seven years.

During 2016, KPMG did not earn any fees for non-audit services. An analysis of the fees earned by the external auditor can be found in note 27 to the consolidated financial statements.

Internal control and risk management

The Board is responsible for establishing and maintaining the Company's system of internal control and reviewing its effectiveness. Internal control systems are designed to meet the particular needs of the Company and Group and the particular risks to which it is exposed. The procedures are designed to manage rather than eliminate risk and by their nature can only provide reasonable but not absolute assurance against material misstatement or loss.

Zegona does not have a separate internal audit function as the Board does not feel this is necessary due to the operating business having a simple legal structure, and being based in a single country and a single location, the nature and extent of internal controls and management and Board oversight and involvement. The Board is committed to engaging an independent review of the effectiveness of internal controls of Telecable on an annual

basis. Deloitte Spain are being engaged to perform this review and it is anticipated that the results of their review will be tabled to the next formal meeting of the committee for consideration following the completion of their review. The committee will continue to regularly review the need for an internal audit function as the business evolves and develops.

Elements of the internal control system are aimed at ensuring the accuracy and reliability of consolidated financial information and enable the Group to prepare full and accurate information on an ongoing basis and to ensure that amounts are accurately recognised, measured and disclosed in the consolidated financial statements so that the financial statements provide reliable, comprehensive information.

Key internal controls include the maintenance of a schedule of matters reserved for the Board, oversight of the execution and control of important and/or complex transactions by different people of appropriate seniority and comprehensive disaster recovery plans.

On a monthly basis KPIs, budget versus actual results, summary financial information, covenant calculations, capital expenditure and further breakdowns of financial information as required are reviewed by the Telecable CFO and CEO, the Telecable Steering and Management committees. The separation of administrative, executive, accounting and authorisation functions and their performance by different individuals reduces the risk of fraud.

Monthly financial information is prepared and circulated to the Board. At each formal Board meeting, financial information is discussed in detail.

The Board has reviewed the Company's and Group's risk management and control systems and believes that the controls are satisfactory given the nature and size of the Company and Group.

Ashley Martin
Chairman of the Audit and Risk Committee

Nomination and Remuneration Committee Report

The Nomination and Remuneration Committee's role and responsibilities are set out in its terms of reference, which are available on the Company's website and from the Company Secretary at the Company's registered office.

The committee discharges its responsibilities through:

- regularly reviewing the size, structure and composition of the Board and by providing recommendations to the Board of any changes that may be necessary from time to time;
- recommending the policy that the Company should adopt on executive remuneration;
- determining the levels of remuneration for each of the Directors and recommending and monitoring the remuneration of members of senior management;
- attracting, retaining and motivating executive Directors and senior management to encourage commitment to the development of the Group and for long term enhancement of shareholder value;
- producing the annual remuneration report to be approved by the members of the Company at the AGM;
- evaluating the performance of the Board, its committees and its individual Directors and reporting its findings to the Board;
- giving full consideration to succession planning in order to ensure an optimum balance of executive and non-executive Directors in terms of skills, experience and diversity;
- keeping up to date and fully informed about strategic issues and commercial changes affecting the Company and the markets within which it operates.

The Nomination and Remuneration Committee will normally meet at least twice a year with additional meetings arranged if necessary. In 2016 the Committee met in March, August, November and December and has subsequently met in February, March and April of 2017. The scheduling of the formal committee meetings is designed to be aligned with the financial reporting timetable in respect of the committee's responsibility for the annual remuneration report contained within the Annual Report and to ensure that the Board effectiveness evaluation is completed in line with the prior year.

The leadership and membership of the Nomination and Remuneration Committee since 1 January 2016 has been as follows:

Period	Chairman	Members
1 January 2016 – 4 March 2016	Mark Brangstrup Watts	Murray Scott Richard Williams Robert Samuelson
4 March 2016 – 6 February 2017	Richard Williams	Mark Brangstrup Watts Murray Scott Robert Samuelson
6 February 2017 - Present	Richard Williams	Ashley Martin Robert Samuelson* Murray Scott Mark Brangstrup Watts

*Will resign from the committee at the AGM

In discharging its duties, the Nomination and Remuneration Committee undertook the following activities during the year:

- Considered the composition and balance of the Board in conjunction with the provisions of the UK Corporate Governance Code. In particular it was agreed that an additional independent non-executive director would be sought to further strengthen the skills and experience of the Board and specifically to chair the Audit and Risk Committee;
- reviewed the responses to the Board effectiveness questionnaire, to consider areas for further improvement or enhancement and to made recommendations in this regard;
- the committee membership was reviewed along with its terms of reference to ensure it remained appropriate for the nature and extent of the committee's activities and it was determined that these were relevant and appropriate for the committee and in line with best practice.

It has been announced that Robert Samuelson will step down from the committee at the conclusion of the Annual General Meeting to ensure that there is no executive Director representation on the Nomination and Remuneration Committee.

Richard Williams
Chairman of the Nomination and Remuneration Committee

Result

For the year to 31 December 2016, the Group's loss was €5,487,997 (2015: loss of €14,891,659). A review of the performance and likely future developments is set out in the Strategic Report on pages 1 to 18.

Dividend policy

The Company's policy is to pay a progressive dividend on its ordinary shares of £0.01 each ("Ordinary Shares"), that is underpinned by cash generation in its operating businesses. The inaugural payment of 2.25p per Ordinary Share was paid on 14 October 2016, and a further interim dividend, in lieu of a final dividend, for 2016 of 2.25p per Ordinary Share was paid on 17 March 2017. This brings the total dividend payments for 2016 to 4.5 pence per Ordinary Share, in line with Zegona's stated dividend policy and previous guidance.

On 3 April 2017 Zegona's board of Directors approved a policy to declare a dividend of 5.0 pence per ordinary share for 2017. This is an 11.1% increase over the 2016 dividend, is in line with Zegona's stated objective to pay a progressive dividend, and reflects the strong growth in cash flow in the business. Half of the 5.0 pence dividend is expected to be paid in October 2017 with the balance expected to be paid in March 2018. This is a target, not a forecast and there is no guarantee that this return will be made.

The Company will principally depend on dividends received from its operating subsidiaries, interest on intercompany loans to its subsidiaries or receipts from the future disposal of assets to pay dividends to its shareholders. Payments of dividends will be dependent on the availability of any dividends or other distributions from subsidiaries, or the successful completion of disposals. While we expect to maintain our progressive dividend policy in the foreseeable future, we can therefore give no assurance that we will be able to pay dividends going forward, or as to the amount or timing of such dividends, if any.

Additional shareholder remuneration

Zegona anticipates that Telecable will generate significant excess cash in 2017. This excess cash is the cash generated by the business after paying the Company's 2016 dividend in accordance with the dividend policy described above. In line with our strategic objectives, the Company continues to evaluate a number of potentially attractive investment opportunities in the European TMT sector. To the extent that excess cash is not required for investigating or executing these potential new opportunities, it is the Company's intention to distribute such excess cash to shareholders.

At the Company's AGM on 15 April 2016, the shareholders approved a resolution to authorise Zegona to put in place the necessary mechanisms for a capital returns programme to enable the Company to distribute its excess cash to shareholders, through share repurchases or special distributions, or a combination of both.

Powers for the Company buying back its own Shares

The resolution authorises the Company to make market purchases of up to ten per cent. of its current issued Ordinary Share capital (within specified price parameters). It is intended that the Company will exercise this authority only if the Board considers that it is in the best interests of the Company at the time. Any shares repurchased by the Company pursuant to this authority may be held in treasury and subsequently resold for cash, cancelled or used for employee share scheme purposes.

The Company also obtained shareholder authority to make off-market purchases of Ordinary Shares following a tender offer for the Company's shares. The Directors intend that these buy-back arrangements will provide the Board with additional flexibility to execute its strategic plans and thereby return value to shareholders.

Dividend recommendation

Whilst the Board has approved the Company's dividend policy as described above, the Board does not recommend a dividend at this time. Future dividends will be considered by the Board on an ongoing basis in accordance with the Company's dividend policy as described above.

Substantial shareholders

At the date of release of this report the Company had been notified under DTR 5 of the following holdings in 3% or more of the issued Ordinary Shares of the Company:

Asset manager	Number of shares	%
Marwyn Asset Management	50,608,567	25.8
Invesco Asset Management	31,423,904	16.0
Fidelity Worldwide Investment	19,596,852	10.0
Capital Research Global Investors	15,386,666	7.8
Legal & General Investment Mgt	14,000,000	7.1
AXA Investment Managers UK	13,371,555	6.8
Taconic Capital Advisers	9,541,666	4.9
Tekne Capital Management	6,722,445	3.4
Hargreave Hale	5,964,197	3.0

The Ordinary Shares held by the asset managers listed above are all held indirectly.

Independent auditor

KPMG has expressed its willingness to continue to act as auditor to the Company and a resolution for its re-appointment will be proposed at the forthcoming Annual General Meeting. KPMG has confirmed that it remains independent of the Group.

Disclosure of information to auditor

Each of the persons who is a Director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Capital structure

As at the end of the period, the Company's capital structure was comprised of 196,044,960 Ordinary Shares. The holders of Ordinary Shares have the right to receive notice of, attend and vote at all general meetings of the Company. Holders of Ordinary Shares have the right to participate in dividends and any surplus capital on a winding up parri passu as amongst themselves. Where the winding up of the Company entails or is concurrent with the winding up of the Company's subsidiary, Zegona Limited, the assets available for distribution among the holders of Ordinary Shares will be reduced by such amount as is required to satisfy the rights (if exercised) of Management Shares and Core Investor Shares in Zegona Limited.

Significant agreements subject to change of control provisions

The Company's subsidiary, Zegona Limited, has issued Management and Core Investor Shares as part of the Group's incentive arrangements. On a change of control of the Company, subject to the requirements of the Articles of Association of Zegona Limited, the Management and Core Investor Shares can be exercised with their value being delivered either through the issue of Ordinary Shares in the Company, or in cash. Further detail in relation to these shares is set out in note 25 to these financial statements.

Statement of going concern

The Directors have considered all available information, including specific consideration of forecast financial information, about the possible future outcomes of events and changes of conditions, and the realistically possible responses to such events and conditions that are available to the Directors. Based on their considerations, the

Board considers that there are no material uncertainties affecting the ability of the Group to continue in business or meet its liabilities as they fall due for the next 12 months and therefore believes it is appropriate to prepare the financial statements on the going concern basis.

Responsibility statement of the directors in respect of the annual financial report

The Directors consider that the Annual Report, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 19 and 20, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Directors' report includes a fair review of the development and performance of the business and the position the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Eamonn O'Hare	**Robert Samuelson**
Chairman and Chief Executive Officer	Director and Chief Operating Officer
5 April 2017	5 April 2017

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Remuneration Report

The information included in this report is not subject to audit other than where specifically indicated. The aim and composition of the Nomination and Remuneration Committee is set out previously on page 31. Details of Directors' interests in the share capital of the Company are set out on page 47.

Annual statement

Overview from the Chairman of the Nomination and Remuneration Committee.

I am pleased to introduce the Directors' remuneration report for the year ended 31 December 2016, which includes my statement, the Directors' remuneration policy and the annual report on remuneration for the period. The Directors' remuneration policy set out in this 2016 Annual Report was approved at the AGM of the Company held on 15 April 2016 with 98.45% of votes cast for, 1.55% of votes cast against and 23,901,530 votes withheld. At the same AGM, the remuneration report included in the 2015 Annual Report of the Company was approved via shareholder resolution with 96.43% of votes cast for, 3.57% of votes cast against and no votes withheld. For clarity, we have updated our remuneration policy to reflect our position in 2016 and, where appropriate, made some minor changes and clarifications to the policy to update its relevance. As the substance of the policy remains unchanged, there will be no vote on the remuneration policy at our AGM in May 2017.

The annual report on remuneration details the amounts earned in the period ended 31 December 2016 in line with the regulations on the presentation and disclosure of Directors' remuneration and how the Directors' remuneration policy will be applied in 2017 (except that we have not included illustrations of the application of the remuneration policy where such illustrations provide no additional information to shareholders). The annual report on remuneration will be subject to an advisory vote at the Annual General Meeting.

Our remuneration philosophy is that executive remuneration should be simple and transparent, support the delivery of the business strategy and pay for performance. This philosophy is reflected in our remuneration structure.

Although the committee feels it is important to remunerate and incentivise senior executives through their basic pay, benefits and annual bonus at market levels commensurate with their peers, the committee feels very strongly that executive Directors' long term incentives should be linked to the creation and delivery of real returns to shareholders. A key element of Zegona's remuneration framework for the Company's executive directors and senior management is their Management Shares, which were designed to provide ongoing remuneration in complete alignment with shareholders and have been in place since before the Company's IPO.

During 2016, the remuneration of the non-executive Directors remained consistent with their annual fees earned in 2015. There is no element of the non-executive Directors' remuneration that is linked to the performance of the business, with the exception of Mark Brangstrup Watts who holds a beneficial interest in the Core Investor Shares as explained further in this report.

The remuneration of the executive Directors in 2016 was limited to their basic pay and benefits at the same annual rates as 2015. No increase to basic pay has been awarded since IPO. In 2016 no element of the executive Directors' remuneration was linked to the performance of the business with no bonus amounts being awarded. It is however noted that executive Directors continue to hold Management Shares, the value of which is directly linked to the performance of the Company in executing its strategy as described in the Strategic Report (as was the case in 2015) and that the Nomination and Remuneration Committee intends to consider the KPIs which should be used to measure the executive Directors' performance in order to determine the level of any annual bonuses which should be awarded to any of the executive Directors during 2017.

The Management Shares are designed so that only once shareholders have received a compound annual growth (including distributions received) of greater than 5 per cent. per annum do the Management Shares have any value at all.

Rather than having long term incentive arrangements granted each year, we believe that an ongoing three to five year arrangement is preferable, given that it is closer to the expected typical ownership period of our businesses and the intention to acquire multiple businesses over time.

The rights attached to the Management Shares may be exercised at any time in the period from 14 August 2018 to 14 August 2020, or prior to that period under certain specific conditions, including a takeover or Board change of control.

By its nature, this means that value is likely to be received from the Management Shares only every three to five years and so the value received should not be regarded as an annual payment.

After an exercise of Management Shares, the incentive mechanism will be renewed, up to a maximum of four times, as set out below, on a similar basis such that management will continue to have rights to 15 per cent. of the future growth in value of the Company, subject to shareholders achieving their preferred return of 5 per cent. per annum.

Renewal of the management incentive mechanism is subject to shareholder approval. At the Annual General Meeting immediately following an exercise or five year anniversary, the Company will propose a resolution to continue the incentive arrangements on the same terms. Of the Ordinary Shares that are voted on the resolution, if shareholders holding 75 per cent. or more of the Ordinary Shares vote against it, the remaining Management Shares will immediately cease to have any rights or real value.

The committee strongly believes that this clear and transparent incentive framework is aligned with the Company's strategy for growth and provides a strong platform for the future success of the Company.

It is anticipated that the exercise of Management Shares will result in management receiving Ordinary Shares in Zegona. Those shareholdings could be substantial and would then further align management to shareholders.

As the above shows, the committee has sought to ensure that the policy and practices drive behaviours aligned to the long term interests of the Company and our shareholders.

As well as setting out the committee's remuneration policy, this remuneration report also sets out the major decisions that have been taken and significant changes that have occurred during the period as regards Directors' remuneration and the context in which those have occurred.

The Nomination and Remuneration Committee is mindful of the potential risks associated with our remuneration policy. The committee aims to provide a structure that encourages an acceptable level of risk taking (by benchmarking against shareholder returns) and an optimal remuneration mix. The committee intends to undertake annual evaluations to ensure our policy achieves the correct balance and does not encourage excessive risk taking. If the committee feels that the policy no longer achieves the correct balance, a new policy will be put to Shareholders for approval. The committee has considered the risk involved in the Management Shares and is satisfied that the governance procedures mitigate these risks appropriately.

On behalf of the Nomination and Remuneration Committee

Richard Williams
Non-executive Director and Chairman of the Nomination and Remuneration Committee
5 April 2017

Directors' remuneration policy

Overview

In setting the policy for Directors' remuneration, the Nomination and Remuneration Committee has sought to promote the long-term success of the Company, applying incentives which are compatible with the Company's corporate strategy, risk policies and systems. In particular, the committee has been mindful of the potential concern of shareholders that undeserved remuneration will undermine the efficient operation of the Company, affect the Company's reputation and misalign the Directors' and shareholders' interests.

Directors' fixed remuneration

In setting the Directors' fixed remuneration, the committee considers that the Company should have regard to:

- the Group's objective to reward all employees fairly according to their role, experience and performance;
- the individual Director's performance, responsibility, skills and experience;
- the size and nature of the business and comparative general pay levels amongst the Group's peers, being global communications and media companies of a similar size and complexity to the Group (although the committee does not consider that formal comparative measures are appropriate);
- whether increases in fixed remuneration above inflation are appropriate or justifiable; and
- the pension and bonus consequences and associated costs to the Company of any basic salary.

The committee considers that the Directors' fixed remuneration should be reviewed annually.

Directors' short term incentive arrangements

The committee considers that the Company's remuneration policy should, as well as aligning the interests of the Directors with the long term success of the Company, also incentivise delivery of the Company's financial and strategic goals over a financial period. Accordingly, the committee has adopted an annual bonus policy for executive Directors pursuant to which the maximum bonus opportunity is capped at 100 per cent. of base salary. The level of potential bonus award available to executive Directors when the bonus scheme is established will be set having regard to companies of similar size and complexity, in the context of the committee's overriding desire to ensure that remuneration is principally driven through the executive Directors' ownership of Management Shares.

No annual bonus awards to Directors have been made for the year ending 31 December 2016 (2015: none). For 2017, further consideration will be given to the payment of bonuses to the executive Directors based on the performance of the Group against specified KPIs aligned to the Company's stated strategy.

Directors' long term incentive arrangements

The committee considers that, having regard to the Group's buy-fix-sell approach, while executive Directors should be eligible for annual bonuses which are comparable to those of companies of a similar size and complexity, the executive Directors should be rewarded principally through participation in a long-term incentive scheme which enables them to participate in the growth in value of the Company, subject to shareholders achieving a preferred return, thereby aligning their interests with those of the Company's shareholders. The Management Shares provide this long term incentive arrangement.

