ZEGONA COMMUNICATIONS PLC

Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2017

Overview

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

Sale of Telecable

On 16 May 2017, we announced an agreement to sell Telecable, the leading quad play cable telecommunications operator in the Asturias region of north west Spain to Euskaltel, S.A. ("**Euskaltel**"), the Spanish telecommunications company in the Basque Country and Galicia. The sale completed on 26 July 2017.

When Zegona acquired Telecable in 2015, we identified the opportunity for substantial value creation through the combination of the three independent Northern Spanish cable telecommunications operators. This transaction turns our vision into reality.

On completion of the transaction, Zegona received cash consideration of €176.7 million[1], with further deferred payments of up to €15 million, and 26.8 million shares in Euskaltel, which represent approximately 15% ownership of the combined group. In addition, Robert Samuelson, Zegona's Chief Operating Officer, has been appointed to the Euskaltel board and its committees, including the newly created Strategy Committee.

The transaction has generated very attractive returns for our shareholders. On completion of the transaction, the implied value of Telecable was €677.9 million[2], comprising an Enterprise Value of €662.9 million and up to €15 million deferred payment. This corresponds to an implied Zegona share price of £1.93 per share[3] and a 37% implied total shareholder return[4] versus the initial investment by Zegona's shareholders.

We also believe the transaction structure provides opportunity for additional shareholder value through the continued ownership of the Euskaltel investment. The combined business creates the leading integrated telecommunications operator in the North of Spain, with enhanced scale and exceptional cash generation. There are also substantial synergies, valued by Euskaltel at €245 million, equivalent to €1.37 per share in the combined business. Zegona will have significant influence in Euskaltel through its Board representation and the Strategy Committee. All of these factors combine to create an opportunity to close the current shareholder value gap since Euskaltel trades at a discount to many of its industry peers.

Return of capital

On the completion of the Telecable sale, we announced our intention to return up to £140 million of capital to shareholders through a tender offer, which was selected as the mechanism to return capital as it is quick and tax efficient. On 30 August 2017, we delivered on this commitment and the circular detailing the tender offer and the required general meeting was published. This return of capital means that, if the 2017 target dividend is paid as expected, total cash returned to Zegona shareholders will total up to £158.6 million, equivalent to 55% of the initial equity invested[5]. This substantial return to shareholders has been possible because of the value generated by Zegona during its period of ownership, reflected in both the increase in the Enterprise Value compared to the original acquisition price of €640 million and the strong cash generation of the business during our ownership.

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[1] This includes initial net debt adjustments and other permitted leakages including a €2.0 million dividend and the transfer of €1.6 million of loans to Zegona and certain transaction related costs borne by Telecable.

[2] At announcement, the equivalent amount was €701 million. The difference primarily represents the change in the market value of the Euskaltel shares received between the date of announcement and completion.

[3] Using the closing price for Euskaltel's shares and closing foreign exchange rates prevailing on 26 July 2017.

[4] Average investment price of £1.46 per Zegona share from initial public offering and subsequent capital raise. Implied value per Zegona share of £2.00, assuming all dividends reinvested.

[5] Total Zegona equity raised £286.6 million. Total cash intended to be returned to shareholders of up to £158.6 million, comprised of up to £140 million from the tender offer, dividends paid in respect of 2016 of £8.8 million, and dividends in respect of 2017 targeted to be paid of £9.8 million.

Returns have also benefitted from the favourable timing of the acquisition, which has allowed shareholders to crystallise part of the value from an appreciation in the Euro during Zegona's period of ownership.

Further returns will be possible as Zegona retains valuable assets following the tender offer, including the rights to the contingent payment, cash on hand and the investment in Euskaltel. Our approximate 15% holding in Euskaltel represents an exposure to underlying operating cash flows which are of a similar magnitude to those of Telecable on a standalone basis.

Under the tender offer, each qualifying holder of Zegona's ordinary shares has the option to sell approximately 36% of their shares at a price of at least £2.00 per share. This share price represented a premium of at least 19% to the market price of Zegona's shares at the announcement of the tender offer. Further details of the tender offer are provided in note 10 to the interim financial statements.

