



Unaudited Condensed Consolidated Interim
Financial Statements

For the six months ended 30 June 2020

Review of investment in Euskaltel

Strategic developments

During the first half of the year, Zegona has continued to support the excellent progress being made by the new management team at Euskaltel who have combined a focus on operating efficiency within the existing business with driving significant growth through national expansion under the Virgin telco brand.

In March 2020, Euskaltel published its 2020-2025 Business Plan setting out its key strategic initiatives and its ambition to double the size of its customer base and grow revenues from €700 million to over €1.2 billion and EBITDA from €340 million to over €470 million by 2025. The plan details the actions being taken to grow in its existing core regions, to expand using the Virgin telco brand to offer high value services to customers across Spain, and to continue to drive operational efficiencies through a single integrated organisation.

Euskaltel has been delivering on its strategic roadmap in the first half of the year with highlights including:

- ***Integrating three operating companies into one business:*** A number of initiatives have generated €40 million of annual EBITDA run-rate efficiencies. These have included putting in place a single efficient organization, implementing a profit-focused sales structure, establishing a results-oriented customer care program and cancelling unprofitable football rights agreements. Further cost savings have been identified and are expected to be implemented by year end.
- ***Expanding nationally:*** Euskaltel launched services nationally across Spain under the “Virgin telco” brand in May 2020, reaching the 85% of the Spanish market where Euskaltel was not present before. This has enabled Euskaltel to offer a full quad-play range of telecommunications services, including high quality high speed FTTH broadband, data-rich mobile, landline and 4K premium TV. The Virgin telco proposition allows customers to select exactly the services they want in order to design their own product bundle, rather than having to take inflexible packages defined by the operator. The result is much better value for customers as they only pay for the services they want.
- ***Footprint expansion:*** Euskaltel has signed a number of agreements to provide access to nationwide fibre networks, resulting in the addressable network increasing from 2.9 million to 19 million households, exceeding its objective of providing coverage to 18 million homes by the end of the second quarter of 2020.
- ***Strengthening leadership:*** Euskaltel has continued to strengthen the new organisation structure it adopted in 2019 with key new executive hires including a new CFO appointed in January 2020. At the same time, the board structure is being simplified, with the total number of directors set to reduce from 13 to 10. This process has involved the departure of a number of directors, including one of the proprietary directors representing Kuxtabank¹ and the identification² of two new independent directors with strong relevant experience. Zegona’s board representation is unchanged.
- ***Debt refinancing:*** In July 2020, Euskaltel replaced its €215 million amortising debt with a new €215 million term loan with no amortisation before December 2023. This initiative has eliminated all term loan repayments until December 2023 and increased the average maturity of Euskaltel’s corporate debt to over 4 years. The refinancing provides financial flexibility to increase investments in its Virgin telco national expansion plan and accelerate the realisation of profitable growth.

1 Kuxtabank are Euskaltel’s second largest shareholder.

2 The appointment of Ana García Fau and Beatriz Mato is subject to approval by Euskaltel’s shareholders at an Extraordinary General Shareholders’ Meeting to be held on 29 September 2020.

Operational performance

Operational developments are continuing to deliver positive results, with Euskaltel returning to growth in the fourth quarter of 2019 and the momentum continuing in both the first and second quarters of 2020. On 23 July 2020, Euskaltel published its results for the second quarter of 2020³, announcing that it had exceeded its key strategic targets. In particular:

- Record profitability - €91.8 million Q2 EBITDA within the traditional business;
- Successful launch of national expansion under the Virgin telco brand – 6,500 Virgin telco fixed customers gained in the first month since launch.

Euskaltel also saw record customer growth, with mass market fixed customers increased by 11,300 in the quarter to 782,000 (2019: 4,000 increase), with net additions of 4,800 within the traditional business and 6,500 for Virgin telco, the highest quarterly net additions since the company was publicly listed. The number of services delivered to customers also grew by a record amount.

The impact of Covid-19 on the business has been limited, with growth achieved in key financial metrics. Revenues increased year-on-year for the third consecutive quarter to €171.6 million (2019: €171.1 million). EBITDA from the traditional business grew by 8.8% to €91.8 million (2019: €84.4 million), driven by the cost efficiencies which have been delivered. Even after Virgin telco launch costs, EBITDA grew 3.7% to €87.5 million. Euskaltel's operating cash flow grew over 10% to €50.9 million (2019: €46.1 million), including an investment of €7.4 million in the quarter to launch Virgin telco nationally, representing 29.6% of revenues.

Optimising the value of Zegona's investment in Euskaltel

Zegona is pleased with the progress that has been made at Euskaltel, while recognising that the process which Zegona initiated to transform Euskaltel into a larger and stronger national business is still at an early stage. Despite the impact that Covid-19 has had on global equity markets, the value of Euskaltel has increased since Zegona's plan for the business was initiated in June last year while also paying a dividend payment of €0.48 per share over this period.

When Zegona raised equity capital in January 2019 to increase its ownership in Euskaltel, it made a commitment in its Prospectus to formally review the Euskaltel business performance and the role Zegona has played in adding value within two years and at regular intervals thereafter⁴.

