ZEGONA COMMUNICATIONS

Annual Report

For the Year Ended
31 December 2018

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I am pleased to present Zegona's annual report for 2018. This year we primarily focussed on placing ourselves in the best position to generate additional value from our investment in Euskaltel.

Investment in Euskaltel

We still believe Euskaltel is a strategically attractive business with a strong competitive position in its home markets, with a range of opportunities to deliver profitable growth and generate significant positive cash flow. While we have expressed disappointment with certain aspects of its performance, we still strongly believe there is potential to create significant additional value by driving efficiency improvements, increasing revenue growth in the existing regions and accelerating expansion outside the current footprint.

During the year we took the decision to increase our ownership position in Euskaltel and, in October 2018, we announced our intention to make a partial tender offer to acquire up to approximately 14.9% of Euskaltel's outstanding issued ordinary share capital at a price of €7.75 per share. However, given the deterioration in equity market conditions at the end of 2018, we decided that the terms available for this transaction would not have been acceptable to our shareholders and that we would no longer pursue the proposed tender offer. Instead, we chose to increase our ownership through market purchases at a price we consider attractive based on prevailing market conditions.

To fund this increase in Euskaltel ownership, in early 2019 we raised more than £100 million of new equity and entered into flexible financing facilities. At the same time, we also entered into a shareholder relationship with Talomon, an experienced TMT and telecommunications sector investor. Talomon is a current shareholder in both Euskaltel and Zegona and has agreed to formally support our strategy.

We have made good progress with our strategy and recently announced that, together with Talomon, we now own the largest shareholding in Euskaltel, with more than 21%. We are confident that we can use our increased ownership position to work constructively with the Euskaltel board of directors and management to improve the performance of the business.

Outlook

The outlook for telecommunications businesses in Spain continues to be positive, which provides Euskaltel with a solid foundation for growth. The broader Spanish economy continued to perform well in 2018, with GDP growth of 2.5% in 2018 and 2.1% expected in 2019[1]. The telecommunications market in Spain continues to be rational with most players seeking to build profitable growth.

Beyond Spain, we continue to see a very healthy environment for acquisitions across the broader European TMT[2] landscape. There has been an increase in deal activity and we have also seen growth in the availability of assets. We have continued to evaluate new acquisition opportunities and actively pursue those which initially meet our rigorous financial and strategic criteria.

Dividends

We remain committed to paying dividends to our shareholders and we intend, irrespective of any debt financing obligations, for the foreseeable future, to promptly return all dividends we receive from Euskaltel to our shareholders.

1 As published by the European Commission in February 2019.
2 Technology, media and telecommunications.

Annual General Meeting

Zegona's 2019 annual general meeting ("**AGM**") will be held at 2:30 p.m. on 10 June 2019 at 10 Snow Hill, London EC1A 2AL. Further details on the 2019 AGM and the business to be conducted on the day can be found on pages 84 to 92. My colleagues and I look forward to meeting you in June.

Eamonn O'Hare
Chairman and Chief Executive Officer
24 April 2019

Vision

- Execute our 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 TMT 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[3] customers who are combining mobile and fixed services. This has driven an increase in merger and acquisition ("**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:** Our 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:** Our management team has a proven track record of delivering superior business performance and investor returns and successfully sold Telecable during 2017. 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 a long-term incentive scheme that links management remuneration directly to growth in shareholder value.
- **Entrepreneurial focus:** We have considerable freedom in the projects we pursue and the ways we create 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. We are 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 asset managers[4] with a long term outlook own more than 87% of Zegona. The successful placement in January 2019 of equity with gross proceeds of more than £100 million in order to finance the acquisition of additional Euskaltel shares underlines investor confidence in our strategy. Our management team has an effective investor relations programme by maintaining regular contact with Zegona's major shareholders and future potential shareholders.

3 Quad play: customers with four services (pay TV, fixed voice, broadband and mobile).
4 Those with holdings in 3% or more of the issued ordinary shares of the Company are listed on page 25.

Strategy

We seek to provide shareholders with an attractive total return, primarily through appreciation in the value of Zegona's assets, and we believe that opportunities exist to create significant value for shareholders. Our strategy focusses on taking stakes in strategically sound businesses within the European TMT sector that require active change to realise their full value, thereby creating significant long-term returns through fundamental business improvements. While the main elements of Zegona's strategy are set out below, our overall strategic approach is to deal with each opportunity and situation presented to us individually as it arises. For example, in the case of Zegona's current investment in Euskaltel, our strategy is to increase our ownership position in Euskaltel and to use this increased influence to work constructively with the Euskaltel board of directors and management to improve the performance of the business.

We evaluate potential investments using a disciplined set of financial and strategic criteria. We focus on:

- Target businesses with an enterprise value range of £1-3 billion, although we may deviate outside of this range if we believe the returns are sufficiently attractive;
- 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[5]); and
- Multiple viable exit options pre-identified.

Many businesses across the TMT sector currently deliver sub-optimal returns which could be significantly improved. We work with management to deliver fundamental business improvements, such as:

- Changing the businesses' market positions;
- Being actively involved in the management of the businesses to drive operational improvements;
- Instilling strong discipline around cost efficiency;
- Achieving cost savings;
- Investing in products, services and other value-accretive activities to drive top line growth;
- Focussing on operating profitability and cash generation; and
- Value enhancing bolt-on acquisitions/divestments.

Buyer interest is stimulated as the performance of each investment improves, providing Zegona with a range of options to crystallise the value it has created:

- We identify the optimal time to crystallise the value we have created, with flexibility to adapt to market changes and other opportunities, to maximise shareholder value;
- Zegona's publicly listed structure allows shareholders to realise value at any time and provides multiple options for value crystallisation; and
- Following a successful crystallisation, any surplus value will be reinvested or returned to shareholders.

5 Operating profit excluding depreciation of property, plant and equipment and amortisation of intangible assets.

Zegona is currently organised into two segments:

(i) investment in Euskaltel, which comprises Zegona's dividend income from the Euskaltel business in Spain and the movements in fair value of the investment; and

(ii) central costs, which comprises costs incurred in supporting Zegona's corporate activities, including staff and premises costs related to the management team, ongoing costs of maintaining the corporate structure, evaluating new acquisition opportunities and executing acquisition and disposal activities.

Investment in Euskaltel segment review

The investment in Euskaltel segment generated finance income of €12.5 million (2017: €nil), being dividend income of €7.5 million (2017: €nil) and a gain on the fair value of the investment of €5.1 million (2017: €nil). During 2017, a €41.5 million reduction in the value of the investment was recorded in Zegona's available for sale reserve. On adoption of IFRS 9 on 1 January 2018, this movement was reclassified to retained earnings, as further described in note 2(c) to the financial statements.

The gain on the fair value of the investment in Euskaltel was driven by a recovery in Euskaltel's share price during 2018. From a closing price of €6.80 per share at the end of 2017, Euskaltel's shares traded as high as €8.25 per share and were €6.99 per share on 31 December 2018. The positive share price movement generated a gain on the fair value of our investment in Euskaltel of €5.1 million for the year (2017: nil)[6] and, as at 31 December 2018, the carrying value of the investment was €187.3 million (2017: €182.2 million), which is €36.4 million less than when Zegona received its equity interest on 26 July 2017.

We have continued to account for our investment in Euskaltel as a financial asset because our 15% shareholding as at 31 December 2018 and our representation on the board of directors of Euskaltel and its committees does not give us significant influence over Euskaltel.

On 19 October 2018, following a detailed assessment of our options for the investment in Euskaltel over the preceding year, we announced our intention to make a partial tender offer to acquire up to approximately 14.9% of Euskaltel's outstanding issued ordinary share capital as at the date of the announcement at a price of €7.75 per share (the "**Proposed Tender Offer**"). However, given the deterioration in equity market conditions at the end of 2018, we believe that the terms available for the transaction to acquire the full 14.9% of Euskaltel to be sought in the Proposed Tender Offer would not have been acceptable to our shareholders. As it was not permitted under Spanish law to reduce the maximum size of the Proposed Tender Offer, we announced on 21 December 2018 that we no longer intended to proceed with the Proposed Tender Offer.

On 14 January 2019, we agreed the terms of a shareholder relationship agreement with Talomon, an experienced TMT and telecommunications sector investor. Talomon is a current shareholder in both Euskaltel and Zegona and has agreed formally to support our strategy. Under the shareholder relationship agreement, Talomon is permitted to own up to 2.4% of the outstanding issued share capital of Euskaltel but, as of the date of that agreement, owned 1.4%. In order to avoid any mandatory offer requirements under Spanish law, for so long as the agreement is in effect, we believe that we are only permitted to increase our stake in Euskaltel such that the aggregate shareholding of Zegona and Talomon does not exceed 29.9%.

Instead of the Proposed Tender Offer, we have sought in 2019 to increase our ownership of Euskaltel through market purchases or privately regulated transactions up to a maximum of 12.5% of the outstanding issued share capital of Euskaltel at a price we consider attractive for our shareholders based on prevailing market conditions (the "**Euskaltel Share Acquisition**").

6 The decline in the value of the investment during 2017 was recorded in Zegona's available for sale reserve. On adoption of IFRS 9 *Financial Instruments* on 1 January 2018, this movement was reclassified to retained earnings, as further described in note 2(c) to the financial statements.

To fund the Euskaltel Share Acquisition, in February 2019 we received gross proceeds of £100.5 million pursuant to a non pre-emptive institutional placing (the "**Placing**") and entered into debt facilities with Barclays and Virgin in January 2019. To date, we have drawn down £10 million under these facilities.

These transactions reinforce our commitment to Euskaltel and underline our belief in the future potential of Euskaltel's business. In addition, with increased ownership, we may be able to appoint one or more additional directors to the board of directors of Euskaltel. This creates the opportunity for our senior management to apply its sector knowledge and experience to contribute additional value to the Euskaltel business and help realise its full potential.

We have made good progress with our strategy and recently announced that, together with Talomon, we now own the largest shareholding in Euskaltel, with more than 21%. We are confident that we can use our increased ownership position to work constructively with the Euskaltel board of directors and management to improve the performance of the business.

Central costs segment review

The central costs segment comprises an operating loss of €4.7 million (2017: €11.0 million) plus net finance income of €2.1 million (2017: €7.2 million), contributing a total loss for the year of €2.6 million (2017: €3.8 million).

Operating loss

Operating costs totalled €4.7 million (2017: €11.0 million) and include: (1) €3.9 million (2017: €6.1 million) related to Zegona's ongoing corporate operations; and (2) €0.8 million (2017: €4.9 million) for significant project costs, which in 2018 were principally advisory and other professional fees incurred on projects related to increasing Zegona's investment in Euskaltel.

Net finance income

The net finance income comprises a gain on foreign exchange of €2.4 million (2017: €nil) less a loss on fair value of the contingent consideration from the sale of Telecable of €0.2 million (2017: €nil). The gain in the fair value of the contingent consideration during 2017 was recorded in Zegona's available for sale reserve. On adoption of IFRS 9 on 1 January 2018, this movement was reclassified to retained earnings, as further described in note 2(c) to the financial statements. The change in fair value during 2018 reflects revisions to the availability of certain net tax credits based on discussions between Telecable and the Spanish tax authorities and a revision to the timing of receipt of the contingent consideration.

The gain on foreign exchange principally arises from the revaluation of the investment in Euskaltel, whose shares are quoted in euros, within Zegona Limited, a company with a functional currency of British pounds sterling ("**Sterling**").

In 2017, net finance income also included inter-segment finance income of €7.4 million, related to a loan provided from the central costs segment to the Telecable Group segment (discontinued). This loan was settled in full on 26 July 2017.

Key performance indicators

As Zegona does not currently have an operating business, we have determined that there are no material key performance indicators that provide a useful measure of Zegona's business performance and position other than financial measures defined by generally accepted accounting principles ("**GAAP**") such as IFRS. The performance of the investment in Euskaltel is evaluated by the amount of dividends received and the movement in Euskaltel's quoted share price, both of which are GAAP measures, and detailed in the investment in Euskaltel segment review above.

Principal risks

We have carried out robust assessments of the principal risks facing Zegona including those that would threaten our business model, future performance, solvency or liquidity. As part of the Placing, we revised our assessment of the principal risks facing Zegona, as set out below. Detailed consideration is given to all of these risk factors by the Audit and Risk Committee and the board of Directors (the "**Board**").

Principal commercial risks

Risk title	Risk rating	Change in risk assessment since the last Annual Report
Risks related to the investment in Euskaltel	High	⟷ No change
Acquisition of targets	Moderate	⟷ No change
Key management	Moderate	⟷ No change
Disposal of investments	Moderate	⟷ No change
Brexit	Moderate	⟷ No change
Foreign exchange	Low	⟷ No change

The description, impact and mitigation of these risks are set out below:

Risks related to the investment in Euskaltel

At 31 December 2018, Zegona's sole material asset was its holding of approximately 15% of the share capital of Euskaltel. The value of this investment is subject to fluctuation based on movements in Euskaltel's share price, which in turn are influenced by a number of factors that are specific to Euskaltel's performance or reflect general sentiment about the Spanish telecommunications industry, the Spanish and European economies and global capital markets. There is a risk that any one, or a combination, of these factors could cause the value of the Euskaltel investment to drop significantly, materially impacting the value of Zegona's asset and its return on investment. We regularly review the risk-adjusted returns of the Euskaltel investment and consider whether it is appropriate to retain ownership or continue increasing our shareholding in Euskaltel.

Our ability to increase Zegona's shareholding in Euskaltel is largely dependent on Euskaltel shares being available in the market at a price that we consider attractive. If the price for Euskaltel shares increases above such a price, there are insufficient Euskaltel shares available in the market, or we determine that increasing Zegona's shareholding in Euskaltel is no longer in the best interest of shareholders, we may decide not to acquire additional shares. As a result, our ability to engage with and influence the board of directors of Euskaltel may be more limited than we currently desire and anticipate.

As Zegona increases its ownership position in Euskaltel, this may allow greater participation on the board of directors of Euskaltel, but there is no automatic associated right for Zegona to appoint any additional directors of Euskaltel. In addition, whilst we believe we have received indications that certain Euskaltel shareholders will support us, such indications are not binding, with the exception of Talomon, and other Euskaltel shareholders may ultimately not support us. Any failure to achieve strong or sufficient support from Euskaltel's board of directors or shareholders may prevent implementation of any proposals we may make.

Acquisition of targets

The success of Zegona's strategy depends on our ability to identify and successfully acquire available and suitable targets. There is a risk that we will not be able to: identify available targets based on competition in the marketplace; identify suitable targets at a price that allows for acceptable returns; obtain any consents or authorisations required to carry out an acquisition; procure the necessary financing, be this from equity, debt or a combination of the two; or be successful in the acquisition of an identified target under all or any market conditions. 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. In pursuit of new acquisition targets, significant abort costs may be incurred if we are not able to complete the proposed acquisition (for example, because Zegona has been outbid by a competitor), which may exhaust Zegona's cash and available liquidity.

We have a disciplined approach to valuation and ultimately we are only prepared to make investments at the right price and after undertaking a very structured and thorough due diligence process. When evaluating potential investments, 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.

The success of Zegona's acquisitions depend on our ability to implement the necessary strategic, operational and financial change programmes in order to refocus the acquired business and improve its performance. Implementing these change programmes may require significant modifications, including changes to business assets, operating and financial processes, business systems, management techniques and personnel, including senior management. There is a risk that we will not be able to successfully implement such change programmes within a reasonable timescale and cost.

Once an investment has been made, it is our 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
Zegona's operations are currently managed by the Chief Executive Officer, supported by the Chief Operating Officer and Chief Financial Officer. The absence or loss of key management could significantly impede our financial plans and the execution of our planned strategy with respect to the Euskaltel business, as well as other plans, though there has been no such absence or loss since Zegona was founded.

We aim to retain our key staff by offering remuneration packages at market rates, as well as through long term incentivisation through the issue of management shares and other management incentive plans. The management team is small which places a natural limit on the volume of deal flow that can be addressed. The management team itself along with the Non-Executive Directors continually challenges the focus of the business and the allocation of resources amongst projects.

Disposal of investments
Our ability to dispose of Zegona's investment at the optimum time, and the availability of a suitable buyer who is willing and able to acquire the investment at an acceptable price or in a deal with an acceptable structure, is key to the success of our strategy. There is a risk that such suitable buyers cannot be identified, thus reducing the returns on investments.

We have proven our ability to execute our strategy since the formation of Zegona and consideration is given to an exit strategy as part of the acquisition process.

Brexit
Until the UK officially exits the EU, EU laws and regulations will continue to apply, and changes to the application of these laws and regulations are unlikely to occur during negotiations. However, due to the size and importance of the UK economy, the uncertainty and unpredictability concerning the UK's legal, political and economic relationship with the EU after the UK exits the EU may continue to be a source of instability in the international markets, create significant currency fluctuations, and/or otherwise adversely affect trading agreements or similar cross-border co-operation arrangements (whether economic, tax (including the tax treatment of cross border payments), fiscal, legal, regulatory or otherwise) for the foreseeable future, including beyond the date of the UK's withdrawal from the EU. Such continued uncertainty could have an adverse impact on the number or attractiveness of acquisition opportunities available to Zegona.

The long-term effects of Brexit will depend on any agreements (or lack thereof) between the UK and the EU and, in particular, any arrangements for the UK to retain access to EU markets either during a transitional period or more permanently. Additionally, the exchange rate of Sterling vis-a-vis other currencies has been, and may continue to be, relatively volatile since the referendum, which can result in increasing costs of non-sterling denominated expenses and other obligations. Furthermore, UK regulatory requirements could be subject to significant change and could place an additional burden on Zegona.

Foreign exchange
Foreign currency translation risk exists due to certain Zegona companies operating, and having equity denominated, in a different functional currency (Sterling) to that of the investment in Euskaltel (euro) and of many of our likely acquisition targets. The majority of Zegona's cash is also held in euros. Transactional foreign currency risk is limited and the principal ongoing impact is that fluctuations in the Sterling/euro rate could have a significant impact on the Sterling value of the investment in Euskaltel, meaning that the Sterling value of the proceeds from any future sale of Euskaltel shares that Zegona may distribute to shareholders may be reduced.

The Board and the Chief Financial Officer control and monitor financial risk management, including foreign currency risk, in accordance with the internal policy and the strategic plan defined by the Board.

Longer term viability statement

1. Zegona's prospects
In accordance with provision 31 of the UK Corporate Governance Code, we have assessed Zegona's prospects over a longer period than the twelve months required by the "going concern" provision. This assessment has taken into account Zegona's current position, our strategy, the risk appetite of the Board and the principal risks and uncertainties which are described in detail in this Strategic Report.