Zegona's shareholders approved the resolution enabling the tender offer at a General Meeting on 22 September 2017 and the tender offer is scheduled to close at 1 p.m. on 5 October 2017 with cash payments to be made shortly thereafter. All shares purchased under the tender offer will be cancelled.

Business performance

During the first half of the year, Telecable performed in line with our expectations, with revenue growth of 2.6% compared to the first half of 2016, leaving it well positioned to provide a solid platform for growth as part of the enlarged Euskaltel business.

Operating profit in Telecable was €4.6 million in the six months to 30 June 2017 compared to €7.0m in the same period in 2016. Operating profit in the first half of 2017 was impacted, as expected, by our continued investment in premium football content and higher mobile access costs from our legacy mobile arrangements. We expect the impact of both of these items will be substantially reduced in the second half as a result of the transition to the new mobile access agreement in July 2017 and active management of the football cost base. Operating profit was also impacted by one-off items, mostly related to the sale of Telecable. These included a benefit to operating profit from ceasing amortisation and depreciation of Intangible Assets and Property, Plant and Equipment from the date Telecable was classified as held for sale as required by IFRS 5. This was offset by a number of one-off costs in the period including an accrual for a new universal service tax backdated to 2014 and a number of administration and personnel costs related to the sale, including the acceleration of certain employee incentive arrangements. The net impact of these one-off items was an increase to operating profit of approximately €1 million. Net cash flows delivered by Telecable were €11.6 million in the six months to 30 June 2017 compared to €6.4 million in the same period in 2016. The increase was mainly driven by working capital benefits generated during 2017.

Dividend

In April, we paid a second interim dividend in lieu of a final dividend in respect of 2016 of 2.25 pence per share. We have also reconfirmed our target to make a total dividend payment of £9.8 million in respect of 2017. This payment is equivalent to 5 pence per share based on the number of shares outstanding prior to the completion of the tender offer.

We anticipate declaring an interim dividend for half of the total amount shortly after the tender offer is completed and intend to adjust the dividend per share such that a total dividend of £9.8 million is paid in respect of 2017. Assuming all shareholders participate in the tender offer at a price of £2 per share, this would result in a full year dividend of 7.8p per share.

Anticipated dividends from Euskaltel will help fund future Zegona dividends. Euskaltel's current dividend is €0.36 per share and Euskaltel has stated that it intends to increase its annual dividend pay-out at a double-digit rate.

Strategy and outlook

We expect to help drive Euskaltel's performance improvement, leveraging our influence at the Euskaltel Board and Strategy Committee and our positive relationship with Euskaltel's largest shareholders.

We also continue to search for new investments and identify opportunities in the European TMT industry where the Zegona management team can again successfully apply the Company's innovative 'Buy-Fix-Sell' strategy.

Risks

Risks prior to the disposal of Telecable. The Directors are of the opinion that the principal risks and uncertainties faced by the Group prior to the disposal of Telecable were the same as in 2016. A more detailed explanation of risks and uncertainties is set out on pages 13 to 15 of the Annual Report for the year ended 31 December 2016.

Risks following the sale of Telecable. Upon the sale of Telecable, the risks faced by Zegona changed fundamentally and will continue to develop as Zegona pursues or completes further acquisitions. Following the disposal of Telecable, the Directors have revised their assessment of the principal risks facing Zegona and have concluded that the principal risks are:

Acquisition of Targets

The success of the Group's acquisition strategy depends on identifying and successfully acquiring suitable target businesses. There is a risk that Zegona will not be able to identify suitable targets at a price that allows for acceptable returns. Zegona may also be unable to obtain any consents or authorisations required to complete an acquisition or procure the necessary financing, be this from equity, debt or a combination of the two. There is also the risk that suitable acquisitions cannot be made before Zegona exhausts its cash and available liquidity. In making acquisitions, there is also a risk of unforeseen liabilities being later discovered which were not uncovered through the due diligence process.

