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ZEGONA COMMUNICATIONS PLC ("Zegona")

LEI: 213800ASI1VZL2ED4S65

20 APRIL 2021

ZEGONA ANNOUNCES 2020 RESULTS

London, England, 20 April 2021 Zegona Communications PLC (LSE: ZEG) announces results and publishes its Annual Report for the year ended 31 December 2020.[1]

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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.

About Euskaltel

Euskaltel S.A. ("Euskaltel") is the leading converged telecommunications provider in the North of Spain and has recently expanded to offer services nationally. It provides high speed broadband, data rich mobile, advanced TV and fixed communications services to residential and business customers under the Euskaltel, R Cable, Telecable and Virgin telco brands. Euskaltel is a public company traded on the stock markets of Bilbao, Madrid, Barcelona and Valencia.

[1] Zegona has also issued, posted, or made available to shareholders, the Notice of Annual General Meeting and Form of Proxy for the Annual General Meeting. These documents are also available on the Zegona's website at www.zegona.com

ZEGONA COMMUNICATIONS PLC

Annual Report

For the Year Ended 31 December 2020

STRATEGIC REPORT | CHAIRMAN'S STATEMENT

I am pleased to present Zegona's annual report for 2020. During 2020, we worked closely with the board and management team at Euskaltel and successfully laid the foundations for the recent Tender Offer from MásMóvil Ibercom, S.A.U. ("MásMóvil").

The successful completion of Zegona's strategy in Spain

During 2020, we continued to be Euskaltel's largest shareholder with 21.44% ownership, and Robert Samuelson and I served as directors of Euskaltel. We have established a strong working relationship with Euskaltel's board of directors and José Miguel García, the CEO, and have actively supported the excellent progress being made by the new management team. They have combined a focus on operating efficiency within the existing business with driving significant growth through national expansion under the Virgin telco brand.

In March 2020, Euskaltel published its 2020-2025 Business Plan. This sets out its key strategic initiatives and its ambition to double the size of its customer base and grow revenues by more than 80% to over €1.2bn and EBITDA[2] by more than 6% CAGR[3] to over €470m by 2025. During 2020, Euskaltel's focus was on implementing the key strategic initiatives that will enable it to deliver this ambitious business plan. Significant progress was made on integrating the three original, separate operating companies into one business with a number of initiatives targeted at generating €40 million of annual run-rate efficiencies. Most importantly, in 2020 Euskaltel launched services nationally across Spain under the Virgin telco brand with great success.

These changes have allowed Euskaltel to build on the growth it delivered in 2019. Euskaltel's results for 2020 were strong in spite of the global Coronavirus pandemic, with financial and customer growth targets achieved, and top line growth driven in particular by the outstanding success of Virgin telco. During 2020, Euskaltel achieved the highest annual customer growth since it was listed in 2015, and Virgin telco growth was more than 50% ahead of plan. Customer growth drove accelerating revenue growth, with fourth quarter revenue up 4.6% to €180 million and full year 2020 revenue up 1.7% to €697 million. Profitability and cash generation were also strong. 2020 EBITDA of €343 million grew 2.3% and exceeded the business plan target. This growth has put Euskaltel on a clear deleveraging path, with net debt down to almost 4 times EBITDA.

On 28 March 2021, MásMóvil, the fourth largest telecommunications operator in Spain launched a tender offer to acquire 100% of Euskaltel for €11.17 per share in cash (the "Offer"). The Offer values Euskaltel's equity at €2.0 billion which equates to an Enterprise Value of €3.5 billion and values Euskaltel at 10.1x EBITDA and 21x Operating Cash Flow, a significant premium to European telecommunications multiples[4]. Zegona welcomes this transaction and alongside the two other largest shareholders (Kutxabank and Alba, who together with Zegona own over 52%) of Euskaltel, have entered into irrevocable undertakings to tender all their shares. This gives a high level of certainty that the tender condition of over 75% acceptances will be achieved. The tender is expected to be completed before the end of 2021.

The sale of our Euskaltel investment will represent the successful completion of our "Buy-Fix-Sell" strategy in Spain. This journey has included four M&A transactions and two operational turnarounds. When we originally invested in Telecable in 2015, we identified an opportunity for substantial value creation through the combination of the three independent northern Spanish cable operators. In 2017 we successfully sold

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2 Operating profit excluding depreciation of property, plant and equipment and amortisation of intangible assets.

3 Compound Annual Growth Rate.

4 Euskaltel multiples based on its Enterprise Value divided by its reported 2020 EBITDA (as defined by Euskaltel) of €342.8 million and reported 2020 Operating Cash Flow (as defined by Euskaltel as EBITDA-Capex) of €164.5 million. Comparable European Cable company multiples of 6.7x 2020 EBITDA and 13.3x 2020 Operating Cash Flow (Source: Citigroup).

Telecable to Euskaltel and took a 15% shareholding in the leading integrated telecommunications operator in the north of Spain.

The enlarged Euskaltel was a strategically attractive business with a strong competitive position in its home markets and created the opportunity to deliver significant value from expanding nationally. We also identified considerable further upside potential from industry consolidation. In 2019, we raised more than £100 million in new equity capital at £1.05 per share to increase our investment and our influence in the business. As Euskaltel's largest shareholder, we introduced José Miguel García as CEO and, through our board representation, we successfully implemented our plan to drive significant change in the business. This included realising synergies from creating a single operating platform for Euskaltel's three regional brands, returning the combined business to growth and expanding nationally by launching the Virgin telco brand.

MásMóvil's Offer underscores the success of our strategy in Spain and provides significant value creation for Zegona shareholders. The Offer values Zegona's shareholding at €428 million and equates to a Zegona Underlying Asset Value of £1.70 per share.[5] This represents an 80% premium to Zegona's share price immediately before the announcement[6] and a return on Zegona's Net Invested Capital of 87%[7] or 11[8]% on an annualised basis.

Continuing to execute our buy fix-sell-strategy across European TMT

Once we exit Spain, we will continue to execute our buy-fix-sell strategy across the European TMT sector. We will focus on businesses that require active change to realise full value, creating long-term returns through fundamental business improvements.

We see a very healthy environment for investments across the broader European TMT industry. The market is large and fragmented, with well over 100 operators, of which over half fit our desired investment size. We have seen increased deal activity and greater availability of assets driven by significant consolidation and convergence. We believe this will continue over the coming years, creating fertile ground to both buy and sell assets and once again create significant shareholder value through fundamental improvement.

Eamonn O'Hare
Chairman and Chief Executive Officer
19 April 2021

STRATEGIC REPORT | BUSINESS AND FINANCIAL REVIEW

Vision

- Execute our strategy in the European TMT sector
- Focus on businesses that require active change and fundamental improvement to realise their full value
- Target significant long-term growth in shareholder value

Opportunity

Changing market dynamics in the TMT industry create multiple investment opportunities:

[5] See page 10 for calculation.
[6] Premium to Zegona's share price at market close on 26 March 2021 of 94.5 pence.
[7] See page 11 for calculation.
[8] 10.7%.

