



Annual Report

For the Year Ended
31 December 2017

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I am pleased to present Zegona's annual report for 2017. This year we completed the first full cycle of our 'Buy-Fix-Sell' strategy ahead of schedule and delivered on our promise to promptly and efficiently return a substantial amount of capital to shareholders.

Sale of Telecable and return of capital

On 26 July 2017, we completed the sale of Telecable to Euskaltel SA ("**Euskaltel**") in exchange for cash consideration, contingent consideration and a c.15% equity interest in Euskaltel. When we acquired Telecable in 2015, we identified the opportunity for substantial value creation through the combination of the three independent Northern Spanish cable operators. This transaction turned our vision into reality and created the leading integrated telecommunications operator in the North of Spain.

The sale also represented a very attractive return for our shareholders, with an implied value for Telecable at completion that corresponded to an implied Zegona share price of £1.88 per share¹ and a 34% Total Shareholder Return², although as discussed below this has also been reduced by the subsequent decline in the Euskaltel share price.

Central to Zegona's strategy is a commitment to return surplus cash to investors following successful disposals and we delivered on this after selling Telecable when we returned £139.7 million to shareholders through a tender offer, while retaining €10.2 million of cash at year end. When combined with dividend payments announced to date³, this has resulted in a total cash return to shareholders of £158.3 million, equivalent to 55% of the initial equity invested⁴. After making these returns, our holding in Euskaltel also leaves Zegona's shareholders with an exposure to cash flows from operating activities that are of a similar magnitude to those of Telecable on a standalone basis.

Investment in Euskaltel

As well as the cash already returned, we believe the sale of Telecable provides opportunity for further shareholder value creation through the c.15% shareholding of Euskaltel we received as part of the consideration. The combined Euskaltel and Telecable business creates enhanced scale and strong cash generation. There are also substantial synergies that have been determined by Euskaltel as having a net present value of €245 million⁵ and are equivalent to €1.37⁶ per share in the combined business. As part of the deal, Zegona appointed Robert Samuelson, Zegona's Chief Operating Officer to Euskaltel's board and its board committees and also nominated Jon James (the Chief Executive Officer of Tele2 Netherlands) as an independent director, who was appointed by Euskaltel with effect from 26 July 2017.

The outlook for telecommunications businesses in Spain continues to be positive, which provides Euskaltel with a solid foundation for growth. The broader Spanish economy continued to perform well in 2017, with GDP growth of 3.1% in 2017 and 2.6% expected in 2018⁷. The telecommunications market in Spain continues to be rational with most players seeking to build profitable growth. The trend of sustained price repair also continued throughout 2017 and into 2018, with all major Spanish operators increasing prices.

Despite the encouraging market outlook, we are disappointed by the decline in Euskaltel's share price since the closing of the sale of Telecable, which has resulted in a €41.5 million decrease in the value of the investment. Zegona's nominated director has been actively involved in Euskaltel's board and its committees, but we are disappointed that the extent of this input has not resulted in the effective action we believe is required within the Euskaltel business. We continue to monitor the situation closely and Zegona's nominated director continues to seek to support performance improvement through his position on Euskaltel's board and strategy committee. We continue to believe that there is an opportunity to generate significant additional value from the Euskaltel holding, especially since Euskaltel trades at a very significant discount to many of its industry peers.

Outlook

Beyond Spain, we continue to see a very healthy environment for acquisitions across the broader European TMT⁸ landscape. There has been an increase in deal activity and we have also seen growth in the availability of assets. We have continued to evaluate new acquisition opportunities and actively pursue those which initially meet our rigorous financial and strategic criteria.

Dividend

Following the acquisition of Telecable, we set a policy to pay a progressive dividend to shareholders that would grow to reflect the increasing cash generation by our operating businesses. For 2016 we paid dividends of 4.5 pence per share, totalling £8.8 million (or an equivalent of 7.0 pence per share based on the number of shares currently in issue). For 2017, we announced an 11.1% increase in the total dividend that reflected the strong growth in Telecable's cash flows in 2016. Accordingly, we announced dividends of 7.8 pence per share, totalling £9.8 million, of which £4.9 million has been paid and the remaining £4.9 million will be paid on 24 April 2018.

The disposal of Telecable means that it is no longer appropriate to commit to pay a progressive dividend, however we remain committed to paying dividends to shareholders. Future dividends will be funded by the receipt of dividends from Euskaltel and other cash reserves. Future acquisitions will provide additional operating cash flows to support dividend payments, however this could be offset by the need to invest in newly-acquired businesses to create further value for shareholders. We will make further announcements on dividends in due course.

Annual General Meeting

Zegona's 2018 annual general meeting ("AGM") will be held at 2 p.m. on 2 May 2018 at 10 Snow Hill, London, EC1A 2AL. Further details on the AGM and the business to be conducted on the day can be found on pages 95 to 102. My board colleagues and I look forward to meeting you in April.

Eamonn O'Hare
Chairman and Chief Executive Officer
28 March 2018

1 Excluding the impact of dividend reinvestment, please see the section on non-GAAP measures on page 6 for further information.
2 Please see the section on non-GAAP measures on page 6 for further information.
3 Including the dividend formally announced on 22 March 2018 and payable on 24 April 2018 targeted prior to the announcement of the sale.
4 Total Zegona equity raised £286.6 million. Total cash returned to shareholders of £158.3 million, comprised of £139.7 million from the tender offer, dividends paid in respect of 2016 of £8.8 million and dividends paid and payable in respect of 2017 of £9.8 million.
5 As announced by Euskaltel during a conference call for analysts and investors on 16 May 2017.
6 €245 million divided by 179 million shares of Euskaltel in issue after completing the acquisition of Telecable.
7 As published by the European Commission in February 2018.
8 Technology, media and telecommunications.

Vision

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

Opportunity

Changing market dynamics in the TMT industry create multiple investment opportunities:

- **Demand for data and speed:** Data consumption is growing strongly with customers willing to pay for speed. Up to 1GBps is now offered in some markets but network roll-outs and upgrades need to be efficient.
- **Digital convergence:** The fixed/mobile divide is increasingly disappearing for users, meaning significant growth in more valuable quad play⁹ customers who are combining mobile and fixed services. This has driven an increase in merger and acquisition (“M&A”) activity and improvements in economics for converged players since mobile data delivery is heavily dependent on fixed networks.
- **Industry consolidation:** The sector has seen heightened M&A activity. Many private equity owners are looking to sell assets acquired pre-financial crisis and industry players are focusing on cost reduction and price repair to rebuild margins. Consolidation has also created opportunity as businesses are spun out of corporates to meet regulatory requirements and strategic objectives, creating opportunity for Zegona.
- **Broad range of attractive assets:** Zegona’s flexibility in terms of size, geography and category opens a broad universe of attractive target assets. We have identified many businesses of an appropriate scale across a number of categories, including; mobile only players, mid-sized cable, Direct to Home, satellite pay TV, smaller fixed incumbents, B2B and network infrastructure/towers.

Advantage

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

- **Strong, aligned management team:** Zegona’s management team has a proven track record of delivering superior business performance and investor returns and successfully sold Telecable during 2017. The team has extensive real world experience in senior operational roles in large public companies. The team’s interests are also strongly aligned with shareholders as they participate in a long-term incentive scheme that links management remuneration directly to growth in shareholder value.
- **Entrepreneurial focus:** Zegona has considerable freedom in the projects it pursues and the ways it creates value. Unlike most private equity businesses, Zegona is free to choose the optimal period to hold assets and can realise value using a range of approaches, of which a sale of the asset is only one. This also permits a focus on fundamental business improvements that are value accretive rather than relying on high leverage and multiple expansion. Zegona is also able to act quickly on acquisition opportunities while still maintaining financial discipline. This is especially attractive to potential sellers and a key differentiator.
- **Major global investors:** A small number of global public equity asset managers¹⁰ with a long term outlook own more than 88% of Zegona. The successful placement of £257 million of equity in order to finance the acquisition of Telecable in 2015 underlined investor confidence in Zegona’s strategy. Zegona’s management team has an effective investor relations programme by maintaining regular contact with the Company’s major shareholders and future potential shareholders.

⁹ Quad play: customers with four services (pay TV, fixed voice, broadband and mobile).

¹⁰ Those with holdings in 3% or more of the issued ordinary shares of the Company are listed on page 30.

Strategy

In relation to Zegona's ongoing Buy-Fix-Sell strategy, Zegona delivers value at each phase of the process:

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

- Acquisitions in a target enterprise value range of £1-3 billion, although we may make acquisitions 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)
- Multiple viable exit options pre-identified

FIX: Many businesses across the TMT sector currently deliver sub-optimal returns which could be significantly improved. Zegona has a hands-on relationship with acquired businesses, working closely with management to deliver fundamental business improvements. We would expect that any acquired business would benefit from the various active change measures that we pursue:

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

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

- Zegona identifies the optimal time to sell, with flexibility to adapt to market changes and other opportunities, to maximise shareholder value
- Zegona's publicly listed structure allows shareholders to realise value at any time and provides multiple options for value crystallisation
- Following a successful disposal, proceeds will be reinvested or returned to shareholders

Alongside Zegona's continued focus on its Buy-Fix-Sell strategy, Zegona retains a c.15% equity interest in Euskaltel. Zegona remains committed to help support Euskaltel's performance improvement.

BASIS OF PREPARATION

The results for the year have been significantly affected by the sale of the Telecable business on 26 July 2017 and the requirement to show the results of Telecable within discontinued operations from 15 May 2017 when the sale and purchase and share exchange agreement was signed. Since Telecable was Zegona's only operating business, substantially all of Zegona's revenues and costs for both the current and prior periods have been presented as discontinued operations.

Zegona initially considered that its investment in Euskaltel should be accounted for using the equity method. However, Zegona has continued to review and update its initial evaluation, considering all new information relevant to the determination of the correct accounting treatment and has concluded that the investment should be accounted for as an available for sale financial asset in accordance with IAS 39 (see note 3 to the financial statements on pages 70 and 71 for further discussion).

INVESTMENT IN EUSKALTEL SEGMENT REVIEW

As part of the sale of Telecable, Zegona received 26.8 million shares in Euskaltel, which represent c.15% ownership. Euskaltel is a Spanish telecommunications company active in the Spanish regions of the Basque Country, Galicia and Asturias, and is listed on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Stock Market Interconnection System (Continuous Market). As part of the deal, Zegona also appointed Robert Samuelson, Zegona's Chief Operating Officer to Euskaltel's board and its board committees, including a newly-created strategy committee. Zegona also nominated Jon James (the Chief Executive Officer of Tele2 Netherlands) as an independent director.

On receiving Zegona's equity interest on 26 July 2017, the carrying value of the investment in Euskaltel was €223.8 million which corresponded to a prevailing Euskaltel share price of €8.35. At 31 December 2017, the value of the investment had reduced by €41.5 million to €182.2 million, resulting from a fall in the Euskaltel share price by 18.6% to €6.80. This decrease was recognised within the Consolidated Statement of Other Comprehensive Income. Subsequent to the year end, the Euskaltel share price has traded in line with the value at the year end¹¹.

We are disappointed with this reduction in the value of the Euskaltel investment. We believe Euskaltel is a fundamentally sound business that already traded at a significant discount compared to its peers when we announced the sale of Telecable. However, this discount has become even more significant with the fall in the Euskaltel share price since Zegona received its equity interest. We continue to believe that there is the opportunity to generate significant additional value by closing this discount through effective management action. Since his appointment, Robert Samuelson has contributed positively and consistently to Euskaltel's board and committees, including the newly-established strategy committee. However, this active input at the board and committee level has not translated into the effective executive action we believe is required within the Euskaltel business. We believe this lack of effective action has had a negative impact on the value of Euskaltel. We continue to monitor the situation closely and Robert Samuelson continues to seek to support performance improvement through his board representation.

ZEGONA CENTRAL COSTS SEGMENT REVIEW

Costs are incurred by all Zegona Group entities supporting the corporate activities of the Group, including staff and premises costs related to Zegona's management team, ongoing costs of maintaining the corporate structure, evaluating new acquisition opportunities and executing acquisition and disposal activities. These central costs totalled €11.2 million (2016: €6.4 million) and include: (1) €6.1 million (2016: €3.8 million) recorded within operating loss related to Zegona's ongoing corporate operations and included performance-related bonuses for the first time since the Company's incorporation; and (2) €4.9 million (2016: €2.0 million) recorded within operating loss for significant project costs, principally advisory and other professional fees incurred in relation to the sale of Telecable and the return of cash to shareholders via a tender offer.

¹¹ The highest closing price between 31 December 2017 and 26 March 2018 (the latest practicable date before this report) was €7.31 and the lowest closing price was €6.58.

TELECABLE SEGMENT REVIEW

Up until its sale to Euskaltel, Telecable was the sole operating business of the Zegona Group. Telecable is the leading quad play cable telecommunications operator in the Asturias region of North West Spain. Telecable was sold to Euskaltel on 26 July 2017, realising a gain on sale of €57.8 million, which is more fully explained in note 9 to the financial statements. The Total Shareholder Return of 34% that this sale implied (see section on non-GAAP measures below) also benefitted from the favourable timing of the transaction, which has allowed shareholders to crystallise part of the value from the 20% appreciation in the sterling/euro rate from 1.40 to 1.11 during Zegona's period of ownership.

During the first half of the year, Telecable performed in line with our expectations, with revenue growth of 2.6% compared to the first half of 2016, leaving it well positioned to provide a solid platform for growth as part of the enlarged Euskaltel business. Operating profit in Telecable was €6.1 million in the period from 1 January 2017 to 26 July 2017 (2016: €9.3 million for the full year).

NON-GAAP MEASURES

Operational performance measures

In prior years, Zegona management used certain financial measures and non-financial key performance indicators ("KPIs") to measure and discuss its operational performance. These financial measures were not defined by generally accepted accounting principles ("GAAP") such as IFRS. Following the sale of Telecable to Euskaltel, these measures ceased to be useful to management or investors with the focus of the management team being on maximising shareholder returns from the sale. As such, there are no non-GAAP operational performance measures or KPIs included in this annual report. Following the completion of the transaction, Zegona has a c.15% investment in Euskaltel and the value of this investment to Zegona is evaluated by dividends received and movement in the fair value of its quoted share price, both of which are GAAP measures. In future periods, if and when Zegona acquires new consolidated subsidiaries it will likely evaluate them using whatever combination of GAAP and non-GAAP operational performance measures and KPIs that it feels are most useful to investors in understanding the operating performance of those acquisitions. In such cases, further explanation of how these measures are defined will be provided, together with reconciliations to relevant GAAP measures.

Total Shareholder Returns

Zegona uses Total Shareholder Returns as a measure to demonstrate the value generated for investors by significant transactions, compared to the amount originally invested. Zegona believes it is both useful and necessary to report these amounts because they quantify Zegona's success in executing its buy-fix-sell strategy in the same terms that investors use as a key metric when allocating capital. This is especially necessary as there are no GAAP measures that articulate this performance in terms that are consistent with those used by the investment community.

Total Shareholder Return for Telecable is the percentage difference between: (1) the implied value of a Zegona share before costs at the completion of the Telecable sale, including the impact of re-invested dividends previously paid; and (2) the average investment cost of a Zegona share, assuming the investor had participated in all capital raises from incorporation. While there are no GAAP measures that provide an equivalent insight, the most similar GAAP term is the 'gain on sale of discontinued operation' as disclosed in note 9 to the financial statements. A breakdown of the calculation of the Total Shareholder Return, and a reconciliation to the gain on sale of discontinued operation, is provided below.

Currency amounts as shown, per share amounts in £	At completion (26 July 2017)
Gain on sale of discontinued operation (€m)	57.8
Intersegment loan settled (€m) ¹²	181.7
Carrying amount of net assets sold (€m) ¹³	164.4
Total consideration per IFRS 10 (€m)	403.9
Additional value not reflected in consideration per IFRS 10 (€m) ¹⁴	6.4
Equity value of Zegona implied on disposal (€m)	410.3
Equity value of Zegona implied on disposal (£m) ¹⁵	368.5
Implied value of a Zegona share excluding dividend re-investment¹⁶	1.88
Impact of dividend re-investment ¹⁷	0.08
Implied value of a Zegona share	1.96
Invested capital per share ¹⁸	1.46
Total Shareholder Return	34%

¹² See note 9 to the financial statements.

¹³ See note 9 to the financial statements.

¹⁴ Comprised of: (1) €2.0 million paid by Telecable to Zegona in May 2017 principally in relation to partial repayment of the intersegment loan; (2) €1.9 million of loans from Telecable management assigned to Zegona on completion and trade and other receivables due from Telecable (see note 25 to the financial statements); and (3) a €2.5 million adjustment to reflect the difference between Zegona's best estimate of cash to be received of €7.6 million and the fair value of the deferred consideration of €5.1 million included in the calculation of gain on disposal per IFRS 10 (see note 16 to the financial statements).

¹⁵ Calculated using the exchange rate of 1.1134 prevailing on 26 July 2017.

¹⁶ Equity value divided by 196,044,960 shares in issue on completion.

¹⁷ 2.25 pence per share dividend paid on 14 October 2016 divided by the value of the share on the re-investment date (102.70 pence) multiplied by the implied value of the share at the measurement date (£1.88), plus 2.25 pence per share dividend paid on 17 March 2017 divided by the value of the share on the re-investment date (112.53 pence) multiplied by the implied value of the share at the measurement date (£1.88).

¹⁸ See note 20 to the financial statements.

Principal Risks

The Directors have carried out robust assessments of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity. Following the sale of Telecable and the resulting investment in Euskaltel, the risks facing the business changed fundamentally and will continue to develop as Zegona pursues or completes further acquisitions. Following the disposal of Telecable, the Directors revised their assessment of the principal risks facing Zegona and have continued to update this evaluation throughout the year. Further discussion of the principal risks faced by the Group as at the date of this report is set out below. Detailed consideration is given to all of these risk factors by the Audit and Risk Committee and Zegona's Board.

Principal commercial risks

Risk title	Risk rating	Change in risk assessment since last Annual Report
Risks related to the investment in Euskaltel	High	↑ New risk
Acquisition of targets	Moderate	↔ No change
Key management	Moderate	↔ No change
Disposal of investment in operational businesses	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

Following the sale of Telecable, Zegona's principal asset is its holding of c.15% of the share capital of Euskaltel. Although these shares, other than those pledged to Euskaltel as security for certain liabilities arising from the sale, can be distributed *in specie* to Zegona's shareholders at any time, Zegona is not permitted to sell any of the shares until July 2018 at the earliest. The value of this investment is subject to fluctuation based on the performance of the Euskaltel share price, which in turn is influenced by a number of factors either specific to Euskaltel's performance or general sentiment about the Spanish telecommunications industry or the Spanish and European economies more broadly. There is a risk that any one, or a combination, of these factors could cause the value of the Euskaltel investment to drop significantly, materially impacting the return on investment. The Directors regularly review the risk-adjusted returns of the Euskaltel investment and consider whether it is appropriate to retain ownership.

Zegona has exercised its right to appoint a representative to Euskaltel's board of directors and each of its board committees. Zegona believes there is additional value in the Euskaltel investment, both as a result of the strength of the underlying business and from the relevant knowledge and experience Zegona's management team can provide. However, if the other members of Euskaltel's board have interests or beliefs which are inconsistent or in conflict with Zegona's, it cannot be ensured they will not oppose or suggest an alternative strategy to any strategy suggested by Zegona's representative. In addition, disputes between Zegona or its representative and any such third parties could result in litigation or arbitration. Any of these events could impair the Group's objectives and strategy, which could have a material adverse effect on the value of the Euskaltel interest.