Executive Directors' remuneration (full policy as approved by shareholders)

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary *To reflect market value of the role and individual's performance and contribution and enable the Group to recruit and retain directors in the short term of sufficient calibre to drive the Company's ambitions and thereafter to retain those Directors while looking forward to remuneration from the management incentive plan which is driven by the Company's long term goals*	Reviewed every twelve months following the acquisition of the Telecable Group. Base salary review will refer to items as set out above.	Base salary increases are applied in line with the outcome of the review, as part of which the committee also considers average increases across the Group. In respect of existing executive Directors, it is anticipated that salary increases will generally be in line with inflation or those of salaried employees as a whole. In exceptional circumstances (including, but not limited to, a material increase in job size or complexity) the committee has discretion to make appropriate adjustments to salary levels to ensure they remain market competitive.	Company and individual performance will be considered in setting executive Director base salaries.
Pension *To provide a market competitive pension*	Pension contributions are made to the individual's private pension arrangements or paid to them in cash in lieu of such arrangements.	Executive Directors receive a contribution of up to 20% of salary. This may be exceeded in exceptional circumstances (e.g. recruitment).	Not performance related.
Benefits *To provide market competitive benefits*	Benefits may include car allowances, private medical insurance, critical life and death in service cover. Other benefits may be awarded as appropriate, such as relocation benefits.	Benefits may vary by role and individual circumstance and will be reviewed periodically. The committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside of the Company's control have materially changed (e.g. increases in medical insurance premiums).	Not performance related.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Annual Bonus *To incentivise delivery of the Group's annual financial and strategic goals*	Performance is measured on an annual basis for each executive Director in respect of each financial period.	The maximum bonus available is 100 per cent. of base salary per annum. No award will be made in respect of threshold performance.	Performance measures and targets will be set annually by the committee to ensure that they are appropriately stretching and to ensure that they reflect the particular financial and strategic goals of the Company for the financial period in question. The Nomination and Remuneration Committee retains discretion to adjust payments up or down to reflect personal performance over the course of the period and where they otherwise feel this course of action is appropriate.
Management incentive arrangements *To drive performance, aid retention and align the interests of executive Directors and senior management with shareholders over the long term*	The committee may allocate executive Directors or other senior managers Management Shares in the Company's subsidiary, Zegona Limited. The rights attached to the Management Shares may be exercised by management at any time in the period from 14 August 2018 to 14 August 2020. Holders of the Management Shares are required to exercise all their rights at a single time during this period. The rights may be exercised prior to that period under certain specific conditions, including a takeover or Board change of control.	The Group's management incentive arrangements entitle participants in aggregate to receive up to a maximum of 15 per cent. of the growth in value of the Company. The maximum amount available to participants in the incentive arrangements is capped at that level – irrespective of the number of participants in the scheme.	Subject to shareholders achieving a preferred return of five per cent. per annum on a compounded basis on their Net Invested Capital. Further details on the management incentive arrangements are set out in note 25.

Notes to the policy table

As noted above, the committee considers that, having regard to the Company’s strategy, a long term incentive plan such as the management incentive arrangement, as well as an annual bonus scheme, is an appropriate way of ensuring that the interests of the executive Directors are aligned with those of the shareholders. These arrangements will reward executive Directors for delivering sustained, increased shareholder value as well as for meeting financial and non-financial targets set by the Nomination and Remuneration Committee from time to time having regard to the financial and strategic goals of the Company in a particular financial period.

In addition, the committee does not consider it necessary to include any provisions for sums paid to be recovered, or for any amounts to be withheld in respect of the base salary, benefits or management incentive arrangements. The committee will have discretion as to whether to apply malus or clawback provisions to annual bonuses.

As regards the management incentive arrangement, the committee considers that the preferred return condition clearly links the executive Directors’ remuneration package to the creation of shareholder value and is designed to challenge the executive Directors without being unachievable. The preferred return condition is not automatically waived on a change of control. The arrangement was put in place to recruit a world class management team who might otherwise have been able to receive similar incentivisation packages as senior management of a private equity company.

The committee believes that the period during which the incentive arrangements may be exercised is appropriate to ensure that growth is achieved over a material period of time and that the applicable Directors are incentivised to remain with the business for the longer term.

Certain senior members of Telecable’s management team are entitled to participate in a separate management incentive plan, which is based on improvement in Telecable’s EBITDA and total return to Zegona’s shareholders.

Non-executive Directors' remuneration policy as approved by shareholders

Pursuant to the Company's Articles of Association, the Board determines the remuneration policy and level of fees for the non-executive Directors, within the limits set out in the Articles of Association (or as specified by the Company in a general meeting). The Nomination and Remuneration Committee recommends the remuneration policy and level of fees for the Board. The following policy for non-executive Directors has been approved by the Company's shareholders in the 2016 annual general meeting:

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Annual fee *To reflect market competitive rates for the role, as well as individual performance and contribution*	Non-executive Directors receive a basic fee for their respective roles. It may be appropriate to pay additional fees to non- executive Directors for additional services, such as chairing a Board committee or supporting the Board on matters or projects that require significant time commitment beyond that typically expected of a non- executive Director. The committee will review fees annually, but there will be no obligation for fees to be increased. Payable in cash. The maximum fees payable to Directors in aggregate under the Articles of Association is £3 million per annum.	Fee increases are applied in line with the outcome of the annual review. There is no prescribed maximum fee (except that total aggregate Director fees under the Articles of Association is £3 million per annum), nor is there any requirement to increase fees where the committee does not consider an increase to be appropriate. It is expected that increases to non-executive Director fee levels will be in line with inflation or salaried employees over the life of the policy. However, in the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a non-executive Director role, the committee has discretion to make an appropriate adjustment to the fee level.	N/A

In the cases of hiring or appointing a new executive Director, the Committee may make use of any or all of the existing components of remuneration, as follows:

Component	Approach
Base salary	The base salaries of new appointees will be determined by reference to the individual's role and responsibilities, experience and skills, relevant market data, internal relativities and their current basic salary. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases over a specified period subject to their development in the role.
Pension	New appointees will be eligible to receive a cash allowance.
Benefits	New appointees will be eligible to receive benefits in line with the remuneration policy.
Annual bonus	New appointees will be eligible to participate in the Company's annual bonus scheme on the same terms as other executive Directors in line with the remuneration policy.
Management incentive arrangements	New appointees may be invited to participate in the Company's long term incentive plan on the same terms as other executive Directors, as described in the future remuneration policy table.

There is no maximum value, other than it is noted that the total Directors' remuneration is capped at £3 million per annum.

In determining an appropriate remuneration package, the Nomination and Remuneration Committee will take into consideration all relevant factors (including quantum, nature of remuneration and the jurisdiction from which the candidate was recruited) to ensure that arrangements are in the best interests of both the Company and its shareholders. In addition to the above elements of remuneration, the committee may consider it appropriate to grant an award under a different structure in order to facilitate the recruitment of an individual, exercising the discretion available under the relevant Listing Rule to replace incentive arrangements forfeited on leaving a previous employer. Such 'buyout awards' would have a fair value no higher than that of the awards forfeited. In doing so, the committee will consider relevant factors including any performance conditions attached to these awards, the likelihood of those conditions being met and the proportion of the vesting period remaining.

In the case of appointing a new non executive Director, the committee will follow the policy as set out in the table above. A base fee reflecting current competitive rates and the individual's anticipated contribution would be payable for Board membership, with additional fees payable for additional services, such as chairing a Board committee.

Notice periods and remuneration on loss of office

In accordance with the Code, the committee considers that notice periods of executive Directors should be one year or less and that any payments to a departing executive Director should be determined having full regard to the duty of mitigation. In certain circumstances, it may be appropriate for an executive Director to be placed on gardening leave or to receive payment in lieu of notice. In such circumstances, the committee considers that it is appropriate for the executive Director to receive the basic salary they would have received for the remaining term of their notice period (provided that such notice period is less than twelve months), along with any benefits that would have accrued during that period (including pension and holiday entitlements).

Notwithstanding the foregoing, no such payments will be made where the executive Director's appointment is terminated for (amongst other things) fraud or gross misconduct relating to the Group.

Non-executive Directors' appointments are terminable on 6 months' notice. On termination, non-executive Directors will only be entitled to such fees as may have accrued to the date of termination, together with reimbursement in the normal way of any expenses properly incurred before that date.

Executives' shareholdings

The committee recognises the importance of Directors and senior management aligning their interests with shareholders through building up a significant shareholding in the Company. The Company will consider adopting shareholding guidelines that require executive Directors and other executives to acquire over time a holding equal to a set percentage of base salary.

Illustrative application of the remuneration policy

The base salary, pension and benefits of each executive Director are not subject to performance criteria so there will be no difference in the amounts received by executive Directors in connection with these components of their remuneration based on whether or not the Company performs better or worse than expected.

In addition, since the performance linked proportion of the executive Directors' remuneration is satisfied by their holding of Management Shares in Zegona Limited, rather than under the terms of their service contracts (and since the Nomination and Remuneration Committee has not (i) awarded any annual bonuses to date or (ii) yet agreed the financial and non-financial targets to be met by individual executive Directors to be eligible for an annual bonus award for the period ending 31 December 2017), the committee does not consider it appropriate to include an illustrative application of the Management Shares or annual bonus at this time. Instead, audited details of remuneration paid to the Directors to date have been included in the annual report on remuneration.

During 2016, the committee will review the terms of the executive Directors' entire remuneration package including salary, benefits and annual bonus targets so that it is commensurate with the upper quartile of those provided by global communications and media companies of similar size and complexity to the Group.

Remuneration arrangements for the Group

Zegona's approach to annual salary reviews is consistent across the Group, with consideration given to the level of experience, responsibility, individual performance and salary levels in comparable companies.

In addition, the Board has implemented an incentive plan for certain senior members of Telecable's management team within a framework similar to that used for the management incentive arrangements, as well as a bonus programme.

The committee has not sought, or taken account of, the views of Group employees in drawing up the Directors' remuneration policy, however, as noted above, the committee must have regard to the Group's objective to reward all employees fairly according to their role, experience and performance when setting the Directors' fixed remuneration.

Consideration of shareholder views

We remain committed to open and transparent engagement with our investors on all matters, including remuneration. We believe that this remuneration report should communicate clearly how much our executive Directors are earning and how this is linked to performance. Next year and in the future, we will provide comparative data of their earnings over time and against shareholder returns in order to show how that is linked to performance.

As part of that engagement we have considered shareholder views on remuneration matters since the last annual general meeting and will continue to include those views as part of our decision making process in respect of decisions on remuneration issues.

Annual Report on Remuneration

Review of the period

No changes have been made to Directors' remuneration throughout the period and to the date of these financial statements and no bonuses have been paid to Directors in relation to the 2016 year end. Our intentions in relation to the 2017 bonus policy have been set out below.

Implementation of the remuneration policy in 2017

It is not expected that there will be any significant change in the way that the remuneration policy will be implemented in the current financial year as compared to how it has been implemented in the reported year, save that annual bonuses may be paid to the executive Directors of up to 100 per cent. of base salary if the Nomination and Remuneration Committee considers it appropriate to do so in 2017. Before determining whether such bonuses may be paid, the committee will, in accordance with the remuneration policy, determine the appropriate performance measures and targets against which the executive Directors' performance should be assessed and may, in their discretion, adjust any payments (up or down) to reflect a Director's personal performance over the period or where they otherwise feel an adjustment would be appropriate.

The committee did not review the Directors' entire remuneration package in accordance with the remuneration policy in 2016, but will do so in 2017.

Total remuneration (audited)

All Directors have entered into service agreements with the Company. Remuneration of the Directors during the period under the terms of their service agreements are detailed in the tables below. The table below shows Director's remuneration in Euros (Zegona's presentational currency) and amounts for 2015 are for the period from incorporation only. Since the Company's IPO in 2015 and throughout 2016 the salaries of Zegona's executive Directors, Eamonn O'Hare and Robert Samuelson, have remained the same at £500,000 (€612,355) and £350,000 (€428,649) per annum respectively.

	Executive Directors			
	Eamonn O'Hare (Chairman & CEO)		Robert Samuelson (COO)	
€	2016	2015[(3)]	2016	2015[(3)]
Fees/basic salary	612,355	543,192	428,649	381,153
Taxable benefits	23,896	14,043	23,896	14,043
Pension contribution	122,471	108,026	85,730	75,618
Company health insurance scheme	5,419	–	5,235	–
Annual cash bonus	–	–	–	–
Total	**764,141**	**665,261**	**543,510**	**470,814**

	Non-Executive Directors					
	Mark Brangstrup Watts		Murray Scott		Richard Williams	
€	2016	2015[(3)]	2016	2015[(3)]	2016	2015[(3)]
Fees/basic salary	48,988	21,022	48,988	22,947	73,483	11,968
Taxable benefits	–	–	–	–	–	–
Pension contribution	–	–	–	–	–	–
Company health insurance scheme	–	–	–	–	–	–
Annual cash bonus	–	–	–	–	–	–
Total	**48,988**	**21,022**	**48,988**	**22,947**	**73,483**	**11,968**

(3) 2015 for the period from incorporation on 19 January 2015 to 31 December 2015. Murray Scott and Richard Williams were appointed on 31 July 2015 and 9 November 2015 respectively

The annual bonus scheme for executive Directors was not implemented by the Nomination and Remuneration Committee until 2017 so no awards have been made or deferred under this scheme to date. There is no annual bonus scheme for non-executive Directors. Further details on the arrangements provided through the issue of Management Shares are detailed below.

The Company does not operate any defined contribution or defined benefit schemes; pension contributions are made to the individual's private pension arrangements or paid to them in lieu of such arrangements.

Taxable benefits include car and healthcare allowances.

The Management Shares currently have no present day value as the Company's share price has fallen below the price at which the Company raised equity from shareholders. In any future year when the shares have present day value, we will prepare an illustrative example of the theoretical value of the Management Shares as if they had been exercisable at the period end (as opposed to pursuant to their terms).

This report does not set out in graphical or tabular form, the expenditure on remuneration paid to all employees of the Group or distributions to shareholders for the period to 31 December 2015 as, due to the acquisition of Telecable taking place on 15 August 2015, the respective periods are not directly comparable. The Company's inaugural distribution of 2.25p per share was paid on 15 August 2016.

As the period to 31 December 2015 and the year to 31 December 2016 are not directly comparable, this report does not contain the percentage change from the period to 31 December 2015 to 31 December 2016 in respect of the remuneration of the CEO and the remuneration of the employees of the Group taken as whole. The 2016 total has been included under the heading "CEO remuneration and relative importance of spend on pay" as a basis for comparator information in next year's Annual Report.

Directors' interests in Management Shares (audited)

Eamonn O'Hare and Robert Samuelson hold 3,050 million and 1,525 million A Ordinary Shares respectively in the Company's wholly owned subsidiary, Zegona Limited.

The total A Ordinary Shares held by Directors as at 31 December 2016 are as follows:

	Participation in growth in equity value	Award value £	Number of Management Shares	Nominal value of Management Shares £	Date of issue
Eamonn O'Hare*	8.88%	16,165	3,050,000,000	305	23 January 2015
Robert Samuelson*	4.44%	8,083	1,525,000,000	153	23 January 2015

Mark Brangstrup Watts holds a beneficial interest in the 5 B Ordinary Shares issued by Zegona Limited to Marwyn Long Term Incentive GP as GP to Marwyn Long Term Incentive LP on 23 January 2015. The total value of the 5 B Ordinary Shares at the time of issue on was €36,485.

Under the arrangements pursuant to which the Management Shares were issued to executive Directors, the executive Directors are entitled to keep their Management Shares for a period of time if they are terminated, save if they are terminated for cause. The time period is two exercise periods, save in the case of death or permanent disability when it is until the end of the current exercise period.

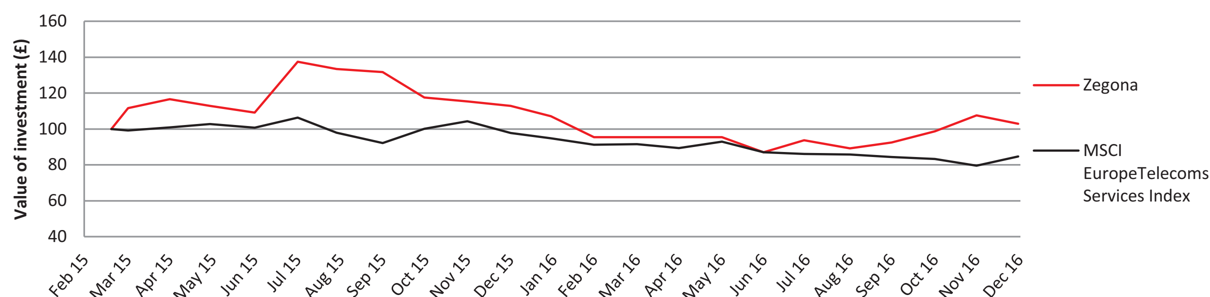
Directors' interests in Ordinary Shares of the Company (audited)

The Company intends to keep under consideration the need to adopt formal guidelines in connection with the building of shareholdings in the Company by Directors and senior management. During the period, no such formal requirements or guidelines were adopted and the committee remains of the view that no such requirements or guidelines are needed given that the Directors acquired 634,852 Ordinary Shares during 2016 and have the following total beneficial interests in the Ordinary Shares of the Company and in the Management Shares (detailed above).

Director	Number of Shares	% of issued share capital
Eamonn O'Hare	2,060,000	1.05
Robert Samuelson	789,002	0.40
Murray Scott	20,000	0.01
Richard Williams	56,000	0.03
Other senior management	265,850	0.14
	3,190,852	**1.63**

Performance graph

The total shareholder return graph below shows the value as at 31 December 2016 of £100 invested on IPO on 19 March 2015, compared with £100 invested in the MSCI Europe Telecom Services Index. The Nomination and Remuneration Committee considers the MSCI Europe Telecom Services Index to be appropriate for indices for the year ended 31 December 2016 for the purposes of this comparison because it includes mostly European telecommunications companies. The data shown below assumes that all cash returns to shareholders made by the Company during this period are reinvested in ordinary shares.



