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ZEGONA COMMUNICATIONS PLC ("Zegona")

LEI: 213800ASI1VZL2ED4S65

8 SEPTEMBER 2022

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2022

Zegona announces its interim results for the six months ended 30 June 2022.

Enquiries

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About Zegona

Zegona was established in 2015 with the objective of investing in businesses in the European Telecommunications, Media and Technology sector and improving their performance to deliver attractive shareholder returns. Zegona is led by former Virgin Media executives Eamonn O’Hare and Robert Samuelson.

ZEGONA COMMUNICATIONS PLC

Unaudited Condensed Consolidated Interim Financial Statements For the six months ended 30 June 2022

MANAGEMENT REPORT

Identifying the right acquisition target within European TMT to deliver attractive returns to shareholders

Following the successful disposal of our investment in Euskaltel and return of £335 million of capital to shareholders in 2021, we have spent the first six months of 2022 continuing to actively pursue our next investment opportunity. We are seeking a business within the European TMT industry where we can again successfully apply our Buy-Fix-Sell strategy. We have reviewed a number of interesting opportunities and have entered into discussions on those where we believe there is both a market opportunity and Zegona's skills and capabilities can add significant value. We have retained sufficient capital to give ourselves time to find the right target that can again deliver attractive returns to shareholders and therefore we will be very selective in the opportunities which we pursue.

The broader European TMT landscape remains large and fragmented, with well over 100 operators, of which over half fit our desired investment size. We continue to see a very healthy environment for acquisitions across the industry, which has continued to see significant deal activity despite the war in Ukraine and the economic challenges it has created. This healthy acquisition environment continues to be driven by a number of core themes that we believe present Zegona with attractive investment opportunities. These include; further fixed/mobile convergence, a continuing need for in-market consolidation, increasing customer focus on service value, and large multi-national operators divesting non strategic assets.

During the first six months of 2022, we have reviewed multiple opportunities and have participated in a number of transaction processes. These have been in markets which we know well and where we are confident we can apply our expertise and experience to again deliver superior returns for our shareholders. We remain patient and disciplined and will not pursue a transaction unless we are confident that it meets our strict financial criteria. We are currently working on a shortlist of attractive opportunities and hope to be able to update our shareholders on the progress we are making in due course.

Zegona' s performance

Zegona made a loss for the period from continuing operations of €1.9 million, compared to a loss of €23.8 million in the same period in 2021 which included incentive costs associated with the disposal of our investment in Euskaltel. The €1.9 million loss during the first half of 2022 is related to the corporate operating costs of Zegona. Corporate costs principally represent the salary and benefit costs of Zegona's employees and other professional fees, are lower than the equivalent costs in 2021, and are in line with expectations for the six months ended June 30, 2022. Zegona has continued to finance itself from its cash reserves and had £6.1 million as of 7 September, 2022. Zegona is comfortable that this will be sufficient to finance its operations for at least 12 months from the date of this report. As discussed in note 6 to the interim financial statements, Zegona has maintained its €5.1 million income tax receivable in respect of the European Commission's decision that UK Controlled Foreign Company legislation constituted illegal state aid.

Risks

The principal and emerging risks and uncertainties faced by Zegona have not changed significantly since our annual report for the year ended 31 December 2021 (the "2021 Annual Report").

Risk title	Risk rating	Change in risk assessment since the 2021 Annual Report	
Ability to identify and complete new acquisitions	Moderate	↔	No change
Ability to create value in acquired businesses	Moderate	↔	No change
Key management	Low	↔	No change
Brexit	Low	↔	No change
Foreign exchange	Moderate	↔	No change

These risks have the potential to affect Zegona's results and financial position during the remainder of 2022. A more detailed explanation of risks and uncertainties is set out on pages 7 to 9 of the 2021 Annual 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* as adopted for use in the UK; and

