



Unaudited Condensed Consolidated Interim
Financial Statements

For the six months ended 30 June 2019

Investment in Euskaltel

A positive movement in Euskaltel's share price from €6.99 at 31 December 2018 to €8.15 at 30 June 2019 generated a gain on the fair value of Zegona's investment in Euskaltel of €30.0 million for the six months ended 30 June 2019 (2018: €25.9 million). We also received €3.8 million of dividend income from Euskaltel during the period (2018: €3.4 million).

In early 2019 we raised more than £100 million of new equity and entered into flexible financing facilities to fund an increase in our Euskaltel ownership. Following this, we have become the largest shareholder in Euskaltel, increasing our ownership from 15% to over 20% as at 30 June 2019 through market purchases.

Zegona is working constructively with the Euskaltel board of directors to improve the performance of the business. This has resulted in Euskaltel making a number of changes that Zegona believes are advantageous for the business. In particular, José Miguel García (the ex-CEO of Jazztel) was appointed as CEO of Euskaltel by its board with unanimous agreement on 5 June 2019, and his appointment was overwhelmingly endorsed by Euskaltel's shareholders at the Extraordinary Shareholder Meeting on 10 July 2019. At the same shareholder meeting, Zegona's Chief Executive Officer Eamonn O'Hare and Chief Operating Officer Robert Samuelson were also confirmed as proprietary directors on Euskaltel's board.

In his first months as CEO, José Miguel has made a fast start with significant progress in implementing a new plan for the business. Highlights include:

Integrating three operating companies into one business. This is designed to simplify operations and reduce costs. A new organisation structure is already in place, with key hires on board and a streamlined senior executive team. This has created clearer accountability for results and a stronger and more agile leadership. José Miguel is also creating a single technical platform, whilst integrating the sales strategies of the three brands, taking best practice from each and expanding the more efficient on-line/direct channels.

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

Expanding nationally. With its more efficient operating platform, a new highly-experienced management team, and the option of utilising the Virgin brand, the company is well-placed to grow in the 85% of Spanish households where it currently does not compete. Winning a small share of this large and growing market can be transformative for the company's financial performance. Detailed planning has commenced, and discussions initiated with key partners.

Euskaltel's new CEO and strategy have been well received by local and national Spanish media, with significant press coverage.

With José Miguel now running the Euskaltel business and our strengthened position on the board, we are confident that Euskaltel's new direction will drive value for Zegona's shareholders.

Outlook

In addition to supporting Euskaltel's performance improvement through our representation on the Euskaltel board, we continue 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. We are looking forward to discussing some of the opportunities available to Zegona shareholders, both through the investment in Euskaltel and other opportunities, on a conference call to be held at 15:00 BST on 3 October 2019.

Dividend

Zegona has made two dividend payments in 2019, with 2.5 pence per share paid on 1 March and a further 2.5 pence per share on 6 September. In total, 5.0 pence per share or £8.7 million has been paid to shareholders in 2019.

Zegona has been consistent in its commitment to paying dividends, with more than £30 million being paid to shareholders since 2016. We remain committed to our policy of passing 100% of all Euskaltel dividends received to our shareholders.

Risks

The principal risks and uncertainties faced by the Group have not changed significantly since our annual report for the year ended 31 December 2018 (the “**2018 Annual Report**”).

Risk title	Risk rating	Change in risk assessment since the 2018 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	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 2019. A more detailed explanation of risks and uncertainties is set out on pages 7 to 10 of the 2018 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
26 September 2019

ZEGONA COMMUNICATIONS PLC
CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME



		For the six months ended 30 June	
		2019	2018
		Unaudited	
Note		€000	€000
Continuing operations			
Administrative and other operating expenses:			
		(1,898)	(1,829)
		(280)	(61)
		(2,178)	(1,890)
Operating loss			
Finance income	4	33,911	29,270
Finance costs	4	(326)	(146)
Exchange differences		2,321	(488)
		33,728	26,746
Profit for the period before income tax			
Income tax		-	(34)
		33,728	26,712
Profit for the period attributable to equity holders of the parent			
		cents	cents
Earnings per share			
Basic and diluted earnings per share attributable to ordinary equity holders of the parent		16.8	21.2

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	
	2019	2018
	Unaudited	
	€000	€000
Profit for the period	33,728	26,712
Other comprehensive (loss)/income – items that will or may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(2,565)	479
Total comprehensive income for the period, net of tax, attributable to equity holders of the parent	31,163	27,191

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

ZEGONA COMMUNICATIONS PLC
CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION



		As at 30 June 2019	As at 31 December 2018
		Unaudited	Audited
	Note	€000	€000
Assets			
Non-current assets			
Property, plant and equipment		1	2
Intangible assets		-	1
Non-current financial assets	6	303,587	187,332
		303,588	187,335
Current assets			
Trade and other receivables		90	2,128
Other current financial assets	7	4,966	4,826
Cash and cash equivalents		34,579	3,138
		39,635	10,092
Total assets		343,223	197,427
Equity and liabilities			
Equity			
Share capital		2,855	1,763
Other reserves		310,743	205,623
Share-based payment reserve		105	105
Foreign currency translation reserve		(5,941)	(3,376)
Retained earnings		23,672	(10,056)
Total equity attributable to equity holders of the parent		331,434	194,059
Current liabilities			
Trade and other payables		881	3,368
		881	3,368
Non-current liabilities			
Bank borrowings		10,908	-
		10,908	-
Total equity and liabilities		343,223	197,427