- **Demand for data and speed**: Data consumption is growing strongly with customers willing to pay for speed and reliability. Gigabit broadband is increasingly offered in many markets but network roll-outs and upgrades need to be efficient.
- **Digital convergence**: The fixed/mobile divide is increasingly disappearing for users, meaning significant growth in more valuable quad play[9] customers who are combining mobile and fixed services. This has driven an increase in merger and acquisition ("**M&A**") activity and improvements in economics for converged players since mobile data delivery is heavily dependent on high capacity fixed networks.
- **Industry consolidation**: The sector has seen heightened M&A activity. Many private equity owners are looking to sell assets as economies return to growth and industry players are focusing on their core regions, delivering cost reductions and price repair to rebuild margins. Consolidation has also created opportunity as businesses are spun out of corporates to meet regulatory requirements and strategic objectives, creating opportunity for Zegona.
- **Infrastructure monetisation:** The opportunity to enhance value through separating off and monetising infrastructure assets, which in the telecommunications industry started with mobile towers, has expanded to other assets including fixed networks. This creates new commercial options, both through providing a route for incremental value creation and in the remaining 'servco' operations which may not have been the main focus of attention in the initial infrastructure transaction.
- **Broad range of attractive assets**: Our flexibility in terms of size, geography and category opens a broad universe of attractive target assets. We have identified many businesses of an appropriate scale across a number of categories, including mobile-only players, mid-sized cable, fibre operators, smaller fixed incumbents, B2B[10] and network infrastructure.

Advantage

A number of factors make Zegona well positioned to access attractive deals and deliver value:

- **Strong, aligned management team**: Our management team has a proven track record of delivering superior business performance and investor returns. During 2017, the team successfully sold Telecable and were instrumental in ensuring MásMovíl launched its cash tender offer to acquire 100% of Euskaltel in 2021. The team has extensive real-world experience in senior operational roles in large public telecommunications companies. The team's interests are also strongly aligned with shareholders as they participate in a long-term incentive scheme that links management remuneration directly to growth in shareholder value.
- **Entrepreneurial focus**: We have considerable freedom in the projects we pursue and the ways we create value. Unlike most private equity businesses, Zegona is free to choose the optimal period to hold assets and can realise value using a range of approaches, of which a sale of the asset is only one. This also permits a focus on fundamental business improvements that are value accretive rather than relying on high leverage and multiple expansion. We are also able to act quickly on acquisition opportunities while still maintaining financial discipline. This is especially attractive to potential sellers and a key differentiator.
- **Major global investors**: A small number of global public equity asset managers[11] with a long-term outlook own more than 81% of Zegona. The placement of equity in February 2019 with gross proceeds of more than £100 million which was used to become Euskaltel's largest shareholder and drive change within the business underlines investor confidence in our strategy. Our management team has an effective investor relations programme which maintains regular contact with Zegona's major shareholders and potential shareholders.

Strategy

We seek to provide shareholders with an attractive total return, primarily through appreciation in the value of Zegona's assets. Our strategy focuses on making investments in strategically sound businesses within the European TMT sector that require active change to realise their full value, thereby creating significant long-

[9] Quad play: customers with four services (pay TV, fixed voice, broadband and mobile).
[10] Business to Business.
[11] Those with holdings in 3% or more of the issued ordinary shares of the Company are listed on page 49.

term returns through fundamental business improvements. While the main elements of Zegona's strategy are set out below, our overall strategic approach is to deal with each opportunity and situation presented to us individually as it arises. For example, in the case of Zegona's current investment in Euskaltel, our strategy has been to increase our ownership position and seek to work constructively with the Euskaltel Board and management to improve the performance of the business and make it more attractive to buyers, therefore encouraging industry consolidation

We evaluate potential investments using a disciplined set of financial and strategic criteria. We focus on:

- Target businesses with an enterprise value range of £2-5 billion, although we may deviate outside of this range if we believe the returns are sufficiently attractive;
- TMT, network-based communications and entertainment businesses, primarily in Europe;
- Strategically sound businesses with established market positions and limited expected downside risk, but which have scope for fundamental improvement that is realistically achievable;
- Moderate leverage (usually 3-4x EBITDA[12]); and
- Multiple viable exit options pre-identified.

Many businesses across the TMT sector currently deliver sub-optimal returns which could be significantly improved. We work with management to deliver fundamental business improvements, such as:

- Changing the businesses' market positions;
- Being actively involved in the management of the businesses to drive operational improvements;
- Instilling strong discipline around cost efficiency;
- Investing in products, services and other value-accretive activities to drive top line growth;
- Focusing on operating profitability and cash generation;
- Ensuring a balanced and efficient capital structure; and
- Value enhancing bolt-on acquisitions/divestments.

Buyer interest is stimulated as the performance of each investment improves, providing Zegona with a range of options to crystallise the value it has created:

- We identify the optimal time to crystallise the value we have created, with flexibility to adapt to market changes and other opportunities;
- Zegona's publicly listed structure allows shareholders to realise value at any time and provides multiple options for value delivery; and
- Following a successful crystallisation, any surplus value will be reinvested or returned to shareholders.

STRATEGIC REPORT | BUSINESS AND FINANCIAL REVIEW

Zegona is currently organised into two segments:

(i) Investment in Euskaltel, which comprises Zegona's share of the profit of Euskaltel and dividend income (and the movements in fair value of the investment prior to recognising Euskaltel as an associate); and
(ii) central costs, which comprises costs incurred in supporting Zegona's corporate activities, including staff and premises costs related to the management team, ongoing costs of maintaining the corporate structure, the costs incurred by Zegona in driving strategic initiatives at Euskaltel, evaluating new acquisition opportunities and executing acquisition and disposal activities.

Review of investment in Euskaltel

Strategic developments

During 2020, the new management team at Euskaltel has continued to make excellent progress, combining a focus on operating efficiency within the existing business with driving significant growth through national

[12] Operating profit excluding depreciation of property, plant and equipment and amortisation of intangible assets.

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

- **Integrating three operating companies into one business:** A number of initiatives have been focussed on generated €40 million of annual run-rate efficiencies. These have included putting in place a single efficient organization, implementing a profit-focused sales structure, establishing a results-oriented customer care program, rationalising IT and operating systems and cancelling unprofitable football rights agreements. Further cost savings have been identified and Euskaltel continues to successfully reduce costs.

- **Expanding nationally:** Euskaltel launched services nationally across Spain under the Virgin telco brand in May 2020, reaching 85% of the Spanish market where Euskaltel was not present before. This has enabled Euskaltel to offer a full quad-play range of telecommunications services, including high quality high speed FTTH broadband, data-rich mobile, landline telephony and 4K premium TV. The Virgin telco proposition allows customers to select the services they want in order to design their own product bundle, rather than having to take inflexible packages defined by the operator. The result is much better value for customers as they only pay for the services they want and has allowed Virgin telco to become the brand in Spain with the highest Net Promoter Scores[13].

- **Footprint expansion and 5G:** Euskaltel has signed a number of agreements to provide access to nationwide fibre networks, resulting in the expansion of the footprint of its fibre optic network by over 18 million new homes nationwide in 2020. Euskaltel now covers more than 23 million homes across Spain through its four brands. Increased network coverage and enhanced network management are key drivers for significant continued profitable growth.

  In addition to expanding its network footprint, during 2020, Euskaltel also announced an agreement with Orange that will allow it to offer its 5G mobile technology as a Mobile Virtual Network Operator hosted on the Orange network from 1 January 2022, although both parties may agree to bring this date forward to when Orange launches its 5G Service.