- the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

- DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

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
7 September 2022

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the six months ended 30 June Unaudited 2022 €000	 Unaudited 2021 €000
Continuing operations			
Administrative and other operating expenses:			
Corporate costs		(1,834)	(2,102)
Incentive scheme costs	10	(34)	(21,063)
Significant project costs		(26)	(103)
Operating loss		**(1,894)**	**(23,268)**
Finance income	4	-	136
Finance costs	4	-	(278)
Net foreign exchange (loss)/gain		-	(366)
Loss for the period before income tax		**(1,894)**	**(23,776)**
Income tax expense		**-**	-
Loss for the period from continuing operations		**(1,894)**	**(23,776)**
Discontinued operation			
Profit for the period from discontinued operation	7	-	**3,387**
Loss for the period attributable to equity holders of the parent		**(1,894)**	**(20,389)**
		€	**€**
Earnings per share – total operations			
Basic and diluted earnings per share attributable to ordinary equity holders of the parent		(0.36)	(0.09)
Earnings per share – continuing operations			
Basic and diluted earnings per share attributable to ordinary equiy holders of the parent		(0.36)	(0.11)
Earnings per share – discontinued operations			
Basic and diluted earnings per share attributable to ordinary equity holders of the parent		-	(0.02)

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	
		Unaudited	**Unaudited**
		2022	**2021**
	Note	**€000**	**€000**
Loss for the period		**(1,894)**	**(20,389)**
Other comprehensive profit/(loss) – items that will or may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	11	(313)	79
Exchange differences arising from discontinued operations		-	14,998
Total comprehensive loss for the period, net of tax, attributable to equity holders of the parent		**(2,207)**	**(5,312)**

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited As at 30 June 2022 €000	Audited As at 31 December 2021 €000
Assets			
Non-current assets			
Property, plant and equipment		23	30
Income tax receivable	6	5,107	5,234
		5,130	**5,264**
Current assets			
Prepayments and other receivables		294	197
Cash and cash equivalents		8,169	10,556
		8,463	**10,753**
Total assets		**13,593**	**16,017**
Equity and liabilities			
Equity			
Share capital	11	301	301
Capital redemption reserve	11	2,565	2,565
Share premium reserve	11	1,616	1,616
Other reserve	11	-	-
Shares to be issued	11	1,443	1,443
Share-based payment reserve	11	65	31
Foreign currency translation reserve	11	(6,597)	(6,284)
Retained earnings	11	12,888	14,782
Total equity attributable to equity holders of the Parent		**12,281**	**14,454**
Current liabilities			
Accruals and other payables	9	794	1,457
Bank borrowings	8	518	106
Total liabilities		**1,312**	**1,563**
Total equity and liabilities		**13,593**	**16,017**

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 €000	Share-based payment reserve €000	Foreign currency translation reserve €000	Retained earnings €000	Capital redemption reserve €000	Share premium reserve €000	Other reserve €000	Shares to be issued €000	Total equity €000
Balance at 1 January 2022		**301**	**31**	**(6,284)**	**14,782**	**2,565**	**1,616**	**-**	**1,443**	**14,454**
Profit for the year		-	-	-	(1,894)	-	-	-	-	**(1,894)**
Other comprehensive income		-	-	(313)	-	-	-	-	-	**(313)**
Share-based payment expense	10	-	34	-	-	-	-	-	-	**34**
Balance at 30 June 2022		**301**	**65**	**(6,597)**	**12,888**	**2,565**	**1,616**	**-**	**1,443**	**12,281**

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

	Note	Share capital €000	Share-based payment reserve €000	Foreign currency translation reserve €000	Retained earnings €000	Capital redemption reserve €000	Share premium reserve €000	Other reserve €000	Total equity €000
Balance at 1 January 2021		**2,821**	**799**	**(6,884)**	**46,072**	**34**	**108,793**	**180,816**	**332,451**
Loss for the period		-	-	-	(20,389)	-	-	-	**(20,389)**
Other comprehensive income		-	-	15,077	-	-	-	-	**15,077**
Share-based payment expense	11		763	-	-	-	-	-	**763**
Reclassification of incentive arrangements	11	-	(1,562)	-	-	-	-	-	**(1,562)**
Dividend paid	11	-	-	-	-	-	-	(5,492)	**(5,492)**
Balance at 30 June 2021		**2,821**	**-**	**8,193**	**25,683**	**34**	**108,793**	**175,324**	**320,848**