Further, as per the Group's strategy to buy and fix businesses that require active change and fundamental improvement to realise full value, once an acquisition is completed there are risks that the Group will not succeed in driving strategic and operational improvements to achieve the expected post-acquisition trading results or value which were originally anticipated, that the acquired products and technologies may not be successful or that the business may require significantly greater resources and investment than anticipated. If anticipated benefits are not realised or the trading results of acquired businesses fall below expectations, it may be necessary to impair the carrying value of these assets. The Group's return on shareholder investment may fall as a result. The Group's financial performance may also suffer from goodwill or other acquisition related impairment charges, or from the identification of additional liabilities not known at the time of the acquisition.

Zegona has a disciplined approach to valuation and ultimately is only prepared to make acquisitions at the right price and after undertaking a very structured and thorough due diligence process. When evaluating potential acquisitions, we focus on targets that have strong fundamentals, high-quality offerings and leading market positions but which are underperforming their potential and have scope to generate sustainable performance and cash flow improvements. Furthermore, in assessing the amount of cash to return to shareholders, the Directors have ensured that there is sufficient cash on hand, available liquidity and saleable assets to enable the business to continue to operate for the foreseeable future.

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

Key Management

On a day-to-day basis, the Group is led by the Executive Directors, the CFO and two Investment Directors. The absence of key management could result in the failure of the Group to achieve its objectives. The Group aims to retain its key staff by offering remuneration packages at market rates, and through the long term incentivisation provided through the key staff's holdings of management shares.

Risks Relating to the Investment in Euskaltel

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

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

Foreign Currency Risk

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

Based on the anticipated cashflows of the Group and the Board's ability to reduce or delay any return to shareholders should it be necessary, the Board believes that this risk would not have a material effect on the Group in the ordinary course of business. However, fluctuations in the GBP/EUR rate could have far more significant impact on the GBP value of the investment in Euskaltel, meaning that the GBP value of the proceeds from any future sale of Euskaltel shares that Zegona may distribute to shareholders may be reduced.

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

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

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Other than a small overdraft facility, which is currently undrawn, Zegona currently has no exposure to interest rate risk. It is however highly likely that a material portion of any future acquisition would be funded by a debt facility. Any significant increase in relevant global interest rates could result in the funding for future acquisitions becoming more expensive, or returns becoming less attractive.

Zegona has a disciplined financial approach and is ultimately only prepared to make acquisitions at the right price and using an appropriate capital structure after considering the risk-adjusted returns. In the event funds are raised, Zegona also has the ability to hedge any exposures.

Brexit

Euskaltel operates entirely in Northern Spain and, therefore, it is not expected that the value of the investment will be materially impacted by any market impacts directly due to the United Kingdom's referendum decision to leave the European Union. Uncertainty is however likely to continue until the UK's future relationship with the EU becomes clearer and this could have an impact on the number or attractiveness of acquisition opportunities available to Zegona, although no such impact has been apparent so far. Given the complex negotiations involved, a clearer picture is not expected to emerge for some time and, with Article 50 only having been invoked in March 2017 and exit negotiations in their early stages, it is too early to determine what the likely effects on Zegona might be.

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
28 September 2017

	For the six months ended 30 June 2017	2016 Restated[6]
	Unaudited	
	€000	€000
Continuing operations		
Administrative and other operating expenses	(2,293)	(1,954)
Significant project costs	(3,785)	(2,688)
Operating loss	**(6,078)**	**(4,642)**
Finance income	24	23
Gain on FX forwards measured at fair value through profit or loss	21	-
Exchange differences	35	26
Loss for the period before income tax	**(5,998)**	**(4,593)**
Income tax	(18)	(30)
Loss for the period from continuing operations	**(6,016)**	**(4,623)**
Discontinued operation		
Profit for the period from discontinued operation	888	2,236
Loss for the period attributable to equity holders of the parent	**(5,128)**	**(2,387)**
Earnings per share – total operations		
Basic and diluted loss per share attributable to ordinary equity holders of the parent (€0.01)	-2.6	-1.2
Earnings per share – continuing operations		
Basic and diluted loss per share attributable to ordinary equity holders of the parent (€0.01)	-3.1	-2.4

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

[6] Restated to include the results of the Telecable disposal group within discontinued operation (note 4).