Zegona is fully aware that should it conclude it is no longer appropriate to retain its investment in Euskaltel, any material discount at which Zegona trades to the underlying value of its assets can be closed in a number of ways. These include, but are not limited to, the distribution in-specie of Zegona's interest in Euskaltel to its shareholders. Both the timing and process for any actions would be driven by what creates most value for shareholders. Zegona believes that, if it decides to monetise its Euskaltel stake, its greater than 21% ownership and lead shareholder status have strategic value, creating the potential to deliver a premium above the value of the individual shares.

³ All financial information is extracted from Euskaltel's Consolidated interim financial statements for the six months ended 30 June 2020 and the Euskaltel Q2 results presentation which can be found on www.euskaltel.com.

⁴ Zegona's commitment in its January 2019 Prospectus was as follows:

Within 2 years of the placing, and at regular intervals thereafter, Zegona's Board will formally review the Euskaltel business performance and the role Zegona has played in adding value. If Zegona shares are trading at a material discount to the value implied by the market value of its equity interest in Euskaltel at this time, Zegona expects to continue to hold its stake in Euskaltel only if:

- a. It is clear that during the period from the placing to the time of the review, Zegona has contributed significant value to the Euskaltel business through its involvement; and*
- b. Zegona is confident that it can continue to add significant further value in the foreseeable future*

If Zegona's Board concludes that these conditions have not been met, Zegona would expect to return its Euskaltel shares to Zegona shareholders via a dividend in specie or sell its stake in Euskaltel and promptly return the proceeds to Zegona shareholders, depending on which approach is expected to maximise value.

During the period, Zegona's Board conducted the initial review of its investment in Euskaltel that it had agreed to undertake, including input from external advisors and will continue to do these reviews regularly. The Board confirmed that Zegona management's actions are leading to positive developments within Euskaltel and concluded that Zegona should continue to hold its 21.44% stake at this time. The reasons why the Board reached this conclusion include:

- **Zegona's stake has strategic value:** Zegona is the leading shareholder in Euskaltel and its holding represents a strategic stake, giving its owner significant influence within Euskaltel including two Board seats. As such, this has value over and above the market value of the individual shares. This additional value could be particularly significant in the event of any further consolidation in the Spanish market when, as lead shareholder, Zegona would be able to maximise value for both Euskaltel's and Zegona's shareholders.
- **Zegona continues to drive valuable initiatives at Euskaltel:** Zegona management continues to work closely with the new management team to drive forward important initiatives that have the potential to create significant value.
- **Euskaltel transformation is still at an early stage:** The new Euskaltel management team introduced by Zegona is still in the early stages of its work fixing and growing Euskaltel in line with Zegona's strategy for the business. Zegona believes there remains significant value to be unlocked through its continuing involvement.
- **Zegona shareholders' perspective:** Zegona recently sought feedback from its largest shareholders on the question of distributing its holding in Euskaltel. Shareholders holding a majority of Zegona's stock have stated that they support the actions being taken by Zegona management to deliver improved performance at Euskaltel, are encouraged by the early progress being made, and do not want Zegona to distribute its Euskaltel stock to shareholders at this time.

Zegona's performance

Zegona made a profit for the period of €7.1 million compared to €33.7 million in the same period in 2019. This is principally due to the change in the reporting of its investment in Euskaltel. During the six months ended June 30, 2020, Zegona's share of Euskaltel's profit was €8.5 million, which reflects Zegona's 21.44% ownership. During the six months ended June 30, 2019 Zegona had concluded that it did not have significant influence over Euskaltel and therefore accounted for its investment in Euskaltel as a financial asset carried at fair value through profit and loss in accordance with IFRS 9 Financial Instruments. During this period, the investment in Euskaltel segment generated finance income of €33.8 million, being dividend income of €3.8 million and a gain on the fair value of the investment of €30 million. The fair value of Zegona's investment in Euskaltel was €302.6 million at 30 June 2020 (2019: €303.6 million). Operating costs during the period to 30 June 2020 remained at similar levels to those incurred in the comparable period in 2019.

Board and Governance changes

Mark Brangstrup Watts, a Managing Partner in Marwyn Capital LLP and Marwyn Investment Management LLP ("**Marwyn**"), stepped down from the Board with effect from 12 May 2020. Murray Scott did not stand for re-election at this year's AGM. At the same time, Suzi Williams became the Chair of the Remuneration Committee and with Ashley Martin, the Chair of the Audit and Risk Committee, have met with a number of major shareholders.

Outlook

In addition to supporting Euskaltel's performance improvement through its representation on the Euskaltel board, Zegona continues to see many attractive investment opportunities both in Spain and the wider European TMT market. These are driven by a number of underlying trends that create attractive opportunities across a broad range of assets which Zegona believes it is well placed to capitalise on.

Dividends

Zegona has made two dividend payments in 2020, with 2.0 pence per share paid on 6 March and a further 2.6 pence per share paid on 31 July 2020. In total, 4.6 pence per share or £10.2 million has been paid to shareholders in 2020. Zegona has been consistent in its commitment to paying dividends, with more than £40 million being paid to shareholders since 2016. We remain committed to our current policy of passing 100% of all Euskaltel dividends received to our shareholders.