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	
	Unaudited	**Unaudited**
	2022	**2021**
	€000	**€000**
Operating activities		
(Loss) before income tax	(1,894)	(23,776)
Adjustments to reconcile profit before income tax from continuing operations to operating cash flows:		
Depreciation of property, plant and equipment	7	7
Share based payment expense	34	21,063
Net foreign exchange gains/(losses)	-	366
Finance income	-	(136)
Finance costs	-	278
Working capital adjustments:		
(Increase) in trade and other receivables	(97)	(5,128)
Decrease in income tax receivable	127	-
(Decrease) in trade and other payables	(663)	(241)
Interest received	-	-
Interest paid	-	(157)
Net cash flows used in operating activities	**(2,486)**	**(7,724)**
Investing activities		
Purchase of property, plant and equipment	-	(33)
Net cash flows (used in) investing activities	**-**	**(33)**
Net cash flows from discontinued investing activities	**-**	**9,948**
Financing activities		
Dividend paid to shareholders	-	(5,492)
Net proceeds from bank borrowing	412	-
Net cash flows (used in) financing activities	**412**	**(5,492)**
Net (decrease) in cash and cash equivalents	(2,074)	(3,301)
Net foreign exchange differences	(313)	367
Cash and cash equivalents at 1 January	10,556	15,244
Cash and cash equivalents at 30 June	**8,169**	**12,310**

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, "**Zegona**") for the six months ended 30 June 2022 (the "**Interim Financial Statements**") were authorised for issue in accordance with a resolution of the Directors on 7 September 2022. The Company is incorporated and domiciled in England and has its registered office at 8 Sackville St, Mayfair, London W1S 3DG.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

This condensed set of financial statements (the "**Interim Financial Statements**") has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK. The annual financial statements of the group are prepared in accordance with UK-adopted international accounting standards. As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 December 2021. The Interim Financial Statements do not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006 (the "**Companies Act**").

The Interim Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with Zegona's annual financial statements as at 31 December 2021 which are available on the Company's website, www.zegona.com. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in Zegona's financial position and performance since the last annual financial statements.

The comparative figures for the financial year ended 31 December 2021 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act. Certain comparative balances for the six months ended 30 June 2021 have been reclassified to within discontinued operations to be consistent with the classification applied in the annual financial statements with no impact on loss for the period attributable to equity holders of the parent.

(b) Going concern

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

Zegona's Directors have assessed the going concern assumptions during the approval of the Interim Financial Statements. There are no events or conditions that give rise to doubt the ability of Zegona to continue as a going concern for a period of at least twelve months after the approval of the Interim Financial Statements. The assessment includes the review of Zegona cashflow forecast and budget, which included considerations on expected developments in liquidity, debt and capital. The Directors have also considered sensitivities in respect of potential severe but plausible downside scenarios in concluding that Zegona is able to continue in operation for a period of at least twelve months from the date of approving the Interim Financial Statements.

Following the sale of the investment in Euskaltel and the Return of Capital in 2021, Zegona meets its day to day working capital requirements from cash balances. Zegona is continuing to execute its Buy-Fix-Sell strategy which currently involves actively searching for another attractive investment opportunity within the European TMT sector. During this period, Zegona's ongoing costs are reasonably predictable, and the Directors have considered the forecast cash inflows and outflows over the next two years and are comfortable that Zegona's cash holdings of £6.1 million (€7.1 million) at 7 September 2022 is sufficient to fund these costs for at least twelve months after the approval of these Interim Financial Statements.

In performing their assessment, the Directors also noted that based on their forecasts of cash inflows and outflows, Zegona could absorb quite significant unexpected costs in connection with an unsuccessful deal. However, it is possible that a significant aborted transaction during the 12 month assessment period could reduce Zegona's cash balance below the level necessary to fund its on-going costs for the remainder of the assessment period. Zegona has not presently committed to any material costs to undertake any deal and expects to be able to control costs incurred during a deal process in order to manage any costs on aborted deals.

In conclusion, based on their review, the Directors are confident that the Company and Zegona group will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements. Accordingly, the Directors continue to adopt the going concern basis in preparing the Consolidated and Parent Financial Statements.

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

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those followed in the preparation of Zegona's annual consolidated financial statements for the year ended 31 December 2021, which were prepared in accordance with UK-adopted international accounting standards and with those parts of the Companies Act as applicable to companies reporting under international accounting standards. Zegona has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Standards, amendments and interpretations effective and adopted by Zegona:

The accounting policies adopted in the presentation of the Interim Financial Statements reflect the adoption of the following amendments for annual periods beginning on or after 1 January 2022, none of which had a material effect on Zegona.