CEO remuneration and relative importance of spend on pay

The table below shows the salary, benefits and annual bonus for the Chief Executive and all employees for the year ended 31 December 2016. As noted above, since the 2015 information is not directly comparable, it has not been presented. The Company was incorporated on 21 January 2015 and the Chief Executive Officer was paid minimum wage from incorporation to the Company's IPO on 19 March 2015. From IPO (and to the date of this report) the Chief Executive Officer's salary was £500,000 per annum. Telecable was acquired on 14 August 2015 and as such the employee costs reported in the 2015 consolidated financial statements include Zegona employees from incorporation of the Company and Telecable for the period from acquisition to 31 December 2015.

Chief Executive Officer	**Year ended 31 December 2016 €000**
Salary	612
Benefits	152
Annual bonus	–
Average of all employees	
Salary	46
Benefits	3
Annual bonus	4

The table below shows the total pay for all of Zegona's employees (excluding non-executive Directors), compared to other key financial indicators. 2015 comparative information has not been presented for the reasons as set out above. The dividend paid in 2016 was the inaugural dividend of the Company.

	Year ended 31 December 2016 € 000
Employee costs	9,521
Dividends paid to shareholders	4,890

Service contract duration

Director	Contract Duration	Notice period
Eamonn O' Hare	Unlimited	12 months
Robert Samuelson	Unlimited	12 months
Mark Brangstrup Watts	to 31 December 2019*	6 months
Murray Scott	Unlimited*	6 months
Richard Williams	Unlimited*	6 months
Ashley Martin	1 year from date of appointment*	6 months

* Under the terms of the service agreements, their appointments are contingent on annual re-election by shareholders and completion of the annual Board effectiveness review.

Other than payments for notice periods, the service agreements contain no entitlements to termination payments.

There are no malus or clawback provisions in respect of base salary, pension contributions or benefits, however, the committee retains discretion to apply such provisions in the case of any bonus award paid to an executive Director whose appointment is subsequently terminated.

No Directors appointed to the Board have, to date, resigned or been removed. Accordingly, the Company has not made any payments to former Directors during the period.

External appointments

Executive Directors are allowed to accept external appointments with the consent of the Board as long as these are not likely to lead to conflicts of interests. Executive Directors are allowed to retain the fees paid.

Reappointment

Under the terms of the Articles of Association of the Company, all Directors will be proposed for re-election at the forthcoming Annual General Meeting. All Board members have service contracts. Details of the unexpired terms of the service contracts are set out above.

Compensation for loss of office following a change of control

The Directors and senior employees of the Company are not entitled to any special compensation for loss of office pursuant to their directorship or employment contracts following a change of control. However, certain changes of control will entitle the Directors and certain senior employees to exercise rights held by them as holders of Management or Core Investor Shares in Zegona Limited pursuant to the long-term incentive plan in force in respect of the Company.

Richard Williams
Non-executive Director and Chairman of the Nomination and Remuneration Committee
5 April 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZEGONA COMMUNICATIONS PLC ONLY

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Zegona Communications PLC for the year ended 31 December 2016 set out on pages 54 to 96. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement, in decreasing order of audit significance, that had the greatest effect on our audit were as follows:

Risk	Our Response
Revenue recognition **Revenue from sale of services: €135.2m (2015: €52.7m)**	
Revenue is recognised in relation to the supply of both fixed line and mobile services to residential and corporate customers. The processes underlying the accounting for these revenue streams are highly automated and involve a large number of individual transactions. As such a risk has been identified that revenue may be incorrectly recorded due to inaccurate capture of tariff and billing data or due to billing to customers at inaccurate rates.	• We assessed and documented the risks, processes and controls of each revenue stream. We inspected source and internal documents involved in each step of the process, examined system maps and assessed the design and implementation of the processes. • We used our component auditor's IT specialists to test the design, implementation and operating effectiveness of controls over the key systems in the order to bill cycle. We tested the general IT controls over system access security and change management. We also evaluated the appropriate capturing of sales by testing the interfaces between the data capture and billing systems. • We selected a sample of customer contracts and agreed the terms of the contracts to customer billing and data recorded in the accounting system. • We developed an expectation of the current year revenue balance in respect of each individual revenue stream. This expectation was based on our understanding of the business and key trends in the industry, including a consideration of historical data. We then compared our expectations to balances recorded by the Group and investigated any significant differences in revenues recognised by inquiring of directors and inspecting supporting documentation.

Risk	Our Response
Valuation of goodwill and other intangibles relating to customer relationships	
Goodwill: €345.7m (2015: €345.7m) Goodwill is held on the Group's balance sheet in relation to the acquisition by the Group of Telecable in 2015. An impairment reviews is carried out annually over goodwill. There is significant judgement involved when determining the future cash flows of the Telecable CGU and discounting these to present value to arrive at a calculation of recoverable amount. In particular, judgement is required in determining inputs including the discount rate, forecast EBITDA and terminal growth rate. As such, there is a risk that carrying value of the asset does not reflect the recoverable amount.	**Goodwill** • We evaluated the underlying cash flow forecasts and inputs with reference to externally available information, including data on competitor performance. We also compared revenue and EBITDA forecasts to historical data to assess reasonableness of the forecasted trends. • We used our own valuation specialist to assist us in evaluating the assumptions and methodology used in calculating the discount rate. • We recalculated and assessed sensitivity analyses performed on the key judgmental assumptions and inputs which have a material effect on the valuations. This included analysis over terminal growth rates and the discount rate. We evaluated the level of headroom available before an impairment would be recognised. • We assessed whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.
Customer relationships: €186.1m (2015: €202.3m) Intangible assets relating to customer relationships relate to customer relationships held within Telecable. These assets are being amortised over a period of twelve years from the date of acquisition of Telecable. The carrying value of customer relationships is significantly influenced by the useful life applied to the assets. There is a risk that the amortisation period is too long due to higher than expected customer churn, indicating the assets may be impaired in which case the carrying value requires a test for recoverability by reference to the impairment test conducted at Telecable CGU level for goodwill.	**Customer relationships** • We challenged the assumptions used in estimating useful life of customer relationships. We considered any actual or expected one-off unusual or significant events which may represent an impairment indicator. We compared the forecasts for customer churn used in the Group's assessment of the amortisation period to historical data on actual customer churn. • We compared the recoverable amount of the Telecable CGU as tested by the procedures described above to that CGU's carrying value, of which customer relationships form a part, in order to assess the need for any impairment of customer relationships.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at €1,260,000, determined with reference to a benchmark of Group revenue, of which it represents 0.9%. We consider revenue to be the most appropriate benchmark as the Group is loss-making such that Group profit before tax would not serve as a useful benchmark.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding €63,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 8 reporting components, we subjected 3 to audit for group reporting purposes and 1 to specified risk-focused audit procedures. The latter was not individually financially significant enough to require an audit for group reporting purposes, but was included in the scope of our group reporting work in order to provide further coverage over the Group's results.

The components within the scope of our work accounted for the following percentages of the group's results:

	Number of components	Group revenue	Group loss before tax	Group total assets
Audits for group reporting purposes	3	100%	78%	100%
Specified risk-focused audit procedures over expenses	1	–	21%	–
Total	4	100%	99%	100%

For the remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed the component auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved component materialities in the range of €840,000 to €1,197,000, having regard to the mix of size and risk profile of the Group across the components. The work on 1 of the 4 components was performed by component auditor and the rest by the Group team.

The Group team visited the component location in Spain on multiple occasions, including to assess the audit risk and strategy and to attend a clearance meeting. Telephone conference meetings were also held with the component auditor. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' longer term viability statement on pages 15 to 16, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the 3 years to 31 December 2019; or

- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or
- the Corporate Governance Report does not appropriately address matters communicated by us to the audit committee.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statements, set out on pages 15 to 16 and 33 to 35, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 24 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 36, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

David Neale (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square London
E14 5GL
5 April 2017

ZEGONA COMMUNICATIONS

	Note	Year ended 31 December 2016 €000	Period to 31 December 2015 €000
Revenue		140,798	52,966
Cost of sales		(80,194)	(31,737)
Gross profit		**60,604**	**21,229**
Other income		825	321
Selling and distribution expenses		(32,379)	(10,963)
Administrative expenses		(17,856)	(9,316)
Impairment losses and losses on disposal of assets		(3,552)	(1,703)
Other operating expenses		(4,196)	(7,229)
Operating profit/(loss)	6	**3,446**	**(7,661)**
Finance costs	7	(13,942)	(8,803)
Finance income	7	62	51
Gain/(loss) on FX forwards measured at fair value through profit or loss	7	(409)	–
Exchange differences		(81)	(24)
Loss for the period before income tax		**(10,924)**	**(16,437)**
Income tax	9	5,436	1,545
Loss for the period attributable to equity holders of the parent		**(5,488)**	**(14,892)**
Earnings per share			
Basic and diluted loss per share attributable to ordinary equity holders of the parent (€)	23	(0.028)	(0.166)

The Group's activities derive from continuing operations.

The notes on pages 62 to 96 form an integral part of these consolidated financial statements.

	Consolidated Year ended 31 December 2016 €000	Consolidated Period to 31 December 2015 €000
Loss for the period	**(5,488)**	**(14,892)**
Other comprehensive income		
Exchange differences on translation of foreign operations	(825)	(263)
Total comprehensive loss for the period, net of tax, attributable to equity holders of the parent	**(6,313)**	**(15,155)**

The notes on pages 62 to 96 form an integral part of these consolidated financial statements.

	Note	As at 31 December 2016 €000	As at 31 December 2015 €000
Assets			
Non-current assets			
Property, plant and equipment	10	122,227	134,910
Intangible assets	11	559,779	575,445
Non-current financial assets	17	1,927	1,605
		683,933	**711,960**
Current assets			
Inventories	13	626	373
Trade and other receivables	16	17,831	10,148
Cash and cash equivalents		22,435	14,264
		40,892	**24,785**
Total assets		**724,825**	**736,745**
Equity and Liabilities			
Equity			
Share capital	21	2,738	2,738
Share premium	21	–	386,045
Other reserves	22	381,155	–
Share based payment reserve	22	60	25
Foreign currency translation reserve	22	(1,088)	(263)
Retained earnings	22	(20,380)	(14,892)
Total equity attributable to equity holders of the parent		**362,485**	**373,653**
Current liabilities			
Trade and other payables	20	31,317	24,352
Current financial liabilities	18	13,104	16,891
Deferred revenue	24	701	229
		45,122	**41,472**
Non-current liabilities			
Non-current financial liabilities	19	267,045	265,648
Deferred revenue	24	2,667	2,727
Deferred tax liabilities	9	47,506	53,245
		317,218	**321,620**
Total liabilities		**362,340**	**363,092**
Total equity and liabilities		**724,825**	**736,745**

The financial statements of Zegona Communications plc (registered number 09395163) were approved by the Board of Directors on 5 April 2017 and were signed on its behalf by:

Eamonn O'Hare
Director

Robert Samuelson
Director

	Note	As at 31 December 2016 €000	As at 31 December 2015 €000
Assets			
Non-current assets			
Property, plant and equipment		4	2
Non-current financial assets	17	310,874	358,050
		310,878	**358,052**
Current assets			
Trade and other receivables	16	1,477	2,436
Cash and cash equivalents		3,894	6,192
		5,371	**8,628**
Total assets		**316,249**	**366,680**
Equity and Liabilities			
Equity			
Share capital	21	2,738	2,738
Share premium	21	–	386,045
Other reserves	22	381,155	–
Foreign currency translation reserve	22	(61,001)	(10,927)
Retained earnings	22	(14,156)	(11,294)
Total equity attributable to equity holders of the parent		**308,736**	**366,562**
Current liabilities			
Trade and other payables	20	7,295	118
Current financial liabilities	18	218	–
		7,513	**118**
Total liabilities		**7,513**	**118**
Total equity and liabilities		**316,249**	**366,680**

The notes on pages 62 to 96 form an integral part of these consolidated financial statements.

ZEGONA COMMUNICATIONS

	Note	Share capital €000	Share premium €000	Share based payment reserve €000	Other reserves €000	Retained earnings €000	Foreign currency translation reserve €000	Total equity €000
At 1 January 2016		**2,738**	**386,045**	**25**	**–**	**(14,892)**	**(263)**	**373,653**
Profit /(loss) for the year		–	–	–	–	(5,488)	–	(5,488)
Other comprehensive income/(loss)		–	–	–	–	–	(825)	(825)
Issue of share capital		–	–	–	–	–	–	–
Share-based payments	25	–	–	35	–	–	–	35
Dividends paid		–	–	–	(4,890)	–	–	(4,890)
Cancellation of share premium account	21	–	(386,045)	–	386,045	–	–	–
Balance at 31 December 2016		**2,738**	**–**	**60**	**381,155**	**(20,380)**	**(1,088)**	**362,485**

	Note	Share capital €000	Share premium €000	Share based payment reserve €000	Other reserves €000	Retained earnings €000	Foreign currency translation reserve €000	Total equity €000
At incorporation on 19 January 2015		**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loss for the period		–	–	–	–	(14,892)	–	(14,892)
Other comprehensive loss		–	–	–	–	–	(263)	(263)
Issue of share capital	21	2,738	386,045	–	–	–	–	388,783
Share-based payments	25	–	–	25	–	–	–	25
Balance at 31 December 2015		**2,738**	**386,045**	**25**	**–**	**(14,892)**	**(263)**	**373,653**

The notes on pages 62 to 96 form an integral part of these consolidated financial statements.

	Note	Share capital €000	Share premium €000	Other reserves €000	Retained earnings €000	Foreign currency translation reserve €000	Total equity €000
At 1 January 2016		**2,738**	**386,045**	**–**	**(11,294)**	**(10,927)**	**366,562**
Loss for the year		–	–	–	(2,862)	–	(2,862)
Other comprehensive loss		–	–	–	–	(50,074)	(50,074)
Dividends paid		–	–	(4,890)	–	–	(4,890)
Cancellation of share premium account	21	–	(386,045)	386,045	–	–	–
Balance at 31 December 2016		**2,738**	**–**	**381,155**	**(14,156)**	**(61,001)**	**308,736**

	Note	Share capital €000	Share premium €000	Other reserves €000	Retained earnings €000	Foreign currency translation reserve €000	Total equity €000
At incorporation on 19 January 2015		**–**	**–**	**–**	**–**	**–**	**–**
Loss for the period		–	–	–	(11,294)	–	(11,294)
Other comprehensive loss		–	–	–	–	(10,927)	(10,927)
Issue of share capital	21	2,738	386,045	–	–	–	388,783
Balance at 31 December 2015		**2,738**	**386,045**	**–**	**(11,294)**	**(10,927)**	**366,562**

The notes on pages 62 to 96 form an integral part of these consolidated financial statements

ZEGONA COMMUNICATIONS

	Year ended 31 December 2016 €000	Period to 31 December 2015 €000
Operating activities		
Loss before income tax	(10,924)	(16,437)
Reconciliation of loss before income tax to operating cash flows:		
Depreciation and impairment of property, plant and equipment	23,293	10,656
Amortisation of intangible assets	27,068	8,494
Share based payment expense	35	25
Changes in fair value of financial instruments	409	–
Net foreign exchange differences	81	24
Losses on derecognition or disposal of non-current assets	3,552	1,703
Finance income	(62)	(51)
Finance costs	13,942	8,803
Working capital adjustments		
Increase in trade and other receivables and prepayments	(7,683)	(10,148)
Increase in inventories	(254)	(373)
Increase in trade and other payables	6,965	311
Decrease in other current financial liabilities	(4,007)	–
Increase in deferred revenues	411	–
Interest received	23	–
Interest paid	(12,545)	(3,944)
Income tax paid	(303)	–
Net cash flows from/(used in) operating activities	**40,001**	**(937)**
Investing activities		
Purchase of property, plant and equipment	(13,715)	(6,598)
Purchase of intangible assets	(11,851)	(5,579)
Acquisition of a subsidiary, net of cash acquired	–	(632,585)
Net cash flows used in investing activities	**(25,566)**	**(644,762)**
Financing activities		
Proceeds from issue of share capital	–	392,417
Dividends paid to shareholders	(4,890)	–
Costs directly attributable to equity raise	–	(11,506)
Net proceeds from loans and borrowings	(283)	282,539
Loss on extinguishment of foreign exchange option	–	(3,340)
Costs of settlement of derivatives	(189)	–
Net cash flows (used in)/from financing activities	**(5,362)**	**660,110**
Net increase in cash and cash equivalents	9,073	14,411
Net foreign exchange difference	(902)	(147)
Cash and cash equivalents at beginning of the period	14,264	–
Cash and cash equivalents at the end of the period	**22,435**	**14,264**

The notes on pages 62 to 96 form an integral part of these consolidated financial statements.

ZEGONA COMMUNICATIONS

	Year ended 31 December 2016 €000	Period to 31 December 2015 €000
Operating activities		
Loss before income tax	(2,862)	(11,294)
Reconciliation of loss before income tax to operating cash flows:		
Working capital adjustments		
Decrease/(increase) in trade and other receivables and prepayments	959	(2,436)
Increase in trade and other payables	7,177	118
Changes in fair value of financial instruments	409	–
Net cash flows from/(used in) operating activities	**5,683**	**(13,612)**
Investing activities		
Purchase of property, plant and equipment	(3)	(2)
Capital contributions to subsidiaries	(1,660)	–
Acquisition of a subsidiary, net of cash acquired	–	(360,691)
Net cash flows used in investing activities	**(1,663)**	**(360,693)**
Financing activities		
Proceeds from issue of share capital	–	392,417
Costs directly attributable to equity raise	–	(11,506)
Dividends paid to shareholders	(4,890)	–
Cash flow on settlement of derivatives	(189)	–
Net cash flows (used in)/from financing activities	**(5,079)**	**380,911**
Net (decrease)/increase in cash and cash equivalents	(1,059)	6,606
Net foreign exchange difference	(1,239)	(414)
Cash and cash equivalents at beginning of the period	6,192	–
Cash and cash equivalents at the end of the period	**3,894**	**6,192**

The notes on pages 62 to 96 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The consolidated financial statements of Zegona Communications plc (the "Company" or the "Parent") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 5 April 2017. The Company is incorporated in England and Wales and domiciled in the United Kingdom. It is a public limited company with company number 09395163 and has its registered office at 20 Buckingham Street, London, WC2N 6EF.

Information on the Group's structure is provided in Note 14. Information on other related party relationships of the Group is provided in Note 26.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Company was incorporated on 19 January 2015. The Consolidated Financial Statements represent the year ended 31 December 2016 and have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union, and with those parts of the Companies Act 2006 as applicable to companies reporting under IFRS.

