ZEGONA COMMUNICATIONS

Zegona Communications plc

Annual Report

For the Year Ended 31 December 2019

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I am pleased to present Zegona's annual report for 2019. This year we made significant progress in working constructively with all stakeholders to put in place the foundations needed for Euskaltel to return to growth.

## Investment in Euskaltel

Early in 2019, we increased our investment in Euskaltel, eventually becoming the largest shareholder with 21.3%. At the same time, we continued to engage constructively with the Euskaltel Board of directors and other major shareholders with the objective of improving the performance of the business. This resulted in Euskaltel making a number of changes in the second half of the year that Zegona believes have been positive. In particular, Euskaltel's shareholders ratified the appointment of José Miguel García (the ex-CEO of Jazztel) as CEO and Robert Samuelson and I were appointed to the Euskaltel Board on 10 July 2019.

Since then, Euskaltel has made a series of encouraging changes. In addition to José Miguel's arrival, there have been changes to key leadership positions including a new Chairman, CFO and Company Secretary and the Board has recently resolved to become more focused by reducing in size from 13 to 11. A new streamlined organisation structure has also been put in place with key new hires and a 25% reduction in the senior executive team. Euskaltel has also renegotiated its wholesale access agreements with Orange and Telefonica and signed an agreement to use the Virgin brand to expand nationally.

In March 2020, Euskaltel published its 2020-2025 Business Plan setting out its key strategic initiatives and its ambition to double the size of its customer base and grow revenues to over €1.2bn and EBITDA to over €470m by 2025. The plan details the actions being taken to grow in its existing core regions, to expand using the Virgin brand to offer high value services to customers across Spain, and to continue to drive operational efficiencies through a single integrated organisation.

These changes are already delivering positive results, with Euskaltel returning to growth in both revenue and profitability in the fourth quarter of 2019, with the trend continuing in the first quarter of 2020. Euskaltel has also reported that the early impact of the Coronavirus pandemic ("Covid-19") has been "limited and controlled," enabling it to reconfirm its full year guidance for 2020, reconfirm that it still intends to pay a final dividend of €0.17 per share in July and confirm that it is ready to begin its national expansion program.

We believe that the changes put in place during the second half of 2019 and Euskaltel's 2020-2025 Business Plan set the business on an exciting growth trajectory. We think the combination of increasing its market footprint in its current regions with a continued focus on operating efficiency will lead to positive results for the existing business. Additionally, addressing the 85% of the Spanish market where Euskaltel is not currently present using the well-recognised Virgin brand creates a major new growth driver which we expect to transform the financial profile of the business. Moreover, José Miguel and members of his team have an excellent track record of building a highly valued national business from their time at Jazztel, which makes us confident in their national expansion plans.

## Outlook

In our view, the underlying outlook for telecommunications businesses in Spain continues to be fundamentally sound, which provides Euskaltel with a solid foundation for growth. The telecommunications market in Spain continues to be competitive but rational, with most players seeking to build profitable growth and we continue to believe Euskaltel can be successful in the national market with a well-designed and well-targeted offering.

The broader Spanish economy has continued to perform well, with GDP growth of 2.0% in 2019 and, before the outbreak of Covid-19, GDP growth of 1.6%[1] was expected in 2020. It is still too early to tell what the impact of Covid-19 will be, although many commentators are forecasting significant but relatively short-lived declines in GDP which could impact Euskaltel. Like many other telecommunications businesses, Euskaltel has historically proved to be resilient during a downturn, even growing revenue each year during the last financial crisis. Encouragingly, Euskaltel has already announced that it has not seen a significant impact on its business and financial results during the first quarter of 2020.

1 As published by the European Commission in February 2020.

Beyond Spain, we continue to see a very healthy environment for investments across the broader European TMT[2] landscape. There was an increase in deal activity in 2019 and we have also seen growth in the availability of assets. We continue to evaluate new acquisition opportunities and actively pursue those which meet our rigorous financial and strategic criteria.

## Dividends

We remain committed to paying dividends to our shareholders and we intend, for the foreseeable future, to promptly return all dividends we receive from Euskaltel to our shareholders. During 2019, we paid €9.9 million in dividends, representing a total of 5p per share. Euskaltel has already confirmed that it intends to pay a dividend of €0.17 per share in July 2020 and we intend to pass through 100% of this dividend once we receive it. We expect to declare an interim dividend of 2.6p per share in July, which equates to an annualised yield of 5.2%[3].

## Board Changes

We are reshaping our Board and committees to create a more independent structure in line with good corporate governance. We have recently appointed two new independent Non-Executive Directors, Kjersti Wiklund and Suzi Williams, with very strong industry and governance credentials. Two Directors are also stepping down from the Board, Murray Scott and Mark Brangstrup Watts. This leaves us with a more effective and efficient Board structure with two Executive Directors and four fully independent Non-Executives.

In addition, Suzi will become the chair of the Nomination and Remuneration Committee at the next Annual General Meeting ("**AGM**") and we intend to appoint one of our Non-Executives as a Senior Independent Director. We expect to announce this appointment after the AGM. With these changes, all Non-Executive Directors and all Board committees are fully independent. We believe this is the right Board structure to support Zegona's future development.

Zegona is committed to delivering a high standard of corporate governance and I am delighted that our governance structure is continuing to develop alongside our operations. We are already benefitting from Suzi and Kjersti's wealth of industry knowledge and governance experience. Mark and Murray have served on the Board for around five years and in this time have made hugely valuable contributions to the establishment and development of Zegona. We greatly appreciate the assistance they have provided to both the business and the management team and look forward to continuing to work with Mark in his role as a shareholder.

## Annual General Meeting

Zegona's 2020 AGM will be held at 12:00 p.m. on 9 June 2020 at 10 Snow Hill, London EC1A 2AL. Further details on the 2020 AGM and the business to be conducted on the day can be found on pages 86 to 94. We will ensure that appropriate social distancing measures are in place and my colleagues and I look forward to meeting you in June.

**Eamonn O'Hare**
**Chairman and Chief Executive Officer**
**13 May 2020**

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2 Technology, media and telecommunications.
3 Zegona declared an interim dividend of 2.5p per share on 2 August 2019.
4 Based on the closing price of Zegona's shares on 13 May 2020 of £0.89.
5 Pending her re-election at the AGM.

## Vision

- Execute our strategy in the European 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. Gigabit broadband 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[6] 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 high capacity 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 their core regions, delivering cost reductions 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, satellite pay TV, smaller fixed incumbents, B2B[7] and network infrastructure.

## 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 telecommunications 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[8] with a long-term outlook own more than 81% of Zegona. The successful placement of equity in February 2019 with gross proceeds of more than £100 million underlines investor confidence in our strategy, as do recent significant investments in Zegona, including by Fidelity Management and Research, Aberforth Partners LLP and Chelverton Asset Management. Our management team has an effective investor relations programme which maintains regular contact with Zegona's major shareholders and potential shareholders.

6 Quad play: customers with four services (pay TV, fixed voice, broadband and mobile).
7 Business to Business.
8 Those with holdings in 3% or more of the issued ordinary shares of the Company are listed on page 41.

## 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 making investments 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 has been to increase our ownership position and seek to work constructively with the Euskaltel Board 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[9]); 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;
- Investing in products, services and other value-accretive activities to drive top line growth;
- Focussing on operating profitability and cash generation;
- Ensuring a balanced and efficient capital structure; 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 delivery; and
- Following a successful crystallisation, any surplus value will be reinvested or returned to shareholders.

9 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 share of the profit of Euskaltel and dividend income (and the movements in fair value of the investment prior to recognising Euskaltel as an associate); 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.

## Review of investment in Euskaltel

*Strategic developments*
During 2019, we sought to increase our existing 15% ownership of Euskaltel through market purchases or privately regulated transactions up to a maximum of an additional 12.5% of the outstanding issued share capital of Euskaltel at a price we considered attractive for our shareholders based on prevailing market conditions. To fund this, 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. Zegona now owns the largest shareholding in Euskaltel with 21.3%.

At the same time, we continued to engage constructively with the Euskaltel Board and other major shareholders with the objective of improving the performance of the business. This eventually resulted in Euskaltel making a number of changes in the second half of the year that Zegona believes have been positive for the business. In particular, José Miguel García (the ex-CEO of Jazztel) was appointed as CEO of Euskaltel by its Board with unanimous agreement on 5 June 2019, and his appointment was overwhelmingly endorsed by Euskaltel's shareholders at the Extraordinary Shareholder Meeting on 10 July 2019. At the same shareholder meeting, Eamonn O'Hare and Robert Samuelson were also confirmed as proprietary[10] directors on Euskaltel's Board.

Since appointing José Miguel, Euskaltel has made significant progress in developing and implementing a new plan for the business. Highlights include:

- ***Integrating three operating companies into one business***. This is designed to simplify operations and reduce costs. A new organisation structure has been implemented, with key hires on board, including a new Chairman, CFO and Company Secretary and a significantly streamlined senior executive team. This has created clearer accountability for results and a stronger and more agile leadership. Euskaltel is also creating a single technical platform, whilst integrating the sales strategies of its existing three brands, taking best practice from each and expanding the more efficient on-line/direct channels.

- ***Improving the customer proposition***. Euskaltel is focussed on reducing churn and enabling ARPU[11] growth. A new mobile offer has been launched in partnership with Samsung, giving customers a high-quality handset and large data allowance at highly attractive rates. In addition, Euskaltel has increased broadband speed for its customers at no extra cost. A carefully targeted 'more-for-more' price rise has also been implemented.

- ***Expanding nationally***. On 12 February 2020, Euskaltel announced that it had signed a trademark licence agreement to use the Virgin brand in Spain to drive its expansion into the 85% of Spain where Euskaltel is not present today and, on 23 March 2020, Euskaltel confirmed that it is ready to being its national expansion strategy and already has access to over 13 million homes in Spain. Pilot tests have successfully been carried out with customers around Spain who have access to all convergent fixed and mobile phone services, ultra-fast broadband and 4K TV.

10 Proprietary director means a director of a company who is the beneficial owner of or is able, either directly or indirectly, to control more than 15% of the ordinary share capital of the company.
11 Average revenue per user.

- Euskaltel believes that expanding nationally will enable it to offer customers in these regions great value, high quality quad-play services, leveraging Euskaltel's existing advanced capabilities. Using the Virgin brand will accelerate growth in this untapped market for Euskaltel. The national expansion strategy is also supported by a new wholesale agreement giving Euskaltel long-term access to Orange's fibre network covering 14 million households and access to data-rich mobile services across Spain. In addition, Euskaltel has also announced the renewal of its mobile access agreement with Telefonica on improved financial terms.

*Operational and Financial performance*
On 26 February 2020, Euskaltel reported significantly improved operating KPIs for the year. In 2019, Euskaltel grew its fixed subscribers by 8,757, with 17,700 broadband net additions and 46,900 postpaid mobile net additions. This is the first year of customer growth after two years of subscriber losses. The number of products and services also grew with more convergent customers, reaching an average of almost 3.7 services per subscriber. In the B2B market, Euskaltel similarly increased its customer base materially during 2019, reaching a record high of 15,263 customers (31 December 2018:14,827).

Euskaltel's financial results were also strong, with revenues returning to growth in Q4 2019. Actions taken to create a single unified operational platform serving Euskaltel's multiple regional brands have already resulted in material cost savings, with SG&A[12] expenses 11% lower than Q4 2018. These savings, along with improvements in Euskaltel's main wholesale agreements with Orange and Telefonica, resulted in EBITDA for Q4 2019 reaching a record level of €92 million, an increase of almost 8%. This represents the second consecutive quarter of EBITDA growth. For the full year 2019, EBITDA grew 2.4% to €344 million, profit after tax remained stable at €62 million and operating cash flow increased by 4% to €190 million.

Euskaltel continued to report growth in its key operating and financial results in the first quarter of 2020. Euskaltel recorded a sixth consecutive quarter of growth in fixed line customers, with 400 new users and 3,000 broadband net additions, driven mainly by the expansion that has taken place outside the Group's three traditional regions. Euskaltel saw a second consecutive quarter of revenue growth with 0.1% in Q1 2020 compared to the same period in 2019. Operating efficiencies also delivered savings that contributed to EBITDA of €88 million, which was an increase of 8.1% compared to the same period in 2019.

Euskaltel also reported that the impact of the Covid-19 pandemic was limited and controlled. Restrictions on customer portability imposed due to the State of Emergency have resulted in an approximately 50% reduction in both daily gross adds and churn from normal levels, resulting in a stable customer base. There has also been a limited impact on revenue from unpaid bills and customers suspending services so far and mitigation measures are already in place to limit the impact of this in future. The financial position of the business remains strong with continued operating cash flow generation. At the end of the first quarter of 2020, Euskaltel had €98 million of cash, which was increased by €150 million in April due to the full drawdown of its revolving credit facility.

As a result of the strong first quarter results and the limited impact of Covid-19, Euskaltel also confirmed that, subject to approval from shareholders, it still intends to pay the final instalment of the dividend against 2019 results of €0.17 on 5 July 2020. Euskaltel also reconfirmed its guidance for 2020 and indicated that the national expansion plan is ready for full commercial launch.

*Investment performance*
Zegona had previously concluded that it did not have significant influence over Euskaltel and therefore accounted for its investment in Euskaltel as a financial asset carried at fair value through profit and loss in accordance with IFRS 9 Financial Instruments. As more fully discussed in note 3 to the Financial Statements, during the second half of 2019, Zegona identified certain factors that indicated that from 10 July 2019 Zegona has the ability to participate in Euskaltel's financial and operating policy decisions and therefore accounted for its investment in Euskaltel as an associate using the equity method.

12 Selling, General and Administrative.

In the period to 10 July 2019, the investment in Euskaltel segment generated finance income of €38.0 million (2018: €12.5 million), being dividend income of €10.2 million (2018: €7.5 million) and a gain on the fair value of the investment of €27.9 million (2018: €5.1 million). The gain in fair value reflects the increase in the Euskaltel share price from €6.99 at 31 December 2018 to €8.09 at 9 July 2019. The increase in dividend income reflects an increase in dividend per share paid by Euskaltel from €0.278 per share in 2018 to €0.310 per share, together with an increase in Zegona's ownership since the start of 2019.

During the second half of 2019, Zegona's share of Euskaltel's profit was €9.1 million, which reflects Zegona's 21.3% share of Euskaltel's adjusted net profit of €42.9 million for the period from 10 July 2019 (2018: €nil).

The fair value of Zegona's investment in Euskaltel was €341.6 million at 31 December 2019 (2018: €187.3 million) with the increase due to a combination of an increase in the number of shares owned and a 28.3% increase in Euskaltel's share price during the year.

## Review of Zegona's corporate and other activities

Zegona's corporate and other activities resulted in an operating loss of €6.0 million (2018: €4.7 million) plus net finance income of €1.0 million (2018: €2.1 million), contributing a total loss for the year of €5.0 million (2018: €2.6 million).

### Operating loss

Operating costs totalled €6.0 million (2018: €4.7 million) and include: (1) €5.6 million (2018: €3.9 million) related to Zegona's ongoing corporate operations, with the increase primarily due to higher bonuses paid to management; and (2) €0.3 million (2018: €0.8 million) for significant project costs, which in 2019 were principally advisory and other professional fees incurred on projects related to increasing Zegona's influence over Euskaltel.

### Net finance income

The net finance income comprises a net foreign exchange gain of €1.4 million (2018: €2.4 million) plus a gain on fair value of the contingent consideration from the sale of Telecable of €0.2 million (2018: €0.2 million), less interest on bank borrowings of €0.7 million (2018: €nil). The change in fair value during 2019 reflects a revision to the timing of receipt of the contingent consideration.

The net gain on foreign exchange principally arises from the revaluation of the investment in Euskaltel (prior to classification as an associate), whose shares are quoted in euros, within Zegona Limited and Zegona Communications plc, a company with a functional currency of British pounds sterling ("**Sterling**").