Zegona does not control any operating businesses and, currently, the most significant factor affecting Zegona's prospects is delivering additional value from the investment in Euskaltel.

2. The assessment period
We continue to believe that three years – in this case the three years to December 2021 – is the appropriate period over which Zegona should assess its viability for the following reasons:

- Three years is considered to be an appropriate period over which to assess the impact that we have had on Euskaltel; and
- We have reasonable clarity over a three-year period, which enables us to make an appropriate assessment of Zegona's principal risks.

3. The assessment process and key assumptions
The Directors approve a forecast on an annual basis which is sufficiently detailed to explain all cash inflows and outflows and includes a description of all reasonably possible risks and opportunities. Each month, the Board is provided with an analysis of actual performance against the forecast. Given the straightforward nature of Zegona's financial operations at this point, this forecast is considered appropriate to form the base model for the viability assessment.

The forecast takes into account Zegona's dividend policy to pass through the Sterling equivalent of all dividends received from Zegona's investment in Euskaltel to shareholders and factors in the successful fundraising in early 2019 from both issuing new ordinary shares and entering into loan facilities.

In preparing the viability assessment, we have deliberately sought to include a significant element of conservatism into the base model even before applying further sensitivities. In particular, the assessment includes the following key assumptions, which are considered to be very conservative:

- Zegona will not acquire another business, or dispose of its investment in Euskaltel, during the assessment period. Despite the fact that Zegona will continue to assess further acquisitions, given the uncertainty over the timing and size of them, it was not considered appropriate to include them in the assessment; and
- Zegona will incur substantial abort costs on failed transactions without taking actions.

In addition to the already deliberately conservative base model, we also considered the principal risks discussed on pages 7 to 9 above to determine how far they had already been captured in the base model and whether any of them needed to be further considered in assessing viability as follows:

Principal Risk	Addressed in base model	Comment
Investment in Euskaltel	✔	Addressed in the base model through the assumptions about dividends received during the assessment period and the amount passed through to Zegona's shareholders.
Acquisition of targets	✔	The most significant risk to viability. The base model assumes no acquisitions (other than the Euskaltel Share Acquisition funded through the Placing), but abort costs are estimated at £1 million per annum. In downside scenarios where additional abort costs are incurred, or the cost of purchasing Euskaltel shares is greater than expected, the liquidity actions listed below could be considered.
Key management	✔	The most significant consequence of the loss or absence of key management would likely be on our ability to execute another acquisition, which is already considered as part of the 'Acquisition of targets' risk.
Disposal of investments	✘	Not relevant as no disposals are anticipated during the assessment period.
Brexit	✔	The most significant consequence of Brexit would likely be on our ability to execute another acquisition, which is already considered as part of the 'Acquisition of targets' risk.
Foreign exchange	✔	Addressed in the base model through the assumptions about dividends received from Euskaltel during the assessment period and the amount passed through to Zegona's shareholders.

In any downside scenarios, the possible liquidity actions could be taken:

1. Hold back payment of dividends to Zegona's shareholders;
2. Sell Euskaltel shares; or
3. Take out an additional loan facility secured over the Euskaltel shares.

4. Results of the assessment

The assessment showed that in the base case, Zegona would have sufficient cash and liquid resources to continue in operation throughout the assessment period.

Based on the possible liquidity actions listed above, the risk of Zegona being unable to continue in operation is deemed to be very low.

5. Viability statement

Taking into account Zegona's current position and principal risks and uncertainties, the Directors confirm that we have a reasonable expectation that Zegona will be able to continue in operation and meet its liabilities as they fall due over the three years to December 2021.

Diversity

	Male	Female	Total
Board Directors	6	–	6
Senior management	3	–	3
Other staff	–	1	1
Total	**9**	**1**	**10**

This breakdown excludes directors of companies in liquidation at 31 December 2018. Senior management is per the definition in section 414C of the UK Companies Act 2006.

A productive workforce requires a breadth of experience and perspectives achieved through hiring individuals with diverse experience. Board Directors and senior managers have been appointed in order to bring required skills, knowledge and experience. Whilst all members of the Board and senior management are currently male, we believe that Zegona has the requisite qualities for it to achieve our strategy. During the recruitment process for a Senior Independent Director in 2019, the Nomination and Remuneration Committee is considering the diversity of the Board in detail and will continue to do so for further new appointments.

Culture

Ethical values and behaviours are embedded in the corporate culture which the Board upholds. The Directors foster a culture where transparency, openness, integrity and constructive challenge are actively encouraged and the Board engages regularly with senior management to ensure a positive culture.

Corporate social responsibility

We recognise our obligations to act responsibly, ethically and with integrity in its dealings with staff, suppliers and the environment as a whole. We are committed to being a socially responsible business.

Our people

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

Zegona's 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, Zegona has not engaged in and will not engage in business practices or activities that compromise fundamental human rights.

Environmental matters

We are committed to minimising Zegona's impact on the environment and seek to encourage our employees to recycle, minimise energy wastage, and do their part to ensure that Zegona 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 Zegona's activities 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 Zegona due to its consumption of purchased electricity.

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

Zegona is required to report Scope 1 and 2 emissions for its reporting year to 31 December 2018. Scope 3 is not yet mandatory, however, we have again chosen to report Scope 3 emissions. Zegona has no Scope 1 emissions. In the tables below, we have included the emissions for the companies within the Zegona group at 31 December 2018 and 2017 respectively, such that the 2017 data excludes Telecable as this was sold during that year.

	Global tonnes of CO_2	
	2018	**2017**
Scope 2 (electricity)	3.3	3.5
Tonnes of CO_2 per €m operating expenses	0.70	0.32

	Global tonnes of CO_2e	
	2018	**2017**
Scope 3 (water, business travel)	52.2	41.0
Tonnes of CO_2e per €m operating expenses	10.99	3.72

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 on 24 April 2019 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. 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 CFO for the UK division 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, one of Europe's fastest growing telecommunications 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. The fees for these appointments are disclosed in the Directors' Remuneration Report on page 42.

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

Robert Samuelson, Executive Director and COO (appointed 19 January 2015)
Robert was Executive Director Group Strategy of Virgin Media 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 is a proprietary director of Euskaltel and the fees for this appointment are disclosed in the Directors' Remuneration Report on page 42.

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

Mark Brangstrup Watts, Non-Executive Director (appointed 19 January 2015)
Mark co-founded the Marwyn asset management group in 2002 and has many years of experience deploying private equity investment strategies in the public markets. The Marwyn funds' highly acquisitive portfolio companies have delivered approximately 100 bolt-on acquisitions with Mark offering significant mergers and acquisitions, equity capital markets and corporate finance experience.

Mark brings his background in strategic consultancy to the management team having been responsible for strategic development projects for international clients including Ford Motor Company (US), Cummins (Japan) and 3M (Europe).

Mark is a managing partner in Marwyn Capital LLP and Marwyn Investment Management LLP. Mark is currently an executive director of Le Chameau Group Plc, Safe Harbour Holdings Plc and Wilmcote Holdings Plc. Mark is also a non-executive director of Marwyn Asset Management Limited (which, as at the date of approval of the Annual Report, holds 18.95% of the share capital of Zegona in its capacity as agent for an on behalf of its discretionary managed clients) and was previously a non-executive director of BCA Marketplace Plc, Advanced Computer Software Plc, Entertainment One Ltd, Melorio Plc, Inspicio Plc and Talarius Plc, amongst others.

Mark is a member of the Nomination and Remuneration Committee.

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 CFO for the UK products sub-division of BT Global Services which had revenues of £1.6 billion. Since leaving BT, Murray has pursued his career as an interim director and consultant, including his current position as the Interim Director of Finance and Resources at the Stroke Association.

Murray studied Natural Sciences at Cambridge University and qualified as a Chartered Accountant with KPMG LLP 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, before eventually leaving the company.

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 Board. Ashley was Audit Committee Chair at Rightmove plc from 2009 to 2018 and, in that role, gained valuable insight into an entrepreneurial, high-growth consumer technology business. On 1 September 2018, Ashley was appointed as a non-executive director of the international research data and analytics group YouGov plc. 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 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.

We recognise the importance of sound corporate governance commensurate with the size of Zegona and the interests of shareholders and remain committed to evolving the corporate governance arrangements as the business further evolves.

The following sections of this report show how Zegona applies the main provisions set out in the 2018 UK Corporate Governance Code (the "**Code**"), issued by the Financial Reporting Council ("**FRC**"), as would be required by the Listing Rules of the Financial Conduct Authority ("**FCA**") if Zegona were admitted to the Premium segment of the Official List, and how Zegona meets the relevant information provisions of the Disclosure and Transparency Rules of the FCA (the "**DTR**").

Zegona's principal risks are described on pages 7 to 9. The Directors' Report on pages 24 to 26 also contains information required to be included in this statement of corporate governance.

The Board of Directors

Zegona is led and controlled by an effective Board. The Board at the date of approval 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 ("**CEO**")) and Robert Samuelson (Chief Operating Officer ("**COO**")). The Non-Executive Directors are Mark Brangstrup Watts, Murray Scott, Richard Williams and Ashley Martin.

Biographical details of all Directors and details of their committee membership at the date of approval of this report appear on pages 13 to 14. Consideration of the Board size and composition is kept under regular review by the Nomination and Remuneration Committee, which has recently decided to seek a Senior Independent Director and engaged a leading executive search consulting firm to assist in the search.

Eamonn O'Hare, as the Chairman and CEO, is primarily responsible for the running of the Board and for the day-to-day running of Zegona. All Board members have full access to Zegona's advisers for seeking professional advice at Zegona's expense and our culture is to openly discuss any important issues and frequently engage with Board members outside of formal meetings. 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 often 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, information on investor relations 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 Zegona's website, www.zegona.com, or by request from the Company Secretary. Each of the committees is authorised, at Zegona'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 20 and 23. The composition of these committees is reviewed regularly, taking into consideration the recommendations of the Nomination and Remuneration Committee.

Independence of the Board

The Code specifies that the Board should identify in the annual report each Non-Executive Director it considers to be independent. The Board considers that Ashley Martin, Murray Scott and Richard Williams are independent Non-Executive Directors for the purposes of the Code and 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 interested in Core Investor Shares of Zegona Limited (as detailed in note 19 to the financial statements), and is a beneficial owner of Axio Capital Solutions Limited ("**Axio**"), which provides certain company secretarial & administration services and financial & accounting services to Zegona, 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; and
- 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 the Board and committee meetings held during 2018 was:

	Board meetings		Nomination and Remuneration Committee meetings		Audit and Risk Committee meetings	
	Held	Attended	Held	Attended	Held	Attended
Eamonn O'Hare	21	20	–	–	–	–
Robert Samuelson	21	21	–	–	–	–
Mark Brangstrup Watts	21	18	3	3	–	–
Murray Scott	21	16	3	2	7	7
Richard Williams	21	18	3	3	7	7
Ashley Martin	21	18	3	3	7	7

The number of Board meetings held reflects the ongoing assessment of Zegona's options for the investment in Euskaltel over the year.

Two meetings were held for the sole purpose of approving powers of attorney to comply with the requirements of Spanish law and one meeting was held to finalise the release of RNS announcements which had been discussed by all the Directors at a meeting held on the previous day, and therefore these three meetings were each attended by only the two Executive Directors.

Directors' terms of service

Zegona's Articles of Association require each Director to retire from office and offer themself for re-election or election, as the case may be, at each AGM. Accordingly, each of the Directors will retire from office at the 2019 AGM and seek to be re-elected by Zegona's shareholders. The Chairman is satisfied that each Directors' performance continues to be effective and demonstrates their ongoing commitment to the role and as such supports their re-election.

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 section 234 of the Companies Act 2006 (the "**Act**"). The indemnity was in force throughout 2018 and is currently in force. This confirmation is given and should be interpreted in accordance with the provisions of section 236 of the Act.

Zegona also purchased and maintained throughout the year Directors' and Officers' liability insurance.

Conflicts of interest

Zegona's Articles of Association 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 year, 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 and company purpose; division of responsibilities; composition, succession and evaluation; audit, risk and internal control; and remuneration. A copy of the Code is available on the FRC's website at www.frc.org.uk.

Following admission to the Main Market, save as set out below, the Board has voluntarily (as Zegona 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

Provision 9 of the Code recommends that the roles of Chairman and the Chief Executive Officer should not be occupied by the same person and that the Chairman should be independent on appointment; Zegona 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 Zegona.

Separation of the roles was determined to be a low priority in a corporate governance review completed by an external party (Ernst & Young LLP, "**EY**") in 2017. In addition, this matter was actively re-considered as part of the exercise to develop Zegona's board charter. 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. Zegona maintains a schedule of matters reserved for the Board which prevents Eamonn from authorising certain corporate actions without a formal resolution of the Board.

Appointment of a Senior Independent Director

Provision 12 of the Code provides that one Non-Executive Director should be appointed as a Senior Independent Director ("**SID**") to provide a sounding board for the chair and serve as an intermediary for the other directors and shareholders. Zegona does not currently have a SID and this has been the subject of active consideration since Zegona's formation, including as part of the independent corporate governance review completed by EY in 2017 and the exercise to develop Zegona's Board Charter, which was approved in February 2019. The Board fully recognises the value that can be provided by a SID and has committed to recruit a suitable individual. Zegona has engaged a leading executive search consulting firm with an objective to appoint a SID as soon as possible.

Publication of internal policy documents
Provision 14 of the Code recommends that the responsibilities of the chair, chief executive, SID, board and committees be set out in writing, agreed by the Board and made publicly available.

Zegona has clear terms of reference for each of its committees, a Board Charter and a set of matters reserved for the Board, each of which is publicly available on Zegona's website. As Zegona currently has a combined CEO and Chairman (as described above), Zegona has not felt the need to delineate these roles in further detail. Zegona will formalise the responsibilities of the SID as part of the recruitment process.

Independence of Board committees
The Nomination and Remuneration Committee is comprised solely of Non-Executive Directors, however provision 32 of the Code recommends remuneration committees to be comprised of independent Non-Executive Directors. Whilst Mark Brangstrup Watts has the characteristics of an independent Non-Executive Director, he represents a significant shareholder, is interested in Core Investor Shares in Zegona Limited and is a beneficial owner of Axio, which provides certain company secretarial & administration services and financial & accounting services to Zegona.

Employee engagement
Provisions 2, 5 and 6 provide guidance for the implementation of procedures meant to ensure Zegona engages with and monitors its workforce. Given Zegona currently has only four employees (excluding directors), the Board believes the implementation of any formal steps or procedures to engage with the workforce are not required.

Evaluation of the Board, committees and individual Directors
The Board has conducted an annual evaluation of its own performance and that of its committees by means of a 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 Non-Executive Director for consideration at a meeting of the Nomination and Remuneration Committee. A summary of the conclusions reached by the Nomination and Remuneration Committee was then discussed at a Board meeting.

The findings of the review were positive, noting that matters identified for improvement in the prior year had been addressed or that a plan has been put in place to resolve the issue, for example the appointment of a SID. Recommendations for the year ahead include actively involving the Non-Executive Directors in developing the strategy for the investment in Euskaltel as Zegona's influence increases and providing the Non-Executive Directors with increased direct access to advisers. The Board and committees have agreed to progress these findings over the coming year.

Whistleblowing policy
All employees are encouraged to raise genuine concerns about possible improprieties in the conduct of Zegona's business, whether in matters of financial reporting or other malpractices, at the earliest opportunity and in an appropriate way. We have 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

Zegona has in place systems to ensure compliance by the Board, Zegona and its applicable employees in relation to dealings in securities of Zegona and Euskaltel and has adopted a share dealing code for this purpose. We believe that the share dealing code adopted by the Board is appropriate for Zegona's size and complexity and that it complies with the EU Market Abuse Regulation (2014/596/EU). The Board complies with these provisions and takes all reasonable steps to ensure compliance by Zegona's 'applicable employees'.

Relations with Zegona's stakeholders

Zegona does not currently have an operating business and, until it does so again, has a very limited number of stakeholders given that Zegona has no customers and its suppliers are primarily professional advisers. The Directors have frequent interactions with Zegona's small workforce.

The Board is always available for communication with shareholders and the Executive Directors frequently engage constructively with current and potential shareholders. Extensive discussions were held with Zegona's major shareholders as part of the Placing. All shareholders have the opportunity, and are encouraged, to attend and vote at the general meetings during which the Board is available to discuss issues affecting Zegona. The Board stays informed of shareholders' views via regular meetings and other communications its members have with shareholders, with feedback from shareholders discussed at Board meetings.

Annual general meeting

The next AGM will be held at 10 Snow Hill, London, EC1A 2AL at 2:30 p.m. on 10 June 2019. The AGM is an opportunity for shareholders to vote on certain aspects of Zegona's business. The Directors will also be available to answer any shareholder questions prior to and after the meeting. We will arrange for the Annual Report and related papers to be 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 2018 report of the Audit and Risk Committee (the "**A&RC**"). The A&RC is an essential part of Zegona's governance framework, to which 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 A&RC embraces its role of protecting the interests of shareholders with respect to the integrity of financial information published by Zegona and the effectiveness of the audit process. The A&RC's role and responsibilities are set out in its terms of reference, which are available on Zegona's website and from the Company Secretary.

The membership of the A&RC relating to the year and to the date of approval of this report has continued to be Ashley Martin (Chairman), Murray Scott and Richard Williams, all of whom are independent Non-Executive Directors.

The A&RC normally meets at least three times a year with additional meetings arranged if necessary. In 2018, the A&RC met in February, March, August, September, November and December and has subsequently met in March of 2019. The scheduling of these meetings is designed to be aligned with the financial reporting timetable, thereby enabling the A&RC to review the interim financial report, the audit plan ahead of the year end audit and the annual report, as well as to maintain a view of the internal controls and processes throughout the year. Additional meetings have also been held in 2018 in connection with issuing the necessary documents for the Placing.

The Company Secretary acts as secretary to the A&RC. The A&RC invites the Chief Financial Officer to all meetings and other members of the finance and management team as may be appropriate for the business of the meeting, as well as senior representatives of the external auditor. The A&RC has the right to invite any other Directors and/or employees to attend meetings where this is considered appropriate.