The Consolidated Financial Statements are prepared in accordance with IFRS under the historical cost convention and are presented in Euros. The functional currency of the Company is British pounds sterling. The Directors have chosen to present the consolidated financial statements of the Group in Euros as the Company's operational subsidiary, Telecable de Asturias, S.A., has a functional and presentational currency of Euros. All values are rounded to the nearest thousand (€000), except when otherwise indicated.

(b) Going concern

This Consolidated Financial Statements have been prepared on a going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

(c) New standards and amendments to International Financial Reporting Standards

Standards, amendments and interpretation effective and adopted by the Group:

The accounting policies adopted in the presentation of these consolidated financial statements reflect the adoption of the following amendments for annual periods beginning on or after 1 February 2015 or 1 January 2016, none of which had a material effect on the Group.

Standard	Effective Date
Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions	1 February 2015
Annual improvements (2010-2012)	1 February 2015
Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 1 – Disclosure Initiative	1 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 27 – Equity Method in Separate Financial Statements	1 January 2016
Annual improvements (2012-2014)	1 January 2016
Amendments to IAS 16 and IAS 41 – Bearer plants	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception	1 January 2016

Standards issued but not yet effective:
The following standards are issued but not yet effective. The Group intends to adopt these standards, if applicable, when they become effective. Other than IFRS 15 and IFRS 16 as discussed below, it is not expected that any of the remaining standards will have a material impact on the Group.

Standard	Effective Date
IFRS 14 – Regulatory Deferral Accounts	1 January 2016**
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017*
Amendments to IAS 7: Disclosure initiative	1 January 2017*
IFRS 15 – Revenue from Contracts with Customers (including clarifications to IFRS 15)	1 January 2018
IFRS 9 – Financial Instruments	1 January 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018*
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018*
IFRS 16 – Leases	1 January 2019*

*subject to EU endorsement

** interim standard not endorsed by the EU

IFRS 15
In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers' which will be effective for periods beginning on or after 1 January 2018. Zegona will transition to IFRS 15 on 1 January 2018 and interim results and trading statements in the 2018 financial year will be IFRS 15 compliant. The first Annual Report published in accordance with IFRS 15 will be the 31 December 2018 report.

IFRS 15 replaces all previously published standards and interpretations concerning revenue recognition, principally IAS 18, *Revenue*. IFRS 15 requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative standalone selling price basis, based on a single, principles-based five-step model. IFRS 15 also provides detailed guidance on several areas relevant to Zegona, for example for bundled offers, contract modifications, assessments of whether the company is acting as principal or agent in the whole or part of a contract with a customer and expenses directly associated with signing a customer contract. IFRS 15 also contains more extensive disclosure requirements than current standards.

Zegona has initiated a project to implement IFRS 15 which is focussed on the Telecable business. The project team includes representatives of all business units that will likely be impacted by the implementation of IFRS 15 as well as members of the finance and IT departments. The team is currently analysing how IFRS 15 should be implemented and has undertaken a preliminary analysis of the impact of IFRS on contracts covering approximately 85% of its 2016 revenue.

Based on the analysis, and a review of Telecable's products and services we expect that adoption of IFRS 15 may have a material impact on the timing of recognition of revenue. Due to the significant number of transactions affected, the large volume and dispersion of the information involved and the complexity of estimations, a reliable quantification of the impact of IFRS 15 will only be possible once the project has been completed, later in 2017, however we currently anticipate that the most significant impacts will be a result of the following:

- *Identifying separate performance obligations:* Under IFRS 15, revenue from bundled packages that combine multiple fixed, mobile, data, internet or television goods or services will be allocated to each separate performance obligation based on their standalone selling prices as a proportion of the total consideration paid. Revenue allocated will then be recognised as each obligation is satisfied, regardless of whether there are undelivered items. At present (with the exception of handsets as discussed below), Telecable has allocated the consideration of all bundled arrangements to elements with revenue earned monthly. This will mean that in cases where new performance obligations are identified that are delivered at the start of the arrangement there will be an acceleration of revenue for these items, with a corresponding reduction in ongoing service revenue over the contract period. The difference between the revenue recognised and the amount charged to customers will be recognised as a contract asset. Telecable has not yet identified any such obligation, but has not yet completed its evaluation.

- *Handset revenue recognition:* Under IAS 18, revenue from sales of handsets is recognised when Telecable has transferred the significant risks and rewards of ownership of handsets and neither continuing managerial involvement nor effective control is maintained over the handsets. In the second half of 2016, in the majority of cases this transfer occurred when handsets were delivered to distributors by our logistics operator. Where handsets are sold as part of a bundled contract, any discounts allowed are recognised immediately with the remaining handset revenue recognised over the life of the contract as was the case in the majority of cases in the first half of 2016.

  As a result, on adoption of IFRS 15, there will be an acceleration of revenue recognition impacting opening equity for those contracts still ongoing where the handset was provided as part of a bundled transaction and the revenue is currently being deferred. This acceleration may be material, however since these contracts largely date from the first half of 2016, the impact on revenue recognised on handsets supplied subsequent to this date is not expected to be significant.

- *Contract modifications and upgrades:* IFRS 15 gives greater detail on how to account for contract modifications than current revenue standards. Changes must be accounted for either as a retrospective change (creating either a catch up or deferral of past revenues), prospectively with a reallocation of revenues amongst identified performance obligations, or prospectively as separate contracts which will not require any reallocation.

- *Material rights:* Certain promotions, marketing offers, rights to future discounted products and rewards to customers could meet the definition of a "material right" under IFRS 15. Material rights may constitute a separate performance obligation under IFRS 15 and are usually delivered at the outset of the contract or a specific point in time during it. This will mean that in cases where material rights are delivered at the start of the arrangement, a portion of the consideration will be allocated to the material right based on its standalone selling price, leading to an acceleration of revenue for these items, with a corresponding reduction in ongoing service revenue over the contract period. Telecable has not yet identified any material rights but has not completed its evaluation of them.

- *Capitalisation of costs related to transactions:* IFRS 15 requires all expenses directly related with obtaining a contract (sales commissions and other third party acquisition costs) to be recognised as an asset when incurred, to be expensed over the associated contract period. Telecable currently capitalises these costs, however it is possible that the amounts of costs capitalised, and the pattern of recognising the expense may change.

- *Sign up discounts:* When Telecable enters into contracts to provide services to our customers, it often provides time-limited discounts or free service periods. Under IAS 18, Telecable recognises revenue net of discounts during the promotional periods and do not recognise any revenue during free service periods. Under IFRS 15, revenue recognition will be accelerated for these contracts as the impact of the discount or free service period will be recognised uniformly over the total contractual period.

The project team will continue to work throughout 2017 to complete the evaluation process and design, implement and refine procedures to apply the new requirements of IFRS 15 and to finalise accounting policy choices. As a result of this ongoing work, it is likely that some changes to the impacts discussed above may result.

When IFRS 15 is adopted, it can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with the cumulative retrospective impact of IFRS 15 applied as an adjustment to equity on the date of adoption. Zegona has not definitively concluded on the method it will adopt, although it expects it is likely that it will choose to reflect the cumulative impact of IFRS 15 in equity on the date of adoption. Under this method, contracts that are not completed by January 1, 2018 will be accounted for as if they had been recognised in accordance with IFRS 15 from the outset. The cumulative effect arising from the transition would be recognised as an adjustment to the opening balance of equity in 2018. Prior-year comparatives would not be restated; instead, Zegona would provide an explanation of the reasons for the changes in items in the statement of financial position and the income statement for the current period as a result of applying IFRS 15 for the first time.

IFRS 16

IFRS 16 "Leases" was issued in January 2016 to replace IAS 17 "Leases". The standard is effective for accounting periods beginning on or after 1 January 2019 with early adoption permitted if IFRS 15 has been adopted. IFRS 16 has not yet been adopted by the EU.

Lessor accounting under IFRS 16 is similar to existing IAS 17 accounting. Lessee accounting under IFRS 16 will be similar to existing IAS 17 accounting for lessees under finance leases, but will be significantly different for lessees under operating leases:

- Currently, no amounts are recognised on the balance sheet, whereas under IFRS 16, an asset representing the right to use the leased item and a loan obligation for future lease payables will be recognised;
- Currently, rental charges are recognised within EBITDA on a straight-line basis, whereas under IFRS 16 recognised in the form of depreciation of the right to use asset and interest on the lease liability. This change would increase EBITDA and increase the net cash from operating activities reported in the statement of cash flows.

IFRS 16 allows for two transition methods: retrospectively for all periods presented, or using a modified retrospective approach where the cumulative effect of adoption is recognised at the date of initial application. Also, certain practical expedients are available on first-time application. Therefore, the impacts of the first application will depend on the transition method used. Zegona has also not yet decided whether to adopt IFRS 16 when IFRS 15 is adopted, on 1 April 2018, or on 1 April 2019.

Zegona is assessing the impact of the accounting changes that will arise under IFRS 16 and at this point it is not possible to definitively determine whether the changes will have a material impact on the consolidated income statement and consolidated statement of financial position.

(d) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial information of subsidiaries is fully consolidated from the date that control commences until the date that control ceases.

Intragroup balances, and any gains and losses or income and expenses arising from intragroup transactions are eliminated on consolidation.

The principal accounting policies adopted in the preparation of the Consolidated Financial Statements are set out below. The policies have been consistently applied throughout the period presented.

The consolidated financial statements include the results of all subsidiaries wholly owned by the Company as listed in note 14. Certain of these subsidiaries, which are listed below, have taken the exemption from an audit for the year ended 31 December 2016 by virtue of s479C of Companies Act 2006, as well as the exemption from preparing individual accounts for the year ended 31 December 2016 by virtue of s394A of Companies Act 2006. In order to allow these subsidiaries to take the audit exemption or exemption from the preparation of individual accounts (as appropriate), the Company has given a statutory guarantee of all the outstanding liabilities as at 31 December 2016 of the subsidiaries listed below, further details of which are provided in note 14:

- Zegona Spanish Holdco Limited
- Zegona Borrower Limited
- Zegona Holdco Limited

(e) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to

measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. So far, the Group has made no acquisitions with a non-controlling interest. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGUs") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

(f) Fair value measurement

The Group measures financial instruments such as derivatives, and non-financial assets, at fair value at each balance sheet date.

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(g) Foreign currencies

The Group's consolidated financial statements are presented in Euros. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

On consolidation, the assets and liabilities of the Company and its subsidiary, Zegona Limited, are translated into Euros at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

(h) Revenue and expenses

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the goods and services they represent occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, less any discounts and taxes.

Revenue

Revenue from sales of handsets is recognised when the Group has transferred the significant risks and rewards of ownership of the goods, neither continuing managerial involvement nor effective control is maintained over the handsets and they do not form part of a bundled contract. In the second half of 2016, in the majority of cases this transfer occurred when handsets were delivered to distributors by our logistics operator (previously, no logistics operator was used to manage the distribution of handsets to distributors).

Where a contractual arrangement consists of two or more separate elements that have value to the customer on a stand alone basis the total contract consideration is allocated between those separate elements based on the amounts payable by customers under the terms of the contract. Where handsets are sold as part of a bundled

contract, any discounts allowed are recognised immediately with the remaining revenue recognised over the life of the contract as was the case in the majority of cases in the first half of 2016.

Revenue associated with the provision of services is recognised by reference to the stage of completion of the transaction at the reporting date, provided that the outcome of the transaction can be estimated reliably. The stage of completion is determined by the proportion of the minimum contract life that has been fulfilled.

Group revenue is generated from the provision of services in connection with landline phones, television, broadband internet, data and mobile phones for residential and corporate customers, chiefly as bundled sales, and also from phone interconnection services to other operators.

The Group assesses its revenue agreements in line with specific criteria to determine whether it acts as principal or agent. The Group concluded that it acts as principal in all its revenue agreements.

Traffic revenue, both landline and mobile, is recognised in the period during which it is earned.

Regular monthly charges for services are taken to results on a straight-line basis in the period during which the service was provided. Variable consumption revenue is recognised in the period during which it is earned, and revenue from flat-rate consumption is recognised in the period covered by the rate concerned.

Interconnection revenue is recognised in the period during which phone traffic is generated.

Finance income

Interest income from financial assets is recognised using the effective interest method, dividend income is recognised when the shareholder's right to receive payment has been established. In any event, interest and dividend revenue on financial assets accrued after the date of acquisition is recognised as income in the consolidated statement of profit or loss.

(i) Property, plant and equipment

Property, plant and equipment is measured initially at acquisition or production cost and subsequently carried net of any accumulated depreciation and any impairment losses.

The costs of upkeep and maintenance of property, plant and equipment are charged to the consolidated statement of profit or loss in the period in which they are incurred. Conversely, the costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised as an increase in the cost of corresponding assets. Replacements or renewals are recorded as an addition to property, plant and equipment and the units replaced or renewed are derecognised.

Work carried out by the Group for its own assets is booked at the accumulated cost produced by adding the acquisition price of raw materials and other consumables, with other costs directly attributable to these items. Replacements or renewals are recorded as an addition to property, plant and equipment and the units replaced or renewed are derecognised.

The Group applies the criterion of transferring property, plant and equipment undergoing construction to property, plant and equipment in operation, depending on the time at which each facility is ready to provide a service.

Property, plant and equipment in operation is depreciated systematically on the basis of the estimated useful life of the items, and the cost of the assets is distributed on a straight-line basis over the estimated useful lives as follows:

Plant and equipment	**Years of estimated useful life**
Civil engineering work	20
Headend	5 to 10
Backbone	20
Distribution centres	8.3
Nodes	10
Distribution network	15
Installation in homes	10.5
Customer-home equipment	6.67
Fixtures and fittings	
Furnishings, tools	10
Computer hardware	4
Land and buildings	
Buildings and other structures	40

Derecognition of property, plant and equipment

Items of property, plant and equipment are derecognised when they are sold or when no future economic benefit is expected to be obtained from their continuing use. The gain or loss arising on the disposal or derecognition of an item of property, plant and equipment is determined as the difference between the proceeds from the sale and the carrying amount of the asset, and is recognised in the consolidated statement of profit or loss.

(j) Intangible assets

Intangible assets are measured initially at acquisition or production cost. After initial recognition, intangible assets are carried at cost, less accumulated amortisation and any accumulated impairment. Amortisation of intangible assets is recognised within the following items in the consolidated statement of profit or loss:

Nature of asset	**Recognition of amortisation**
Intangible associated with services provided	Cost of sales
Customer relationships and branding	Selling and distribution expenses
Film rights	Other operating expenses

Development

An intangible asset generated internally as the result of development activities (or of the development phase of an internal project) will be recognised if, and only if, all the following aspects have been demonstrated:

- The technical feasibility of completing development of the intangible asset so that it will be available for use or sale;
- The intention to complete development of the intangible asset concerned, to use or sell it;
- Its ability to use or sell the intangible asset;
- The way in which the intangible asset will generate probable future economic benefits;
- The availability of technical, financial and other resources required to complete development and to use or sell the intangible asset;
- The ability to reliably measure the expenditure attributable to the intangible asset during its development; and

- The amount initially recognised as intangible assets generated internally is the sum of the expenses incurred since the date on which the intangible assets first met the aforementioned recognition criteria. When an intangible asset generated internally does not meet the criteria for recognition, the development costs are recorded as period expenses.

Following initial recognition, intangible assets generated internally are recognised at cost less accumulated amortisation and impairment losses, on the same criteria as intangible assets that are acquired separately. The maximum period of amortisation is five years.

Rights to use

This item represents rights to use Oviedo City Council's ducting systems, and concessions for private use of the public radio spectrum, amortised over a period of between 25 and 20 years respectively, in accordance with their durations.

Industrial property and trademarks

The Group recognises the value associated with the "Telecable" trademark under which it sells its products and which has been recognised in the context of the business combination completed in 2015.

Considering that telecommunications innovations are beginning to focus on multimedia services, and thus many companies are deciding to change their image and also their brand name, the Directors have estimated that the remaining useful life of the "Telecable" trademark is 30 years.

Computer software

The Group recognises costs incurred to acquire or develop software programmes under this heading. Maintenance costs of computer applications are recognised with a charge to the statement of profit or loss for the year in which they are incurred. Computer software is amortised on a straight-line basis over three years unless a specific contract has a different duration when this will be used. This item includes Customer Management System usage rights, amortised in accordance with the duration of the contract, which is normally three years.

Other intangible assets

Optic fibre usage rights are amortised on a straight-line basis over ten years.

Film operating rights for cinema productions are amortised over a period of between two and three years on a decreasing basis on a pattern that bests reflects the pattern of consumptions.

Cost of contracts with customers: the Group recognises a number of commissions paid to distributors in connection with the capture of new landline and mobile customers when there is a direct and unequivocal link and it is certain the costs can be recovered. This is amortised on a straight-line basis over a period of 12 months for commissions associated with landline services and a period of 18 months for commissions associated with mobile services, as this is the legal minimum contract period.

Customer relationships intangibles have arisen from the acquisition of Telecable in 2015. These intangible assets are amortised over a period of twelve years.

Derecognition of intangible assets

An intangible asset is derecognised when it is disposed of, or no future economic benefits are expected when it is used or sold. The gain or loss on the derecognition of an intangible asset is calculated as the difference between the net profit on the sale and the carrying amount of the asset, and is recognised in the consolidated statement of profit or loss when the asset is derecognised.

(k) Impairment of non-financial assets

At the end of each reporting period (for goodwill and intangible assets with indefinite useful lives) or whenever there are indications of impairment, the Group tests its intangible assets and items of property, plant and equipment for impairment to determine whether their recoverable amount has fallen below their carrying amount. The recoverable amount is the greater of fair value less costs to sell and value in use. An impairment loss is recognised when the carrying amount exceeds the recoverable amount.

Value in use is the present value of expected future cash flows, calculated using a risk-free market rate of interest, adjusted for the risks specific to the asset. The recoverable amount of assets that do not generate cash flows, primarily independent of cash flows from other assets or groups of assets, is calculated for the CGUs to which the assets belong.

If an impairment loss has to be recognised for a CGU to which all or part of an item of goodwill has been allocated, the carrying amount of the goodwill relating to that unit is written down first. If the impairment loss exceeds the carrying amount of this goodwill, the carrying amount of the other assets in the CGU is then reduced, on the basis of their carrying amount, down to the limit of the greatest of the following values: fair value less costs to sell, value in use and zero.