- **Strengthening leadership:** Euskaltel has continued to strengthen the new organisation structure it adopted in 2019 with key new executive hires including a new CFO appointed in January 2020. At the same time, the board structure has been simplified, with the number of directors reduced from 13 to 10. This process has also involved the appointment of two new independent directors with strong relevant experience.

- **Debt refinancing:** In July 2020, Euskaltel replaced its €215 million amortising debt with a new €215 million term loan with no amortisation before December 2023. This initiative has eliminated all term loan repayments until December 2023 and increased the average maturity of Euskaltel's corporate debt to over 4 years. The refinancing provides financial flexibility to increase investments in its Virgin telco national expansion plan and accelerate the realisation of profitable growth.

Operational and Financial performance

When it delivered its full-year results for 2020 on 25 February 2021, Euskaltel reported an acceleration of the growth achieved since the new management team took over, with record figures in terms of customer base and revenues, thus meeting the objectives for the year set out in its ambitious 2020-2025 business plan. This was despite the challenges faced during 2020 due to the Covid-19 pandemic. These results were primarily delivered through the successful Virgin telco launch which offset the impact of small declines caused by commercial pressure in Euskaltel's traditional markets in The Basque Country, Galicia and Asturias.

Customers

Euskaltel achieved a new customer base record in 2020, with more than 823,000 mass market which was an

[13] Euskaltel Q420 results press release, 25 February 2021.

increase of 7% on 2019's base of 771,000. Total customer net additions were 52,000 (2019: 1,000), of which 47,000 were fixed lines customers (2019: 8,800). Of Euskaltel's total mass market customers, 716,000 are fixed line (2019: 669,000) and 107,000 are mobile-only (2019: 102,000).

The launch of Virgin telco has been highly successful, adding 71,000 new customers in just 7 months since launch, which was more than 50% more than the target originally set for the end of 2020. These additions more than offset a small number of customer losses in Euskaltel's traditional markets.

The B2B segment also achieved growth of 1.4% in its customer base, with 16,000 corporate customers for the Group at the end of 2020 (2019: 15,800). This growth was achieved in spite of the impact of the pandemic and was due to strong demand for B2B telecommunications services, as a result of ongoing remote working practices and Euskaltel's solid commitment to quality service and attentive customer care for companies.

Revenue
Euskaltel reported that in 2020 it had achieved its largest revenue growth in the last few years. Building on the foundations of growth in Virgin telco's customer base and the strength of its other brands, revenue grew by 1.7% to a record €697.1 million, compared to €685 million in 2019. The fourth quarter of 2020 was the fifth consecutive quarter of revenue growth on a year-on-year basis and, at 4.6%, Euskaltel's highest revenue growth in recent years.

This increase in revenue has been driven by Virgin telco's strong customer growth which has changed Euskaltel's revenue growth profile and offset a small reduction in mass market revenues in its traditional markets. Virgin telco generated revenue of €7 million in the fourth quarter of the year and in just seven months it has generated revenue of around €10 million. This is a reflection of the significant rise in customer numbers, which are expected to continue increasing.

Revenue from Euskaltel's traditional business also grew by 0.3%, thanks to stable customer revenues and excellent results in the business services segment. The B2B segment achieved the biggest revenue growth in its history, with an increase of 3.3% to €114.5 million in 2020 (2019: €110 million).

Profitability and financial position
Thanks to revenue quality and its focus on cost-management, Euskaltel reported a record Net Profit for 2020 of €79.4 million, (2019: €62 million), which represents growth of 28%. Despite the impact of Covid-19, Euskaltel met its EBITDA target for the year. Reported EBITDA was €342.8 million and when the expected impact of one-off costs relating to the launch of Virgin telco are excluded, EBITDA would have been €352.4 million which represents growth of 2.3% compared to 2019 (€344.5 million). A key reason for this growth in underlying EBITDA was continued strong control of costs, with SG&A[14] expenses reducing by 5.6% to €156.2 million from €165.4 million in 2019.

Reported Operating Cash Flow[15] was €164.5 million (2019: €190.3 million). This was impacted by the costs of the Virgin telco launch, particularly higher Capex in the fourth quarter as a result of significantly faster than expected customer growth. Excluding this, Operating Cash Flow would have been €201.1 million, which represents growth of 5.7% versus 2019.

Continued cash flow generation has allowed Euskaltel to continue on a clear deleveraging path with net debt being reduced by €31 million in 2020. At 31 December 2020, Euskaltel's ratio of net debt to EBITDA was 4.2 (2019: 4.3), its cost of debt was 2.6%, and its average debt maturity was 3.6 years. Euskaltel has achieved these improvements despite the impact of the Virgin telco launch and dividend distributions of over €55 million in 2020.

Outlook for 2021
Euskaltel has announced that based on its strong performance in 2020 and the success of Virgin telco, it expects significant further growth in 2021, both in terms of customer numbers and revenue. Euskaltel expects to more than double the number of customer net adds achieved in 2020, with expected total mass market fixed

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[14] Selling, General and Admin expenses.

[15] Operating Cash Flow = EBITDA - Capex.

customers at end 2021 growing to between 840,000 and 860,000, compared to 716,000 at end 2020 (c.18% growth). Euskaltel has also announced that it expects revenue growth of more than 6%, with revenue of between €740 and €750 million by the end of 2021, compared to €697 million in 2020.

Performance of Zegona's investment in 2020

During 2020, Zegona's share of Euskaltel's profit was €16.6 million (2019: € 9.1 million), which reflects Zegona's 21.44% share of Euskaltel's adjusted net profit of €77.3 million for the year. The increase is principally because the investment was not accounted for as an associate until 10 July 2019.

The fair value of Zegona's investment in Euskaltel was €335.1 million at 31 December 2020 (2019: €341.6 million) with the decrease principally due to a slightly lower share price on 31 December 2020 of €8.75 compared to €8.97 on 31 December 2019. As at 19 April 2021, the fair value of Zegona's investment in Euskaltel has increased substantially to €423.6 million which reflects an increase in the share price to €11.06. This is within 0.98% of the price offered in MásMóvil's Tender Offer for Euskaltel, which values Zegona's investment at €427.7 million. Zegona has successfully hedged the future inflow of cash and will receive £370 million if the Tender Offer is completed successfully with no exposure if it is not.

During 2020, Zegona received €11.8 million in dividends from Euskaltel (2019 €10.2 million)[16] which were promptly passed back to Zegona's shareholders in full. The increase was due to the increase in Zegona's holding in Euskaltel in 2020 compared to 2019.

Crystalising the value of Zegona's investment in Euskaltel

We are pleased with the progress that has been made at Euskaltel. We have built a strong working relationship with the board and management that is continuing to drive growth and create value. Since we increased our investment in 2019, Euskaltel has implemented many of the key strategic initiatives that we identified at the time and this has resulted in Euskaltel delivering a number of strong sets of results. Despite the impact that Covid-19 has had on global equity markets, the value of Euskaltel's market capitalisation has increased by 41% since Zegona's plan for the business was initiated in June 2019 and Euskaltel's share price has significantly outperformed its competitors in Spain even before the MásMóvil Offer while also paying dividends to Zegona of €11.8 million.