Standard	**Effective date**
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Amendments to IFRS3: Reference to the conceptual framework	1 January 2022
Annual improvements to IFRS Standards 2018-2020	1 January 2022

(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 2021. The main judgements and estimates used by the Directors in applying the accounting policies of Zegona that had the greatest impact on the Interim Financial Statements are as follows:

- The recoverability of the income tax receivable (note 6)
- The classification of the delayed share subscription (note 11)

3. SEGMENT INFORMATION

Following the disposal of Euskaltel, Zegona and its subsidiaries are organised as a single business which seeks to generate shareholder returns by applying its Buy-Fix-Sell strategy to European TMT assets. The chief operating decision maker is considered to be the Board, who only receive consolidated information which does not include an analysis of either profit and loss or assets and liabilities to any lower level. Zegona has therefore concluded that it only has a single operating segment for which the measure of performance is Zegona's consolidated loss for the period from continuing operations and all amounts required to be disclosed in accordance with paragraph 23-24 of IFRS 8 *Operating Segments* are the same as the equivalent consolidated amounts disclosed elsewhere in these financial statements. All non-current assets are domiciled in the United Kingdom.

4. FINANCE INCOME AND COSTS

	For the 6 months ended 30 June	
	2022	2021
	€000	€000
Bank interest	-	1
Gain on derivative	-	135
Finance income	**-**	**136**
Interest on bank borrowings	-	(278)
Finance costs	**-**	**(278)**

5. FINANCIAL INSTRUMENTS

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

	Fair Value 2022 €000	Amortised cost 2022 €000	Fair Value 2021 €000	Amortised cost 2021 €000
Income Tax receivable	-	5,107	-	5,234
Total non-current financial assets	-	**5,107**	-	**5,234**
Prepayments and other receivables	-	294	-	197
Cash and cash equivalents	-	8,169	-	10,556
Total current financial assets	**-**	**8,463**	-	**10,753**

	Fair Value 2022 €000	Amortised Cost 2022 €000	Fair Value 2021 €000	Amortised cost 2021 €000
Accruals and other payables	-	794	-	1,457
Bank borrowing	-	518	-	106
Total current financial liabilities	**-**	**1,312**	-	**1,563**

6. INCOME TAX RECEIVABLE

As described in note 15 to the 31 December 2021 annual financial statements, Zegona has recorded a receivable in respect of two charging notices issued by HMRC in 2021 totalling £4.4 million (€5.1 million). These charging notices are for the repayment of tax relief received under the Group Financing Exemption of the UK's Controlled Foreign Company (''**CFC**'') legislation which the European Commission (the ''**Commission**'') determined comprised illegal state aid.

Both the UK Government and a number of other impacted taxpayers have submitted appeals to the EU General Court to annul the Commission's findings. On 8 June 2022, the General Court of the Court of Justice of the European Union ("**CJEU**") found in favour of the Commission's decision. The UK Government has now announced that it has lodged an appeal of the decision with the Court of Justice. If the UK Government's appeals are ultimately successful, Zegona will be entitled to recover the amounts already paid and will suffer no loss

Despite the decision of the General Court, based on its current assessment and also supported by external professional advice, Zegona believes that the UK Government's appeal will likely be successful. As a result, Zegona continues to believe that it has no liability. Therefore, no tax charge is required in the current or previous periods and the amounts paid to HMRC under the State Aid charging notices are expected to be repaid. Given that an appeal would be expected to take more than a year, a long-term current tax receivable has continued to be recognized in respect of the amounts paid at the balance sheet date. Any appeal of the General Court decision to the Court of Justice, and the progress of the UK Tax Authority challenge into the historic financing arrangements of the Group, will continue to be monitored by Management.

7. DISCONTINUED OPERATIONS

During 2021, Zegona disposed of its 21.44% investment in Euskaltel S.A. ("Euskaltel"), a Spanish telecommunications company incorporated in Spain and operating in the Basque Country, Asturias and Galicia under regional brands and nationally across Spain under the Virgin telco brand. The investment in Euskaltel was sold to a subsidiary of MásMóvil Ibercom, S.A.U ("**MásMóvil**"), the Spanish fourth national operator who launched a tender offer to acquire all of the outstanding shares of Euskaltel on 28 March 2022. The tender offer completed successfully and Zegona received €421.3 million in cash on 11 August 2021.