## Key performance indicators and non-GAAP measures

As Zegona does not currently have an operating business, there are limited 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 with the exception of:

## Value of Main Assets per share

Zegona's principal asset is its 21.3% ownership of Euskaltel, where it is the largest shareholder. Zegona believes it is helpful for its shareholders to be aware of the development in the value of Euskaltel, and to understand what this represents in terms of value of the Euskaltel investment and Zegona's net cash position (its "**Main Assets**") per Zegona share, especially since Zegona no longer accounts for its investment in Euskaltel at fair value, and how this compares to the market value of Zegona's shares, and also how this value compares to the Net Invested Capital and Preferred Return threshold under Zegona's incentive scheme[13].

The value of Zegona's Main Assets per share is a computation of the Sterling equivalent of the fair value of Zegona's investment in Euskaltel, its cash and cash equivalents and its bank borrowings, divided by the total number of shares outstanding[14] as follows:

| | 13 May 2020 | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Fair value of investment in Euskaltel (€000) | 272,277 | 341,584 | 187,332 |
| Cash and cash equivalents (€000) | 20,844 | 27,035 | 3,138 |
| Bank borrowings (€000) | (11,179) | (11,578) | – |
| Value of Main Assets (€000) | **281,942** | **357,041** | **190,470** |
| Foreign exchange rate (€ / £) | 1.1292 | 1.17547 | 1.11258 |
| Value of Main Assets (£000) | 249,683 | 303,743 | 171,196 |
| Shares outstanding | 219,492,730 | 221,935,177 | 126,219,449 |
| Value of Main Assets per share (£) | **1.14** | **1.37** | **1.36** |

13 As defined on pages 29 and 34.
14 No value for Zegona Management and Core Investor Incentive Schemes is included.

## Principal and emerging 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. Detailed consideration is given to all of these risk factors by the Audit and Risk Committee and the board of Directors (the "**Board**").

### Principal and emerging commercial risks

| Risk title | Risk rating | Change in risk assessment since the last Annual Report |
|---|---|---|
| Risks related to the investment in Euskaltel | High | ↑ Increased |
| 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 2019, Zegona's sole investment was its holding of approximately 21% of Euskaltel. The value of this investment is dependent on Euskaltel's performance, which could, in turn, be adversely impacted by risks that Euskaltel is exposed to. Some of these risks are common to telecommunications operators in Spain and others that are specific to Euskaltel itself. Whilst not exhaustive, Zegona believes the most significant of these risks are:

- ***Spanish economy and Covid-19***: Deteriorating economic conditions and rising unemployment rates could have a significant impact on Euskaltel's performance. The Spanish economy has experienced healthy growth in recent years following a significant downturn in 2012 and 2013, which was expected to continue in 2020. Spain has, however, been severely impacted by Covid-19 and in mid-March imposed a strict lockdown with restrictions being eased from the beginning of May 2020. It is still difficult to tell what the impact will be for the Spanish economy generally and telecommunication providers in general, although Euskaltel has already announced that the outbreak has been "limited and controlled". Despite the relatively limited impact on Euskaltel so far, there remains a risk that the Spanish economy in general and Euskaltel's performance and its equity value in particular could be negatively impacted in the medium and longer term. This impact could come either directly from the disruption related to restrictions to address Covid-19 in early 2020, or from a longer-term economic decline caused indirectly by the outbreak.

- ***Competitive environment***: Euskaltel faces significant competition from both established and new competitors that provide similar services in Spain. This competition includes offers with aggressive discounts and could negatively impact Euskaltel's business. To compete effectively, Euskaltel will need to continue to successfully design and market its services and anticipate and respond to competitive factors. If it is unable to do this, results could fall substantially short of current expectations.

- ***Delivery of change programme***: José Miguel García has instituted a comprehensive and wide-ranging organisational and operational change programme across all aspects of Euskaltel's business, which Zegona fully supports. While this programme has already delivered significant benefits, there still remains a considerable amount of work to be done. There is a risk that, if these improvements are not delivered, this could have an adverse effect on Euskaltel's business.

- ***Success of national expansion***: A key part of Euskaltel's growth strategy is to expand nationally using the Virgin brand to offer high value services to customers across Spain. While this provides a significant opportunity, it is a logistically complex project that requires acquiring customers in a competitive market. There is a risk that, if the project is not as successful as hoped, this could have a negative impact on Euskaltel's performance and on the value of Zegona's 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.

The appointment of Zegona's Chief Executive Officer Eamonn O'Hare and Chief Operating Officer Robert Samuelson as proprietary directors on Euskaltel's Board enables them to take a hands-on role in delivering tangible improvement actions within the Euskaltel business, including national expansion in partnership with Virgin.

*Acquisition of targets*
The success of Zegona's future investment 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; 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 deplete 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.

As Covid-19 outbreaks continue across Europe, it is possible that access to significant debt and equity financing may become more difficult, thus temporarily impacting Zegona's ability to complete new acquisitions in a reasonable timeframe. Zegona believes that, as countries begin to ease restrictions in the coming months and economic activity begins to recover, the difficulties in accessing debt and equity financing will reduce.

*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, due to Covid-19 or other reasons, 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. Zegona will continue to monitor the Covid-19 situation and do all it can to ensure the safety of key management and all employees.

We aim to retain our key staff by offering remuneration packages at market rates, as well as long term incentives 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*
The uncertainty and unpredictability concerning the UK's legal, political and economic relationship with the EU following the UK's exit from 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, fiscal, legal, regulatory or otherwise) for the foreseeable future. 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 the current transitional period or more permanently. Additionally, the exchange rate of Sterling vis-a-vis other currencies may continue to be relatively volatile, which could 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. 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 2022 – 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:

- Zegona will not acquire another business, or dispose of its investment in Euskaltel, during the assessment period. This is a particularly conservative assumption since any new acquisition would be expected to have a significant positive impact on Zegona's viability, both through contributing operating cash flows and the fact that sufficient additional funds could also be raised to ensure Zegona's viability in the longer term. Despite the fact that Zegona is hopeful that a successful acquisition will be made during the assessment period, given the uncertainty over the timing and size of it, it was not considered appropriate to include it in the assessment. Similarly, a disposal of the investment in Euskaltel would be expected to have a significant positive impact on Zegona's viability, through sale proceeds, therefore it was not considered appropriate to include it in the assessment;
- Zegona will incur substantial abort costs on failed transactions without taking actions; and
- Zegona has drawn down £10 million from its current debt facility with Barclays, which expires on 14 January 2021. Under the facility agreement, Zegona can no longer draw the remaining amount. The £10 million credit facility provided by Virgin matured on 30 April 2020. Zegona expects to refinance the current debt facility during the assessment period in a similar amount and on similar terms as the existing facility. This is considered to be reasonable given the small size of the facility compared to the value of the Euskaltel shares that it is secured on. In the unlikely event that the facility agreement is not refinanced, the current pledge to Barclays on Euskaltel shares will cease and therefore Zegona could, if additional liquidity was needed, sell part of its shareholding in Euskaltel.

In addition to the already deliberately conservative base model, we also considered the principal and emerging risks discussed under section 3 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 shown below. Each of these principal risks take account of the impact of Covid-19 as an emerging risk:

| Principal and emerging risks | Base model | Downside scenario | 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. Since dividends are passed through, the impact of declining performance, for example as a result of Covid-19 are limited, therefore no further downside impacts need to be modelled. |
| **Acquisition of targets** | ✔ | ✔ | The most significant risk to viability. The base model assumes no acquisitions but includes substantial abort costs. In the downside scenario, additional abort costs and other operating costs are 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 or exit of Euskaltel at the desired time. This is already included in the base case, therefore no further downside impacts need to be modelled. |
| **Disposal of investments** | ✘ | ✘ | Not relevant as no disposals are included in the base case. |
| **Brexit** | ✔ | ✘ | The most significant consequence of Brexit would likely be on our ability to execute another acquisition or exit of Euskaltel at the desired time, which is already considered as part of the 'Acquisition of targets' and 'Disposal of investments' 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. The base model assumes constant Sterling:euro rates during the assessment period. In the downside scenario, a depreciation of Sterling against the euro has been considered. |

Based on the evaluation of the principal risks above, combined with a consideration of a number of other factors (including the different ways Covid-19 could be expected to impact Zegona) the Directors identified a severe but plausible downside scenario which was further used to stress test the base numbers.

The downside scenario includes a number of negative developments occurring in combination without considering the impact of a number of achievable mitigating actions. The scenario includes: a reduction in the amount of debt facility that can be refinanced from £30 million to £15 million; a doubling of abort costs; and a significant increase in operating costs resulting from a range of sources.

*4. Results of the assessment*

The assessment showed that in both the base case and the downside scenario, Zegona would have sufficient cash and liquid resources to continue in operation throughout the assessment period without taking any mitigating actions available to it.

Given the small size of the drawn portion of Zegona's existing facility compared to the value of the Euskaltel shares that it is secured on, Zegona believes it is probable it will be able to refinance the facility. However, the assessment also shows that, if the facility was not refinanced, Zegona would still have sufficient cash and liquid resources to continue in operation throughout the assessment period, although this would be after deploying one or more of a range of the available mitigating actions. These include reducing discretionary expenditure, selling part of Zegona's investment in Euskaltel or retaining part of the Euskaltel dividend.

*5. Viability statement*

Taking into account Zegona's current position and principal and emerging 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 2022.

## 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.

Zegona recognises that 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. On 5 February 2020, two female independent Non-Executive Directors were appointed to the Board, improving Zegona's diversity. The Nomination and Remuneration Committee will continue to consider the diversity of the Board for further new appointments.

The table below shows the breakdown of our workforce at the end of 2019. As noted above, since then, two female directors have been appointed to the Board.

| | 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 2019. Senior management is per the definition in section 414C of the UK Companies Act 2006.

## 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.

## 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 2019. Scope 3 is not yet mandatory, however, we have again chosen to report Scope 3 emissions. Zegona has no Scope 1 emissions.

| | Global tonnes of $CO_2$ | |
|---|---|---|
| | **2019** | **2018** |
| Scope 2 (electricity) | 5.7 | 3.3 |
| Tonnes of $CO_2$ per €m operating expenses | 0.95 | 0.70 |

| | Global tonnes of $CO_2e$ | |
|---|---|---|
| | **2019** | **2018** |
| Scope 3 (water, business travel) | 49.7 | 52.2 |
| Tonnes of $CO_2e$ per €m operating expenses | 8.30 | 10.99 |

All emission factors have been selected from the emissions conversion factors published annually by Defra and the International Energy Agency. Scope 2 emissions have gone up due to an increase in Zegona's office space.

**Board engagement with our key stakeholders**

Section 172 of the Companies Act 2006 requires a Director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a Director to have regard, among other matters, to: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and the need to act fairly with members of the company.

The Directors give careful consideration to the factors set out above in discharging their duties under section 172. More information about who our key stakeholders are and how we engage with them is provided on page 24.

The Strategic Report was approved by the Board on 13 May 2020 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 proprietary director of Euskaltel. 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 38.

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 38.

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 and resigned 12 May 2020)

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 19.16% 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 was a member of the Nomination and Remuneration Committee but will not stand for re-election at the 2020 AGM and has stepped down from the Board with effect from 12 May 2020.

### 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. After leaving BT, Murray successfully pursued a career as an interim director and consultant for a number of years before being appointed as Finance Director of Premia Solutions Limited, an insurance intermediary, on 1 January 2020.

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. Murray is not standing for re-election to the Board at the 2020 AGM.

### 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. Richard will step down as Chair of the Nomination and Remuneration Committee following the 2020 AGM but will continue to be a member of the 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.

### Kjersti Wiklund, independent Non-Executive Director (appointed 5 February 2020)

Kjersti brings significant experience from a series of senior global telecommunications roles, including as director of group technology operations at Vodafone and chief operating officer of VimpelCom. Kjersti has also held senior executive positions at Kyivstar, Digi Telecommunications and Telenor.

Kjersti has also gained valuable insight into an entrepreneurial, high growth consumer technology company as Remuneration Committee Chair at Trainline plc. She was previously a non-executive director of Laird plc in the UK, Cxense ASA and Fast Search & Transfer ASA in Norway and Telescience Inc in the USA and is currently a non-executive director of Babcock International Group PLC and Spectris PLC.

Kjersti is a member of the Audit and Risk Committee.

Suzi Williams, independent Non-Executive Director (appointed 5 February 2020)

Suzi brings skills and experience from over 25 years in telecommunications, media and consumer businesses in the UK and internationally. As Chief Brand and Marketing Officer at BT, she was part of the team who transformed the business. Prior to that, she was Commercial Development Director at Capital Radio Group and held senior leadership roles at Orange, the BBC, KPMG Consulting, and Procter & Gamble Europe.

A board member at The AA since 2015, Suzi was Chairman of its Remuneration Committee until November 2019. She currently sits on its Risk & Nomination Committees. In January 2020, she joined the board of WorkSpace Group and sits on all of its board committees. Suzi also advises a number of early stage technology and AI businesses.

Suzi is a member of the Nomination and Remuneration Committee and, subject to her re-appointment at the 2020 AGM, will become the Chair of this 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 developing 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 9 to 11. The Directors' Report on pages 40 to 42 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 five 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 Murray Scott, Richard Williams, Ashley Martin, Kjersti Wiklund and Suzi Williams. Murray is not standing for re-election at the 2020 AGM. Mark Brangstrup Watts, who served as a Director for five years, is also not standing for re-election at the 2020 AGM and stepped down from the Board with effect from 12 May 2020.

Biographical details of all Directors and details of their committee membership at the date of approval of this report appear on pages 16 to 18. Consideration of the Board size and composition is kept under regular review by the Nomination and Remuneration Committee.

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.

The Board has adopted a Board Charter, available on Zegona's website, which sets out:

- the Board's collective vision on Zegona's strategy and objectives;
- the Board's approach to the conduct of its business and the parameters within which it will operate, including the management of any Board or investor disagreements; and
- the Board's agreed focus areas for further action.

### Board interaction

The Board meets formally at least six times a year but also frequently 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. External advisors are also invited to meetings from time to time to advise Board members directly where this is felt necessary.

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 16 to 18. 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, Richard Williams, Kjersti Wiklund and Suzi 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 21 to the Financial Statements), and is a beneficial owner of Axio Capital Solutions Limited ("**Axio**" or the "**Company Secretary**"), which provides certain company secretarial & administration services and financial & accounting services to Zegona, the Board considers that he nonetheless, during his term in office, had the characteristics of an independent Non-Executive Director on the basis that:

- his extensive experience as a non-executive director means he was capable of maintaining the independent character and judgement necessary to fulfil the role; and
- he was independent of the Executive Directors.

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

## Board and committee attendance

Attendance at the Board and committee meetings held during 2019 was:

| | Board meetings | | Nomination and Remuneration Committee meetings | | Audit and Risk Committee meetings | |
|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended |
| Eamonn O'Hare | 17 | 16 | – | – | – | – |
| Robert Samuelson | 17 | 16 | – | – | – | – |
| Mark Brangstrup Watts | 17 | 15 | 7 | 5 | – | – |
| Murray Scott | 17 | 14 | 7 | 6 | 3 | 3 |
| Richard Williams | 17 | 17 | 7 | 7 | 3 | 3 |
| Ashley Martin | 17 | 16 | 7 | 7 | 3 | 3 |

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

### Board and Committee changes

During 2019, Korn Ferry, a leading executive search consulting firm, was engaged to identify a suitable individual to join Zegona's Board. Other than the engagement to search for an additional independent non-executive Director, Zegona has no other connection with Korn Ferry. Following a rigorous series of interviews with members of the Board and management team, Kjersti Wiklund and Suzi Williams were identified as outstanding candidates and, on the recommendation of the Nomination and Remuneration Committee and taking into account that Murray Scott will not be standing for re-election at the 2020 AGM, both were appointed with effect from 5 February 2020. On this date, Kjersti was appointed to the Audit and Risk Committee and Suzi was appointed to the Nomination and Remuneration Committee. Biographical details about Kjersti and Suzi can be found on pages 17 and 18. The Board will seek to appoint one of the independent non-executive directors to be the Senior Independent Director ("**SID**") following the 2020 AGM.