We believe our involvement with Euskaltel has created significant incremental value for both Zegona and Euskaltel shareholders. However we have always been clear that we do not intend to hold our investment indefinitely. When we increased our investment in Euskaltel in 2019, we committed to formally review Euskaltel's performance and the role played by us in adding value within two years and at regular intervals thereafter[17]. If we had concluded that we could not continue to add significant further value in the foreseeable future, we would either offer to return our Euskaltel shares to our shareholders, or sell them and promptly return the proceeds to Zegona shareholders.

Zegona's Board conducted two such reviews during 2020, both of which included input from external advisers,

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[16] In 2020, and from 10 July 2019 to 31 December 2019, dividends received are recorded as a decrease to the carrying value of the Interest in Associate in Zegona's Statement of Financial Position. Prior to 10 July 2019, dividends received were recorded as Finance Income in Zegona's Statement of Comprehensive Income.

[17] Zegona's commitment in its January 2019 Prospectus was as follows:

> *Within 2 years of the placing, and at regular intervals thereafter, Zegona's Board will formally review the Euskaltel business performance and the role Zegona has played in adding value. If Zegona shares are trading at a material discount to the value implied by the market value of its equity interest in Euskaltel at this time, Zegona expects to continue to hold its stake in Euskaltel only if:*
>
> *a. It is clear that during the period from the placing to the time of the review, Zegona has contributed significant value to the Euskaltel business through its involvement; and*
>
> *b. Zegona is confident that it can continue to add significant further value in the foreseeable future.*
>
> *If Zegona's Board concludes that these conditions have not been met, Zegona would expect to return its Euskaltel shares to Zegona shareholders via a dividend in specie or sell its stake in Euskaltel and promptly return the proceeds to Zegona shareholders, depending on which approach is expected to maximise value.*

and will continue to do them regularly if the MásMovíl's Offer for Euskaltel does not complete successfully. In the first half of the year we conducted our first review and concluded that we should continue to hold our investment and work actively with Euskaltel, and we included a discussion of our reasons in our interim report for the six months ended 30 June 2020.

During the second half of 2020, we conducted our second review. While the board recognised that the consideration was more finely balanced, it concluded that it still remained appropriate for Zegona to hold its investment in Euskaltel and continue in its role to drive further value within the business.

A key consideration in making this decision was the fact that Zegona is the leading shareholder in Euskaltel and its holding represents a strategic stake, giving its owner significant influence within Euskaltel including two Board seats. Zegona's influence could be particularly significant in the event of any further consolidation opportunity in the Spanish market.

This position was vindicated shortly thereafter when Euskaltel was approached by MásMóvil. Zegona was actively involved in discussions with MásMóvil and, as lead shareholder, was able to maximise value for both Euskaltel's and Zegona's shareholders.

On 28 March 2021, MásMóvil, launched a tender offer to acquire 100% of Euskaltel for €11.17 per share in cash. The Offer values Euskaltel's equity at €2.0 billion which equates to an Enterprise Value of €3.5 billion. Zegona alongside the two other largest shareholders (Kutxabank and Alba), who together with Zegona own over 52% of Euskaltel, have entered into irrevocable undertakings to tender all their shares. This gives us a high level of certainty that the tender condition of over 75% acceptances will be achieved.

Assuming it completes, this transaction will generate very attractive returns for Zegona's shareholders. The Offer values Zegona's shareholding at c.€427.7 million which equates to a Zegona Underlying Asset Value of £1.70 per share, which represents an 80% premium to Zegona's share price immediately before the announcement and a return on Zegona's Net Invested Capital of 87%, or 10.7% on an annualised basis. Zegona intends to consult with shareholders to understand their views on allocation of proceeds if and when the Offer is completed successfully.

Review of Zegona's corporate and other activities

Comprehensive Income

Zegona's corporate and other activities resulted in an operating loss of €6.8 million (2019: €6.0 million) plus net finance income of €3.2 million (2019: €37.5 million) and a foreign exchange gain of €1.3 million (2019: €1.4 million), contributing a total loss for the year of €2.3 million (2019: €5.0 million).

Operating loss

Operating costs totalled €6.8 million (2019: €6.0 million) and included:

- €5.6 million (2019: €5.6 million) for Zegona's ongoing corporate operations, with a reduction in staff bonuses offset by a combination of non-recurring transitional costs incurred in restructuring Zegona's accounting and finance functions (that have already captured significant run-rate saving) and higher audit fees.
- €0.9 million (2019: nil) of costs related to Zegona's incentive scheme. This consists mainly of a €0.8 million non-cash charge calculated under IFRS 2, which requires the fair value the award deemed to have been granted at the beginning of the new Calculation Period to be estimated at each balance sheet date, and an expense recognised from 24 June 2020. This estimate will be recalculated and adjusted at each balance sheet date prior to Zegona's 2021 AGM (see note 18 to the financial statements).
- €0.3 million (2019: €0.3 million) for significant project costs, which in 2020 were principally advisory and other professional fees incurred on a variety of projects related to potential acquisitions.

Net finance income

Net finance income totalled €3.2 million (2019: €37.5 million) and included:

- Finance Income of €3.8 million (2019: €38.2 million) which principally comprises a gain on the fair value of the contingent consideration from the sale of Telecable that reflects the reassessment of the value of the underlying credits by Euskaltel (see note 15 to the financial statements). The principal reason for the movement compared to 2019 was that 2019 included a €28 million gain on the investment in Euskaltel and €10 million dividend from Euskaltel before it was accounted for as an associate.

- Finance Costs of €0.6 million (2019: €0.7 million), being interest on bank borrowings.

Net foreign exchange

Net foreign exchange gain of €1.3 million (2019: €1.4 million), relates to gains on the revaluation of euro denominated cash balances. In 2019 the gain also included the revaluation of the investment in Euskaltel (prior to classification as an associate), whose shares are quoted in euros, within Zegona Limited and Zegona Communications plc, who both have a functional currency of British pounds sterling ("**Sterling**").

Other Comprehensive Income

Exchange differences on translation resulted in a loss of €18,703 (2019: gain €15,195). The variance year on year arises as a result of movements in the closing €:£ exchange rates (from 1.18 at 31 December 2019 to 1.11 at 31 December 2020) as the Consolidated Financial Statements functional currency of Sterling (**"£"**) is translated into presentational currency euro (**"€"**).

Shareholder remuneration

Zegona remains committed to paying dividends to shareholders and intends, while it continues to own its investment in Euskaltel, to promptly return all dividends received from Euskaltel to its shareholders. During 2020, Zegona paid €11.3 million in dividends, representing a total of 4.6p per share. Zegona has also received Euskaltel's final dividend for 2020 of €5.4 million which was passed to shareholders via a 2.2p per share dividend on 9 March 2021. Zegona will provide an update to our dividend policy in due course after the completion of the Offer for Euskaltel.

During 2020, Zegona launched two share buy-back programmes. As a result of these, it bought back over £3.0 million worth of Zegona shares at an average price of £1.03 per share, which were then cancelled. These programmes successfully increased the Underlying Asset Value per share for remaining shareholders.