Up to the announcement of MásMóvil's tender offer on 28 March 2021, Zegona had accounted for its investment in Euskaltel as an associate. From 28 March 2021, Zegona concluded that the two conditions for classifying the investment as an asset held for sale in paragraph 7-10 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* had been met. Accordingly, the investment in Euskaltel as an associate was classified as both held for sale and as a discontinued operation from March 28, 2021

The amounts recorded in the Consolidated statement of comprehensive income in respect of discontinued operations were as follows:

	For the 6 months ended 30 June	
	2022	**2021**
	€000	**€000**
Share of loss of associate	-	(412)
Gain on derivative	-	5,571
Significant project costs	-	(687)
Finance costs	-	(1,085)
Discontinued operations	**-**	**3,387**

Share of loss of associate

The Share of loss of associate represents Zegona's share of the loss of Euskaltel for the period prior to the announcement of MásMóvil's tender offer.

Gain on derivative

On 7 April 2021, Zegona entered into a Deal Contingent Forward Purchase Agreement ("DCF") with Barclays Bank PLC to ensure it would receive a fixed Sterling value if the tender offer to acquire Euskaltel was completed successfully. The DCF was recognised as a financial asset at Fair Value Through Profit and Loss with the fair value of €5.6 million at 30 June 2021 being calculated using prevailing market forward foreign exchange rates. Since this instrument was entered into entirely to fix the Sterling value of the Euskaltel proceeds, changes in fair value are recognised within discontinued operations.

Significant project costs

Significant project costs are those incurred on projects that are considered to be one-off or non-recurring in nature, where the costs are so material individually or collectively that the Directors believe that they require separate presentation and disclosure to avoid distortion of the comparability of corporate costs between periods. In 2021, €0.7 million of significant project costs that had been incurred by 30 June 2022 and which were related to the disposal of the Euskaltel investment and the return of capital were recognised within discontinued operations which were principally legal and other advisory fees.

Finance costs

During 2020 and up to 10 August 2021, Zegona recorded a financial asset designated at fair value for contingent consideration receivable from Euskaltel in relation to the sale of Telecable in 2017. This asset was always recorded at fair value using a probability-weighted discounted cash flow model and the loss of €1.1 million reflects the change in the fair value of the asset up to 10 August 2021 when it was sold to a third party for €6.4 million in cash, which was received on 10 August 2021. As the sale of Euskaltel would not have been undertaken without the settlement of the contingent consideration Zegona concluded that the contingent consideration was part of the discontinued operation.

8. BANK BORROWINGS

Zegona has a £1.5 million overdraft facility with HSBC PLC which is generally undrawn, however at 30 June 2022, £485 thousand (€518 thousand) of the facility was drawn for a brief period to cover short-term working capital requirements (31 December 2021: £90 thousand). The interest rate on the overdraft facility is 0.25% and it is repayable on demand. The overdraft was repaid on 13 July 2022.

9. ACCRUALS AND OTHER PAYABLES

	30 June 2022 €000	31 December 2021 €000
Trade payables	248	250
Other accruals	546	1,207
	794	**1,457**

10. MANAGEMENT INCENTIVE SCHEME

Incentive scheme arrangements were put in place at Zegona's inception in 2015 to create incentives for Zegona's management team who have been issued Class A Ordinary Shares in the Company's subsidiary, Zegona Limited (**"Management Shares"**).

The holders of the Management Shares are entitled to 15% of the growth in value of Zegona during a series of five separate Calculation Periods, provided that ordinary shareholders achieve a 5% per annum Preferred Return[1] in each Calculation Period.

Holders have the right to end each Calculation Period by redeeming 99% of their Management Shares at any time between the third and fifth anniversaries of the beginning of the Calculation Period, although a Calculation Period may also end upon certain specified events such as a winding up or takeover, or a change of control of Zegona.

[1] The preferred Return is a 5% per annum return on a compounded basis on shareholders' net investment.