Zegona has the intention to continue to pay dividends in the future, although the level of dividends received from Euskaltel may impact on the availability of cash to fund this policy in the medium term. Foreign exchange rates may also have an impact as dividends received from Euskaltel are in euros with dividends being paid by the Company in British pounds sterling ("**Sterling**"). These risks could be managed through the ongoing monitoring of the Group's cash position, access to overdraft financing and the Board's ability to reduce or delay any return to shareholders should it be necessary.

Acquisition of targets

The success of the Group's acquisition strategy depends on identifying and successfully acquiring available and suitable targets. There is a risk that Zegona will not be able to: 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; or procure the necessary financing, be this from equity, debt or a combination of the two. In making acquisitions, there is also a risk of unforeseen liabilities being later discovered which were not uncovered or known at the time of the due diligence process. In pursuit of new acquisition targets, significant abort costs may be incurred if Zegona is not able to complete the acquisition, which may exhaust Zegona's cash and available liquidity.

Zegona has a disciplined approach to valuation and ultimately it is only prepared to make acquisitions at the right price and after undertaking a very structured and thorough due diligence process. When evaluating potential acquisitions, Zegona focuses 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.

As per the Group's strategy to buy and fix businesses that require active change and fundamental improvement to realise full value, once an acquisition is completed, there are risks that the Group will not succeed in driving strategic operational improvements to achieve the expected post-acquisition trading results or value creation which were originally anticipated, that the acquired products and technologies may not be successful or that the business may require significantly greater resources and investment than anticipated.

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

Key management

On a day-to-day basis, the Group is led by the Chief Executive Officer, supported by the Chief Operating Officer and Chief Financial Officer. The absence or loss of key management could result in the failure of the Group to achieve its objectives, including its involvement in Euskaltel, though there has been no such absence or loss since the incorporation of the Company. Zegona aims to retain its key staff by offering remuneration packages at market rates, as well as through long term incentivisation through the issue of management shares and other management incentive plans. The management team is small which places a natural limit on the volume of deal flow that can be addressed. The management team itself along with the Non-Executive Directors continually challenges the focus of the business and the allocation of resources amongst projects.

Disposal of investment in operational businesses

The ability of Zegona to dispose of its 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 the Company's strategy. There is a risk that such suitable buyers cannot be identified, thus reducing the returns on investments. The management team has proven its ability to execute the Zegona strategy since the formation of the Company and consideration is given to an exit strategy as part of the acquisition process.

Brexit

Euskaltel operates entirely in Northern Spain and, therefore, it is not expected that the value of the investment will be materially impacted by any market impacts directly due to the United Kingdom's referendum decision to leave the European Union, save to the extent that the euro-Sterling exchange rate moves. Uncertainty is however likely to continue until the UK's future relationship with the EU becomes clearer and this could have an impact on the number or attractiveness of acquisition opportunities available to Zegona, although no such impact has been apparent so far, other than the reduction in the value of Sterling. Given the complex negotiations involved, a clearer picture is not expected to emerge for some time and, with exit negotiations still in their relatively early stages, it is too early to determine what the likely effects, if any, on Zegona might be.

Foreign exchange

Foreign currency translation risk exists due to the Company operating, and having equity denominated, in a different functional currency (Sterling) to that of its investment in Euskaltel (euro) and of many of its likely acquisition targets. Transactional foreign currency risk is limited and the principal ongoing impact is on the Company's ability to maintain the Sterling value of dividends paid by Euskaltel in euros in order to maintain its dividend policy, as described above. 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 C.2.2 of the UK Corporate Governance Code, the Directors 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, its strategy, the risk appetite of the Board and the principal risks and uncertainties which are described in detail in this Strategic Report.

During 2017, Zegona's position and prospects changed radically. The sale of Telecable means Zegona no longer controls any operating businesses and its assets largely comprise its holding of c.15% of the share capital of Euskaltel. This reshaping of the group and its focus is entirely in line with Zegona's 'Buy-Fix-Sell' strategy described on pages 3 and 4 and a further fundamental change is to be expected when and if new acquisitions are made. In its present phase of development, the most significant factors affecting Zegona's prospects are:

- **Ongoing operating cash requirement:** following the sale of Telecable, we have retained cash and set up an overdraft facility which are sufficient to cover, for the foreseeable future, our ongoing operations, our announced dividend strategy and any reasonably possible uncertainties, however it may become necessary to take actions to conserve this cash.
- **Identifying and completing acquisitions:** this is core to our 'Buy-Fix-Sell' strategy and our prospects will be profoundly impacted by how quickly we can identify the next business that meets our disciplined financial criteria and successfully raise the necessary financing to acquire it.
- **Euskaltel investment:** delivering additional value from the investment in Euskaltel.

2. The assessment period

Notwithstanding the changes to the business discussed above, the Directors continue to believe that three years – in this case the three years to December 2020 – is the appropriate period over which Zegona should assess its viability for the following reasons:

- Three years was considered to be the maximum period Zegona would plausibly expect to continue without an operating business; and
- Zegona has reasonable clarity over a three-year period, which enables us to make an appropriate assessment of our principal risks.

3. The assessment process and key assumptions

Zegona's approach to evaluating its prospects has evolved in line with the changes to its operations. In previous years, Zegona's assessment of its prospects was embedded within the corporate planning process of its operating subsidiaries. However, following the sale of Telecable, this has been streamlined to reflect the much simpler nature of the business in its present form. Each month, the Board is provided with a detailed financial forecast, together with an analysis of performance against this forecast. This forecast is sufficiently detailed to explain all cash inflows and outflows and includes a description of all reasonably possible risks and opportunities. 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.

In preparing the viability assessment, the Board has 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, all of which are considered to be very conservative:

- Zegona will not make another acquisition 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, given the uncertainty over the timing and size of it, it was not considered appropriate to include it in the assessment.
- Zegona will incur substantial abort costs on failed transactions without taking actions.
- Zegona will receive no contingent consideration from Euskaltel during the assessment period.

In addition to the already deliberately conservative base model, the Directors also considered the principal risks discussed on pages 8 to 10 above to determine how far they had already been captured in the base model and whether any of them needed to be further considered in assessing viability as follows:

Principal Risk	Addressed in		Comment
	Base model	Scenarios	
Investment in Euskaltel	✓	✓	Addressed in the base model through the assumptions about dividends received during the assessment period. Further downside in the value of future dividend receipts needs to be considered in the scenarios.
Acquisition of targets	✓	✗	The most significant risk to viability. The base model assumes no acquisitions, so there is no need to add further downside in the scenarios.
Key management	✓	✗	The most significant consequence of the loss or absence of key management would likely be on Zegona's ability to execute another acquisition, which is already considered as part of the 'Acquisition of targets' risk.
Disposal of investments	✗	✗	Not relevant as no disposals are anticipated during the assessment period.
Brexit	✓	✗	The most significant consequence of Brexit would likely be on Zegona's ability to execute another acquisition, which is already considered as part of the 'Acquisition of targets' risk.
Foreign exchange	✓	✓	Addressed in the base model through the assumptions about dividends received from Euskaltel during the assessment period. Further downside in the future exchange rate needs to be considered in the scenarios.

As a result of this, the Directors identified two additional severe but plausible scenarios which were further used to stress test the base numbers. The impact of these scenarios has been considered both individually and in combination without considering the impact of achievable mitigating actions:

- **Scenario 1:** Dividends from Euskaltel are 10% lower than the already conservative amount anticipated in the base model in each period, however Zegona does not adjust its current dividend level.

- **Scenario 2:** Sterling strengthens significantly against the euro, returning to £0.70 for €1.00, resulting in the value of the dividend received from Euskaltel dropping in Sterling terms, however Zegona does not adjust its current dividend level in Sterling or use hedging instruments.

4. Results of the assessment

The assessment showed that in the base case, and applying the stressed scenarios both individually and in combination, Zegona would have sufficient cash and liquid resources to continue in operation throughout the assessment period, although in some cases this would be after deploying one or more of a range of mitigating actions available to maintain liquidity to continue in operation. These include reducing any non-essential expenditure on projects, selling or raising finance on its investment in Euskaltel or harmonising the Zegona dividend with the Sterling value of the Euskaltel dividend.

5. Viability statement

Taking into account Zegona's current position and principal risks and uncertainties, the Directors confirm that they 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 2020.

Employees

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

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

Breakdown of employees as at 31 December by gender and seniority

	2017		
	Male	Female	Total
Zegona Board Directors	6	–	6
Subsidiary Board Directors	4	1	5
Zegona senior management	2	–	2
Other staff of Zegona	–	1	1
Total	12	2	14

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

Corporate social responsibility

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

Our people

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

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

Human rights

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

Environmental matters

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

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

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

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

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

Zegona is required to report Scope 1 and 2 emissions for its reporting year to 31 December 2017. Scope 3 is not yet mandatory, however, the Group has again chosen to report Scope 3 emissions. The Group has no Scope 1 emissions. In the tables below, Zegona has included the emissions for the companies within the Group at 31 December 2017 and 2016 respectively, such that the 2017 data excludes Telecable as this was sold during the year.

Global tonnes of CO ₂			
	2017 Central costs	2016 Central costs	2016 Telecable
Scope 2 (electricity)	3.5	4.8	2,235.04
Tonnes of CO ₂ per €m operating expenses	0.32	0.82	16.89

Global tonnes of CO ₂ e			
	2017 Central costs	2016 Central costs	2016 Telecable
Scope 3 (water, business travel)	41.0	50.2	45.9
Tonnes of CO ₂ e per €m operating expenses	3.72	8.53	0.35

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

The strategic report was approved by the Board of Directors on 28 March 2018 and is signed on its behalf by:

Eamonn O'Hare
Chairman and Chief Executive Officer

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

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

Eamonn is a Non-Executive Director of Tele2 AG, one of Europe's fastest growing telecom operators offering mobile, fixed telephony, broadband and content services. He also serves as a Non-Executive Director on the main board of Dialog Semiconductor Plc, a leading edge consumer technology business that provides critical components for the world's most successful mobile device brands. The fees for these appointments are disclosed in the Remuneration Report on page 43.

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

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

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

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

Robert is a Proprietary Director of Euskaltel SA and the fees for this appointment are disclosed in the Remuneration Report on page 37.

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

Mark Brangstrup Watts, Non-Executive Director (appointed 19 January 2015)

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

Marwyn has launched 16 companies in partnership with experienced management teams across a variety of sectors, typically executing buy and build strategies. Mark has held board positions on several Official List and AIM quoted companies, including BCA Marketplace plc, Entertainment One Limited and Advanced Computer Software plc.

Mark was educated at London University.

Mark is a member of the Nomination and Remuneration Committee.

Murray Scott, independent Non-Executive Director (appointed 31 July 2015)

Murray has almost 20 years of experience in the international telecommunications sector, ranging from the then start-ups Equant and Interoute, to BT plc, where he served as Chief Financial Officer for the UK Products sub-division of BT Global Services which had revenues of £1.6bn. Since leaving BT, Murray has pursued his career as an interim director and consultant, including his current position as the Interim Director of Finance and Resources at the Stroke Association.

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

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

Richard Williams, independent Non-Executive Director (appointed 9 November 2015)

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

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

Ashley Martin, independent Non-Executive Director (appointed 6 February 2017)

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

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

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

Overview

This report is presented separately for the sake of clarity. Nevertheless, it forms part of the Directors' Report and has been approved by the Board and signed on its behalf as though it were a part of the Directors' Report. The Directors recognise the importance of sound corporate governance commensurate with the size of the Group and the interests of shareholders and remain committed to evolving the corporate governance arrangements as the business further evolves. Whilst the Company is not required by law or stock exchange rules to make detailed disclosures in relation to its corporate governance, the Directors have decided to provide such disclosures voluntarily as set out in this report.

The following sections of this report show how Zegona applies the main provisions set out in the 2016 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 the Company 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 statement of corporate governance covers the following areas:

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

The Group's principal risks are described on pages 8 to 10. The Directors' Report on pages 29 to 31 also contains information required to be included in this statement of corporate governance.

The Board of Directors

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

Biographical details of all directors and details of their Committee membership at the date of this report appear on pages 15 to 16. Consideration of the Board size and composition is kept under regular review by the Nomination and Remuneration Committee.

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

Board interaction

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

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

Board committees

The Board has established two principal committees, the Audit and Risk Committee and the Nomination and Remuneration Committee, to assist it in the execution of its duties. If the need should arise, the Board may set up additional Committees as appropriate. The Committees' terms of reference are available on the Company's corporate website, www.zegona.com, or by request from the Company Secretary. Each of the Committees is authorised, at the Company's expense, to obtain legal or other professional advice to assist in carrying out its duties. No person other than a Committee member is entitled to attend the meetings of these Committees, except by invitation of the Chairman of that Committee.

Current membership of the Committees is shown on pages 24 and 27. The composition of these Committees is reviewed regularly, taking into consideration the recommendations of the Nomination and Remuneration Committee.

Independence of the Board

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

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

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

Each of them is considered by the Board to be independent in character and judgement. Until June 2013, Richard had worked with the Executive Directors when at Virgin Media. However, they did not work together between then and Richard's appointment in November 2015.

A small part of Richard's role previously included assisting the Executive Directors in the design and delivery of the external investor relations strategy due to his extensive experience in this regard and the importance of this to the Company. Until 31 December 2017, Richard's annual fee reflected the additional time required for this assistance, however from 1 January 2018 he ceased providing this and he no longer receives any additional fee for it. The Board considers that Richard's contribution since his appointment amply demonstrates that providing this additional support for a short period of time does not affect his ability to act independently.

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

Similarly, although Mark Brangstrup Watts represents a significant shareholder, is a designated member of the Company's corporate finance adviser and is interested in Core Investor Shares (as defined in the Directors' Remuneration Report on page 39) in Zegona Limited, the Board considers that he nonetheless has the characteristics of an independent Non-Executive Director on the basis that:

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

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

Board and Committee attendance

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

	Formal Board meetings		Ad hoc Board meetings		Nomination and Remuneration Committee meetings		Audit and Risk Committee meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Eamonn O'Hare	6	6	18	16	–	–	–	–
Robert Samuelson	6	6	18	16	7	5	4	4
Mark Brangstrup Watts	6	6	18	15	9	7	4	3
Murray Scott	6	6	18	15	9	9	6	6
Richard Williams	6	6	18	16	9	9	6	6
Ashley Martin	5	5	16	14	6	6	4	4

The ad hoc Board meetings were held principally to discuss and approve the sale of Telecab and the subsequent tender offer, approve the appointments recommended by the Nomination and Remuneration Committee and discuss a report on the effectiveness of corporate governance arrangements prepared by Ernst & Young LLP ("EY"). In addition, two meetings were held for the sole purpose of approving powers of attorney to comply with the requirements of Spanish law and therefore were each attended by only two directors.

Board and Committee changes

The Board recognises that Zegona's governance arrangements will evolve in line with its size and strategic direction and, as part of this evolution, during 2016 the Board recognised that it needed to increase the number of independent Non-Executive Directors and add additional finance capability to the Audit and Risk Committee.

As reported in the 2016 annual report, Korn Ferry, a leading executive search consulting firm, was engaged to identify a seasoned listed company Non-Executive Director with a track record of chairing Audit Committees. Other than this engagement, the Company has no other connection with Korn Ferry. Following a rigorous series of interviews with members of the Board and management team, Ashley Martin was identified as the outstanding candidate and, on the recommendation of the Nomination and Remuneration Committee, Ashley was appointed with effect from 6 February 2017. Biographical details about Ashley can be found on page 16.

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

As had been announced previously, on 17 May 2017 Robert Samuelson resigned from the Nomination and Remuneration Committee and both Robert and Mark Brangstrup Watts resigned from the Audit and Risk Committee. As a result, the Audit and Risk Committee is now solely comprised of independent Non-Executive Directors and the Nomination and Remuneration Committee is comprised solely of Non-Executive Directors, with a majority being independent.

The Board believes that these changes further strengthen the independence and capability of these committees and demonstrate the positive intent of the Group to continue to challenge and enhance its corporate governance framework as the business grows and evolves. The Board believes that the current board composition provides an appropriate mix of experience and expertise to support the business in executing its strategy. This is reviewed regularly by the Nomination and Remuneration Committee. Should the Committee conclude that additional expertise is required, then it would seek to add new members.

Directors' terms of service

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

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

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006. The indemnity was in force throughout the financial year and is currently in force. The Company also purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself, its Directors and the Directors of Group companies. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2016.

Conflicts of Interest

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

Compliance with the UK Corporate Governance Code

The Code sets out a number of principles in relation to board leadership, effectiveness, accountability, remuneration and relations with shareholders. A copy of the Code is available on the Financial Reporting Council's website at www.frc.org.uk.

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

Combined Chairman and CEO

- Provision A.2.1 of the Code recommends that the roles of Chairman and the Chief Executive should not be occupied by the same person; the Company does not comply with this requirement. The Board believes that Eamonn O'Hare's skills, knowledge and leadership enable him to effectively perform both roles and that, at this time, distinguishing between these roles would be of no additional benefit to the Group.
- There were no concerns raised through the board effectiveness reviews in this regard and separation of the roles was determined to be a low priority in the EY corporate governance review. However, the Board remains cognisant of this area of non-compliance and considers the continued appropriateness of these two roles remaining combined on a regular basis giving due regard to shareholder concerns and the time commitment required for each role as the business evolves.
- In particular, the Board considers that, notwithstanding his role as CEO, Eamonn is capable of promoting a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors and ensuring constructive relations between the Executive and Non-Executive members of the Board.
- The Board believes that it remains effective with sufficient challenge being provided both at formal Board meetings and through informal interactions with members of the Board. In addition, the Company maintains a schedule of matters reserved for the Board which prevents Eamonn from authorising certain corporate actions without a formal resolution of the Board.

Independence of Board Committees

- Following the resignation of Robert Samuelson and Mark Brangstrup Watts from the Audit and Risk Committee on 17 May 2017, this committee is now comprised entirely of independent Non-Executive Directors, as recommended by provision C.3.1 of the Code. The Nomination and Remuneration Committee, following Robert Samuelson's resignation from the committee, is now comprised solely of Non-Executive Directors. Provision D.2.1 of the Code recommends remuneration committees to be comprised of independent Non-Executive Directors. Whilst Mark Brangstrup Watts has the characteristics of an independent Non-Executive Director, he represents a significant shareholder, is a designated member of the Company's corporate finance adviser and is interested in Core Investor Shares in Zegona Limited.

The Code recommends, but does not require, the appointment of a Senior Independent Director ("SID"). During the year, extensive consideration has been given to such an appointment, including as part of the independent corporate governance effectiveness review discussed below, with the Board concluding at the time that its focus should be on the successful integration of Ashley Martin into the Board and Committee operations. The Board fully recognises that value that can be provided by a SID but at present believes that the current composition of the group does not warrant the appointment of a SID. The Board keeps this conclusion under review and will continue to revisit it in 2018, particularly if one of a number of triggering factors (for example, the enlargement of the Group through a significant transaction) occurs.

Evaluation of the Board, Committees and individual Directors

For 2017, the Board conducted an annual evaluation of its own performance and that of its committees by means of a questionnaire requiring written responses from the Directors. To ensure independence and objectivity, the questionnaire was designed, administered and reviewed on a confidential basis by the Company Secretary. The questionnaire was drafted having regard to the balance of skills, experience, independence and knowledge contributed by its members, as well as the successful operation of the Board as a unit, its diversity and other factors relevant to its effectiveness.

The resulting report compiled by the Company Secretary, analysing responses and drawing anonymous conclusions, was sent to each Non-Executive Director for consideration at a meeting of the Nomination and Remuneration Committee, which concluded with a session to discuss the performance of the Company's Chairman. A summary of the conclusions reached by the Nomination and Remuneration Committee was then discussed at a Board meeting.

The findings of the review were positive, noting that matters identified for improvement in the prior year had been addressed and that the appointment of Ashley Martin had been a valuable addition to the Board and its committees. Recommendations for the year ahead include the desire for the Non-Executive Directors to receive further detail on the overall telecommunications market in the context of Zegona's ongoing acquisition strategy and, in that regard, further consideration of the framework to manage the risk of potential conflicts of interest and to continue to prioritise the governance agenda as the business evolves. The Board and committees have agreed to progress these findings over the coming year.

