ZEGONA COMMUNICATIONS PLC
(“Zegona”)

Interim report for the six months ended 30 June 2018

LEI: 213800ASI1VZL2ED4S65

28 September 2018

Zegona announces its interim results for the six months ended 30 June 2018.

Enquiries:

Tavistock (Public Relations Adviser)
Tel: +44 (0) 20 7920 3150
Jos Simson / Lulu Bridges

Notes to Editors:

About Zegona
Zegona was established with the objective of acquiring businesses in the European Telecommunications, Media and Technology sector with a “Buy-Fix-Sell” strategy to deliver attractive shareholder returns. Zegona is listed on The London Stock Exchange’s Main Market and is led by former Virgin Media executives Eamonn O’Hare and Robert Samuelson.

Forward-looking Statements
Certain statements in this Announcement are forward-looking statements which are based on Zegona's expectations, intentions and projections regarding its future performance, anticipated events or trends and other matters that are not historical facts. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Given these risks and uncertainties, prospective investors are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date of such statements and, except as required by applicable law, Zegona undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. The information contained in this Announcement is subject to change without notice and Zegona does not assume any responsibility or obligation to update publicly or review any of the forward-looking statements contained herein.

Zegona Communications plc

Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

MANAGEMENT REPORT

Investment in Euskaltel

Euskaltel's share price recovered during the six months ended 30 June 2018. From a closing price of €6.80 per share at the end of 2017, Euskaltel's shares have traded as high as €8.25 per share and were €7.77 per share on 30 June 2018. Zegona has continued to account for its investment in Euskaltel as a financial asset because its 15% shareholding and its representation on the board and its committees does not give it significant influence over Euskaltel. The positive share price movements have generated a gain on the fair value of Zegona's investment in Euskaltel of €25.9 million for the six months ended 30 June 2018 (2017: nil)[1] and, as at that date, the carrying value of the investment was €208.1 million (2017: nil). We also received €3.4 million of dividend income from Euskaltel during the period.

While we welcome the improved performance of Euskaltel's shares in the first half of 2018, most of this gain has been reversed since 30 June 2018, with the share price falling to €6.85 on 27 September 2018[2].

At the time we received our equity interest, we considered Euskaltel to be a fundamentally sound business enjoying both a strong competitive position in its home markets and a range of opportunities to deliver robust growth. While we still firmly believe that there are opportunities to generate significant additional value from our investment in Euskaltel, we believe more progress could be made. In particular, we would like to see the business increase its focus on delivering significant productivity improvements, driving revenue growth in existing regions and expanding more quickly outside its current footprint.

Zegona's nominated director has contributed positively and consistently to Euskaltel's board and its committees and continues to encourage improvements in performance. However, we continue to be disappointed that this active input at the board and committee level has not translated into the effective action we believe is necessary.

Outlook

In addition to seeking to support Euskaltel performance improvement through our nominated director's board representation, we continue to evaluate new acquisition opportunities and actively pursue those which initially meet our rigorous financial and strategic criteria.

Risks

The principal risks and uncertainties faced by the Group have not changed significantly since our annual report for the year ended 31 December 2017 (the "**2017 Annual Report**").

Risk title	Risk rating	Change in risk assessment since the 2017 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 investment in operational businesses	Moderate	↔ No change
Brexit	Moderate	↔ No change
Foreign exchange	Low	↔ No change

These risks have the potential to affect the Group's results and financial position during the remainder of 2018. A more detailed explanation of risks and uncertainties is set out on pages 8 to 10 of the 2017 Annual Report.

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

[2] The last practicable date before the issuance of this report.