Since the last Audit and Risk Committee Report, the A&RC has undertaken 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, and considered whether the annual report is fair, balanced and understandable. The A&RC also reviewed the accounting judgements and estimates used in preparing the financial statements, including the accounting for the investment in Euskaltel, valuation of the contingent consideration and the valuation of the Company's investment in Zegona Limited, and ensured that adequate disclosure on the issues and how they were addressed are included in the financial statements (including the disclosure in note 3 to the financial statements). As part of the review, the A&RC received reports from the external auditor on its audit;
- Reviewed the effectiveness of Zegona'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;
- Reviewed and agreed the scope of the audit work to be undertaken by the external auditor and assessed the audit and non-audit fees to be paid, as well as the independence and objectivity of the auditor;
- Considered the effectiveness of the external audit process, following the receipt of feedback from the management team, Executive Directors, Non-Executive Directors and other service providers involved in the audit process by way of a questionnaire;
- Reviewed and made a recommendation to the Board with regard to the re-appointment of the external auditor, taking into account auditor effectiveness and independence, partner rotation and other factors which may impact the external auditor's re-appointment;
- Reviewed the interim financial statements, including the critical accounting judgements and estimates used in preparing them;

- Reviewed management's updates to Zegona's main control document, the Financial Position and Prospects memorandum. The A&RC also reviewed the updates made to Zegona's risk register; and
- Reviewed Zegona's whistleblowing policy and anti-bribery and anti-corruption policy.

In addition to these matters, the A&RC has:

- considered management's responses and actions taken in relation to the findings that KPMG had raised in its management letters for the audits for the years ending 31 December 2016 and 2017, and agreed that all points had been fully addressed;
- reviewed the change in accounting policy on adoption of IFRS 9; and
- received feedback from KPMG on the actions it has taken following the findings of the Financial Reporting Council's Audit Quality Review team's 2017/18 inspection of KPMG published on 18 June 2018.

Independence of the external auditor

KPMG was appointed as Zegona's external auditor on 15 December 2016, with no changes to the key audit partner since appointment.

During 2018, non-audit fees were pre-approved in relation to: (i) KPMG's review of the interim financial statements for both the six months ended 30 June 2018 and the nine months ended 30 September 2018; and (ii) KPMG's reporting in relation to the prospectus for the Placing. The amount of non-audit fees approved during 2018 totalled £105,500. Whilst this is greater than the audit fees for the financial statements for the year ended 31 December 2018, the level of non-audit fees is not significant to KPMG and therefore auditor objectivity and independence is not deemed to be compromised by the level of non-audit fees.

The A&RC has set a threshold of £10,000 for pre-approving non-audit fees. All of KPMG's services have been pre-approved and reported to the A&RC.

Risk management and internal control systems

The Board is responsible for establishing and maintaining Zegona's system of internal control and reviewing its effectiveness. The Board has delegated the duty to keep under review the adequacy and effectiveness of Zegona's internal financial controls and internal control and risk management systems to the A&RC.

Internal control systems are designed to meet the particular needs of Zegona 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 currently necessary due to the size of the business and the simplicity and low volume of transactions, coupled with the nature and the extent of internal controls and Board oversight and involvement. The A&RC will continue to regularly review the need for an internal audit function as the business evolves and develops.

A risk assessment that identifies the strategic, operational and financial risks facing the business and considers the appropriate mitigating controls has been prepared as a means of identifying and monitoring risks. This assessment is continually monitored by the management team and reviewed and discussed by the A&RC at least twice per year. The assessment has continued to be updated to best reflect the risks arising from Zegona's increasing ownership interest in Euskaltel and those applicable to its ongoing strategy.

Zegona maintains a schedule of matters reserved for the Board to ensure that the Board is involved in all key decisions of the business.

Zegona has in place numerous internal controls in relation to financial reporting, such as the segregation of roles between those preparing and those reviewing financial information. In addition, Zegona has established a multi-tier review process with reviews undertaken by individuals with the appropriate level of seniority and experience, reducing the risk of misstatement and fraud. On a monthly basis, summary financial information, including balance sheet, profit and loss and actual performance against forecasts are reviewed by Zegona's CFO and, following review, circulated to the Board. Financial information is also tabled to the periodic Board meetings and cited as an agenda item where it is discussed in detail by the Board and management team.

No significant control findings or weaknesses have been identified during the year.

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

Ashley Martin
Chairman of the Audit and Risk Committee

Nomination and Remuneration Committee Report

The roles and responsibilities of the Nomination and Remuneration Committee (the "**N&RC**") are set out in its terms of reference, which are available on Zegona's website and from the Company Secretary.

The membership of the N&RC relating to the year and to the date of approval of this report continued to be Richard Williams (Chairman), Mark Brangstrup Watts, Murray Scott and Ashley Martin, all of whom are Non-Executive Directors, and all of whom are independent except Mark.

The N&RC will normally meet at least twice a year with additional meetings arranged if necessary. In 2018, the N&RC met in March and December and has subsequently met in February, March and April 2019. The scheduling of the formal N&RC meetings is designed to be aligned with the financial reporting timetable in respect of the N&RC's responsibility for the annual remuneration report contained within the Annual Report and to ensure that the Board effectiveness evaluation is completed at an appropriate time.

Since the last Nomination and Remuneration Committee Report, the N&RC has undertaken the following activities:

- Reviewed the bonuses for the Executive Directors and management team for 2018;
- Reviewed the remuneration package for the Executive Directors and management team for 2019, including bonus metrics;
- Assessed the potential value of the Management Shares;
- Reviewed the Directors' remuneration policy and the nomination and remuneration disclosures in the annual report;
- Evaluated the performance of the Board, its committees and its individual Directors and reported its findings to the Board; and
- Considered the need for and decided to commence the recruitment process for a SID.

Richard Williams
Chairman of the Nomination and Remuneration Committee

Result

For the year to 31 December 2018, Zegona's profit was €9.9 million (2017: €41.8 million), with the 2017 results benefitting from a €57.8 million gain on the sale of Telecable. Other comprehensive loss was €2.5 million (2017: €41.2 million), with the 2017 results including a €41.5 million unrealised loss on the fair value of the investment in Euskaltel. Therefore, the total comprehensive income for 2018 was €7.4 million (2017: €0.6 million). Reviews of performance, likely future developments and corporate responsibility are set out in the Strategic Report on pages 1 to 12.

Dividends

Dividend policy

Future dividends will be funded by the receipt of dividends from Euskaltel and other cash reserves. For the foreseeable future, Zegona intends, irrespective of any debt financing obligations, to promptly return the Sterling equivalent of all dividends received from Zegona's investment in Euskaltel to shareholders.

Dividend resolution

The Directors have approved a second interim dividend for 2018, which was announced on 31 January 2019. A resolution to confirm, approve and ratify this interim dividend, in lieu of a final dividend, is proposed for the 2019 AGM. Future dividends will be considered by the Board on an ongoing basis in accordance with Zegona's dividend policy as described above.

Events since the end of the financial year

On 15 January 2019, Zegona completed a Placing of 95,715,728 ordinary shares of £0.01 each ("**Ordinary Shares**") at 105 pence per share. The gross proceeds of the Placing were £100.5 million. The issuance of the new Ordinary Shares was approved by shareholders at a general meeting held on 7 February 2019.

On 9 April 2019, Zegona announced that the combined shareholding of Zegona and Talomon in Euskaltel was 21.0%, with 19.4% owned by Zegona and 1.6% owned by Talomon.

Capital returns

At the 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 Zegona 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 shareholders have passed a resolution to authorise Zegona to make market purchases of up to 10% of its current issued Ordinary Share capital (within specified price parameters). A resolution to renew this authority is proposed for the 2019 AGM. It is intended that we will exercise this authority only if the Board considers that it is in the best interests of Zegona at the time. Any shares repurchased by Zegona may be held in treasury and subsequently resold for cash, cancelled or used for employee share scheme purposes.

Capital structure

At 31 December 2018, Zegona's capital structure was comprised of 126,219,449 Ordinary Shares. As part of the Placing, this was increased to 221,935,177 Ordinary Shares on 11 February 2019. The holders of Ordinary Shares have the right to receive notice of, attend and vote at all general meetings. 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 Zegona Communications plc entails or is concurrent with the winding up of its 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 (as detailed in note 19 to the financial statements).

Significant agreements subject to change of control provisions

Zegona Limited has issued Management Shares and Core Investor Shares as part of Zegona's incentive arrangements. On a change of control of Zegona, subject to the requirements of the Articles of Association of Zegona Limited, the Management Shares and Core Investor Shares can be exercised with their value being delivered either through the issue of Ordinary Shares, or in cash.

Substantial shareholders

At 31 December 2018 and up to the date of approval of this report, Zegona had been notified under DTR 5 of the following holdings in 3% or more of the issued Ordinary Shares, which are all held indirectly by asset managers:

Asset manager	Shareholding at 24 April 2019	% of ordinary share capital as at 24 April 2019	Shareholding at 31 December 2018	% of ordinary share capital as at 31 December 2018
Marwyn Asset Management[7]	42,062,035	18.95	32,538,225	25.78
Artemis Investment Management	36,190,476	16.31	–	–
Invesco Asset Management	29,175,797	13.15	21,492,686	17.03
Canaccord Genuity Group	20,670,043	9.31	7,710,190	6.11
Fidelity Worldwide Investment	19,369,332	8.73	12,621,944	10.00
Capital Research Global Investors	17,695,044	7.97	9,892,689	7.84
Legal & General Investment Management	17,221,497	7.76	9,001,149	7.13
AXA Investment Managers UK	11,094,970	5.00	8,694,970	6.89
Taconic Capital Advisers	N/A	N/A	6,134,710	4.86
Tekne Capital Management	N/A	N/A	4,322,123	3.42
	193,479,194	**87.18**	**112,408,686**	**89.06**

The percentage holdings at 24 April 2019 reflect the issuance of 95,715,728 new Ordinary Shares on 11 February 2019. Following this issuance, Taconic and Tekne's shareholdings fell below 3%.

Contracts of significance

Mark Brangstrup Watts is an ultimate beneficial owner of Axio. Zegona entered into an agreement with Axio dated 19 December 2016 pursuant to which Axio provides certain company secretarial & administration services and financial & accounting services. A minimum fee of £1,300 per month is payable monthly in arrears and is due in respect of the company secretarial & administration services provided to Zegona. If the time spent by Axio exceeds the minimum fees, fees will be charged at their prevailing charge out rate. Time spent in relation to financial & accounting services is charged at their prevailing charge out rates. In addition, Axio charges an annual responsibility fee of £4,200 payable annually in advance. Either party may terminate the agreement upon the giving of three months' written notice. During 2018, services totalling €598,027 were received from Axio (2017: €664,033).

Mark Brangstrup Watts is a designated member of Marwyn Capital LLP ("**Marwyn**"). Zegona entered into an agreement with Marwyn dated 14 March 2016 pursuant to which Marwyn provides office accommodation, services and supplies. A monthly fee of £5,022 (excluding VAT) is payable monthly in arrears. Either party may terminate the agreement upon the giving of three months' written notice. During 2018, services totaling €68,095 were received from Marwyn (2017: €68,789).

7 Mark Brangstrup Watts is a Non-Executive Director of both the Company and Marwyn Asset Management Limited.

Independent auditor

KPMG has expressed its willingness to continue to act as auditor to Zegona and a resolution for its re-appointment will be proposed at the 2019 AGM. KPMG has confirmed that it remains independent of Zegona.

Disclosure of information to the 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 Zegona'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 Zegona's auditor is aware of that information.

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. The Board considers that there are no material uncertainties affecting Zegona's ability 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.

By order of the Board

Eamonn O'Hare
Chairman and Chief Executive Officer
24 April 2019

Robert Samuelson
Chief Operating Officer
24 April 2019

Statement of Directors' responsibilities

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law, they are required to prepare the Zegona group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("**EU IFRS**") and applicable law, and have elected to prepare the parent company financial statements on the same basis.

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 parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with EU IFRS;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess Zegona's position and performance, business model and strategy.

By order of the Board

Eamonn O'Hare
Chairman and Chief Executive Officer
24 April 2019

Robert Samuelson
Chief Operating Officer
24 April 2019

Directors' Remuneration Report

The information included in this report is not subject to audit other than where specifically indicated. The activities and composition of the Nomination and Remuneration Committee (the "**Committee**") are set out above on page 23.

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 2018, which includes my statement, the Directors' remuneration policy and the annual report on remuneration for the year.

The Directors' remuneration policy was last approved at the AGM of the Company held on 15 April 2016 and is therefore required to be approved at the 2019 AGM. There have been no material changes to the policy since the 2016 AGM.

The annual report on remuneration details the amounts earned in the year ended 31 December 2018 and how the Directors' remuneration policy will be applied in 2019. The annual report on remuneration will be subject to an advisory vote at the 2019 AGM.

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

The base remuneration of the Executive Directors in 2018 was limited to their basic pay and benefits at the same levels as 2017. The Executive Directors did meet several indicators of achievement in relation to the 2018 bonus objectives, however they waived their 2018 bonus in order to maximise the cash raised from the Placing. In addition, the Executive Directors and management team invested a total of £1 million in the Placing.

Although the Committee feels it is important to remunerate and incentivise the Executive Directors 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 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 Zegona's IPO. It is anticipated that the exercise of Management Shares will result in management receiving Ordinary Shares, which could be a substantial amount.

The Management Shares are entitled to a return of 15% of the growth in equity value of Zegona since the date the Ordinary Shares were first admitted to trading on the AIM Market of the London Stock Exchange, subject to shareholders achieving a 5% preferred return per annum on a compounded basis on their net invested capital (the "**Preferred Return**"). The holders of Management Shares may initially exercise their shares three to five years post the acquisition of Telecable (the initial exercise period) and, even though Zegona entered this initial exercise period on 14 August 2018, the Preferred Return was not achieved between this date and 31 December 2018 and therefore the Management Shares would have delivered no value if they had been exercised in 2018.

On behalf of the Nomination and Remuneration Committee

Richard Williams
Chairman of the Nomination and Remuneration Committee
24 April 2019

Directors' remuneration policy

Overview

In setting the policy for Directors' remuneration, the Committee has sought to promote the long-term success of Zegona, applying incentives which are compatible with Zegona'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 Zegona, affect Zegona's reputation and misalign the Directors' and shareholders' interests.

Zegona may not make a remuneration payment to a Director, including a payment for loss of office, unless the payment is consistent with the approved Directors' remuneration policy or the payment is approved by resolution of Zegona's shareholders.

This revised policy will apply from the date of the 2019 AGM, replacing the policy approved at the 2016 AGM.

All Directors' service contracts and letters of appointment are available for inspection at Zegona's registered office.

Directors' fixed remuneration

In setting the Directors' fixed remuneration, the Committee considers that Zegona should have regard to:

- Zegona'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 Zegona's peers, being European communications and media companies of a similar size and complexity to Zegona;
- whether increases in fixed remuneration above inflation are appropriate or justifiable; and
- the pension and bonus consequences and associated costs to Zegona of any basic salary.

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

Executive Directors' incentive arrangements

The Committee considers that the Directors' remuneration policy should, as well as aligning the interests of the Executive Directors with Zegona's long-term success, incentivise delivery of Zegona's financial and strategic goals over a financial period.

The Committee considers that the Executive Directors should be rewarded principally through participation in a long-term incentive scheme. Therefore, whilst the Committee continues to adopt an annual bonus policy for Executive Directors pursuant to which the maximum bonus opportunity is capped at 100% of base salary, remuneration is principally driven through the Executive Directors' ownership of Management Shares. The Management Shares enable the Executive Directors to participate in the growth in value of Zegona, subject to shareholders achieving a Preferred Return, thereby aligning their interests with those of shareholders and hence providing a long-term incentive arrangement.

There are up to five periods in which the Management Shares can be exercised. The first period is from 14 August 2018 to 14 August 2020. The second and subsequent periods, which are subject to shareholder approval, are three to five years from the earlier of the date of the Management Shares becoming exercisable and the end of the previous period if the Management Shares did not become exercisable in that period. The Committee believes that the period during which the Management Shares may be exercised is appropriate to ensure that growth is achieved over a material period of time and that the Executive Directors and senior management are incentivised to remain with the business for the longer term.

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 has discretion as to whether to apply malus or clawback provisions to annual bonuses.

Executive Directors' remuneration (full policy)

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 Zegona to recruit and retain Executive Directors in the short term of sufficient calibre to drive Zegona's ambitions and thereafter to retain those Directors prior to remuneration from their Management Shares, which is driven by Zegona's long-term goals.*	Reviewed every twelve months.	Base salary increases are applied in line with the outcome of the review. 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 the discretion to make appropriate adjustments to salary levels to ensure they remain competitive in the marketplace.	Zegona's 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 pension contribution of up to 20% of base 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, personal tax advice, 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 circumstances 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 Zegona'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 Zegona'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 annual bonus available is 100% of base salary per annum.	Performance measures and targets will generally be set annually in advance by the Committee to ensure that they are appropriately stretching and to ensure that they reflect the particular financial and strategic goals of Zegona for the financial period in question. If any of the performance measures and targets set for the year become inapplicable (for example, due to a change in group structure), the Committee retains discretion to set the amount of bonus up to the 100% maximum to reflect personal performance over the course of the period.
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 Management Shares in Zegona Limited to Executive Directors or senior management. Holders of Management Shares are required to exercise all their rights at a single time during the period from 14 August 2018 to 14 August 2020. After this period, there can be up to another four periods in which the Management Shares can be exercised, subject to shareholder approval.	Zegona's management incentive arrangements entitle participants in aggregate to receive up to a maximum of 15% of the growth in value of Zegona. 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 5% per annum on a compounded basis on their net invested capital. Further details on the management incentive arrangements are set out in note 19 to the financial statements.

Non-Executive Directors' remuneration policy

Pursuant to Zegona'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 Zegona in a general meeting). The Committee recommends the remuneration policy and level of fees for the Board to approve.

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. Fees are payable in cash.	Fee increases are applied in line with the outcome of the annual review. There is no prescribed maximum fee per Non-Executive Director and there is no requirement to increase fees. 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, fee levels may be appropriately adjusted.	Not applicable

Approach to recruitment remuneration

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 Zegona'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 Zegona's long term incentive plan on the same terms as other Executive Directors, as described in the remuneration policy table.

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

In determining an appropriate remuneration package, the 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 Zegona 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 section entitled "Non-Executive Directors' remuneration policy" 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

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 with 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.

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.