Independent corporate governance effectiveness review

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

In 2016, the Company engaged EY to perform an independent assessment of the effectiveness of the current corporate governance arrangements in place, including the extent to which the Company has applied the key principles of the Code, with a view to assisting the Board and senior management in planning to evolve the corporate governance arrangements as the Group executes its strategy.

In line with the key observations of the report, the Board further strengthened the independence of both the Audit and Risk Committee and Nomination and Remuneration Committee at the 2017 annual general meeting of the Company through the resignation of Robert Samuelson from both Committees and Mark Brangstrup Watts from the Audit and Risk Committee.

The other key observation of the report was to develop a framework for the maintenance of a sound system of internal control, including an annual controls review, to facilitate the Board's oversight of Telecable. Following the sale of Telecable, this observation is no longer relevant and, given the uncertainty over the nature and size of Zegona's next operating business, this framework will be developed further as part of the acquisition process.

The Board continues to consider the other observations of the report.

Whistleblowing policy

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

The aims of this policy are:

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

Share dealing

The Company has in place systems to ensure compliance by the Board, the Company, and its applicable employees in relation to dealings in securities of the Company and has adopted a share dealing code for this purpose. The Directors believe that the share dealing code adopted by the Board is appropriate for the Company's size and complexity 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 the Company's 'applicable employees'.

Relations with shareholders

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

Annual general meeting

The next annual general meeting ("**AGM**") of the Company will be held at 10 Snow Hill, London, EC1A 2AL at 2 p.m. on 2 May 2018. The AGM is an opportunity for shareholders to vote on certain aspects of the Company's business. The Directors will also be available to answer any shareholder questions prior to and after the meeting. The Company will arrange for the Annual Report and related papers to be available on the website at www.zegona.com so as to allow at least 20 working days for consideration before the AGM.

Audit and Risk Committee Report

I am pleased to present the 2017 report of the Audit and Risk Committee (the “Committee”). The Committee 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 Committee embraces its role of protecting the interests of shareholders with respect to the integrity of financial information published by the Group and the effectiveness of the audit. The Committee’s role and responsibilities are set out in its terms of reference, which are available on the Company’s website and from the Company Secretary at the Company’s registered office. The key responsibilities of the Committee are as follows:

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

The leadership and membership of the Committee relating to the year and to the date of this report has been as follows:

Period	Chairman	Members
4 March 2016 – 6 February 2017	Murray Scott	Mark Brangstrup Watts Richard Williams Robert Samuelson
6 February 2017 – 17 May 2017	Ashley Martin	Mark Brangstrup Watts Murray Scott Richard Williams Robert Samuelson
17 May 2017 – present	Ashley Martin	Murray Scott Richard Williams

The Committee normally meets at least three times a year with additional meetings arranged if necessary. In 2017, the Committee met in January, March, April, September and December and has subsequently met in February and March of 2018. The scheduling of these meetings is designed to be aligned with the financial reporting timetable, thereby enabling the Committee to review the interim financial report, the audit plan ahead of the year end audit and the Annual Report, as well as to maintain a view of the internal controls and processes throughout the year.

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

Following the resignation of Mark Brangstrup Watts and Robert Samuelson from the Committee on 17 May 2017, the Committee is now comprised entirely of independent Non-Executive Directors. The Board is satisfied that Ashley Martin's appointment on 6 February 2017 brings recent and relevant financial experience from senior executive and non-executive positions as described in his biography on page 16 and this experience complements the relevant financial skills that Murray Scott and Richard Williams bring to the Committee.

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

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

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

- **Accounting for the disposal of Telecable:** The judgements in relation to accounting for Telecable relate to the assumptions applied in classifying Telecable as a disposal group and discontinued operation (in particular for the interim report), as well as the calculation of the gain on sale of Telecable and tax treatment. The Committee has also considered the related disclosures within the financial statements. This was also an area of focus for the external auditor, who reported its findings to the Committee. The Committee considered management's approach, the assumptions applied and related disclosures and, having taken input from the external auditor, agreed with management's treatment and valuation.
- **Accounting for the contingent consideration receivable on the sale of Telecable:** The judgements in relation to the contingent consideration relate to its valuation, which involved reviewing each significant tax credit on which the contingent consideration is based, assigning a probability of success for each tax credit (or group of tax credits) and estimating the timing of payments. The Committee considered management's approach, the assumptions applied and related disclosures and, agreed with management's valuation.
- **Accounting for the investment in Euskaltel:** The judgements in relation to accounting for Euskaltel relate to the assumptions applied in determining whether Zegona has significant influence over Euskaltel and so whether Euskaltel should be classified as an available for sale financial asset or an associate. The Committee considered the initial evaluation made around the time of the sale of Telecable and the revised conclusion prepared in connection with the Annual Report. The Committee has also considered the related disclosures within the financial statements. The accounting treatment was also an area of significant focus for the external auditor, who reported its findings to the Committee. The Committee considered management's approach, the assumptions applied and related disclosures and, having taken input from the external auditor, agreed with management's classification.
- **Accounting for the unrealised losses on the investment in Euskaltel:** The judgements in relation to accounting for Euskaltel relate to the judgements applied in determining whether the decline in share price between the acquisition date and the reporting date is significant or prolonged. The Committee considered management's approach, the judgements applied and related disclosures and agreed with management's classification.
- **Risk management and internal control:** The Committee reviewed management's updates to the Group's main control document, the Financial Position and Prospects memorandum, and concluded that they were still appropriate given the developments in the business. The Committee also reviewed the updates made to the Group's risk register resulting from the sale of Telecable and subsequent holding of Euskaltel shares.
- **Non-audit fees:** As discussed further below, the Committee closely monitors the non-audit services provided by the external auditor to ensure that these are appropriate and has adopted a formal policy for the approval of non-audit services for any non-audit services where the cost of the service would exceed £10,000 in any one calendar year.

The Committee reviews and makes recommendations with regard to the appointment and re-appointment of the external auditor. In making these recommendations, the Committee considers auditor effectiveness and independence, partner rotation and any other factors which may impact the external auditor's re-appointment. As part of the audit planning process, the Committee met with KPMG LLP to discuss its audit plan and strategy document, which included discussion around the significant risks and other focus areas.

During 2017, feedback was gathered from the management team, Executive Directors, Non-Executive Directors and other service providers involved in the audit process as to the effectiveness of the 2016 audit process. The assessment was performed by way of a questionnaire which considered the calibre of the auditor, the auditor's quality processes, the performance of the audit team, the audit scope, the communication with the Board and management team, the auditor's technical expertise, audit governance and independence, and audit value.

Zegona has adopted a formal policy to ensure that there are appropriate safeguards in place to mitigate threats to auditor independence and each potential engagement over £10,000 in a calendar year is considered individually by the Committee and no fees are paid to the auditor on a contingent basis. Based on these strict procedures, the Committee remains confident that auditor objectivity and independence have been maintained and accepts that non-audit work must be controlled to ensure that it does not compromise the auditor's position. At each year end, KPMG submits a letter setting out how it believes its independence and objectivity have been maintained. KPMG is also required to rotate the audit partner responsible for the Group audit every five years and significant subsidiary audits every seven years. During 2017, KPMG earned fees totaling £7,000 (equivalent to €7,991) for non-audit services. An analysis of the fees earned by the external auditor can be found in note 26 to the consolidated financial statements.

Internal control and risk management

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

The Group does not have a separate internal audit function as the Board does not feel this is necessary due to the current size of the business and the simplicity and low volume of transactions, coupled with the nature and the extent of internal controls, management and Board oversight and involvement. The Committee 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 reviewed and discussed. The assessment was updated following the sale of Telecable to Euskaltel and has continued to be updated to best reflect the risks arising from the Company's ownership interest in Euskaltel and those applicable to its ongoing strategy.

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

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

Ashley Martin

Chairman of the Audit and Risk Committee

Nomination and Remuneration Committee Report

The roles and responsibilities of the Nomination and Remuneration Committee (the “Committee”) are set out in its terms of reference, which are available on the Company’s website and from the Company Secretary at the Company’s registered office.

The Committee discharges its responsibilities through:

- regularly reviewing the size, structure and composition of the Board and by providing recommendations to the Board of any changes that may be necessary from time to time;
- giving full consideration to succession planning and the leadership needs of Zegona in order to ensure an optimum balance of Executive and Non-Executive Directors in terms of skills, expertise and diversity;
- keeping up to date and fully informed about strategic issues and commercial changes affecting the Company and the markets within which it operates;
- managing the process for director appointments, including the engagement of an external search agency, as may be deemed appropriate, and the oversight of director induction;
- evaluating the performance of the Board, its committees and its individual Directors and reporting its findings to the Board;
- recommending the policy that the Company should adopt on remuneration of the Executive Directors and members of senior management, including the engagement of an external remuneration consultant as may be deemed appropriate;
- attracting, retaining and motivating Executive Directors and senior management to encourage commitment to the development of the Group and for long term enhancement of shareholder value;
- determining the levels of remuneration for each of the Executive Directors and members of senior management; and
- producing the annual remuneration report to be approved by the members of the Company at annual general meetings.

The Committee will normally meet at least twice a year with additional meetings arranged if necessary. In 2017, the Committee met in January, February, March, April, May and December and has subsequently met in March 2018. The scheduling of the formal Committee meetings is designed to be aligned with the financial reporting timetable in respect of the Committee’s responsibility for the annual remuneration report contained within the Annual Report and to ensure that the Board effectiveness evaluation is completed at an appropriate time.

The leadership and membership of the Committee relevant to the financial year has been as follows:

Period	Chairman	Members
4 March 2016 – 6 February 2017	Richard Williams	Mark Brangstrup Watts Murray Scott Robert Samuelson
6 February 2017 – 17 May 2017	Richard Williams	Mark Brangstrup Watts Murray Scott Ashley Martin Robert Samuelson
17 May 2017 – present	Richard Williams	Mark Brangstrup Watts Murray Scott Ashley Martin

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

- Considered the candidates for a new independent Non-Executive Director and recommended to the Board that Ashley Martin be appointed;
- Reviewed the role of Chief Financial Officer (“CFO”) of the Company and proposed to the Board that Dean Checkley be appointed as CFO;
- Considered the composition and balance of the Board in conjunction with the provisions of the UK Corporate Governance Code. Following the appointment of Ashley Martin, it was agreed that the current composition of the Board provides an appropriate mix of skills and experience for the Company to continue to pursue its stated strategy;
- Revised and approved the incentive plan for Telecable management;
- Reviewed the remuneration package for Executive Directors for 2018 and agreed that there will be no increase in base salary, and set the basis for determining their 2017 and 2018 bonuses as detailed in the Directors’ Remuneration Report;
- Reviewed the level of Non-Executive Director fees for 2018 and provided a recommendation to the Board to equalise fees for the Non-Executive Directors;
- Reviewed the value of the incentive schemes for the Company’s management and core investor; and
- Reviewed the Committee membership along with its terms of reference to ensure it remained appropriate for the nature and extent of the Committee’s activities and it was determined that these were relevant and appropriate for the Committee and in line with best practice.

Richard Williams

Chairman of the Nomination and Remuneration Committee

Result

For the year to 31 December 2017, the Group's profit was €41,770k (2016: loss of €5,488k), with the 2017 results benefitting from a €57,761k gain on the sale of Telecable. Other comprehensive loss was €41,163k (2016: €825k), with the 2017 results including a €41,540k unrealised loss on the fair value of the investment in Euskaltel. Therefore, the total comprehensive income for 2017 was €607k (2016: total comprehensive loss of €6,313k). A review of the performance and likely future developments is set out in the Strategic Report on pages 1 to 14.

Dividends

Dividend policy and approach

Following the acquisition of Telecable, the Company established a policy to pay a progressive dividend to shareholders that would grow to reflect the increasing cash generation by its operating businesses. In addition, the Company expects to generate significant surplus cash over time, such as from the disposal of Telecable, which the Company is committed to returning to shareholders promptly and efficiently. While special dividends are one possible method of making such returns, others are available. In the case of the proceeds from the sale of Telecable, the Board concluded that a repurchase of shares via a tender offer was the most appropriate method.

The disposal of Telecable means that it is no longer appropriate to commit to pay a progressive dividend, however the Company remains committed to paying dividends to shareholders. Future dividends will be funded by the receipt of dividends from the Group's investment in Euskaltel and other cash reserves maintained by the Group. Future acquisitions will provide additional operating cash flows to support dividend payments, however this could be offset by the need to invest in newly-acquired businesses in order to create further value for shareholders. The Board will make further announcements on dividends in due course.

In determining the level of dividend in any year in accordance with this policy, the Board will consider several other factors, which include but are not limited to:

- the level of available distributable reserves of the Company;
- the availability of cash resources;
- future cash commitments and the level of expected on-going operating costs;
- current and planned acquisition activity; and
- reasonably probable risks and opportunities.

Capacity to pay dividends

The Company is a non-trading holding company which derives increases in distributable reserves from dividends paid by subsidiary companies, principally Zegona Limited. There are limited restrictions on Zegona Limited paying dividends, therefore the capacity of the Company to make dividend payments is primarily determined by the availability of retained distributable reserves and cash resources. As at 31 December 2017, the Company had distributable reserves of €185.0 million and the total external dividends declared in 2017 amounted to €9.8 million. The Company's distributable reserves support over 18 times this annual dividend.

Dividends paid

On 3 April 2017, Zegona's Board of Directors approved a policy to declare a dividend of 5.0 pence per ordinary share for 2017. Following the completion of the tender offer and corresponding decrease in the number of issued ordinary shares, this was updated to an equivalent amount of 7.8 pence on 9 October 2017. Half of the 7.8 pence dividend was paid on 10 November 2017 with the balance to be paid on 24 April 2018.

Dividend resolution

The Directors have approved a second interim dividend for 2017, which was announced on 22 March 2018. A resolution to confirm, approve and ratify this interim dividend, in lieu of a final dividend, is proposed for the Company's AGM. Future dividends will be considered by the Board on an ongoing basis in accordance with the Company's dividend policy as described above.

Capital returns

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

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

Powers for the Company buying back its own shares

The shareholders have passed a resolution to authorise the Company 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 Company's AGM. It is intended that the Company will exercise this authority only if the Board considers that it is in the best interests of the Company at the time. Any shares repurchased by the Company may be held in treasury and subsequently resold for cash, cancelled or used for employee share scheme purposes.

Capital structure

Following the tender offer, the Company's capital structure is comprised of 126,219,449 ordinary shares of £0.01 each ("**Ordinary Shares**"). The holders of Ordinary Shares have the right to receive notice of, attend and vote at all general meetings of the Company. Holders of Ordinary Shares have the right to participate in dividends and any surplus capital on a winding up *pari passu* as amongst themselves. Where the winding up of the Company entails or is concurrent with the winding up of the Company's subsidiary, Zegona Limited, the assets available for distribution among the holders of Ordinary Shares will be reduced by such amount as is required to satisfy the rights (if exercised) of Management Shares and Core Investor Shares in Zegona Limited (as defined in the Directors' Remuneration Report on page 39, with further details set out in note 24 to the financial statements).

Significant agreements subject to change of control provisions

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

Substantial shareholders

At the date of release of this report, the Company had been notified under DTR 5 of the following holdings in 3% or more of the issued Ordinary Shares of the Company, which are all held indirectly by asset managers:

Asset manager	Number of shares	%
Marwyn Asset Management	32,538,225	25.8
Invesco Asset Management	21,492,686	17.0
Fidelity Worldwide Investment	12,599,583	10.0
Capital Research Global Investors	9,892,689	7.8
Legal & General Investment Management	9,001,149	7.1
AXA Investment Managers UK	8,597,096	6.8
Canaccord Genuity Group	6,600,190	5.2
Taconic Capital Advisers	6,134,710	4.9
Tekne Capital Management	4,322,123	3.4
	111,178,451	88.0

Independent auditor

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

Disclosure of information to 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 the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Statement of going concern

The Directors have considered all available information, including specific consideration of forecast financial information, about the possible future outcomes of events and changes of conditions, and the realistically possible responses to such events and conditions that are available to the Directors. Based on their considerations, the Board considers that there are no material uncertainties affecting the ability of the Group to continue in business or meet its liabilities as they fall due for the next 12 months and therefore believes it is appropriate to prepare the financial statements on the going concern basis.

By order of the Board

Eamonn O'Hare

Chairman and Chief Executive Officer
28 March 2018

Robert Samuelson

Director and Chief Operating Officer
28 March 2018

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report, Directors' Remuneration Report, Corporate Governance Report and the 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 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, 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 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 company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer and the undertaking included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Eamonn O'Hare
Chairman and Chief Executive Officer
28 March 2018

Robert Samuelson
Director and Chief Operating Officer
28 March 2018

Directors' Remuneration Report

The information included in this report is not subject to audit other than where specifically indicated. The aim and composition of the Nomination and Remuneration Committee (the "**Committee**") is set out previously on page 27. Details of Directors' interests in the share capital of the Company are set out on page 41.

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 2017, which includes my statement and the annual report on remuneration for the year.

The Directors' remuneration policy was approved at the annual general meeting of the Company held on 15 April 2016 (the "**2016 AGM**"). The substance of the policy has not changed since the 2016 AGM. Full details of the existing remuneration policy are set out on pages 39 to 45 of Zegona's 2016 Annual Report which is available on Zegona's website at www.zegona.com.

The annual report on remuneration details the amounts earned in the year ended 31 December 2017 in line with the regulations on the presentation and disclosure of Directors' remuneration and how the Directors' remuneration policy will be applied in 2018. The annual report on remuneration will be subject to an advisory vote at the 2018 annual general meeting.

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

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

On the first exercise, Management Shares are entitled to a return of 15% of the growth in equity value of the Company since the date the Company's shares were first admitted to trading on the AIM market of the London Stock Exchange, 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) as well as when a takeover, winding up of Zegona or a change in Board control occurs. Subject to shareholder approval, the shares are also exercisable during subsequent exercise periods, which are the periods between the third and fifth anniversary of the previous exercisable date. In relation to each subsequent exercise period, the previous exercisable date is the earlier of: (i) the date that the shares were last exercised; and (ii) the end of the previous exercise period if no such exercise took place during that period.

Under Zegona Limited's Articles of Association, a takeover has occurred when either the Company has been taken over, or substantially all of the business and assets of the Group have been sold and the net proceeds of the sale have been returned to the shareholders of the Company. Following the sale of Telecable, a return of £139.7 million was made to shareholders via a tender offer. However, as part of the sale proceeds, the Group received shares in Euskaltel and, at present, it is not Zegona's intention to dispose of this investment. Therefore, a significant portion of the net proceeds have not yet been returned to shareholders and therefore a takeover has not occurred and the shares are not exercisable.

During 2017, the remuneration of the Non-Executive Directors remained consistent with their annual fees earned in 2016, however for 2018 the base salary of all Non-Executive Directors has been equalised at £50,000 per annum, with an additional £10,000 for the Chairman of each principal committee. There is no element of the Non-Executive Directors' remuneration that is linked to the performance of the business, with the exception of Mark Brangstrup Watts who holds a beneficial interest in the Core Investor Shares as explained further in this report.

The base remuneration of the Executive Directors in 2017 was limited to their basic pay and benefits at the same levels as 2016. No increase to basic pay has been awarded since IPO. Based on their performance during 2017, the Executive Directors have received their full bonus entitlement for 2017, being equal to 100% of their annual basic pay as set out on page 37. The Committee will assess performance of the Executive Directors against the key performance measures detailed in the annual report on remuneration to determine the level of bonuses, if any, to be paid in relation to 2018.