	For the six months ended 30 June 2017	2016
	Unaudited	
	€000	€000
Loss for the period	**(5,128)**	**(2,387)**
Other comprehensive income		
Exchange differences on translation of foreign operations	(52)	(438)
Total comprehensive loss for the period, net of tax, attributable to equity holders of the parent	**(5,180)**	**(2,825)**

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

ZEGONA COMMUNICATIONS PLC

	Note	As at 30 June 2017 Unaudited €000	As at 31 December 2016 Audited €000
Assets			
Non-current assets			
Property, plant and equipment		4	122,227
Intangible assets		1	559,779
Non-current financial assets	5	1,620	1,927
		1,625	**683,933**
Current assets			
Inventories		-	626
Trade and other receivables	6	95	17,831
Cash and cash equivalents		1,050	22,435
Assets held for sale	4	717,103	-
		718,248	**40,892**
Total assets		**719,873**	**724,825**
Equity and liabilities			
Equity			
Share capital		2,738	2,738
Other reserves		376,086	381,155
Share-based payment reserve		84	60
Foreign currency translation reserve		(1,140)	(1,088)
Accumulated losses		(25,508)	(20,380)
Total equity attributable to equity holders of the parent		**352,260**	**362,485**
Current liabilities			
Trade and other payables	7	2,458	31,317
Current financial liabilities		-	13,104
Deferred revenue		-	701
Liabilities directly associated with the assets held for sale	4	365,155	-
		367,613	**45,122**
Non-current liabilities			
Non-current financial liabilities		-	267,045
Deferred revenue		-	2,667
Deferred tax liabilities		-	47,506
		-	**317,218**
Total liabilities		**367,613**	**362,340**
Total equity and liabilities		**719,873**	**724,825**

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

	Share capital	Share premium	Other reserves	Share-based payment reserve	Foreign currency translation reserve	Accumulated losses	Total equity
	€000	€000	€000	€000	€000	€000	€000
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**
At 1 January 2016	2,738	386,045	-	25	(263)	(14,892)	373,653
Loss for the period	-	-	-	-	-	(2,387)	(2,387)
Other comprehensive expense	-	-	-	-	(438)	-	(438)
Share-based payments	-	-	-	12	-	-	12
Cancellation of share premium account	-	(386,045)	386,045	-	-	-	-
Balance at 30 June 2016 (unaudited)	2,738	-	386,045	37	(701)	(17,279)	370,840

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

	For the six months ended 30 June	
	2017	2016
	Unaudited	
	€000	€000
Operating activities		
Loss before income tax	(8,958)	(4,537)
Reconciliation of loss before income tax to operating cash flows:		
Depreciation and impairment of property, plant and equipment	8,257	11,781
Amortisation of intangible assets	10,684	12,913
Impairment loss on trade receivables	-	944
Share-based payment expense	24	12
Changes in fair value of financial instruments	21	-
Net foreign exchange differences	(26)	(61)
Losses on derecognition or disposal of non-current assets	1,813	1,424
Finance income	(34)	(31)
Finance costs	7,554	7,023
Decrease/(increase) in trade and other receivables and prepayments	636	(1,017)
Decrease/(increase) in inventories	177	(491)
Increase/(decrease) in trade and other payables	7,802	(3,269)
Increase in other current financial liabilities	748	-
Decrease in deferred revenues	(242)	(110)
Interest received	-	20
Interest paid	(6,636)	(7,436)
Income tax (paid)/received	(123)	31
Net cash flows from operating activities	**21,697**	**17,196**
Investing activities		
Purchase of property, plant and equipment	(8,080)	(8,900)
Purchase of intangible assets	(5,444)	(4,037)
Net cash flows used in investing activities	**(13,524)**	**(12,937)**
Financing activities		
Dividend paid	(5,069)	-
Net proceeds from loans and borrowings	(605)	(37)
Cost of settlement of derivatives	(21)	-
Net cash flows used in financing activities	**(5,695)**	**(37)**
Net increase in cash and cash equivalents[7]	2,478	4,222
Net foreign exchange difference	(25)	(230)
Cash and cash equivalents at 1 January	22,435	14,264
Transferred to assets held for sale (note 4)	(23,838)	-
Cash and cash equivalents at 30 June	**1,050**	**18,256**

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

[7] Includes all cash flows, including both continuing and discontinued operations. Amounts related to discontinued operations are disclosed in note 4.