Underlying Asset Value per Share

Zegona's principal asset is its 21.44% ownership of Euskaltel (31 December 2019: 21.3%), where it is the largest shareholder. Zegona believes it is helpful for shareholders to be informed on the value of its Euskaltel investment and its net cash position (its "Underlying Asset Value"), what this represents in terms of value per Zegona share, and how this compares to the Zegona's market value. This is especially the case since Zegona no longer accounts for its investment in Euskaltel at fair value. Zegona's Underlying Asset Value per Share is a computation of the Sterling equivalent of the fair value of Zegona's investment in Euskaltel, its cash and cash equivalents net of its bank borrowings, divided by the total number of shares outstanding. Other assets and liabilities are not included in the calculation but have historically not been material with the exception of the contingent consideration receivable from the sale of Telecab which had a fair value of €3.7 million (31 December 2019: €4 million) or 2 pence per share (31 December 2019: 2 pence). The calculation also includes no value for Zegona's management and/or core investor incentive schemes.

	3 September 2020	30 June 2020	31 December 2019
Fair value of investment in Euskaltel (€000)	295,275	302,552	341,584
Cash and cash equivalents (€000)	16,928	17,903	27,035
Bank borrowings (€000)	(11,139)	(10,894)	(11,578)
Underlying Asset Value (€000)	301,064	309,561	357,041
Foreign exchange rate (€ / £)	1.12090	1.09766	1.17547
Underlying Asset Value (£000)	268,591	282,019	303,743
Shares outstanding	218,977,076	219,492,730	221,935,177
Underlying Asset Value per Share (£)	1.23	1.28	1.37

Incentive Scheme

Incentive scheme arrangements were put in place at Zegona's inception in 2015 to create incentives for Zegona's management team and for Marwyn as the original core shareholder of Zegona. Members of Zegona's management team have been issued Class A Ordinary Shares in the Company's subsidiary, Zegona Limited ("Management Shares") in connection with their employee arrangements and Marwyn was issued Class B Ordinary Shares ("Core Investor Shares").

Management Incentive arrangements

The holders of the Management Shares are entitled to 15% of the growth in value of Zegona during a series of separate Calculation Periods, provided that ordinary shareholders achieve a 5% Preferred Return in each Calculation Period. The first Calculation Period began on 14 August 2015, with management having the right to redeem its Management Shares at any time between the third and fifth anniversaries of this date.

In accordance with the rules of the incentive arrangements, Zegona management redeemed its Management Shares on 25 June 2020, in advance of expected closed periods. Despite Zegona's Underlying Asset Value being above the Preferred Return, Zegona's Market Capitalisation was below the Preferred Return and therefore no value was received by management in respect of the first Calculation Period. A new Calculation Period commenced on 25 June 2020 with the Baseline value set at the higher of Zegona's Market Capitalisation and its Net Shareholder Invested Capital on this date. The new Baseline value is £0.955 per Zegona share. The renewal of the Management Share rights will be subject to approval by Zegona's shareholders at its 2021 AGM.

Core Investor Incentive arrangements

During the first Calculation Period the holders of the Core Investor Shares (Marwyn), were entitled to 5% of the growth in value of Zegona, provided that ordinary shareholders achieve a 5% Preferred Return. This Calculation Period started on the 14 August 2015 and ended on 14 August 2020. As the Preferred Return was not met, no payment was made to Marwyn. Core Investor incentive arrangements ceased to exist after 14 August 2020.

Risks

The principal and emerging risks and uncertainties faced by Zegona have not changed significantly since our annual report for the year ended 31 December 2019 (the “**2019 Annual Report**”).

Risk area	Risk rating	Change in risk assessment since the 2019 Annual Report
Risks related to the investment in Euskaltel	High	↔ No change
Acquisition of targets	Moderate	↔ No change
Key management	Moderate	↔ No change
Disposal of investments	Moderate	↔ No change
Brexit	Moderate	↔ No change
Foreign exchange	Low	↔ No change

These risks have the potential to affect Zegona’s results and financial position during the remainder of 2020. A more detailed explanation of risks and uncertainties is set out on pages 9 to 11 of the 2019 Annual Report

Statement of Directors' Responsibility

We confirm to the best of our knowledge:

- the unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*; and
- the interim management report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R and Disclosure and Transparency Rule 4.2.8R.

Neither the Company nor the directors accept any liability to any person in relation to the half-year financial report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A and schedule 10A of the Financial Services and Markets Act 2000.

Details on the Company's Board of Directors can be found on the Company website at www.zegona.com.

By order of the Board
Eamonn O'Hare
Chairman and CEO
3 September 2020

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises condensed consolidated statement of comprehensive income, condensed consolidated statement of other comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2(a), the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

David Neale
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square, London, E14 5GL
3 September 2020

For the six months ended 30 June			
		Unaudited 2020 €000	Unaudited 2019 €000
	Note		
Continuing operations			
Administrative and other operating expenses:			
Corporate costs		(2,263)	(1,898)
Significant project costs		(109)	(280)
Operating loss		(2,372)	(2,178)
Finance income	4	12	33,911
Finance costs	4	(317)	(326)
Share of profit of associate		8,469	-
Net foreign exchange gains		1,347	2,321
Profit for the period before income tax		7,139	33,728
Income tax expense		-	-
Profit for the period attributable to equity holders of the parent		7,139	33,728
		€	€
Earnings per share			
Basic and diluted earnings per share attributable to ordinary equity holders of the parent		0.03	0.17