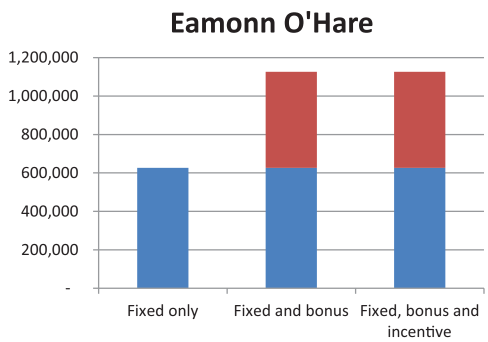
Executive Directors' shareholdings

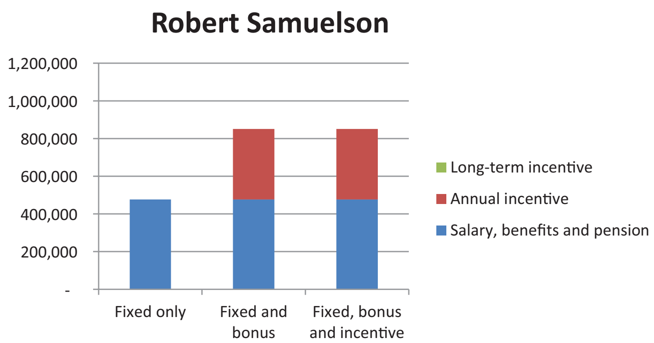
The Committee recognises the importance of Executive Directors aligning their interests with shareholders through building up a significant shareholding in Zegona. The Committee will keep under consideration the need to adopt formal guidelines in connection with the building of shareholdings in Zegona by Executive Directors.

Illustrative application of the remuneration policy

The charts below show an indication of the level of remuneration (in Sterling) that each Executive Director could receive in the following year, in accordance with the policy described above. The charts show the level of remuneration on three bases of performance:

- **Fixed only** includes remuneration in the following year that is not subject to specific performance criteria, including salary, taxable benefits and pension contributions.
- **Fixed and bonus** includes, in addition to fixed remuneration, the level of remuneration subject to performance criteria. For this purpose, it has been assumed for the annual incentives that the KPIs have been met in full, and therefore the annual bonus represents 100% of salary (and 44% of total remuneration).
- **Fixed, bonus and incentive** is calculated on a similar basis to the fixed and bonus basis and in addition includes a representation of the amount that could be received from the Management Shares, not allowing for any share price appreciation. As shareholders had not achieved the Preferred Return as at 31 December 2018, the Management Shares have been valued at £nil.





Remuneration arrangements for Zegona

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

Given the small team of employees, the Committee has not sought, or taken account of, the views of Zegona's employees in drawing up the Directors' remuneration policy. However, the Committee has regard to Zegona's objective to reward all employees fairly according to their role, experience and performance when setting the Directors' fixed remuneration.

Consideration of shareholder views

Zegona remains committed to open and transparent engagement with its investors on all matters, including remuneration. The Committee believes that this Directors' remuneration report should communicate clearly how much our Executive Directors are earning and how this is linked to performance. The Committee has considered shareholder views on remuneration matters since the last policy was approved and will continue to include those views as part of its decision-making process in respect of remuneration issues.

Annual Report on Remuneration

Review of the year

No changes have been made to Directors' base remuneration throughout the year. Our intentions in relation to the 2019 remuneration policy are set out below.

Implementation of the remuneration policy in 2019

From December 2018 to April 2019, the Committee reviewed the terms of the Executive Directors' entire remuneration package in accordance with the remuneration policy and concluded that there should be no changes to benefits and annual bonus targets for the Executive Directors. In recognition of the fact that there have been no increases in base salaries for the Executive Directors since 2015, the Committee awarded an increase of £25,000 to Robert Samuelson's base salary. In addition, no changes to Non-Executive Director fees were recommended to the Board.

It is not expected that there will be any significant change in the way that the remuneration policy will be implemented in 2019 as compared to how it has been implemented previously.

In designing the bonus scheme for 2019, the Committee recognises that, consistent with 2018, it continues to not be appropriate to set a formulaic basis for awarding bonuses based on one or more financial metrics or other key performance measures. Zegona does not have any operating businesses and its assets largely comprise the holding of approximately 15% of the share capital of Euskaltel (as at 31 December 2018). Consequently, there are no quantitative metrics available that reliably measure Zegona's progress in creating value for its shareholders.

The Committee believes the most effective approach is to award bonuses at its discretion based on the Executive Directors' performance in achieving an overall objective of creating value from Zegona's investment in Euskaltel. The overall framework for the Executive Directors' annual bonus arrangements for 2019 will remain the same as in 2018, with a maximum bonus opportunity of 100% of salary, based on strategic performance indicators consistent with delivering the overall objective. The Committee has put in place clear and specific written guidelines for the bonus which have been communicated to the management team (in line with the overall objective as stated), however the Committee considers that the strategic performance indicators they include are commercially sensitive so will disclose the nature of those indicators on a retrospective basis.

If there are significant changes to the business during 2019, for example due to an acquisition of a different operating business or a fundamental change in nature of the investment in Euskaltel, the Committee will re-evaluate this methodology for awarding bonuses. This will include, where appropriate, designing different qualitative or quantitative criteria for the awarding of bonuses (or a portion thereof) that properly reflect those changes to the business. At all times, the Committee will seek to align management remuneration to Zegona's strategy.

The following information provided in this part of the Directors' Remuneration Report is subject to audit.

Total remuneration

All Directors have entered into service agreements with Zegona. Remuneration of the Directors during the year under the terms of their service agreements are detailed below.

Executive Directors

The salaries of Zegona's Executive Directors, Eamonn O'Hare and Robert Samuelson remained the same in 2018 as they were in 2017 at £500,000 and £350,000[8] per annum respectively. In the interests of clarity, since the Executive Directors' salaries are set and paid in Sterling, the table has been presented in both Sterling and euros (Zegona's presentational currency).

	Executive Directors (Sterling)			
	Eamonn O'Hare (Chairman & CEO)		Robert Samuelson (COO)	
	2018 £	2017 £	2018 £	2017 £
Fees/basic salary	500,000	500,000	350,000	350,000
Taxable benefits	21,321	21,321	21,321	21,321
Annual cash bonus	–	500,000	–	350,000
Pension contributions	100,000	100,000	70,000	70,000
Company health insurance scheme	5,189	4,501	5,005	4,341
Total	**626,510**	**1,125,822**	**446,326**	**795,662**

	Executive Directors (euros)			
	Eamonn O'Hare (Chairman & CEO)		Robert Samuelson (COO)	
	2018 €	2017 €	2018 €	2017 €
Fees/basic salary	565,015	570,775	395,511	399,543
Taxable benefits	24,093	24,339	24,093	24,339
Annual cash bonus	–	570,775	–	399,543
Pension contributions	113,003	114,155	79,102	79,909
Company health insurance scheme	5,864	5,139	5,656	4,956
Total	**707,975**	**1,285,183**	**504,362**	**908,290**

Taxable benefits include car allowance and personal tax advice. Pension contributions are made to the individual's private pension arrangements or paid in lieu of such arrangements.

8 On 26 July 2017, Robert Samuelson was appointed to the board and committees of Euskaltel as a proprietary director. Whilst his appointment was at the request of Zegona, Robert was appointed in a personal capacity and he owes a separate duty of care to Euskaltel. Robert receives a gross annual fee of approximately €80,000 directly from Euskaltel and, on appointment, Robert agreed to waive a portion of his Zegona salary equal to the net fees he received from Euskaltel. However, having further considered Robert's obligations as a Euskaltel director, in particular his duties of care and confidentiality and the associated risk to him personally, it was felt inappropriate to maintain any arrangement that could create any appearance that Robert was not fully and independently discharging his obligations to Euskaltel. Robert's director fees from Euskaltel are now retained by him. These tables only include remuneration received by the Executive Directors in respect of their employment by Zegona.

The Executive Directors did meet several indicators of achievement in relation to the 2018 bonus objectives, however they waived their 2018 bonuses in order to maximise the cash raised from the Placing.

The Committee believes the Directors' remuneration policy in respect of Executive Directors operated as intended in terms of Zegona's performance and quantum.

Non-Executive Directors

In January 2018, the base annual fee for all the Non-Executive Directors was equalised to £50,000 per annum, with an additional £10,000 per annum for the Chairman of each principal committee. There were no further changes during the course of 2018. 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 Non-Executive Directors during the year is detailed below. In the interests of clarity, since the Non-Executive Directors' salaries are set and paid in Sterling, the table has been presented in both Sterling and euros (Zegona's presentational currency).

	Non-Executive Directors fees[9]			
	2018 £	2017 £	2018 €	2017 €
Mark Brangstrup Watts	50,000	40,000	56,502	45,662
Murray Scott	50,000	40,000	56,502	45,662
Richard Williams	60,000	60,000	67,802	68,493
Ashley Martin[10]	60,000	53,923	67,802	61,556
Total	**220,000**	**193,923**	**248,608**	**221,373**

Directors' interests in Management Shares

Eamonn O'Hare and Robert Samuelson hold 3,050 million and 1,525 million A ordinary shares respectively in Zegona Limited ("**Management Shares**"). No Management Shares were awarded during the year (2017: nil). The total Management Shares held by Directors as at 31 December 2018 were as follows:

	Participation in growth in equity value	Number of Management Shares	Date of issue
Eamonn O'Hare	8.88%	3,050,000,000	23 January 2015
Robert Samuelson	4.44%	1,525,000,000	23 January 2015

Mark Brangstrup Watts holds a beneficial interest in the 5 B Ordinary Shares issued by Zegona Limited (the "**Core Investors Shares**") to Marwyn Long Term Incentive GP Limited as General Partner to Marwyn Long Term Incentive LP on 23 January 2015. The award value of the Core Investors Shares at the time of issue was £26,500.

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.

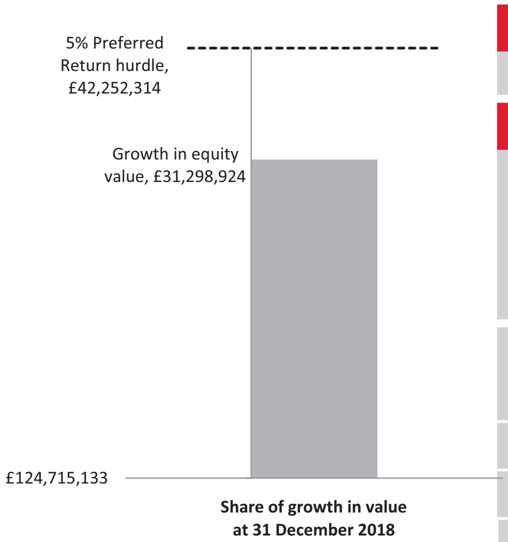
9 The Non-Executive Directors have not received any other form of remuneration during the current or prior year
10 Ashley Martin was appointed on 6 February 2017

Incentive schemes

The incentive schemes entered their initial exercise period on 14 August 2018. As shareholders did not receive the Preferred Return between this date and 31 December 2018, the incentive schemes have not been exercised and would have delivered no value if they had been exercised in 2018.

At the point the schemes have value, the participants in the Management Shares are entitled to 15% of the increase in the equity value of Zegona and the participants in the Core Investor Shares are entitled to 5% of the increase in the equity value of Zegona, provided that Zegona's ordinary shareholders have achieved a 5% Preferred Return per annum on a compounded basis on their net invested capital.

In order to illustrate how Zegona's incentive shares operate, we have set out below an illustration of how the growth in value of Zegona over the period from the start of the plans in 2015 would translate into value earned by the management team and the core investor, calculated in accordance with the principles of Zegona Limited's Articles of Association, if exercised on 31 December 2018.



Since 2015 (£)			
Net invested capital[11]			**124,715,133**
At 31 December 2018 (£)			
Number of shares		126,219,449	
Average share price[12]		1.2361	
Deemed market capitalisation			**156,014,058**
Growth in equity value			**31,298,925**
Split between:			
Management Shares		15%	–
Core Investor Shares		5%	–
Ordinary Shares		80%	31,298,925

11 Calculated in accordance with Zegona Limited's Articles of Association as the sum of Zegona Communications plc's subscription proceeds minus dividends and capital returns.

12 Calculated in accordance with Zegona Limited's Articles of Association as the volume weighted average mid-market price of Zegona Communications plc's Ordinary Shares for the previous 30 trading days to 31 December 2018.

	Net invested capital (unadjusted) £	5% pa Preferred Return at 31 December 2018 £	Preferred Return hurdle at 31 December 2018 £
Share issue – March 2015	30,000,000	36,081,737	6,081,737
Share issue – August 2015	256,567,440	302,575,071	46,007,631
Dividend – October 2016	(4,411,012)	(4,914,156)	(503,144)
Dividend – March 2017	(4,411,012)	(4,813,306)	(402,294)
Share buy-back – October 2017	(139,651,022)	(148,131,648)	(8,480,626)
Dividend – November 2017	(4,922,558)	(5,204,536)	(281,978)
Dividend – April 2018	(4,922,558)	(5,090,133)	(167,575)
Dividend – December 2018	(3,534,145)	(3,535,582)	(1,437)
	124,715,133	**166,967,447**	**42,252,314**

Directors' interests in Ordinary Shares

The Committee intends to keep under consideration the need to adopt formal guidelines in connection with the building of shareholdings in Zegona by Executive Directors. During the year, no such formal requirements or guidelines were adopted and the Committee remains of the view that no such requirements or guidelines are currently needed given that the Executive Directors acquired Ordinary Shares in the Placing.

The Directors had the following beneficial interests in the Ordinary Shares:

	At 31 December 2018		At 31 December 2017	
Director	**Number of shares**	**% of issued share capital**	**Number of shares**	**% of issued share capital**
Eamonn O'Hare	1,365,519	1.08	1,365,519	1.08
Robert Samuelson	514,996	0.41	514,996	0.41
Murray Scott	32,147	0.03	32,147	0.03
Richard Williams[13]	25,287	0.02	25,287	0.02
Ashley Martin	10,479	0.01	10,479	0.01

Since 31 December 2018 and up to the date of approval of the Annual Report, the Directors made the following purchases:

Director	Number of shares purchased	Number of shares held at 24 April 2019	% of issued share capital at 24 April 2019
Eamonn O' Hare	666,666	2,032,185	0.92
Robert Samuelson	142,857	657,853	0.30
Murray Scott	34,000	66,147	0.03

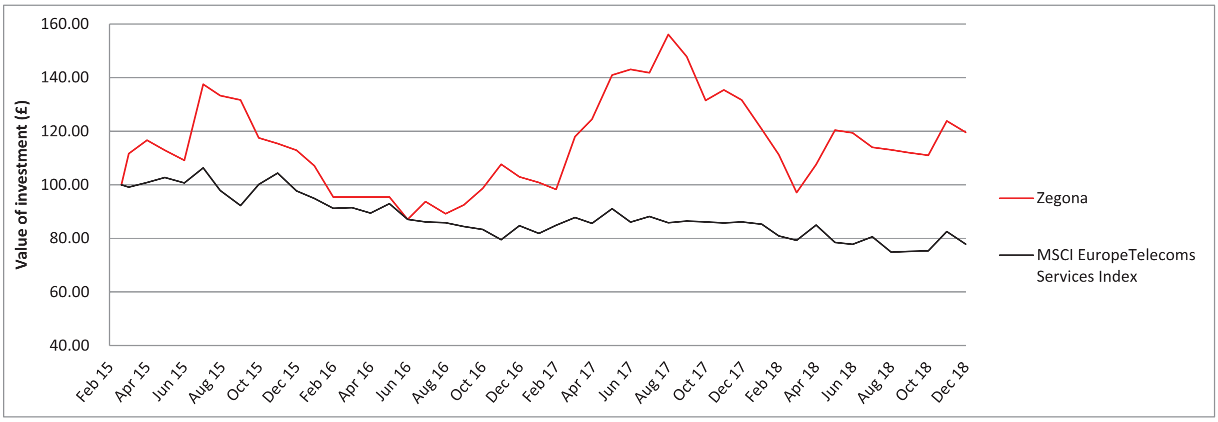
The percentage holdings at 24 April 2019 reflect the issuance of 95,715,728 new Ordinary Shares on 11 February 2019.

13 Richard Williams also holds a long position equivalent to 36,006 shares at both 31 December 2018 and 31 December 2017 through a contract for difference.

The following information provided in this part of the Directors' Remuneration Report is not subject to audit.

Performance graph

The total shareholder return graph below shows the value as at 31 December 2018 of £100 invested on IPO on 19 March 2015, compared with £100 invested in the MSCI Europe Telecom Services Index. The Committee considers this index to be appropriate 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 Zegona (including the share buy back following acceptance of the tender offer during 2017) are immediately reinvested in ordinary shares.



Chief Executive Officer (CEO) remuneration and relative importance of spend on pay

The table below shows the total remuneration for the CEO (Eamonn O'Hare) and his annual bonus as a percentage of the maximum that could have been paid in respect of each financial year:

	2018	2017	2016	2015[14]
Total remuneration €	707,975	1,285,183	765,677	665,261
Annual bonus as a percentage of maximum opportunity	0%[15]	100%	0%	0%

14 Period from incorporation on 19 January 2015 to 31 December 2015.

15 Eamonn did meet several indicators of achievement in relation to his 2018 bonus objectives, however Eamonn has waived his 2018 bonus in order to maximise the cash raised from the Placing.

The table below shows the salary, benefits and annual bonus for the CEO and average of all of Zegona's employees (excluding Non-Executive Directors) of the continuing operations (that is, excluding the employees of Telecable, which was sold on 26 July 2017 and therefore does not form part of an appropriate comparator group of employees).

	2018 €000	2017 €000	Percentage change
Chief Executive Officer			
Salary	565	571	-1%
Taxable benefits	24	24	0%
Annual bonus	–	571	-100%
Average of all head office employees, including Executive Directors			
Salary	263	263	0%
Taxable benefits	13	12	2%
Annual bonus	30	259	-88%

The table below shows the total pay for all of Zegona's head office employees (as per the table above) compared to distributions paid to shareholders.

	2018 €000	2017 €000
Employee costs	2,116	3,462
Dividends paid	9,535	10,633
Redemption of shares	–	156,339

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	Unlimited*	6 months

* Under the terms of the service agreements, these 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, Zegona 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 or significant time commitments. Executive Directors are allowed to retain the fees paid.

Eamonn O'Hare earned and retained Non-Executive Director fees in relation to his external appointments of €229,692 (equivalent to £202,647) in 2018.

On 26 July 2017, at the request of Zegona, Robert Samuelson was appointed to the board and committees of Euskaltel as a proprietary director. Robert was appointed in a personal capacity and received fees of approximately €80,000 directly from Euskaltel (equivalent to £72,370 in 2018). Zegona also repaid Robert £18,115 of fees he received from Euskaltel in 2017.