1. GENERAL INFORMATION

The 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 2017 (the "**Interim Financial Statements**") were authorised for issue in accordance with a resolution of the directors on 28 September 2017. The Company is incorporated in England and Wales and domiciled in the United Kingdom as a public limited company with company number 09395163 and has its registered office at 20 Buckingham Street, London, WC2N 6EF.

2. BASIS OF PREPARATION

(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 2016 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 2016 is based on the statutory accounts for the year ended 31 December 2016, which were delivered to the Registrar of Companies and on which the auditors' report was unqualified and did not contain a statement under section 498(2) or 498(3) of the Companies Act.

As further disclosed in note 4, the Group agreed on 15 May 2017 to sell Telecable, its Spanish Cable business. The sale completed on 26 July 2017, as detailed in note 10. As a result, the assets and liabilities of Telecable have been classified as held for sale within the Consolidated Statement of Financial Position and its results are reported as a discontinued operation within the Consolidated Statement of Comprehensive Income, including a restatement of the results for the six months ended 30 June 2016.

(b) Going concern

These Interim Financial Statements have been prepared on a 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 2016, 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 following standards are issued but not yet effective. The Group intends to adopt these standards, if applicable, when they become effective. The Group does not have any updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Group's consolidated financial statements, other than noting that IFRS 15 *Revenue from Contracts with Customers* will now not have the direct impact on the Group's results from 1 January 2018 as anticipated in the Annual Report for the year ended 31 December 2016.

Standard	Effective date (period commencing)
IFRS 14 *Regulatory deferral accounts*	1 January 2016*
Amendments to IAS 12: *Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017**
Amendments to IAS 7: *Disclosure Initiative*	1 January 2017**
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
IFRS 9 *Financial Instruments*	1 January 2018
Amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions*	1 January 2018***
Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*	1 January 2018***
Amendments to IAS 40: *Transfers of Investment Property*	1 January 2018***
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018***
IFRS 16 *Leases*	1 January 2019***
IFRIC 23 *Uncertainty over Income Tax Treatments*	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
** EU endorsement expected in Q4 2017
*** 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 2016.

3. SEGMENT INFORMATION

Six months to 30 June 2017	Central costs (continuing)	Telecable group (discontinued)	Consolidated
	€ 000	€ 000	€ 000
External customers revenue	-	72,301	72,301
Other income	-	295	295
Expenses	(6,078)	(68,003)	(74,081)
Operating (loss)/profit	**(6,078)**	**4,593**	**(1,485)**
External net finance costs	80	(7,553)	(7,473)
Inter-segment net finance costs	6,503	(6,503)	-
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)**

Six months to 30 June 2016	Central costs (continuing)	Telecable group (discontinued)	Consolidated
	€ 000	€ 000	€ 000
External customers revenue	-	70,479	70,479
Other income	-	281	281
Expenses	(4,642)	(63,725)	(68,367)
Operating (loss)/profit	**(4,642)**	**7,035**	**2,393**
External net finance costs	49	(6,979)	(6,930)
Inter-segment net finance costs	6,544	(6,544)	-
Profit/(loss) before tax	**1,951**	**(6,488)**	**(4,537)**
Income tax	(30)	2,180	2,150
Profit/(loss) for the period	**1,921**	**(4,308)**	**(2,387)**

4. DISCONTINUED OPERATION

On 15 May 2017, the Group signed an agreement to sell Telecable, its Spanish cable business, to Euskaltel S.A. ("**Euskaltel**"). The sale was conditional, amongst other things, upon receipt of merger clearance from the Council of the National Markets and Competition Commission in Spain and the approval of the transaction and certain other resolutions by Euskaltel's shareholders at a general shareholders' meeting. The sale completed on 26 July 2017, as detailed in note 10.