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

ZEGONA COMMUNICATIONS PLC
CONDENSED CONSOLIDATED STATEMENT OF
OTHER COMPREHENSIVE INCOME



For the six months ended 30 June			
		Unaudited 2020 €000	Unaudited 2019 €000
	Note		
Profit for the period		7,139	33,728
Other comprehensive loss – items that will or may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	11	(23,144)	(2,565)
Total comprehensive income for the period, net of tax, attributable to equity holders of the parent		(16,005)	31,163

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

ZEGONA COMMUNICATIONS PLC
CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION



		Unaudited As at 30 June 2020 €000	Audited As at 31 December 2019 €000
	Note		
Assets			
Non-current assets			
Property, plant and equipment		8	2
Interest in associate	6	317,061	334,343
		317,069	334,345
Current assets			
Trade and other receivables		135	92
Financial assets measured at fair value through profit or loss	7	3,732	3,997
Cash and cash equivalents		17,903	27,035
		21,770	31,124
Total assets		338,839	365,469
Equity and liabilities			
Equity			
Share capital		2,827	2,855
Other reserves	11	296,592	304,556
Share-based payment reserve		81	105
Foreign currency translation reserve	11	(11,325)	11,819
Retained earnings		39,207	32,000
Total equity attributable to equity holders of the parent		327,382	351,335
Non-current liabilities			
Bank borrowings	8	-	11,578
		-	11,578
Current liabilities			
Trade and other payables		563	2,556
Bank borrowings	8	10,894	-
Total liabilities		11,457	14,134
Total equity and liabilities		338,839	365,469

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

ZEGONA COMMUNICATIONS PLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



		Share capital	Other Reserves	Share-based payment reserve	Foreign currency translation reserve	Retained earnings	Total equity
	Note	€000	€000	€000	€000	€000	€000
Balance at 1 January 2020		2,855	304,556	105	11,819	32,000	351,335
Profit for the period		-	-	-	-	7,139	7,139
Other comprehensive loss	11	-	-	-	(23,144)	-	(23,144)
Cancellation of shares purchased	10	(28)	(2,884)	-	-	-	(2,912)
Redemption of Management Shares	9	-	-	(24)	-	68	44
Dividend paid	12	-	(5,080)	-	-	-	(5,080)
Balance at 30 June 2020 (unaudited)		2,827	296,592	81	(11,325)	39,207	327,382
Balance at 1 January 2019		1,763	205,623	105	(3,376)	(10,056)	194,059
Profit for the period		-	-	-	-	33,728	33,728
Other comprehensive income		-	-	-	(2,565)	-	(2,565)
Issue of shares, net of directly attributable costs		1,092	108,793				109,885
Dividend paid		-	(3,673)	-	-	-	(3,673)
Balance at 30 June 2019 (unaudited)		2,855	310,743	105	(5,941)	23,672	331,434

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

For the six months ended 30 June

	Unaudited 2020 €000	Unaudited 2019 €000
Operating activities		
Profit before income tax	7,139	33,728
Adjustments to reconcile profit before income tax to operating cash flows:		
Depreciation of property, plant and equipment	1	1
Share based payment expense	44	-
Share of profit in associate	(8,469)	-
Net foreign exchange gains	(1,347)	(2,321)
Finance income	(12)	(33,911)
Finance costs	317	326
Working capital adjustments:		
(Increase)/decrease in trade and other receivables	(43)	2,038
(Decrease) in trade and other payables	(1,964)	(2,587)
Interest received	12	19
Interest paid	(260)	(140)
Net cash flows used in operating activities	(4,582)	(2,847)
Investing activities		
Purchase of property, plant and equipment	(7)	-
Purchases of interest in associate and of non-current financial assets measured at fair value through profit or loss	(1,690)	(86,255)
Dividends received	5,320	3,752
Net cash flows from/(used in) investing activities	3,623	(82,503)
Financing activities		
Dividend paid to shareholders	(5,080)	(3,673)
Cancellation of shares purchased	(2,912)	-
Net proceeds from loans and borrowings	-	10,824
Proceeds from issue of shares, net of directly attributable costs	-	109,885
Net cash flows (used in)/from financing activities	(7,992)	117,036
Net (decrease)/increase in cash and cash equivalents	(8,951)	31,686
Net foreign exchange differences	(181)	(245)
Cash and cash equivalents at 1 January	27,035	3,138
Cash and cash equivalents at 30 June	17,903	34,579

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

1. GENERAL INFORMATION

The unaudited condensed consolidated interim financial statements of Zegona Communications plc (the “Company” or the “Parent”) and its subsidiaries (collectively, “Zegona”) for the six months ended 30 June 2020 (the “Interim Financial Statements”) were authorised for issue in accordance with a resolution of the Directors on 3 September 2020. The Company is incorporated and domiciled in England and has its registered office at 20 Buckingham Street, London, WC2N 6EF.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Interim Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and are presented on a condensed basis. The Interim Financial Statements do not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006 (the “Companies Act”).

The Interim Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with Zegona’s annual financial statements as at 31 December 2019 which are available on the Company’s website, www.zegona.com. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in Zegona’s financial position and performance since the last annual financial statements.

Information from 31 December 2019 is based on the statutory accounts for the year ended 31 December 2019, which were delivered to the Registrar of Companies and on which the auditor’s report was unqualified and did not contain a statement under section 498(2) or 498(3) of the Companies Act.