When a Calculation Period ends, a new Calculation Period automatically begins with the remaining 1% of unredeemed shares retaining the entitlement to 15% of the growth in value of Zegona for the next Calculation Period. The first two calculation periods have been completed and the third calculation period began on 14 October 2021.

At 30 June 2022, a total of 515,464 Management Shares in Zegona Limited remain allotted, issued and fully paid as shown in the table below:

	Participation in growth in value	Number of Management Shares	Nominal value of Management Shares
Eamonn O'Hare	8.88%	305,000	£305
Robert Samuelson	4.44%	152,500	£153
Zegona senior management	1.68%	57,964	£58
		515,464	**£516**

The Third Calculation Period

The Third Calculation Period automatically began on 14 October 2021, with the Baseline Value Per Share for the new Calculation Period being £1.51 per share, which was equal to the volume weighted average mid-market price of Zegona shares for the previous 30 trading days. During the Third Calculation Period, the Management Shares may be redeemed between 14 October 2024 and 14 October 2026. All other terms remain the same as for the other Calculation Periods.

The renewal of the scheme was subject to a shareholder vote at Zegona's 2022 AGM which passed with 98.03% of votes in favour.

The start of the new calculation period constituted a new award with services rendered from 14 October 2021. However, the grant date of the award under IFRS 2 could not be until shareholders ratified the renewal of the scheme at Zegona's 2022 AGM on 28 June 2022. Until this date, Zegona estimated the fair value of the award at each balance sheet date and recognised an expense that reflected the date that holders began to render services. Upon ratification of the scheme at the AGM, Zegona valued the award a final time and adjusted the expense to reflect the proportion of the final value that would have been recognised based on the proportion of services rendered. Zegona expects that any amounts due under the third calculation period will be settled in equity and, therefore has concluded that the Management Shares are equity settled instruments.

Accordingly, Zegona engaged an independent valuation specialist to estimate the fair value of the award at 28 June 2022. The value of the award on the valuation date was £0.46 per Management Share which will be recognised in the Consolidated Statement of Comprehensive Income based on the proportion of total services rendered. For the period to 30 June 2022 a total expense of €34 thousand was recognised, with a corresponding amount recognised in the share based payment reserve.

The fair value of the award was calculated using a Monte Carlo model. The fair value uses a volatility of 20% depending on the acquisition size, and an expected term of three years. The Incentive Shares are subject to the Preferred Return being achieved, which is a market performance condition, and as such has been taken into consideration in determining their fair value. A risk-free rate of 1.75% has been applied, based on the implied yield available at the measurement date on the zero-coupon government issues with a remaining term equal to the expected term of the Awards. The model incorporates a range of probabilities for the likelihood of a successful acquisition being made of a given size in a range of £0.5 billion - £2.0 billion and includes a number of discounts of 90% in aggregate to reflect the risks inherent in the instrument such as the competition for assets and the need to raise capital within a short timeframe.

On 1 April 2022, a member of Zegona's senior management team left the business and 28,982 shares were re-purchased for no consideration. The cumulative expense that had been recognised in relation to these shares were reversed in the period. On June 7 2022, another member of Zegona's senior management team was issued 28,982 shares which were then deemed to be granted at the AGM on 28 June 2022. An expense was recognised for the period between issuance and 30 June 2022.

11. RESERVES

Distributable reserves

Retained earnings
The retained earnings reserve includes cumulative net profits and permitted transfers from the share-based payment reserve. Amounts in the retained earnings reserve are typically distributable profits.

Other reserve
The other reserve is a distributable reserve which is comprised of transfers from the share premium reserve in 2016 and 2021 following court approved reductions of capital, net of all historical dividends paid and the total costs of buying back shares (the nominal value of the shares and any premium paid), which are charged against distributable reserves.

Following the completion of Zegona's tender offer in October 2021, the full amount then outstanding in the other reserve was utilised to fund the tender offer

Total distributable reserves
While the other reserve continues to be distributable, its balance in Sterling is zero, therefore the Company's total distributable reserves are now solely the retained earnings reserve. At 31 December 2021 the Company's Retained earnings reserve in Sterling (Zegona's functional currency) was £ 1.9 million (31 December 2021; £3.5 million).