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

On 15 May 2017, impairment assessments were conducted on the property, plant and equipment and intangible assets held by Telecable, with no indicators of impairment identified. In accordance with IFRS 5, no depreciation or amortisation has been expensed in relation to these non-current assets from 15 May 2017 within these Interim Financial Statements.

Results of discontinued operation	For the six months ended 30 June 2017	2016
	€000	€000
Revenue	72,301	70,479
Other income	295	281
Expenses	(68,003)	(63,725)
Operating profit	**4,593**	**7,035**
Net finance costs	(7,553)	(6,979)
(Loss)/profit before tax	**(2,960)**	**56**
Income tax	3,848	2,180
Profit for the period from discontinued operation	**888**	**2,236**
Basic and diluted earnings per share (€0.01)	0.5	1.1

Cash flows from/(used in) discontinued operation

	For the six months ended 30 June 2017	2016
	€000	€000
Net cash from operating activities	25,700	19,421
Net cash used in investing activities	(13,523)	(12,935)
Net cash used in financing activities	(605)	(37)
Net cash flows for the period	**11,572**	**6,449**

In addition, the Telecable businesses have been presented as a disposal group because the various subsidiaries form a group of assets to be disposed of together as a group in a single transaction, being the sale of Telecable. As at 30 June 2017, the disposal group comprised assets of €717.1 million less liabilities of €365.2 million, detailed as follows:

Assets	**€000**
Intangible assets	554,261
Property, plant and equipment	120,510
Non-current financial assets	945
Inventories	449
Trade and other receivables	17,100
Cash and cash equivalents	23,838
	717,103

Liabilities	**€000**
Non-current financial liabilities	267,963
Non-current deferred revenue	2,590
Deferred tax liabilities	43,553
Trade and other payables	36,662
Current financial liabilities	13,852
Current deferred revenue	535
	365,155

An impairment assessment of the disposal group was conducted on 15 May 2017 and 30 June 2017, with no indicators of impairment identified.

5. NON-CURRENT FINANCIAL ASSETS

	As at 30 June 2017	As at 31 December 2016
	€000	€000
Telecable Management Loans (see note 9)	1,620	1,596
Other loans	-	284
Guarantees	-	45
Investments	-	2
Total	**1,620**	**1,927**

Total non-current financial assets with a carrying amount of €945k as at 30 June 2017 have been transferred to assets held for sale (see note 4).

6. TRADE AND OTHER RECEIVABLES

	As at 30 June 2017 €000	As at 31 December 2016 €000
Trade receivables	-	6,817
Other receivables	2	439
Prepaid content rights	-	9,946
Other prepayments	59	138
VAT recoverable	34	413
Other receivables with tax authorities	-	25
Other current financial assets	-	53
Total	**95**	**17,831**

There are no material differences between the book value and the fair value of trade and other receivables.

Total trade and other receivables with a carrying amount of €17,100k as at 30 June 2017 have been transferred to assets held for sale (see note 4).

7. TRADE AND OTHER PAYABLES

	As at 30 June 2017 €000	As at 31 December 2016 €000
Trade payables	369	16,841
Other payables	35	10,781
Accruals	1,962	960
Income taxes	91	81
Other tax balances	1	2,654
	2,458	**31,317**

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

Included within accruals are professional fees totalling €1,582k in relation to the sale of Telecable.

Trade and other payables with a carrying amount of €36,662k as at 30 June 2017 were transferred to liabilities directly associated with the assets held for sale (see note 4).

8. FINANCIAL INSTRUMENTS

Financial instrument categories

The classification by category of the financial instruments held by the Group at 30 June 2017 is as follows:

	Current € 000	Non current € 000
Loan and receivables		
Loans	-	1,620
Trade and other receivables	2	-
Cash and cash equivalents	1,050	-
Financial assets	**1,052**	**1,620**
Other financial liabilities		
Trade and other payables	2,458	-
Financial liabilities	**2,458**	**-**

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

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 €35k were received from Marwyn (2016: €39k). Marwyn was owed an amount of €11k at 30 June 2017 (2016: €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 €333k were received from Axio (2016: €295k). Axio was owed an amount of €76k at 31 June 2017 (2016: €117k), which was unsecured.