RESPONSIBILITY STATEMENT

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
27 September 2018

INTERIM REVIEW REPORT TO ZEGONA COMMUNICATIONS PLC

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 2018 which comprises condensed consolidated statement of 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 2018 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 2a, 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
27 September 2018

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the six months ended 30 June	
		2018	2017
		Unaudited	
	Note	€000	€000
Continuing operations			
Administrative and other operating expenses:			
Corporate costs		(1,829)	(2,293)
Significant project costs		(61)	(3,785)
Operating loss		**(1,890)**	**(6,078)**
Finance income	4	29,270	45
Finance costs	4	(146)	-
Exchange differences		(488)	35
Profit/(loss) for the period before income tax		**26,746**	**(5,998)**
Income tax		(34)	(18)
Profit/(loss) for the period from continuing operations		**26,712**	**(6,016)**
Discontinued operation			
Profit for the period from discontinued operation		-	888
Profit/(loss) for the period attributable to equity holders of the parent		**26,712**	**(5,128)**
		cents	**cents**
Earnings per share – total operations			
Basic and diluted earnings/(loss) per share attributable to ordinary equity holders of the parent		21.2	(2.6)
Earnings per share – continuing operations			
Basic and diluted earnings/(loss) per share attributable to ordinary equity holders of the parent		21.2	(3.1)

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

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	For the six months ended 30 June 2018	2017
	Unaudited	
	€000	€000
Profit/(loss) for the period	**26,712**	**(5,128)**
Other comprehensive income/(loss) – items that will or may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	479	(52)
Total comprehensive income/(loss) for the period, net of tax, attributable to equity holders of the parent	**27,191**	**(5,180)**

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2018	As at 31 December 2017
		Unaudited	**Audited**
	Note	**€000**	**€000**
Assets			
Non-current assets			
Property, plant and equipment		3	4
Intangible assets		1	1
Non-current financial assets	6	208,102	182,856
		208,106	**182,861**
Current assets			
Trade and other receivables		358	457
Other current financial assets	7	4,914	5,060
Cash and cash equivalents		4,824	10,224
		10,096	**15,741**
Total assets		**218,202**	**198,602**
Equity and liabilities			
Equity			
Share capital		1,763	1,763
Other reserves		209,536	215,158
Share-based payment reserve		105	105
Foreign currency translation reserve		(412)	(891)
Available for sale reserve		-	(41,360)
Retained earnings		6,742	21,390
Total equity attributable to equity holders of the parent		**217,734**	**196,165**
Current liabilities			
Trade and other payables		468	2,437
		468	**2,437**
Total equity and liabilities		**218,202**	**198,602**

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Other reserves	Share-based payment reserve	Foreign currency translation reserve	Available for sale reserve	Retained earnings	Total equity
		€000	€000	€000	€000	€000	€000	€000
Balance at 31 December 2017		**1,763**	**215,158**	**105**	**(891)**	**(41,360)**	**21,390**	**196,165**
Adjustments on initial application of IFRS 9	2(c)	-	-	-	-	41,360	(41,360)	-
Adjusted balance at 1 January 2018		**1,763**	**215,158**	**105**	**(891)**	**-**	**(19,970)**	**196,165**
Profit for the period		-	-	-	-	-	26,712	26,712
Other comprehensive income		-	-	-	479	-	-	479
Dividend paid	8	-	(5,622)	-	-	-	-	(5,622)
Balance at 30 June 2018 (unaudited)		**1,763**	**209,536**	**105**	**(412)**	**-**	**6,742**	**217,734**
Balance at 1 January 2017		**2,738**	**381,155**	**60**	**(1,088)**	**-**	**(20,380)**	**362,485**
Loss for the period		-	-	-	-	-	(5,128)	(5,128)
Other comprehensive expense		-	-	-	(52)	-	-	(52)
Share-based payments		-	-	24	-	-	-	24
Dividend paid		-	(5,069)	-	-	-	-	(5,069)
Balance at 30 June 2017 (unaudited)		**2,738**	**376,086**	**84**	**(1,140)**	**-**	**(25,508)**	**352,260**