It is noted that Executive Directors continue to hold Management Shares, the value of which is directly linked to the performance of the Company in executing its strategy as described in the Strategic Report (as was the case in 2016). Whilst the Group owns a non-controlling stake in Euskaltel, the Group's strategy remains unchanged and the management team is actively pursuing further acquisition opportunities. The Management Shares continue to provide a long-term incentive linked to the overall performance of the Company.

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

Rather than having long term incentive arrangements granted each year, we believe that an ongoing three to five year arrangement is preferable, given that it is closer to the expected typical ownership period of our businesses and the intention to acquire multiple businesses over time. Whilst Telecable was held for a shorter time period than our typical ownership period, it now forms part of the enlarged Euskaltel Group, in which Zegona has a non-controlling investment. As such, Telecable remains part of the 'fix' stage of our 'buy-fix-sell' strategy.

The rights attached to the Management Shares may be exercised at any time in the period from 14 August 2018 to 14 August 2020, or prior to that period under certain specific conditions, including a takeover (as described above) or Board change of control. By its nature, this means that value is likely to be received from the Management Shares only every three to five years and so the value received should not be regarded as an annual payment.

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

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

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

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

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

The annual report on remuneration sets out the major decisions that have been taken and significant changes that have occurred during the year in relation to Directors' remuneration and the context in which those have occurred.

The Committee is mindful of the potential risks associated with our remuneration policy. The Committee aims to provide a structure that encourages an acceptable level of risk taking (by benchmarking against shareholder returns) and an optimal remuneration mix. The Committee intends to undertake annual evaluations to ensure our policy achieves the correct balance and does not encourage excessive risk taking. If the Committee feels that the policy no longer achieves the correct balance, a new policy will be put to shareholders for approval.

The Committee has considered the risk involved in the Management Shares and is satisfied that the governance procedures mitigate these risks appropriately.

On behalf of the Nomination and Remuneration Committee

Richard Williams

Non-Executive Director and Chairman of the Nomination and Remuneration Committee
28 March 2018

Annual Report on Remuneration

Review of the year

No changes have been made to Directors' base remuneration throughout the year, however, bonuses have been paid to Executive Directors for the first time in relation to performance during 2017. Our intentions in relation to the 2018 remuneration policy are set out below.

Implementation of the remuneration policy in 2018

On 6 December 2017, the Committee reviewed the terms of the Executive Directors' entire remuneration package in accordance with the remuneration policy and concluded that there should be no changes to salary, benefits and annual bonus targets for the Executive Directors. However, the level of Non-Executive Director fees was amended for 2018, with the annual fee for providing Non-Executive Director services to the Company being equalised at £50,000, with an additional £10,000 for being a chairman of a board committee. This resulted in an increase in the Non-Executive Director fees for Mark Brangstrup Watts and Murray Scott from £40,000 to £50,000 each, with no impact on the fees paid to the other Non-Executive Directors¹⁹.

It is not expected that there will be any other significant change in the way that the remuneration policy will be implemented in 2018 as compared to how it has been implemented previously.

In designing the bonus scheme for 2018, the Committee recognises that, consistent with 2017 (see discussion on page 38 below), it continues to not be appropriate to set a formulaic basis for awarding bonuses based on one or more financial metrics or other key performance measures. The sale of Telecabal means Zegona no longer controls any operating businesses and its assets largely comprise its holding of c.15% of the share capital of Euskaltel. Consequently, there are no quantitative metrics available that appropriately measure Zegona's success in creating value for its shareholders. The Committee believes the most effective approach is to once again award bonuses at its discretion based on a series of qualitative elements that reflect the Executive Directors' performance against the objectives that the Committee feels are most important. The table below explains these key objectives and provides certain indicators of how these might be met (although this list is not exhaustive). The Committee has not allocated quantitative weightings to each objective but considers the first two to be significantly more important than the third.

Link to strategy	Objective	Indicators of achievement
Buy	New acquisitions	- Identification of a new acquisition that meets Zegona's disciplined financial criteria. - Negotiation of an agreement to acquire all or part of the target business at a price that Zegona reasonably believes provides the opportunity for an attractive return for shareholders. - Successful completion of the acquisition, including any related raising of debt or equity financing.
Fix	Additional value from the Euskaltel investment	Tangible actions in the course of Zegona's board representation and share ownership resulting in substantive action that improves Euskaltel's business performance and/or market valuation.
Fix	Managing costs and liquidity	- Ongoing costs of Zegona maintained in line with budget and forecasts. - Prudent management of transaction costs for both completed and aborted deals. - Liquidity maintained in line with forecasts.

¹⁹ Whilst Richard Williams' fee was increased as a result of his role as Chairman of the Nomination and Remuneration Committee, he ceased to support management in developing Zegona's investor relations strategy, meaning his total earnings did not change.

If there are significant changes to the business during 2018, for example due to a significant change in the composition of the Group, 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 the Company's strategy.

Total remuneration (audited)

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

The salaries of Zegona's Executive Directors, Eamonn O'Hare and Robert Samuelson, have remained the same as last year at £500,000 and £350,000²⁰ per annum respectively. In the interests of clarity, since the Executive Directors' salaries are set and paid in Sterling, the table has been presented in both euros (Zegona's presentational currency) and Sterling.

Executive Directors (euros)				
€	Eamonn O'Hare (Chairman & CEO)		Robert Samuelson (COO)	
	2017	2016	2017	2016
Fees/basic salary	570,775	612,355	399,543	428,649
Taxable benefits	24,339	24,917	24,339	24,916
Annual cash bonus	570,775	–	399,543	–
Pension contributions	114,155	122,471	79,909	85,730
Company health insurance scheme	5,139	5,934	4,956	5,732
Total	1,285,183	765,677	908,290	545,027

Executive Directors (Sterling)				
£	Eamonn O'Hare (Chairman & CEO)		Robert Samuelson (COO)	
	2017	2016	2017	2016
Fees/basic salary	500,000	500,000	350,000	350,000
Taxable benefits	21,321	20,345	21,321	20,345
Annual cash bonus	500,000	–	350,000	–
Pension contributions	100,000	100,000	70,000	70,000
Company health insurance scheme	4,501	4,845	4,341	4,680
Total	1,125,822	625,190	795,662	445,025

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.

²⁰ On 26 July 2017, at the request of Zegona, Robert Samuelson was appointed to the board and committees of Euskaltel as a proprietary director. Robert was appointed in a personal capacity and receives an annual fee of €80,000 directly from Euskaltel. During the period ended 31 December 2017, Robert received €20,900 (£18,115). Upon agreement with Robert, his Zegona salary is reduced by the fees he receives from Euskaltel, such that his total salary and fees for discharging his duties in his dual capacities as Zegona COO and a Euskaltel director equals £350,000 per annum. Robert's salary for the purpose of determining his bonus and pension contributions is deemed to be £350,000 per annum. Robert's salary information in this report includes the amounts received from both Euskaltel and Zegona.

In designing the bonus scheme for 2017, which was the first time the Executive Directors were considered for a performance-related bonus since incorporation, the Committee acknowledged that, with the impending sale of Telecable, it would not be appropriate to set a formulaic basis for awarding bonuses based on one or more of the key performance measures previously used to evaluate the operating performance of Telecable. Such a set of criteria would not acknowledge the profoundly different objectives associated with the negotiation and successful completion of such a disposal, nor would it recognise the radically different composition of the Group after disposal or the change in management focus that would be required thereafter. The Committee therefore resolved that, if Telecable was disposed of during the year, bonuses would be awarded at its discretion based on a series of qualitative elements that reflected the Executive Director's performance against the objectives that the Committee considered were most important. If the sale of Telecable had not been successful, the Committee would have established a series of quantitative formulae based on Telecable's performance against its then-current principal performance measures in respect of the full year.

In determining the appropriate level of bonus for the Executive Directors, the Committee considered the following objectives which it considers are closely aligned with Zegona's "Buy-Fix-Sell" strategy and the Executive Directors' performance against them:

Link to strategy	Objective	Performance
Sell	Provide strong shareholder returns from selling Telecable	Successfully completed the sale of Telecable to Euskaltel, creating an implied shareholder return of 34% versus the initial investment.
Sell	Promptly and efficiently return cash to shareholders	Within two months of selling Telecable, £139.7m was returned to shareholders tax efficiently. Total returns to shareholders to date are equivalent of 55% of initial equity invested.
Fix	Provide a mechanism to drive a second leg of value from the Euskaltel investment	Negotiated a range of measures during the sale of Telecable, including board representation, which should allow Zegona to contribute to further value creation at Euskaltel.
Buy	Make progress on identifying a further acquisition opportunity	The directors have made tangible progress in identifying potential new acquisitions.

In recognition of the Executive Directors' performance under each of the objectives above, and particularly in respect of the first two, the Committee used its discretion to award bonuses of 100% of each Executive Director's potential entitlement. No amount of the bonus awarded for 2017 was deferred.

The remuneration of the Non-Executive Directors during the year is detailed below, presented in euros:

€	Non-Executive Directors fees²¹	
	2017	2016
Mark Brangstrup Watts	45,662	48,988
Murray Scott	45,662	48,988
Richard Williams	68,493	73,483
Ashley Martin ²²	61,556	—
Total	221,373	171,459

²¹ The Non-Executive Directors have not received any other form of remuneration during the current or prior year.

²² Ashley Martin was appointed on 6 February 2017.

Directors' interests in Management Shares (audited)

Eamonn O'Hare and Robert Samuelson hold 3,050 million and 1,525 million A ordinary shares respectively in the Company's subsidiary, Zegona Limited ("**Management Shares**"). No Management Shares were awarded during the year (2016: nil). The total Management Shares held by Directors as at 31 December 2017 were as follows:

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

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

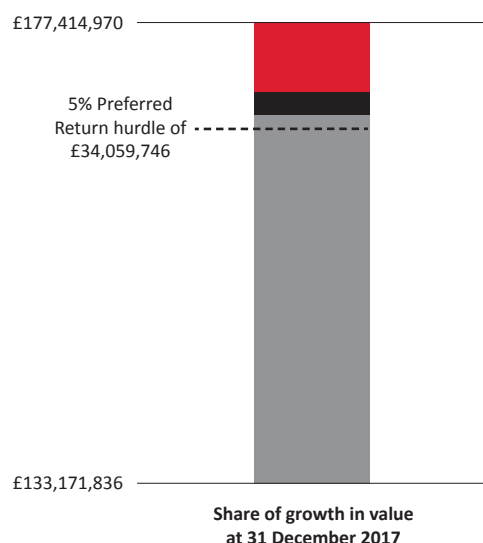
Under the arrangements pursuant to which the Management Shares were issued to Executive Directors, the Executive Directors are entitled to keep their Management Shares for a period of time if they are terminated, save if they are terminated for cause. The time period is two exercise periods, save in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

Incentive schemes

In order to illustrate how Zegona's incentive schemes operate, we have set out here an illustration of how the growth in value of Zegona over the period from the start of the plans in 2015 would translate into value earned by the management team and the core investor, calculated in accordance with the principles of Zegona Limited's Articles of Association, under the assumption of a trigger date of 31 December 2017.

This illustration is theoretical and the value delivered under the scheme will be entirely determined by reference to the value eventually delivered to shareholders over the full period to the date of crystallisation. The schemes will become exercisable either on 14 August 2018 or at the date that certain specific conditions such as a takeover or a Board change of control occur as explained in note 24 to the financial statements. At the date of this report, none of these conditions have occurred and the rights under the incentive schemes are not exercisable.

At the point the schemes become exercisable, the participants in the Management Shares are entitled to 15% of the increase in the equity value of Zegona and the participants in the Core Investor Shares are entitled to 5% of the increase in the equity value of Zegona, provided that Zegona's ordinary shareholders have achieved a 5% preferred return per annum on a compounded basis on their net invested capital. The calculation of the theoretical value under the plan at 31 December 2017 is as follows:



Since 2015 (£)	
Net invested capital ²³	133,171,836
At 31 December 2017 (£)	
Number of shares	126,219,449
Average share price ²⁴	1.4056
Deemed market capitalisation	177,414,970
Growth in equity value	44,243,134
Split between:	
Management Shares	15% 6,636,470
Core Investor Shares	5% 2,212,157
Ordinary Shares	80% 35,394,507

Calculation of net invested capital and Preferred Return hurdle

	Net invested capital (unadjusted) £	5% pa Preferred Return at 31 December 2017 £	Preferred Return hurdle at 31 December 2017 £
Share issue – March 2015	30,000,000	34,363,559	4,363,559
Share issue – August 2015	256,567,440	288,166,734	31,599,294
Dividend – October 2016	(4,411,012)	(4,680,149)	(269,137)
Dividend – March 2017	(4,411,012)	(4,584,101)	(173,089)
Share buy-back – October 2017	(139,651,022)	(141,077,760)	(1,426,738)
Dividend – November 2017	(4,922,558)	(4,956,701)	(34,143)
	133,171,836	167,231,582	34,059,746

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

The Company intends to keep under consideration the need to adopt formal guidelines in connection with the building of shareholdings in the Company by Directors and senior management. During the 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 Directors have continued to acquire ordinary shares throughout 2017 and the Executive Directors have significant holdings in Management Shares, which closely align their interests with those of the shareholders.

23 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.

24 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 2017.

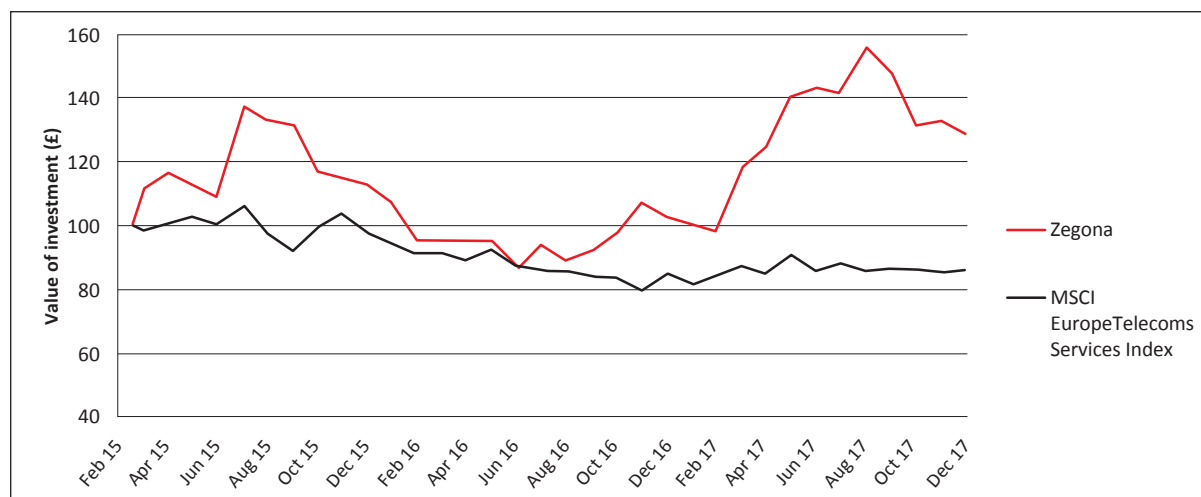
The Directors had the following total beneficial interests in the Ordinary Shares of the Company:

Director	At 31 December 2017		At 31 December 2016	
	Number of shares	% of issued share capital	Number of shares	% of issued share capital
Eamonn O'Hare	1,365,519	1.08	2,060,000	1.05
Robert Samuelson	514,996	0.41	789,002	0.40
Murray Scott	32,147	0.03	20,000	0.01
Richard Williams	61,293	0.05	56,000	0.03
Ashley Martin	10,479	0.01	–	0.00
	1,984,434	1.58	2,925,002	1.49

Whilst the Directors have each increased their percentage of issued share capital, the number of shares held by some of them has reduced due to the shares bought back by the Company during the year via the tender offer.

Performance graph

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



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

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

	2017	2016	2015 ²⁵
Total remuneration €	1,285,183	765,677	665,261
Annual bonus as a percentage of maximum opportunity	100%	0%	0%

²⁵ Period from incorporation on 19 January 2015 to 31 December 2015.

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

	2017 €000	2016 €000	Percentage change
Chief Executive Officer			
Salary	571	612	-7%
Taxable benefits	24	25	-2%
Annual bonus	571	–	n/a
Average of all Zegona head office employees			
Salary	263	302	-13%
Taxable benefits	12	15	-17%
Annual bonus	259	36	611%

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 (dividends and share buy back via tender offer).

	2017 €000	2016 €000
Employee costs	3,462	2,043
Distributions to shareholders	166,973	4,890

Service contract duration

Director	Contract duration	Notice period
Eamonn O'Hare	Unlimited	12 months
Robert Samuelson	Unlimited	12 months
Mark Brangstrup Watts	to 31 December 2019*	6 months
Murray Scott	Unlimited*	6 months
Richard Williams	Unlimited*	6 months
Ashley Martin	Unlimited*	6 months

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

Other than payments for notice periods, the service agreements contain no entitlements to termination payments. There are no malus or clawback provisions in respect of base salary, pension contributions or benefits, however, the Committee retains discretion to apply such provisions in the case of any bonus award paid to an Executive Director whose appointment is subsequently terminated.

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

External appointments

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

Eamonn O'Hare earned and retained Non-Executive Director fees in relation to his external appointments of £201,195 (equivalent to €229,674) in 2017.

Reappointment

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

Compensation for loss of office following a change of control

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

Statement of voting at general meeting

The following table sets out the voting in respect of the resolutions to approve the 2016 Directors' Remuneration Report and the Directors' Remuneration Policy at the respective annual general meetings:

	Date of annual general meeting	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 2016	17 May 2017	88.94%	11.06%	1,608,292
Resolution to approve the Directors' Remuneration Policy	15 April 2016	98.45%	1.55%	23,901,530

Richard Williams

Non-Executive Director and Chairman of the Nomination and Remuneration Committee
28 March 2018



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 2017 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 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

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

We were appointed as auditor by the directors on 21 November 2016. The period of total uninterrupted engagement is for the two financial years ended 31 December 2017. 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:	€1,790,000 (2016: €1,260,000)
group financial statements as a whole	0.9% of total assets (2016: 0.9% of revenue)

Coverage	100% of total assets (2016: 100% of revenue)
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Risks of material misstatement vs 2016

Recurring risks	Recoverability of Parent Company's investment in subsidiary	◀▶
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Disposal of Parselaya SL (Telecable Group holding company)	New: Valuation of the contingent consideration	▲
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	New: Classification and accuracy of the Euskaltel investment and presentation of the change in its fair value	▲
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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 and presentation of the change in its fair value (Available for sale financial asset: €182.2 million; 2016: nil. Change in fair value of available for sale financial asset: €41.5 million; 2016: nil) <i>Refer to page 66 (accounting policy) and page 84 (financial disclosures).</i>	The Group acquired 15% of the ordinary share capital of Euskaltel during the year. Accounting treatment: The investment in Euskaltel is classified as an available for sale financial asset as the Group believes it does not have significant influence over the investee. The Group's agreement with Euskaltel gives it certain rights and mechanisms, including the ability to appoint a director, therefore assessment whether significant influence exists requires significant judgement.	Our procedures included: — Our experience: challenging the factors used by the directors in the assessment of the significant influence. This included assessment of the Group's ability to participate in the significant operating and financial decisions of Euskaltel accompanied by discussions and formal communications from the Group's external counsel; — Accounting analysis: assessing the Group's classification of the investment by comparing the criteria used by the Group for such assessment to the applicable accounting standards; — Assessing transparency: assessing the adequacy of the Group's disclosures in respect of the classification of the Euskaltel investment;
	Low risk, high value: During the year, the Group recognised a cumulative loss of €41.5m in other comprehensive income as a result of the decline in the fair value of the Euskaltel investment. The loss was recognised in other comprehensive income, rather than in the profit or loss statement, because the Group believes that the decline was neither "significant" nor "prolonged" as it is determined by the relevant accounting standards. The carrying amount of the investment in Euskaltel and the change in its fair value are the largest items in the Group's balance sheet and statement of comprehensive income, respectively. Therefore, valuation of the Euskaltel investment and the presentation of the change in its fair value are the areas that the team focused the majority of their efforts during the audit.	Our procedures included: — Test of detail: agreeing inputs used in the valuation of the investment at the year end, such as share price and number of shares held by the Group, to the shares' quoted market prices and the SPA, respectively; — Accounting analysis: assessing and challenging the principles applied by the Group for the presentation of the change in the fair value of Euskaltel investment against the applicable accounting standards; Our results — We found the classification and accuracy of the Euskaltel investment and the presentation of the change in its fair value to be acceptable.