Where an impairment loss subsequently reverses (not permitted in the specific case of goodwill), the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount; however, the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognised in previous years. This reversal of an impairment loss is recognised as income.

The Group makes appropriate provision when the recoverable value is less than the carrying amount, provided the latter cannot be recovered by generating sufficient income to cover all the costs and expenses incurred by usage of the asset.

(l) 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. All other leases are classified as operating leases.

Finance leases

For finance leases in which the Group acts as lessee, the cost of the leased assets (depending on the nature of the leased assets) is presented in the consolidated balance sheet and, simultaneously, a liability is recognised for the same amount. This amount will be the lesser of the fair value of the leased assets and the present value, at the inception of the lease, of the agreed minimum lease payments, including the price of any purchase option when it is reasonably certain that it will be exercised. The calculation does not include contingent rent, the service cost or the taxes that can be passed on by the lessor. The total finance charge on the lease is recognised in the consolidated profit or loss for the period in which it is incurred, using the “effective interest rate method”. Contingent rent is recognised as an expense for the period in which it is incurred.

The assets recognised for these types of transactions are depreciated on the basis of their nature using similar criteria to those applied to other items of property, plant and equipment.

Operating leases

Costs arising from operating leases are recognised in the statement of profit or loss for the period when they are incurred.

Any collections or payments that might be made when arranging an operating lease will be treated as prepaid lease collections or payments, 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.

(m) Inventories

Inventories are chiefly comprised of mobile handsets, and are measured at their acquisition price on a “FIFO” basis or at their net realisable value, whichever is lower. Trade discounts, rebates, other similar items and interest included in the amount payable is deducted in determining the acquisition cost.

Net realisable value represents the estimated selling price less all estimated costs of completion and the costs to be incurred in the marketing, sale and distribution of the product.

The Group makes the appropriate valuation adjustments, and recognises them as an expense in the statement of profit or loss when the net realisable value of the inventories is lower than their acquisition cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

(o) Investments

Investments are stated at cost less any provision for diminution in value.

(p) Share capital

Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in share premium as a deduction from the proceeds.

(q) Corporation tax

Corporation tax represents the sum of current and deferred tax for the period.

Current tax is the expected tax payable on the taxable income for the period. Taxable profit differs from profit reported in the Consolidated Statement of Profit or Loss because some items of income and expense are taxable or deductible in different years, or may never be taxable or deductible. The Group's current tax is calculated using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to taxes payable in respect of previous periods.

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the balance sheet liability method.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the period end date, and is not discounted.

(r) Loss per Ordinary Share

The Group presents basic earnings per Ordinary Share ("EPS") data for its Ordinary Shares. Basic EPS is calculated by dividing the profit or loss attributable to Ordinary Shareholders of the Company by the weighted average number of Ordinary Shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary Shares outstanding to assume conversion of all potentially dilutive Ordinary Shares.

(s) Share based transactions

Equity-settled share based payments to Directors and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value is expensed through administrative expenses, with a corresponding increase in equity through the share based payment reserve, on a straight line basis over the period that the employees or others providing similar services become unconditionally entitled to the awards.

(t) Pension benefits

The Group pays contributions to privately administered pension plans on behalf of employees as contractually agreed, or the equivalent contribution is paid in cash to the employee. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an expense on the accruals basis.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Consolidated Financial Statements under IFRS requires the Directors to consider estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The main estimates used by the Directors in applying the accounting policies of the Group that had the greatest impact on the consolidated financial statements are as follows:

- **Assessment of the impairment of non-financial assets:** IFRS requires management to perform impairment tests annually for indefinite life assets and, for finite lived assets, if events or changes in circumstances indicate that their carrying amounts may not be recoverable. The Directors consider this to be a key estimate and the judgements and estimates used in assessing any impairment of goodwill and other intangible assets with indefinite useful lives are further detailed in Note 12.

- **Useful lives of property, plant and equipment**: Management determine the useful lives for assets when they are acquired, based on experience with similar assets and taking into account other relevant factors such as any expected changes in technology.

- **Useful lives of intangible assets**: The useful life over which intangible assets are amortised depends on management's judgement of the period over which economic benefit will be derived from the asset.

- **Accounting for deferred tax assets**: The recognition of deferred tax assets, particularly in respect of tax losses, is based upon whether it is probable that there will be sufficient and suitable taxable profits in the relevant legal entity or tax group against which to utilise the assets in the future

- **Allocation of costs in relation to content rights**: Costs are allocated based on the number of customers who are expected to pay for the content across the period.

The main judgement made by the Directors in applying the accounting policies of the Group that had the greatest impact on the consolidated financial statements is as follows:

- **Existence of contingent liabilities**: Management firstly assess whether an obligation is possible, and if possible, whether an obligation is probable. A contingent liability is identified when it is judged that an obligation is possible but not probable.

4. SEGMENTAL ANALYSIS

For management purposes, the Group is organised into two segments, the Telecable Group which represents the activity of the Telecable business in Spain and a central costs segment which represents costs incurred by all Zegona Group entities supporting the corporate activities of the Group. The results of each segment are reported to the Board which is considered to be the chief operating decision maker (the "CODM"). The information presented to the Board does not include a detailed analysis of the assets and liabilities of each segment and as such this information has not been presented.

The CODM considers an adjusted earnings measure ("Adjusted EBITDA") as the principal measure of profitability of Zegona, which is considered to represent the segment result in accordance with IFRS 8.

Telecable is a segment because allocation of resources is performed on an investment basis by entity. While service revenue can be further divided into different revenue streams, this information is provided solely for the benefit of investors.

Further information on reportable segments is set out below.

For the year to 31 December 2016	Telecable Group €000	Central costs €000	Adjustments and eliminations €000	Consolidated €000
Revenue				
External customers	140,798	–	–	140,798
Total revenue	**140,798**	**–**	**–**	**140,798**
Revenue by customer				
Handset sales	5,583	–	–	5,583
Residential service revenue	98,213	–	–	98,213
Services provided to business customers	37,002	–	–	37,002
Total revenue	**140,798**	**–**	**–**	**140,798**
Adjusted EBITDA	**65,133**	**(3,955)**	**–**	**61,178**
Profit/(loss) for the period	**(13,186)**	**7,698**	**–**	**(5,488)**
Other income/(expense) items				
Depreciation and amortisation	(50,360)	(1)	–	(50,361)
Interest income	62	13,240	(13,240)	62
Interest expense	(27,182)	–	13,240	(13,942)
Income tax	5,532	(96)	–	5,436
Capex				
Additions of property, plant and equipment	13,717	–	–	13,717
Additions of intangible assets	11,851	–	–	11,851

For the period to 31 December 2015	Telecable Group €000	Central costs €000	Adjustments and eliminations €000	Consolidated €000
Revenue				
External customers	52,966	–	–	52,966
Total revenue	**52,966**	**–**	**–**	**52,966**
Revenue by customer				
Handset sales	315	–	–	315
Residential service revenue	38,734	–	–	38,734
Services provided to business customers	13,917	–	–	13,917
Total revenue	**52,966**	**–**	**–**	**52,966**
Adjusted EBITDA	**24,470**	**(2,933)**	**–**	**21,537**
(Loss) for the period	**(6,841)**	**(8,051)**	**–**	**(14,892)**
Other income/(expense) items				
Depreciation and amortisation	(19,149)	(1)	–	(19,150)
Interest income	34	5,015	(4,998)	51
Interest expense	(10,461)	–	4,998	(5,463)
Income tax	1,545	–	–	1,545
Capex				
Additions of property, plant and equipment	6,598	–	–	6,598
Additions of intangible assets	5,579	–	–	5,579

All Revenues earned by the Telecable Group were generated in Spain. There are no major customers on which reliance is placed.

Zegona uses Adjusted EBITDA, in conjunction with other GAAP and Non-GAAP financial measures to assess its operating performance. Zegona believes it is both useful and necessary to report Adjusted EBITDA as a performance measure because it enhances the comparability of profit across businesses, it is commonly used as the key metric for valuing TMT businesses in mergers and acquisition transactions, and it is used by management for planning, reporting and incentive purposes.

EBITDA is operating profit excluding depreciation of Property, Plant and Equipment ("PP&E") and amortization of intangible assets (as defined in our financial statements).

Adjusted EBITDA is EBITDA excluding:

- Impairment losses and losses on disposal of assets,
- Long term management incentive compensation and share based payment expenses ("Incentive costs"),
- Significant items that are not considered by management to be reflective of the underlying performance of the Group ("Significant project costs") as disclosed in note 6. These are typically identifiable costs incurred in the course of mergers and acquisition transactions.

A reconciliation of EBITDA and Adjusted EBITDA to the closest equivalent GAAP measure, operating profit, is provided below.

For the year to 31 December 2016:	**Telecable Group €000**	**Central costs €000**	**Consolidated €000**
Operating Profit	**11,220**	**(7,774)**	**3,446**
Depreciation of PP&E	23,293	1	23,294
Amortisation of intangible assets	27,068	–	27,068
EBITDA	**61,581**	**(7,773)**	**53,808**
Impairment losses and losses on disposal of assets	3,552	–	3,552
Significant project costs[1]	–	3,783	3,783
Incentive costs[2]	–	35	35
Adjusted EBITDA	**65,133**	**(3,955)**	**61,178**

(1) See note 6

(2) Share based payment expense per the consolidated statement of comprehensive income

For the period to 31 December 2015	**Telecable Group €000**	**Central costs €000**	**Consolidated €000**
Operating Profit	**2,388**	**(10,049)**	**(7,661)**
Depreciation of PP&E	10,657	–	10,657
Amortisation of intangible assets	8,494	–	8,494
EBITDA	**21,539**	**(10,049)**	**11,490**
Impairment losses and losses on disposal of assets	1,704	–	1,704
Significant project costs[1]	1,227	7,104	8,331
Incentive costs[2]	–	12	12
Adjusted EBITDA	**24,470**	**(2,933)**	**21,537**

(1) See note 6

(2) Share based payment expense per the consolidated statement of comprehensive income

5. CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. As described in note 21, the share premium account was cancelled during the period and transferred to other reserves (which form part of the distributable reserves of the Company). The primary objective of the Group's capital management is to maximise shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of any covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. During 2016, the Company gained authorisation to make market purchases of up to ten per cent. of its current issued Ordinary Share capital (within specified price parameters). Any shares repurchased by the Company pursuant to this authority may be held in treasury and subsequently resold for cash, cancelled or used for employee share scheme purposes.

The Company has also obtained shareholder authority to make off-market purchases of Ordinary Shares following a tender offer for the Company's shares.

The Group monitors net debt, calculated in accordance with the terms of the Senior Facility Agreement. Net debt is calculated as long and short term borrowings before the effect of discounting (excluding accrued interest on the Senior Facility Agreement and amounts payable to fixed asset suppliers) less cash and short term deposits.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaching the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest bearing loans and borrowing in the current period.

Other than the authorisation obtained during the period in relation to the buy-back of Company shares detailed above, no changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2016.

	Consolidated 31 December 2016 €000	Consolidated 31 December 2015 €000
Interest-bearing loans and borrowings	266,519	274,860
Less: cash and short-term deposits	22,435	14,264
Net debt	**244,084**	**260,596**

6. OPERATING PROFIT/(LOSS)

Profit/(loss) from operations is stated after (charging)/crediting:

	Consolidated for year ended 31 December 2016 €000	Consolidated Period from 19 Jan 2015 to 31 December 2015 €000
Total Revenue	**140,798**	**52,966**
Other operating expenses	(80,442)	(31,771)
Other operating income	822 822	322
Depreciation of property, plant and equipment (Note 10)	(23,294)	(10,656)
Amortisation of intangible assets (Note 11)	(27,068)	(8,494)
Loss on disposal of property plant and equipment	(3,552)	(1,703)
Share based payment expense	(35)	(25)
Significant project costs	(3,783)	(8,300)
Operating profit/(loss)	**3,446**	**(7,661)**

An amount of €19.6m (2015: €10.6m) of depreciation of property, plant and equipment and amortisation of intangible assets are included within cost of sales in the consolidated statement of comprehensive income.

Significant project costs are those that are considered to be one-off or non-recurring in nature and so material individually or collectively that the Directors believe that they require separate disclosure to avoid distortion of the presentation of underlying performance and should be separately presented. The classification of items as Significant project costs is subjective in nature and therefore judgement is required to determine whether a project should be considered to be significant. Determining whether a project is significant is a matter of qualitative assessment, making it distinct from other critical accounting judgements where the basis for judgement is estimation. Significant projects are usually related to acquisition, disposal or joint venture transactions where incremental and identifiable external costs are incurred by Zegona group companies in order to make or evaluate a bid received, even if the transaction is not consummated. Costs included for each significant project have primarily been professional fees, travel expenses and severance costs. In 2016, approximately €3.1 million of the Significant project costs related to the potential acquisition of the Yoigo business in Spain with the remainder allocated to a small number of other projects. In 2015, approximately €6.5 million of the Significant project costs related to the acquisition of the Telecable business.

7. FINANCE COSTS AND INCOME

	Consolidated for year ended 31 December 2016 €000	Consolidated Period from 19 January 2015 to 31 December 2015 €000
Interest on loans and receivables	62	51
Finance income	**62**	**51**
Bank borrowings	(13,942)	(5,412)
Other loans and borrowings	–	(51)
Cost of FX option	–	(3,340)
Loss on FX forward measured at fair value through profit and loss	(409)	–
Finance costs	**(14,351)**	**(8,803)**

Loss on extinguishment of FX option

This amount relates to the premium paid for a foreign exchange option executed in relation to the acquisition of Telecable. The foreign exchange option was cancelled on the acquisition of Telecable.

Loss on FX forward measured at fair value through profit and loss

This amount relates to the loss on execution of an FX forward executed in September 2016 (in relation to the payment of the October 2016 dividend) and the movement in fair value of the FX forward held at year end (as detailed in Note 18).

8. EMPLOYEES AND DIRECTORS

Directors' emoluments

The Board considers the executive Directors and non-executive Directors of the Company to be the key management personnel of the Group. Details of the amounts paid to key management personnel are detailed in the Remuneration Report on page 45.

The highest paid Director received emoluments of €764,141 (£623,936) (2015: €665,261 (£483,194)) during the period, of which €122,471 (£100,000) (2015: €108,026 (£78,462)) related to pension benefits. The highest paid Director received a fixed annual salary of £500,000 (€688,400) effective from the date of the Company's admission to AIM on 19 March 2015, payable monthly in arrears, plus an amount in lieu of pension contribution of 20 per cent. of fixed annual salary and a contribution of up to £13,000 (2015: £13,000 (€17,898)) per annum in relation to car allowance and private medical insurance.

Employed persons

The average number of people employed by the Group (including executive Directors, but excluding non-executive Directors) during the period was as follows:

	Number of employees 2016	
By activity	**Telecable Group**	**Rest of Group**
Operations	67	8
Selling and distribution	69	–
Administration	48	1
	184	9

	Number of employees 2015	
By activity	**Telecable Group**	**Rest of Group**
Operations	66	5
Selling and distribution	61	–
Administration	54	1
	181	6

Employee costs

These costs include costs associated with the executive Directors but not the non-executive Directors of the Group:

	Consolidated for year ended 31 December 2016 €000	Consolidated Period from 19 January 2015 to 31 December 2015 €000
Salaries and staff benefits	9,912	5,132
Employment related taxes	2,439	1,409
Payments into private pensions arrangements	345	232
Payments in lieu of payments into private pension arrangements	122	108
Recruitment fees	40	–
Less: staff costs capitalised	(3,337)	(1,109)
	9,521	5,772

9. TAXATION

	Consolidated for year ended 31 December 2016 €000	Consolidated For the period from 19 Jan 2015 to 31 December 2015 €000
Current tax expense		
Current period	(303)	–
Deferred tax expense		
Origination and reversal of temporary differences	5,739	1,262
Effect of changes in statutory tax rates	–	283
Tax credit for the period	**5,436**	**1,545**

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessments of many factors, including interpretations of tax law and prior experience.

Reconciliation of effective tax rate

	Consolidated for year ended 31 December 2016 €000	Consolidated for the period from 19 Jan 2015 to 31 December 2015 €000
Loss before tax from continuing operations	(10,924)	(16,437)
At UK statutory income tax rate (20%)	2,185	3,452
Effect of tax rate used in other jurisdictions	3,657	243
Unrecognised tax losses	(1,258)	(2,433)
Effect of changes in statutory tax rates	–	283
Tax incentives	801	–
Other	51	–
Income tax credit	**5,436**	**1,545**

Movement in deferred tax balances

2016	As at 31 December 2015 €000	Reallocation* €000	As at 1 Jan 2016 €000	Recognised in profit or loss €000	Net €000	Deferred tax asset €000	Deferred tax liability €000
Property, plant and equipment	(7,186)	(1,003)	(8,189)	1,921	(6,268)	4,188	(10,456)
Intangible assets	(55,150)	(581)	(55,731)	4,711	(51,020)	95	(51,115)
Loans and borrowings	3,222	2,705	5,927	289	6,216	6,216	–
Other items	848	–	848	(848)	–	–	
Tax incentives	5,021	(1,121)	3,900	(334)	3,566	3,566	–
Tax assets (liabilities) before offset	**(53,245)**		**(53,245)**	**5,739**	**(47,506)**	**14,065**	**(61,571)**
Offset tax				–	–	(14,065)	14,065
Net deferred tax							**(47,506)**

* Subsequent to issuing the 2015 financial statements, more accurate information became available in order the allocate the tax estimate for the period from 1 August 2015 to the date of acquisition of Telecable on 14 August 2015 and has been reallocated on this basis.

2015	On incorporation €000	Recognised in profit or loss €000	Acquired in business combinations €000	Net €000	Deferred tax asset €000	Deferred tax liability €000
Property, plant and equipment	–	1,732	(8,918)	(7,186)	6,797	(13,983)
Intangible assets	–	1,716	(56,866)	(55,150)	–	(55,150)
Loans and borrowings	–	(1,858)	5,080	3,222	3,222	–
Other items	–	–	848	848	848	–
Tax incentives	–	(43)	5,064	5,021	5,021	–
Tax assets (liabilities) before offset	**–**	**1,547**	**(54,792)**	**(53,245)**	**15,888**	**(69,133)**
Offset tax	–	–	–	–	(15,888)	15,888
Net deferred tax						**(53,245)**

Deferred tax assets and liabilities in the above table relate entirely to the Group's subsidiary undertakings in Spain.