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2018	2017
	Unaudited	
	€000	€000
Operating activities		
Profit/(loss) before income tax from continuing operations	26,746	(5,998)
Loss before income tax from discontinued operation	-	(2,960)
Profit/(loss) before income tax	**26,746**	**(8,958)**
Adjustments to reconcile profit/(loss) before income tax to operating cash flows:		
Depreciation of property, plant and equipment	1	8,257
Amortisation of intangible assets	-	10,684
Share-based payment expense	-	24
Net foreign exchange differences	488	(26)
Losses on derecognition or disposal of non-current assets	-	1,813
Finance income	(29,270)	(13)
Finance costs	146	7,554
Working capital adjustments:		
Decrease in trade and other receivables and prepayments	99	636
Decrease in inventories	-	177
(Decrease)/increase in trade and other payables	(2,003)	7,802
Increase in other current financial liabilities	-	748
Decrease in deferred revenues	-	(242)
Interest received/(paid)	4	(6,636)
Income tax paid	-	(123)
Net cash flows (used in)/from operating activities	**(3,789)**	**21,697**
Investing activities		
Purchase of property, plant and equipment	-	(8,080)
Purchase of intangible assets	-	(5,444)
Net proceeds from loans receivable	616	-
Dividends received	3,404	-
Net cash flows from/(used in) investing activities	**4,020**	**(13,524)**
Financing activities		
Dividend paid to shareholders	(5,622)	(5,069)
Net proceeds from loans and borrowings	-	(605)
Settlement of derivatives	-	(21)
Net cash flows used in financing activities	**(5,622)**	**(5,695)**
Net (decrease)/increase in cash and cash equivalents	(5,391)	2,478
Net foreign exchange difference	(9)	(25)
Cash and cash equivalents at 1 January	10,224	22,435
Transferred to assets held for sale	-	(23,838)
Cash and cash equivalents at 30 June	**4,824**	**1,050**

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

NOTES TO THE 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, the "**Group**" or "**Zegona**") for the six months ended 30 June 2018 (the "**Interim Financial Statements**") were authorised for issue in accordance with a resolution of the directors on 27 September 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.

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 the Group's annual financial statements as at 31 December 2017 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 the Group's financial position and performance since the last annual financial statements.

Information from 31 December 2017 is based on the statutory accounts for the year ended 31 December 2017, 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.

The Interim Financial Statements have been reviewed by the Group's auditor, but not audited.

This is the first set of the Group's financial statements where IFRS 9 and IFRS 15 have been applied. Changes to significant accounting policies are described in note 2(c).

(b) Going concern

The Interim 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.

(c) New standards, interpretations and amendments adopted by the Group

Except as described below, the accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements for the year ended 31 December 2018.

IFRS 9

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

IFRS 9 set outs requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

Under IFRS 9, the Group initially measures a financial asset at its fair value plus, for those financial assets not at fair value through profit or loss, transaction costs.

Under IFRS 9, financial instruments are subsequently measured at fair value through profit or loss (“**FVPL**”), amortised cost, or fair value through other comprehensive income (“**FVOCI**”). The classification of financial assets includes assessments of the Group’s business model for managing the assets and whether the assets’ contractual cash flows represent ‘solely payments of principal and interest’ on the principal amount outstanding (the “**SPPI Criterion**”).

The new classification and measurement of the Group’s financial assets are:

- Financial assets at amortised cost comprise assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI Criterion. This category includes the Group’s loans, trade and other receivables and cash and cash equivalents. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
- Financial assets at FVPL comprise quoted equity instruments which the Group had not irrevocably elected, at transition, to classify at FVOCI. This category also includes debt instruments whose cash flow characteristics fail the SPPI Criterion. Under IAS 39, the Group’s investment in Euskaltel and contingent consideration were classified as available for sale financial assets. Upon transition, the available for sale reserve relating to both the investment in Euskaltel and contingent consideration, which had previously been recognised under accumulated OCI, was reclassified to retained earnings. Therefore, the retained earnings at 1 January 2018 has been adjusted by €41,360k compared to the balance at 31 December 2017, comprising a €41,540k decrease in relation to the investment in Euskaltel and a €180k increase in relation to the contingent consideration.