Key performance indicators and non-GAAP measures

As Zegona does not currently have an operating business, there are limited material key performance indicators that provide a useful measure of Zegona's business performance and position other than financial measures defined by generally accepted accounting principles ("**GAAP**") such as IFRS with the exception of:

Underlying Asset Value and Underlying Asset Value per share

Zegona's principal asset is its 21.44% ownership of Euskaltel, where it is the largest shareholder. Zegona believes it is helpful for its shareholders to be aware of the development in the value of Euskaltel, and to understand what this represents in terms of the value of the Euskaltel investment and Zegona's other main assets per Zegona share, especially since Zegona no longer accounts for its investment in Euskaltel at fair value, and how this compares to the market value of Zegona's shares, and also how this value compares to the Net Invested Capital and Preferred Return threshold under Zegona's incentive scheme[18].

The Underlying Asset Value per share is a computation of the Sterling equivalent of the fair value of Zegona's investment in Euskaltel, its cash and cash equivalents, bank borrowings and expected receipts under the contingent consideration, divided by the total number of shares outstanding. Other assets and liabilities are not included in the calculation but historically have not been material. The calculation also includes no value (liability) for Zegona's management incentive scheme. The calculation is as follows:

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[18] As defined on page 42.

	28 March 2021[1]	31 December 2020	31 December 2019
Investment in Euskaltel (€000)	427,785[2]	335,105[3]	341,584[3]
Cash and cash equivalents (€000)	8,815	15,244	27,035
Bank borrowings (€000)	(11,559)	(11,128)	(11,578)
Contingent consideration (€000)[4]	8,650	-	-
Underlying Asset Value (€000)	**433,691**	**339,221**	**357,041**
Foreign exchange rate (€ / £)	1.16866	1.11278	1.17547
Underlying Asset Value (£000)	**371,101**	**304,841**	**303,743**
Shares outstanding	218,970,076	218,970,076	221,935,177
Underlying Asset Value per share (£)	**1.70**	**1.39**	**1.37**

1. Date of announcement of offer for Euskaltel by MásMóvil.
2. 38.3 million shares at the offer price of €11.17 per share.
3. At Fair Value, see note 12 to the financial statements.
4. Expected by Zegona to be paid after the settlement of the Offer at the value of €8.654 million, which is the liability to Zegona recorded in Euskaltel's Financial Statements for the year ended 31 December 2020 (see note 15 to the financial statements). Not included in periods prior to 28 March 2021 due to the level of uncertainty over amount.

Return on Zegona's Net Invested Capital

Zegona uses Return on Net Invested Capital as a measure to demonstrate the value generated for investors by significant transactions, compared to the amount originally invested. Zegona believes it is both useful and necessary to report these amounts because they quantify Zegona's success in executing its buy-fix-sell strategy in the same terms that investors use as a key metric when allocating capital. This is especially necessary as there are no GAAP measures that articulate this performance in terms that are consistent with those used by the investment community.

Return on Zegona's Net Invested Capital is calculated as the percentage by which Zegona's Underlying Asset Value exceeds Zegona's Net Invested Capital. Zegona's Net Invested Capital represents the net amount of all shareholder subscriptions less all returns to shareholders, including dividends, capital returns and share buy-backs since Zegona's initial quotation on the AIM Market in March 2015 and is the same term as is used in calculating amounts due on the Management Shares that form a part of Zegona's management incentive scheme.

Return on Net Invested Capital as at 28 March 2021 was calculated as follows:

	28 March 2021
Underlying Asset Value	**371,101,068**
Net Invested Capital at 31 December 2020[1]	203,330,255
Dividend Paid[2]	(4,817,342)
Net Invested Capital at 28 March 2021	**198,512,913**
Return on Net Invested Capital[3]	**87%**

1. See page 42.
2. See note 27 to the financial statements.
3. Calculated as the percentage by which Zegona's Underlying Asset Value exceeds Zegona's Net Invested Capital.

STRATEGIC REPORT | RISKS

Principal and emerging risks

We have carried out robust assessments of the principal and emerging risks facing Zegona including those that would threaten our business model, future performance, solvency or liquidity. Detailed consideration is given to all of these risk factors by the Audit and Risk Committee and the board of Directors (the "**Board**").

Principal and emerging risks

Risk title	Risk rating	Change in risk assessment since the last Annual Report
Risks related to the investment in Euskaltel	Moderate	⇩ Decreased
Acquisition of targets	Moderate	⬌ No change
Key management	Moderate	⬌ No change
Disposal of investments	Low	⇩ Decreased
Brexit	Low	⇩ Decreased
Foreign exchange	Moderate	⇧ Increased

The description, impact and mitigation of these risks are set out below:

Risks related to the investment in Euskaltel

On 29 March 2021, Zegona announced that a subsidiary of MásMóvil Ibercom, S.A.U ("MásMóvil"), the Spanish fourth national operator, has launched a tender offer for Euskaltel. Zegona expects this Offer will be successful, but if it is not, it will continue to hold its 21.44% holding of Euskaltel, which was its sole operating asset at 31 December 2020 and continue to be exposed to the risks of this investment. The value of this investment is dependent on Euskaltel's performance, which could, in turn, be adversely impacted by risks that Euskaltel is exposed to. Some of these risks are common to telecommunications operators in Spain and others that are specific to Euskaltel itself. Whilst not exhaustive, Zegona believes the most significant of these risks are:

- ***Spanish economy and Covid-19:*** The resurgence in infections since the autumn of 2020, together with the appearance of new, more contagious variants of the coronavirus, have forced many countries to reintroduce or tighten containment measures, including Spain. Mobility and social interaction activities declined, thus weakening economic activity in the final months of the year. Nonetheless, GDP growth in the fourth quarter remained in positive territory, at 0.4%, even though domestic demand components strongly reduced their pace of growth. As a result, GDP decreased by 11% in 2020 as a whole. The near-term outlook for 2021 is clouded by the rise in infection rates early in the year and the more restrictive measures put in place by most Spanish regions. As a result, private consumption and investment are expected to fall in the first quarter before recovering slightly in the second. As the vaccination process advances and restrictions are progressively lifted, economic activity is expected to pick-up strongly over the second half of 2021. Overall, GDP is forecast to grow by 5.6% in 2021. While Euskaltel has not been significantly impacted so far by the Covid-19 pandemic, some uncertainty still remains over the Spanish economy in general and its impact on the telecommunications sector which could negatively impact Euskaltel's performance and its equity value.

- ***Competitive environment***: The Spanish telecom market continues to remain one of the most competitive in Europe, with six operators with multiple brands competing for customers on a national level. The value segment market remains crowded with operators aiming to win share and with consumers opting for 'value' bundles at the expense of the premium segment. This competition includes offers with aggressive discounts and could negatively impact Euskaltel's business. To compete effectively, Euskaltel will need to continue to successfully design and market its services and anticipate and respond to competitive factors. If it is unable to do this, results could fall short of current expectations.

- ***Delivery of change programme***: José Miguel García has instituted a comprehensive and wide-ranging organisational and operational change programme across all aspects of Euskaltel's business, which Zegona fully supports. While this programme has already delivered significant benefits, it remains ongoing. There is a risk that, if these improvements are not delivered, there could be an adverse impact on Euskaltel's business.

- ***Success of national expansion***: A key part of Euskaltel's growth strategy is to expand nationally using the Virgin brand to offer high value services to customers across Spain. While this provides a significant opportunity and the early growth of Virgin telco has been well ahead of plan, it is a logistically complex project that requires acquiring customers in a competitive market. There is a risk that, if the project is not as successful as hoped, this could have a negative impact on Euskaltel's performance and on the value of Zegona's investment.