Reappointment

Under the terms of Zegona's Articles of Association, all Directors will be proposed for re-election at the 2019 AGM. All Board members have service contracts and details of the unexpired terms of these service contracts are set out above.

Compensation for loss of office following a change of control

The Directors 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 to exercise rights held by them as holders of Management or Core Investor Shares pursuant to the long-term incentive plan in force in respect of Zegona.

Statement of voting at general meeting

The following table sets out the voting in respect of the resolutions to approve the 2017 Directors' Remuneration Report and the previous Directors' Remuneration Policy at the respective AGMs:

	Date of AGM	Votes cast for the resolution	Votes cast against the resolution	Votes withheld
Resolution to approve the Directors' Remuneration Report for the year ended 31 December 2017	2 May 2018	89.16%	10.84%	–
Resolution to approve the Directors' Remuneration Policy	15 April 2016	98.45%	1.55%	23,901,530

Richard Williams
Chairman of the Nomination and Remuneration Committee
24 April 2019

Independent auditor's report

to the members of Zegona Communications plc

1. Our opinion is unmodified

We have audited the financial statements of Zegona Communications plc ("the Company") for the year ended 31 December 2018 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Cash Flows, and the related notes, including the accounting policies in note 2.

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 2018 and of the Group's profit 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law.

Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 21 November 2016. The period of total uninterrupted engagement is for the three financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	€1,610,000 (2017: €1,790,000) 0.8% of total assets (2017: 0.9% of total assets)	
Coverage	100% of total assets (2017: 100% of total assets)	
Key audit matters		**vs 2017**
Recurring risks	Classification and accuracy of the Euskaltel investment	◀▶
	Valuation of the contingent consideration	◀▶
	Recoverability of Parent Company's investment in subsidiary	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2017), in decreasing order of significance in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Classification and accuracy of the Euskaltel investment (Financial asset measured at fair value through profit or loss: €187.3million; 2017: €182.2m. Change in fair value of financial asset measured at fair value through profit or loss: gain of €5.1million; 2017: loss of €41.4m) *Refer to page 61 (accounting policy) and page 73 (financial disclosures).*	The Group acquired 15% of the ordinary share capital of Euskaltel in the prior year. **Accounting treatment:** The investment in Euskaltel is classified as a financial asset measured at fair value through profit or loss as the Group believes it does not have significant influence over the investee. The Group's agreement with Euskaltel gives it certain rights and mechanisms, including the ability to appoint a director, therefore assessment whether significant influence exists requires significant judgement.	Our procedures included: — **Our experience:** challenging the factors used by the directors in the assessment of the significant influence. This included assessment of the Group's ability to participate in the significant operating and financial decisions of Euskaltel accompanied by discussions and formal communications from the Group's external counsel; — **Accounting analysis:** assessing the Group's classification of the investment by comparing the criteria used by the Group for such assessment to the applicable accounting standards; — **Assessing transparency:** assessing the adequacy of the Group's disclosures in respect of the classification of the Euskaltel investment;
	Low risk, high value: During the year, the Group recognised a cumulative gain of €5.1m as a result of the increase in the fair value of the Euskaltel investment. The profit was recognised in the consolidated statement of comprehensive income in accordance with IFRS 9. The carrying amount of the investment in Euskaltel and the change in its fair value are the largest items in the Group's balance sheet and statement of comprehensive income, respectively. Therefore, valuation of the Euskaltel investment and the accuracy of the change in its fair value are the areas that the team focused on during the audit.	— **Test of detail:** agreeing inputs used in the valuation of the investment at the year end, such as share price and number of shares held by the Group, to the shares' quoted market prices and the SPA, respectively; — **Accounting analysis:** assessing the principles applied by the Group for the presentation of the change in the fair value of Euskaltel investment against the applicable accounting standards; **Our results** — We found the classification and accuracy of the Euskaltel investment to be acceptable (2017: acceptable).

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Valuation of the contingent consideration (€4.8million; 2017: €5.1 million) *Refer to page 61 (accounting policy) and page 75 (financial disclosures)*	**Subjective valuation:** During the previous financial year the Group disposed of its major subsidiary Parselaya SL (Telecable Group holding company) to Euskaltel for a consideration partly contingent on the availability of certain tax credits to Euskaltel and a merger ruling being approved by the Spanish tax authorities. As there is a significant level of judgement involved in estimating the fair value of the contingent consideration, we consider this to be a significant audit risk. The financial statements (note 13) disclose the sensitivity estimated by the Group.	Our procedures included: — **Our tax expertise:** using our own tax specialists assessing whether the assumptions used in calculating the contingent consideration (in particular those relating to the availability and usability of the recognised tax assets and likelihood of obtaining merger approval from the respective authorities) reflect our knowledge of the business, relevant tax legislation and formal communications from the Group's external counsel; — **Sensitivity analysis:** performing sensitivity analysis on the assumptions noted above; — **Assessing transparency:** assessing the adequacy of the Group's disclosures in respect of the valuation of the contingent consideration. **Our results** — We found the valuation of the contingent consideration to be acceptable (2017: acceptable).
Recoverability of Parent Company's investment in subsidiary (€191.0million; 2017: €193.3 million) *Refer to page 63 (accounting policy) and page 71 (financial disclosures).*	**Low risk, high value:** The carrying amount of the parent company's investment in subsidiary is the most significant item on the parent company balance sheet and at risk of irrecoverability due to the decline in the subsidiary's net asset value. The estimated recoverable amount of this balance is determined based on the fair value of the subsidiary's net assets and is subjective due to the inherent uncertainty in judgements and estimates used in the impairment test.	Our procedures included: — **Test of detail:** comparing the carrying value of the investment to its recoverable amount to assess for impairment; — **Our experience:** challenging the key inputs used in the valuation of the subsidiary's net assets by assessing the fair values of the investment in Euskaltel and the contingent consideration (the respective procedures are described in the key audit matters above); — **Assessing transparency:** assessing the adequacy of the parent company's disclosures in respect of the investment in subsidiary. **Our results** — We have found the group's assessment of the recoverability of the investment in subsidiary to be acceptable (2017: acceptable).

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

Materiality for the group financial statements as a whole was set at €1,610,000 (2017: €1,790,000), determined with reference to a benchmark of group total assets, of which it represents 0.82% (2017: 0.90% of total assets). We consider total assets to be a more appropriate benchmark than profit before tax from continued operations as the Group does not generate revenue from continued operations after the disposal of Telecable business segment in prior year.

Materiality for the parent company as a whole was set at €1,360,000 (2017: €900,000) determined with reference to a benchmark of company total assets, of which it represents 0.7% (2017: 0.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding €80,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

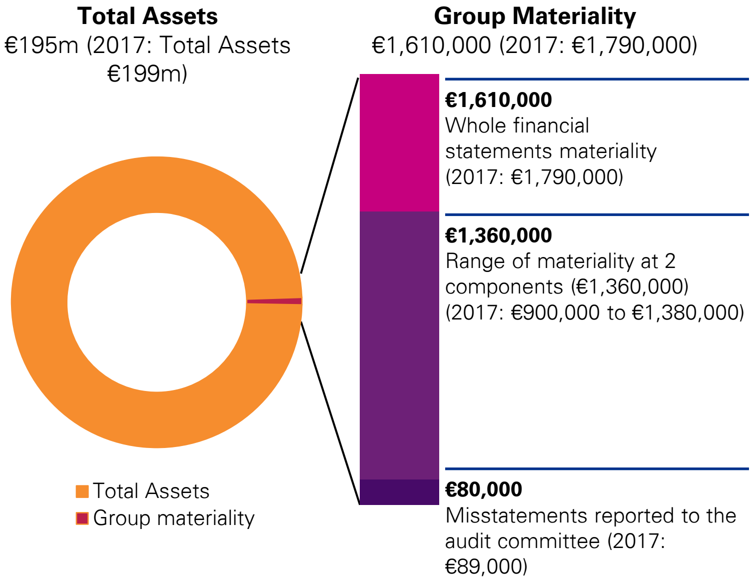
Of the group's 8 (2017: 9) reporting components, including the parent company, we subjected 2 to full scope audits for group purposes (2017: 3).

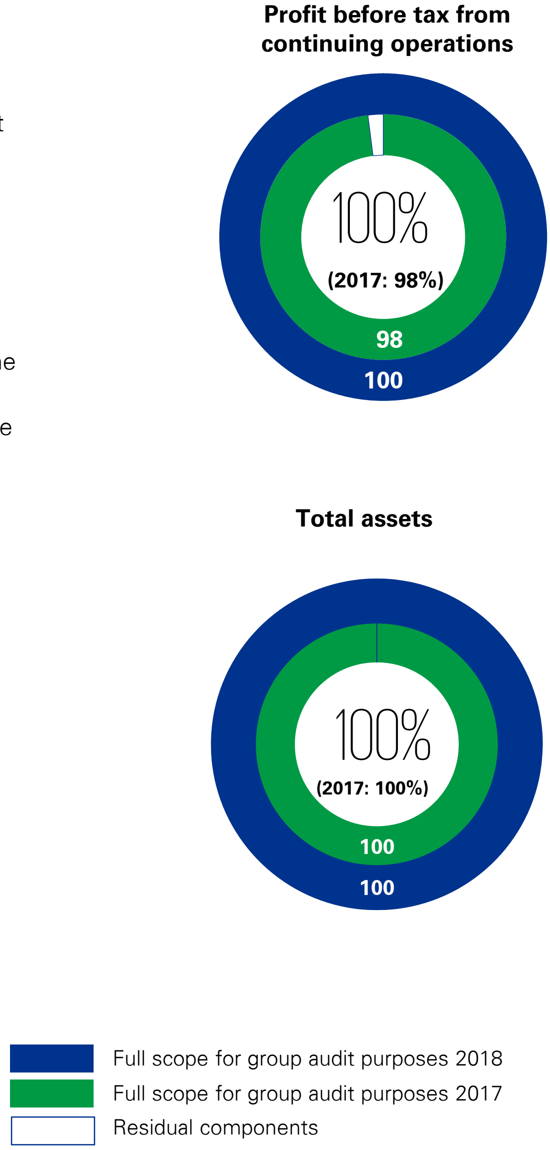
The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 2% of profit before tax from continuing operations is represented by 6 reporting components. For these residual 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 approved component materiality of €1,360,000 (2017: €900,000 to €1,380,000), having regard to the mix of size and risk profile of the Group across the components. All work was performed by Group team (2017: the work on 1 of the 3 components was performed by component auditor and the rest by the Group team). The parent company audit was performed by the Group team.

The Group team visited no component locations (2017: one being Telecable in Spain).





4. We have nothing to report on going concern

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

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if:

• we have anything material to add or draw attention to in relation to the directors' statement in Note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or

• the related statement under the Listing Rules set out on page 26 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the directors' report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006

Corporate governance disclosures

Based solely on our work on the other information described above:

— with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:

  – we have not identified material misstatements therein; and

  – the information therein is consistent with the financial statements; and

— in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

We are also required to report to you if a corporate governance statement has not been prepared by the company. We have nothing to report in these respects.

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

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

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

— the parent Company financial statements 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

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

Auditor's responsibilities

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

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

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

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the group's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

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

David Neale (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

24 April 2019

	Note	2018 €000	2017 €000
Continuing operations			
Administrative and other operating expenses:			
Corporate costs	5	(3,922)	(6,149)
Significant project costs	6	(822)	(4,858)
Operating loss		**(4,744)**	**(11,007)**
Finance income	7	12,555	105
Finance costs	7	(234)	–
Exchange differences		2,371	(334)
Profit/(loss) for the year before income tax		**9,948**	**(11,236)**
Income tax expense	8	(34)	(11)
Profit/(loss) for the year from continuing operations		**9,914**	**(11,247)**
Discontinued operation			
Profit for the year from discontinued operation		–	53,017
Profit for the year attributable to equity holders of the parent		**9,914**	**41,770**
		cents	**cents**
Earnings per share – total operations			
Basic and diluted earnings per share attributable to equity holders of the parent	18	7.9	23.2
Earnings per share – continuing operations			
Basic and diluted earnings/(loss) per share attributable to equity holders of the parent	18	7.9	(6.2)

The notes on pages 57 to 83 form an integral part of these consolidated financial statements.

	Note	2018 €000	2017 €000
Profit for the year		**9,914**	**41,770**
Other comprehensive income/(loss) – items that will or may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(2,485)	197
Change in fair value of available for sale financial assets	2(c)	–	(41,360)
Total other comprehensive loss		**(2,485)**	**(41,163)**
Total comprehensive income for the year, net of tax, attributable to equity holders of the parent		**7,429**	**607**

The notes on pages 57 to 83 form an integral part of these consolidated financial statements.

	Note	As at 31 December 2018 €000	As at 31 December 2017 €000
Assets			
Non-current assets			
Property, plant and equipment		2	4
Intangible assets		1	1
Non-current financial assets	11	187,332	182,856
		187,335	**182,861**
Current assets			
Trade and other receivables	12	2,128	457
Other current financial assets	13	4,826	5,060
Cash and cash equivalents		3,138	10,224
		10,092	**15,741**
Total assets		**197,427**	**198,602**
Equity and liabilities			
Equity			
Share capital	15	1,763	1,763
Other reserves	16	205,623	215,158
Share based payment reserve	16	105	105
Foreign currency translation reserve	16	(3,376)	(891)
Available for sale reserve	16	–	(41,360)
Retained (deficit)/earnings	16	(10,056)	21,390
Total equity attributable to equity holders of the parent		**194,059**	**196,165**
Current liabilities			
Trade and other payables	14	3,368	2,437
Total liabilities		**3,368**	**2,437**
Total equity and liabilities		**197,427**	**198,602**

The notes on pages 57 to 83 form an integral part of these consolidated financial statements.

The financial statements of Zegona Communications plc (registered number 09395163) were approved by the Board of Directors on 24 April 2019 and were signed on its behalf by:

Eamonn O'Hare
Director

Robert Samuelson
Director

	Note	As at 31 December 2018 €000	As at 31 December 2017 €000
Assets			
Non-current assets			
Property, plant and equipment		2	4
Investment in subsidiary	9	190,964	193,293
		190,966	**193,297**
Current assets			
Trade and other receivables	12	2,144	433
Cash and cash equivalents		420	422
		2,564	**855**
Total assets		**193,530**	**194,152**
Equity and liabilities			
Equity			
Share capital	15	1,763	1,763
Other reserves	16	205,623	215,158
Foreign currency translation reserve	16	(77,020)	(74,732)
Retained earnings	16	55,159	44,567
Total equity attributable to equity holders of the parent		**185,525**	**186,756**
Current liabilities			
Trade and other payables	14	8,005	7,396
Total liabilities		**8,005**	**7,396**
Total equity and liabilities		**193,530**	**194,152**

The notes on pages 57 to 83 form an integral part of these consolidated financial statements.

The financial statements of Zegona Communications plc (registered number 09395163) were approved by the Board of Directors on 24 April 2019 and were signed on its behalf by:

Eamonn O'Hare
Director

Robert Samuelson
Director

	Note	Share capital €000	Other reserves €000	Share based payment reserve €000	Foreign currency translation reserve €000	Available for sale reserve €000	Retained (deficit)/ earnings €000	Total equity €000
Balance at 31 December 2017		**1,763**	**215,158**	**105**	**(891)**	**(41,360)**	**21,390**	**196,165**
Adjustments on initial application of IFRS 9	2(c)	–	–	–	–	41,360	(41,360)	–
Adjusted balance at 1 January 2018		**1,763**	**215,158**	**105**	**(891)**	**–**	**(19,970)**	**196,165**
Profit for the year		–	–	–	–	–	9,914	**9,914**
Other comprehensive loss		–	–	–	(2,485)	–	–	**(2,485)**
Dividends paid	16	–	(9,535)	–	–	–	–	**(9,535)**
Balance at 31 December 2018		**1,763**	**205,623**	**105**	**(3,376)**	**–**	**(10,056)**	**194,059**

	Note	Share capital €000	Other reserves €000	Share based payment reserve €000	Foreign currency translation reserve €000	Available for sale reserve €000	Retained (deficit)/ earnings €000	Total equity €000
Balance at 1 January 2017		**2,738**	**381,155**	**60**	**(1,088)**	**–**	**(20,380)**	**362,485**
Profit for the year		–	–	–	–	–	41,770	**41,770**
Other comprehensive loss	16	–	–	–	197	(41,360)	–	**(41,163)**
Redemption of shares	15, 16	(975)	(155,364)	–	–	–	–	**(156,339)**
Share-based payments		–	–	45	–	–	–	**45**
Dividends paid	16	–	(10,633)	–	–	–	–	**(10,633)**
Balance at 31 December 2017		**1,763**	**215,158**	**105**	**(891)**	**(41,360)**	**21,390**	**196,165**

The notes on pages 57 to 83 form an integral part of these consolidated financial statements.

	Note	Share capital €000	Other reserves €000	Foreign currency translation reserve €000	Retained earnings €000	Total equity €000
Balance at 1 January 2018		**1,763**	**215,158**	**(74,732)**	**44,567**	**186,756**
Profit for the year		–	–	–	10,592	**10,592**
Other comprehensive loss		–	–	(2,288)	–	**(2,288)**
Dividends paid	16	–	(9,535)	–	–	**(9,535)**
Balance at 31 December 2018		**1,763**	**205,623**	**(77,020)**	**55,159**	**185,525**

	Note	Share capital €000	Other reserves €000	Foreign currency translation reserve €000	Retained earnings €000	Total equity €000
Balance at 1 January 2017		**2,738**	**381,155**	**(61,001)**	**(14,156)**	**308,736**
Profit for the year		–	–	–	58,723	**58,723**
Other comprehensive loss		–	–	(13,731)	–	**(13,731)**
Redemption of shares	15, 16	(975)	(155,364)	–	–	**(156,339)**
Dividends paid	16	–	(10,633)	–	–	**(10,633)**
Balance at 31 December 2017		**1,763**	**215,158**	**(74,732)**	**44,567**	**186,756**

The notes on pages 57 to 83 form an integral part of these consolidated financial statements.