As at 30 June 2017, €1,620k was owed by certain members of the Telecable management team (2016: €1,596k) (the "**Telecable Management Loans**"). These loans mature in 2030, bear interest at 5% per annum, and are secured against the managers' holdings of 2,978,704 shares in the Company. These loans were transferred to Zegona Limited, a subsidiary of the Company, as at the completion of the sale of Telecable.

10. SUBSEQUENT EVENTS

Sale of Telecable

Further to the announcement by the Company on 16 May 2017 of the sale of Telecable, its Spanish cable business, to Euskaltel, on 3 July 2017 Euskaltel informed the Group that the Council of the National Markets and Competition Commission in Spain had approved the acquisition by Euskaltel of exclusive control over Telecable.

On 26 July 2017, the sale of Telecable to Euskaltel was completed and the Company also announced its intention to return £140 million to shareholders via a tender offer.

The consideration for the sale of Telecable was:

(a) Cash of up to €186.5 million. A payment of €176.7 million was made on completion which reflects initial net debt adjustments, other permitted leakages including a €2.0 million dividend paid to Zegona and transfer of €1.6 million of loans to Zegona and certain transactional costs;
(b) 26.8 million shares in Euskaltel, representing approximately 15% of the ordinary share capital of Euskaltel. These shares were valued at €228.1 million on completion of the sale and were valued at €204.5 million as at the date of this report; and
(c) Up to €15 million of contingent cash consideration, payable by Euskaltel to the Group upon certain tax credits arising and being proven to be useable (the "**Tax Credits**").

In addition to the monetary consideration, Zegona is entitled to appoint one representative to Euskaltel's Board of Directors, its newly-created Strategy Committee, its Audit and Control Committee and its Appointments and Remuneration Committee. Accordingly, Robert Samuelson, Zegona's Chief Operating Officer, was appointed on 26 July 2017. Zegona also nominated Jon James, the former Chief Operating Officer of Com Hem to serve as an independent director of Euskaltel and he was also appointed on 26 July 2017.

The sale and purchase and share exchange agreement (the "**SPA**") contains covenants which restrict Zegona's potential to operate in Spain currently and for a period of twelve months from the date on which Zegona's holding in Euskaltel represents less than 8.3% of Euskaltel's issued ordinary share capital. Zegona has also agreed it will not acquire more than 16.5% of the voting rights in Euskaltel during the twelve months from the date of completion of the transaction, unless such acquisition is from a shareholder holding more than 10% of the issued shares in Euskaltel.

Zegona has also agreed to standard lock-in provisions in respect of those Euskaltel shares issued to it as consideration under the SPA. Notwithstanding such lock-in arrangements, the Company is permitted, on 15 business days' notice to Euskaltel, to distribute Euskaltel shares *in specie* pro-rata to its own shareholders at any time.

Zegona and Euskaltel have entered into a tax indemnity agreement dated 15 May 2017 (the "**Tax Indemnity Agreement**"), pursuant to which Zegona has agreed to indemnify Euskaltel in respect of any losses arising from the Spanish tax authorities declaring the following void or unusable, whether in whole or in part:

(a) the tax benefits of the tax neutrality regime applied to the merger of Telecable de Asturias, S.A. with Sociedad Promotora de las Telecomunicaciones en Asturias, S.A., executed during the 2012 fiscal year (the "**Merger Contingency**"); and/or
(b) the tax credit 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 (the "**Financial Expenses Contingency**").

Zegona's liabilities under the Tax Indemnity Agreement are capped in respect of both the Merger Contingency (which has been fully insured by Zegona) and in respect of the Financial Expenses Contingency. Zegona has granted security to Euskaltel for the Financial Expenses Contingency by a share pledge over 1,663,158 of its shares in Euskaltel.