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

	The risk	Our response
Valuation of the contingent consideration (€5.1 million; 2016: €nil) <i>Refer to page 66 (accounting policy) and page 86 (financial disclosures)</i>	Subjective valuation: During the year the Group disposed of its major subsidiary Parselaya SL (Telecable Group holding company) to Euskaltel for a consideration partly contingent on the availability of certain tax credits to Euskaltel and a merger ruling being approved by the Spanish tax authorities. As there is a significant level of judgement involved in estimating the fair value of the contingent consideration, we consider this to be a significant audit risk.	Our procedures included: — Our tax expertise: using our own tax specialists assessing whether the assumptions used in calculating the contingent consideration (in particular those relating to the availability and usability of the recognised tax assets and likelihood of obtaining merger approval from the respective authorities) reflect our knowledge of the business, relevant tax legislation and formal communications from the Group's external counsel; — Sensitivity analysis: performing sensitivity analysis on the assumptions noted above; — Assessing transparency: assessing the adequacy of the Group's disclosures in respect of the valuation of the contingent consideration. Our results — We found the valuation of the contingent consideration to be acceptable.
Recoverability of Parent Company's investment in subsidiary (€193.3 million; 2016: €310.8 million) <i>Refer to page 68 (accounting policy) and page 80 (financial disclosures).</i>	Subjective valuation: The carrying amount of the parent company's investment in subsidiary is the most significant item on the parent company balance sheet and at risk of irrecoverability due to the decline in the subsidiary's net asset value. The estimated recoverable amount of this balance is determined based on the fair value of the subsidiary's net assets and is subjective due to the inherent uncertainty in judgements and estimates used in the impairment test.	Our procedures included: — Test of detail: comparing the carrying value of the investment to its recoverable amount to assess the accuracy of the recognised impairment loss; — Our experience: challenging the key inputs used in the valuation of the subsidiary's net assets by assessing the fair values of the investment in Euskaltel and the contingent consideration (the respective procedures are described in the key audit matters above); — Assessing transparency: assessing the adequacy of the parent company's disclosures in respect of the investment in subsidiary. Our results — We found the group's assessment of the recoverability of the investment in subsidiary and the resulting impairment charge to be acceptable (2016: acceptable).

We performed procedures over revenue recognition and valuation of goodwill and other intangibles relating to customer relationships until 26 July 2017, when Parselaya SL (the Holding company of "Telecable") was disposed by the Group. However, we have not assessed those as significant risks in our current year audit and, therefore, they are not separately identified in our report this year.

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

Materiality for the group financial statements as a whole was set at €1,790,000 (2016: €1,260,000), determined with reference to a benchmark of group total assets, of which it represents 0.90% (2016: 0.90% of revenue). We consider total assets to be a more appropriate benchmark than loss before tax from continued operations during the current period as the Group does not generate revenue from continued operations after the disposal of Telecable business segment in 2017.

Materiality for the parent company as a whole was set at €900,000 (2016: €840,000) determined with reference to a benchmark of company total assets, of which it represents 0.5% (2016: 0.3%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding €89,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

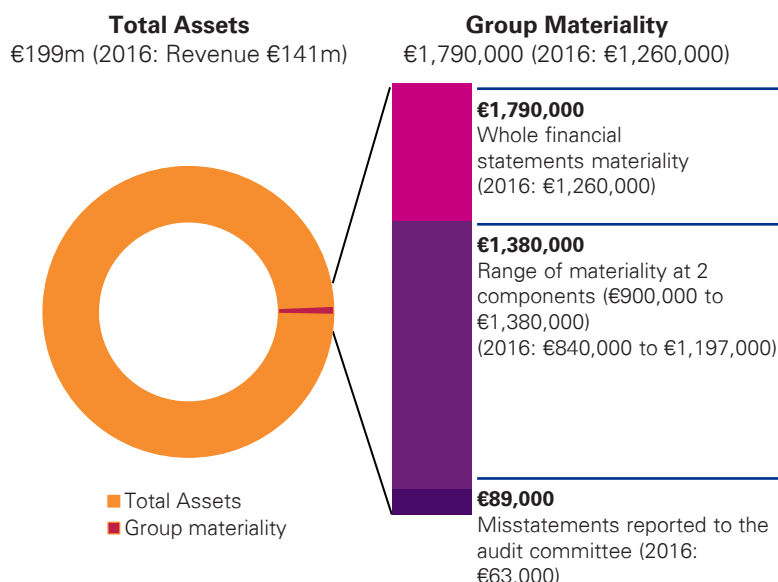
Of the group's 8 reporting components (2016: 8), we subjected 2 to full scope audits for group purposes (2016: 3) and none to specified audit procedures (2016: 1, which was not individually financially significant enough to require a full scope audit for group reporting purposes, but was included in the scope of our group reporting work to obtain further coverage).

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

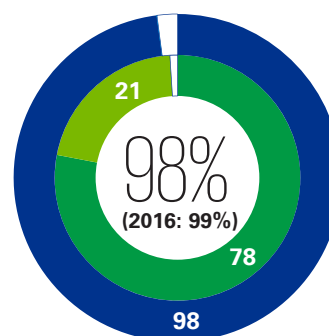
The remaining 2% of loss before tax from continuing operations is represented by 6 reporting components. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed the component auditor as to the significant areas to be covered and the information to be reported back. The Group team approved component materialities in the range of €900,000 to €1,380,000 (2016: €840,000 to €1,197,000), having regard to the mix of size and risk profile of the Group across the components. The work on 1 of the 2 components was performed by component auditor and the rest by the Group team (2016: 1 of 4). The parent company audit was performed by the Group team.

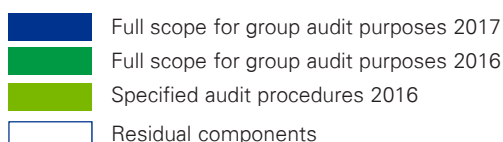
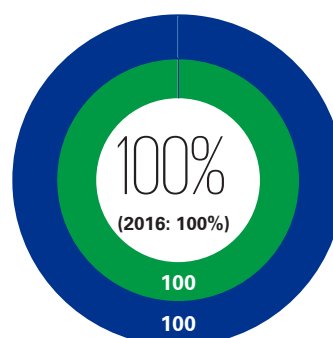
The Group team visited one component location being Telecable in Spain (2016: one) to assess the audit risk and strategy. Telephone conference meetings were also held with the component auditor. At the visit and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.



Loss before tax from continuing operations



Total assets



4. We have nothing to report on going concern

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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 32, 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

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements.

We identified areas of law regulations that could reasonably be expected to have a material effect on the financial statements through discussion with the directors and other management (as required by auditing standards), and from our sector experience. In addition we had regard to laws and regulations in other areas including legislation in overseas territories, financial reporting, and company and taxation legislation.

We considered the extent of compliance with laws and regulations that directly affect the financial statements, including financial reporting (including related company legislation) and taxation legislation as part of our procedures on the related financial statement items. For the remaining laws and regulations, we made enquiries of directors and other management (as required by auditing standards).

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 the component audit team of relevant laws and regulations identified at group level, with a request to report on any indications of potential existence of irregularities in these areas, or other areas directly identified by the component team.

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.

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

28 March 2018

		Year ended 31 December 2017 €000	Year ended 31 December 2016 Restated ²⁶ €000
	Note		
Continuing operations			
Administrative and other operating expenses:			
Corporate costs	5	(6,149)	(3,841)
Significant project costs	6	(4,858)	(2,043)
Operating loss		(11,007)	(5,884)
Finance income	7	105	47
Finance costs	7	–	(409)
Exchange differences		(334)	(66)
Loss for the year before income tax		(11,236)	(6,312)
Income tax expense	8	(11)	(96)
Loss for the year from continuing operations		(11,247)	(6,408)
Discontinued operation			
Profit for the year from discontinued operation	9	53,017	920
Profit/(loss) for the year attributable to equity holders of the parent		41,770	(5,488)
		cents	cents
Earnings per share – total operations			
Basic and diluted earnings/(loss) per share attributable to equity holders of the parent	23	23.2	(2.8)
Earnings per share – continuing operations			
Basic and diluted loss per share attributable to equity holders of the parent	23	(6.2)	(3.3)

The notes on pages 58 to 94 form an integral part of these consolidated financial statements.

²⁶ Restated to include the results of the Telecable disposal group within discontinued operation (note 9).

		Year ended 31 December 2017 €000	Year ended 31 December 2016 €000
Profit/(loss) for the year	Note	41,770	(5,488)
Other comprehensive income/(loss) – items that will or may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		197	(825)
Change in fair value of available for sale financial assets	21	(41,360)	–
Total other comprehensive loss		(41,163)	(825)
Total comprehensive income/(loss) for the year, net of tax, attributable to equity holders of the parent		607	(6,313)

The notes on pages 58 to 94 form an integral part of these consolidated financial statements.

		As at 31 December 2017 €000	As at 31 December 2016 €000
	Note		
Assets			
Non-current assets			
Property, plant and equipment	10	4	122,227
Intangible assets	11	1	559,779
Non-current financial assets	14	182,856	1,927
		182,861	683,933
Current assets			
Inventories		–	626
Trade and other receivables	15	457	17,831
Other current financial assets	16	5,060	–
Cash and cash equivalents		10,224	22,435
		15,741	40,892
Total assets		198,602	724,825
Equity and liabilities			
Equity			
Share capital	20	1,763	2,738
Other reserves	21	215,158	381,155
Share based payment reserve	21	105	60
Foreign currency translation reserve	21	(891)	(1,088)
Available for sale reserve	21	(41,360)	–
Retained earnings	21	21,390	(20,380)
Total equity attributable to equity holders of the parent		196,165	362,485
Current liabilities			
Trade and other payables	17	2,437	31,317
Other current financial liabilities	18	–	13,104
Deferred revenue		–	701
		2,437	45,122
Non-current liabilities			
Non-current financial liabilities	19	–	267,045
Deferred revenue		–	2,667
Deferred tax liabilities	8	–	47,506
		–	317,218
Total liabilities		2,437	362,340
Total equity and liabilities		198,602	724,825

The notes on pages 58 to 94 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 28 March 2018 and were signed on its behalf by:

Eamonn O'Hare
Director

Robert Samuelson
Director

		As at 31 December 2017 €000	As at 31 December 2016 €000
	Note		
Assets			
Non-current assets			
Property, plant and equipment		4	4
Investment in subsidiary	12	193,293	310,874
		193,297	310,878
Current assets			
Trade and other receivables	15	433	1,477
Cash and cash equivalents		422	3,894
		855	5,371
Total assets		194,152	316,249
Equity and liabilities			
Equity			
Share capital	20	1,763	2,738
Other reserves	21	215,158	381,155
Foreign currency translation reserve	21	(74,732)	(61,001)
Retained earnings	21	44,567	(14,156)
Total equity attributable to equity holders of the parent		186,756	308,736
Current liabilities			
Trade and other payables	17	7,396	7,294
Other current financial liabilities	18	–	219
		7,396	7,513
Total liabilities		7,396	7,513
Total equity and liabilities		194,152	316,249

The notes on pages 58 to 94 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 28 March 2018 and were signed on its behalf by:

Eamonn O'Hare
Director

Robert Samuelson
Director

	Note	Share capital €000	Other reserves €000	Share based payment reserve €000	Foreign currency translation reserve €000	Available for sale reserve €000	Retained earnings €000	Total equity €000
At 1 January 2017		2,738	381,155	60	(1,088)	–	(20,380)	362,485
Profit for the year		–	–	–	–	–	41,770	41,770
Other comprehensive loss	21	–	–	–	197	(41,360)	–	(41,163)
Redemption of shares	20, 21	(975)	(155,364)	–	–	–	–	(156,339)
Share-based payments	24	–	–	45	–	–	–	45
Dividends paid	21	–	(10,633)	–	–	–	–	(10,633)
Balance at 31 December 2017		1,763	215,158	105	(891)	(41,360)	21,390	196,165

	Note	Share capital €000	Other reserves €000	Share based payment reserve €000	Foreign currency translation reserve €000	Share premium €000	Retained earnings €000	Total equity €000
At 1 January 2016		2,738	–	25	(263)	386,045	(14,892)	373,653
Loss for the year		–	–	–	–	–	(5,488)	(5,488)
Other comprehensive loss		–	–	–	(825)	–	–	(825)
Cancellation of share premium account		–	386,045	–	–	(386,045)	–	–
Share-based payments	24	–	–	35	–	–	–	35
Dividends paid	21	–	(4,890)	–	–	–	–	(4,890)
Balance at 31 December 2016		2,738	381,155	60	(1,088)	–	(20,380)	362,485

The notes on pages 58 to 94 form an integral part of these consolidated financial statements.

			Foreign currency			
	Share capital	Other translation reserves	reserve	Share premium	Retained earnings	Total equity
Note	€000	€000	€000	€000	€000	€000
At 1 January 2017	2,738	381,155	(61,001)	–	(14,156)	308,736
Profit for the year	–	–	–	–	58,723	58,723
Other comprehensive loss	–	–	(13,731)	–	–	(13,731)
Redemption of shares	20, 21	(975)	(155,364)	–	–	(156,339)
Dividends paid	21	–	(10,633)	–	–	(10,633)
Balance at 31 December 2017	1,763	215,158	(74,732)	–	44,567	186,756

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

The notes on pages 58 to 94 form an integral part of these consolidated financial statements.

		Year ended 31 December 2017 €000	Year ended 31 December 2016 €000
Note			
Operating activities			
	Loss before income tax from continuing operations	(11,236)	(6,312)
	Profit/(loss) before income tax from discontinued operation	48,408	(4,612)
	Profit/(loss) before income tax	37,172	(10,924)
Adjustments to reconcile profit/(loss) before income tax to operating cash flows:			
	Depreciation of property, plant and equipment	8,258	23,293
	Amortisation of intangible assets	10,684	27,068
	Share based payment expense	45	35
	Changes in fair value of derivatives	(21)	409
	Net foreign exchange differences	343	81
	Losses on derecognition or disposal of non-current assets	2,116	3,552
9	Gain on sale of discontinued operation	(57,761)	–
	Finance income	(94)	(62)
	Finance costs	15,404	13,942
Working capital adjustments:			
	Decrease/(increase) in trade and other receivables & prepayments	3,611	(7,683)
	Decrease/(increase) in inventories	151	(254)
	Increase in trade and other payables	5,167	6,965
	Increase/(decrease) in other current financial liabilities	12	(4,007)
	(Decrease)/increase in deferred revenues	(178)	411
	Interest received	38	23
	Interest paid	(8,483)	(12,545)
	Income tax paid	(61)	(303)
	Net cash flows from operating activities	16,403	40,001
Investing activities			
9	Disposal of discontinued operation, net of cash disposed of	(27,640)	–
10	Purchase of property, plant and equipment	(9,888)	(13,717)
11	Purchase of intangible assets	(6,221)	(11,851)
	Net proceeds from loans receivable	378	–
	Net cash flows used in investing activities	(43,371)	(25,568)
Financing activities			
20, 21	Redemption of ordinary shares	(156,339)	–
21	Dividends paid to shareholders	(10,633)	(4,890)
19	Net proceeds from loans and borrowings	182,073	(283)
18	Settlement of derivatives	(197)	(189)
	Net cash flows from/(used in) financing activities	14,904	(5,362)
	Net (decrease)/increase in cash and cash equivalents ²⁷	(12,064)	9,071
	Net foreign exchange difference	(147)	(900)
	Cash and cash equivalents at the beginning of the year	22,435	14,264
	Cash and cash equivalents at the end of the year	10,224	22,435

The notes on pages 58 to 94 form an integral part of these consolidated financial statements.

²⁷ Includes all cash flows, including both continuing and discontinued operations. Amounts related to the discontinued operation are disclosed in note 9.

	Year ended 31 December 2017 €000	Year ended 31 December 2016 €000
Operating activities		
Profit /(loss) before income tax	58,723	(2,862)
Adjustments to reconcile profit/(loss) before income tax to operating cash flows:		
Depreciation of property, plant & equipment	2	–
Changes in fair value of derivatives	(21)	409
Write down of investment in subsidiary	106,806	–
Loss on disposal of property, plant and equipment	1	–
Working capital adjustments:		
Decrease in trade and other receivables and prepayments	1,044	959
Increase in trade and other payables	102	7,177
Net cash flows from operating activities	166,657	5,683
Investing activities		
Purchase of property, plant and equipment	(3)	(3)
Capital contributions to subsidiaries	–	(1,660)
Net cash flows used in investing activities	(3)	(1,663)
Financing activities		
Redemption of ordinary shares	(156,339)	–
Dividends paid to shareholders	(10,633)	(4,890)
Settlement of derivatives	(197)	(189)
Net cash flows used in financing activities	(167,169)	(5,079)
Net decrease in cash and cash equivalents	(515)	(1,059)
Net foreign exchange difference	(2,957)	(1,239)
Cash and cash equivalents at the beginning of the year	3,894	6,192
Cash and cash equivalents at the end of the year	422	3,894

The notes on pages 58 to 94 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The consolidated financial statements of Zegona Communications plc (the “**Company**” or the “**Parent**”) and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2017 (the “**Consolidated Financial Statements**”) were authorised for issue in accordance with a resolution of the Directors on 28 March 2018. The Company is incorporated in England and Wales and domiciled in the United Kingdom. It is a public limited company with company number 09395163 and has its registered office at 20 Buckingham Street, London, WC2N 6EF.

As further disclosed in note 9, the Group agreed on 15 May 2017 to sell Telecable, its Spanish cable telecommunications business. The sale completed on 26 July 2017. As a result, Telecable’s results are reported as a discontinued operation within the consolidated statement of comprehensive income, including a restatement of the results for the year ended 31 December 2016. Where comparative information has been restated for this transaction, this is shown by marking each affected column as “Restated”.

Further information on the Group’s structure is provided in note 12. Information on other related party relationships of the Group is provided in note 25.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Company was incorporated on 19 January 2015. The Consolidated Financial Statements represent the year ended 31 December 2017 and have been prepared in accordance with International Financial Reporting Standards and IFRS Interpretations Committee interpretations as adopted by the European Union (collectively, “**IFRS**”), and with those parts of the Companies Act 2006 as applicable to companies reporting under IFRS.

The Consolidated Financial Statements have been prepared under the historical cost convention except for derivative financial instruments and available for sale financial assets that have been measured at fair value. The functional currency of the Company is British pounds sterling (“**Sterling**” or £). The Directors have chosen to present the Consolidated Financial Statements of the Group in euros (€) as the Company’s previous operational subsidiary, Telecable de Asturias S.A., and its current investment, Euskaltel SA, have a functional and presentational currency of euros. All values are rounded to the nearest thousand (€000) except where otherwise indicated.

(b) Going concern

The Consolidated Financial Statements have been prepared on the going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future. Key factors that have been taken into account in making this determination are provided in the longer term viability statement on pages 10 to 12.

(c) New standards and amendments to IFRS

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

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 2017, none of which had a material effect on the Group.