Kjersti and Suzi have been provided with extensive written information on Zegona on both its:

- business and financial documents, including analysts' reports, management accounts, budget, shareholder register and other key agreements and contracts; and
- corporate governance documents, including Board Charter, committee terms of reference, voting reports from the 2019 AGM, Board effectiveness evaluation and Zegona's policies and procedures.

They have also spent time with Zegona's Executive Directors and management team to review and understand all aspects of Zegona's business. In addition, they have both visited the Euskaltel headquarters in Spain and met with key members of the Euskaltel management team, including the Chairman, CEO and CFO.

Mark Brangstrup Watts stepped down from the Board with effect from 12 May 2020. Following his resignation, the Nomination and Remuneration Committee is now solely comprised of independent Non-Executive Directors. In addition, Suzi Williams, if re-elected at the 2020 AGM, will take over as Chair of the committee. The Board believes that these changes further strengthen the independence and capability of the committee and demonstrate Zegona's intent to continue to challenge and enhance its corporate governance framework as the business grows and evolves.

### 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 2020 AGM and, with the exception of Murray Scott and Mark Brangstrup Watts, seek to be re-elected by Zegona's shareholders. The Chairman is satisfied that the performance of all of the Directors 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 2019 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. Zegona's Board Charter sets out the process for managing significant Board or investor disagreements and/or conflicts. Notwithstanding that no material conflict of interest has arisen in the year, the Board considers these procedures to have operated effectively.

## Company secretary

Axio acts as Zegona's named company secretary and assists the directors in ensuring Zegona is managed, controlled and administered within the parameters of its governing and constitutional documents. All directors have access to the advice of Axio, which is responsible for advising the Board on all governance matters. Axio is regulated by the Jersey Financial Services Commission.

## 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 and as part of Zegona's annual assessment of Board effectiveness. The Board remains aware 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 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. The Board fully recognises the value that can be provided by a SID and will seek to appoint one of the independent Non-Executive Directors to be the SID following the 2020 AGM.

### *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 appointment process.

*Independence of Board committees*
During 2019, the Nomination and Remuneration Committee was comprised solely of Non-Executive Directors, however provision 32 of the Code recommends remuneration committees to be comprised of independent Non-Executive Directors. As noted above, Mark Brangstrup Watts was not fully independent. Mark resigned from the committee with effect from 12 May 2020. As a result, the committee comprises now solely independent Non-Executive Directors. The Audit and Risk Committee also currently comprises of independent Non-Executive Directors.

*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 five employees (excluding directors), the Board believes the implementation of any formal steps or procedures to engage with the workforce are not required as informal communications occur regularly between all employees and the Executive Directors, including weekly team meetings.

**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 objectivity, the questionnaire was designed in consultation with EY. 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, analysing responses and drawing anonymous conclusions, was sent to each Director for consideration and discussed at a meeting of the whole Board. The Board agreed that the key findings of this discussion will be used as a basis to develop a workshop to be facilitated by EY when the Board is able to meet face-to-face. The objective of this workshop will be for the Board to discuss the key issues that it feels will enable it to be more effective in the future and identify tangible actions.

**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. Zegona has put in place a whistleblowing policy to facilitate this.

The aims of this policy are:

- to encourage employees 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 employees with guidance as to how to raise those concerns; and
- to reassure employees 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. All 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, with feedback regularly discussed in depth at Board meetings. Extensive discussions were also held with Zegona's major shareholders as part of the Placing as well as a large number of prospective shareholders. 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. Barclays Bank plc, as Zegona's joint corporate broker, provides reports and attend Board meetings, as appropriate, to provide feedback to the Non-Executive Directors on shareholders' views. These views were actively considered in the Board's decision to undertake the buyback programme, which was announced in January 2020.

### Annual general meeting

The next AGM will be held at 10 Snow Hill, London, EC1A 2AL at 12:00 p.m. on 9 June 2020. 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.

## Audit and Risk Committee Report

I am pleased to present the 2019 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.

### Committee membership and meetings

The membership of the A&RC during 2019 continued to be Ashley Martin (Chairman), Murray Scott and Richard Williams, all of whom are independent Non-Executive Directors as required by provision 24 of Code. The Board has determined that Ashley Martin has recent and relevant financial experience due to his previous CFO roles at listed and private equity backed businesses. All three A&RC members qualified as Chartered Accountants. In line with the Code, the A&RC as a whole possesses competence relevant to the sector in which Zegona operates through the digital media and consumer experience of Ashley Martin and the telecommunications experience of Richard Williams and Murray Scott. Kjersti Wiklund was appointed to the A&RC on 5 February 2020 bringing additional IT and telecommunications experience to the A&RC.

The A&RC normally meets at least three times a year with additional meetings arranged if necessary. In 2019, the A&RC met in March, September and December and has subsequently met in May 2020. 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 risk management processes throughout the year.

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 meets separately with the external auditors to seek their views without management present, and the A&RC Chair keeps in touch with the Chief Financial Officer as well as other members of the management team and the lead audit partner periodically outside of formal meetings. The A&RC has the right to invite any other Directors and/or employees to attend meetings where this is considered appropriate.

The A&RC Chair reports formally to the Board on the key matters considered at each A&RC and minutes of those meetings are circulated to the Board.

### Committee effectiveness

The effectiveness of the A&RC was considered by the Board as part of the annual Board effectiveness evaluation. The feedback was positive and confirmed that the A&RC remains effective and provides robust challenge.

### Activities during the year

Since the last Audit and Risk Committee Report, the A&RC has undertaken the following activities:

#### Financial reporting:

- Confirmed that the Financial Statements were fair balanced and understandable. In this respect, the A&RC considered, inter alia:
  - the key messages in the annual report and their consistent application in the front and back end of the report;
  - the disclosures in connection with the accounting for Euskaltel as an associate;
  - the completeness of the key risks identified;
  - whether the whole story is presented and whether any sensitive material has been omitted;

  - whether the absence of any non-GAAP key performance indicators is appropriate; and
  - whether there is a clear and cohesive framework for the annual report.
- Reviewed the going concern assumption and the assessment forming the basis of the longer term viability statement. The A&RC reviewed the work undertaken by management to assess Zegona's resilience to the principal risks under various stress test scenarios and confirmed that a 3-year assessment period remained appropriate.
- Considered the key judgements and estimates made by management in preparing the Financial Statements, as follows:
  - Date of accounting for Euskaltel as an associate - the A&RC reviewed and challenged the evidence to support the effective date of gaining significant influence over Euskaltel as being 10 July 2019 and was satisfied with the conclusion reached;
  - Valuation of the contingent consideration - the A&RC reviewed the detailed local tax and legal advice and related probabilities associated with the gaining of merger approval from the Spanish Tax Authorities in order to facilitate settlement of the contingent consideration from the sale of Telecable SA in 2017. The A&RC was satisfied with the conclusion reached and resulting valuation; and
  - Accounting for Euskaltel as an associate and the related purchase price adjustments to determine the level of goodwill and intangible assets to be recorded in the Statement of Financial Position - the A&RC reviewed the comprehensive valuation work undertaken by management for both intangible assets and the fair value of tangible and other assets. We concluded that the accounting and related disclosures in relation to Euskaltel were appropriate. KPMG also audited the application of IAS 28 and the principles of IFRS 3, and the related disclosures.

In all of the above judgements, the A&RC also considered the work undertaken by KPMG and reports to the A&RC in support of the position adopted by management.

Other considerations:

- 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.

**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 2019, non-audit fees were pre-approved in relation to KPMG's agreed upon procedures on the interim financial statements for the six months ended 30 June 2019. The fees for these procedures totalled €11,000, which is significantly lower than the audit fees for the Financial Statements for the year ended 31 December 2019 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 €11,000 (£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 has in place numerous internal controls in relation to financial reporting including:

- principal strategic, commercial, competitive, financial and regulatory risks are assessed and quantified by executive management following which they are considered by the Board;
- a team of professional advisors including legal, capital markets, M&A, accounting, regulatory, and PR providing advice to management and the Board;
- a schedule of matters reserved for the Board to ensure that the Board is involved in all key decisions of the business;
- regular updates directly from the CEO of Euskaltel on the competitive landscape and on the prospects for the business;
- a comprehensive risk register which is reviewed at least bi-annually and updated to take account of developments within the Group;
- a comprehensive system of budgeting, forecasting and monthly reporting including analysis of variances
- segregation of responsibilities for those responsible for preparing information from those reviewing information to reduce risk of error; and
- an in-house treasury function responsible for managing cash, foreign exchange risk and ensuring compliance with banking and loan agreements.

Through the above procedures the Board with advice from the A&RC has considered all significant aspects of internal control up to the day of this report. No significant control findings or weaknesses have been identified from this review.

**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 during 2019 continued to be Richard Williams (Chairman), Mark Brangstrup Watts, Murray Scott and Ashley Martin, all of whom were Non-Executive Directors, and all of whom were independent except Mark. Mark Brangstrup Watts resigned from the N&RC with effect from 12 May 2020. Suzi Williams was appointed to the N&RC on 5 February 2020 and, subject to her re-appointment at the 2020 AGM, will become the chair of the N&RC. The members of the N&RC are now fully independent.

Suzi has considerable experience in the field having been the chair of the Remuneration Committee at AA plc from August 2017 to October 2019. She is also a member of the Nomination and Remuneration Committees at Workspace Group plc.

The N&RC normally meets twice a year with additional meetings arranged if necessary. In 2019 the N&RC met seven times. The scheduling of the formal N&RC meetings is designed to be aligned with the N&RC's recurring annual activities, including setting of bonus metrics and evaluation of performance against them, and review of the annual remuneration report contained within the annual report.

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 2019;
- Reviewed the remuneration package for the Executive Directors and management team for 2020, including bonus metrics;
- Assessed the potential value of the Management Shares;
- Reviewed the Articles of Association of Zegona Limited, which contain the terms of the management incentive scheme;
- 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
- Conducted and finalised the recruitment process for the two new independent Non-Executive Directors and reported its recommendations to the Board.

**Richard Williams**
Chairman of the Nomination and Remuneration Committee

## 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 28.

### 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 2019, which includes my statement and the annual report on remuneration for the year.

The Directors' remuneration policy was approved at the AGM of the Company held on 10 June 2019. The substance of the policy has not changed since the 2019 AGM. Full details of the existing remuneration policy are set out of pages 29 to 34 of Zegona's 2018 Annual Report which is available on Zegona's website at www.zegona.com.

The annual report on remuneration gives details on the amounts earned in the year ended 31 December 2019 and how the Directors' remuneration policy will be applied in 2020 and will be subject to an advisory vote at the 2020 AGM.

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

In determining the level of pay and bonuses for the Executive Directors, the Committee recognised that management had achieved substantial progress in improving operational and strategic performance at Euskaltel, that Eamonn O'Hare has not received a pay rise since 2015, and that both Eamonn and Robert Samuelson waived their 2018 bonus entitlement to help achieve a critical and successful equity raise in January 2019. The Committee also noted that a key element of their long-term incentive, the exercise of their management shares, would not deliver value if exercised today, nearly five years since they were first issued.

The Executive Directors met the majority of their indicators of achievement in relation to the 2019 bonus objectives and Eamonn O'Hare was rewarded with 94% and Robert Samuelson with 100% of their maximum bonus opportunity of 100% of salary.

Although the Committee feels it is important to remunerate and incentivise the Executive Directors through their basic pay, benefits and annual bonus, 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 could result in management receiving ordinary shares, which could potentially be a substantial amount.

The Management Shares are entitled to a return of 15% of the growth in value[14] 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 2019 and therefore the Management Shares would have delivered no value if they had been exercised in 2019 nor would they have if they were exercised today.

14 Growth in value is calculated by deducting the aggregate invested capital from the sum of Zegona's market capitalisation and the aggregate of all dividends and capital returns made to Zegona's shareholders.

The effects of Covid-19 on the global economy and stock market were not fully apparent at the time that the Committee approved basic salary increases and bonus payouts. The longer-term impact of Covid-19 on Zegona and Euskaltel's likely performance remains unknown. However, the Committee is taking steps to ensure that payouts under the 2020 bonus scheme would not artificially benefit from the fact that share prices are generally currently depressed by the Covid-19 outbreak.

On behalf of the Nomination and Remuneration Committee

**Richard Williams**
Chairman of the Nomination and Remuneration Committee
13 May 2020

### Annual Report on Remuneration

In recognition of the fact that Robert Samuelson had received no increase in base salary since 2015, the Committee awarded a 7% increase to his base salary, effective from 1 January 2019. No other changes have been made to Directors' base remuneration throughout 2019.

It is not expected that there will be any significant change in the way that the remuneration policy will be implemented in 2020 as compared to how it has been implemented previously.

Effective from 1 January 2020, the Committee awarded an increase of 12.6% to Eamonn O'Hare's base salary partly in recognition of the fact that he had received no increase in base salary since 2015. The Committee also awarded an 11.7% increase to Robert Samuelson's base salary which recognises his role in supporting Euskaltel's partnership with Virgin and his ongoing contribution to this aspect of Zegona's plan to create value from its investment in Euskaltel. Both of these increases were effective from 1 January 2020.

The Committee believes the most effective approach is to award bonuses at its discretion based on the Executive Directors' performance in achieving objectives agreed with the Committee. The overall framework for the Executive Directors' annual bonus arrangements for 2020 will remain the same as in 2019, with a maximum bonus opportunity of 100% of salary. The Committee has put in place specific objectives to measure management's performance against, which have been clearly communicated to the management team. 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 2020, for example due to 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*

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). These tables only include remuneration received by the Executive Directors in respect of their employment by Zegona. The fees received from their appointments as proprietary directors of Euskaltel are disclosed on page 38.

| | Executive Directors (Sterling) | | | |
|---|---|---|---|---|
| | Eamonn O'Hare (Chairman & CEO) | | Robert Samuelson (COO) | |
| | 2019 £ | 2018 £ | 2019 £ | 2018 £ |
| Fees/basic salary | 500,000 | 500,000 | 375,000 | 350,000 |
| Taxable benefits | 22,024 | 21,321 | 21,321 | 21,321 |
| Annual cash bonus | 470,000 | – | 375,000 | – |
| Pension contributions | 100,000 | 100,000 | 75,000 | 70,000 |
| Company health insurance scheme | 5,866 | 5,189 | 5,659 | 5,005 |
| **Total** | **1,097,890** | **626,510** | **851,980** | **446,326** |

| | Executive Directors (euros) | | | |
|---|---|---|---|---|
| | Eamonn O'Hare (Chairman & CEO) | | Robert Samuelson (COO) | |
| | 2019 € | 2018 € | 2019 € | 2018 € |
| Fees/basic salary | 570,174 | 565,015 | 427,631 | 395,511 |
| Taxable benefits | 25,115 | 24,093 | 24,313 | 24,093 |
| Annual cash bonus | 535,964 | – | 427,631 | – |
| Pension contributions | 114,035 | 113,003 | 85,526 | 79,102 |
| Company health insurance scheme | 6,690 | 5,864 | 6,453 | 5,656 |
| **Total** | **1,251,978** | **707,975** | **971,554** | **504,362** |

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.

None of the Executive Directors' remuneration in 2019 was attributable to share price growth. No discretion has been exercised to determine remuneration as a result of either share price appreciation or deprecation. Details on Zegona's management incentive scheme (the value of which is based on share price but would have delivered no value had it been exercised in 2019) are provided on pages 82 and 83.