Non – distributable reserves

Share-based payment reserve
The share-based payment reserve is a non-distributable reserve that represents the cumulative build-up of the Management Incentive Scheme costs over the vesting period as the employees gradually render service while the Management Incentive Scheme is considered to be an equity settled instrument.

The current balance of the reserve reflects the aggregate amortisation of a portion of the fair value of the third Calculation Period as discussed in note 10.

Foreign currency translation reserve
The foreign currency translation reserve is a non-distributable reserve that includes the foreign exchange differences arising from the translation of the Consolidated Financial Statements functional currency of Sterling ("£") to presentational currency euro ("€"). The movement in this reserve for the period is driven primarily by the movement in the closing €:£ exchange rates from 1.19 at 31 December 2021 to 1.16 at 30 June 2022.

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

During 2021, £2.1 million (€2.5 million at the rate prevailing at the transaction date) has been transferred to the capital redemption reserve which represents the nominal value of the 214,532,103 shares repurchased in the tender offer.

Share premium reserve
The share premium reserve is a requirement under s610 of the Companies Act and is a non-distributable reserve. The reserve comprises amounts subscribed for share capital in excess of nominal value less costs directly attributable to the issue of new shares. During 2021, the share premium account of the Company was reduced to £100,000 (€114.1 thousand) with £95.239 million (€108.7 million) being transferred to the Other reserve. This was offset by £1.2 million, being the proceeds received in excess of the nominal value of the 887,594 shares subscribed for by Eamonn O'Hare and Robert Samuelson on 27 October 2021.

Shares to be issued
The shares to be issued reserve is a non-distributable reserve that relates solely to the £1.2 million (€1.4 million) of cash received from Robert Samuelson and Eamonn O'Hare to subscribe for shares in 2021.

The Zegona management team committed to re-invest up to £4.0 million of the proceeds of the exercise of the second calculation period of the Management Incentive Scheme (see note 10) back into Zegona by subscribing for new shares. The subscription price was agreed as the adjusted net asset value per share of Zegona immediately prior to completion of the subscriptions. To the extent that the aggregate number of shares to be subscribed for would exceed 28.1% of the issued share capital of the Company immediately following the subscription, the subscriptions were to be scaled back pro rata. The subscriptions were also conditional on the admission to trading ("**Admission**") of these shares by the Financial Conduct Authority ("FCA") and Zegona had been advised that the company should not be required to issue a prospectus for Admission. The subscriptions were approved by Zegona's shareholders at a General Meeting of the Company on 30 June 2021.

Following the completion of the tender offer, the subscription price was confirmed as £1.438 per share, meaning the management team were able to subscribe for 1,734,451 shares which would have been 28.1% of the Company immediately following the subscription. The aggregate total investment was £2.5 million, which was paid by the management team on 14 October 2021. Following the investment, the Board and management team would have held 29.1% of Zegona's shares.

Upon applying for Admission of the new shares, Zegona was informed that Admission was limited to a maximum of 20% of its shares in issue immediately following its tender offer without publishing a prospectus. Zegona, together with Eamonn O'Hare and Robert Samuelson (the affected members of the management team), elected to issue and admit 887,594 shares on 27 October 2021[2] with the remaining 846,857 shares to be issued the next time Zegona prepares a prospectus[3]. Zegona entered into a revised Subscription Agreement ("Subscription Agreement (as Amended)") with Eamonn O'Hare and Robert Samuelson that confirmed they were both committed to complete the subscription for the agreed number of shares at the agreed price under any circumstances.

Zegona has concluded that the Subscription Agreement (as Amended) is an equity instrument as it is defined in IAS 32 *Financial Instruments: Presentation* on the basis that (a) there is no contractual obligation to deliver cash or another financial asset to another party (b) there is no obligation to exchange financial assets or liabilities with another party and (c) the agreement is a non-derivative and obliges Zegona to deliver a fixed number of shares.

12. RELATED PARTY TRANSACTIONS
There were no related party transactions during the period to 30 June 2022 other than key management personnel compensation.

13. POST BALANCE SHEET EVENTS
There were no material post balance sheet events.

[2] Being the maximum number of shares that could be Admitted on that date.
[3] The remaining shares may also be Admitted without the need for a prospectus from 27 October 2022.