Standard	Effective Date
Amendments to IAS 7: Statement of Cash Flows: Disclosure Initiative	1 January 2017
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017

Standards, amendments and interpretations issued but not yet effective:

The Group intends to adopt the following standards, amendments and interpretations, if applicable, when they become effective. Other than IFRS 9 *Financial Instruments* ("IFRS 9") as discussed below, adopting these standards will not have a material impact on the continuing operations of the Group. In particular, following the sale of Telecab, the assessment of the impact of IFRS 15 *Revenue from Contracts with Customers* included within the 2016 annual report is no longer applicable. A revised assessment will be performed as part of the acquisition process of Zegona's next operating business.

Standard	Effective Date
IFRS 14 Regulatory Deferral Accounts	1 January 2016*
Amendments to IFRS 4: Applying IFRS 9 <i>Financial Instruments</i> with IFRS 4 <i>Insurance Contracts</i>	1 January 2018
IFRS 9 <i>Financial Instruments</i>	1 January 2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018**
Amendments to IFRS 2: <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018**
Amendment to IAS 40: <i>Transfers of Investment Property</i>	1 January 2018**
IFRS 16 <i>Leases</i>	1 January 2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019**
Amendments to IFRS 9: <i>Prepayment Features with Negative Compensation</i>	1 January 2019**
Amendments to IAS 28: <i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019**
IFRS 17 <i>Insurance Contracts</i>	1 January 2021**

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

** subject to EU endorsement

IFRS 9

In July 2014, the final version of IFRS 9 was issued that replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. As Zegona does not apply hedge accounting, retrospective application is required but providing comparative information is not compulsory. The Group does not plan to restate comparative information.

The Group expects no significant impact on its consolidated statement of financial position. It expects to continue measuring at fair value all financial assets currently held at fair value. The investment in Euskaltel, which is currently held as available for sale with gains and losses recorded in other comprehensive income could, instead, be measured at fair value through profit or loss, which would increase volatility in recorded profit or loss. The available for sale reserve amount of €41,540k related to the Euskaltel investment, which is currently presented as a movement within other comprehensive income, would be reclassified to retained earnings.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Therefore, they are likely to meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments would not be required.

(d) Basis of consolidation

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

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

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.

The Consolidated Financial Statements include the results of all subsidiaries wholly owned by the Company as listed in note 12. Certain of these subsidiaries, which are listed below, have taken the exemption from preparing individual accounts for the year ended 31 December 2017 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 the outstanding liabilities as at 31 December 2017 of the subsidiaries listed below, further details of which are provided in note 12:

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

(e) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. So far, the Group has made no acquisitions with a non-controlling interest. Acquisition-related costs are expensed as incurred and included in significant project costs.

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

Any deferred consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Deferred consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with the changes in fair value recognised in the statement of comprehensive income.

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

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

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

(f) Discontinued operations

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

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

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

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

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

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

(g) Fair value measurement

The Group measures certain financial instruments, such as derivatives and available for sale financial assets, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

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

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

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

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

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

(h) Foreign currencies

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

On consolidation, the assets and liabilities of the Company and its subsidiaries with a Sterling functional currency are translated into euros at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

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

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

(i) Revenue and expenses

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

Revenue

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

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

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

Where a contractual arrangement consists of two or more separate elements that have value to the customer on a stand alone basis the total contract consideration is allocated between those separate elements based on the amounts payable by customers under the terms of the contract. Where handsets are sold as part of a bundled contract, any discounts allowed are recognised immediately with the remaining revenue recognised over the life of the contract, as was the case in the majority of cases in the first half of 2016.

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

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

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

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

Finance income

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

Dividend income is recognised as finance income in the consolidated statement of comprehensive income when the Group'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.

(j) Property, plant and equipment

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

The costs of upkeep and maintenance of property, plant and equipment are charged to the consolidated statement of comprehensive income in the year in which they are incurred. Conversely, the costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised as an increase in the cost of corresponding assets.

Work carried out by the Group for its own assets is booked at the accumulated cost produced by adding the acquisition price of raw materials and other consumables, with other costs directly attributable to these items.

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

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

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

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

Derecognition of property, plant and equipment

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

(k) Intangible assets

Intangible assets are measured initially at acquisition or production cost. After initial recognition, intangible assets are carried at cost, less accumulated amortisation and any accumulated impairment.

Development

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

- The technical feasibility of completing development of the intangible asset so that it will be available for use or sale;
- The intention to complete development of the intangible asset concerned, to use or sell it;
- Its ability to use or sell the intangible asset;
- The way in which the intangible asset will generate probable future economic benefits;
- The availability of technical, financial and other resources required to complete development and to use or sell the intangible asset;
- The ability to reliably measure the expenditure attributable to the intangible asset during its development; and
- The amount initially recognised as intangible assets generated internally is the sum of the expenses incurred since the date on which the intangible assets first met the aforementioned recognition criteria. When an intangible asset generated internally does not meet the criteria for recognition, the development costs are recorded as expenses.

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

Rights to use

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

Industrial property and trademarks

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

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

Computer software

Up until the sale of Telecable, the Group recognised costs incurred to acquire or develop software programmes under this heading. Maintenance costs of computer applications were expensed in the period in which they were incurred. Computer software was amortised on a straight-line basis over three years unless a specific contract had a different duration when this was used. This item included Customer Management System usage rights, amortised in accordance with the duration of the contract, which was normally three years.

Other intangible assets

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

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

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

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

Derecognition of intangible assets

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

(I) Impairment of non-financial assets

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

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

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

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

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

(m) 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

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

For the purposes of subsequent measurement, financial assets are classified into one of the following categories:

(i) Financial assets at fair value through profit or loss

These include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. The Group does not have any financial assets at fair value through profit or loss.

(ii) Held-to-maturity investments

The Group does not have any held-to-maturity investments.

(iii) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Any effective interest rate amortisation is included in finance income in the statement of comprehensive income. Any losses arising from impairment are recognised in the statement of comprehensive income in finance costs for loans and in administrative and other operating expenses for receivables.

(iv) Available for sale financial assets

These include the investment in Euskaltel and contingent consideration receivable, because the payments are not fixed or determinable. After initial measurement, available for sale (“AFS”) financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited to an AFS reserve until the asset is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of comprehensive income in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the effective interest rate method.

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group 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) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

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.

For the purposes of subsequent measurement, financial liabilities are classified into one of the following categories:

(i) Financial liabilities at fair value through profit or loss

These include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Gains and losses on liabilities held for trading are recognised in the statement of comprehensive income.

(ii) Other financial liabilities

These include loans and borrowings and payables. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the statement of comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Offsetting of financial instruments

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

(n) Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset (or a group of financial assets) is impaired. An impairment exists if one or more events that have occurred since the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset (or the group of financial assets) that can be reliably estimated.

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of comprehensive income. Interest income (recorded as finance income in the statement of comprehensive income) continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

In the case of equity investments classified as AFS, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Thresholds for 'significant' and 'prolonged' are established for each investment individually based on the specific characteristics of the investment. When there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income) is removed from other comprehensive income and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through profit or loss, with increases in fair value after impairment being recognised in other comprehensive income. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

For other AFS assets, such as contingent consideration receivable, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that asset previously recognised in the statement of comprehensive income.

(o) Leases

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

Finance leases

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

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

Operating leases

Costs arising from operating leases are recognised in the statement of comprehensive income for the year when they are incurred. Any collections or payments that might be made when arranging an operating lease will be treated as prepaid lease collections or payments, which will be allocated to comprehensive income over the lease term in accordance with the time pattern in which the benefits of the leased asset are provided or received.

(p) Inventories

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

Net realisable value represents the estimated selling price less all estimated costs of completion and the costs to be incurred in the marketing, sale and distribution of the product. The Group makes the appropriate valuation adjustments, and recognises them as an expense in the statement of comprehensive income when the net realisable value of the inventories is lower than their acquisition cost.

(q) Cash and cash equivalents

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

(r) Investments in subsidiaries

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

(s) Share capital

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

(t) 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.

(u) 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. The Group's current tax is calculated using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to taxes payable in respect of previous periods.

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

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

Deferred tax is calculated on the tax rates that are expected to apply in the 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.

(v) Pension benefits

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

(w) Loss 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.

(x) Share based transactions

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

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The main estimates used by the Directors in applying the accounting policies of the Group that had the greatest impact on the Consolidated Financial Statements in the current year are as follows:

- **Assessing the fair value of contingent consideration receivable:** The main estimates and assumptions used in determining the €5.1 million fair value of the contingent consideration on the basis of significant unobservable inputs are detailed in note 16.

The main judgements made by the Directors in applying the accounting policies of the Group that had the greatest impact on the consolidated financial statements in the current year are as follows:

- **Accounting for Zegona's investment in Euskaltel:** following the completion of the sale of Telecable, Zegona holds 26.8 million shares in Euskaltel, representing c.15% of the ordinary share capital. IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") requires that entities should apply the equity method of accounting for investments where they have significant influence in the investee. IAS 28 defines significant influence as "the power to participate in an entity's financial and operating policy decisions".

Upon the sale of Telecable, Zegona completed an initial evaluation of all relevant factors pertaining to its anticipated relationship with Euskaltel and identified certain mechanisms that it expected would, in combination, give it the ability to participate in, and have influence on, the significant financial and operating policy decisions of Euskaltel. These mechanisms principally included representation on Euskaltel's board and strategy committee.

Zegona therefore initially considered that it would be appropriate to account for its investment in Euskaltel using the equity method in future periods, unless there were changes to the anticipated facts and circumstances that suggested Zegona was not in fact able to participate in Euskaltel's financial and operating policy decisions.

Zegona has continued to review and update its initial evaluation, principally because:

- The initial evaluation was finely balanced, and relied in significant part on an expectation of how the relationship with Euskaltel and its stakeholders would develop;
- At the time of the initial evaluation, no Euskaltel Board or Committee meetings had been held and therefore the initial judgement had not been tested in practice; and
- The passage of time has produced more clarity both on how Euskaltel makes its financial and operating policy decisions and on the extent to which the influence mechanisms have operated as anticipated.

In updating its initial evaluation, Zegona has considered all new information relevant to the determination of the correct classification of its investment in Euskaltel and has concluded that it does continue to have all of the mechanisms available to it that it previously identified in its initial evaluation. In particular, Zegona's nominated director has consistently provided positive contributions to Euskaltel's board and strategy committee.

Subsequent experience of how Euskaltel makes and implements its financial and operating policy decisions has demonstrated that, in practice, the ability of the board and its committees to actively direct the key operating and financial policy decisions of the business is limited. Furthermore, that active input at the board and committee level, of the type provided by Zegona's nominated director, does not, in our opinion, translate into effective executive action on key matters of operation and strategy. This has led Zegona to conclude that, on balance, the ability to contribute to Euskaltel's board and committees does not confer the power to participate in Euskaltel's financial and operating policy decisions and therefore the criteria for equity accounting within IAS 28 are not met. Zegona has therefore accounted for its investment in Euskaltel as an available for sale financial asset in accordance with IAS 39.

- **Treatment of the unrealised losses on Zegona's investment in Euskaltel:** As at 31 December 2017, the carrying value of the investment in Euskaltel was €182.2 million, or 18.6% below the value when Zegona acquired it, and the value had been below the acquisition value for a continuous period of 3.6 months. In these circumstances, IAS 39 requires consideration of whether there is evidence that the investment is impaired. If the investment is considered to be impaired, the cumulative loss of €41.5 million would be reclassified from the available for sale reserve and recognised within earnings for the year.

The investment is considered impaired if the decline in Euskaltel's share price is either 'significant' or 'prolonged'. Zegona's policy is to establish thresholds for each of these conditions on a case-by-case basis and establishing these thresholds is a matter of judgement. Zegona feels this approach is preferable because it allows thresholds to be established with reference to the characteristics of the underlying investment and because it presently holds only one such investment and does not anticipate holding a large number simultaneously in the future.

Zegona has determined that declines in value of the Euskaltel investment should be considered significant if the fair value decreases below the acquisition cost by 20%, and prolonged when the fair value has been lower than the acquisition cost for a continuous period of 9 months. This judgement was made by reference to an analysis of the long-run volatility of the Euskaltel share price, consideration of Zegona's intent and ability to hold the investment, and a detailed benchmarking analysis of comparable disclosed practices across a number of jurisdictions. Zegona has therefore concluded that the investment in Euskaltel is not currently impaired.

4. SEGMENTAL ANALYSIS

For management purposes, the Group is organised into three segments:

- (i) the investment in Euskaltel, which represents the Group's dividend income from the Euskaltel business in Spain;
- (ii) a central costs segment which represents costs incurred by all Zegona Group entities supporting the corporate activities of the Group; and
- (iii) the Telecable Group, which represents the results of the discontinued Telecable business in Spain.

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

The Group did not receive any dividend income from Euskaltel during 2017. Details of the dividend received in February 2018 are included in note 27.

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

The results of each segment are reported to the Board which is considered to be the chief operating decision maker (the “CODM”). The information presented to the Board does not include a detailed analysis of the assets and liabilities of each segment and as such this information has not been included in the information on reportable segments set out below.

	Investment in Euskaltel (continuing) €000	Central costs (continuing) €000	Telecable Group (discontinued) €000	Consolidated €000
For the year to 31 December 2017				
External customers revenue	–	–	84,106	84,106
Other income	–	–	335	335
Depreciation and amortisation	–	(2)	(18,940)	(18,942)
Other operating expenses	–	(11,005)	(59,452)	(70,457)
Operating (loss)/profit	–	(11,007)	6,049	(4,958)
External finance income	–	105	10	115
External finance costs	–	–	(15,404)	(15,404)
Inter-segment finance income/costs	–	7,429	(7,429)	–
Exchange differences	–	(334)	(8)	(342)
Loss before tax	–	(3,807)	(16,782)	(20,589)
Income tax	–	(11)	4,609	4,598
Gain on sale of discontinued operation	–	–	57,761	57,761
(Loss)/profit for the year	–	(3,818)	45,588	41,770
Investing activities				
Additions of property, plant & equipment	–	3	9,885	9,888
Additions of intangible assets	–	–	6,221	6,221

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

	Central costs (continuing) €000	Telecable Group (discontinued) €000	Consolidated €000
For the year to 31 December 2016 (restated)			
External customers revenue	–	140,798	140,798
Other income	–	825	825
Depreciation and amortisation	(1)	(50,360)	(50,361)
Other operating expenses	(5,883)	(81,933)	(87,816)
Operating (loss)/profit	(5,884)	9,330	3,446
External finance income	47	15	62
External finance costs	(409)	(13,942)	(14,351)
Inter-segment finance income/(costs)	13,240	(13,240)	–
Exchange differences	(66)	(15)	(81)
Profit/(loss) before tax	6,928	(17,852)	(10,924)
Income tax	(96)	5,532	5,436
Profit/(loss) for the year	6,832	(12,320)	(5,488)
Investing activities			
Additions of property, plant & equipment	–	13,717	13,717
Additions of intangible assets	–	11,851	11,851

5. ADMINISTRATIVE AND OTHER OPERATING EXPENSES – CORPORATE COSTS

	Consolidated Year ended 31 December 2017 €000	Consolidated Year ended 31 December 2016 Restated €000
Salaries, bonuses and staff benefits	3,434	1,984
Employment related taxes	472	265
Payments into or in lieu of pension arrangements	232	232
Recruitment fees	19	40
Legal and professional fees	1,627	1,038
Rent and office costs	156	160
Other operating expenses	170	86
Share based payment expense	37	35
Depreciation of property, plant and equipment	2	1
Corporate costs	6,149	3,841

Employed persons

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

	Consolidated Year ended 31 December 2017	Consolidated Year ended 31 December 2016 Restated
Operations	9	8
Administration	1	1
	10	9

Compensation of key management personnel

The Board considers the Executive Directors and Non-Executive Directors of the Company to be the key management personnel of the Group. Details of the amounts paid to key management personnel are detailed in the Directors' Remuneration Report on page 33.

6. ADMINISTRATIVE AND OTHER OPERATING EXPENSES – SIGNIFICANT PROJECT COSTS

Significant project costs are those that are considered to be one-off or non-recurring in nature but so material individually or collectively that the Directors believe that they require separate disclosure to avoid distortion of the presentation of underlying performance and should be presented separately. The classification of items as significant project costs is subjective in nature and therefore judgement is required to determine whether a project should be considered to be significant. Determining whether a project is significant is a matter of qualitative assessment. Significant projects are usually related to acquisition, disposal or joint venture transactions where incremental and identifiable external costs are incurred by Zegona group companies in order to make or evaluate the potential transaction, even if it is not consummated.

In 2017, €3.5 million of the significant project costs were principally professional fees and insurance costs related to the disposal of Telecable (as detailed in note 9), with the remaining €1.3 million principally stamp duty reserve tax and professional fees related to the tender offer to repurchase the Company's ordinary shares (as detailed in note 20).

In 2016, €1.9 million of the significant project costs related to the potential acquisition of the Yoigo business in Spain.

7. FINANCE INCOME AND COSTS

	Consolidated Year ended 31 December 2017 €000	Consolidated Year ended 31 December 2016 Restated €000
Interest on loans and receivables	46	47
Bank interest	38	–
Gain on FX forwards measured at fair value through profit and loss	21	–
Finance income	105	47
Loss on FX forwards measured at fair value through profit and loss	–	(409)
Finance costs	–	(409)

Gain/loss on FX forwards measured at fair value through profit and loss

In 2017, this amount related to the gain on execution of an FX forward settled in February 2017 (in relation to the payment of the March 2017 dividend), as detailed in note 18.

In 2016, this amount related to the loss on execution of an FX forward settled in September 2016 (in relation to the payment of the October 2016 dividend) and the movement in fair value of the FX forward that was settled during 2017.

8. TAXATION

	Consolidated Year ended 31 December 2017 €000	Consolidated Year ended 31 December 2016 Restated €000
Current tax expense		
Current year	11	96
Deferred tax expense		
Origination and reversal of temporary differences	–	–
Income tax expense for the year	11	96

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

Reconciliation of effective tax rate

	Consolidated Year ended 31 December 2017 €000	Consolidated Year ended 31 December 2016 Restated €000
Loss before tax from continuing operations	(11,236)	(6,312)
At UK statutory income tax rate (19% (2016: 20%))	(2,135)	(1,262)
Effect of tax rate used in other jurisdictions	30	109
Income not taxable	(5)	(9)
Expenses not deductible for tax purposes	947	449
Unrecognised tax losses	1,174	809
Income tax expense	11	96

Movement in deferred tax balances

	As at 1 January 2017 €000	Recognised in profit or loss €000	Derecognised on disposal of discontinued operation €000	Net €000	Deferred tax asset €000	Deferred tax liability €000
Property, plant and equipment	(6,268)	846	5,422	–	–	–
Intangible assets	(51,020)	2,360	48,660	–	–	–
Loans and borrowings	6,216	972	(7,188)	–	–	–
Tax incentives	3,566	481	(4,047)	–	–	–
Tax (liabilities)/assets before offset	(47,506)	4,659	42,847	–	–	–
Offset tax		–	–	–	–	–
Net deferred tax						–

	As at 31 December 2015 €000	Re- allocation ²⁸ €000	As at 1 January 2016 €000	Recognised in profit or loss €000	Net €000	Deferred tax asset €000	Deferred tax liability €000
Property, plant and equipment	(7,186)	(1,003)	(8,189)	1,921	(6,268)	4,188	(10,456)
Intangible assets	(55,150)	(581)	(55,731)	4,711	(51,020)	95	(51,115)
Loans and borrowings	3,222	2,705	5,927	289	6,216	6,216	–
Other items	848	–	848	(848)	–	–	–
Tax incentives	5,021	(1,121)	3,900	(334)	3,566	3,566	–
Tax (liabilities)/assets before offset	(53,245)	–	(53,245)	5,739	(47,506)	14,065	(61,571)
Offset tax				–	–	(14,065)	14,065
Net deferred tax							(47,506)

Deferred tax assets and liabilities in the above tables relate entirely to the Telecable Group, which was sold during 2017.