The Executive Directors met the majority of their indicators of achievement in relation to the 2019 bonus objectives and Eamonn O'Hare was rewarded with 94% and Robert Samuelson with 100% of their maximum bonus opportunity of 100% of salary. This was evaluated as follows:

| Objective | Weighting | Result | Award |
|---|---|---|---|
| **Raise capital to increase Zegona's investment in Euskaltel** | 33% | • Successfully completed an equity placing with gross proceeds in excess of £100 million and secured flexible financing facilities of a further £30 million. | 100% |
| **Increase Zegona's influence in Euskaltel** | 33% | • Zegona successfully increased its investment in Euskaltel, becoming the largest shareholder of Euskaltel.<br>• Euskaltel Board now effectively driving a strategic agenda consistent with Zegona's key strategic initiatives.<br>• One additional Zegona proprietary director secured on 10 July 2019.<br>• José Miguel García appointed as CEO ratified by Euskaltel's shareholders on 10 July 2019.<br>• Executive chairman replaced with a new Non-Executive Chairman. | 100% |

| | | | |
|---|---|---|---|
| **Evidence of progress being made within the Euskaltel business** | 33% | • Euskaltel share price increased 32% in 2019, considerably outperforming peers.<br>• Euskaltel published ambitious business plan for 2020-2025 containing all of Zegona's key strategic initiatives and considerable progress made prior to this, including reorganising the business to be more effective and efficient.<br>• Improved operating and financial performance delivered in the period following José Miguel's appointment. | 82% |
| **Bonus awarded (% of base salary)** | | | **94%** |

The Committee used its discretion to increase Robert Samuelson's percentage award from 94% to 100% to reflect his strong personal performance.

As context, 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*

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 resigned with effect from 12 May 2020) 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[15] | | | |
|---|---|---|---|---|
| | **2019 £** | **2018 £** | **2019 €** | **2018 €** |
| Mark Brangstrup Watts | 50,000 | 50,000 | 57,017 | 56,502 |
| Murray Scott | 50,000 | 50,000 | 57,017 | 56,502 |
| Richard Williams | 60,000 | 60,000 | 68,421 | 67,802 |
| Ashley Martin | 60,000 | 60,000 | 68,421 | 67,802 |
| **Total** | **220,000** | **220,000** | **250,876** | **248,608** |

15 The Non-Executive Directors have not received any other form of remuneration during the current or prior year.

## Incentive schemes

Through Zegona's incentive arrangements, the following shares (collectively, the "**Incentive Shares**") have been issued in Zegona Limited (a subsidiary of Zegona Communications plc):

- A ordinary shares to management ("**Management Shares**"); and
- B ordinary shares to the core investor ("**Core Investor Shares**").

On exercise, the value of the Managements Shares and Core Investor Shares may be delivered either through the issue of ordinary shares in Zegona Communications plc or in cash.

The incentive schemes entered their initial exercise period on 14 August 2018. As the Preferred Return was not achieved between this date and 31 December 2019, the incentive schemes have not been exercised and would have delivered no value if they had been exercised in 2019.

Once the Preferred Return has been met, the participants in the Management Shares are entitled to 15% of the growth in value of Zegona and the participants in the Core Investor Shares are entitled to 5% of the growth in 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.

To explain how the Incentive Shares operate, an illustration is provided below of how much would be earned by the holders of the Incentive Shares if they had exercised them on 31 December 2019. The illustration assumes that the exercise was based on the market value of Zegona's ordinary shares at the hypothetical exercise date and, since the deemed market capitalisation of £222.0 million was less than the Preferred Return target of £271.3 million, the holders of the Incentive Shares would not have received any payment. At the same time, Zegona's Main Assets[16] were worth £303.7 million but holders of the Incentive Shares cannot receive any payments for this value until it is crystallised.

| | | |
|---|---|---|
| **Since 2015 (£)** | | |
| **Net invested capital[17]** | | **216,512,782** |
| **At 31 December 2019 (£)** | | |
| Number of shares | 221,935,177 | |
| Average share price[18] | 1.0003 | |
| **Deemed market capitalisation** | | **221,999,446** |
| **Growth in value per the incentive scheme** | | **5,486,664** |
| Split between: | | |
| Management Shares | 15% | – |
| Core Investor Shares | 5% | – |
| Ordinary Shares | 80% | 5,486,664 |

16 The value of Zegona's main assets is the Sterling equivalent of the fair value of Zegona's investment in Euskaltel and its net cash position on 31 December 2019 as discussed on page 8.

17 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.

18 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 2019.

| | Net invested capital (unadjusted) £ | 5% pa Preferred Return at 31 December 2019 £ | Preferred Return hurdle at 31 December 2019 £ |
|---|---|---|---|
| Share issue – March 2015 | 30,000,000 | 37,885,824 | 7,885,824 |
| Share issue – August 2015 | 256,567,440 | 317,703,823 | 61,136,383 |
| Dividend – October 2016 | (4,411,012) | (5,174,570) | (763,558) |
| Dividend – March 2017 | (4,411,012) | (5,069,750) | (658,738) |
| Share buy-back – October 2017 | (139,651,022) | (155,538,230) | (15,887,208) |
| Dividend – November 2017 | (4,922,558) | (5,479,595) | (557,037) |
| Dividend – April 2018 | (4,922,558) | (5,359,872) | (437,314) |
| Dividend – December 2018 | (3,534,145) | (3,722,942) | (188,797) |
| Dividend – February 2019 | (3,155,486) | (3,296,688) | (141,202) |
| Share issue – February 2019 | 100,501,514 | 104,956,065 | 4,454,551 |
| Dividend – August 2019 | (5,548,379) | (5,650,829) | (102,450) |
| | **216,512,782** | **271,253,236** | **54,740,454** |

## Directors' interests in the incentive schemes

Eamonn O'Hare and Robert Samuelson hold 3,050 million and 1,525 million Management Shares. No Management Shares were awarded during the year (2018: nil). The total Management Shares held by Directors as at 31 December 2019 were as follows:

| | Participation in growth in 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 |

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.

Mark Brangstrup Watts holds a beneficial interest in the Core Investors Shares issued 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.

## 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 and their interests are significantly aligned with shareholders through their participation in the incentive scheme.

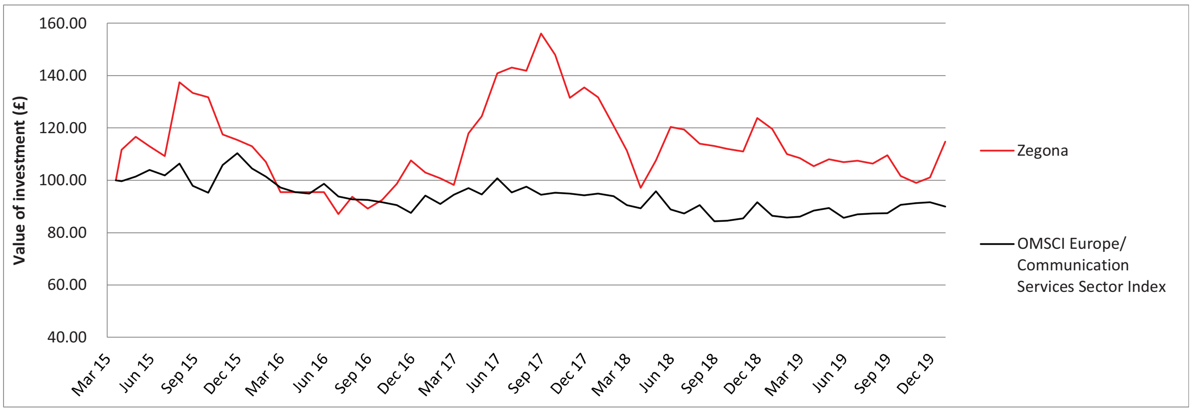
The Directors had the following beneficial interests in the ordinary shares:

| | At 31 December 2019 | | At 31 December 2018 | |
|---|---|---|---|---|
| **Director** | **Number of shares** | **% of issued share capital** | **Number of shares** | **% of issued share capital** |
| Eamonn O'Hare | 2,032,185 | 0.92 | 1,365,519 | 1.08 |
| Robert Samuelson | 657,853 | 0.30 | 514,996 | 0.41 |
| Murray Scott | 66,147 | 0.03 | 32,147 | 0.03 |
| Richard Williams | 62,570 | 0.03 | 25,287 | 0.02 |
| Ashley Martin | 10,479 | 0.00 | 10,479 | 0.01 |

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 2019 of £100 invested on IPO on 19 March 2015, compared with £100 invested in the OMSCI Europe/Communication 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 buyback following acceptance of the tender offer during 2017) are immediately reinvested in ordinary shares.



As discussed on page 8, since Zegona acquired its investment in Euskaltel, the market value of Zegona's shares has typically been less than the value per share of Zegona's Main Assets[19]. At 31 December 2019, the value of Zegona's Main Assets was worth the equivalent of £1.37 per Zegona share (2018: £1.36). This value was 26% higher than Zegona's share price on 31 December 2019 of £1.09 (2018: 14% higher than Zegona's share price of £1.19).

## 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:

| | 2019 | 2018 | 2017 | 2016 | 2015[20] |
|---|---|---|---|---|---|
| Total remuneration € | 1,251,978 | 707,975 | 1,285,183 | 765,677 | 665,261 |
| Annual bonus as a percentage of maximum opportunity | 94% | 0%[21] | 100% | 0% | 0% |

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).

| | 2019 €000 | 2018 €000 | Percentage change |
|---|---|---|---|
| **Chief Executive Officer** | | | |
| Salary | 570 | 565 | 1% |
| Taxable benefits | 25 | 24 | 4% |
| Annual bonus | 536 | – | N/A |
| **Average of all head office employees, including Executive Directors** | | | |
| Salary | 283 | 263 | 8% |
| Taxable benefits | 13 | 13 | 0% |
| Annual bonus | 258 | 30 | 760% |

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:

| | 2019 €000 | 2018 €000 |
|---|---|---|
| Employee costs | 3,610 | 2,116 |
| Dividends paid | 9,860 | 9,535 |

19 The value of Zegona's main assets is the Sterling equivalent of the fair value of Zegona's investment in Euskaltel and its net cash position as discussed on page 8.
20 Period from incorporation on 19 January 2015 to 31 December 2015.
21 Eamonn did meet several indicators of achievement in relation to his 2018 bonus objectives, however Eamonn waived his 2018 bonus in order to maximise the cash raised from the Placing.

### Service contract duration

| Director | Contract duration | Notice period |
|---|---|---|
| Eamonn O'Hare | Unlimited | 12 months |
| Robert Samuelson | Unlimited | 12 months |
| Murray Scott | Unlimited* | 6 months |
| Richard Williams | Unlimited* | 6 months |
| Ashley Martin | Unlimited* | 6 months |
| Kjersti Wiklund | Unlimited* | 6 months |
| Suzi Williams | 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.

### 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.

During 2019, Eamonn O'Hare earned and retained Non-Executive Director fees in relation to his external appointments of €193,767 and €40,000 in relation to his appointment as a propriety director of Euskaltel.

During 2019, Robert Samuelson earned and retained €68,000 in relation to his appointment as a proprietary director of Euskaltel.

### Reappointment

Under the terms of Zegona's Articles of Association, all Directors will be proposed for re-election at the 2020 AGM except Murray Scott and Mark Brangstrup Watts who will not be standing for re-election. 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 Directors' Remuneration Report and the Directors' Remuneration Policy at the 2019 AGM:

| | 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 2018 | 10 June 2019 | 100.00% | 0.00% | – |
| Resolution to approve the Directors' Remuneration Policy | 10 June 2019 | 86.41% | 13.59% | 42,325,186 |

**Richard Williams**
Chairman of the Nomination and Remuneration Committee
13 May 2020

### Result

For the year ended 31 December 2019, Zegona's profit before tax was €42.1 million (2018: €9.9 million). Other comprehensive gain was €15.2 million (2018: loss of €2.5 million). Therefore, the total comprehensive income for 2019 was €57.3 million (2018: €7.4 million). Reviews of performance, likely future developments and corporate responsibility are set out in the Strategic Report on pages 1 to 15.

### Dividends

Zegona declared an interim dividend, in lieu of a final dividend for 2018, on 31 January 2019 at a rate of 2.5 pence per share, totalling £3.2 million. The dividend was paid on 1 March 2019.

Zegona declared an interim dividend on 2 August 2019 at a rate of 2.5 pence per share, totalling £5.5 million. The dividend was paid on 6 September 2019.

Zegona declared a second interim dividend, in lieu of a final dividend for 2019, on 6 February 2020 at a rate of 2.0p per share, totaling £4.4 million. The dividend was paid on 6 March 2020.

#### Dividend resolution

A resolution to confirm, approve and ratify the second interim dividend, in lieu of a final dividend for 2019, is proposed for the 2020 AGM. Future dividends will be considered by the Board on an ongoing basis in accordance with Zegona's dividend policy.

#### Authority to make distributions in specie

At the general meeting on 22 September 2017, the shareholders approved a resolution to permit the Board to satisfy the payment of any dividends declared by Zegona wholly or partly by the distribution of shares in Euskaltel or any successor entity of Euskaltel, from time to time.

### Events since the end of the financial year

On 7 January 2020, Zegona announced the commencement of a buyback programme of its ordinary shares for an aggregate purchase price of up to £10 million to run until the end of March 2020 (the "**Buyback Programme**"). Zegona's Board set a buyback policy that allowed shares to be acquired at prices up to the Underlying Asset Value Per Share (defined for any day as the value in Sterling on the previous trading day of Zegona's investment in Euskaltel (using the €/£ FX rate on that day) and net cash balance divided by the number of Zegona ordinary shares in issue). During the Buyback Programme, which ended on 31 March 2020, Zegona purchased and cancelled an aggregate of 2,442,447 shares for a total of £2,461,592.

The rapid spread of Covid-19 has had an unprecedented global impact on people's day-to-day lives, the economy in which they live and has resulted in volatility on equity markets, with significant declines seen globally. Zegona has reviewed its cash flow forecasts and concluded that the going concern basis remains an appropriate basis of preparation for these Financial Statements given the likely cash flow impact on operations within the 12 months from the date of signing this report.

### 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 2020 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 2019, Zegona's capital structure was comprised of 221,935,177 ordinary shares. As a result of the Buyback Programme, this was reduced to 219,492,730 ordinary shares at the date of approval of this report. 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 pari 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 21 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 2019 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 13 May 2020 | % of ordinary share capital as at 13 May 2020 | Shareholding at 31 December 2019 | % of ordinary share capital as at 31 December 2019 |
|---|---|---|---|---|
| Marwyn Asset Management[22] | 42,062,035 | 19.16 | 42,062,035 | 18.95 |
| Artemis Investment Management | 30,045,950 | 13.69 | 36,190,476 | 16.31 |
| Fidelity Management & Research | 21,897,793 | 9.98 | 21,823,491 | 9.83 |
| Canaccord Genuity Group Inc | 21,288,363 | 9.70 | 21,161,233 | 9.53 |
| Fidelity Investments Limited | 20,212,172 | 9.21 | 19,671,737 | 8.86 |
| Capital Research & Management Company | 17,749,724 | 8.09 | 17,695,044 | 7.97 |
| Aberforth Partners LLP | 13,616,013 | 6.20 | N/A | N/A |
| Chelverton Asset Management | 11,250,000 | 5.13 | N/A | N/A |
| Invesco Asset Management | N/A | N/A | 16,338,351 | 7.36 |
| Legal & General Investment Management | N/A | N/A | 8,194,139 | 3.69 |
| AXA Investment Managers | N/A | N/A | 8,122,449 | 3.66 |
| | **178,122,050** | **81.15** | **191,258,955** | **86.16** |

The percentage holdings at 13 May 2020 reflect the reduction in shares in issue following the completion of the Buyback Programme on 31 March 2020. During 2020, Invesco, Legal & General and AXA's shareholdings fell below 3%.

22 Mark Brangstrup Watts is a Non-Executive Director of Marwyn Asset Management Limited and was a Non-Executive Director of the Company until 12 May 2020.

### 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. Either party may terminate the agreement upon the giving of three months' written notice. During 2019, services totalling €354,182 were received from Axio (2018: €598,027).

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. Either party may terminate the agreement upon the giving of one month's written notice. During 2019, services totaling €68,717 were received from Marwyn (2018: €68,095).