(b) Going concern

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

Zegona meets its day to day working capital requirements from cash balances and bank facilities. The Directors are in the process of negotiating a renewal or replacement of the facilities that mature in January 2021 and are confident that replacement facilities will be available or any amounts drawn on the existing facilities could be repaid from existing resources if needed. In the unlikely event that the facility was not renewed or replaced in January 2021, Zegona would still have sufficient cash and liquid resources after deploying a number of mitigating actions, including reducing discretionary expenditure, selling part of Zegona’s investment in Euskaltel or retaining part of the Euskaltel dividend.

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

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

As at 3 September 2020, the date that these Interim Financial Statements were authorised for issue, Zegona has €17 million of cash, greater than its total liabilities at that date.

(c) New standards, interpretations and amendments adopted by Zegona

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those followed in the preparation of Zegona’s annual consolidated financial statements for the year ended 31 December 2019, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union. Zegona has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Standards, amendments and interpretations effective and adopted by Zegona:

The accounting policies adopted in the presentation of the Interim Financial Statements reflect the adoption of the following amendments for annual periods beginning on or after 1 January 2020, none of which had a material effect on Zegona.

Standard	Effective date
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	1 January 2020

Standards issued but not yet effective

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

Standard	Effective date
Amendments to IFRS 3 Business Combinations: References to the Conceptual framework	1 January 2022*
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	1 January 2022*

* subject to EU endorsement.

(d) Critical accounting judgements and estimates

The preparation of the Interim Financial Statements 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.

There have been no material changes to the significant judgements and estimates made by the Directors as at and for the year ended 31 December 2019. The main judgements and estimates used by the Directors in applying the accounting policies of Zegona that had the greatest impact on the Interim Financial Statements are as follows:

- The fair value re-measurement of the contingent consideration receivable (note 7)
- Assessment of the recoverability of the value of interest in associate (note 6)
- Recognition and measurement of share-based payments transactions (note 9)

3. SEGMENT INFORMATION

Six months to 30 June 2020	Investment in		Consolidated
	Central costs	Euskaltel	
	€000	€000	€000
Depreciation and amortisation	(1)	-	(1)
Other operating expenses	(2,371)	-	(2,371)
Operating loss	(2,372)	-	(2,372)
Finance income	12	-	12
Finance costs	(317)	-	(317)
Share of profit of associate	-	8,469	8,469
Net foreign exchange gains	1,347	-	1,347
(Loss)/profit for the period	(1,330)	8,469	7,139

Six months to 30 June 2019	Investment in		Consolidated
	Central costs	Euskaltel	
	€000	€000	€000
Depreciation and amortisation	(1)	-	(1)
Other operating expenses	(2,177)	-	(2,177)
Operating loss	(2,178)	-	(2,178)
Finance income	159	33,752	33,911
Finance costs	(326)	-	(326)
Net foreign exchange gains	2,321	-	2,321
(Loss)/profit for the period	(24)	33,752	33,728

4. FINANCE INCOME AND COSTS

For the 6 months ended 30 June			
	Note	2020	2019
		€000	€000
Dividend income		-	3,752
Gain on fair value of investment in Euskaltel		-	30,000
Gain on fair value of contingent consideration	7	-	140
Bank interest		12	19
Finance income		12	33,911
Costs of bank borrowings		(317)	(326)
Finance costs		(317)	(326)

5. FINANCIAL INSTRUMENTS

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

	Fair Value	Amortised	Fair Value	Amortised
	2020	costs	2019	costs
	€000	€000	€000	€000
Trade and other receivables	-	135	-	92
Financial assets designated at fair value (level 3)	3,732	-	3,997	-
Cash and cash equivalents	-	17,903	-	27,034
Total current financial assets	3,732	18,038	3,997	27,126
	Fair Value	Amortised	Fair Value	Amortised
	2020	costs	2019	costs
	€000	€000	€000	€000
Bank borrowings	-	-	-	11,578
Total non-current financial liabilities	-	-	-	11,578
Trade and other payables	-	563	-	2,556
Bank borrowings	-	10,894	-	-
Total current financial liabilities	-	11,457	-	2,556

For the financial assets measured at fair value through profit or loss, the Directors have determined that no transfers have occurred between levels in the fair value hierarchy from 31 December 2019 to 30 June 2020. The Directors consider that the carrying amounts of the financial instruments measured at amortised cost equate to their fair values.

6. INTEREST IN ASSOCIATE

At 30 June 2020, Zegona owned 38.3 million shares (2019: 37.2 million) in Euskaltel, a Spanish telecommunications company incorporated in Spain and operating in the Basque Country, Asturias and Galicia under regional brands and nationally under the Virgin telco brand, which represents approximately 21.44% (31 December 2019: 21.3%) of the ordinary shares and voting rights of Euskaltel.

Summarised financial information for associate

The following tables summarise the financial position and statement of comprehensive income of Euskaltel as disclosed in its own unaudited financial statements prepared in accordance with IFRS as adopted by the EU, adjusted to recognise certain assets and liabilities in line with their fair value at acquisition date and differences in accounting policy.