In 2016, the deferred tax assets were recognised and offset against deferred tax liabilities as the Group's Directors considered that, based on the best estimates of the Telecable Group's future results, it was probable that these assets would be recovered.

Unrecognised deferred tax assets

Deferred tax assets of the Company of €1.8 million (2016: €0.9 million) have not been recognised in respect of tax losses, because it is not probable that future taxable profit will be available against which the Company can maximise the benefits therefrom. Under UK law there is no expiry for the use of tax losses.

At 31 December 2016 the Telecable Group had finance costs of €8,421,233 which exceeded the 30% cap on operating profit applied to such costs when calculating the amount deductible for tax purposes. As such, no deferred tax asset was recognised in relation to this balance.

²⁸ Subsequent to issuing the 2015 financial statements, more accurate information became available in order to allocate the tax estimate for the period from 1 August 2015 to the date of acquisition of Telecable on 14 August 2015 and has been reallocated on this basis.

9. DISPOSAL OF TELECABLE

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

On 15 May 2017, impairment assessments were conducted on the property, plant and equipment and intangible assets held by Telecable, with no indicators of impairment identified. In accordance with IFRS 5, no depreciation or amortisation was expensed in relation to these non-current assets between 15 May 2017 and 26 July 2017 when the sale completed.

The consideration for the sale of Telecable was:

- (a) Cash of €175.2 million, comprising a receipt of €176.7 million from Euskaltel on completion, adjusted for final net debt and working capital adjustments;
- (b) 26.8 million shares in Euskaltel, as detailed in note 14; and
- (c) Up to €15 million of contingent cash consideration, as detailed in note 16.

	Period ended 26 July 2017 €000	Year ended 31 December 2016 €000
Results of discontinued operation		
Revenue	84,106	140,798
Other income	335	825
Expenses	(78,392)	(132,293)
Operating profit	6,049	9,330
Net finance costs	(15,402)	(13,942)
Loss before income tax	(9,353)	(4,612)
Income tax	4,609	5,532
Gain on sale of discontinued operation	57,761	–
Profit for the period from discontinued operation, attributable to equity holders of the parent	53,017	920
Basic and diluted earnings per share (€0.01)	29.5	0.5
Cash flows from/(used in) discontinued operation		
Net cash from operating activities	25,715	45,786
Net cash used in investing activities	(42,798)	(25,562)
Net cash used in financing activities	182,073	(331)
Net cash flow for the period	164,990	19,893

The effect of disposal on the financial position of the Group was:

	2017
	€000
Intangible assets	(554,993)
Property, plant and equipment	(122,060)
Non-current financial assets	(988)
Inventories	(477)
Trade and other receivables	(13,763)
Cash and cash equivalents	(21,108)
Non-current financial liabilities	456,039
Non-current deferred revenue	2,577
Deferred tax liabilities	42,847
Trade and other payables	34,047
Current financial liabilities	12,898
Current deferred revenue	613
Net assets and liabilities	(164,368)
Net cash consideration received	175,192
Intersegment loan settled	(181,724)
Cash and cash equivalents disposed of	(21,108)
Net cash outflow	(27,640)

The gain on sale was:

	2017
	€000
	Note
Consideration received or receivable:	
Cash	175,192
Fair value of Euskaltel shares	14 223,780
Fair value of contingent consideration	16 4,881
Total consideration	403,853
Carrying amount of net assets sold	(164,368)
Intersegment loan settled	(181,724)
Gain on sale of discontinued operation	57,761

10. PROPERTY, PLANT AND EQUIPMENT

	2017				
	Land and buildings €000	Plant and equipment €000	Fixtures and fittings €000	Under construction €000	Total €000
Cost					
At 1 January 2017	3,677	124,854	4,232	2,395	135,158
Additions	–	8,851	118	919	9,888
Disposals	–	(3,795)	(2)	–	(3,797)
Derecognised on disposal of discontinued operation	(3,677)	(129,910)	(4,342)	(3,314)	(141,243)
At 31 December 2017	–	–	6	–	6
Accumulated depreciation					
At 1 January 2017	(145)	(11,778)	(1,008)	–	(12,931)
Charge for the year – continuing	–	–	(2)	–	(2)
Charge for the year – discontinued	(38)	(7,985)	(233)	–	(8,256)
Disposals	–	2,003	1	–	2,004
Derecognised on disposal of discontinued operation	183	17,760	1,240	–	19,183
At 31 December 2017	–	–	(2)	–	(2)
Net book value at 31 December 2017	–	–	4	–	4
	2016				
	Land and buildings €000	Plant and equipment €000	Fixtures and fittings €000	Under construction €000	Total €000
Cost					
At 1 January 2016	3,677	131,357	3,974	1,880	140,888
Additions	–	12,905	297	515	13,717
Disposals	–	(19,408)	(39)	–	(19,447)
At 31 December 2016	3,677	124,854	4,232	2,395	135,158
Accumulated depreciation					
At 1 January 2016	(43)	(5,560)	(375)	–	(5,978)
Charge for the year – continuing	–	–	(1)	–	(1)
Charge for the year – discontinued	(102)	(22,545)	(645)	–	(23,292)
Disposals	–	16,327	13	–	16,340
At 31 December 2016	(145)	(11,778)	(1,008)	–	(12,931)
Net book value at 31 December 2016	3,532	113,076	3,224	2,395	122,227

11. INTANGIBLE ASSETS AND GOODWILL

2017							
Cost	Goodwill €000	Develop- ment costs €000	Patents, licences, trademarks and similar €000	Customer relation- ships €000	Other intangible assets €000	Under construc- tion €000	Total €000
At 1 January 2017	345,678	4,547	18,588	208,893	15,472	1,276	594,454
Additions	–	–	5	–	6,721	(505)	6,221
Disposals	–	–	–	–	(684)	–	(684)
Derecognised on disposal of discontinued operation	(345,678)	(4,547)	(18,593)	(208,893)	(21,508)	(771)	(599,990)
At 31 December 2017	–	–	–	–	1	–	1
Accumulated amortisation							
At 1 January 2017	–	(1,262)	(859)	(22,769)	(9,785)	–	(34,675)
Amortisation – discontinued	–	(384)	(231)	(6,520)	(3,549)	–	(10,684)
Disposals	–	–	–	–	361	–	361
Derecognised on disposal of discontinued operation	–	1,646	1,090	29,289	12,974	–	44,999
At 31 December 2017	–	–	–	–	1	–	1
Net book value at 31 December 2017	–	–	–	–	1	–	1
2016							
Cost	Goodwill €000	Develop- ment costs €000	Patents, licences, trademarks and similar €000	Customer relation- ships €000	Other intangible assets €000	Under construc- tion €000	Total €000
At 1 January 2016	345,678	3,498	18,581	208,893	6,645	251	583,546
Additions	–	1,049	9	–	9,768	1,025	11,851
Disposals	–	–	(2)	–	(941)	–	(943)
At 31 December 2016	345,678	4,547	18,588	208,893	15,472	1,276	594,454
Accumulated amortisation							
At 1 January 2016	–	(353)	(237)	(6,629)	(882)	–	(8,101)
Amortisation – discontinued	–	(909)	(624)	(16,140)	(9,395)	–	(27,068)
Disposals	–	–	2	–	492	–	494
At 31 December 2016	–	(1,262)	(859)	(22,769)	(9,785)	–	(34,675)
Net book value at 31 December 2016	345,678	3,285	17,729	186,124	5,687	1,276	559,779

12. INVESTMENT IN SUBSIDIARIES

The Consolidated Financial Statements include:

Subsidiary	Nature of business	Country of incorporation	Ordinary shares held directly by Parent	Ordinary shares held indirectly by Parent	
			2017 and 2016	2017	2016
Zegona Limited	Incentive company	Jersey (1)	100%	–	–
Zegona (Lux) S.à r.l.	Financing company	Luxembourg (2)	–	100%	100%
Zegona (Ireland) Limited	Financing company	Ireland (3)	–	100%	100%
Zegona Spanish Holdco Limited	Dormant	UK (4)	–	100%	100%
Zegona Borrower Limited	Dormant	UK (4)	–	100%	100%
Zegona Holdco Limited	Dormant	UK (4)	–	100%	100%
Zegona Lux Finco S.à r.l.	Dormant	Luxembourg (2)	–	100%	100%
Parselaya S.L.*	Holding company	Spain (5)	–	–	100%
Telecable Capital Holding, S.A.U.*	Holding company	Spain (6)	–	–	100%
Telecable de Asturias, S.A.U.*	Telecommunications services	Spain (6)	–	–	100%

* Together “Telecable” or “Telecable Group”, which were sold on 26 July 2017

The registered office addresses of the subsidiaries are:

1. One Waverley Place, Union Street, St Helier, Jersey, JE1 1AX
2. 37A, Avenue J.F. Kennedy, L-1855 Luxembourg
3. 118 Lower Baggot Street, Dublin 2, Ireland
4. 20 Buckingham Street, London, WC2N 6EF
5. calle Profesor Potter 190, 33203 Gijón, Spain
6. calle Marqués de Pidal 11-bajo, 33004 Oviedo, Spain

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

Carrying value of the Company’s investment in subsidiary

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

Following this review, the carrying value of the investment was adjusted by €106.8 million, which has been recognised in the profit or loss of the Company, and included within the movement in retained earnings in the Company’s statement of financial position.

The recoverable amount of the Company’s investment in subsidiary at 31 December 2017 was €193.3 million, being its fair value less costs of disposal. The fair value measurement is categorised within level 3 of the fair value hierarchy. The fair value was based on an adjusted net asset method, whereby the fair values of the recognised and unrecognised assets and liabilities of Zegona Limited were directly measured. The majority of the value of the net assets held by Zegona Limited as at 31 December 2017 was its investment in Euskaltel, the fair value of which is detailed in note 14.

13. FINANCIAL INSTRUMENTS

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

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rate. Other than a small overdraft facility, which bears interest at 1.5% per annum over the Bank of England base rate but is currently undrawn, the Group had no exposure to interest rate risk at 31 December 2017. It is however highly likely that a material portion of any future acquisition would be funded by a debt facility.

Any significant increase in relevant global interest rates could result in the funding for future acquisitions becoming more expensive, or returns becoming less attractive. The Group has a disciplined financial approach and is ultimately only prepared to make acquisitions at the right price and using an appropriate capital structure after considering the risk-adjusted returns. In the event funds are raised, the Group also has the ability to hedge any exposures.

Foreign currency risk

Foreign currency risk exists due to the Company operating, and having equity denominated, in a different functional currency (Sterling) to that of its investment in Euskaltel (euro) and of many of its likely acquisition targets. Transactional foreign currency risk is limited and the principal ongoing impact is on the Company's ability to maintain the Sterling value of dividends paid by Euskaltel in euro in order to maintain its dividend policy.

Based on the anticipated cash flows of the Group and the Board's ability to reduce or delay any return to shareholders should it be necessary, the Board believes that this risk would not have a material effect on the Group in the ordinary course of business. However, fluctuations in the Sterling/euro rate could have far more 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 the Group may distribute to shareholders may be reduced.

Similarly, fluctuations in the exchange rate between Sterling and other European currencies could cause potential future acquisitions to become more expensive in Sterling, and therefore less desirable if equity were raised in Sterling to fund a material portion of the acquisition price.

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

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

	As at 31 December 2017 £000	As at 31 December 2016 £000
Financial assets (denominated in Sterling)	4,045	3,500
Financial liabilities (denominated in Sterling)	(2,064)	(404)
Net monetary assets	<u>1,981</u>	<u>3,096</u>

Foreign currency sensitivity analysis

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

	+/- 10% movement
Currency impact	€000
Profit before tax gain/loss	+/-203
Equity gain/loss	+/-203

Credit risk

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

There are no material financial assets that are written down, past due or impaired as at 31 December 2017, and there is no collateral or other credit enhancement feature on the Group financial assets.

The Group assesses the only material exposure to credit risk at 31 December 2017 to be with cash and cash equivalents. The credit ratings of the Group's bankers at 31 December 2017 are below:

	€000	Credit rating
HSBC	420	A-1+
BNP Paribas	9,795	A-1
Bank of Ireland	3	A-3
ING	6	A-1
	10,224	

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

Liquidity risk

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

At 31 December 2017 the Group had cash and cash equivalents amounting to €10.2 million (2016: €22.4 million) which were cash balances held with banks. In addition, the Group has an unsecured overdraft facility of £1.5 million, which was undrawn as at 31 December 2017.

Financial instrument categories

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

	Note	Group – Non-current 2017 €000	Group – Non-current 2016 €000
Loans and receivables			
Loans	14	616	1,880
Other financial assets		–	45
		616	1,925
Available for sale			
Investment in Euskaltel (level 1)	14	182,240	–
Other investments (level 2)		–	2
		182,240	2
Total non-current financial assets		182,856	1,927
Financial liabilities measured at amortised cost			
Bank borrowings	19	–	266,519
Other borrowings	19	–	526
Total non-current financial liabilities		–	267,045
	Note	Group – Current 2017 €000	Group – Current 2016 €000
Loans and receivables			
Trade and other receivables		272	7,256
Other financial assets		–	53
Cash and cash equivalents		10,224	22,435
		10,496	29,744
Available for sale			
Contingent consideration (level 3)	16	5,060	–
Total current financial assets		15,556	29,744
Financial liabilities at fair value through profit or loss			
FX forward (level 2)		–	(219)
Financial liabilities measured at amortised cost			
Trade and other payables	17	(2,345)	(31,317)
Bank borrowings	19	–	(325)
Other borrowings	19	–	(12,560)
		(2,345)	(44,202)
Total current financial liabilities		(2,345)	(44,421)

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

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

		Company – Current 2017 €000	Company – Current 2016 €000
	Note		
Loans and receivables			
Trade and other receivables		251	1,289
Cash and cash equivalents		422	3,894
Total current financial assets		673	5,183
Financial liabilities at fair value through profit or loss			
FX forward (level 2)		–	(219)
Financial liabilities measured at amortised cost			
Trade and other payables	17	(7,396)	(7,294)
Total current financial liabilities		(7,396)	(7,513)

14. NON-CURRENT FINANCIAL ASSETS

	Consolidated as at 31 December 2017 €000	Consolidated as at 31 December 2016 €000
Investment in Euskaltel	182,240	–
Other investments	–	2
Loans	616	1,880
Guarantees	–	45
Total	182,856	1,927

Investment in Euskaltel

On 26 July 2017, the Group acquired 26.8 million shares in Euskaltel, a Spanish telecommunications company in the Basque Country and Galicia. This represents c.15% of the ordinary shares and voting rights of Euskaltel, which is listed on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Stock Market Interconnection System (Continuous Market).

The sale and purchase and share exchange agreement (the “SPA”) through which the Euskaltel shares were acquired contains covenants which restrict the Group’s potential to operate in Spain currently and for a period of 12 months from the date on which the Group’s holding in Euskaltel represents less than 8.3% of Euskaltel’s issued ordinary share capital. The Group has also agreed that it will not acquire more than 16.5% of the voting rights in Euskaltel during the 12 months from the acquisition date, unless such acquisition is from a shareholder holding more than 10% of the issued shares in Euskaltel.

The Group has also agreed to standard lock-in provisions in respect of the Euskaltel shares. Notwithstanding such lock-in arrangements, the Company is permitted, on 15 business days’ notice to Euskaltel, to distribute Euskaltel shares in specie pro-rata to its own shareholders at any time.

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

In addition, the Group has granted security to Euskaltel by a share pledge over 526,316 of its shares in Euskaltel to provide coverage for any losses suffered or incurred by Euskaltel resulting from or based on Telecable's management incentive plan and/or loans with Telecable management (as detailed in note 25). The pledge over 210,526 of these shares was released during 2018.

	Consolidated 2017 €000
Fair value on acquisition	223,780
Change in fair value recognised in other comprehensive income	(41,540)
Balance as at 31 December 2017	182,240

The change in fair value reflects the reduction in Euskaltel share price from €8.35 on acquisition on 26 July 2017 to €6.80 at 31 December 2017.

Loans

Loans relate to loans granted on 22 February 2013 and maturing in 2030 to certain members of the Telecable management team, including accrued interest at a rate of 5% per annum. One of the loans was settled in full during the year, amounting to €1,029k including accrued interest, with the remaining loans settled in February 2018. The loans were secured on a portion of the shares held in the Company by the Telecable management team.

15. TRADE AND OTHER RECEIVABLES

	Consolidated as at 31 December 2017 €000	Consolidated as at 31 December 2016 €000
Trade receivables	–	6,817
Other receivables	272	439
Prepaid content rights	–	9,946
Other prepayments	30	138
VAT recoverable	155	413
Other receivables with Tax Authorities	–	25
Other current financial assets	–	53
Total	457	17,831

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

	Company only as at 31 December 2017 €000	Company only as at 31 December 2016 €000
Accrued income	–	1,266
Amounts due from subsidiary undertakings	14	6
Other receivables	238	17
Prepayments	26	17
VAT recoverable	155	171
Total	433	1,477

16. OTHER CURRENT FINANCIAL ASSETS

The current financial assets balance of €5.1 million (2016: €nil) comprises solely the contingent consideration receivable from the sale of Telecable. This compares to a base case model present value of €7.0 million and Zegona's best estimate of the undiscounted cash flow that it will receive of €7.6 million. The contingent consideration is payable by Euskaltel in cash up to a maximum amount of €15.0 million upon confirmation that a range of net tax assets are available to Euskaltel and may be used to offset its future tax payments. The contingent consideration has been classified as an available for sale financial asset under IAS 32 and IAS 39 because it is a contingent right to receive cash from another party that cannot be designated as a financial asset at fair value through profit or loss and has no fixed or determinable payments or fixed maturity. The contingent consideration is therefore measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited to the available for sale reserve. A gain of €180k was recognised during the year.

The eventual amount to be received depends on several factors that are entirely specific to Euskaltel. These factors include the availability of tax assets, 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. Calculation of the fair value of the contingent consideration relies heavily on estimates in relation to these unobservable inputs and therefore it is a level 3 instrument within the fair value hierarchy.

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

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

Availability of recognised tax assets:

The proportion of the net tax assets currently recognised (or to be recognised) in the corporate income tax returns and financial statements of the Telecable entities that will be deemed available according to the terms of the SPA.

Input used in the base case model:

88% available

Sensitivity of the base case:

Availability scenarios ranged from 87% to 88%, causing the present value of the base case to range from €7.0 million to €7.1 million

Merger approval:

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

Input used in the base case model:

Successful

Sensitivity of the base case:

If the merger is unsuccessful, the revised base case present value would be €0.9 million

Usability of available assets:

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

Input used in the base case model:

76% usable

Sensitivity of the base case:

Usability scenarios ranged from 45% to 94%, causing the present value of the base case to range from €4.1 million to €8.7 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:

12 months

Sensitivity of the base case:

If the timing is increased to 24 months, the revised base case present value would be €6.6 million

17. TRADE AND OTHER PAYABLES

	Consolidated as at 31 December 2017 €000	Consolidated as at 31 December 2016 €000
Trade payables	111	16,431
Other payables	1,925	11,191
Accruals	309	960
Income taxes	92	81
Other tax balances	–	2,654
	2,437	31,317

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

	Company only as at 31 December 2017 €000	Company only as at 31 December 2016 €000
Payable to direct subsidiary	6,952	7,192
Trade creditors	138	102
Accruals	306	–
	7,396	7,294

18. OTHER CURRENT FINANCIAL LIABILITIES

	Consolidated as at 31 December 2017 €000	Consolidated as at 31 December 2016 €000
Short term borrowings (note 19)	–	12,885
Fair value of FX forward	–	219
	–	13,104

At 31 December 2016, the FX forward (for the consolidated balance as well as the Company only balance) relates to a contract to buy £4,500,000 for €5,458,950 which was entered into by the Company on 30 June 2016 and was settled on 1 February 2017, in relation to the payment of the second interim dividend for 2016 paid on 7 March 2017. There were no FX forwards held by the Company as at 31 December 2017. A reconciliation of the movements of FX forwards to cash flows arising from financing activities is as follows:

	Consolidated 2017 €000
Balance as at 1 January 2017	219
Change in fair value	(22)
Change from financing cash flow:	
Proceeds from settlement	(197)
Balance as at 31 December 2017	—

19. BORROWINGS

The carrying values of the Group's short and long-term borrowings are as follows:

	Consolidated as at 31 December 2017 €000	Consolidated as at 31 December 2016 €000
Short term borrowings		
Bank borrowings	—	325
Advances refundable to the Spanish Ministry of Industry	—	139
Other borrowings	—	12,421
	—	12,885
Long term borrowings		
Bank borrowings	—	266,519
Advances refundable to the Spanish Ministry of Industry	—	526
	—	267,045
Total borrowings	—	279,930

The book values approximate to the fair value of financial liabilities.