### 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 2020 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
13 May 2020

## 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
13 May 2020

**Robert Samuelson**
Chief Operating Officer
13 May 2020

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# 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 2019 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 2019 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 first appointed as auditor by the directors on 21 November 2016. The period of total uninterrupted engagement is for the four financial years ended 31 December 2019. 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 | | €3,200,000 (2018: €1,610,000)<br>0.9% of total assets (2018: 0.8% of total assets) |
| **Coverage** | | 100% of total assets (2018: 100% of total assets) |
| **Key audit matters** | | **vs 2018** |
| **New risk** | Accuracy of Zegona's share of profit in associate | |
| **Recurring risks** | Classification and accuracy of the Euskaltel investment | ◄► |
| | 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, in decreasing order of audit 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**<br><br>(Interest in associate €334.3 million; 2018: Financial assets measured at fair value through profit or loss: €187.3 million)<br><br>Change in fair value of Investment in Euskaltel: €27.8million; 2018: €5.1 million)<br><br>*Refer to page 60 (accounting policy) and page 75 (financial disclosures)* | During 2019, the Group acquired in stages an additional 7% holding in Euskaltel, making its total holding at year end c. 21%.<br><br>**Accounting treatment:**<br><br>As a result of the acquisition of additional equity shares, the Group's interest in Euskaltel exceeded 20%. On that date, the Group rebutted the presumption in IAS 28 that significant influence existed as a result of the holding exceeding 20%. Following further changes in the Board representation, the Group concluded that significant influence existed, effective from 10 July 2019 and commenced equity accounting from that date. The risk is that equity accounting should have commenced from an earlier date, resulting in a different reported results for the re-measurement of the fair value through profit or loss and the share of profit in associate. | Our procedures included:<br><br>— **Our experience:** challenged the factors used by the directors in the assessment of the significant influence throughout the year and challenged the date this was obtained. This included assessment of the Group's ability to participate in the significant operating and financial decisions of Euskaltel accompanied by discussions with board members, assessment of correspondence and consideration of the key changes during the year and the timing of those events;<br><br>— **Accounting analysis:** assessing the Group's classification of the investment throughout the year by comparing the criteria used by the Group for such assessments to the applicable accounting standards;<br><br>— **Sensitivity analysis:** performed sensitivity analysis on the date that significant influence;<br><br>— **Assessing transparency:** assessed the adequacy of the Group's disclosure in respect of the classification of the Euskaltel investment; |
| | **Low risk, high value:**<br><br>While the investment was classified as a non-current financial asset, the Group recognised the movement in the Fair Value of the Euskaltel investment through the profit and loss. | Our procedures included:<br><br>— **Test of detail:** agreed inputs used in the valuation of the investment as at the date the investment ceased to be a non-current financial asset, such as share price and number of shares held by the Group, to the shares' quoted market price at 9 July 2019 and the market purchases during the year, respectively;<br><br>— **Accounting analysis:** assessed 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**<br><br>— We found the classification and valuation of the Euskaltel investment at the date on which the group obtained significant influence to be acceptable (2018: acceptable). |

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

| | The risk | Our response |
|---|---|---|
| **Accuracy of Zegona's share of profit in associate**<br><br>(€9.1 million)<br><br>*Refer to page 60 (accounting policy) and page 77 (financial disclosures)* | **Low risk, high value:**<br><br>From 10 July 2019, the investment was equity accounted for as an associate and there is a risk over the accuracy of the share of profits in associate included in the Profit and loss of Zegona.<br><br>**Subjective estimate:**<br><br>Also, at the date of becoming an associate, the accounting standards require a fair value exercise of the associate.<br><br>The valuation of intangible assets involves significant judgment as it requires management's use of assumptions including revenue growth, theoretical royalty rates used to value brand names, customer churn rates and the application of a discount rate that is reflective of the risks of the business. The amortisation of the fair value uplift is deducted from the share of profit in associate. | Our procedures included:<br><br>— **Extended scope:** engaged Euskaltel's auditor as a component auditor and reviewed their audit files;<br><br>— **Test of details:** compared the accounting policies of Euskaltel to those of Zegona and assessed whether adjustments made were appropriate.<br><br>— Substantive sample testing of transactions close to the date that significant influence was achieved;<br><br>— We re-performed management's calculation of the valuation of intangible assets and challenged their assumptions for the fair value adjustments to assess whether the valuation is appropriate.<br><br>— We assessed the reasonableness of the cash flows used in valuation models considering historical performance, accuracy of budgets and forecasts and key assumptions adopted.<br><br>— We evaluated the other key inputs used in valuation models and re-performed valuation calculations.<br><br>— We evaluated the appropriateness of the other fair value adjustments and considered whether there are indicators of bias in either alignment to existing Group accounting policies or seeking to achieve certain post-acquisition outcomes.<br><br>— We considered management's justification for the amount of residual goodwill in the context of consideration and the fair value adjustments applied.<br><br>— **Our valuations specialist:** utilised our own valuation experts to assist in challenging management on the completeness of the identified intangible assets and the appropriateness of the valuation method adopted.<br><br>— **Assessing transparency:** assessed the completeness and appropriateness of disclosures.<br><br>**Our results**<br><br>— We found the amount recognised of the share in profit in associate to be acceptable. |

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

| | The risk | Our response |
|---|---|---|
| **Recoverability of the Parent Company's investment in Subsidiary**<br><br>(€265.7 million; 2018: €191.0 million)<br><br>*Refer to page 65 (accounting policy) and page 71 (financial disclosures).* | **Low risk, high value:**<br><br>The carrying amount of the parent company's investment in subsidiary is the most significant item on the parent company balance sheet. 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:<br><br>— **Test of detail:** compared the carrying value of the investment to its recoverable amount to assess for impairment;<br><br>— **Our experience:** challenged the key inputs used in the valuation of the subsidiary's net assets by assessing the fair value of the shares held in Euskaltel<br><br>— **Test of detail:** included agreeing inputs used in the valuation of the interest in associate, such as share price and number of shares held by the subsidiary, to supporting documentation;<br><br>— **Assessing transparency:** assessed the adequacy of the parent company's disclosures in respect of the investment in subsidiary.<br><br>**Our results**<br><br>— We have found the group's assessment of the carrying amount of the investment in subsidiary and no impairment charge to be acceptable (2018: acceptable). |

We continue to perform procedures over the contingent consideration. However, following a payment during the year, and considering the higher materiality compared to prior year, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.



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## 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 €3,200,000 (2018: €1,610,000), determined with reference to a benchmark of group total assets, of which it represents 0.9% (2018: 0.8% 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.

Materiality for the parent company as a whole was set at €2,000,000 (2018: €1,360,000) determined with reference to a benchmark of company total assets, of which it represents 0.6% (2018: 0.7%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding €160,000 (2018: €80,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 9 (2018: 8) reporting components, including the parent company and the associate, we subjected 3 (2018: 2) to full scope audits for group purposes.

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

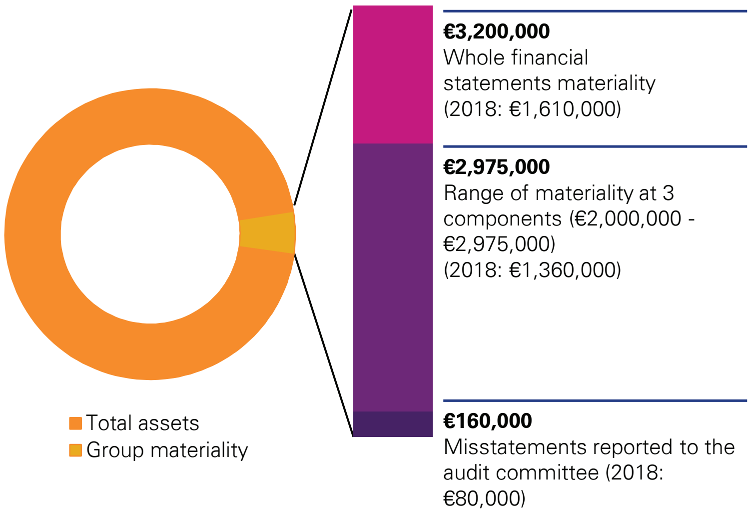
The remaining 1% of profit before tax from continuing operations is represented by 6 reporting components. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team approved component materiality of €2,000,000 to €2,975,000 (2018: €1,360,000), having regard to the mix of size and risk profile of the Group across the components. The work on 1 of the 3 components was performed by a component auditor and the rest by the Group team (2018: all work was performed by Group team). The parent company audit was performed by the Group team.

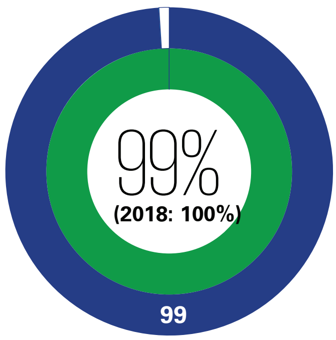
The Group team visited one component team's location (2018: none) to assess the audit risk and strategy. Telephone conference meetings were also held with the component auditor. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

**Total assets**
€364m (2018: €195m)

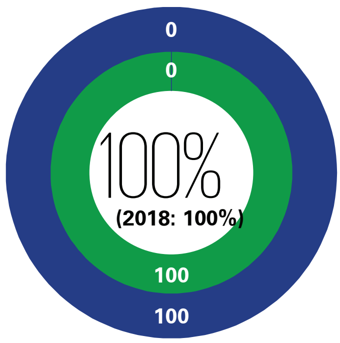
**Group Materiality**
€3,200,000 (2018: €1,610,000)




**Group profit before tax**




**Group total assets**




Full scope for group audit purposes 2019

Full scope for group audit purposes 2018

Residual components



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## 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 the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 group or the company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and 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 concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 42 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 43, 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. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

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. 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.

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

14 May 2020

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | 2019 €000 | 2018 €000 |
|---|---|---|---|
| Administrative and other operating expenses: | | | |
| Corporate costs | 5 | (5,639) | (3,922) |
| Significant project costs | 6 | (342) | (822) |
| **Operating loss** | | **(5,981)** | **(4,744)** |
| Finance income | 7 | 38,190 | 12,555 |
| Finance costs | 7 | (674) | (234) |
| Share of profit of associate | 12 | 9,094 | – |
| Net foreign exchange gains | | 1,427 | 2,371 |
| **Profit for the year before income tax** | | **42,056** | **9,948** |
| Income tax expense | 8 | – | (34) |
| **Profit for the year attributable to equity holders of the parent** | | **42,056** | **9,914** |
| | | **€** | **€** |
| **Earnings per share** | | | |
| Basic and diluted earnings per share attributable to equity holders of the parent | 20 | 0.20 | 0.08 |

The notes on pages 59 to 85 form an integral part of these Consolidated Financial Statements.

| | 2019<br>€000 | 2018<br>€000 |
|---|---|---|
| **Profit for the year** | **42,056** | **9,914** |
| **Other comprehensive income/(loss) – items that will or may be reclassified subsequently to profit or loss** | | |
| Exchange differences on translation of foreign operations | 15,195 | (2,485) |
| **Total other comprehensive income/(loss)** | **15,195** | **(2,485)** |
| **Total comprehensive income for the year, net of tax, attributable to equity holders of the parent** | **57,251** | **7,429** |

The notes on pages 59 to 85 form an integral part of these Consolidated Financial Statements.

| | Notes | As at 31 December 2019 €000 | As at 31 December 2018 €000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 2 | 2 |
| Intangible assets | | – | 1 |
| Financial assets measured at fair value through profit or loss | 11 | – | 187,332 |
| Interest in associate | 12 | 334,343 | – |
| | | **334,345** | **187,335** |
| **Current assets** | | | |
| Trade and other receivables | 13 | 92 | 2,128 |
| Financial assets measured at fair value through profit or loss | 14 | 3,997 | 4,826 |
| Cash and cash equivalents | | 27,035 | 3,138 |
| | | **31,124** | **10,092** |
| **Total assets** | | **365,469** | **197,427** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 17 | 2,855 | 1,763 |
| Other reserves | 18 | 304,556 | 205,623 |
| Share based payment reserve | 18 | 105 | 105 |
| Foreign currency translation reserve | 18 | 11,819 | (3,376) |
| Retained earnings/(deficit) | 18 | 32,000 | (10,056) |
| **Total equity attributable to equity holders of the parent** | | **351,335** | **194,059** |
| **Non-current liabilities** | | | |
| Bank borrowings | 16 | 11,578 | – |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 2,556 | 3,368 |
| **Total liabilities** | | **14,134** | **3,368** |
| **Total equity and liabilities** | | **365,469** | **197,427** |

The notes on pages 59 to 85 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 13 May 2020 and were signed on its behalf by:

**Eamonn O'Hare**
Director

**Robert Samuelson**
Director

ZEGONA COMMUNICATIONS

| | Notes | As at 31 December 2019 €000 | As at 31 December 2018 €000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 2 | 2 |
| Investment in subsidiaries | 9 | 265,711 | 190,964 |
| Interest in associate | | 31,736 | – |
| | | **297,449** | **190,966** |
| **Current assets** | | | |
| Trade and other receivables | 13 | 110 | 2,144 |
| Cash and cash equivalents | | 26,023 | 420 |
| | | **26,133** | **2,564** |
| **Total assets** | | **323,582** | **193,530** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 17 | 2,855 | 1,763 |
| Other reserves | 18 | 304,556 | 205,623 |
| Foreign currency translation reserve | 18 | (63,686) | (77,020) |
| Retained earnings | 18 | 52,186 | 55,159 |
| **Total equity attributable to equity holders of the parent** | | **295,911** | **185,525** |
| **Non-current liabilities** | | | |
| Bank borrowings | 16 | 11,578 | – |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 16,093 | 8,005 |
| **Total liabilities** | | **27,671** | **8,005** |
| **Total equity and liabilities** | | **323,582** | **193,530** |

The notes on pages 59 to 85 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 13 May 2020 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 | Retained (deficit)/ earnings €000 | Total equity €000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | | **1,763** | **205,623** | **105** | **(3,376)** | **(10,056)** | **194,059** |
| Profit for the year | | – | – | – | – | 42,056 | **42,056** |
| Other comprehensive income | | – | – | – | 15,195 | – | **15,195** |
| Issue of shares, net of directly attributable costs | | 1,092 | 108,793 | – | – | – | **109,885** |
| Dividends paid | 18 | – | (9,860) | – | – | – | **(9,860)** |
| **Balance at 31 December 2019** | | **2,855** | **304,556** | **105** | **11,819** | **32,000** | **351,335** |

| | Note | Share capital €000 | Other reserves €000 | Share based payment reserve €000 | Foreign currency translation reserve €000 | Retained (deficit)/ earnings €000 | Total equity €000 |
|---|---|---|---|---|---|---|---|
| **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 | 18 | – | (9,535) | – | – | – | **(9,535)** |
| **Balance at 31 December 2018** | | **1,763** | **205,623** | **105** | **(3,376)** | **(10,056)** | **194,059** |

The notes on pages 59 to 85 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 2019** | | **1,763** | **205,623** | **(77,020)** | **55,159** | **185,525** |
| Loss for the year | | – | – | – | (2,973) | **(2,973)** |
| Other comprehensive income | | – | – | 13,334 | – | **13,334** |
| Issue of shares, net of directly attributable costs | | 1,092 | 108,793 | – | – | **109,885** |
| Dividends paid | 18 | – | (9,860) | – | – | **(9,860)** |
| **Balance at 31 December 2019** | | **2,855** | **304,556** | **(63,686)** | **52,186** | **295,911** |

| | 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 | 18 | – | (9,535) | – | – | **(9,535)** |
| **Balance at 31 December 2018** | | **1,763** | **205,623** | **(77,020)** | **55,159** | **185,525** |

The notes on pages 59 to 85 form an integral part of these Consolidated Financial Statements.