	Note	2018 €000	2017 €000
Operating activities			
Profit/(loss) before income tax from continuing operations		9,948	(11,236)
Profit before income tax from discontinued operation		–	48,408
Profit before income tax		**9,948**	**37,172**
Adjustments to reconcile profit before income tax to operating cash flows:			
Depreciation of property, plant and equipment		2	8,258
Amortisation of intangible assets		–	10,684
Share based payment expense		–	45
Changes in fair value of derivatives		–	(21)
Net foreign exchange difference		(2,371)	343
Losses on derecognition or disposal of non-current assets		–	2,116
Gain on sale of discontinued operation		–	(57,761)
Finance income	7	(12,555)	(94)
Finance costs	7	234	15,404
Working capital adjustments:			
(Increase)/decrease in trade and other receivables		(1,671)	3,611
Decrease in inventories		–	151
Increase in trade and other payables		900	5,167
Increase in other current financial liabilities		–	12
Decrease in deferred revenues		–	(178)
Interest received		13	38
Interest paid		–	(8,483)
Income tax paid		(3)	(61)
Net cash flows (used in)/from operating activities		**(5,503)**	**16,403**
Investing activities			
Disposal of discontinued operation, net of cash disposed of		–	(27,640)
Purchase of property, plant and equipment		–	(9,888)
Purchase of intangible assets		–	(6,221)
Net proceeds from loans receivable	11	616	378
Dividends received	7	7,450	–
Net cash flows from/(used in) investing activities		**8,066**	**(43,371)**
Financing activities			
Redemption of ordinary shares	15, 16	–	(156,339)
Dividends paid to shareholders	16	(9,535)	(10,633)
Net proceeds from loans and borrowings		–	182,073
Settlement of derivatives		–	(197)
Net cash flows (used in)/from financing activities		**(9,535)**	**14,904**
Net decrease in cash and cash equivalents[16]		(6,972)	(12,064)
Net foreign exchange difference		(114)	(147)
Cash and cash equivalents at the beginning of the year		10,224	22,435
Cash and cash equivalents at the end of the year		**3,138**	**10,224**

The notes on pages 57 to 83 form an integral part of these consolidated financial statements.

16 For 2017, includes all cash flows, including both continuing and discontinued operations. Amounts related to the discontinued operation are disclosed in note 4.

	Note	Year ended 31 December 2018 €000	Year ended 31 December 2017 €000
Operating activities			
Profit before income tax		10,592	58,723
Adjustments to reconcile profit before income tax to operating cash flows:			
Depreciation of property, plant & equipment		2	2
Changes in fair value of derivatives			(21)
Net foreign exchange difference		(6)	(39)
Write down of investment in subsidiary		–	106,806
Finance income		(9)	(9)
Loss on disposal of property, plant and equipment		–	1
Working capital adjustments:			
(Increase)/decrease in trade and other receivables		(1,711)	1,044
Increase in trade and other payables		609	102
Interest received		9	9
Net cash flows from operating activities		**9,486**	**166,618**
Investing activities			
Purchase of property, plant and equipment		–	(3)
Net cash flows used in investing activities		**–**	**(3)**
Financing activities			
Redemption of ordinary shares		–	(156,339)
Dividends paid to shareholder	16	(9,535)	(10,633)
Settlement of derivatives		–	(197)
Net cash flows used in financing activities		**(9,535)**	**(167,169)**
Net decrease in cash and cash equivalents		(49)	(554)
Net foreign exchange difference		47	(2,918)
Cash and cash equivalents at the beginning of the year		422	3,894
Cash and cash equivalents at the end of the year		**420**	**422**

The notes on pages 57 to 83 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The consolidated financial statements of Zegona Communications plc (the "**Company**") and its subsidiaries (collectively, "**Zegona**") for the year ended 31 December 2018 (the "**Consolidated Financial Statements**") were authorised for issue in accordance with a resolution of the Directors on 24 April 2019. The Company was incorporated in England and Wales on 19 January 2015 and is 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 subsidiaries is provided in note 9. Information on other related party relationships is provided in note 20.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Consolidated Financial Statements represent the year ended 31 December 2018 and have been prepared in accordance with International Financial Reporting Standards and IFRS Interpretations Committee interpretations as adopted by the European Union (collectively, "**IFRS**"), and with those parts of the Companies Act 2006 as applicable to companies reporting under IFRS.

The Consolidated Financial Statements include the results of all subsidiaries wholly owned by the Company as listed in note 9. Certain of these subsidiaries, which are listed below, have taken the exemption from preparing individual accounts for the year ended 31 December 2018 by virtue of section 394A of Companies Act 2006. In order to allow these subsidiaries to take the exemption, the Company has given a statutory guarantee of all these companies' outstanding liabilities as at 31 December 2018:

- Zegona Spanish Holdco Limited (Registered Number: 10159232)
- Zegona Borrower Limited (Registered Number: 10159347)
- Zegona Holdco Limited (Registered Number: 10159604).

The Company financial statements represent the year ended 31 December 2018 and have been prepared in accordance with IFRS and with those parts of the Companies Act 2006 as applicable to companies reporting under IFRS. The Company financial statements present information about the Company as a separate entity and not about its group. The Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of profit or loss and related notes that form a part of the Company financial statements.

The Consolidated Financial Statements and the Company financial statements have been prepared under the historical cost convention except for certain financial assets that have been measured at fair value, as disclosed in note 10. The functional currency of the Company is British pounds sterling ("**Sterling**" or £). The Directors have chosen to present the Consolidated Financial Statements and the Company financial statements in euros (€) as Zegona's current investment, Euskaltel SA (together with its subsidiaries, "**Euskaltel**"), has both a quoted share price and pays dividends in euros. All values are rounded to the nearest thousand (€000) except where otherwise indicated.

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 years presented except for the classification of financial instruments as described in note 2(c).

(b) Going concern

The Consolidated Financial Statements have been prepared on the going concern basis, which assumes that Zegona will continue to be able to meet its liabilities for the 12-month period from the date of approval of these Financial Statements. Key factors that have been taken into account in making this determination are provided in the longer term viability statement on pages 9 to 10.

(c) New standards and amendments to IFRS

Standards, amendments and interpretations effective and adopted by Zegona:

The accounting policies adopted in the presentation of the Consolidated Financial Statements reflect the adoption of the following amendments for annual periods beginning on or after 1 January 2018, none of which had a material effect on Zegona except IFRS 9 *Financial Instruments* ("**IFRS 9**") as described below.

Standard	Effective Date
Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*	1 January 2018
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions*	1 January 2018
Amendments to IAS 40: *Transfers of Investment Property*	1 January 2018

Zegona has applied IFRS 15 *Revenue from Contracts with Customers* ("**IFRS 15**") under the cumulative effect method and adopting IFRS 15 has not had a material impact on the timing of revenue recognition or any material impact on accounting for revenue.

IFRS 9

Zegona adopted IFRS 9 from 1 January 2018. Zegona has elected not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39 *Financial Instruments: Recognition and Measurement* ("**IAS 39**").

IFRS 9 set outs requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaced IAS 39.

Under IAS 39, Zegona's investment in Euskaltel and contingent consideration were classified as available for sale financial assets. Under IFRS 9, they have been classified as financial assets at fair value through profit or loss (see note 2(i)). Upon transition, the available for sale reserve relating to both the investment in Euskaltel and contingent consideration, which had previously been recognised under accumulated other comprehensive income, was reclassified to retained earnings. Therefore, the retained earnings at 1 January 2018 have been adjusted by €41.36 million compared to the balance at 31 December 2017, comprising a €41.54 million decrease in relation to the investment in Euskaltel and a €0.18 million increase in relation to the contingent consideration.

The accounting for Zegona's financial liabilities remains the same as it was under IAS 39.

Standards, amendments and interpretations issued but not yet effective:

Zegona intends to adopt the following standards, amendments and interpretations, if applicable, when they become effective. Adopting these standards will not have a material impact on Zegona.

Standard	Effective date
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
IFRS 16 *Leases*	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to IFRS 9: *Prepayment Features with Negative Compensation*	1 January 2019
Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*	1 January 2019**
Amendments to IFRS 3 *Business Combinations*	1 January 2020**
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020**
IFRS 17 *Insurance Contracts*	1 January 2021**

* the EU has decided not to endorse the interim standard and to wait for the final standard

** subject to EU endorsement

(d) Basis of consolidation
Subsidiaries are entities controlled by the Company, either directly or indirectly. 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, any gains and losses or income and expenses arising from intragroup transactions, and intragroup cash flows are eliminated on consolidation.

(e) Discontinued operations
Zegona classifies disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Disposal groups classified as held for sale are measured at the lower of their carrying value and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of the disposal group, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. The Board must be committed to the plan to sell the disposal group and the sale expected to be completed within one year from the date of classification.

Property, plant and equipment and intangible assets within the disposal group are not depreciated or amortised once the disposal group is classified as held for sale.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations; and
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of comprehensive income.

(f) Foreign currencies
The Consolidated Financial Statements are presented in euros. Zegona determines the functional currency for each entity and items included in the financial statements of each entity are measured using that functional currency. Zegona 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 subsidiaries with a Sterling functional currency are translated into euros at the rate of exchange prevailing at the reporting date and their statements of comprehensive income 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 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.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

(g) Revenue and expenses

Finance income

Interest income from financial assets is recognised using the effective interest method as finance income in the consolidated statement of comprehensive income.

Dividend income is recognised as finance income in the consolidated statement of comprehensive income when Zegona's right to receive the payment is established, which for listed securities is when the shares are quoted ex-dividend, and are presented gross of any non-recoverable withholding taxes.

Gains on financial instruments comprise the net change in fair value, excluding interest or dividend income.

Finance costs

Losses on financial instruments comprise the net change in fair value, excluding interest or dividend income.

Administrative and other operating expenses

Administrative and other operating expenses are recognised on an accruals basis, i.e. when the actual flow of the services they represent occurs, regardless of when the resulting monetary or financial flow arises.

Significant project costs are recognised within trade and other receivables in the Consolidated Statement of Financial Position if they represent qualifying transaction costs that are incurred in anticipation of, and directly related to, the probable issuance of equity instruments, and span more than one reporting period. These costs are deferred until equity instruments are recognised and subsequently reclassified as a deduction from equity. If the equity instruments are not subsequently issued, the costs are expensed.

(h) Fair value measurement

Zegona measures certain financial instruments 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 Zegona.

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. Zegona uses valuation techniques that are appropriate in the circumstances and for which sufficient data is 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, Zegona 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.

(i) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at fair value through profit or loss ("**FVPL**"), amortised cost, or fair value through other comprehensive income ("**FVOCI**").

The classification of a financial asset at initial recognition depends on the financial asset's contractual cash flow characteristics and Zegona's business model for managing it. In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' on the principal amount outstanding (the "**SPPI Criterion**").

Financial assets are initially measured at their fair value plus, for those financial assets not at fair value through profit or loss, transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the settlement date, being the date that an asset is delivered to or by Zegona.

Subsequent measurement
For the purposes of subsequent measurement, Zegona's financial assets are classified into categories:

- Financial assets at amortised cost comprise assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI Criterion. This category includes Zegona's loans, trade and other receivables and cash and cash equivalents. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

- Financial assets at FVPL comprise quoted equity instruments which Zegona had not irrevocably elected, upon initial recognition, to classify at FVOCI and debt instruments whose cash flow characteristics fail the SPPI Criterion. This category includes Zegona's investment in Euskaltel and contingent consideration. These assets are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised as either finance income or finance costs.

Zegona has not classified any assets as being financial assets at FVOCI.

Derecognition
A financial asset is primarily derecognised and removed from the consolidated statement of financial position when:

- the rights to receive cash flows from the asset have expired; or

- Zegona has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) Zegona has transferred substantially all the risks and rewards of the asset, or (b) Zegona has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Zegona has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, Zegona continues to recognise the transferred asset to the extent of its continuing involvement and also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Zegona has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Zegona could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Zegona's financial liabilities comprise only trade and other payables, which are classified as payables.

Subsequent measurement

Zegona's payables, none of which are interest-bearing, are subsequently measured at amortised cost. Gains and loses are recognised in profit or loss when the liabilities are derecognised.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference is the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis to realise the assets and settle the liabilities simultaneously.

(j) Impairment of financial assets

Zegona recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that Zegona expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables, Zegona applies a simplified approach in calculating ECLs and recognises a loss allowance based on lifetime ECLs at each reporting date using Zegona's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(k) Property, plant and equipment

Property, plant and equipment is measured initially at acquisition 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 comprehensive income in the year in which they are incurred.

Replacements or renewals are recorded as an addition to property, plant and equipment and the units replaced or renewed are derecognised.

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, which for fixtures and fittings, which comprises of computer hardware, is 3 years.

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 comprehensive income.

(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. Zegona had no finance leases during 2018.

Costs arising from operating leases are recognised in the statement of comprehensive income for the year 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 comprehensive income over the lease term in accordance with the time pattern in which the benefits of the leased asset are provided or received.

(m) Cash and cash equivalents

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

(n) Investments in subsidiaries

Investments in subsidiaries within the Company's separate statement of financial position are stated at cost.

At the end of each reporting year or whenever there are indications of impairment, the Company tests its investments in subsidiaries 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 Company 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.

(o) Share capital

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

(p) Dividends payable

The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. A corresponding amount is recognised directly in equity.

(q) Corporation tax

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

Current tax is the expected tax payable on the taxable income for the year. Taxable profit differs from profit reported in the consolidated statement of comprehensive income because some items of income and expense are taxable or deductible in different years, or may never be taxable or deductible. Zegona'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 year when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the year end date, and is not discounted.

(r) Pension benefits

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

(s) Profit per ordinary share

Basic earnings per share ("**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 year.

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares.

(t) 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 and other operating 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.

The dilutive effect of outstanding share based payments is reflected as share dilution in the computation of diluted EPS.

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 estimate used by the Directors in applying the accounting policies of Zegona that had the greatest impact on the Consolidated Financial Statements in the current year is the assessment of the fair value of contingent consideration receivable. The main estimates and assumptions used in determining the €4.8 million fair value of the contingent consideration on the basis of significant unobservable inputs are detailed in note 13.

The main judgement made by the Directors in applying the accounting policies of Zegona that had the greatest impact on the Consolidated Financial Statements in the current year is the accounting for Zegona's investment in Euskaltel. Zegona holds 26.8 million shares in Euskaltel, representing approximately 15% of the ordinary share capital. IAS 28 Investments in Associates and Joint Ventures ("**IAS 28**") requires that entities should apply the equity method of accounting for investments where they have significant influence in the investee. IAS 28 defines significant influence as "the power to participate in an entity's financial and operating policy decisions". Zegona's agreement with Euskaltel gives it certain rights and mechanisms, including the ability to appoint a director, therefore assessment whether significant influence exists requires significant judgement. In the prior year, it was determined that the ability to contribute to Euskaltel's board and committees did not confer the power to participate in Euskaltel's financial and operating policy decisions and therefore the criteria for equity accounting within IAS 28 were not met. Zegona therefore accounted for its investment in Euskaltel as a financial asset. Zegona has continued to evaluate its influence over Euskaltel during the course of 2018 and continues to believe that it does not have significant influence over Euskaltel.

4. SEGMENTAL ANALYSIS

For management purposes, Zegona is currently organised into two segments:

(i) investment in Euskaltel, which comprises Zegona's dividend income from the Euskaltel business in Spain and the movements in fair value of the investment; and

(ii) central costs, which comprises costs incurred in supporting Zegona's corporate activities.

In addition, during 2017, Zegona had a third segment, the Telecable Group, which in 2017 represented the results of the discontinued Telecable business in Spain.

On 15 May 2017, Zegona signed an agreement to sell Telecable to Euskaltel. The sale completed on 26 July 2017. In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, Telecable was classified as held for sale from 15 May 2017, being the date that the sale became highly probable. In addition, Telecable was classified as a discontinued operation because Telecable represented a separate major geographical area of operations of Zegona and, from 15 May 2017, there existed a single co-ordinated plan to dispose of Telecable.

Euskaltel and Telecable are, or were, segments because allocation of resources is performed on an investment basis.

The only inter-segment income and expenditure in the prior year related to interest on a loan provided from the central costs segment to the Telecable Group segment. This loan was settled in full on 26 July 2017.

The results of each segment are reported to the Board which is considered to be the chief operating decision maker. 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 included in the information on reportable segments set out below.

For the year ended 31 December 2018	Investment in Euskaltel 2018 €000	Central costs 2018 €000	Consolidated 2018 €000
Depreciation and amortisation	–	(2)	(2)
Other operating expenses	–	(4,742)	(4,742)
Operating loss	**–**	**(4,744)**	**(4,744)**
External finance income	12,542	13	12,555
External finance costs	–	(234)	(234)
Exchange differences	–	2,371	2,371
Profit/(loss) before tax	**12,542**	**(2,594)**	**9,948**
Income tax	–	(34)	(34)
Profit/(loss) for the year	**12,542**	**(2,628)**	**9,914**
Cash flows			
Net cash used in operating activities	–	(5,503)	(5,503)
Net cash from investing activities	7,450	616	8,066
Net cash used in financing activities	–	(9,535)	(9,535)
Net cash flow	**7,450**	**(14,422)**	**(6,972)**

For the year ended 31 December 2017	Investment in Euskaltel (continuing) 2017 €000	Central costs (continuing) 2017 €000	Telecable Group (discontinued) 2017 €000	Consolidated 2017 €000
External customers revenue	–	–	84,106	84,106
Other income	–	–	335	335
Depreciation and amortisation	–	(2)	(18,940)	(18,942)
Other operating expenses	–	(11,005)	(59,452)	(70,457)
Operating (loss)/profit	**–**	**(11,007)**	**6,049**	**(4,958)**
External finance income	–	105	10	115
External finance costs	–	–	(15,404)	(15,404)
Inter-segment finance income/costs	–	7,429	(7,429)	–
Exchange differences	–	(334)	(8)	(342)
Loss before tax	**–**	**(3,807)**	**(16,782)**	**(20,589)**
Income tax	–	(11)	4,609	4,598
Gain on sale of discontinued operation	–	–	57,761	57,761
(Loss)/profit for the year	**–**	**(3,818)**	**45,588**	**41,770**
Investing activities				
Additions of property, plant & equipment	–	3	9,885	9,888
Additions of intangible assets	–	–	6,221	6,221
Cash flows				
Net cash (used in)/from operating activities	–	(9,312)	25,715	16,403
Net cash used in investing activities	–	(573)	(42,798)	(43,371)
Net cash (used in)/from financing activities	–	(167,169)	182,073	14,904
Net cash flow	**–**	**(177,054)**	**164,990**	**(12,064)**

All external customers revenue earned by the Telecable Group was generated in Spain, and arose from handset sales, residential service and services provided to business customers. There were no major customers on which reliance was placed.