Zegona Limited has been assigned certain liabilities under Telecable's management incentive plan (the "**Telecable MIP**") that may remain after the payment by Telecable of certain amounts in relation to the Telecable MIP prior to the completion of the transaction. Zegona has granted security to Euskaltel by a share pledge over 526,316 of its shares in Euskaltel to provide coverage for any losses suffered or incurred by Euskaltel resulting from or based on the Telecable MIP and/or the Telecable Management Loans.

As mentioned above, following the completion of the sale of Telecable, Zegona holds 26.8 million shares in Euskaltel, which represent approximately 15% of the ordinary share capital of Euskaltel. IAS 28 *Investments in Associates and Joint Ventures* ("**IAS 28**") requires that entities should apply the equity method of accounting for investments where they have significant influence in the investee. IAS 28 also includes a presumption that significant influence does not exist if an investor's holding in an investee is less than 20%, unless an ability to exercise significant influence can be clearly demonstrated.

Zegona has undertaken a detailed evaluation of all relevant factors pertaining to its relationship with Euskaltel and concluded that there are multiple mechanisms that collectively and individually give Zegona the ability to exercise significant influence and participate in the significant operating and financial decisions of Euskaltel. These mechanisms include the establishment of a Strategy Committee by Euskaltel at Zegona's request, the appointment of Robert Samuelson to Euskaltel's Board of Directors and its committees (including the Strategy Committee) and its positive relationship with Kutxabank, Euskaltel's largest shareholder.

Zegona considers that, collectively, these factors are sufficient to demonstrate its ability to exercise significant influence in Euskaltel, and therefore the presumption that significant influence does not exist in holdings less than 20% is overcome. Zegona will therefore account for its investment in Euskaltel using the equity method in future periods, unless there are changes to the facts and circumstances that suggest Zegona is no longer able to exercise significant influence.

Tender Offer

On 30 August 2017, Zegona announced the launch of a tender offer, pursuant to which up to £140 million will be returned to shareholders by way of a tender offer at a price of at least £2 per Share (the "**Tender Offer**"). Under the Tender Offer, each qualifying shareholder will be entitled to sell approximately 36% of their shares for a minimum of £2 per share, meaning that a maximum of 70 million shares may be repurchased. All shares repurchased under the Tender Offer will be cancelled. Qualifying shareholders can choose whether they want to sell shares under the Tender Offer or not. Qualifying shareholders are not obliged to sell any of their shares if they do not wish to do so, but if they do wish to participate, they may sell only the full amount of their Tender Offer entitlement.

All shares purchased under the tender offer will be purchased at a price of at least £2 per share. This price may be adjusted upwards as described below, but if this is the case, the number of shares that may be tendered will also be reduced (as also discussed below). The result will be that, irrespective of the final price, for each share owned before tendering, each participating shareholder will receive approximately 71p in cash.

The tender price is a minimum of £2 per share but will be adjusted upwards if the value of Euskaltel's shares is higher at the closing date than it was on 30 August 2017. The tender price will be increased if the value of a Euskaltel Share, denominated in pounds sterling, on the closing date of the Tender Offer is greater than £7.99, which was the equivalent value on 30 August 2017. Under the adjustment mechanism, the tender price will be increased by 14p for every £1 increase in the value of a Euskaltel share, up to a maximum of £4. There is no reduction to the price if the value of Euskaltel shares falls. If the final tender price is above £2 per share, then each shareholders' tender offer entitlement will be reduced ('scaled back'), however the result will always be that each participating shareholder will receive the same amount of cash as they would have received had the tender price been £2 per Share. At the close of trading on 28 September 2017, the value of a Euskaltel share, denominated in pounds sterling was £6.69 which would mean a tender price of £2 if the Tender Offer were to close at the date of this report.

The Tender Offer was conditional upon shareholders passing a special resolution to approve the requisite repurchase of shares. A General Meeting was held on 22 September 2017 which approved the Tender Offer and also passed a special resolution to amend the Company's articles of association to give the Board of Directors the power to make distributions *in specie* of Euskaltel shares.

The results of the Tender Offer are scheduled to be announced on 6 October 2017, with payment for the shares expected to be made by 16 October 2017.