| | Note | 2019 €000 | 2018 €000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before income tax | | 42,056 | 9,948 |
| **Adjustments to reconcile profit before income tax to operating cash flows:** | | | |
| Depreciation of property, plant and equipment | | 1 | 2 |
| Share of profit in associate | | (9,094) | – |
| Net foreign exchange gains | | (1,427) | (2,371) |
| Finance income | 7 | (38,190) | (12,555) |
| Finance costs | 7 | 674 | 234 |
| **Working capital adjustments:** | | | |
| Decrease/(increase) in trade and other receivables | | 2,036 | (1,671) |
| (Decrease)/increase in trade and other payables | | (887) | 897 |
| Interest received | | 45 | 13 |
| Interest paid | | (427) | – |
| **Net cash flows used in operating activities** | | **(5,213)** | **(5,503)** |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | (1) | – |
| Repayment of loans receivable | 12 | – | 616 |
| Dividends received | 7 | 10,236 | 7,450 |
| Purchases of non-current financial assets measured at fair value through profit or loss and of interest in associate | | (92,798) | – |
| Proceeds from current financial assets measured at fair value through profit or loss | | 981 | – |
| **Net cash flows (used in)/from investing activities** | | **(81,582)** | **8,066** |
| **Financing activities** | | | |
| Dividends paid to shareholders | 18 | (9,860) | (9,535) |
| Net proceeds from loans and borrowings | 16 | 10,980 | – |
| Proceeds from issue of shares, net of directly attributable costs | | 109,885 | – |
| **Net cash flows from/(used in) financing activities** | | **111,005** | **(9,535)** |
| Net increase/(decrease) in cash and cash equivalents | | 24,210 | (6,972) |
| Net foreign exchange difference | | (313) | (114) |
| Cash and cash equivalents at the beginning of the year | | 3,138 | 10,224 |
| **Cash and cash equivalents at the end of the year** | | **27,035** | **3,138** |

The notes on pages 59 to 85 form an integral part of these Consolidated Financial Statements.

| | Note | Year ended 31 December 2019 €000 | Year ended 31 December 2018 €000 |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/ profit before income tax | | (2,973) | 10,592 |
| **Adjustments to reconcile profit before income tax to operating cash flows:** | | | |
| Depreciation of property, plant & equipment | | 1 | 2 |
| Share of profit in associate | | (793) | – |
| Net foreign exchange gains/(losses) | | 1,520 | (6) |
| Finance income | | (346) | (9) |
| Finance costs | | 674 | – |
| **Working capital adjustments:** | | | |
| Decrease/(increase) in trade and other receivables | | 2,034 | (1,711) |
| Increase in trade and other payables | | 8,013 | 609 |
| Interest received | | 45 | 9 |
| Interest paid | | (427) | – |
| **Net cash flows from operating activities** | | **7,748** | **9,486** |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | (1) | – |
| Dividends received | | 492 | – |
| Purchases of non-current financial assets measured at fair value through profit or loss and of interest in associate | | (92,798) | – |
| **Net cash flows used in investing activities** | | **(92,307)** | **–** |
| **Financing activities** | | | |
| Dividends paid to shareholders | 18 | (9,860) | (9,535) |
| Net proceeds from loans and borrowings | | 10,980 | – |
| Proceeds from issue of shares, net of directly attributable costs | | 109,885 | – |
| **Net cash flows from/(used in) financing activities** | | **111,005** | **(9,535)** |
| Net increase/(decrease) in cash and cash equivalents | | 26,446 | (49) |
| Net foreign exchange difference | | (843) | 47 |
| Cash and cash equivalents at the beginning of the year | | 420 | 422 |
| **Cash and cash equivalents at the end of the year** | | **26,023** | **420** |

The notes on pages 59 to 85 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 2019 (the "**Consolidated Financial Statements**") were authorised for issue in accordance with a resolution of the Directors on 13 May 2020. The Company was incorporated and is domiciled in England and Wales and has its registered office at 20 Buckingham Street, London, WC2N 6EF.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The Company and Consolidated Financial Statements for the year ended 31 December 2019 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 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 comprehensive income and related notes that form a part of the Company Financial Statements.

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 2019 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 2019:

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

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 11. 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 (€). 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.

### (b) Going concern

The Consolidated Financial Statements have been prepared on the going concern basis, which the directors consider to be appropriate for the following reasons.

Zegona meets its day to day working capital requirements from cash balances and bank facilities (see note 16. While the Directors are yet to enter into negotiations to replace or renew certain of those facilities that mature in January 2021, the Directors are confident that replacement facilities will continue to be available or that any amounts drawn on those facilities could be repaid if needed.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these Financial Statements which indicate that, taking account of reasonably possible downsides, including possible impacts of the Covid-19 outbreak, Zegona will have sufficient funds to meet its liabilities as they fall due for that period.

In addition, Euskaltel, Zegona's associate, has indicated that the impact of Covid-19 on its operations and financial performance has been relatively limited, and the Zegona is not dependent on receiving cash inflows from Euskaltel to meet its liabilities.

As at 13 May 2020, the date that these Consolidated Financial Statements were authorised for issue, Zegona has in excess of €20.8 million of cash, greater than its total liabilities at that date.

Key factors that have been taken into account in making the going concern determination are provided in the longer term viability statement on pages 11 to 13.

### (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 2019, none of which had a material effect on Zegona.

| Standard | Effective date |
|---|---|
| IFRS 16 *Leases* | 1 January 2019 |
| IFRIC 23 *Uncertainty over Income Tax Treatments* | 1 January 2019 |
| Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures* | 1 January 2019 |

Following adoption of IFRS 16 *Leases*, Zegona has taken the exemption contained under IFRS 16 to not apply IFRS 16 requirements to any of its leases as these leases are short-term in nature (less than 12 months) or low in value.

*Standards, amendments and interpretations not yet adopted:*

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 |
|---|---|
| Amendments to References to the Conceptual Framework in IFRS Standards | 1 January 2020 |
| Amendments to IAS 1 and IAS 8: Definition of Material | 1 January 2020 |
| Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform | 1 January 2020 |
| Amendments to IFRS 3 Business Combinations | 1 January 2020* |
| Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current | 1 January 2022* |

* 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 included in the Consolidated Financial Statements 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) Interests in associates

An associate is an entity over which Zegona has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Zegona evaluates the extent to which it has significant influence in investees on a case-by-case basis, considering all relevant facts and circumstances. Evaluations are updated when there any changes in those facts and circumstances. These evaluations are often subject to significant judgement and the key judgements and considerations underlying material evaluations are more fully discussed in note 3.

Zegona classifies investments in entities over which it has significant influence as associates and accounts for them using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is increased or decreased to recognise changes in Zegona's share of the profit or loss of the investee after the date of acquisition. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The Consolidated Statement of Comprehensive Income reflects Zegona's share of the results of operations of the associate. Any change in other comprehensive income ("**OCI**") of those investees is presented as part of Zegona's OCI.

Investments in associates are assessed at each reporting period date and tested for impairment when there is an indication that the recoverable amount has fallen below the carrying value of the investment; i.e. that the investment may be impaired. Impairment losses are recognised within 'Share of profit of associate' in the consolidated statement of comprehensive income.

### (f) Foreign currencies

#### Foreign currency transactions

Sterling is the functional currency of the Company. Transactions in foreign currencies are recorded at the rates of exchange ruling at the transaction dates.

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 the Statement of Comprehensive Income.

Non-monetary items denominated in foreign currencies at the functional currency spot rates of exchange at each reporting date.

#### Foreign operations

The euro is the presentation currency of the Consolidated Financial Statements. For the purpose of presenting the Consolidated Financial Statements, the assets and liabilities of Zegona's non euro-denominated functional entities are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period.

Currency translation adjustments arising on the restatement of opening net assets of Zegona's non-euro denominated functional entities, together with differences between the entities' results translated at average rates versus closing rates, are recognised in the Statement of Other Comprehensive income and transferred to the foreign currency translation reserve. All resulting exchange differences are classified as equity until disposal of the subsidiary. On disposal, the cumulative amounts of the exchange differences are recognised as income or expense.

### (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 from financial assets 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 or losses on financial instruments measured at fair value through profit or loss comprise the net change in fair value, excluding interest or dividend income.

### (h) 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 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. These are recognised on an accruals basis and expensed in the statement of comprehensive income unless they are directly related to the issuance of equity instruments in which case they are recognised as a deduction from equity. If qualifying transaction costs are incurred in anticipation of, and directly related to, the issuance of equity instruments and span more than one reporting period, they are deferred until equity instruments are recognised. If the equity instruments are not subsequently issued, the costs are expensed.

### (i) 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.

### (j) 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 recognised 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*

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. 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 the statement of comprehensive income. Any gain or loss on derecognition is recognised in the statement of comprehensive income.

- 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. These assets are carried in the Statement of Financial Position at fair value with net changes in fair value recognised as either finance income or finance costs in the statement of comprehensive income.

*Derecognition*

A financial asset is primarily derecognised and removed from the 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.

### 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.

*Subsequent measurement*

Financial liabilities are subsequently measured at amortised cost and in the case of interest-bearing financial liabilities at amortised cost using the effective interest rate method. Gains and losses are recognised in the Statement of Comprehensive Income 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 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.

## (k) Impairment of financial assets

For trade receivables, Zegona applies a simplified approach in calculating expected credit losses (“**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.

## (l) 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 administrative and other operating expenses in the 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 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.

### (m) Leases
Zegona assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Zegona only has short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) or leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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

### (o) Investments 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.

### (p) 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 initial measurement of the equity instrument.

### (q) 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.

### (r) 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.

### (s) 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.

### (t) 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.

### (u) Share based transactions

Equity-settled share based payments 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 use 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. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items outlined below, it is possible that the outcomes in the next financial year could differ from those on which management’s estimates are based. This could result in materially different estimates and judgement from those reached by management for the purpose of these Consolidated Financial Statements.

The main accounting estimates and judgements 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 are:

#### Accounting estimates

- **The fair value remeasurement of the contingent consideration receivable**. As there is no observable market data for the valuation of the contingent consideration receivable, the measurement methodology of the fair value is highly judgemental. The main estimates and assumptions used in determining the €4.0 million fair value of the contingent consideration on the basis of significant unobservable inputs are detailed in note 14.

- **The fair value measurement of Euskaltel's identifiable asset and liabilities at 10 July 2019**. On classification as an associate, and when making subsequent purchases of Euskaltel shares, Zegona has measured Euskaltel's identifiable assets and liabilities at fair value, with the amortisation and depreciation of these fair valued assets and liabilities being included in Zegona's share of Euskaltel's profit. The key assumptions used in the calculations and the sensitivity analysis that shows the changes in key assumptions that would impact Zegona's Statement of Financial Position and Statement of Comprehensive Income as at 31 December 2019 and for the period ended 31 December 2019 are described in note 12.

Accounting judgements

- **The classification of the investment of Euskaltel**. 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". Further, IAS 28 includes a rebuttable presumption that if an entity holds, directly or indirectly, 20% or more of the voting power then the entity has significant influence unless it can be clearly demonstrated that this is not the case.

  In prior years, it was determined that, for a number of reasons, Zegona's 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. During 2019, however, there were a number of developments that required Zegona to reassess this conclusion and make significant judgements about whether it had gained significant influence and, if so, when.

  Firstly, in accordance with the Spanish disclosure framework for significant investments, Zegona together with Talomon, with which Zegona was acting in concert, announced that it had increased its investment in Euskaltel to more than 20% on 3 April 2019. On 6 May 2019, Zegona held more than 20% of Euskaltel by itself. Zegona considered the presumption in IAS 28 that a 20% investment automatically gives significant influence. Zegona concluded that it could be clearly demonstrated that the larger shareholding did not give it significant influence, primarily since the additional shareholding gave Zegona no additional rights or entitlements and did not resolve any of the underlying issues that had previously led it to conclude that its ability to contribute to Euskaltel's Board and committees did not confer the power to participate in Euskaltel's financial and operating policy decisions. Zegona therefore concluded that the presumption in IAS 28 should be rebutted and the investment in Euskaltel should continue to be accounted for as a financial asset until there were any developments that would require the assessment to be revisited.

  Subsequently, during the second half of 2019, Zegona re-assessed whether it had significant influence over Euskaltel in response to a number of developments at Euskaltel over a period of several months. These developments included the appointment and ratification by shareholders on 10 July 2019 of two Zegona executives to Euskaltel's Board, Zegona's CEO Eamonn O'Hare and Zegona's COO Robert Samuelson, the ratification of José Miguel García as Euskaltel's CEO and the appointment of Xabier Iturbe as Euskaltel's non-executive Chairman, as well as developments in the Euskaltel business and management's engagement with the Board. Zegona concluded that one, or a combination, of these developments had finally resolved the underlying issues that had previously led it to determine that 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. As a result, Zegona concluded that it gained significant influence in Euskaltel during this period, with the key event that enabled this being the formal ratification by shareholders of two Zegona executives to Euskaltel's Board and José Miguel García as CEO on 10 July 2019. Accordingly, Zegona has recognised the investment in Euskaltel as an associate using the equity method from this date.

The impact on Zegona's Financial Statements, had Euskaltel been classified as an associate on 3 April 2019 or 6 May 2019 rather than 10 July 2019, would not have been materially different.

- **Impairment considerations at the end of each reporting period**. Reviews of indicators of impairment and impairment assessments of our investments in associates and subsidiaries are judgmental, in particular for assets where a readily available market does not exist. In the case of Zegona's associate, Zegona has used a range of external sources of information to conclude that no indicators of impairment exist at 31 December 2019. The most important source was Euskaltel's quoted share price and market capitalisation at 31 December 2019, but other sources included analysts' reports on Euskaltel and the telecommunications market in Spain and other public information on Euskaltel such as its business plans, results and other public announcements.

## 4. SEGMENTAL ANALYSIS

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

(i) investment in Euskaltel, which comprises Zegona's share of the profit of Euskaltel (and dividend income and the movements in fair value of the investment prior to recognising Euskaltel as an associate); and

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

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 2019 | Investment in Euskaltel 2019 €000 | Central costs 2019 €000 | Consolidated 2019 €000 |
|---|---|---|---|
| Depreciation and amortisation | – | (1) | (1) |
| Other operating expenses | – | (5,980) | (5,980) |
| **Operating loss** | **–** | **(5,981)** | **(5,981)** |
| Finance income | 37,993 | 197 | 38,190 |
| Finance costs | – | (674) | (674) |
| Share of profit of associate | 9,094 | – | 9,094 |
| Net foreign exchange gains | – | 1,427 | 1,427 |
| **Profit/(loss) before tax** | **47,087** | **(5,031)** | **42,056** |
| Income tax | – | – | – |
| **Profit/(loss) for the year** | **47,087** | **(5,031)** | **42,056** |
| **Cash flows** | | | |
| Net cash used in operating activities | – | (5,213) | (5,213) |
| Net cash (used in)/from investing activities | (82,562) | 980 | (81,582) |
| Net cash from financing activities | – | 111,005 | 111,005 |
| **Net cash flow** | **(82,562)** | **106,772** | **24,210** |

| 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)** |
| Finance income | 12,542 | 13 | 12,555 |
| Finance costs | – | (234) | (234) |
| Net foreign exchange gains | – | 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)** |

## 5. ADMINISTRATIVE AND OTHER OPERATING EXPENSES – CORPORATE COSTS

| | Consolidated 2019 €000 | Consolidated 2018 €000 |
|---|---|---|
| Salaries, bonuses and staff benefits | 3,610 | 2,138 |
| Employment related taxes | 504 | 297 |
| Pension costs | 268 | 252 |
| Other operating expenses | 1,257 | 1,235 |
| **Corporate costs** | **5,639** | **3,922** |

### Staff numbers

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

| | Consolidated 2019 | Consolidated 2018 |
|---|---|---|
| Operations | 5 | 9 |
| Administration | 1 | 1 |
| | **6** | **10** |

## 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 2019, €0.3 million (2018: €0.8 million) of significant project costs were principally professional fees related to projects related to increasing Zegona's investment in Euskaltel.