As at 31 December 2017, the only borrowing of the Group was an unsecured overdraft facility of £1.5 million, bearing interest at 1.5% per annum over the Bank of England base rate. The overdraft was undrawn as at 31 December 2017.

As at 31 December 2016, bank borrowings included a Senior Secured Facility Agreement entered into by Parselaya, S.L. (a Telecable Group holding company). This facility was settled in full by Euskaltel on completion of the Group's sale of Telecable to Euskaltel.

A reconciliation of the movements of borrowings to cash flows arising from financing activities is as follows:

	Consolidated 2017 €000
Balance as at 1 January 2017	279,930
Changes from financing cash flows:	
Net proceeds from loans and borrowings	182,073
Movement in short term borrowings	13
Interest expense	(8,483)
Interest paid	15,404
Change arising from losing control of Telecable	(468,937)
Balance as at 31 December 2017	–

20. CALLED UP SHARE CAPITAL

Allotted, called up and fully paid	Number	€000
At 1 January 2016 and 31 December 2016	196,044,960	2,738
Redeemed on 9 October 2017 on completion of tender offer	(69,825,511)	(975)
At 31 December 2017	126,219,449	1,763

The nominal value of the total ordinary shares is £0.01 and the total allotted, called up and fully paid equates to £1,262,194 (2016: £1,960,450).

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

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

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

21. RESERVES

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

Other reserves

	€000
Balance as at 1 January 2016	–
Transfer from share premium account	386,045
Dividend paid in October 2016	(4,890)
Balance as at 1 January 2017	381,155
Dividend paid in March 2017	(5,069)
Share buy-back via tender offer in October 2017	(155,364)
Dividend paid in November 2017	(5,564)
Balance as at 31 December 2017	215,158

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

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

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

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

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 24.

Foreign currency translation reserve

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

Available for sale reserve

The available for sale reserve is the cumulative amount recognised in relation to the change in fair value of the available for sale financial assets. In the current year, the change related to the investment in Euskaltel (loss of €41,540k, as further described in note 14) and the contingent consideration (income of €180k, as further described in note 16).

Retained earnings

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

22. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of any covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, make distributions of non-cash assets to shareholders or issue new shares.

During 2016, the Company 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 also obtained shareholder authority to make off-market purchases of ordinary shares following a tender offer for the Company's shares.

During 2017, the Company gained authorisation to make one or more market purchases of ordinary shares in the capital of the Company in connection with the tender offer as described in a circular issued to the Company's shareholders dated 30 August 2017 (as further detailed in note 20). The Company 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.

Prior to the sale of Telecable, the Group monitored net debt, calculated in accordance with the terms of a Senior Facility Agreement entered into by Telecable. In order to monitor this, the Group aimed to ensure that it met the financial covenants attached to the interest-bearing loans and borrowings that defined capital structure requirements. There were no breaches of the financial covenants of any interest-bearing loans and borrowings in the current year. Following the sale to Telecable, the Group has no financial covenants with which it needs to comply.

23. EARNINGS/LOSS PER ORDINARY SHARE

Basic EPS is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. As more fully detailed in note 24, Management Shares and Core Investor Shares in the share capital of the Company's subsidiary 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 continuing operations have made a loss in the current and prior year, the Management Shares and Core Investor Shares are antidilutive and therefore have not been included in the calculation of diluted EPS.

	For the year ended 31 December 2017 €000	For the year ended 31 December 2016 €000
Profit/(loss) for the year attributable to equity holders of the parent – total operations	41,770	(5,488)
Loss for the year attributable to equity holders of the parent – continuing operations	(11,247)	(6,408)
Weighted average number of ordinary shares	179,975,527	196,044,960
Basic and diluted EPS – total operations	23.2 cents	(2.8 cents)
Basic and diluted EPS – continuing operations	(6.2 cents)	(3.3 cents)

24. SHARE BASED PAYMENTS

Arrangements were put in place shortly after the Group's inception to create incentives for those who are expected to make key contributions to the success of the Group. The Group's success depends upon the sourcing of attractive investment opportunities, the improvement of the target businesses, and their subsequent sale to realise attractive returns for shareholders. Accordingly, an incentive scheme was created to reward key contributors to the creation of value. At the year end, a total of €105,418 (2016: €59,950) was recorded in the consolidated share based payment reserve in respect of this equity settled plan.

Management Shares

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

Exercise

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

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

On a winding up or takeover

Management shares are entitled to a return of 15% of the growth in equity value of Zegona Communications plc subject to shareholders achieving the Preferred Return. The growth in equity value takes into account new shares issued, dividends and capital returned to shareholders.

Board change of control

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

Holding of Management Shares

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

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

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

At the year end, a total of €68,402 (2016: €35,273) was recorded in the consolidated share based payment reserve in relation to Management Shares.

Core Investor Shares

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

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

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

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

At the year end, a total of €37,016 (2016: €24,678) was recorded in the consolidated share based payment reserve in relation to Core Investor Shares.

25. RELATED PARTY TRANSACTIONS

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

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

Related party transactions of the Company

Mark Brangstrup Watts is a designated member of Marwyn Capital LLP ("**Marwyn**"), which provides corporate finance advice and various office services to the Company. During the year, services totaling €69k were received from Marwyn (2016: €58k). Marwyn was owed an amount of €6k at the balance sheet date (2016: €6k) in respect of these services, which was unsecured. In addition, Mark's Non-Executive Director fees are paid to Marwyn.

Mark Brangstrup Watts is an ultimate beneficial owner of Axio Capital Solutions Limited ("**Axio**"), which provides company secretarial, administrative and accounting services to the Group. During the year, services totalling €664k were received from Axio (2016: €563k). Axio was owed an amount of €75k at the balance sheet date (2016: €43k), which was unsecured.

Mark Brangstrup Watts has a beneficial interest in the Core Investor Shares as described in note 24.

Up until 26 July 2017, the Company provided management services to Telecable De Asturias S.A., a former indirect subsidiary of the Company. During the year, the Company charged €578k (2016: €1,007k) in respect of services supplied. The Company was owed an amount of €223k at the balance sheet date (2016: €1,266k).

Related party transactions of other Group companies

As at 31 December 2017, €0.6 million was owed by certain members of the Telecable management team (2016: €1.6 million) (the "**Telecable Management Loans**"). These loans mature in 2030, bear interest at 5% per annum, and are secured against the managers' holdings of 268,968 shares in the Company. These loans were transferred from Telecable to Zegona Limited, a subsidiary of the Company, as at the completion of the sale of Telecable on 26 July 2017. €1.0 million was repaid on 30 November 2017 and the remaining loans were fully repaid on 31 January 2018.

Transactions with key management personnel and Directors

As part of the tender offer (described in note 20), the Company purchased 1,172,962 ordinary shares from persons discharging managerial responsibilities at a price of £2 per share. In addition, the Company purchased 18,070,343 ordinary shares from Marwyn Asset Management Limited ("**MAML**"), in its capacity as agent for and on behalf of its discretionary managed clients, at a price of £2 per share. Mark Brangstrup Watts is a director and ultimate beneficial owner of MAML.

Compensation of key management personnel of the Company is included in note 5. Holdings of Management Shares are detailed in note 24.

26. AUDITOR'S REMUNERATION

In the year to 31 December 2017, the Group's auditor, KPMG LLP, has charged €7,000 (2016: €nil) for non-audit services to the Company's subsidiaries. The audit fees of the Group's auditor for the year ended 31 December 2017 amount to €271,398 (2016: €193,647).

	Year ended 31 December 2017 €000	Year ended 31 December 2016 €000
Fees payable for the audit of the Company's annual accounts	258	162
Fees payable for the audit of the Company's subsidiaries	13	32
Total audit fees	271	194
Fees payable for capital reduction auditor reports for one of the Company's subsidiaries	8	—
Total non-audit fees	8	—

27. POST BALANCE SHEET EVENTS

There have been no material post balance sheet events that would require disclosure or adjustment to these financial statements other than:

- (i) the receipt of a dividend on 1 February 2018 from Euskaltel at a rate of €0.127 per share, totaling €3,403,600; and
- (ii) the payment of the second interim dividend by the Company, in lieu of a final dividend for 2017, which was declared on 22 March 2018 at a rate of 3.9p per share, totaling £4,922,559. The dividend will be paid on 24 April 2018.

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 2 May 2018 at 2 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 15 of which will be proposed as special resolutions:

1. THAT the Company’s financial statements for the year ended 31 December 2017, 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 2017, be approved.
3. THAT Eamonn O’Hare be re-elected as a Director.
4. THAT Robert Samuelson be re-elected as a Director.
5. THAT Mark Brangstrup Watts be re-elected as a Director.
6. THAT Murray Scott be re-elected as a Director.
7. THAT Richard Williams be re-elected as a Director.
8. THAT Ashley Martin be re-elected as a Director.
9. THAT KPMG LLP be re-appointed as auditor to the Company until the conclusion of the next annual general meeting of the Company.
10. THAT the Directors be authorised to fix the auditor’s remuneration.
11. THAT the payment of the interim dividend, in lieu of a final dividend, of 3.9p per ordinary share to the Company’s shareholders on 24 April 2018 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):
 - 12.1 the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot shares and to grant such subscription and conversion rights as are contemplated by sections 551(1)(a) and (b) of the Act respectively up to a maximum nominal amount of £420,731.50 to such persons and at such times and on such terms as they think proper during the period expiring on the earlier of:
 - (i) the end of the next annual general meeting of the Company; and
 - (ii) the date which is eighteen months after the date on which this Resolution is passed (unless previously revoked or varied by the Company in general meeting); and further

12.2 the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot equity securities (as defined in section 560 of the Act) in connection with a rights issue in favour of the holders of equity securities and any other persons entitled to participate in such issue where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by them up to a maximum nominal amount of £420,731.50 during the period expiring on the earlier of:

- (i) the end of the next annual general meeting of the Company; and
- (ii) the date which is eighteen months after the date on which this Resolution is passed (unless previously revoked or varied by the Company in general meeting),

subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems under the laws of any territory or requirements of any recognised regulatory body or stock exchange in any territory,

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 the authority granted under Resolution 12.2 by way of a rights issue only) and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems under the laws of any territory or requirements of any recognised regulatory body or stock exchange in any territory; and

13.2 the allotment (otherwise than pursuant to paragraph 13.1 above) of equity securities up to a nominal amount of £63,109.72,

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 13 to allot equity securities (as defined in section 560 of the Act) for cash under the authority given by that Resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be:

14.1 limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £63,109.72; 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 12,621,945, 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.

BY ORDER OF THE BOARD

Secretary: **Axio Capital Solutions Limited**

Date 28 March 2018

Registered Office: 20 Buckingham Street, London WC2N 6EF

Notes:

- (i) A member entitled to attend and vote at the Meeting convened by the above Notice is entitled to appoint a proxy to exercise all or any of the rights of the member to attend and speak and vote on his behalf. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. The right to appoint a proxy does not apply to any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the “**Act**”) to enjoy information rights (a “**Nominated Person**”).
- (ii) To appoint a proxy you may:
 - (a) use the Form of Proxy enclosed with this Notice of Annual General Meeting. To be valid, the Form of Proxy, together with the power of attorney or other authority (if any) under which it is signed or a notorially certified or office copy of the same, must be received by post or (during normal business hours only) by hand to Link Asset Services at The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or at the electronic address provided in the proxy form, in each case no later than 2 p.m. on 30 April 2018; or
 - (b) if you hold your shares in uncertificated form, use the CREST electronic proxy appointment service as described in the CREST manual or in the Explanatory Notes to the Resolutions set out below.

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

Further details on how to direct your proxy to vote on resolutions or withhold their vote are set out in the notes to the Form of Proxy.
- (iii) Completion of the Form of Proxy or appointment of a proxy through CREST will not prevent a member from attending and voting in person if he/she wishes to do so.
- (iv) Any corporation which is a shareholder in the Company may appoint one or more corporate representatives who may exercise on its behalf all of that corporation’s powers as a shareholder of the Company provided that, where there is more than one corporate representative appointed, they do not attempt to exercise the corporations rights in respect of the same shares.
- (v) Any member or his corporate representative or proxy attending the Meeting has the right to ask any question at the Meeting relating to the business of the Meeting.
- (vi) Pursuant to section 360B of the Act and Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only shareholders registered in the register of members of the Company as at close of business on 30 April 2018 shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at such time. If the Meeting is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned Meeting is close of business, 48 hours before the time fixed for the adjourned Meeting. Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
- (vii) In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

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- (viii) From the date of this Notice, copies of the terms and conditions of appointment of the Non-Executive Directors and the service contracts of the Group Chairman and Executive Directors are available for inspection at the registered office of the Company, 20 Buckingham Street, London, England, WC2N 6EF, during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) until the conclusion of the AGM and will be available for inspection at the place of the AGM for at least 15 minutes prior to and during the Meeting.
- (ix) Save as set out in these notes, members who have general queries relating to the AGM should contact Link Asset Services on 0871 664 0300. Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 (0) 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 a.m. and 5.30 p.m., Monday to Friday excluding public holidays in England and Wales (no other methods of communication accepted). Please note that you may not use any electronic address or other contact details provided in this notice of AGM, or any related documents (including the Chairman's letter and Form of Proxy), for any purpose other than those expressly stated.
- (x) As at 28 March 2018 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 126,219,449 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 28 March 2018 are 126,219,449.
- (xi) The information required to be published by section 311A of the Act (information about the contents of this notice and numbers of shares in the Company and voting rights exercisable at the AGM and details of any members' statements, members' resolutions and members' items of business received after the date of this notice) may be found at www.zegona.com. Subject to the limitations of the resolution approved at the AGM of the Company on 15 April 2016, the Company does not intend to post or email hard copies of shareholder related documents, such as this Report and Notice of Annual General Meeting, to shareholders. All documents will be made available on the Company's website, www.zegona.com.
- (xii) Members representing 5 per cent. or more of the total voting rights of all the members or at least 100 persons (being either members who have a right to vote at the Meeting and hold shares on which there has been paid up an average sum, per member, of £100, or persons satisfying the requirements set out in section 153(2) of the Act) may require the Company, under section 527 of the Act to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Act to publish on a website.
- (xiii) A Nominated Person may under an agreement between him/her and the member who nominated him/her, have a right to be appointed (or to have someone else appointed) as a proxy entitled to attend and speak and vote at the Meeting. Nominated Persons are advised to contact the member who nominated them for further information on this and the procedure for appointing any such proxy.

The purpose of these notes is to explain the Resolutions and business to be conducted at the Company's AGM. Resolutions 1 to 12 set out in the Notice detail the ordinary resolutions and Resolutions 13 to 15 detail the special resolutions. Further explanation in relation to the Resolutions is set out below.

Resolution 1 – To approve the Annual Report and Financial Statements

Resolution 1 proposes the receipt and adoption of the Annual Report and Financial Statements of the Company for the year ended 31 December 2017, together with the directors' report and auditor's report on those accounts.

The Company's Annual Report and Financial Statements for the year ended 31 December 2017 are available on the Company's website, www.zegona.com. The Annual Report and Financial Statements of the Company were prepared in compliance with the requirements of the Act and the 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 33 to 43 of the Annual Report. The actual remuneration paid to Directors in 2017 was made within the boundaries of the Directors' Remuneration Policy approved by shareholders at the 2017 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**"), are required to retire at every annual general meeting of the Company. All Directors on the Board will retire at the AGM for this reason. Each of such Directors is offering himself for re-election and Resolutions 3 to 8 proposes the re-election of such Directors. Biographies of each of the Directors retiring in accordance with the Articles are set out at pages 15 and 16 of this annual report. Richard Williams is the chairman of the Nomination and Remuneration Committee while Ashley Martin is the chairman of the Audit and Risk Committee and, if re-elected, both intend to continue in their respective roles.

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

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 2019. 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 3.9p per ordinary share to shareholders of the Company in April 2018. The dividend payment followed the Company's interim dividend payment of 3.9p per ordinary share in November 2017, thus bringing the total shareholder dividend payments for 2017 to 7.8p per share. The Resolution, if passed, would confirm, approve and ratify the dividend payment.

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) £420,731.50 (being 33.3 per cent. (i.e. one-third) of the Company's issued ordinary share capital as at 28 March 2018) to such persons and upon such conditions as the Directors may determine; and (ii) a further maximum aggregate nominal amount of £420,731.50 (being 33.3 per cent. (i.e. one-

third) of the Company's issued ordinary share capital as at 28 March 2018) in connection with a rights issue (as defined in Resolution 12 of the Notice), 28 March 2018 being the latest practicable date before the publication of this report.

This request for authority to allot shares is in line with the guidelines published by the Investment Association. In total, this Resolution would therefore give the Directors authority to allot up to a maximum of two-thirds of the Company's issued ordinary share capital.

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 General Meeting of the Company held on 17 May 2017. 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 holding. The passing of Resolutions 13 and 14 would allow the Directors to allot shares (or sell any shares which the Company may hold in treasury following a purchase of its own shares) without first offering the securities to existing shareholders. There are currently no treasury shares in existence.

Accordingly, Resolution 13 allows the Directors to allot shares and sell treasury shares for cash (i) in connection with a pre-emptive offer or pre-emptive rights issue and/or (ii) otherwise up to a nominal value of £63,109.72, equivalent to 5 per cent. of the total issued ordinary share capital of the Company (excluding treasury shares) as at 28 March 2018, 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 £63,109.72, being an additional 5 per cent. of the entire issued share capital of the Company as at 28 March 2018, being the latest practicable date prior to the publication of this Notice, only in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment, or which has taken place in the preceding six month period and is disclosed in the announcement of the allotment. If the authority given in Resolution 14 is used, the Company will publish details of the allotment in its next annual report.

The authorities will expire on the earlier of: (i) the end of the next annual general meeting of the Company; and (ii) the date which is 18 months after the date on which this Resolution is passed. This Resolution replaces a similar resolution passed at the General Meeting of the Company held on 17 May 2017.

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 28 March 2018.

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 28 March 2018, although shares issued in the Company's incentive schemes may be converted into ordinary shares in certain circumstances.

Action to be taken

You are asked to either:

1. complete the Form of Proxy enclosed with this Notice of Annual General Meeting and return it, together with any power of attorney or other authority under which it is signed or a notarially certified or office copy thereof, to Link Asset Services, the Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, so as to arrive no later than 2 p.m. on 30 April 2018; or
2. if you hold your shares in uncertificated form, use the CREST electronic proxy appointment service as described below.

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

Shares held in uncertificated form – electronic proxy appointment through CREST

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

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a **"CREST Proxy Instruction"**) must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain the information required for such instructions, as described in the CREST Manual (www.euroclear.com/CREST). The message must be transmitted so as to be received by the issuer's agent, Link Asset Services (ID RA10), by 2 p.m. on 30 April 2018. 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.

Broker

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

Public Relations Adviser

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

Auditor

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

Registrar

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU
Telephone: +44 (0)20 8639 3399

Company Secretary

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

Solicitors to the Company

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

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