The assessment of the Group’s business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

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

IFRS 15
The Group has initially adopted IFRS 15 *Revenue from Contracts with Customers* (“**IFRS 15**”) from 1 January 2018. The adoption of IFRS 15 has not had a material impact on the Group. A full assessment of the impact of IFRS 15 will be performed as part of the acquisition process of Zegona’s next operating business.

Standards issued but not yet effective
The Group intends to adopt the following standards, amendments and interpretations, if applicable, when they become effective. Adopting these standards will not have a material impact on the Group.

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

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

(d) 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 2017.

3. SEGMENT INFORMATION

Six months to 30 June 2018	**Central costs (continuing)**	**Investment in Euskaltel (continuing)**	**Consolidated**
	€000	**€000**	**€000**
Depreciation and amortisation	(1)	-	(1)
Other operating expenses	(1,889)	-	(1,889)
Operating loss	**(1,890)**	**-**	**(1,890)**
Finance income	4	29,266	29,270
Finance costs	(146)	-	(146)
Exchange differences	(488)	-	(488)
(Loss)/profit before tax	**(2,520)**	**29,266**	**26,746**
Income tax	(34)	-	(34)
(Loss)/profit for the period	**(2,554)**	**29,266**	**26,712**

Six months to 30 June 2017	**Central costs (continuing)**	**Telecable group (discontinued)**	**Consolidated**
	€000	**€000**	**€000**
External customer revenue	-	72,301	72,301
Other income	-	295	295
Depreciation and amortisation	(1)	(18,940)	(18,941)
Other operating expenses	(6,077)	(49,063)	(55,140)
Operating (loss)/profit	**(6,078)**	**4,593**	**(1,485)**
External finance income	46	9	55
External finance costs	-	(7,554)	(7,554)
Inter-segment finance income/costs	6,503	(6,503)	-
Exchange differences	34	(8)	26
Profit/(loss) before tax	**505**	**(9,463)**	**(8,958)**
Income tax	(18)	3,848	3,830
Profit/(loss) for the period	**487**	**(5,615)**	**(5,128)**

4. FINANCE INCOME AND COSTS

	Note	For the 6 months ended 30 June 2018 €000	2017 €000
Dividend income		3,404	-
Gain on fair value of investment in Euskaltel	6	25,862	-
Interest on loans		2	24
Gain on FX forward		-	21
Bank interest		2	-
Finance income		**29,270**	**45**
Loss on fair value of contingent consideration	7	(146)	-
Finance costs		**(146)**	**-**

Dividend income

The Group received a dividend on 1 February 2018 from Euskaltel at a rate of €0.127 per share, totalling €3,404k.

5. FINANCIAL INSTRUMENTS

The classification by category of the financial instruments held by the Group at 30 June 2018 is as follows:

	Note	Current €000	Non-current €000
Financial assets measured at amortised cost			
Trade and other receivables		275	-
Cash and cash equivalents		4,824	-
		5,099	**-**
Financial assets measured at fair value through profit or loss			
Investment in Euskaltel (level 1)	6	**-**	208,102
Contingent consideration (level 3)	7	4,914	-
		4,914	**208,102**
Total financial assets		**10,013**	**208,102**
Financial liabilities measured at amortised cost			
Trade and other payables		(341)	-
Total financial liabilities		**(341)**	**-**

For the financial assets measured at fair value, the Directors have determined that no transfers have occurred between levels in the fair value hierarchy from 31 December 2017 to 30 June 2018.

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

6. NON-CURRENT FINANCIAL ASSETS

	As at 30 June 2018 €000	As at 31 December 2017 €000
Investment in Euskaltel	208,102	182,240
Loans	-	616
Total	**208,102**	**182,856**

Investment in Euskaltel

The Group owns 26.8 million shares in Euskaltel SA, 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).