## 7. FINANCE INCOME AND COSTS

| | Note | Consolidated 2019 €000 | Consolidated 2018 €000 |
|---|---|---|---|
| Dividend income | | 10,236 | 7,450 |
| Gain on fair value of investment in Euskaltel | 11 | 27,756 | 5,092 |
| Gain on fair value of contingent consideration | 13 | 152 | – |
| Interest on loans and receivables | | – | 10 |
| Bank interest | | 46 | 3 |
| **Finance income** | | **38,190** | **12,555** |
| Loss on fair value of contingent consideration | 13 | – | (234) |
| Interest on bank borrowings | | (674) | – |
| **Finance costs** | | **(674)** | **(234)** |

### Dividend income

Dividend income relates to dividends received from the investment in Euskaltel prior to 10 July 2019, when it was recognised as an associate.

## 8. TAXATION

| | Consolidated 2019 €000 | Consolidated 2018 €000 |
|---|---|---|
| **Current tax expense** | | |
| Current year | – | 34 |
| **Income tax expense for the year** | **–** | **34** |

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 2019 €000 | Consolidated 2018 €000 |
|---|---|---|
| Profit before tax from continuing operations | 42,056 | 9,948 |
| At UK statutory income tax rate (19% (2018: 19%)) | 7,991 | 1,890 |
| Effect of tax rate used in other jurisdictions | (20) | 48 |
| Income not taxable | (9,771) | (2,822) |
| Expenses not deductible for tax purposes | 155 | 166 |
| Unrecognised tax losses | 1,645 | 752 |
| **Income tax expense** | **–** | **34** |

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 €3.0 million (2018: €2.6 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 (EU) 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. The UK Government has challenged the basis for the decision in the General Court by filing a claim on 12 June 2019. In addition, numerous taxpayers have also appealed against the decision before the European General Court. In November 2019, the EU issued a rebuttal to all the arguments raised by the taxpayers by simply restating the arguments put forward in the original State Aid provision.

There is still considerable uncertainty on the final outcome and therefore 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. The estimated potential liability could range from nil to €5m. At 13 May 2020, the date that these Consolidated Financial Statements were authorised for issue, Zegona had not received any demand in respect of State Aid refund from the UK authorities.

## 9. INVESTMENT IN SUBSIDIARIES

The Consolidated Financial Statements in the current year include the following subsidiaries (excluding those that entered liquidation in December 2018):

| 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 Spanish Holdco Limited | Dormant | UK (2) | – | 100% |
| Zegona Borrower Limited | Dormant | UK (2) | – | 100% |
| Zegona Holdco Limited | Dormant | UK (2) | – | 100% |

The registered office addresses of the subsidiaries are:

1. One Waverley Place, Union Street, St Helier, Jersey, JE1 1AX

2. 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 direct investment in subsidiary

The movement in value of the Company's direct investment in subsidiary during 2019 was due to the purchase of an ordinary share of the subsidiary in exchange for 7 million Euskaltel shares and foreign exchange translation as the investment is carried in Sterling.

## 10. FINANCIAL RISK MANAGEMENT

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. On 14 January 2019, Zegona entered into facility agreements totalling £30 million which bear interest at a spread over the 3-month LIBOR. £10 million has been drawn on these facilities. Zegona also has a small overdraft facility, which bears interest at 1.5% per annum over the Bank of England base rate but is currently undrawn.

In the opinion of the Directors, a significant movement in LIBOR would be required to have a material impact on the cash flow of Zegona. The Executive Directors and the Chief Financial Officer regularly review the placing of cash balances and Zegona's leverage.

### Foreign currency risk

The Board and the Chief Financial Officer control and monitor financial risk management, including foreign currency risk, in accordance with internal policy and the strategic plan defined by the Board. Zegona is exposed to three types of exchange risk: transaction, translation and economic risk.

Transaction risk is the risk of loss that Zegona bears when it enters monetary transactions denominated in other than Sterling, the currency in which Zegona operates. A loss (or gain) may occur due to the change in relative value of currencies from the date on which the transaction is entered to the date the settlement takes place.

As at 31 December 2019, Zegona had euro monetary net assets of €25.4 million (2018: €3.1 million). The table below shows the transactional impact of a 10% change in euro against Sterling at 31 December 2019:

| **Currency impact** | **+/- 10% movement €000** |
|---|---|
| Profit before tax gain/loss | -/+ 2,538 |
| Equity gain/loss | -/+ 2,538 |

Zegona is also exposed to foreign exchange translation risk which is accounting in nature. It is the risk that the value of net assets and net profit will change as a result of translation of the Financial Statements of companies within the group with a different functional currency to the presentational currency from one period to the next. In the case of Zegona, this is the conversion of Sterling into euro.

The table below show the translation impact of 10% movement in Sterling against the euro at 31 December 2019:

| **Currency impact** | **+/- 10% movement €000** |
|---|---|
| Profit before tax gain/loss | -/+ 4,052 |
| Equity gain/loss | -/+ 35,012 |

Lastly, Zegona is exposed to economic risk due to its interest in associate operating in euros. Dividends from Zegona's investment in Euskaltel will be received in euro and therefore an exchange rate risk may arise on conversion of those dividends into Sterling. In addition, the Sterling value of the proceeds from any future sale of Euskaltel shares will impact the amount in Sterling that Zegona will distribute to its shareholders.

### 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 2019, 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 2019 to be with counterparties with the following credit ratings:

| Credit rating | Cash and cash equivalents €000 | Contingent consideration €000 | Total €000 |
|---|---|---|---|
| A-1+ | 126 | – | 126 |
| A-1 | 26,909 | – | 26,909 |
| BB- | – | 3,997 | 3,997 |
| | **27,035** | **3,997** | **31,032** |

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 assesses regularly Zegona's liquidity forecasts which consider cashflow projections and existing facilities.

At 31 December 2019, Zegona had cash balances held with banks amounting to €27.0 million (2018: €3.1 million), compared to Zegona's total liabilities amounting to €14.1 million (2018: €3.4 million). In addition, Zegona has unsecured undrawn facilities of £21.5 million, equivalent to €25.3 million (2018: £1.5 million, equivalent to €1.7 million).

## 11. FINANCIAL INSTRUMENTS

Financial instrument categories – Consolidated

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

| | **Fair value 2019 €000** | **Amortised cost 2019 €000** | **Fair value 2018 €000** | **Amortised cost 2018 €000** |
|---|---|---|---|---|
| Financial assets designated at fair value (level 1) | – | – | 187,332 | – |
| **Total non-current financial assets** | **–** | **–** | **187,332** | **–** |
| Trade and other receivables | – | 92 | – | 137 |
| Financial assets designated at fair value (level 3) | 3,997 | – | 4,826 | - |
| Cash and cash equivalents | – | 27,034 | – | 3,138 |
| **Total current financial assets** | **3,997** | **27,126** | **4,826** | **3,275** |

| | **Fair value 2019 €000** | **Amortised cost 2019 €000** | **Fair value 2018 €000** | **Amortised cost 2018 €000** |
|---|---|---|---|---|
| Bank borrowings | – | 11,578 | – | – |
| **Total non-current financial liabilities** | **–** | **11,578** | **–** | **–** |
| Trade and other payables | | 2,556 | – | 3,245 |
| **Total current financial liabilities** | **–** | **2,556** | **–** | **3,245** |

As disclosed in note 3, Zegona gained significant influence over Euskaltel on 10 July 2019 and from that date Zegona's interest in Euskaltel has been accounted for as an associate.

The Directors consider that the carrying amounts of the financial assets and liabilities measured at amortised cost equate to their fair values.

### Financial instrument categories – Company

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

| | Fair value 2019 €000 | Amortised cost 2019 €000 | Fair value 2018 €000 | Amortised cost 2018 €000 |
|---|---|---|---|---|
| Trade and other receivables | – | 22 | – | 157 |
| Cash and cash equivalents | – | 26,023 | – | 420 |
| **Total current financial assets** | **–** | **26,045** | **–** | **577** |

| | Fair value 2019 €000 | Amortised cost 2019 €000 | Fair value 2018 €000 | Amortised cost 2018 €000 |
|---|---|---|---|---|
| Bank borrowings | – | 11,578 | – | – |
| **Total non-current financial liabilities** | **–** | **11,578** | **–** | **–** |
| Trade and other payables | – | 16,093 | – | 8,005 |
| **Total current financial liabilities** | **–** | **16,093** | **–** | **8,005** |

The Directors consider that the carrying amounts of the financial assets and liabilities measured at amortised cost equate to their fair values.

## 12. INTEREST IN ASSOCIATE

At 31 December 2019, Zegona owned 38.1 million shares (2018: 26.8 million) in Euskaltel, a Spanish telecommunications company incorporated in Spain and operating in the Basque Country, Asturias and Galicia, which represents approximately 21.3% (2018: 15%) of the ordinary shares and voting rights of Euskaltel.

As disclosed in note 3, Zegona concluded that it gained significant influence over Euskaltel on 10 July 2019 and from that date Zegona's interest in Euskaltel has been accounted for using the equity method. On 10 July 2019, Zegona held 37.2 million shares, which represented approximately 20.85% of the ordinary shares and voting rights of Euskaltel.

The fair value of Euskaltel's identifiable assets and liabilities on 10 July 2019 were:

| | Fair value 10 July 2019 €000 |
|---|---|
| Intangible assets | 582,375 |
| Property, plant and equipment | 1,361,713 |
| Other assets | 201,719 |
| Cash and cash equivalents | 80,613 |
| **Total assets** | **2,226,420** |
| Non-current payables | 1,388,495 |
| Other non-current liabilities | 235,869 |
| Other current liabilities | 392,005 |
| **Total liabilities** | **2,016,369** |
| **Total identifiable net assets** | **210,051** |

On classification as an associate, and when making subsequent purchases of Euskaltel shares, Zegona has recognised the difference between the deemed consideration and Zegona's share of the net fair value of Euskaltel's identifiable assets and liabilities as goodwill, calculated as shown below:

| | €000 |
|---|---|
| **Total identifiable net assets of Euskaltel** | **210,051** |
| Zegona's share of net assets on 10 July 2019 | 43,796 |
| Zegona's additional share of net assets | 945 |
| **Zegona's share of net assets** | **44,741** |
| | |
| Fair value of investment on 10 July 2019 | 301,352 |
| Cost of additional share purchases | 6,543 |
| **Deemed consideration** | **307,895** |
| | |
| **Goodwill** | **263,154** |

The fair value of the investment in Euskaltel on 10 July 2019 is based on the number of shares held and Euskaltel's quoted share price at close on 9 July 2019.

### Valuation techniques

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

| Assets acquired | Valuation technique |
|---|---|
| Property, Plant and Equipment | Property, plant and equipment have been valued using the indirect cost approach. The indirect costs approach indexes the historical acquisition costs to reflect the price developments in the relevant asset sub-categories since the year of purchase in order to calculate a revised acquisition cost. The fair value is the revised acquisition cost adjusted for accumulated depreciation, which reflects the already consumed or expired service potential of the asset. |
| Brand | Brands have been valued using the relief from royalty method (RFRM). The RFRM is based on discounting the present value of the net cost savings ('net profit') that the company is estimated to achieve by owning a brand instead of licensing it over its useful life. |
| Customer relationships | Customer relationships have been valued using the multi-period excess earnings method (MEEM). Under the MEEM model, the value of an intangible asset is estimated as the discounted value of the cash flow streams generated by the intangible asset. As the asset generally generates cash flow streams in conjunction with other tangible and intangible assets such as property, plant and equipment, working capital and workforce in place, the cost of using the assets (contributory assets) is subtracted from the cash flows generated by the intangible asset being valued. |

### Key assumptions and sensitivity analysis

The main assumptions used in the calculation of the fair value of assets and liabilities at 10 July 2019 were as follows:

- **Trademarks**: The fair value of this intangible asset was calculated by applying the RFRM, the most significant parameters of which were a royalty rate of 1.25%, a growth rate of 1.5% and a discount rate of 6.8%. Changes in one of the assumptions, namely +/-10% in the royalty rate or +/- 10% discount rate or +/-1% to the growth rate had no material impact in the fair value of the brand.

- **Customer relationships**: The fair value of this intangible asset was calculated using the MEEM, the key assumptions used in the measurement were the weighted average churn rate of 12.5%, the EBITDA margin of 52%, ARPU inflation of 1.5% and discount rate of 6.8%. Changes in one of the assumptions, holding the other parameters constant, by +/-10% would have an immaterial impact in the fair value of the intangible asset and Zegona's share of net profit.

### Summarised financial information for associate

The following tables summarise the financial position and statement of comprehensive income of Euskaltel as disclosed in its own audited financial statements prepared in accordance with IFRS as adopted by the EU, adjusted to recognise certain assets and liabilities in line with their fair value at 10 July 2019. There are no material adjustments required to align accounting policies between Zegona and Euskaltel.

*Statement of Comprehensive Income*

| **From 10 July 2019 to 31 December 2019** | **€000** |
|---|---|
| Revenue | 331,972 |
| Profit for the period (continuing operations) | 42,914 |
| Total comprehensive income for the period | 42,914 |
| Zegona's share of profit for the period (21.1% weighted average) | 9,094 |

*Statement of Financial Position*

| **As at 31 December 2019** | **€000** |
|---|---|
| Non-current assets | 2,047,323 |
| Current assets | 168,246 |
| Non-current liabilities | (1,602,540) |
| Current liabilities | (403,662) |
| **Net assets** | **209,367** |

Reconciliation to Zegona's carrying value of investment in associate:

| | **31 December 2019 €000** |
|---|---|
| Euskaltel's net assets | 209,367 |
| **Zegona's share of Euskaltel's net assets (21.3%)** | **44,595** |
| Goodwill recognised | 263,154 |
| Zegona's share of profit for the period | 9,094 |
| Foreign exchange differences | 17,500 |
| **Interest in associate** | **334,343** |
| Fair value of interest in associate | 341,584 |

The fair value of the interest in associate is based on its quoted market price. Euskaltel had no contingent liabilities as at 31 December 2019.

## 13. TRADE AND OTHER RECEIVABLES

| | Consolidated 31 December 2019 €000 | Consolidated 31 December 2018 €000 |
|---|---|---|
| Deferred costs | – | 1,939 |
| Prepayments | 70 | 35 |
| VAT recoverable | 21 | 17 |
| Other receivables | 1 | 137 |
| **Total** | **92** | **2,128** |

| | Company 31 December 2019 €000 | Company 31 December 2018 €000 |
|---|---|---|
| Amounts due from subsidiary undertakings | 21 | 20 |
| Deferred costs | – | 1,939 |
| Prepayments | 67 | 31 |
| VAT recoverable | 21 | 17 |
| Other receivables | 1 | 137 |
| **Total** | **110** | **2,144** |

## 14. CURRENT FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The current financial assets balance of €4.0 million (2018: €4.8 million) comprises solely the contingent consideration receivable from the sale of Telecable. This compares to a base case model present value of €5.9 million (2018: €6.7 million) and Zegona's best estimate of the undiscounted cash flow that it will receive of €6.1 million (2018: €7.1 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 2018 | | 4,826 |
| Consideration received to date | | (981) |
| Change in unrealised fair value recognised in profit or loss | 7 | 152 |
| **Balance at 31 December 2019** | | **3,997** |

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 2019.

The change in fair value reflects 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 12 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 €4.0 million (2018: €4.8 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 €5.9 million (2018: €6.7 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:

**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 €nil |

**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:*** |
|---|---|
| 82% usable | Usability scenarios ranged from 41% to 100%, causing the present value of the base case to range from €3.0 million to €7.2 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:*** |
|---|---|
| 6 months | If the timing is increased to 18 months, the revised base case present value would be €5.5 million |

## 15. TRADE AND OTHER PAYABLES

| | **Consolidated 31 December 2019 €000** | **Consolidated 31 December 2018 €000** |
|---|---|---|
| Trade payables | 103 | 180 |
| Other payables | 267 | 285 |
| Accruals | 2,186 | 2,780 |
| Income taxes | – | 123 |
| | **2,556** | **3,368** |

| | Company 31 December 2019 €000 | Company 31 December 2018 €000 |
|---|---|---|
| Payable to direct subsidiary | 15,527 | 5,227 |
| Trade payables | 106 | 171 |
| Other payables | 74 | 28 |
| Accruals | 386 | 2,579 |
| | **16,093** | **8,005** |

## 16. BANK BORROWINGS

The Company has been provided with facilities of up to £30 million by Barclays Bank plc and Virgin Holdings Limited.