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	Available for sale reserve	Retained earnings	Total equity
	Note	€000	€000	€000	€000	€000	€000	€000
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 loss		-	-	-	(2,565)	-	-	(2,565)
Issue of shares, net of directly attributable costs		1,092	108,793	-	-	-	-	109,885
Dividend paid	9	-	(3,673)	-	-	-	-	(3,673)
Balance at 30 June 2019 (unaudited)		2,855	310,743	105	(5,941)	-	23,672	331,434
Balance at 31 December 2017		1,763	215,158	105	(891)	(41,360)	21,390	196,165
Adjustments on initial application of IFRS 9		-	-	-	-	41,360	(41,360)	-
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		-	(5,622)	-	-	-	-	(5,622)
Balance at 30 June 2018 (unaudited)		1,763	209,536	105	(412)	-	6,742	217,734

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

	For the six months ended 30 June	
	2019	2018
	Unaudited	
	€000	€000
Operating activities		
Profit before income tax	33,728	26,746
Adjustments to reconcile profit before income tax to operating cash flows:		
Depreciation of property, plant and equipment	1	1
Net foreign exchange differences	(2,321)	488
Finance income	(33,911)	(29,270)
Finance costs	326	146
Working capital adjustments:		
Decrease in trade and other receivables and prepayments	2,038	99
Decrease in trade and other payables	(2,587)	(2,003)
Interest received	19	4
Interest paid	(140)	-
Net cash flows used in operating activities	(2,847)	(3,789)
Investing activities		
Net proceeds from loans receivable	-	616
Market purchases of shares in Euskaltel	(86,255)	-
Dividends received	3,752	3,404
Net cash flows (used in)/from investing activities	(82,503)	4,020
Financing activities		
Dividend paid to shareholders	(3,673)	(5,622)
Issue of shares, net of directly attributable costs	109,885	-
Loan drawdown, net of borrowing costs	10,824	-
Net cash flows from/(used in) financing activities	117,036	(5,622)
Net increase/(decrease) in cash and cash equivalents	31,686	(5,391)
Net foreign exchange difference	(245)	(9)
Cash and cash equivalents at 1 January	3,138	10,224
Cash and cash equivalents at 30 June	34,579	4,824

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, the “Group” or “Zegona”) for the six months ended 30 June 2019 (the “Interim Financial Statements”) were authorised for issue in accordance with a resolution of the directors on 26 September 2019. 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 2018 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 2018 is based on the statutory accounts for the year ended 31 December 2018, 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 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

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 2018, 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.

Standards issued but not yet effective

The Group 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 the Group.

Standard	Effective date
Amendments to IFRS 3 <i>Business Combinations</i>	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
IFRS 17 <i>Insurance Contracts</i>	1 January 2021

(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 2018.

The Directors have continued to assess their conclusion on the accounting treatment for Zegona's investment in Euskaltel of 37.2 million shares, or approximately 20.85% of its ordinary shares and voting rights, as detailed in note 6.

3. SEGMENT INFORMATION

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)
Exchange differences	2,321	-	2,321
(Loss)/profit for the period	(24)	33,752	33,728

Six months to 30 June 2018	Investment in		Consolidated
	Central costs	Euskaltel	
	€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

4. FINANCE INCOME AND COSTS

		For the 6 months ended 30 June	
	Note	2019 €000	2018 €000
Dividend income		3,752	3,404
Gain on fair value of investment in Euskaltel		30,000	25,862
Gain on fair value of contingent consideration	7	140	-
Interest on loans		-	2
Bank interest		19	2
Finance income		33,911	29,270
Loss on fair value of contingent consideration	7	-	(146)
Costs of bank borrowings		(326)	-
Finance costs		(326)	(146)

Dividend income

The Group received a dividend on 7 February 2019 from Euskaltel at a rate of €0.140 per share, totalling €3.75 million. In the comparative period, the Group received a dividend on 1 February 2018 from Euskaltel at a rate of €0.127 per share, totalling €3.40 million.

Gain on fair value of investment in Euskaltel

The change in fair value incorporates the increase in the Euskaltel share price from €6.99 at 31 December 2018 to €8.15 at 30 June 2019.

5. FINANCIAL INSTRUMENTS

The classification by category of the financial instruments held by the Group at 30 June 2019 is as follows:

	Note	Current €000	Non-current €000
Financial assets measured at amortised cost			
Cash and cash equivalents		34,579	-
		34,579	-
Financial assets measured at fair value through profit or loss			
Investment in Euskaltel (level 1)	6	-	303,587
Contingent consideration (level 3)	7	4,966	-
		4,966	303,587
Total financial assets		39,545	303,587
Financial liabilities measured at amortised cost			
Trade and other payables		881	-
Bank borrowings	8	-	10,908
Total financial liabilities		881	10,908

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 2018 to 30 June 2019. 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 2019	As at 31 December 2018
	€000	€000
Investment in Euskaltel	303,587	187,332
Total	303,587	187,332

Investment in Euskaltel

Euskaltel is listed on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges through the Stock Market Interconnection System (Continuous Market). As part of the purchase agreement for the Euskaltel shares acquired on 26 July 2017, Zegona agreed to standard lock-in provisions in relation to those shares. These provisions fully lapsed on 26 July 2019.