Statement of Comprehensive Income

For the period to 30 June 2020	€000
Revenue	334,668
Profit for the period (continuing operations)	39,444
Total comprehensive income for the period	39,444
Zegona's share of profit for the period (21.32% weighted average)	8,469

Statement of Financial Position

As at 30 June 2020	€000
Non-current assets	2,051,916
Current assets	205,986
Non-current liabilities	(1,647,183)
Current liabilities	(342,691)
Net assets	268,028

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

	30 June 2020
	€000
Euskaltel's net assets	268,028
Zegona's share of Euskaltel's net assets (21.44%)	57,465
Goodwill recognised*	264,556
Foreign exchange differences	(4,960)
Interest in associate	317,061
Fair value of interest in associate	302,552

*Includes €1.4 million of additional goodwill recognised on purchases made in 2020.

The fair value of the interest in associate is based on its quoted market price. Euskaltel had no contingent liabilities as at 30 June 2020.

Zegona has granted security to Euskaltel by a share pledge over 1,663,158 of its shares in Euskaltel with respect to certain tax assets generated in favour of Telecable. At 30 June 2020, 3,431,268 shares are unpledged, with the remainder granted as security to Barclays as described in note 8.

Recoverability of the carrying value of Zegona's investment in Euskaltel

At 30 June 2020 the fair value of Zegona's share in Euskaltel was €303 million, slightly below the carrying amount of €317 million. As a result, Zegona performed an impairment test on the carrying amount, which confirmed that there was no impairment at 30 June 2020 as the recoverable amount as determined by a value-in-use ('VIU') calculation, even when considering a number of severe but plausible downside scenarios, was substantially higher than the carrying amount of €317 million.

Basis of recoverable amount

The VIU calculation uses discounted cash flow projections based on management's best estimates of future earnings available to ordinary shareholders prepared in accordance with IAS 36. Significant management judgement is required in arriving at the best estimate. The main input to the VIU calculation is management's best estimate of Euskaltel's earnings, which is based on public information on Euskaltel such as its 2020-2025 business plans, results and other public announcements.

The key assumptions used are:

- Terminal growth rate for period after 2025: 1.5% which does not exceed forecast GDP growth in Spain and is consistent with forecasts by external analysts.
- Pre-tax discount rate: 7.66%. This is based on a capital asset pricing model ('CAPM') calculation for Euskaltel, using market data. Management also compares the rate derived from the CAPM with discount rates from external sources.

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

The current financial assets balance of €3.7 million (31 December 2019: €4.0 million) comprises solely the contingent consideration receivable from the sale of Telecable. This compares to a base case model present value of €5.9 million (31 December 2019: €5.9 million) and Zegona's best estimate of the undiscounted cash flow that it will receive of €6.1 million (31 December 2019: €6.1 million). The contingent consideration is payable by Euskaltel in cash up to a maximum amount of €15 million in aggregate upon confirmation that a range of net tax assets are available to Euskaltel and may be used to offset its future tax payments.

	Note	€000
Balance at 31 December 2019		3,997
Change in unrealised fair value recognised in profit or loss	4	-
Foreign exchange losses		(265)
Balance at 30 June 2020		3,732

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. There have been no material updates to these significant unobservable inputs since 31 December 2019.

The fair value of the contingent consideration has been calculated using a probability-weighted discounted cash flow model that calculates the present value of the expected cash flows for 12 different plausible combinations of outcomes. The fair value was determined by calculating a weighted average of those cash flows according to the probability of each scenario occurring. As a result of this analysis, a fair value of €3.7 million (31 December 2019: €4 million) was assigned to the contingent consideration. This value recognises the possibility of certain material downside cases that Zegona currently considers to be unlikely to occur (particularly in relation to the merger approval discussed below not being granted) and therefore the eventual amount received could be greater than this fair value.

The significant unobservable inputs used in the base case (which had a present value of €5.9 million (31 December 2019: €5.9 million), being management's assessment of the present value of the most likely outcome) and the impact of each input on the value of the base case at the reporting date, holding the other inputs constant, are shown below:

Merger approval:

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

Input used in the base case model:

Successful

Sensitivity of the base case:

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

Usability of available assets:

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

Input used in the base case model:

82% usable

Sensitivity of the base case:

Usability scenarios ranged from 41% to 100%, causing the present value of the base case to range from €3.0 million to €7.2 million

Timing of merger approval:

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

Input used in the base case model:

6 months

Sensitivity of the base case:

If the timing is increased to 18 months, the revised base case present value would be €5.5 million

8. BANK BORROWINGS

In January 2019 the Company drew down £10 million under a facility provided by Barclays Bank PLC ("Barclays"). Interest is payable quarterly in arrears on the drawn amount at a rate of 2.6% per annum above the 3-month LIBOR interest rate. A commitment fee of 0.6% per annum was payable on the undrawn amount of £10 million until 15 March 2020 which was the last date available to draw down the remaining undrawn amount of £10 million. The Company has the right to prepay the loan at any time.

The Barclays facility matures on 14 January 2021. Additionally, any amounts outstanding will become immediately repayable on the occurrence of certain events of default including a drop in the value of Euskaltel shares to €3.42 or below, a change of control of Euskaltel or Zegona and other customary events of default. The Barclays facility is secured by a charge over 32.2 million Euskaltel shares.

9. MANAGEMENT INCENTIVE SCHEME

The holders of the Management Shares are entitled to 15% of the growth in value of Zegona during a series of separate Calculation Periods, provided that ordinary shareholders achieve a 5% Preferred Return (a 5% per annum return on a compounded basis on shareholders' net investment) in each Calculation Period.