We regularly review the risk-adjusted returns of the Euskaltel investment and, if the Tender Offer is unsuccessful, we will consider whether it is appropriate to retain ownership or to realise the value of our shareholding in Euskaltel.

In addition, Zegona's Chief Executive Officer Eamonn O'Hare and Chief Operating Officer Robert Samuelson are both proprietary directors[19]on Euskaltel's Board enables them to take a hands-on role ensuring Euskaltel appropriately manages these risks while at the same time delivering tangible improvement actions.

Acquisition of targets
The success of Zegona's future investment strategy depends on our ability to identify and successfully acquire available and suitable targets. There is a risk that we will not be able to:

- identify available targets based on competition in the marketplace;
- identify suitable targets at a price that allows for acceptable returns;
- obtain any consents or authorisations required to carry out an acquisition;
- procure the necessary financing, be this from equity, debt or a combination; or
- be successful in the acquisition of an identified target under all or any market conditions.

In making acquisitions, there is also a risk of unforeseen liabilities being later discovered which were not uncovered or known at the time of the due diligence process. In pursuit of new acquisition targets, significant abort costs may be incurred if we are not able to complete the proposed acquisition (for example, because Zegona has been outbid by a competitor), which may deplete Zegona's cash and available liquidity.

We have a disciplined approach to valuation and, ultimately, we are only prepared to make investments at the right price and after undertaking a very structured and thorough due diligence process. When evaluating potential investments, 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.

The success of Zegona's acquisitions depend on our ability to implement the necessary strategic, operational and financial change programmes in order to refocus the acquired business and improve its performance. Implementing these change programmes may require significant modifications, including changes to business assets, operating and financial processes, business systems, management techniques and personnel, including senior management. There is a risk that we will not be able to successfully implement such change programmes within a reasonable timescale and cost.

As Covid-19 waves continue across Europe, it is possible that access to significant debt and equity financing may become more difficult, thus temporarily impacting Zegona's ability to complete new acquisitions in a reasonable timeframe. Zegona believes that, as countries begin to ease restrictions in the coming months and economic activity begins to recover, the difficulties in accessing debt and equity financing will reduce.

Key management
Zegona's operations are currently managed by the Chief Executive Officer, supported by the Chief Operating Officer, the Investment Director and the Chief Financial Officer. The absence or loss of key management could significantly impede our financial plans and the execution of our planned strategy with respect to the Euskaltel business, as well as other plans, though there has been no such absence or loss since Zegona was founded.

We aim to retain our key staff by offering remuneration packages at market rates, as well as long term incentives through the issue of Management Shares and other management incentive plans. The management team is small which places a natural limit on the volume of deal flow that can be addressed. The management

[19] Proprietary director means a director of a company who is the beneficial owner of or is able, either directly, either directly or indirectly, to control more than 15% of the ordinary share capital of the company.

team itself along with the Non-Executive Directors continually challenge the focus of the business and the allocation of resources amongst projects.

Disposal of investments

Our ability to dispose of Zegona's investment at the optimum time, and the availability of a suitable buyer who is willing and able to acquire the investment at an acceptable price or in a deal with an acceptable structure, is key to the success of our strategy. There is a risk that such suitable buyers cannot be identified, thus reducing the returns on investments.

We have proven our ability to execute our strategy since the formation of Zegona and due consideration is given to an exit strategy as part of the acquisition process.

Brexit

The UK ceased to be a member state of the European Union on 31 January 2020. In December 2020, the UK and EU signed the UK-EU Trade and Cooperation Agreement (the **"TCA"**). This agreement governs the relationship between the EU and the UK following the end of the transition period agreed after the UK officially left the EU. The agreement provides for free trade in goods and limited mutual market access in services, as well as for cooperation mechanisms in a range of policy areas, transitional provisions about EU access to UK fisheries, and UK participation in some EU programs. On 31 December 2020, the UK ceased to be a member of the EU Single Market and Customs Union.

While the TCA does clarify a number of matters concerning the UK's ongoing legal, political and economic relationship with the EU, there are number of areas that are not covered. Due to this and the size and importance of the UK economy, it is possible that the UK's exit from the EU may continue to be a source of instability in the international markets, create significant currency fluctuations, and/or otherwise adversely affect trading agreements or similar cross-border co-operation arrangements (whether economic, tax (including the tax treatment of cross border payments), fiscal, legal, regulatory or otherwise) for the foreseeable future. Such continued uncertainty could have an adverse impact on the number or attractiveness of acquisition opportunities available to Zegona.

The long-term effects of Brexit will depend on any agreements (or lack thereof) between the UK and the EU and, in particular, any arrangements for the UK to retain access to EU markets. Additionally, the exchange rate of Sterling vis-a-vis other currencies may continue to be relatively volatile, which could result in increasing costs of non-sterling denominated expenses and other obligations and in changes in the value of non-sterling denominated assets. Furthermore, UK regulatory requirements could be subject to significant change and could place an additional burden on Zegona.

Foreign exchange

Transactional foreign currency risk is the risk of loss that Zegona bears when entering monetary transactions denominated in currencies other than Sterling, the currency in which Zegona main entities operate.

Zegona is also exposed to economic foreign currency risk, which is the risk that fluctuations in the Sterling/ euro rate will impact the Sterling value of proceeds from the sale of the investment in Euskaltel, an investment that is accounted for as an associated and therefore carried at historic cost. There is a risk that unfavourable Sterling/ euro fluctuations from the time of the offer announcement of MásMóvil's Offer to the completion of the deal will result in a lower gain than expected and lower returns to shareholders.

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.

Longer term viability statement

1. Zegona's prospects

In accordance with provision 31 of the 2018 UK Corporate Governance Code, we have assessed Zegona's prospects over a longer period than the twelve months required by the "going concern" provision. This assessment has taken into account Zegona's current position, its strategy, the risk appetite of the Board and the principal risks and uncertainties which are described in detail in this Strategic Report.

Zegona does not control any operating businesses and, currently, the most significant factor affecting Zegona's prospects is the Offer from MásMóvil. If the Offer is completed successfully, Zegona will receive €427.7 million in cash for its stake in Euskaltel. This cash will be used to repay its loan, and Zegona will have sufficient cash and liquid resources to continue in operation throughout the assessment period. On choosing to return a portion of the proceeds to its Shareholders, it will have discretion to retain sufficient cash to ensure it remains viable.

In this context, Zegona has also assessed the impact if the Offer was not successful on its viability assessment, as explained further below.

2. The assessment period

We continue to believe that three years – in this case the three years to December 2023 – is the appropriate period over which Zegona should assess its viability for the following reasons:

- Three years allows us to assess a full range of possibilities and covers Zegona's investment cycle; and
- A three-year period enables us to make an appropriate assessment of Zegona's principal risks.

3. The assessment process and key assumptions

The Directors approve a forecast on an annual basis which is sufficiently detailed to explain all cash inflows and outflows and includes a description of all reasonably possible risks and opportunities. Each month, the Board is provided with an analysis of actual performance against the forecast. Given the straightforward nature of Zegona's financial operations at this point, this forecast is considered appropriate to form the base model for the viability assessment.