The deferred tax assets have been recognised and offset against deferred tax liabilities as the Group's Directors consider that, based on the best estimates of the Spanish tax group's future results, including certain tax planning measures, it is probable that these assets will be recovered.

Unrecognised deferred tax assets

Deferred tax assets of the Company of €2.9m (2015: €2.4 million) have not been recognised in respect of tax losses, because it is not probable that future taxable profit will be available against which the Company can maximise the benefits therefrom. Under UK law there is no expiry for the use of tax losses.

At 31 December 2016 the Spanish Group had finance costs of €8,421,233 (2015: €7,265,097) which exceeded the 30% cap on operating profit applied to such costs when calculating the amount deductible for tax purposes. As such, no deferred tax asset has been recognised in relation to this balance.

10. PROPERTY, PLANT AND EQUIPMENT

	2016				
Cost	**Land and buildings €000**	**Plant and equipment €000**	**Fixtures and fittings €000**	**Under construction €000**	**Total €000**
As at 1 January 2016	3,677	131,357	3,974	1,880	140,888
Additions	–	12,905	297	515	13,717
Disposals	–	(19,408)	(39)	–	(19,447)
At 31 December 2016	**3,677**	**124,854**	**4,232**	**2,395**	**135,158**
Accumulated depreciation					
As at 1 January 2016	(43)	(5,560)	(375)	–	(5,978)
Charge for the period	(102)	(22,545)	(646)	–	(23,293)
Disposals	–	16,327	13	–	16,340
Closing balance	**(145)**	**(11,778)**	**(1,008)**	**–**	**(12,931)**
Net book value					
At 31 December 2016	**3,532**	**113,076**	**3,224**	**2,395**	**122,227**

	2015				
Cost	**Land and buildings €000**	**Plant and equipment €000**	**Fixtures and fittings €000**	**Under construction €000**	**Total €000**
On incorporation	–	–	–	–	–
Business combinations	3,677	130,129	3,826	2,322	139,954
Additions	–	6,891	149	(442)	6,598
Disposals	–	(5,663)	(1)	–	(5,664)
Closing balance	**3,677**	**131,357**	**3,974**	**1,880**	**140,888**
Accumulated depreciation					
On incorporation	–	–	–	–	–
Charge for the period	(43)	(10,237)	(376)	–	(10,656)
Disposals	–	4,677	1	–	4,678
Closing balance	**(43)**	**(5,560)**	**(375)**	**–**	**(5,978)**
Net book value					
At 31 December 2015	**3,634**	**125,797**	**3,599**	**1,880**	**134,910**

11. INTANGIBLE ASSETS AND GOODWILL

	2016						
Cost	**Goodwill €000**	**Development costs €000**	**Patents, licences, trademarks and similar €000**	**Customer relationships €000**	**Other intangible assets €000**	**Under construction €000**	**Total €000**
As at 1 January	345,678	3,498	18,581	208,893	6,645	251	583,546
Additions	–	1,049	9	–	9,768	1,025	11,851
Disposals	–	–	(2)	–	(941)	–	(943)
Impairment	–	–	–	–	–	–	–
Closing balance	**345,678**	**4,547**	**18,588**	**208,893**	**15,472**	**1,276**	**594,454**
Accumulated amortisation							
As at 1 January	–	(353)	(237)	(6,629)	(882)	–	(8,101)
Amortisation	–	(909)	(624)	(16,140)	(9,395)	–	(27,068)
Disposals	–	–	2	–	492	–	494
	–	**(1,262)**	**(859)**	**(22,769)**	**(9,785)**	**–**	**(34,675)**
Net book value At 31 December 2016	**345,678**	**3,285**	**17,729**	**186,124**	**5,687**	**1,276**	**559,779**

	2015						
Cost	**Goodwill €000**	**Development costs €000**	**Patents, licences, trademarks and similar €000**	**Customer relationships €000**	**Other intangible assets €000**	**Under construction €000**	**Total €000**
On incorporation	–	–	–	–	–	–	–
Business combinations	345,678	2,232	18,580	208,893	3,058	635	579,076
Additions	–	1,266	1	–	4,696	(384)	5,579
Disposals	–	–	–	–	(785)	–	(785)
Impairment	–	–	–	–	(324)	–	(324)
Closing balance	**345,678**	**3,498**	**18,581**	**208,893**	**6,645**	**251**	**583,546**
Accumulated amortisation							
On incorporation	–	–	–	–	–	–	–
Amortisation	–	(353)	(237)	(6,629)	(1,275)	–	(8,494)
Impairment	–	–	–	–	–	–	–
Disposals	–	–	–	–	393	–	393
	–	**(353)**	**(237)**	**(6,629)**	**(882)**	**–**	**(8,101)**
Net book value At 31 December 2015	**345,678**	**3,145**	**18,344**	**202,264**	**5,763**	**251**	**575,445**

The main additions in the period were the cost of acquisition of contracts with customers amounting to €6.6m (2015: €3.4 million), development of software necessary to Group activity amounting to €3.0 million (2015: €1.3 million) and development costs on TV Everywhere projects amounting to €1.1 million (2015: €1.3 million).

The recognition of patents, trade-marks and development costs and the recognition of customer relationships is included in selling and distribution expenses in the consolidated statement of profit or loss.

Goodwill and intangible assets with indefinite lives have been assessed for impairment as disclosed in Note 12.

All material intangible assets with identified useful economic lives (including customer relationships and trademarks) have been reviewed for indicators of impairment. No such indicators were identified as at 31 December 2016.

12. IMPAIRMENT OF GOODWILL AND OTHER ASSETS WITH INDEFINTITE USEFUL LIVES

Goodwill acquired through business combinations has been allocated to a single Telecable CGU, which is also an operating and reportable segment, for impairment testing. The Group performed its annual impairment review in December 2016. The Group considers all key performance indicators reported to management when reviewing for indicators of impairment. In 2016, there has been a reduction in the number of Telecable customers, but this has been offset by increases in prices and improvements in product mix such that Telecable has been able to improve its core financial metrics compared to 2015. There are therefore no indicators of impairment of goodwill.

IAS 36 requires that an annual impairment review be conducted regardless of whether there are any indicators of impairment.

The recoverable amount of the Telecable CGU, has been determined based on a value in use calculation using cash flow projections from financial budgets and forecasts approved by the Board and Senior Management covering a five year period. The projected cash flows have been updated to exclude the impact of any expansionary capital expenditure. The pre-tax discount rate applied to cash flow projections is 8.4% and the cash flows beyond the five year period are extrapolated using a 1.5% growth rate. This growth rate is in line with the long-term average growth rate for the Spanish telecommunications industry. As a result of the analysis, there is substantial headroom and management did not identify any impairment.

Key assumptions used in value in use calculations

The value in use calculation for the Telecable CGU is most sensitive to the following assumptions:

- Rates used as direct inputs to the value in use calculation:
  - Discount rates
  - Growth rates used to extrapolate cash forecasts beyond the forecast period
- Assumptions and conditions impacting forecast cash flows:
  - Revenue growth over the forecast period as impacted by general economic conditions
  - Revenue growth over the forecast period as impacted by the actions of competitors
  - Cost and availability of football offerings

Rates used as direct inputs

Discount rates – Discount rates represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (“WACC”). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

A rise in the pre-tax discount rate to 8.9% (i.e. +0.5%) would result in the headroom reducing to €95.1 million. A rise in the pre-tax discount rate to 10.0% (i.e. +1.6%) would result in the headroom reducing to zero.

Growth rate estimates – The growth rate applied to cash flows after the five year period represents the midpoint of the general Spanish telecommunication sector growth rates of 1% - 2%. A decrease in the growth rate to 1.0% (i.e. -0.5%) would result in the headroom reducing to €108.0 million. A decrease in the growth rate to -0.8% (i.e. a decrease of 2.3% from base case) would result in the headroom reducing to zero.

Assumptions and conditions impacting on forecast cash flows

Revenue growth over the forecast period as impacted by general economic conditions – Revenues in the cash flow projections are based on management's assessment of future revenues in 'normal' economic conditions. Management acknowledges that revenue growth would be impacted in the event of a downturn in the general Spanish economy. To assess the impact on the calculated value in use, revenues have been re-forecast using various progressively more severe economic environments. In all but the most extremely pessimistic forecasts, no impairment is identified, whilst the likelihood of the most pessimistic forecast is considered very remote.

Revenue growth over the forecast period as impacted by actions of competitors – Management has considered the impact of actions by competitors on forecast revenues. For each reasonably plausible forecast, no impairment has been identified.

Cost and availability of key premium content – Premium content offerings are a significant part of the forecast cash flows. Management have considered both the impact of increasing costs of obtaining premium content rights with no corresponding increase in revenues and a scenario where broadcasting rights are not renewed. The effect of re-forecasting cash flows under these scenarios does not result in any impairment being identified.

13. INVENTORIES

Inventories are chiefly composed of mobile handsets, SIM cards and accessories for the mobile business. The carrying amount is €626k (2015: €373k).

14. INVESTMENTS

The consolidated financial statements of the Group include:

Subsidiary	Nature of business	Country of incorporation	Ordinary shares held directly by Parent	Ordinary shares held indirectly by Parent
Zegona Limited (formerly Zegona Jersey Limited)	Incentive company	Jersey	100%	–
Zegona (Lux) S.A.R.L.	Financing company	Luxembourg	–	100%
Zegona (Ireland) Limited	Financing company	Ireland	–	100%
Zegona Spanish Holdco Limited	Dormant	UK	–	100%
Zegona Borrower Limited	Dormant	UK	–	100%
Zegona Holdco Limited	Dormant	UK	–	100%
Zegona Lux Finco S.A.R.L	Dormant	UK	–	100%
*Parselaya S.L.	Holding company	Spain	–	100%
*Telecable Capital Holding, S.L.U.	Holding company	Spain	–	100%
*Telecable de Asturias, S.A.	Telecommunications services	Spain	–	100%

* Together "Telecable", "Telecable Group" or "Spanish Group"

There are no restrictions on the Company's ability to access or use the assets and settle the liabilities of the Company's subsidiaries.

15. FINANCIAL INSTRUMENTS

The Group's activities expose it to market risk, principally interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings and deposits.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

In the opinion of the Directors, a significant movement in EURIBOR would be required to have a material impact on the cash flow of the Group. Whilst considered unlikely, should a significant negative impact arise, sufficient working capital is provided through the Group's access to a revolving credit facility of up to €20 million which is currently undrawn. Cash balances are placed so as to maximise interest earned while maintaining the liquidity requirements of the business. The Directors regularly review the placing of cash balances.

Foreign currency risk

Foreign currency risk exists due to the Company operating with a different functional currency (GBP) to that of its subsidiaries (EUR).

The Chief Financial Officer, the Board and the finance department of the Telecable Group controls and monitors financial risk management in accordance with the internal policy and the strategic plan defined by the Board.

The monetary assets and monetary liabilities denominated in a currency different to the presentational currency relate to carrying amounts of balances in Zegona Communications plc and Zegona Limited which are denominated in Sterling. Details of such monetary assets and monetary liabilities at the reporting date are as follows:

	As at 31 December 2016 £000	As at 31 December 2015 £000
Financial assets (denominated in GBP)	3,500	5,041
Financial liabilities (denominated in GBP)	(404)	(219)
Net monetary assets	3,096	4,822

Foreign currency sensitivity analysis

The sensitivity analysis below details the impact of a 10% movement in Sterling against the Euro applied to the net monetary assets of the Group:

Currency impact	**+/- 10% movement €000**
Profit before tax gain/loss	+/- 516
Equity gain/loss	+/- 153

Credit risk

Credit risk arises from cash and cash equivalents, deposits at banks and financial institutions and trade receivables. The Group uses the ratings awarded by independent agencies with regard to banks and financial institutions. If customers have been rated independently, these ratings are used. Otherwise, if there is no independent rating, the Group assesses the customer's credit rating taking into account its financial situation, past experience and other factors. Individual credit limits are set on the basis of the external and internal credit ratings, and the use of these limits is monitored regularly.

There are no material financial assets that are past due or impaired as at 31 December 2016, and there is no collateral or other credit enhancement feature on the Group financial assets.

The amount of the write-downs on trade receivables recognised by the Group at 31 December 2016 was €2,019,305. These referred mainly to the trade receivables past due by more than 180 days at period-end for which the Group has doubts as to their collectability.

The relative weight that these write-downs represent as a percentage of the Group's sales in the period is 1%.

Liquidity risk

Prudent liquidity risk management implies holding sufficient cash and marketable securities and the availability of financing through a sufficient level of available credit lines. Management monitors the Group's liquidity reserve forecasts based on expected cash flows.

At 31 December 2016 the Group had cash and cash equivalents amounting to €22.4 million (2015: €14.3 million) which were cash balances held with banks.

Financial instrument categories

The classification by category of the financial instruments held by the Group as at 31 December is as follows:

	Group – Current 2016 €000	Group – Current 2015 €000
Loans and receivables		
Other financial assets	53	52
Trade and other receivables	7,256	7,174
Cash and cash equivalents	22,435	14,264
Financial assets	**29,744**	**21,490**
Bank borrowings (note 19)	325	1,519
Trade and other payables (note 20)	31,317	24,352
Other borrowings (note 19)	12,560	15,372
Financial liabilities	**44,202**	**41,243**

	Group – Non Current 2016 €000	Group – Non Current 2015 €000
Loans and receivables		
Loans	1,880	1,557
Other financial assets	45	46
	1,925	1,603
Available for sale		
Investments	2	2
Financial assets	**1,927**	**1,605**
Bank borrowings (note 19)	266,519	265,017
Guarantees	–	19
Other borrowings (note 19)	526	612
Financial liabilities	**267,045**	**265,648**

The Directors consider that the carrying amounts, mainly calculated at amortised cost, of the financial assets and liabilities recognised in the consolidated financial statements equate to their fair values.

The classification by category of the financial instruments held by the Company as at 31 December is as follows:

	Company – Current 2016 €000	Company – Current 2015 €000
Loans and receivables		
Trade and other receivables	1,454	2,436
Cash and cash equivalents	3,894	6,192
Financial assets	**5,348**	**8,628**
Loans and payables		
Trade and other payables	102	118
Intercompany balance with subsidiary	7,192	–
FX forwards	218	–
Financial liabilities	**7,512**	**118**

The Group and Company's assets and liabilities carried at fair value above at 31 December 2016 and 2015 are categorised as Level 2 fair value measurement.

16. TRADE AND OTHER RECEIVABLES

	Consolidated as at 31 December 2016 €000	Consolidated as at 31 December 2015 €000
Trade receivables	6,817	6,843
Other receivables	439	133
Prepaid content rights	9,946	2,499
Other prepayments	138	423
VAT recoverable	413	60
Other receivables with Tax Authorities	25	138
Other current financial assets	53	52
Total	**17,831**	**10,148**

There is no material difference between the book value and the fair value of trade and other receivables.

Current	Company Only as at 31 December 2016 €000	Company Only as at 31 December 2015 €000
Accrued income	1,266	349
Amounts due from subsidiary undertakings	6	1,451
Other receivables	17	492
Prepayments	17	84
VAT recoverable	171	60
Total	**1,477**	**2,436**

17. NON-CURRENT FINANCIAL ASSETS

	Consolidated as at 31 December 2016 €000	Consolidated as at 31 December 2015 €000
Investments	2	2
Loans	1,880	1,557
Guarantees	45	46
Total	**1,927**	**1,605**

Investments relate to investments in the capital of certain companies, which are measured at cost. All the companies are unlisted. The fair value of investments materially equates to cost.

Loans relate to a loan granted on 22 February 2013 and maturing in 2030 to certain members of the Telecable management team, amounting to €1,488,819 plus 5% annual interest accrued until 31 December 2016. The loans are secured on a portion of the shares held in the Company by the Telecable management team.

The Company only non-current financial assets balance of €310.9 million (2015: €358.0 million) comprises of the investment in Zegona Limited which is held at cost.

18. CURRENT FINANCIAL LIABILITIES

Current financial liabilities

	Consolidated as at 31 December 2016 €000	Consolidated as at 31 December 2015 €000
Short term borrowings (Note 19)	12,885	16,891
Fair value of FX forward	219	–
	13,104	**16,891**

The FX forward (for the consolidated balance as well as Company only balance) relates to a contract to buy £4,500,000 for €5,458,950 which was entered into by the Company on 30 June 2016 and was settled on 1 February 2017, in relation to the payment of the second interim dividend for 2016 paid on 17 March 2017.

19. BORROWINGS

Carrying value of the Group's short and long-term borrowings are as follows:

	Consolidated as at 31 December 2016	Consolidated as at 31 December 2015
Short term borrowings	**€000**	**€000**
Bank borrowings	325	1,519
Advances refundable to the Spanish Ministry of Industry	139	139
Other borrowings	12,421	15,233
	12,885	16,891
Long term borrowings		
Bank borrowings	266,519	265,017
Advances refundable to the Spanish Ministry of Industry	526	612
	267,045	265,629
Total borrowings	**279,930**	**282,520**

The book value approximates to the fair value of financial liabilities.

Information about the Group's exposure to interest rate, foreign currency and liquidity risk is included in note 15.

Bank borrowings include a Senior Secured Facility Agreement signed on 27 July 2016 by Parselaya, S.L. (Spanish Group holding company), effective on the acquisition of Telecable on 14 August 2015, which includes a facility of €274 million which matures in August 2022 and a revolving credit facility up to €20 million which was undrawn as at 31 December 2016 and remains undrawn at the date of this report. This revolving credit facility is available until 2021.

The facility bears a market interest rate plus a spread that varies depending on the achievement of certain ratios.

	Weighted average interest rate for the period
Senior Secured Facility Agreement	4.45%

The Senior Secured Facility Agreement is guaranteed by a pledge over Telecable's shares and certain receivables and would be executed should Parselaya not meet its payment commitments and/or financial performance ratios. All ratios were adhered to during the period.

Other borrowings relate to amounts payable to the Group's fixed asset suppliers.