5. ADMINISTRATIVE AND OTHER OPERATING EXPENSES – CORPORATE COSTS

	Consolidated 2018 €000	Consolidated 2017 €000
Salaries, bonuses and staff benefits	2,138	3,434
Employment related taxes	297	472
Payments into or in lieu of pension arrangements	252	232
Recruitment fees	–	19
Legal and professional fees	973	1,627
Rent and office costs	134	156
Other operating expenses	126	170
Share based payment expense	–	37
Depreciation of property, plant and equipment	2	2
Corporate costs	**3,922**	**6,149**

Employed persons

The average number of people employed by the continuing operations (including Executive Directors but excluding Non-Executive Directors) during the year by activity was as follows:

	Consolidated 2018	Consolidated 2017
Operations	9	9
Administration	1	1
	10	**10**

Compensation of key management personnel

The Board considers the Executive Directors and Non-Executive Directors of the Company to be the key management personnel of Zegona. Details of the amounts paid to key management personnel are detailed in the Directors' Remuneration Report on pages 36 to 37.

6. ADMINISTRATIVE AND OTHER OPERATING EXPENSES – SIGNIFICANT PROJECT COSTS

Significant project costs are those incurred on projects that are considered to be one-off or non-recurring in nature, where the costs are so material individually or collectively that the Directors believe that they require separate presentation and disclosure to avoid distortion of the comparability of corporate costs between periods. The classification of projects as significant is subjective in nature and therefore judgement is required in its determination and is a matter of qualitative assessment. Significant projects are usually related to acquisition, disposal or joint venture transactions where incremental and identifiable external costs are incurred by Zegona in order to make or evaluate the potential transaction, even if it is not consummated.

In 2018, €0.8 million of the significant project costs were principally professional fees related to projects related to increasing Zegona's investment in Euskaltel.

In 2017, €3.5 million of the significant project costs were principally professional fees and insurance costs related to the disposal of Telecable, with the remaining €1.3 million principally stamp duty reserve tax and professional fees related to the tender offer to repurchase the Company's ordinary shares.

7. FINANCE INCOME AND COSTS

	Note	Consolidated 2018 €000	Consolidated 2017 €000
Dividend income		7,450	–
Gain on fair value of investment in Euskaltel	11	5,092	–
Interest on loans and receivables		10	46
Bank interest		3	38
Gain on foreign exchange forwards		–	21
Finance income		**12,555**	**105**
Loss on fair value of contingent consideration	13	(234)	–
Finance costs		**(234)**	**–**

Dividend income

Zegona received dividends on the following dates from Euskaltel:

1. 1 February 2018 at a rate of €0.127 per share, totalling €3.4 million; and
2. 5 July 2018 at a rate of €0.151 per share, totalling €4.0 million.

Gain on foreign exchange forwards

In 2017, this amount related to the gain on execution of a foreign exchange forward entered into by the Company on 30 June 2016 and settled in February 2017 in relation to the payment of the dividend on 7 March 2017. No forward contracts were held by Zegona during 2018.

8. TAXATION

	Consolidated 2018 €000	Consolidated 2017 €000
Current tax expense		
Current year	34	11
Income tax expense for the year	**34**	**11**

Zegona 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. The normal UK statute of limitations is four years from the end of the accounting period.

Reconciliation of effective tax rate

	Consolidated 2018 €000	Consolidated 2017 €000
Profit/(loss) before tax from continuing operations	9,948	(11,236)
At UK statutory income tax rate (19% (2017: 19%))	1,890	(2,135)
Effect of tax rate used in other jurisdictions	48	30
Income not taxable	(2,822)	(5)
Expenses not deductible for tax purposes	166	947
Unrecognised tax losses	752	1,174
Income tax expense	**34**	**11**

Income relating to the investment in Euskaltel, including dividends and gains in fair value and foreign exchange, is not taxable as the dividends are in respect of non-redeemable ordinary shares and the investment is expected to meet the substantial shareholdings exemption which provides an exemption from corporation tax for capital gains. The majority of significant project costs is not deductible for tax purposes as the projects relate to acquisitions or disposals and are therefore capital in nature.

Unrecognised deferred tax assets

Deferred tax assets of the UK tax-resident companies of €2.6 million (2017: €1.8 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 companies can maximise the benefits therefrom. Under UK law there is no expiry for the use of tax losses.

Contingent tax liability

The European Commission issued a press release on 2 April 2019 announcing that the UK Controlled Foreign Company Financing Exemptions unduly exempted certain multinational groups from these UK rules targeting tax avoidance. The actions that the UK tax authorities will take in response to this press release are uncertain and Zegona continues to monitor the situation. No provision has been made as it is not currently deemed probable that Zegona will be required to settle its possible obligation in relation to this matter. Zegona is still evaluating its potential exposure which could be up to €5 million.

9. INVESTMENT IN SUBSIDIARIES

The Consolidated Financial Statements in the current year include:

Subsidiary	Nature of business	Country of incorporation	Shares held directly by the Company	Shares held indirectly by the Company
Zegona Limited	Incentive company	Jersey (1)	100%	–
Zegona (Lux) S.à r.l.*	Financing company	Luxembourg (2)	–	100%
Zegona (Ireland) Limited*	Financing company	Ireland (3)	–	100%
Zegona Spanish Holdco Limited	Dormant	UK (4)	–	100%
Zegona Borrower Limited	Dormant	UK (4)	–	100%
Zegona Holdco Limited	Dormant	UK (4)	–	100%
Zegona Lux Finco S.à r.l.*	Dormant	Luxembourg (2)	–	100%

* Entered liquidation in December 2018.

The registered office addresses of the subsidiaries are:

1. One Waverley Place, Union Street, St Helier, Jersey, JE1 1AX
2. 37A, Avenue J.F. Kennedy, L-1855 Luxembourg
3. 118 Lower Baggot Street, Dublin 2, Ireland
4. 20 Buckingham Street, London, WC2N 6EF

There are no restrictions on the Company's ability to access or use the assets and settle the liabilities of the Company's subsidiaries, other than immaterial assets controlled by liquidators.

Carrying value of the Company's investment in subsidiary

On 29 August 2017, Zegona Limited paid a distribution of £140 million (equivalent to €151 million) out of its share premium account to fund the Company's tender offer. The size of this distribution prompted Zegona to review whether the carrying value of the investment in subsidiary was recoverable.

Following this review, the carrying value of the investment was adjusted by €106.8 million, which was recognised in the profit or loss of the Company in 2017.

No adjustment was deemed necessary following a similar review in 2018. The movement in value during 2018 was due to foreign exchange translation as the investment is carried in Sterling.

10. FINANCIAL INSTRUMENTS

Zegona's activities expose it to market risk, principally interest rate risk and currency risk.

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. Other than a small overdraft facility, which bears interest at 1.5% per annum over the Bank of England base rate but is currently undrawn, Zegona had no exposure to interest rate risk at 31 December 2018. On 14 January 2019, Zegona entered into facility agreements totalling £30 million which bear interest at a spread over the 3-month LIBOR, as detailed in note 22.

Foreign currency risk

Foreign currency risk exists due to the Company operating, and having equity denominated, in a different functional currency (Sterling) to that of its investment in Euskaltel (euro) and of many of its likely acquisition targets. Transactional foreign currency risk is limited and the principal ongoing impact is that fluctuations in the Sterling/euro rate could have a significant impact on the Sterling value of the investment in Euskaltel, meaning that the Sterling value of the proceeds from any future sale of Euskaltel shares that Zegona may distribute to shareholders may be reduced.

The Board and the Chief Financial Officer control and monitor financial risk management, including foreign currency risk, 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 those companies which are denominated in Sterling. Details of such monetary assets and monetary liabilities at the reporting date are as follows:

	As at 31 December 2018 £000	As at 31 December 2017 £000
Financial assets (denominated in Sterling)	28	4,045
Financial liabilities (denominated in Sterling)	(2,578)	(2,064)
Net monetary (liabilities)/assets	**(2,550)**	**1,981**

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 liabilities of Zegona:

Currency impact	**+/- 10% movement €000**
Profit before tax gain/loss	-/+ 258
Equity gain/loss	-/+ 258

Credit risk

Credit risk arises from cash and cash equivalents, trade and other receivables and contingent consideration. Zegona uses the ratings awarded by independent agencies, where available, otherwise Zegona assesses the counterparty's credit rating taking into account its financial situation, past experience and other factors.

There are no material financial assets that are written down, past due or impaired as at 31 December 2018, and there is no collateral or other credit enhancement feature on Zegona's financial assets.

Zegona assesses the only material exposure to credit risk at 31 December 2018 to be with counterparties with the following credit ratings:

Credit rating	Cash and cash equivalents €000	Trade and other receivables €000	Contingent consideration €000	Total €000
A-1+	418	–	–	418
A-1	2,720	–	–	2,720
BB-	–	136	4,826	4,962
	3,138	**136**	**4,826**	**8,100**

The Directors consider that the carrying amounts best represent the maximum exposure to credit risk.

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 Zegona's liquidity reserve forecasts based on expected cash flows.

At 31 December 2018, Zegona had cash balances held with banks amounting to €3.1 million (2017: €10.2 million), compared to Zegona's total liabilities amounting to €3.4 million (2017: €2.4 million). In addition, Zegona has an unsecured overdraft facility of £1.5 million, which was undrawn as at 31 December 2018.

In January 2019, Zegona completed a placing with gross proceeds of £100.5 million (the "**Placing**") and entered into facility agreements totalling £30 million, as detailed in note 22.

Financial instrument categories – Zegona

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

	Note	Non-current 2018 €000	Non-current 2017 €000
Financial assets measured at amortised cost			
Loans	11	–	616
		–	**616**
Financial assets measured at fair value through profit or loss			
Investment in Euskaltel (level 1)	11	187,332	182,240
		187,332	**182,240**
Total non-current financial assets		**187,332**	**182,856**

	Note	Current 2018 €000	Current 2017 €000
Financial assets measured at amortised cost			
Trade and other receivables	12	137	272
Cash and cash equivalents		3,138	10,224
		3,275	**10,496**
Financial assets measured at fair value through profit or loss			
Contingent consideration (level 3)	13	4,826	5,060
Total current financial assets		**8,101**	**15,556**
Financial liabilities measured at amortised cost			
Trade and other payables	14	(3,245)	(2,345)
Total current financial liabilities		**(3,245)**	**(2,345)**

The Directors consider that the carrying amounts of the financial assets and liabilities recognised in the consolidated financial statements equate to their fair values.

Financial instrument categories – Company

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

	Note	Current 2018 €000	Current 2017 €000
Financial assets measured at amortised cost			
Trade and other receivables	12	157	251
Cash and cash equivalents		420	422
Total current financial assets		**577**	**673**
Financial liabilities measured at amortised cost			
Trade and other payables	14	(8,005)	(7,396)
Total current financial liabilities		**(8,005)**	**(7,396)**

11. NON-CURRENT FINANCIAL ASSETS

	Consolidated as at 31 December 2018 €000	Consolidated as at 31 December 2017 €000
Investment in Euskaltel	187,332	182,240
Loans	–	616
Total	**187,332**	**182,856**

Investment in Euskaltel

At both 31 December 2018 and 31 December 2017, Zegona owned 26.8 million shares in Euskaltel, a Spanish telecommunications company in the Basque Country and Galicia. This represents approximately 15% of the ordinary shares and voting rights of Euskaltel, which is listed on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Stock Market Interconnection System (Continuous Market).

As part of the purchase agreement for the Euskaltel shares acquired on 26 July 2017, Zegona agreed to standard lock-in provisions in relation to those shares. Some of these provisions lapsed on 26 July 2018 and 26 January 2019, such that Zegona was able to sell up to 66% of the shares it held at 31 December 2018. Notwithstanding the remaining lock-in arrangements, Zegona is permitted, on 15 business days' notice to Euskaltel, to distribute Euskaltel shares in specie pro rata to its own shareholders at any time.

Zegona has granted security to Euskaltel by a share pledge over 1,663,158 of its shares in Euskaltel in respect to the tax credits generated in favour of Telecable arising from the distributions of dividends approved and executed by Telecable during the 2013 fiscal year, which enabled the deduction of the financial expenses in the corporate income tax of the 2013 and subsequent fiscal years.

	Note	€000
Balance at 31 December 2017		182,240
Change in unrealised fair value recognised in profit or loss	7	5,092
Balance at 31 December 2018		**187,332**

The change in fair value reflects the increase in Euskaltel share price from €6.80 at 31 December 2017 to €6.99 at 31 December 2018.

Loans

Loans relate to loans granted on 22 February 2013 and maturing in 2030 to certain members of the Telecable management team, including accrued interest at a rate of 5% per annum. The loans were settled in full on 31 January 2018.

12. TRADE AND OTHER RECEIVABLES

	Consolidated as at 31 December 2018 €000	Consolidated as at 31 December 2017 €000
Deferred costs	1,939	–
Prepayments	35	30
VAT recoverable	17	155
Other receivables	137	272
Total	**2,128**	**457**

	Company only as at 31 December 2018 €000	Company only as at 31 December 2017 €000
Amounts due from subsidiary undertakings	20	14
Deferred costs	1,939	–
Prepayments	31	26
VAT recoverable	17	155
Other receivables	137	238
Total	**2,144**	**433**

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

13. OTHER CURRENT FINANCIAL ASSETS

The current financial assets balance of €4.8 million (2017: €5.1 million) comprises solely the contingent consideration receivable from the sale of Telecable. This compares to a base case model present value of €6.7 million (2017: €7.0 million) and Zegona's best estimate of the undiscounted cash flow that it will receive of €7.1 million (2017: €7.6 million). The contingent consideration is payable by Euskaltel in cash up to a maximum amount of €15.0 million upon confirmation that a range of net tax assets are available to Euskaltel and may be used to offset its future tax payments.

	Note	€000
Balance at 31 December 2017		5,060
Change in unrealised fair value recognised in profit or loss	7	(234)
Balance at 31 December 2018		**4,826**

The eventual amount to be received depends on several factors that are entirely specific to Telecable. These factors include the availability of tax assets in accordance with Spanish tax rules and regulations, the extent to which there will be sufficient taxable profits to utilise these assets, and assumptions around the outcome of certain open interactions with the Spanish tax authorities. There have been no material updates to these significant unobservable inputs during 2018.

The change in fair value reflects revisions to the availability of certain tax assets based on discussions between Telecable and the Spanish tax authorities and a revision to the timing of when the contingent consideration will be received. It is recognised within finance costs in the consolidated statement of comprehensive income.

The fair value of the contingent consideration has been calculated using a probability-weighted discounted cash flow model that calculates the present value of the expected cash flows for 36 different plausible combinations of outcomes. The fair value was determined by calculating a weighted average of those cash flows according to the probability of each scenario occurring. As a result of this analysis, a fair value of €4.8 million (2017: €5.1 million) was assigned to the contingent consideration. This value recognises the possibility of certain material downside cases that Zegona currently considers to be unlikely to occur (particularly in relation to the merger approval discussed below not being granted) and therefore the eventual amount received could be greater than this fair value.

The significant unobservable inputs used in the base case (which had a present value of €6.7 million (2017: €7.0 million), being management's assessment of the present value of the most likely outcome) and the impact of each input on the value of the base case at the reporting date, holding the other inputs constant, are shown below:

Availability of recognised tax assets:

The proportion of the net tax assets currently recognised (or to be recognised) in the corporate income tax returns and financial statements of the Telecable entities that will be deemed available according to the terms of the sale and purchase and share exchange agreement between Zegona and Euskaltel dated 15 May 2017 (the "**SPA**").

Input used in the base case model:	***Sensitivity of the base case:***
75% available	Availability scenarios ranged from 74% to 76%, causing the present value of the base case to range from €6.7 million to €6.8 million

Merger approval:

The likelihood of receiving a binding ruling by the Spanish General Directorate of Taxation confirming certain tax assets are eligible for use upon a qualifying merger of the Telecable entities.

Input used in the base case model:	*Sensitivity of the base case:*
Successful	If the merger is unsuccessful, the revised base case present value would be €0.9 million

Usability of available assets:

The proportion of the available net tax assets that are deemed to be usable by the Telecable entities in future periods to offset future taxable profits according to the terms of the SPA.

Input used in the base case model:	*Sensitivity of the base case:*
84% usable	Usability scenarios ranged from 48% to 100%, causing the present value of the base case to range from €3.8 million to €8.0 million

Timing of merger approval:

The time it will take to receive a positive tax ruling on the merger described above (which is not relevant for scenarios where the merger is not approved).

Input used in the base case model:	*Sensitivity of the base case:*
9 months	If the timing is increased to 21 months, the revised base case present value would be €6.3 million

14. TRADE AND OTHER PAYABLES

	Consolidated as at 31 December 2018 €000	Consolidated as at 31 December 2017 €000
Trade payables	180	111
Other payables	285	1,925
Accruals	2,780	309
Income taxes	123	92
	3,368	**2,437**

	Company only as at 31 December 2018 €000	Company only as at 31 December 2017 €000
Payable to direct subsidiary	5,227	6,952
Trade payables	171	103
Other payables	28	35
Accruals	2,579	306
	8,005	**7,396**

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

15. CALLED UP SHARE CAPITAL

Allotted, called up and fully paid	Number	€000
At 1 January 2017	196,044,960	2,738
Redeemed on 9 October 2017 on completion of tender offer	(69,825,511)	(975)
At 31 December 2017 and 31 December 2018	**126,219,449**	**1,763**

The nominal value of the total ordinary shares is £0.01 and the total allotted, called up and fully paid equates to £1,262,194 (2017: £1,262,194).

	Number of shares	Invested capital (£)	Invested capital per share
Share issues – January 2015	21,675	26,010	£1.20
Share issue – March 2015	24,978,325	29,973,990	£1.20
Share issue – August 2015	171,044,960	256,567,440	£1.50
Total shares issued	**196,044,960**	**286,567,440**	**£1.46**

On 30 August 2017, Zegona announced the publication of a circular for a return of up to £140 million to shareholders by way of a tender offer. The tender offer completed on 9 October 2017 at a price of £2.00 per share, with a total of 69,825,511 ordinary shares tendered.

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. There are no restrictions on the distributions of dividends or the repayment of capital.

16. RESERVES

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

Other reserves

	€000
Balance as at 1 January 2017	381,155
Dividend paid in March 2017	(5,069)
Share buy-back via tender offer in October 2017	(155,364)
Dividend paid in November 2017	(5,564)
Balance as at 31 December 2017	**215,158**
Dividend paid in April 2018	(5,622)
Dividend paid in December 2018	(3,913)
Balance as at 31 December 2018	**205,623**

On 17 March 2017, an interim dividend of £4,411,012 was paid to shareholders, representing 2.25p per share.

On 9 October 2017, 69,825,511 ordinary shares were redeemed at a price of £2.00 per share. The excess over the nominal amount of £0.01 per share was deducted from other reserves.