Holders of the Management Shares may exercise their shares by redeeming them at any point between the third and fifth anniversary of the start of each Calculation Period. When management exercises its Management Shares, 99% of these shares are redeemed, with the remaining Management Shares continuing to have rights to

the management incentive. There are also provisions for exercise by management if there is a takeover or acquisition of Zegona (including by a scheme of arrangement), or Zegona sells all or substantially all of its assets and distributes the net proceeds to shareholders.

Upon exercise, provided the Preferred Return has been met, holders of the Management Shares receive 15% of the increase in value of Zegona in either Zegona ordinary shares or cash at the discretion of Zegona. If the Preferred Return has not been achieved, no payment is made.

The first Calculation Period began on 14 August 2015. In recognition that the first 5-year Calculation Period was due to end in August 2020, an independent committee of the Board was formed in April 2020 to review a number of matters relating to the incentive arrangements.

In accordance with the scheme rules, Zegona management redeemed its Management Shares on 25th June 2020 which was in advance of the end of the first Calculation Period on 14 August 2020 and outside of anticipated closed periods. At this date, the value of Zegona shares (based on the 30-day volume weighted average price, "VWAP") was below the £1.21 level required for the Preferred Return to be met. The value of Zegona's investment in Euskaltel and its cash and cash equivalents net of bank borrowings⁵ on this date was worth £1.28 per Zegona share, which was above both the Preferred Return level and the Net Shareholder Invested Capital per share of £0.955.

Following the redemption, 51,546,370 Management Shares in Zegona Limited remain allotted, issued and fully paid as shown in the table below:

	Participation in growth in value	Number of Management Shares	Nominal value of Management Shares
Eamonn O'Hare	8.88%	30,500,000	£3.05
Robert Samuelson	4.44%	15,250,000	£1.53
Zegona senior management	1.68%	5,796,370	£0.58
		51,546,370	£5.16

Upon exercise of the Management Shares, a new Calculation Period automatically begins, with management entitled to 15% of the growth in value of Zegona over the new Calculation Period, provided the Preferred Return is achieved over this period. The starting value against which the growth in value and the Preferred Return are calculated (the "Baseline") at the beginning of the new Calculation Period is set at the higher of the Market Capitalisation of Zegona, defined as 30-day VWAP, and the Net Shareholder Invested Capital on that date. Therefore, a new Calculation Period commenced on 25 June 2020 with the new Baseline value set at £0.955 per Zegona share.

Each time a new Calculation Period begins, the renewal of the Management Shares' rights is subject to a vote by Zegona's shareholders at the next Annual General Meeting ("AGM"). If shareholders representing 75 per cent or more of the shares vote against the renewal at the AGM, the Management Shares will cease to have any rights and will be redeemed for no value. Management could receive value prior to the AGM vote if there is a takeover or acquisition of Zegona (including by a scheme of arrangement), or Zegona sells all or substantially all of its assets and distributes the net proceeds to shareholders.

Under IFRS 2, the new Calculation Period constitutes a new share-based payment award for which the holders of the Management Shares began to render services from June 25, 2020. However, for the purposes of IFRS 2,

⁵ Defined by Zegona as "Underlying Asset Value per Share" – excludes the value of contingent consideration receivable and any value for Zegona Management and Core Investor Incentive Shares.

the grant date of the award cannot be until Zegona's shareholders vote to ratify the renewal of the management incentive scheme at Zegona's 2021 AGM.

In these circumstances, IFRS 2 requires the fair value of the award to be estimated at each balance sheet date, and an expense recognised from the date that holders begin to render services. This estimate will be recalculated and adjusted at each balance sheet date prior to Zegona's 2021 AGM. Once Zegona's shareholders have voted to ratify the renewal of the management incentive scheme at the 2021 AGM, the fair value will be recalculated and the cumulative expense adjusted for a final time.

Accordingly, Zegona engaged an independent valuation specialist to estimate the fair value of the award on the commencement of the Calculation Period using a Monte Carlo model. The value of the award on the valuation date was £0.11 per Management Share which will be recognised within administrative and other operating expenses in the Condensed Interim Consolidated Statement of Comprehensive Income subject to any adjustments for future revaluations discussed above. For the six months ended 30 June 2020 a total of €43,605 was recognised under Administrative and other operating expenses.

The key inputs to the Monte Carlo model used to estimate the fair value of the award were as follows:

Share price at measurement date	£1.14
Expected volatility	16.5%
Dividend yield	0%
Risk-free interest rate	0%
Number of simulations	100,000

10. SHARE BUYBACK

On 7 January 2020, Zegona commenced a share buyback programme to purchase its ordinary shares up to a maximum consideration of £10 million. Zegona's Board set a buyback policy that allowed shares to be acquired at prices up to the Underlying Asset Value per Share (defined as discussed in note 9). This programme concluded on 31 March 2020 and 2,442,447 ordinary shares, with a nominal value of £24,424 and representing 1.1% of the shares in issue were purchased and cancelled for a total of £2,461,592.

On 24 June 2020, Zegona announced a further share buy-back programme for the purchase of up to a maximum of £10 million of its ordinary shares. This programme will conclude on 15 September 2020. No ordinary shares were purchased and cancelled during the period to 30 June 2020, but shares have been purchased and cancelled after 30 June 2020, as discussed in Note 15.