Maturity of borrowings

The maturity profile in relation to the Group's financial liabilities is as follows:

	€000		
	Bank borrowings	Other financial borrowings	Total
Within one year	325	12,560	12,885
In one or two years	127	139	266
In two or three years	–	104	104
In three or four years	–	103	103
In four or five years	–	103	103
More than 5 five years	274,000	157	274,157
	274,452	**13,166**	**287,618**
Effect of discount/financing rates	(7,608)	(80)	(7,688)
	266,844	**13,086**	**279,930**

The Directors consider that the carrying amounts, mainly calculated at amortised cost, of the financial assets and liabilities recognised in the consolidated financial statements equate to their fair values.

20. TRADE AND OTHER PAYABLES

	Consolidated as at 31 December 2016	Consolidated as at 31 December 2015
Current	**€000**	**€000**
Trade payables	16,841	9,876
Other payables	10,781	10,864
Accruals	960	1,357
Income taxes	81	–
Other tax balances	2,654	2,255
	31,317	**24,352**

The carrying amount of trade and other payables approximate to their fair value.

The Company trade and other payables balance consists of an intercompany balance with the Company's direct subsidiary, Zegona Limited, of €7,192,322 (2015: €nil) and €102,232 of trade creditors (2015: €118,085).

21. CALLED UP SHARE CAPITAL

	As at 31 December 2016 €000	As at 31 December 2015 €000
Allotted, called up and fully paid		
196,044,960 Ordinary Shares of £0.01 each (in € at historic rate)	2,738	2,738
	2,738	**2,738**

The nominal value of the total Ordinary Shares allotted, called up and fully paid above equates to £1,960,450.

On incorporation, 10 Ordinary Shares of £0.01 were issued at £1.20 per share resulting in share premium of £11.90. On 21 January 2015, a further 21,665 Ordinary Shares of £0.01 were issued at £1.20 resulting in total share premium of £25,793.25. On 19 March 2015, upon the Company's admission to AIM, a further 24,978,325 Ordinary Shares were issued at £1.20 per share resulting in total share premium of £29,750,000. Total transaction costs taken to share premium in relation to this issue of shares were £1,313,675, accordingly, the share premium account totaled £28,436,325 post-admission to AIM.

On 25 February 2015 on conversion of the Company to a plc, the Company issued 50,000 redeemable preference shares of £1 each. On admission to AIM on 19 March 2015, they were redeemed in full. No cash was received or paid in this regard.

On 14 August 2015, in order to fund the acquisition of Telecable, a further 167,326,724 Ordinary Shares of £0.01 were issued for £1.50 per share and all Ordinary Shares were re-admitted to trading on the AIM market of the London Stock Exchange. Shortly following Admission, the Company issued a further 3,718,236 Ordinary Shares of £0.01 each as part consideration for the acquisition of Telecable (the "Consideration Shares"). The Consideration Shares were admitted to trading on AIM on 17 August 2015.

On 29 September 2015 the entire issued share capital of the Company was admitted to the Official List (by way of Standard Listing under Chapter 14 of the Listing Rules) of the United Kingdom Listing Authority, and was admitted to trading on the London Stock Exchange plc's main market for listed securities.

No shares were issued during the year ended 31 December 2016.

All issued shares are fully paid. The holders of Ordinary Shares are entitled to receive dividends as declared and are entitled to one vote per share at general meetings of the Company.

On 8 June 2016, following approval by special resolution of the shareholders at the Annual General Meeting of the Company on 15 April 2016, the share premium account of the Company was cancelled, as confirmed by an Order of High Court of Justice, Chancery Division. Upon the cancellation of the share premium account, the balance was transferred to other reserves. Other reserves form part of the distributable reserves of the Company.

On 14 October 2016, an interim dividend of £4,411,012 was paid to shareholders, representing 2.25p per share. This was recognised in the distributable reserves account. A further 2016 interim dividend, of the same amount, was paid on 17 March 2017.

Share premium – for the period to 31 December 2016	
Opening balance (€000)	386,045
Share premium account cancellation (converted into distributable reserves)	(386,045)
Total share premium as at 31 December 2016	**–**

Share premium – for the period to 31 December 2015	
25,000,000 Ordinary Shares issued at a premium of £1.19 (£000)	29,750
171,044,960 Ordinary Shares issued at a premium of £1.49 (£000)	254,857
Total share premium (£000)	284,607
Less directly attributable costs (£000)	(8,238)
Total share premium as at 31 December 2015 (£000)	**276,369**
Converted into € at historic rate (€000)	**386,045**

22. RESERVES

The following describes the nature and purpose of each reserve within shareholders' equity:

Share premium

The amount subscribed for share capital in excess of nominal value less any costs directly attributable to the issue of new shares. Share premium has been translated into € at the historic rate prevailing on 14 August 2015, the date of the acquisition of Telecable. The share premium account was cancelled on 8 June 2016.

Share based payment reserve

The share based payment reserve is the cumulative amount recognised in relation to the equity settled share based payment scheme as further described in note 25.

Other reserves

Upon the cancellation of the share premium account, the balance was transferred to other reserves. Other reserves form part of the distributable reserves of the Company.

Retained earnings

Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

Foreign currency translation reserve

The foreign currency translation reserve includes the foreign exchange differences arising from the translation of the Company's accounts from functional currency to presentational currency, and the consolidation of subsidiaries.

23. LOSS PER ORDINARY SHARE

Basic earnings per Ordinary Share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period. Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary Shares outstanding to assume conversion of all potentially dilutive Ordinary Shares. Management Shares (refer note 25) and Core Investor Shares (refer note 25) have not been included in the calculation of diluted earnings per share because they are not dilutive for the period presented.

Group	For the year ended 31 December 2016 €	For the period from 19 Jan 2015 to 31 December 2015 €
Loss attributable to the owners of the parent	(5,487,998)	(14,891,659)
Weighted average number of Ordinary Shares in issue	196,044,960	89,455,159
Basic and diluted earnings per share	(2.80 cents)	(16.65 cents)

As more fully detailed in note 25, Management Shares in the share capital of the Company's subsidiary Zegona Limited have been issued during the current and prior period. On exercise, the value of these shares is expected to be delivered by the Company issuing new Ordinary Shares although the Company has the right at all times to settle such value in cash. Should the value be satisfied by the issue of Ordinary Shares, this will have a dilutive effect in the future.

24. DEFERRED REVENUE

Deferred revenue includes a twenty-year optical fibre lease agreement for which the total lease fee has been received in advance. Deferred revenue relating to this agreement has been split between current and non-current as follows:

Deferred Revenue	Consolidated as at 31 December 2016 €000	Consolidated as at 31 December 2015 €000
Current	701	229
Non-current	2,667	2,727
Total	**3,368**	**2,956**

25. SHARE BASED PAYMENTS

Arrangements were put in place shortly after the Group's inception to create incentives for those who are expected to make key contributions to the success of the Group. The Group's success depends upon the sourcing of attractive investment opportunities, the improvement of the target businesses, and their subsequent sale to realise attractive returns for shareholders. Accordingly, an incentive scheme was created to reward key contributors to the creation of value. At the period end, a total of €59,678 (2015: €24,678) was recorded in the consolidated share based payment reserve in respect of this equity settled plan. The plan is classed as equity settled as further described below.

Management Shares

Eamonn O'Hare, Robert Samuelson and other members of Zegona's management team have been issued Management Shares (A Ordinary Shares) in Zegona Limited, a subsidiary holding company, pursuant to their employee arrangements with the Group.

Exercise

The holders of Management Shares may exercise their rights at certain dates as described below. On exercise, Management Share holders are entitled to a return of 15 per cent. of the growth in equity value of Zegona Communications plc since the date the Company's shares were first admitted to trading on the AIM market of the London Stock Exchange, subject to shareholders achieving a 5 per cent. preferred return per annum on a compounded basis on their net invested capital.

There are up to five measurement periods during which the above noted performance condition may be met and an exercise may occur; the first being from three to five years post the acquisition of Telecable, the second and subsequent measurement periods, which are subject to shareholder approval, are three to five years from the earlier of the date of the shares becoming exercisable and the end of the previous measurement period if the shares did not become exercisable in that measurement period.

In line with the ability of Zegona Limited to settle the value of the Management Shares in equity, it is expected to deliver new ordinary shares of equivalent value of Zegona Communications plc, although Zegona Limited has the right at all times to settle such value in cash. The rights of the Management Shares may be exercised at other specific times including winding up or takeover, or a change of control of Zegona Communications plc. If at any time during a measurement period, the above criteria of 5 per cent. preferred return per annum on a compounded basis is met, the shares become exercisable.

On a winding up or takeover

Management shares are entitled to a return of 15 per cent. of the growth in equity value of Zegona Communications plc subject to shareholders achieving a 5 per cent. preferred return per annum on a compounded basis on their net invested capital. The growth in equity value takes into account new shares issued, dividends and capital returned to shareholders.

Board change of control

In a situation where the majority of Zegona Communications plc's Board comprises individuals to whom 50 per cent. of the holders of the A shares have not consented (including at least two shareholders holding at least 5 per cent. of the Management Shares), the Management Shares are entitled to a return of 15 per cent. per annum of the growth in equity value of Zegona Communications plc regardless of whether the preferred return has been achieved.

Holding of Management Shares

5,154,639,176 Management Shares have been allotted, issued and fully paid as shown in the table below.

	Participation in growth in equity value	Award Value	Number of Management Shares	Nominal value of Management Shares
Eamonn O'Hare	8.88%	£16,165	3,050,000,000	£305
Robert Samuelson	4.44%	£8,083	1,525,000,000	£153
Zegona Management	1.68%	£3,072	579,639,176	£58
			5,154,639,176	£516

When the Management Shares were first issued by Zegona Limited, Zegona Communications plc was an unlisted shell company and had not entered into any transactions up to that date other than the issue of 21,675 Ordinary Shares for £26,010. The fair value estimation placed on the Management Shares took into account the lack of trading history of Zegona Communications plc, and the absence of any deals or transactions at that date.

The inputs used in the measurement of the fair value at grant date, €26,514 (£21,649), of the 154,639,176 shares issued during the period were as follows:

	2016
Exercise price	£0.00
Market capitalisation	£212.7m
Expected life (years)	2.02
Expected volatility	21%
Risk free rate	0.14%
Expected dividend yield	0.0

At the period end, a total of €29,600 (2015: €12,339) was recorded in the consolidated share based payment reserve in relation to Management Shares.

Core Investor Shares

Marwyn Long Term Incentive LP ("MLTI") has been issued Core Investor Shares (5 B Ordinary Shares) in Zegona Limited. The B shares carry no voting rights.

The rights attached to the Core Investor Shares may be exercised by MLTI in the period from three to five years after the acquisition of Telecable or upon an earlier takeover, Board change of control (where the employment contracts with both Founder Directors have also terminated) or winding up of Zegona Communications plc. Core Investor Shares are entitled to a return of 5 per cent. per annum of the growth in equity value of Zegona Communications plc subject to shareholders achieving a 5 per cent. preferred return per annum on a compounded basis on their net invested capital.

In line with the ability of Zegona Limited to settle the value of the Core Investor Shares in equity, the value is expected to be delivered by Zegona Communications plc issuing new Ordinary Shares of equivalent value although Zegona Limited has the right at all times to settle such value in cash.

If on the date that MLTI exercises its Core Investor Shares, the Core Investor holds an Equity Interest in which it has invested in aggregate an amount less than five times the investment cost of the Equity Interest it held at 19 March 2015, MLTI will only be entitled to exercise its Core Investor Shares for an aggregate value equivalent to up to a maximum of 3 per cent. of the growth in equity value of Zegona Communications plc.

At the period end, a total of €20,709 (2015: €12,339) was recorded in the consolidated share based payment reserve in relation to Core Investor Shares.

26. RELATED PARTY TRANSACTIONS

In the opinion of the Directors, there is no one single controlling party.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party, or the parties are under common control or influence, in making financial or operational decisions.

Related party transactions of the Company

Mark Brangstrup Watts is a managing partner of Marwyn Capital LLP which provides corporate finance advice and various office services to the Company. During the period Marwyn Capital LLP was paid a total of €57,730 (2015: €757,752). Marwyn Capital LLP was owed an amount of €6,150 (2015: €nil) at the balance sheet date, which was unsecured.

Mark Brangstrup Watts is an ultimate beneficial owner of Axio Capital Solutions Limited which provides company secretarial, administrative and accounting services to the Group. During the period Axio Capital Solutions Limited charged €563,295 (2015: €416,398) in respect of services supplied. Axio Capital Solutions Limited was owed an amount of €42,985 (2015: €25,325) at the balance sheet date, which was unsecured. Mark Brangstrup Watts has a beneficial interest in the Core Investor Shares as described in note 25.

The Company provides management services to Telecable De Asturias S.A., an indirect subsidiary of the Company. During the period, the Company charged €1,006,941 (2015: €354,834) in respect of services supplied. The Company was owed an amount of €1,265,883 (2015: €349,736) at the balance sheet date.

Related party transactions of other Group companies

As at 31 December 2016 €1.9m (2015: €1.5m) was owed by certain members of the Telecable management team. These loans mature in 2030, bear interest at 5% per annum, and are secured on the employees' holdings of Zegona Ordinary Shares.

27. AUDITOR'S REMUNERATION

In the period to 31 December 2016, the Company's auditor has charged no non-audit fees. Group audit fees for the period ended 31 December 2016 amount to €193,647 (£165,200) ((2015: €172,100 (£125,000)).

	Year ended 31 December 2016 €000	**Period ended 31 December 2015 €000**
Fees payable for the audit of the Company's annual accounts	162	72
Fees payable for the audit of the Company's subsidiaries	32	100
Total audit fees	**194**	**172**
– Other taxation advisory services	–	12
– Corporate finance services	–	1,769
Total non-audit fees	–	1,781

The fees disclosed for the period ended 31 December 2015 are those charged by Deloitte LLP, the previous auditors of the Zegona Annual Report for the period ended 31 December 2015. The fees disclosed for the year ended 31 December 2016 are those charged by KPMG LLP, the current auditors of the Company.

28. COMMITMENTS AND CONTINGENT LIABILITIES

Telecable has raised an access conflict with the Comisión Nacional de los Mercados y la Competencia ("CNMC"), requesting it amends statistics it has published on Telecable's Pay TV customer number. Since the fourth quarter of 2014, the CNMC has reported that Telecable has 129,000 Pay TV customers, which was the total of all Telecable's TV customers at that date. Telecable believes the correct number is the number of customers with set top boxes able to receive premium content, which total approximately 52,000 throughout the period. Telecable has engaged extensively with stakeholders, including the CNMC, rights holders and other operators and, in the course of these discussions, has reached an agreement that a correction should be made, and is confident that the CNMC will issue an amended report in due course.

Under the regulatory framework covering the distribution of certain premium content established by the CNMC, the number of Pay TV customers is used to allocate the cost of this content amongst all operators in Spain. As agreed in discussions with parties subject to the cost sharing agreement, amending these statistics would result in amounts currently allocated and billed to Telecable being allocated and billed to other operators (the "amended basis"). Some participants have already made payments on this amended basis in line with the above discussions.

In reporting the costs of this content in its financial statements, Telecable has assumed that the statistics will be corrected in accordance with the discussions held. No additional liability was recorded in the financial statements as at 31 December 2016. To ensure continuity of service in the period before the expected reallocation is made, since 1 January 2017 Telecable has paid approximately €1.5 million in excess of the amount it owes on the amended basis, which is the amount that is expected to be reallocated to those operators who have not yet made payments on the amended basis in line with the agreement. These payments have been recorded as an amount receivable from the rights holder, since Telecable expects to recover them following the issuance of an amended report by the CNMC and a reallocation of amounts to other operators by the rights holder.

Telecable believes it is highly probable that the CNMC will issue an amended report, and amounts will be reallocated to other operators by the rights holder with the €1.5 million paid since 1 January 2017 will be recovered. If the CNMC does not issue an amended report, Telecable has estimated that this €1.5 million would be the maximum possible obligation.

29. POST BALANCE SHEET EVENTS

There have been no material post balance sheet events that would require disclosure or adjustment to these financial statements other than the payment of the second interim dividend, in lieu of a final dividend for 2016, which was declared on 16 February 2017 and paid on 17 March 2017 at a rate of 2.25p per share, totaling £4,411,012.

NOTICE is hereby given that the Annual General Meeting of Zegona Communications plc (the "AGM") (the "Company") will be held at the offices of Travers Smith LLP, 10 Snow Hill, London, EC1A 2AL on 17 May 2017 at 12 p.m. for the transaction of the following business:

To consider and, if thought fit, to pass the following resolutions, numbers 1 to 12 of which will be proposed as ordinary resolutions and numbers 13 to 16 of which will be proposed as special resolutions:

1. THAT the Company's financial statements for the period ended 31 December 2016, together with the Directors' report and the auditor's report on those financial statements and on the auditable part of the Directors' remuneration report, be received.

2. THAT the Directors' remuneration report, which is set out in the annual report of the Company for the period ended 31 December 2016, be approved.

3. THAT Eamonn O'Hare be re-elected as a Director.

4. THAT Robert Samuelson be re-elected as a Director.

5. THAT Mark Brangstrup Watts be re-elected as a Director.

6. THAT Murray Scott be re-elected as a Director.

7. THAT Richard Williams be re-elected as a Director.

8. THAT Ashley Martin be re-elected as a Director.

9. THAT KPMG LLP be re-appointed as auditor to the Company until the conclusion of the next annual general meeting of the Company.

10. THAT the Directors be authorised to fix the auditor's remuneration.

11. THAT for the purposes of section 551 Companies Act 2006 (the "Act") (and so that expressions used in this resolution shall bear the same meanings as in the said section 551):

    11.1 the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot shares and to grant such subscription and conversion rights as are contemplated by sections 551(1)(a) and (b) of the Act respectively up to a maximum nominal amount of £653,483.20 to such persons and at such times and on such terms as they think proper during the period expiring on the earlier of (i) the end of the next annual general meeting of the Company and (ii) the date which is eighteen months after the date on which this resolution is passed (unless previously revoked or varied by the Company in general meeting); and further

    11.2 the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot equity securities (as defined in section 560 of the Act) in connection with a rights issue in favour of the holders of equity securities and any other persons entitled to participate in such issue where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as maybe) to the respective number of equity securities held by them up to a maximum nominal amount of £653,483.20 during the period expiring on the earlier of (i) the end of the next annual general meeting of the Company and (ii) the date which is eighteen months after the date on which this resolution is passed (unless previously revoked or varied by the Company in general meeting) subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems under the laws of any territory or requirements of any recognised regulatory body or stock exchange in any territory.