Under our base model, MásMóvil's Offer is successful and, Zegona will receive €427.7 million in cash for its shares in Euskaltel. The cash will be used to repay its £10 million loan from Barclays and to continue its operations throughout the assessment period. On choosing to return a portion of the proceeds to its Shareholders, it has been assumed it will retain sufficient cash to ensure it remains viable.

In addition to the base model, we also considered whether the principal and emerging risks (as discussed in the Principal and Emerging Risks section above) and the unlikely failure of the Offer would have further impact in our assessed viability as shown below under the downside scenario. Each of these principal risks take account of the on-going impact of Covid-19:

Principal and emerging risks	Base model	Downside scenario	Comment
Investment in Euskaltel	✔	✘	*The base case model assumes that the Offer will go ahead. Under the downside scenario, the Offer does not progress and Zegona continues to hold 21.44% of Euskaltel and continues to pass through any dividends received during the period to Zegona's shareholders. Since dividends are passed through, the impact of declining performance on cash flows, for example as a result of Covid-19, are limited, and therefore no further downside impacts need to be modelled.*
Acquisition of targets	✔	✔	*The most significant risk to viability. The base model assumes no acquisitions but includes substantial abort costs. In the downside scenario, additional abort costs and other operating costs are considered.*

Key management	✔	✘	*The most significant consequence of the loss or absence of key management would likely be on our ability to execute another acquisition. This is already included in the base case, therefore no further downside impacts need to be modelled.*
Disposal of investments	✔	✘	*The base case model assumes that the Offer will go ahead. Under the downside scenario, the Offer does not progress and Zegona continues to hold 21.44% of Euskaltel*
Brexit	✔	✘	*The most significant consequence of Brexit would likely be on our ability to execute another acquisition or exit Euskaltel at the desired time, if the Offer does not progress, which is already considered as part of the 'Acquisition of targets' and 'Disposal of investments' risk.*
Foreign exchange	✔	✔	*Addressed in the base model through the assumptions about Sterling/euro rates for the proceeds from the MásMóvil's tender offer. In the event that the Offer does not go ahead, the downside scenario assumes dividends received from Euskaltel during the assessment period are passed in full to Zegona's shareholders, therefore currency fluctuations do impact the level of dividends passed to shareholders but not the net cashflow position.*

Based on the evaluation of the principal risks above, combined with a consideration of other factors (including the impact of the on-going Covid-19 pandemic) the Directors identified a severe but plausible downside scenario which was further used to stress test the base numbers.

The downside scenario includes principally the event that MásMóvil's Offer does not complete successfully (which is considered by Zegona to be unlikely) and Zegona refinances its credit facilities in a similar amount and on similar terms as the current facility.

4. Results of the assessment

The assessment showed that in both the base case and the downside scenario, Zegona would have sufficient cash and liquid resources to continue in operation throughout the assessment period without taking any mitigating actions available to it.

In the event that the Offer from MásMóvil does not complete successfully, given the small size of Zegona's existing facility compared to the value of the Euskaltel shares that it is secured on, Zegona believes it is highly probable it will be able to refinance the facility. However, if the facility were not refinanced, the current pledge to Barclays on Euskaltel shares will cease and therefore Zegona could, when additional liquidity was needed, sell part of its shareholding in Euskaltel or deploy one or more liquidity enhancing actions, including reducing discretionary expenditure or retaining part of the Euskaltel dividend.

5. Viability statement

Taking into account Zegona's current position and principal and emerging risks and uncertainties, the Directors confirm that we have a reasonable expectation that Zegona will be able to continue in operation and meet its liabilities as they fall due over the three years to December 2023.

STRATEGIC REPORT | CORPORATE RESPONSIBILITY

Corporate social responsibility

We recognise our obligations to act responsibly, ethically and with integrity in our dealings with staff, suppliers and the environment as a whole. We are committed to being a socially responsible business.

Our people

We value and respect the unique contributions of each individual, and we are committed to ensuring that every employee is treated with dignity and respect and has a meaningful opportunity to contribute to Zegona's success.

Zegona's employees are encouraged to actively engage with charitable activities.

Zegona recognises that a productive workforce requires a breadth of experience and perspectives achieved through hiring individuals with diverse experience. Board Directors and senior managers have been appointed to bring required skills, knowledge and experience. During the year two female independent Non-Executive Directors were appointed to the Board, improving Zegona's diversity. The Nomination and Remuneration Committee will continue to consider the diversity of the Board for further new appointments.

The table below shows the breakdown of our workforce at the end of 2020.

	Male	Female	Total
Board Directors	4	2	6
Senior management	3	-	3
Other staff	–	3	3
Total	**7**	**5**	**12**

This breakdown excludes directors of companies in liquidation at 31 December 2020. Senior management is per the definition in section 414C of the UK Companies Act 2006.

Culture

Ethical values and behaviours are embedded in the corporate culture which the Board upholds. The Directors foster a culture where transparency, openness, integrity and constructive challenge are actively encouraged, and the Board works closely with senior management to ensure a positive culture.

Human rights

As part of our effort to conduct business in an ethical manner, Zegona has not engaged in and will not engage in business practices or activities that compromise fundamental human rights.

Environmental matters

We are committed to minimising Zegona's impact on the environment and seek to encourage our employees to recycle, minimise energy wastage, and do their part to ensure that Zegona acts responsibly.

We have compiled our greenhouse gas (**"GHG"**) emissions in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Calculations follow the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). The GHG reporting period aligns with the financial statements and boundaries are defined using the financial control approach. GHG emissions are broken down into three categories; reporting is required only on scope 1 and 2:

Scope 1 emissions: Direct emissions from sources owned or controlled by Zegona.

Scope 2 emissions: Indirect emissions attributable to Zegona due to its consumption of purchased electricity.

Scope 3 emissions: Other indirect emissions associated with activities that support or supply Zegona's operations.

Zegona has no Scope 1 emissions. Zegona Scope 2 and Scope 3 emissions for the year to 31 December 2020 and comparative period are shown below:

	Global tonnes of CO_2e	
	2020	**2019**
Scope 2 (electricity)	1.7	5.7
Per €m operating expenses	0.24	0.95
Scope 3 (water consumption, business travel)	4.9	49.7
Per €m operating expenses	0.7	8.3

All emission factors have been selected from the emissions conversion factors published annually by the Department for Environment, Food and Rural Affairs and the International Energy Agency. Scope 2 and Scope 3 emissions have decreased in 2020 due to homeworking arrangements and restrictions on travel imposed in response to the COVID-19 pandemic.

No further energy and carbon information is disclosed as the Group is exempt on the grounds of being a low energy user.

Board engagement with our key stakeholders

Section 172 of the Companies Act 2006 requires a Director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a Director to have regard, among other matters, to: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and the need to act fairly with members of the company.

The Directors give careful consideration to the factors set out above in discharging their duties under section 172. More information about who our key stakeholders are and how we engage with them is provided on page 25.