As part of the purchase agreement for the Euskaltel shares, the Group agreed to standard lock-in provisions. Some of these provisions lapsed on 26 July 2018, such that the Group may sell up to 33% of its shareholding. Notwithstanding the remaining 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 315,790 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. The pledge over these shares was released during September 2018.

	Note	€000
Balance at 31 December 2017		182,240
Change in unrealised fair value recognised in profit or loss	4	25,862
Balance at 30 June 2018		**208,102**

The change in fair value reflects the increase in Euskaltel share price from €6.80 at 31 December 2017 to €7.77 at 30 June 2018.

Loans

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

7. OTHER CURRENT FINANCIAL ASSETS

The other current financial assets balance of €4.9 million (31 December 2017: €5.1 million) comprises solely the contingent consideration receivable from the sale of Telecable. This compares to a base case model present value of €6.8 million (31 December 2017: €7.0 million) and Zegona's best estimate of the undiscounted cash flow that it will receive of €7.1 million (31 December 2017: €7.6 million). The contingent consideration is payable by Euskaltel in cash up to a maximum amount of €15.0 million upon confirmation that a range of net tax assets are available to Euskaltel and may be used to offset its future tax payments.

	Note	€000
Balance at 31 December 2017		5,060
Change in unrealised fair value recognised in profit or loss	4	(146)
Balance at 30 June 2018		**4,914**

The change in fair value reflects revisions to the availability of certain net tax credits based on discussions between Telecable and the Spanish tax authorities, partly offset by the unwinding of the discount rate used to determine the present value of the expected future cash flows.

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 2017.

The fair value of the contingent consideration has been calculated using a probability-weighted discounted cash flow model that calculates the present value of the expected cash flows for 36 different plausible combinations of outcomes. The fair value was determined by calculating a weighted average of those cash flows according to the probability of each scenario occurring. As a result of this analysis, a fair value of €4.9 million (31 December 2017: €5.1 million) was assigned to the contingent consideration. This value recognises the possibility of certain material downside cases that Zegona currently considers to be unlikely to occur (particularly in relation to the merger approval discussed below not being granted) and therefore the eventual amount received could be greater than this fair value.

The significant unobservable inputs used in the base case (which had a present value of €6.8 million (31 December 2017: €7.0 million), being management's assessment of the present value of the most likely outcome) and the impact of each input on the value of the base case at the reporting date, holding the other inputs constant, are shown below:

Availability of recognised tax assets:

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

Input used in the base case model:	***Sensitivity of the base case:***
75% available	Availability scenarios ranged from 74% to 76%, causing the present value of the base case to range from €6.8 million to €6.9 million

Merger approval:

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

Input used in the base case model:	***Sensitivity of the base case:***
Successful	If the merger is unsuccessful, the revised base case present value would be €1.0 million

Usability of available assets:

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

Input used in the base case model:	***Sensitivity of the base case:***
84% usable	Usability scenarios ranged from 48% to 100%, causing the present value of the base case to range from €3.9 million to €8.1 million

Timing of merger approval:

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

Input used in the base case model:	*Sensitivity of the base case:*
6 months	If the timing is increased to 18 months, the revised base case present value would be €6.4 million

8. DIVIDEND PAID

The Company declared a second interim dividend, in lieu of a final dividend for 2017, on 22 March 2018 at a rate of 3.9p per share, totalling €5,622k. The dividend was paid on 24 April 2018.

9. RELATED PARTY TRANSACTIONS

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 period, services totalling €34k were received from Marwyn (2017: €35k). In addition, Mark's Non-Executive Director fees are paid to Marwyn. Marwyn was owed a total amount of €12k at 30 June 2018 (2017: €11k), which was unsecured.

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 period, services totalling €302k were received from Axio (2017: €333k). Axio was owed an amount of €22k at 30 June 2018 (2017: €76k), which was unsecured.

10. POST BALANCE SHEET EVENTS

There have been no material post balance sheet events that would require disclosure or adjustment to these financial statements other than the receipt of a dividend on 5 July 2018 from Euskaltel at a rate of €0.151 per share, totalling €4,047k.