During the year, the Company has drawn down £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 of £20 million. The Company 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 on 14 January 2021, 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 or Zegona and other customary events of default. The Barclays facility is secured by a charge over Euskaltel shares.

The Company has not drawn down any amounts under the Virgin facility. 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 facility matured on 30 April 2020.

## 17. CALLED UP SHARE CAPITAL

| **Allotted, called up and fully paid** | **Number** | **€000** |
|---|---|---|
| At 1 January 2019 | 126,219,449 | 1,763 |
| Shares issued | 95,715,728 | 1,092 |
| **At 31 December 2019** | **221,935,177** | **2,855** |

The nominal value of the total ordinary shares is £0.01 and the total allotted, called up and fully paid equates to £2,219,352 (2018: £1,262,194).

| | Number of shares | Net invested capital (£) | Net 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 |
| Share issue – February 2019 | 95,715,728 | 100,501,514 | £1.05 |
| **Total shares issued** | **291,760,688** | **387,068,954** | **£1.33** |
| Share buy-back – October 2017 | (69,825,511) | (139,651,022) | £2.00 |
| **Total shares in issue** | **221,935,177** | **247,417,932** | **£1.11** |

On 11 February 2019, a total of 95,715,728 additional ordinary shares of £0.01 each were admitted to trading. These shares had been placed at a price of £1.05 per share, raising gross proceeds of approximately £100.5 million (equivalent to €109.9 million).

All ordinary shares confer identical rights including in respect of capital, dividends and voting. There are no restrictions on the distributions of dividends or the repayment of capital.

## 18. RESERVES

The nature and purpose of each reserve within shareholders' equity are explained below.

### Other reserves

Other reserves comprise the amounts subscribed for share capital in excess of nominal value less any costs directly attributable to the issue of new shares. Other reserves form part of distributable reserves of the Company.

| | **€000** |
|---|---|
| **Balance as at 1 January 2018** | **215,158** |
| Dividend paid in April 2018 (representing 3.9p per share) | (5,622) |
| Dividend paid in December 2018 (representing 2.8p per share) | (3,913) |
| **Balance as at 31 December 2018** | **205,623** |
| Issue of shares, net of directly attributable costs (see note 17) | 108,793 |
| Dividend paid in March 2019 (representing 2.5p per share) | (3,673) |
| Dividend paid in September 2019 (representing 2.5p per share) | (6,187) |
| **Balance as at 31 December 2019** | **304,556** |

### 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 21.

### Foreign currency translation reserve

The foreign currency translation reserve includes the foreign exchange differences arising from the translation from Consolidated Financial Statements functional currency to presentational currency.

### Retained earnings

Cumulative net gains and losses recognised in the Consolidated Statement of Comprehensive Income.

## 19. 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 2019, Zegona met the financial covenants associated to the facilities described in note 16.

## 20. EARNINGS PER ORDINARY SHARE

Basic EPS is calculated by dividing the profit 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 21, 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.

| | **2019** | **2018** |
|---|---|---|
| Profit for the year attributable to equity holders of the parent (€000) | 42,056 | 9,914 |
| Weighted average number of ordinary shares | 211,183,547 | 126,219,449 |
| Basic and diluted EPS (€) | 0.20 | 0.08 |

In the first quarter of 2020, Zegona purchased and cancelled 2,442,447 ordinary shares as part of the Buyback Programme described in note 24.

## 21. 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. At the year end, a total of €105,418 (2018: €105,418) was recognised 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 Shareholders are entitled to a return of 15% of the growth in 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 ordinary 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 2019 and the Management Shares would have delivered no value if they had been exercised at 31 December 2019. If the Preferred Return is met at any time during the current measurement period (expiring 14 August 2020), the shares will deliver value to the holders of the Management Shares.

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 in Zegona Communications plc of equivalent value, although Zegona Communications plc has the right at all times to settle such value in cash.

### Holding of Management Shares

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

| | Participation in growth in 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 (2018: €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 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 2019 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 to the holder of the Core Investor Shares.

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 value of the Company.

At the year end, a total of €37,016 (2018: €37,016) was recognised in the consolidated share based payment reserve in relation to Core Investor Shares.

## 22. 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, a Non-executive Director of Zegona up until 12 May 2020, is a designated member of Marwyn Capital LLP ("**Marwyn**"), which provides various office services to the Company. During the year, services totaling €69k were received from Marwyn (2018: €68k). Marwyn was owed an amount of €7k at the balance sheet date (2018: €6k) in respect of these services, which was unsecured. In addition, Mark's Non-Executive Director fees were 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 €354k were received from Axio (2018: €598k). Axio was owed an amount of €22k at the balance sheet date (2018: €117k), which was unsecured.

Mark Brangstrup Watts has a beneficial interest in the Core Investor Shares as described in note 21.

### Transactions with 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 29 to 39. Holdings of Management Shares are detailed in note 21.

## 23. AUDITOR'S REMUNERATION

| | 2019 €000 | 2018 €000 |
|---|---|---|
| Fees for the audit of the Company's annual accounts | 270 | 74 |
| **Total audit fees** | **270** | **74** |
| Fees for procedures on the interim financial statements | 11 | 40 |
| Fees for reporting in relation to the prospectus for the Placing | – | 79 |
| **Total non-audit fees** | **11** | **119** |

## 24. POST BALANCE SHEET EVENTS

### Buybacks Programme

On 7 January 2020, Zegona announced the commencement of a buyback programme of its ordinary shares for an aggregate purchase price of up to £10 million (the "**Buyback Programme**"). Zegona's Board set a buyback policy that allowed shares to be acquired at prices up to the Underlying Asset Value Per Share (defined for any day as the value in Sterling on the previous trading day of Zegona's investment in Euskaltel (using the €/£ FX rate on that day) and net cash balance divided by the number of Zegona ordinary shares in issue). During the Buyback Programme, which ended on 31 March 2020, Zegona purchased and cancelled an aggregate of 2,442,447 shares for a total of £2,461,592.

### Interim dividends

Zegona received a dividend on 5 February 2020 from Euskaltel at a rate of €0.14 per share, totaling €5.3 million.

Zegona declared a second interim dividend, in lieu of a final dividend for 2019, on 6 February 2020 at a rate of 2.0p per share, totaling £4.4 million, equivalent to €5.2 million on the date of announcement. The dividend was paid on 6 March 2020.

Covid-19

The outbreak of Covid-19 and the related government responses have caused disruption to businesses around the world, with global equity markets also experiencing significant volatility and weakness. As at 13 May 2020, the date that these Consolidated Financial Statements were authorised for issue, Euskaltel's share price and market capitalisation have declined significantly since 31 December 2019 but remain above its book value. Zegona will continue to monitor the impact of the Covid-19 outbreak on its business in general and its investment in Euskaltel in particular, however the duration and extent of the pandemic, as well as the effectiveness of government and central bank responses, remain unclear at this time.

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 9 June 2020 at 12:00 p.m. for the transaction of the following business:

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

1. THAT the Company's financial statements for the year ended 31 December 2019, 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 2019, be approved.

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

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

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

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

7. THAT Kjersti Wiklund be re-elected as a Director.

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

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

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

11. THAT the payment of the interim dividend, in lieu of a final dividend, of 2.0p per ordinary share to the Company's shareholders on 6 March 2020 be and is confirmed, approved and ratified for all purposes.

12. 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:

    12.1 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 £731,642.43 to such persons and at such times and on such terms as they think proper; and further

    12.2 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 £731,642.43, 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.

13. THAT if resolution 12 set out in the Notice convening this Meeting is passed, the Directors be and are hereby authorised to allot equity securities (as defined in section 560 of the Act) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Act did not apply to any such allotment or sale, such authority to be limited to:

    13.1 the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities (but in the case of an allotment pursuant to the authority granted under resolution 12.2, 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

    13.2 the allotment (otherwise than pursuant to paragraph 13.1 above) of equity securities up to a nominal amount of £109,746.36,

    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.

14. THAT if resolution 12 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:

    14.1 limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £109,746.37; and

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

    such authority, unless renewed, to expire at the conclusion of the 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 the Company be and is hereby generally and unconditionally authorised for the purpose of section 701 Companies Act 2006 to make market purchases (as defined in section 693 of the said Act) of ordinary shares of £0.01 each in the capital of the Company ("**ordinary shares**") provided that:

    15.1 the maximum number of ordinary shares hereby authorised to be purchased is 21,949,273, being equal to 10 per cent. of the issued ordinary shares;

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

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

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

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

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

BY ORDER OF THE BOARD
Secretary: **Axio Capital Solutions Limited**
Date 13 May 2020
Registered Office: 20 Buckingham Street, London WC2N 6EF

**Notes:**
**Proposed AGM arrangements**

(i) As you may know, we are required by law to hold an AGM within six months of our financial year end. However, given the unprecedented circumstances, the Board has decided to put in place contingency arrangements that mean the AGM will not follow its usual format. Only the statutory, formal business (consisting of voting on the resolutions proposed in the Notice of AGM) to meet the minimum legal requirements will be conducted and the AGM will proceed as set out below:

(a) the AGM will be at 10 Snow Hill, London, EC1A 2AL or, if those offices are closed, immediately outside the offices;

(b) the Chairman of the Board and another member of the executive management team who holds shares in the Company will attend the AGM to ensure that the AGM is quorate;

(c) no other directors will be present in person;

(d) there will be no presentation at the AGM, nor will there be any opportunity to ask questions of the Board;

(e) as would normally be the case, the votes on the resolutions to be proposed at the AGM will be conducted on a show of hands and the chairman of the meeting will vote on a show of hands in accordance with the proxies held; and

(f) the results of the proxy votes will be published immediately following the conclusion of the AGM by way of a stock exchange announcement and on the Company's website.

(ii) Although this is a very unusual approach, the Board considers that in light of the "lockdown" legislation currently in force, proceeding with a "technical" AGM is in the best interests not only of the Company, but also of each of its individual shareholders. By allowing the voting to proceed in accordance with instructions received by proxy, our share allotment and buyback resolutions can be put to shareholders for renewal before they expire and we can comply with our legal requirements, while ensuring that no one will have to travel unnecessarily to attend the AGM.

(iii) Of course, if circumstances change and the restrictions are lifted or relaxed before the AGM, the Company will notify shareholders of any changes to the proposed format for the AGM as soon as possible via its website.

(iv) 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**").

(v) 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 12:00 p.m. on 5 June 2020; 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.

(vi) 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.

(vii) 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.

(viii) 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.

(ix) 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 5 June 2020 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.

(x) 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.

(xi) 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.

(xii) Save as set out in these notes, members who have general queries relating to the AGM should contact Link Asset Services on 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales. 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.

(xiii) As at 13 May 2020 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 219,492,730 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 13 May 2020 are 219,492,730.

(xiv) 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.

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

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

**Resolution 1 – To approve the Annual Report and Financial Statements**
Resolution 1 proposes the receipt and adoption of the Annual Report, which includes the Financial Statements of the Company for the year ended 31 December 2019, 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 2019, 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 29 to 39 of the Annual Report. The actual remuneration paid to Directors in 2019 was made within the boundaries of the Directors' remuneration policy approved by shareholders at the 2019 Annual General Meeting.

**Resolutions 3 to 8 – Election of Directors**
Resolutions 3 to 8 deal with the re-election of each Director of the Company that, subject to the articles of association of the Company (the "**Articles**"), 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, except Murray Scott and Mark Brangstrup Watts who resigned with effect from 12 May 2020, is offering himself for re-election and resolutions 3 to 8 propose the re-election of such Directors. Biographies of each of the Directors retiring in accordance with the Articles are set out on pages 16 to 18 of the Annual Report. Richard Williams is the chair of the Nomination and Remuneration Committee but Suzi Williams, if re-elected, will become the chair of the committee. Ashley Martin is the chair of the Audit and Risk Committee and, if re-elected, will continue in this role.

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 2019 as set out on page 20 of the Annual Report and subsequently to the date of this notice.

**Resolutions 9 and 10 – 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 2021. The Directors, as well as the Audit and Risk Committee, recommend that KPMG LLP be re-appointed and that its remuneration be fixed.

**Resolution 11 – Dividend payment**
This resolution seeks to ratify the payment by the Company of a second interim dividend, in lieu of a final dividend, of 2.0p per ordinary share to shareholders of the Company on 6 March 2020. The dividend payment followed the Company's interim dividend payment of 2.5p per ordinary share in September 2019, thus bringing the total shareholder dividend payments for 2019 to 4.5p per share.

**Resolution 12 – 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 12 is proposed to renew the Directors' authority to allot ordinary shares of up to a maximum nominal amount of (i) £731,642.43 (being one-third of the Company's issued ordinary share capital as at 13 May 2020) to such persons and upon such conditions as the Directors may determine; and (ii) a further maximum aggregate nominal amount of £731,642.43 (being one-third of the Company's issued ordinary share capital as at 13 May 2020) in connection with a rights issue (as defined in resolution 12 of the Notice), 13 May 2020 being the latest practicable date before the publication of this notice.

This request for authority to allot shares up to a maximum of two-thirds of the Company's issued ordinary share capital is in line with the guidelines published by the Investment Association.

The authorities sought under resolution 12 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 Annual General Meeting of the Company held on 10 June 2019. 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 13 and 14 – Disapplication of pre-emption rights**

The Act requires that shares or other equity securities allotted for cash are offered first to existing shareholders in proportion to their existing holdings. The passing of resolutions 13 and 14 would allow the Directors to allot shares (or sell any shares which the Company may hold in treasury following a purchase of its own shares) without first offering the securities to existing shareholders.

Accordingly, resolution 13 allows the Directors to allot shares and sell treasury shares for cash (i) in connection with a pre-emptive offer or pre-emptive rights issue and/or (ii) otherwise up to a nominal value of £109,746.37, equivalent to 5 per cent. of the total issued ordinary share capital of the Company (excluding treasury shares) as at 13 May 2020, 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 14 authorises the Directors to allot new shares pursuant to the allotment authority given by resolution 12, or sell treasury shares, for cash up to a further nominal amount of £109,746.37, being an additional 5 per cent. of the entire issued share capital of the Company as at 13 May 2020, only in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment, or which has taken place in the preceding six month period and is disclosed in the announcement of the allotment. If the authority given in resolution 14 is used, the Company will publish details of the allotment in its next annual report.

The authorities will expire 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 Annual General Meeting of the Company held on 10 June 2019.

**Resolution 15 – Purchases of own shares by the Company**
This resolution seeks authority from shareholders for the Company to make market purchases of its own ordinary shares, limited to the purchase of 10 per cent. of the ordinary shares in issue as at 13 May 2020.

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 13 May 2020, although shares issued in the Company's incentive schemes may be exchanged for ordinary shares in certain circumstances.

**Resolution 16 – Reduction of notice period for general meetings of the Company**
This resolution seeks authority from shareholders for the Company to call general meetings at 14 clear days' notice, as opposed to 21 clear days' notice. While the Company's Articles already provide that the Company can call any general meeting (other than an annual general meeting) at 14 clear days' notice, the Act requires that, in order to do so, the reduction from 21 days to 14 days must be approved by way of a special resolution of the Company's shareholders. It is the Company's intention to continue to call annual general meetings at 21 clear days' notice.

**Action to be taken**
You are asked to either:

1. complete the Form of Proxy enclosed with this Notice of Annual General Meeting and return it, together with any power of attorney or other authority under which it is signed or a notarially certified or office copy thereof, to Link Asset Services, the Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, so as to arrive no later than 12:00 p.m. on 5 June 2020; 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 12:00 p.m. on 5 June 2020. 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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