On 10 November 2017, an interim dividend of £4,922,559 was paid to shareholders, representing 3.9p per share (based on the revised number of shares in issue).

On 24 April 2018, an interim dividend of £4,922,559 was paid to shareholders, representing 3.9p per share.

On 28 December 2018, an interim dividend of £3,534,145 was paid to shareholders, representing 2.8p per share.

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 19.

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.

Available for sale reserve

The available for sale reserve is the cumulative amount recognised in relation to the change in fair value of the available for sale financial assets in the prior year. Under IAS 39, Zegona's investment in Euskaltel and contingent consideration were classified as available for sale financial assets. Upon transition to IFRS 9 on 1 January 2018, the available for sale reserve relating to both the investment in Euskaltel and contingent consideration was reclassified to retained earnings.

Retained earnings

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

17. CAPITAL MANAGEMENT

For the purpose of Zegona's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the Company. The primary objective of Zegona's capital management is to maximise shareholder value.

Zegona 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, Zegona may adjust the dividend payment to shareholders, return capital to shareholders, make distributions of non-cash assets to shareholders or issue new shares.

The Company has gained authorisation to make market purchases of up to 10% 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 gained authorisation to give the Board of Directors the power to make distributions *in specie* of Euskaltel shares without the need for shareholder approval.

Throughout 2018, Zegona had no financial covenants with which it needed to comply.

18. EARNINGS/LOSS PER ORDINARY SHARE

Basic EPS 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 year.

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. As more fully detailed in note 19, Management Shares and Core Investor Shares in the share capital of Zegona Limited have been issued. On exercise, the value of these shares is expected to be delivered by the Company issuing new ordinary shares, and hence the Management Shares and Core Investor Shares could have a dilutive effect, although the Company has the right at all times to settle such value in cash. As the Preferred Return has not currently been met, the Management Shares and Core Investor Shares have not been included in the calculation of diluted EPS.

	2018 €000	2017 €000
Profit for the year attributable to equity holders of the parent – total operations	9,914	41,770
Profit/(loss) for the year attributable to equity holders of the parent – continuing operations	9,914	(11,247)
Weighted average number of ordinary shares	126,219,449	179,975,527
Basic and diluted EPS – total operations	7.9 cents	23.2 cents
Basic and diluted EPS – continuing operations	7.9 cents	(6.2 cents)

On 11 February 2019, Zegona issued an additional 95,715,728 ordinary shares following completion of the Placing.

19. SHARE BASED PAYMENTS

Arrangements were put in place shortly after Zegona's inception to create incentives for those who are expected to make key contributions to the success of Zegona. Zegona'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 year end, a total of €105,418 (2017: €105,418) was recorded in the consolidated share based payment reserve in respect of this equity settled plan.

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 pursuant to their employee arrangements with Zegona.

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% of the growth in equity value of the Company since the date the Company's shares were first admitted to trading on the AIM Market of the London Stock Exchange (or from either the previous exercise date or the end of the previous measurement period, as applicable), subject to shareholders achieving a 5% preferred return per annum on a compounded basis on their net invested capital (the "**Preferred Return**").

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. The rights of the Management Shares may be exercised at other specific times including winding up or takeover, or a change of control of the Company.

Even though Zegona entered the initial measurement period on 14 August 2018, the Preferred Return was not achieved between this date and 31 December 2018 and the Management Shares would have delivered no value if they had been exercised at 31 December 2018. If the Preferred Return is met at any time during the current measurement period (expiring 14 August 2020), the shares will deliver value.

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 the Company, although the Company has the right at all times to settle such value in cash.

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 senior management	1.68%	£3,072	579,639,176	£58
			5,154,639,176	£516

When the Management Shares were first issued by Zegona Limited, the Company 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 the Company, and the absence of any deals or transactions at that date.

At the year end, a total of €68,402 (2016: €68,402) 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 the Company. Core Investor Shares are entitled to a return of 5% per annum of the growth in equity value of the Company subject to shareholders achieving the Preferred Return.

Even though Zegona entered the measurement period on 14 August 2018, the Preferred Return was not achieved between this date and 31 December 2018 and the Core Investor Shares would have delivered no value if they had been exercised at 31 December 2018. If the Preferred Return is met at any time during the current measurement period (expiring 14 August 2020), the shares will deliver value.

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 the Company issuing new ordinary shares of equivalent value although the Company 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% of the growth in equity value of the Company.

At the year end, a total of €37,016 (2017: €37,016) was recorded in the consolidated share based payment reserve in relation to Core Investor Shares.

20. 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 designated member of Marwyn Capital LLP ("**Marwyn**"), which provides various office services to the Company. During the year, services totaling €68k were received from Marwyn (2017: €69k). Marwyn was owed an amount of €6k at the balance sheet date (2017: €6k) in respect of these services, which was unsecured. In addition, Mark's Non-Executive Director fees are paid to Marwyn.

Mark Brangstrup Watts is an ultimate beneficial owner of Axio Capital Solutions Limited ("**Axio**"), which provides company secretarial, administrative and accounting services to Zegona. During the year, services totalling €598k were received from Axio (2017: €664k). Axio was owed an amount of €117k at the balance sheet date (2017: €75k), which was unsecured.

Mark Brangstrup Watts has a beneficial interest in the Core Investor Shares as described in note 19.

Up until 26 July 2017, the Company provided management services to Telecable De Asturias S.A., a former indirect subsidiary of the Company. During the year, the Company charged €nil (2017: €578k) in respect of services supplied. The Company was owed an amount of €136k at the balance sheet date (2017: €223k).

Related party transactions of other Zegona group companies

As at 31 December 2017, €0.6 million was owed by certain members of the Telecable management team. These loans were fully repaid on 31 January 2018.

Transactions with key management personnel and Directors

Compensation of key management personnel of the Company is included in note 5. Holdings of Management Shares are detailed in note 19.

On 26 July 2017, Robert Samuelson was appointed to the board and committees of Euskaltel as a proprietary director. Whilst his appointment was at the request of Zegona, Robert was appointed in a personal capacity and he owes a separate duty of care to Euskaltel's shareholders. Robert receives a gross annual fee of approximately €80,000 directly from Euskaltel and, on appointment, Robert agreed to waive a portion of his Zegona salary equal to the net fees he received from Euskaltel. However, having further considered Robert's obligations as a Euskaltel director, in particular his duties of care and confidentiality and the associated risk to him personally, it was felt inappropriate to maintain any arrangement that could create any appearance that Robert was not fully and independently discharging his obligations to Euskaltel. Robert's director fees from Euskaltel are now retained by him. In respect of these Euskaltel director fees, Robert was owed an amount of €80k at the balance sheet date, which was unsecured (2017: Zegona was owed €20k from Robert, which was settled in January 2018).

21. AUDITOR'S REMUNERATION

	2018 €000	2017 €000
Fees for the audit of the Company's annual accounts	74	258
Fees for the audit of the Company's subsidiaries	–	13
Total audit fees	**74**	**271**
Fees for capital reduction auditor reports for one of the Company's subsidiaries	–	8
Fees for reviews of the interim financial statements	40	–
Fees for reporting in relation to the prospectus for the Placing	79	–
Total non-audit fees	**119**	**8**

22. POST BALANCE SHEET EVENTS

Placing and acquisition of Euskaltel shares

In January 2019, Zegona announced its intention to increase its ownership of Euskaltel through market purchases or privately negotiated transactions up to a maximum of 12.5% of the outstanding issued share capital of Euskaltel at a price it considers attractive for its shareholders based on prevailing market conditions.

On 14 January 2019, Zegona entered into a shareholder relationship agreement with Talomon Capital Limited ("**Talomon**"), an experienced TMT and telecommunications sector investor (the "**Shareholder Relationship Agreement**"). Talomon is a current shareholder in both Euskaltel and Zegona and, pursuant to the Shareholder Relationship Agreement, has agreed formally to support Zegona's strategy, being to increase its ownership position in Euskaltel and to use this increased influence to work constructively with the Euskaltel board of directors and management to improve the performance of the business.

Under the Shareholder Relationship Agreement, Talomon is permitted to own up to 2.4% of the outstanding issued share capital of Euskaltel but, as of the date of that agreement, owned 1.4%. In order to avoid any mandatory offer requirements under Spanish law, for so long as the agreement is in effect, the Directors believe that Zegona is only permitted to increase its stake in Euskaltel by a further approximately 12.5% (or 22,330,000 Euskaltel shares) from its 15% shareholding position at 31 December 2018, such that the aggregate shareholding of Zegona and Talomon would not exceed 29.9%.

On 7 February 2019, Zegona's shareholders approved a Placing under which Zegona raised gross proceeds of £100.5 million.

On 9 April 2019, Zegona announced that the combined shareholding of Zegona and Talomon in Euskaltel was 21.0%, with 19.4% owned by Zegona and 1.6% owned by Talomon.

New facilities

On 14 January 2019, Zegona entered into a facility agreement with Virgin (the "**Virgin Funding**"), which allowed Zegona to draw down up to £10 million. No funds have yet been drawn down under the Virgin Funding.

From the date on which funds are drawn down, interest will accrue daily at an annual interest rate of LIBOR plus 5%, payable quarterly in arrears. The Virgin Funding matures on 30 April 2020. The Virgin Funding will also be repayable: if certain events occur with respect to Zegona or Euskaltel (including any significant fundraisings other than the Placing or the Barclays Facility being drawn in an amount greater than £20 million); if there is a drop in the value of Euskaltel shares to €3.42 or below; upon a change in control of Euskaltel or Zegona; in the event that Zegona sells more than 25% of its Euskaltel shares; or upon the occurrence of other customary events of default. The Virgin Funding will also be repayable with the net proceeds of any disposals by Zegona (subject to limited exemptions) and may be repaid early without penalty. Any voluntary prepayment of amounts drawn under the Barclays Facility will require the prepayment in whole of the Virgin Funding.

On 14 January 2019, Zegona entered into a facility agreement with Barclays (the "**Barclays Facility**"), which allows Zegona to draw down up to £30 million but which will be reduced to £20 million if and to the extent the Virgin Funding is drawn down. The facility may be drawn down between 14 January 2019 and 15 December 2019. On 21 January 2019, Zegona drew £10 million under the Barclays Facility.

Interest is payable quarterly in arrears on the drawn amount at a rate of 2.6% per annum above the 3-month LIBOR interest rate. A commitment fee of 0.6% per annum is payable on the undrawn amount. Zegona has the right to prepay the loan at any time, but if it does so before the first anniversary of the date of the draw down, it must pay a make whole amount calculated at 2.6% per annum multiplied by the prepaid amount for the period between the date of prepayment and that first anniversary. The Barclays Facility matures 24 months from the date of execution of the facilities agreement and any amounts owed will become immediately repayable on the occurrence of certain events of default including a drop in the value of Euskaltel shares to €3.42 or below, a change of control of Euskaltel and other customary events of default.

The maximum amount that may be drawn down under the Virgin Funding and Barclays Facility in aggregate is limited to £30 million. The Barclays Facility is secured by a charge over Euskaltel shares held by Zegona or acquired by it.

Interim dividends

Zegona received of a dividend on 7 February 2019 from Euskaltel at a rate of €0.14 per share, totaling €3,752,000.

Zegona declared a second interim dividend, in lieu of a final dividend for 2018, on 31 January 2019 at a rate of 2.5p per share, totaling £3,155,486, equivalent to €3,607,194 on the date of announcement. The dividend was paid on 1 March 2019.

NOTICE is hereby given that the Annual General Meeting (the "**AGM**") of Zegona Communications plc (the "**Company**") will be held at the offices of Travers Smith LLP, 10 Snow Hill, London, EC1A 2AL on 10 June 2019 at 2:30 p.m. for the transaction of the following business:

To consider and, if thought fit, to pass the following resolutions, numbers 1 to 13 of which will be proposed as ordinary resolutions and numbers 14 to 17 of which will be proposed as special resolutions:

1. THAT the Company's financial statements for the year ended 31 December 2018, 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 year ended 31 December 2018, be approved.

3. THAT the Directors' remuneration policy, which is set out in pages 29 to 34 of the Directors' remuneration report contained within the annual report of the Company for the year ended 31 December 2018, be approved.

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

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

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

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

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

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

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

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

12. THAT the payment of the interim dividend, in lieu of a final dividend, of 2.5p per ordinary share to the Company's shareholders on 1 March 2019 be and is confirmed, approved and ratified for all purposes.

13. 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), the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot:

    13.1 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 £739,783.92 to such persons and at such times and on such terms as they think proper; and further

    13.2 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 £739,783.92,

    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, provided that such authority shall expire at the conclusion of the next annual general meeting of the Company or the date which is 18 months after the date on which this resolution is passed, 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.

14. THAT if resolution 13 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:

    14.1 the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities (but in the case of an allotment pursuant to the authority granted under resolution 13.2, such power shall be limited to the allotment of equity securities 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

    14.2 the allotment (otherwise than pursuant to paragraph 14.1 above) of equity securities up to a nominal amount of £110,967.58,

    such authority, unless renewed, to expire at the conclusion of the next annual general meeting of the Company or the date which is 18 months after the date on which this resolution is passed, 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 Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

15. THAT if resolution 13 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 14 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:

    15.1 limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £110,967.58; and

    15.2 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 next annual general meeting of the Company or the date which is 18 months after the date on which this resolution is passed, 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 Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

16. 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:

    16.1 the maximum number of ordinary shares hereby authorised to be purchased is 22,193,517, being equal to 10 per cent. of the issued ordinary shares;

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

    16.3 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);

    16.4 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; and

    16.5 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.

17. 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 24 April 2019
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 Link Asset Services at The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or at the electronic address provided in the proxy form, in each case no later than 2:30 p.m. on 6 June 2019; 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.

Alternatively, you may submit your proxy electronically using the share portal service at www.signalshares.com. If not already registered for the share portal, you will need your investor code which is located on your share certificate.

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 section 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 6 June 2019 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 Zegona 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 Link Asset Services 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 (0) 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 a.m. and 5.30 p.m., 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 24 April 2019 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 221,935,177 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 24 April 2019 are 221,935,177.

(xi) The information required to be published by section 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. Subject to the limitations of the resolution approved at the AGM of the Company on 15 April 2016, the Company does not intend 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 per cent. 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 section 153(2) of the Act) may require the Company, under section 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 section 437 of the Act. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 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.

The purpose of these notes is to explain the resolutions and business to be conducted at the Company's AGM. Resolutions 1 to 13 set out in the Notice detail the ordinary resolutions and resolutions 14 to 17 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, which includes the Financial Statements of the Company for the year ended 31 December 2018, together with the directors' report and auditor's report on those Financial Statements.

The Company's Annual Report, including the Financial Statements for the year ended 31 December 2018, is available on the Company's website, www.zegona.com. The Annual Report was prepared in compliance with the requirements of the Act and the requirements of the Listing Rules of the Financial Conduct Authority that would apply if the Company was listed on the Premium segment of the Official List 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 28 to 42 of the Annual Report. The actual remuneration paid to Directors in 2018 was made within the boundaries of the Directors' remuneration policy approved by shareholders at the 2016 Annual General Meeting.

Resolutions 3 – Directors' remuneration policy

In accordance with the requirements under the Act, shareholders are being asked to approve the Directors' remuneration policy set out on pages 29 to 34 of the Annual Report.

Resolutions 4 to 9 – Election of Directors

Resolutions 4 to 9 deal with the re-election of each Director of the Company that, subject to the articles of association of the Company (the "**Articles**"), is 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 4 to 9 proposes the re-election of such Directors. Biographies of each of the Directors retiring in accordance with the Articles are set out on pages 13 to 14 of the Annual Report. Richard Williams is the chairman of the Nomination and Remuneration Committee while Ashley Martin is the chairman of the Audit and Risk Committee and, if re-elected, both intend to continue in their respective roles.

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 and contributed positively to the Board meetings that they attended during 2018 as set out on page 16 of the Annual Report and subsequently to the date of this notice.

Resolutions 10 and 11 – Re-appointment and remuneration of auditor

The appointment of KPMG LLP as auditor of the Company, which started on 18 November 2016, terminates at the conclusion of the AGM. KPMG LLP has indicated its willingness to stand for re-appointment as auditor of the Company until the conclusion of the annual general meeting to be held in 2020. The Directors, as well as the Audit and Risk Committee, recommend that KPMG LLP be re-appointed and that its remuneration be fixed.

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 2.5p per ordinary share to shareholders of the Company on 1 March 2019. The dividend payment followed the Company's interim dividend payment of 2.8p per ordinary share in December 2018, thus bringing the total shareholder dividend payments for 2018 to 5.3p per share. The resolution, if passed, would confirm, approve and ratify the dividend payment.

Resolution 13 – 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 13 is proposed to renew the Directors' authority to allot ordinary shares of up to a maximum nominal amount of (i) £739,783.92 (being 33.3 per cent. (i.e. one-third) of the Company's issued ordinary share capital as at 24 April 2019) to such persons and upon such conditions as the Directors may determine; and (ii) a further maximum aggregate nominal amount of £739,783.92 (being 33.3 per cent. (i.e. one-third) of the Company's issued ordinary share capital as at 24 April 2019) in connection with a rights issue (as defined in resolution 13 of the Notice), 24 April 2019 being the latest practicable date before the publication of this notice.

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 Company's issued ordinary share capital.

The authorities sought under resolution 13 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 2 May 2018. 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.

Resolutions 14 and 15 – 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 14 and 15 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 14 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 £110,967.58, equivalent to 5 per cent. of the total issued ordinary share capital of the Company (excluding treasury shares) as at 24 April 2019, 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 per cent. 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 15 authorises the Directors to allot new shares pursuant to the allotment authority given by resolution 13, or sell treasury shares, for cash up to a further nominal amount of £110,967.58, being an additional 5 per cent. of the entire issued share capital of the Company as at 24 April 2019, 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 15 is used, the Company will publish details of the allotment in its next annual report.

The authorities will expire on the earlier of: (i) the end of the next annual general meeting of the Company; and (ii) the date which is 18 months after the date on which this resolution is passed. This resolution replaces a similar resolution passed at the General Meeting of the Company held on 2 May 2018.

Resolution 16 – 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 24 April 2019.

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 any employee share schemes. No options to subscribe for ordinary shares have been granted and are outstanding as at 24 April 2019, although shares issued in the Company's incentive schemes may be converted into ordinary shares in certain circumstances.

Resolution 17 – 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 Link Asset Services, the Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, so as to arrive no later than 2:30 p.m. on 6 June 2019; 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, Link Asset Services (ID RA10), by 2:30 p.m. on 6 June 2019. 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).

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.

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