11.3 provided that such authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2018 or at the close of business on 30 June 2018, whichever is the earlier, save that the Company be and is hereby authorised to make, prior to the expiry of such periods, any offer or agreement which would or might require such shares or rights to be allotted or granted after the expiry of the said periods and the Directors may allot such shares or grant such rights under any such offer or agreement as if the authority had not expired.

12. THAT the payment of the interim dividend, in lieu of a final dividend, of 2.25p per ordinary share to the Company's shareholders on 17 March 2017 be and is confirmed, approved and ratified for all purposes.

13. THAT if resolution 11 set out in the Notice convening this Meeting is passed, the Directors be and are hereby authorised to allot equity securities (as defined in section 560 of the Act) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Act did not apply to any such allotment or sale, such authority to be limited to:

13.1 the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities (but in the case of the authority granted under Resolution 11.2 by way of a rights issue only) and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems under the laws of any territory or requirements of any recognised regulatory body or stock exchange in any territory; and

13.2 the allotment (otherwise than pursuant to paragraph 13.1 above) of equity securities up to a nominal amount of £98,022.48,

such authority, unless renewed, to expire at the conclusion of the Annual General Meeting of the Company to be held in 2018 or at the close of business on 30 June 2018, whichever is the earlier, but in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

14. THAT if resolution 11 set out in the Notice convening this Meeting is passed, the Directors be and are hereby authorised in addition to any authority granted under Resolution 13 to allot equity securities (as defined in section 560 of the Act) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be:

14.1 limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £98,022.48; and

14.2 used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice;

such authority, unless renewed, to expire at the conclusion of the Annual General Meeting of the Company to be held in 2018 or at the close of business on 30 June 2018, whichever is the earlier, but in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

15. THAT the Company be and is hereby generally and unconditionally authorised for the purpose of section 701 Companies Act 2006 to make market purchases (as defined in section 693 of the said Act) of ordinary shares of £0.01 each in the capital of the Company ("ordinary shares") provided that:

    15.1 the maximum number of ordinary shares hereby authorised to be purchased is 19,604,496, being equal to 10 per cent. of the issued ordinary shares;

    15.2 the minimum price (exclusive of expenses) which may be paid for such ordinary shares is £0.01 per share, being the nominal amount thereof;

    15.3 the maximum price (exclusive of expenses) which may be paid for such ordinary shares shall be an amount equal to the higher of (i) 5% above the average of the middle market quotations for such shares taken from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made and (ii) the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System SETS;

    15.4 the authority hereby conferred shall (unless previously renewed or revoked) expire on the earlier of the end of the next annual general meeting of the Company and the date which is 18 months after the date on which this resolution is passed;

    15.5 the Company may make a contract to purchase its own ordinary shares under the authority conferred by this resolution prior to the expiry of such authority, and such contract will or may be executed wholly or partly after the expiry of such authority, and the Company may make a purchase of its own ordinary shares in pursuance of any such contract;

16. THAT the Company be and is hereby authorised to provide notice to shareholders of general meetings of the Company of at least 14 clear days' notice.

BY ORDER OF THE BOARD
Secretary: **Axio Capital Solutions Limited**

Date 5 April 2017

Registered Office: 20 Buckingham Street, London WC2N 6EF

Notes:

(i) A member entitled to attend and vote at the Meeting convened by the above Notice is entitled to appoint a proxy to exercise all or any of the rights of the member to attend and speak and vote on his behalf. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. The right to appoint a proxy does not apply to any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the "Act") to enjoy information rights (a "Nominated Person").

(ii) To appoint a proxy you may:

    (a) use the Form of Proxy enclosed with this Notice of Annual General Meeting. To be valid, the Form of Proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of the same, must be received by post or (during normal business hours only) by hand to Capita Registrars Limited at PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or at the electronic address provided in the proxy form, in each case no later than 12 p.m. on 15 May 2017; or

    (b) if you hold your shares in uncertificated form, use the CREST electronic proxy appointment service as described in the CREST manual or in the Explanatory Notes to the Resolutions set out below.

Further details on how to direct your proxy to vote on resolutions or withhold their vote are set out in the notes to the Form of Proxy.

(iii) Completion of the Form of Proxy or appointment of a proxy through CREST will not prevent a member from attending and voting in person if he/she wishes to do so.

(iv) Any corporation which is a shareholder in the Company may appoint one or more corporate representatives who may exercise on its behalf all of that corporation's powers as a shareholder of the Company provided that, where there is more than one corporate representative appointed, they do not attempt to exercise the corporations rights in respect of the same shares.

(v) Any member or his corporate representative or proxy attending the Meeting has the right to ask any question at the Meeting relating to the business of the Meeting.

(vi) Pursuant to s.360B of the Act and Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only shareholders registered in the register of members of the Company as at close of business on 15 May 2017 shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at such time. If the Meeting is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned Meeting is close of business, 48 hours before the time fixed for the adjourned Meeting. Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

(vii) In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

(viii) From the date of this Notice, copies of the terms and conditions of appointment of the non-executive directors and the service contracts of the Group Chairman and executive directors are available for inspection at the registered office of the Company, 20 Buckingham Street, London, England, WC2N 6EF, during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) until the conclusion of the AGM and will be available for inspection at the place of the AGM for at least 15 minutes prior to and during the Meeting.

(ix) Save as set out in these notes, members who have general queries relating to the AGM should contact Capita Registrars Limited on 0871 664 0300. Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales (no other methods of communication accepted). Please note that you may not use any electronic address or other contact details provided in this notice of AGM, or any related documents (including the Chairman's letter and Form of Proxy), for any purpose other than those expressly stated.

(x) As at 5 April 2017 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 196,044,960 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 5 April 2017 are 196,044,960.

(xi) The information required to be published by s.311A of the Act (information about the contents of this notice and numbers of shares in the Company and voting rights exercisable at the AGM and details of any members' statements, members' resolutions and members' items of business received after the date of this notice) may be found at www.zegona.com. After this year's AGM, and subject to the resolution approved at the AGM of the Company on 15 April 2016, the Company no longer intends to post or email hard copies of shareholder related documents, such as this Report and Notice of Annual General Meeting, to shareholders. All documents will be made available on the Company's website, www.zegona.com.

(xii) Members representing 5% or more of the total voting rights of all the members or at least 100 persons (being either members who have a right to vote at the Meeting and hold shares on which there has been paid up an average sum, per member, of £100, or persons satisfying the requirements set out in s.153(2) of the Act) may require the Company, under s.527 of the Act to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with s. 437 of the Act. The business which may be dealt with at the AGM includes any statement that the Company has been required under s. 527 of the Act to publish on a website.

(xiii) A Nominated Person may under an agreement between him/her and the member who nominated him/her, have a right to be appointed (or to have someone else appointed) as a proxy entitled to attend and speak and vote at the Meeting. Nominated Persons are advised to contact the member who nominated them for further information on this and the procedure for appointing any such proxy.

A Nominated Person may under an agreement between him/her and the member who nominated him/her, have a right to be appointed (or to have someone else appointed) as a proxy entitled to attend and speak and vote at the Meeting. Nominated Persons are advised to contact the member who nominated them for further information on this and the procedure for appointing any such proxy.

The purpose of these notes is to explain the Resolutions and business to be conducted at the Company's AGM. Resolutions 1 to 12 set out in the Notice detail the ordinary resolutions and resolutions 13 to 16 detail the special resolutions. Further explanation in relation to the Resolutions is set out below.

Resolution 1 – To approve the Annual Report and Financial Statements

Resolution 1 proposes the receipt and adoption of the Annual Report and Financial Statements of the Company for the period ended 31 December 2016, together with the directors' report and auditor's report on those accounts.

The Company's Annual Report and Financial Statements for the period ended 31 December 2016 are enclosed and are also available on the Company's website, www.zegona.com. The Annual Report and Financial Statements of the Company were prepared in compliance with the requirements of the Act and the Listing Rules of the Financial Conduct Authority as at the date of their approval by the Board.

Resolutions 2 – Directors' remuneration report

In accordance with the requirements under the Act, shareholders are being asked to approve the Directors' remuneration report set out on pages 37 to 49 of the Annual Report. The actual remuneration paid to Directors in 2016 was made within the boundaries of the Directors' Remuneration Policy approved by shareholders at the 2016 AGM.

Resolutions 3 to 8 – Election of Directors

Resolutions 3 to 8 deal with the re-election of each Director of the Company that, subject to the articles of association of the Company (the "**Articles**"), are required to retire at every annual general meeting of the Company. All Directors on the Board will retire at the AGM for this reason. Each of such Directors is offering himself for re-election and Resolutions 3 to 8 propose the re-election of such Directors. Biographies of each of the Directors retiring in accordance with the Articles are set out at pages 19 and 20 of this annual report. Richard Williams is the chairman of the Nomination and Remuneration Committee while Ashley Williams is the chairman of the Audit and Risk Committee and, if re-elected, both intend to continue in their respective roles. In addition, it is intended that Mark Brangstrup Watts and Robert Samuelson will step down from the Audit and Risk Committee at the AGM, while Robert Samuelson will also step down from the Nomination and Remuneration Committee, in each respect to ensure that there are no longer any executive Directors on either committee.

The Chairman has confirmed that, following a performance review in line with the UK Corporate Governance Code, all of the Directors continue to perform effectively.

Resolutions 9 and 10 – Re-appointment and remuneration of auditor

The appointment of KPMG LLP as auditor of the Company, whom have been appointed since 18 November 2016, terminates at the conclusion of the AGM. They have indicated their willingness to stand for re-appointment as auditor of the Company until the conclusion of the annual general meeting to be held in 2018. The Directors, as well as the Audit and Risk Committee, recommend that KPMG LLP be re-appointed and that their remuneration be fixed.

Resolution 11 – Directors' authority to allot shares

The existing power granted to the Directors to allot ordinary shares expires at the conclusion of the AGM. Accordingly Resolution 11 is proposed to renew the Directors' authority to allot ordinary shares of up to a maximum nominal amount of (i) £653,483.20 (being 33.3 per cent. (i.e. one-third) of the Company's issued ordinary share capital as at 5 April 2017) to such persons and upon such conditions as the Directors may determine; and (ii) a further maximum aggregate nominal amount of £653,483.20 (being 33.3 per cent. (i.e. one-third) of the Company's issued ordinary share capital as at 5 April 2017) in connection with a rights issue (as defined in Resolution 11 of the Notice), 5 April 2017 being the latest practicable date before the publication of this report. This request for authority to allot shares is in line with the guidelines published by the Investment

Association. In total, this Resolution would therefore give the Directors authority to allot up to a maximum of two-thirds of the Companies issued ordinary share capital.

The authorities sought under Resolution 11 will expire on the earlier of (i) the end of the next annual general meeting of the Company and (ii) the date which is eighteen months after the date on which this Resolution is passed. The Resolution replaces a similar resolution passed at the General Meeting of the Company held on 15 April 2016. The Directors have no present intention of exercising such authority. However, the Directors consider it important to have the maximum ability and flexibility commensurate with good corporate governance guidelines to raise finance to enable the company to respond to market developments and conditions. No shares are currently held by the Company in treasury.

If granted, this authority will be effective until the conclusion of the 2018 Annual General Meeting or the close of business on 30 June 2018, whichever is the earlier.

Resolution 12 – Dividend payment

This Resolution seeks to ratify the payment by the Company of a second interim dividend, in lieu of a final dividend, of 2.25p per ordinary share to shareholders of the Company in March 2017. The dividend payment followed the Company's inaugural interim dividend payment of 2.25p per ordinary share back in October 2016, thus bringing the total shareholder dividend payments for the previous year to 4.5p per share, as previously indicated by the Board. The Resolution, if passed, would confirm, approve and ratify the dividend payment.

Resolutions 13 and 14 – Disapplication of pre-emption rights

The Act requires that shares or other equity securities allotted for cash are offered first to existing shareholders in proportion to their existing holding. The passing of resolutions 13 and 14 would allow the Directors to allot shares (or sell any shares which the Company may hold in treasury following a purchase of its own shares) without first offering the securities to existing shareholders. There are currently no treasury shares in existence.

Accordingly, Resolution 13 allows the Directors to allot shares and sell treasury shares for cash (i) in connection with a pre-emptive offer or pre-emptive rights issue and/or (ii) otherwise up to a nominal value of £98,022.48, equivalent to 5% of the total issued ordinary share capital of the Company (excluding treasury shares) as at 23 March 2017, being the latest practicable date prior to the date of publication of this Notice, without first having to offer them to existing shareholders in proportion to their holdings.

The Pre-Emption Group's Statement of Principles also supports the annual disapplication of pre-emption rights in respect of allotments of shares and sales of treasury shares for cash representing no more than an additional 5% of issued ordinary share capital (exclusive of treasury shares), to be used only in connection with an acquisition or specified capital investment. The Pre-Emption Group's Statement of Principles defines "specified capital investment" as meaning one or more specific capital investment related uses for the proceeds of an issue of equity securities, in respect of which sufficient information regarding the effect of the transaction on the Company, the assets the subject of the transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable them to reach an assessment of the potential return.

Accordingly, Resolution 14 authorises the Directors to allot new shares pursuant to the allotment authority given by Resolution 11, or sell treasury shares, for cash up to a further nominal amount of £98,022.48, being an additional 5% of the entire issued share capital of the Company as at 23 March 2017, being the latest practicable date prior to the publication of this Notice, only in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment, or which has taken place in the preceding six month period and is disclosed in the announcement of the allotment. If the authority given in Resolution 14 is used, the Company will publish details of the allotment in its next annual report.

The authorities will expire at the earlier date of 15 months from AGM and the conclusion of the annual general meeting of the Company held in 2018. The Resolution replaces a similar resolution passed at the General Meeting of the Company held on 15 April 2016.

Resolution 15 – Purchases of own shares by the Company

This Resolution seeks authority from shareholders for the Company to make market purchases of its own ordinary shares, limited to the purchase of 10 per cent. of the ordinary shares in issue as at 5 April 2017. The maximum and minimum prices payable are also limited in the Resolution. The authority will only be exercised if the Directors consider that there is likely to be a beneficial impact on earnings per ordinary share and that it is in the best interests of the Company at the time. The Company will be able to hold the ordinary shares which have been repurchased as treasury shares and re-sell them for cash, cancel them or use them for the purposes of its employee share schemes. No options to subscribe for ordinary shares have been granted and are outstanding as at 5 April 2017. Any exercising of this authority will be carried out in compliance with the relevant regulatory standards obligations under the European Market Abuse Regulations, which came into effect on 3 July 2016.

Resolution 16 – Reduction of notice period for general meetings of the Company

This Resolution seeks authority from shareholders for the Company to call general meetings at 14 clear days' notice, as opposed to 21 clear days' notice. While the Company's Articles already provide that the Company can call any general meeting (other than an annual general meeting) at 14 clear days' notice, the Act requires that, in order to do so, the reduction from 21 days to 14 days must be approved by way of a special resolution of the Company's shareholders. It is the Company's intention to continue to call annual general meetings at 21 clear days' notice.

Action to be taken

You are asked to either:

1. complete the Form of Proxy enclosed with this Notice of Annual General Meeting and return it, together with any power of attorney or other authority under which it is signed or a notarially certified or office copy thereof, to Capita Registrars Limited, the Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, so as to arrive no later than 12 p.m. on 15 May 2017; or

2. if you hold your shares in uncertificated form, use the CREST electronic proxy appointment service as described below.

Completion of the Form of Proxy or appointment of a proxy through CREST does not prevent a member from attending and voting in person.

Shares held in uncertificated form – electronic proxy appointment through CREST

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain the information required for such instructions, as described in the CREST Manual (www.euroclear.com/CREST). The message must be transmitted so as to be received by the issuer's agent, Capita Registrars Limited (ID RA10), by 12 p.m. on 15 May 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting

service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

Electronic communications

Subject to the resolution passed at the Annual General Meeting of the Company held on 15 April 2016, the Company intends to take advantage of electronic communications rules in the Act and the Disclosure and Transparency Rules concerning communications between companies, shareholders and others in an effort to achieve administrative, printing and postage cost savings. The resolution that was passed by shareholders allows the Company to use electronic communications with shareholders as the default position by placing documents such as the Annual Report and Financial Statements on a website rather than having to send them in hard copy. The Company will now formally contact shareholders requesting that they elect whether they wish, going forward, to receive communications via the website, or by other electronic means. An absence of a response from shareholders within 28 days of receiving the notice will be deemed as consent to use of the website and receiving documents via electronic means. The Company therefore confirms that unless otherwise elected by individual shareholders, then after 28 days from the date of this Notice any shareholder documentations after receipt of this Report and Notice of AGM, the Company no longer intends to post hard copies of shareholder related documents and will instead make all such documents available on the Company's website, www.zegona.com.

Recommendation

The Board considers that the Resolutions to be put to the AGM are in the best interests of the shareholders as a whole and, accordingly, unanimously recommends that the shareholders vote in favour of the Resolutions, as the Directors intend to do in respect of their beneficial shareholdings in the Company.

ZEGONA COMMUNICATIONS

Broker
J.P. Morgan Securities plc
25 Bank Street
London,
E14 5JP
Telephone: +44 (0)20 7742 4000

Public Relations Adviser
Tavistock Communications Limited
131 Finsbury Pavement
London,
EC2A 1NT
Telephone: +44 (0)20 7920 3150

Auditor
KPMG LLP
15 Canada Square
London,
E14 5GL
Telephone: +44 (0)20 7311 1000

Registrar
Capita Registrars
The Registry,
34 Beckenham Road
Beckenham,
Kent,
BR3 4TU
Telephone: +44 (0)20 8639 3399

Company Secretary
Axio Capital Solutions Limited
One Waverley Place,
Union Street
St Helier,
Jersey,
JE1 1AX
Telephone: +44 (0)1534 761 240

Solicitors to the Company
Travers Smith LLP
10 Snow Hill
London,
EC1A 2AL
Telephone: +44 (0)20 7295 3000

Milbank, Tweed, Hadley & McCloy LLP
10 Gresham Street
London,
EC2V 7JD
Telephone: +44(0)20 7615 3000