For all periods up to 30 June 2019, Zegona concluded that the ability it had to contribute to Euskaltel's board and committees did not confer the power to participate in Euskaltel's financial and operating policy decisions and therefore the criteria for equity accounting within IAS 28 *Investments in Associates and Joint Ventures* were not met. Zegona had therefore accounted for its investment in Euskaltel as a financial asset measured at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. Zegona will continue to re-evaluate this conclusion in future periods, including assessing the impact of developments in recent months around Zegona's increased investment, board representation and Euskaltel management changes, and may conclude that it is appropriate to apply equity accounting.

Zegona has granted security to Euskaltel by a share pledge over 1,663,158 of its shares in Euskaltel with respect to certain credits generated in favour of Telecable. At 30 June 2019, 3,431,268 shares are unpledged, with the remainder granted as security to Barclays by a share pledge with respect to the loan facility as described in note 8.

7. OTHER CURRENT FINANCIAL ASSETS

The other current financial assets balance of €5.0 million (31 December 2018: €4.8 million) comprises solely the contingent consideration receivable from the sale of Telecable. This compares to a base case model present value of €6.9 million (31 December 2018: €6.7 million) and Zegona's best estimate of the undiscounted cash flow that it will receive of €7.1 million (31 December 2018: €7.1 million). The contingent consideration is payable by Euskaltel in cash up to a maximum amount of €15 million upon confirmation that a range of net tax assets are available to Euskaltel and may be used to offset its future tax payments.

	Note	€000
Balance at 31 December 2018		4,826
Change in unrealised fair value recognised in profit or loss	4	140
Balance at 30 June 2019		4,966

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 2018.

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 €5.0 million (31 December 2018: €4.8 million) was assigned to the contingent consideration. This value recognises the possibility of certain material downside cases that Zegona currently considers to be unlikely to occur (particularly in relation to the merger approval discussed below not being granted) and therefore the eventual amount received could be greater than this fair value.

The significant unobservable inputs used in the base case (which had a present value of €6.9 million (31 December 2018: €6.7 million), being management's assessment of the present value of the most likely outcome) and the impact of each input on the value of the base case at the reporting date, holding the other inputs constant, are shown below:

Merger approval:

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

Input used in the base case model:

Successful

Sensitivity of the base case:

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:

84% usable

Sensitivity of the base case:

Usability scenarios ranged from 48% to 100%, causing the present value of the base case to range from €4.0 million to €8.2 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 €6.5 million

8. BANK BORROWINGS

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

During the period, the Company has drawn down £10 million under the Barclays facility. Interest is payable quarterly in arrears on the drawn amount at a rate of 2.6% per annum above the 3-month LIBOR interest rate. A commitment fee of 0.6% per annum is payable on the undrawn amount of £20 million. The Company has the right to prepay the loan at any time, but if it does so before the first anniversary of the date of the draw down, it must pay a make whole amount calculated at 2.6% per annum multiplied by the prepaid amount for the period between the date of prepayment and that first anniversary.

The Barclays facility matures on 14 January 2021, and any amounts owed will become immediately repayable on the occurrence of certain events of default including a drop in the value of Euskaltel shares to €3.42 or below, a change of control of Euskaltel or Zegona and other customary events of default. The Barclays facility is secured by a charge over some Euskaltel shares as detailed in note 6.

The Company has not drawn down any amounts under the Virgin facility. From the date on which funds are drawn down, interest will accrue daily at an annual interest rate of LIBOR plus 5%, payable quarterly in arrears. The Virgin facility matures on 30 April 2020.

9. DIVIDEND PAID

The Company declared an interim dividend on 31 January 2019 at a rate of 2.5p per share, totalling €3.7 million. The dividend was paid on 1 March 2019. In the comparative period, the Company declared an interim dividend on 22 March 2018 at a rate of 3.9p per share, totalling €5.6 million, which was paid on 24 April 2018.

10. 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 (2018: €34k). In addition, Mark's Non-Executive Director fees are paid to Marwyn. Marwyn was owed a total amount of €12k at 30 June 2019 (2018: €12k), 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 €235k were received from Axio (2018: €302k). Axio was owed an amount of €19k at 30 June 2019 (2018: €22k), which was unsecured.

11. CONTINGENT LIABILITY

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

12. POST BALANCE SHEET EVENTS

Interim dividends

Zegona received a dividend on 9 July 2019 from Euskaltel at a rate of €0.17 per share, totalling €6,332,498. Zegona declared an interim dividend on 2 August 2019 at a rate of 2.5 p per share, totalling £5,548,379, equivalent to €6,083,880 on the date of announcement. The dividend was paid on 6 September 2019.