11. RESERVES

Other Reserves

	Capital redemption reserve	Share premium reserve	Other reserve	Total Other reserves
	€'000	€'000	€'000	€'000
At 1 January 2020	-	108,793	195,763	304,556
Cancellation of shares purchased	28	-	(2,912)	(2,884)
Dividend paid	-	-	(5,080)	(5,080)
At 30 June 2020	28	108,793	187,771	296,592

	Capital redemption reserve	Share premium reserve	Other reserve	Total Other reserves
	€'000	€'000	€'000	€'000
At 1 January 2019	-	-	205,623	205,623
Issue of shares, net of costs	-	108,793	-	108,793
Dividend paid	-	-	(9,860)	(9,860)
At 31 December 2019	-	108,793	195,763	304,556

Capital redemption reserve

When Zegona buys back shares out of distributable reserves and those shares are immediately cancelled, the amount by which Zegona's issued share capital is reduced must be transferred to the capital redemption reserve. The capital redemption reserve is a requirement under s692 of the *Companies Act 2006* to preserve the Company's capital and is a non-distributable reserve.

Share premium reserve

The reserve comprises amounts subscribed for share capital in excess of nominal value less costs directly attributable to the issue of new shares. The share premium reserve is a requirement under s610 of the *Companies Act 2006* and is a non-distributable reserve.

Other reserve

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 of €386.045 million was transferred to the Other reserve. The Other reserve forms part of the distributable reserves of the Company.

The Other reserve also comprise the total costs of buying back shares (the nominal value of the shares and any premium paid), which are charged against distributable reserves.

The Company's total distributable reserves as at 30 June 2020 were £142 million, which equates to €156 million at 30 June 2020 foreign exchange rates (2019: £141 million, which equates to €166 million at 31 December 2019 foreign exchange rates).

Foreign currency translation reserve

The foreign currency translation reserve includes the foreign exchange differences arising from the translation of the Interim Financial Statements functional currency of Sterling ("£") to presentational currency Euro ("€"). This reserve is a non-distributable reserve. The movement in this reserve for the period is driven primarily by the movement in closing €:£ exchange rates from 1.18 at 31 December 2019 to 1.10 at 30 June 2020.

12. DIVIDEND PAID

The Company declared an interim dividend on 6 February 2020 at a rate of 2.0p per share, totalling £4.5 million (€5.3 million). The dividend was paid on 6 March 2020. In the comparative period, the Company declared an interim dividend on 31 January 2019 at a rate of 2.5p per share, totalling £3.2 million (€3.7 million), which was paid on 1 March 2019.

13. RELATED PARTY TRANSACTIONS

Mark Brangstrup Watts, who was a Non-Executive Director director of Zegona until 12 May 2020, is a designated member of Marwyn Capital LLP ("**Marwyn Capital**"), which provided corporate finance advice and various office services to the Company. During the period, services totalling €36,000 were received from Marwyn Capital (2019: €34,000).

Mark Brangstrup Watts is an ultimate beneficial owner of Axio Capital Solutions Limited ("**Axio**"), which provided company secretarial, administrative and accounting services to Zegona. During the period, services totalling €0.2 million were received from Axio (2019: €0.2 million). During the period, Zegona took steps to bring the services provided by Axio in-house or engage different providers in order to capture significant cost savings, enhance independence and expand its finance capabilities. Axio were replaced as Zegona's Company Secretary by Mark Millar of Foot Anstey LLP on 15 July 2020.

14. CONTINGENT LIABILITY

The European Commission (EU) issued a press release on 2 April 2019 announcing that the UK Controlled Foreign Company Financing Exemptions unduly exempted certain multinational groups from these UK rules. The UK Government has challenged the basis for the decision in the General Court by filing a claim on 12 June 2019. In addition, numerous taxpayers have also appealed against the decision before the European General Court. In November 2019, the EU issued a rebuttal to all the arguments raised by the taxpayers by simply restating the arguments put forward in the original State Aid provision.

There is still considerable uncertainty on the final outcome and therefore no provision has been made as it is not currently deemed probable that Zegona will be required to settle its possible obligation in relation to this matter. The estimated potential liability could range from nil to €5m. At 3 September 2020, the date that these Interim Financial Statements were authorised for issue, Zegona had not received any demand in respect of State Aid refund from the UK authorities.

15. POST BALANCE SHEET EVENTS

Share Buybacks

On 24 June 2020, Zegona announced the commencement of a buyback programme of its ordinary shares for an aggregate purchase price of up to £10 million, which will end on 15 September 2020 as detailed in Note 10. From 30 June 2020 to the date of signing these Interim Financial Statements, Zegona has purchased an aggregate of 522,654 shares for a total of £604,456.

Interim dividends

Zegona received a dividend on 6 July 2020 from Euskaltel at a rate of €0.17 per share, totalling €6.5 million. The dividend was passed through to Zegona's shareholders by payment of a dividend at a rate of 2.6p per share, totalling £5.7 million (€6.5 million). The dividend was paid on 31 July 2020.

Core Investor Shares

During the first Calculation Period the holders of the Core Investor Shares (Marwyn), were entitled to 5% of the growth in value of Zegona, provided that ordinary shareholders achieve a 5% Preferred Return. This Calculation Period started on the 14 August 2015 and ended on 14 August 2020. As the Preferred Return was not met, no payment was made to Marwyn. Core Investor incentive arrangements ceased to exist after 14 August 2020.