The Strategic Report was approved by the Board on 19 April 2021 and is signed on its behalf by:

Eamonn O'Hare
Chairman and Chief Executive Officer

GOVERNANCE | PROFILES OF THE DIRECTORS

Eamonn O'Hare, Chairman and CEO (appointed 19 January 2015)

Eamonn has spent over two decades as a board member and senior executive of some of the world's fastest growing consumer and technology businesses. From 2009 to 2013 he was CFO and main board director of the UK's leading entertainment and communications business, Virgin Media. Eamonn helped lead the successful transformation of this business and its strategic sale to Liberty Global for US$24 billion, crystallising US$14 billion of incremental shareholder value. From 2005 to 2009, he served as the CFO for the UK division of one of the world's largest retailers, Tesco plc. Before joining Tesco, Eamonn was CFO and main board director of Energis Communications and helped lead the turnaround of this high profile UK telecommunications company. Prior to this, he spent 10 years at PepsiCo Inc. in senior executive roles in Europe, Asia and the Middle East. Eamonn's early career was spent in the aerospace industry with companies that included Rolls Royce and British Aerospace.

Eamonn is a proprietary director of Euskaltel. He also serves as a non-executive director on the main board of Dialog Semiconductor Plc, a leading edge consumer technology business that provides critical components for the world's most successful mobile device brands. The fees for these appointments are disclosed in the Directors' Remuneration Report on page 46.

Eamonn has a degree in Aerospace Engineering from the Queen's University Belfast and an MBA from the London Business School.

Robert Samuelson, Executive Director and COO (appointed 19 January 2015)

Robert was Executive Director Group Strategy of Virgin Media from 2011 to 2014, during which time he was centrally involved in the sale of the business to Liberty Global and in the post-merger integration process. Prior to this, Robert was a managing partner at Virgin Group with global responsibility for developing and realising returns from Virgin's telecommunications and media businesses. Before joining Virgin Group, Robert was a director at Arthur D Little Ltd, where he co-led the European corporate finance practice, providing strategic advice to major European telecommunications operators. His early career was spent with British Aerospace and Royal Ordnance in engineering and production management roles.

Robert is a proprietary director of Euskaltel and the fees for this appointment are disclosed in the Directors' Remuneration Report on page 46.

Robert studied Natural Sciences at Cambridge University and has an MBA from Cranfield School of Management.

Richard Williams, independent Non-Executive Director (appointed 9 November 2015)
Richard is an experienced Non-Executive Director with significant board level experience in both public and private companies and currently holds a number of Non-Executive Director roles. Richard spent most of his executive career in European telecommunications, most recently as a Director of Investor Relations at Altice, and prior to that, Virgin Media. Richard led Virgin Media's investor relations activity through to the acquisition of the company by Liberty Global in 2013. Richard then joined Altice, where he supported the company's IPO and Altice's acquisition of SFR and Portugal Telecom.

Richard is a member of both the Nomination and Remuneration Committee and the Audit and Risk Committee. Richard is a qualified Chartered Accountant.

Ashley Martin, independent Non-Executive Director (appointed 6 February 2017)
Ashley brings a wealth of complementary experience to the Board. Ashley was Audit Committee Chair at Rightmove plc from 2009 to 2018 and, in that role, gained valuable insight into an entrepreneurial, high-growth consumer technology business. On 1 September 2018, Ashley was appointed as a non-executive director of the international research data and analytics group YouGov plc. Ashley has also enjoyed a successful executive career spanning 35 years in larger listed companies, with a particular focus on mergers and acquisitions. Ashley was Global Chief Financial Officer of private equity-backed Engine Holding LLC, and was previously the Group Finance Director of Rok plc, the building services group, and Group Finance Director of the media services company, Tempus plc.

Ashley qualified as a Chartered Accountant with Armitage & Norton (now part of KPMG LLP).

Ashley is Chair of the Audit and Risk Committee and a member of the Nomination and Remuneration Committee.

Kjersti Wiklund, independent Non-Executive Director (appointed 5 February 2020)
Kjersti brings significant experience from a series of senior global telecommunications roles, including as director of group technology operations at Vodafone and chief operating officer of VimpelCom. Kjersti has also held senior executive positions at Kyivstar, Digi Telecommunications and Telenor.

Kjersti has also gained valuable insight into an entrepreneurial, high growth consumer technology company as Remuneration Committee Chair at Trainline plc. She was previously a non-executive director of Laird plc in the UK, Cxense ASA and Fast Search & Transfer ASA in Norway and Telescience Inc in the USA and is currently a non-executive director of Babcock International Group PLC and Spectris PLC.

Kjersti is a member of the Audit and Risk Committee.

Suzi Williams, independent Non-Executive Director (appointed 5 February 2020)
Suzi brings skills and experience from over 25 years in telecommunications, media and consumer businesses in the UK and internationally. As Chief Brand and Marketing Officer at BT, she was part of the team who transformed the business. Prior to that, she was Commercial Development Director at Capital Radio Group and held senior leadership roles at Orange, the BBC, KPMG Consulting, and Procter & Gamble Europe.

Suzi was a board member at The AA plc from 2015 until March 2021, when the business was acquired by a private equity consortium of Towerbrook and Warburg Pincus. In 2020 she joined the Boards of Workspace

Group Plc (where she is Chair of Remuneration) and of the multi-utility business, Telecom Plus plc. She also advises a number of early stage technology and AI businesses.

Suzi is the Chair of the Nomination and Remuneration Committee.

GOVERNANCE | CORPORATE GOVERNANCE REPORT

Overview

The corporate governance report, presented here, forms part of the Directors' Report and as such it has been approved by the Board and signed on its behalf by the Chairman.

We recognise the importance of sound corporate governance commensurate with the size of Zegona. Corporate governance provides the framework within which we form our decisions and build our business. The Board is focused on creating long-term sustainable growth for our shareholders and value for all our stakeholders, and we strongly believe our corporate governance framework helps us achieve this goal. It is our commitment to continue to seek opportunities to improve our corporate governance arrangements.

The following sections of this report show how Zegona applies the main provisions set out in the 2018 UK Corporate Governance Code (the "**Code**"), issued by the Financial Reporting Council ("**FRC**"), as would be required by the Listing Rules of the Financial Conduct Authority ("**FCA**") as applicable to non-FTSE 350 companies if Zegona were admitted to the Premium segment of the Official List, and how Zegona meets the relevant information provisions of the Disclosure and Transparency Rules of the FCA (the "**DTR**").

Zegona's principal risks are described on pages 12 to 16. The Directors' Report on pages 48 to 50 also contains information required to be included in this statement of corporate governance.

The Board of Directors

Zegona is led and controlled by an effective Board. The Board at the date of approval of this report comprises two Executive Directors and four independent Non-Executive Directors. The two Executive Directors are Eamonn O'Hare (Chairman and Chief Executive Officer ("**CEO**")) and Robert Samuelson (Chief Operating Officer ("**COO**")). The Non-Executive Directors are Richard Williams, Ashley Martin, Kjersti Wiklund and Suzi Williams.

Biographical details of all Directors and details of their committee membership at the date of approval of this report appear on pages 19 to 20. Consideration of the Board size and composition is kept under regular review by the Nomination and Remuneration Committee.

Powers and operation of the Board

In exercising its duty to promote the success of Zegona, the Board is responsible for overseeing the management of Zegona and, in doing so, may exercise its powers, subject to any relevant laws, regulations and Zegona's Articles of Association. The Board is presented with papers from management concerning financial information, information on investor relations and details of acquisition targets and deal progress, which it takes into account in discussions and in the decision-making process under section 172 of the Companies Act 2006.

Eamonn O'Hare, as the Chairman and CEO, is primarily responsible for the running of the Board and for the day-to-day running of Zegona. All Board members have full access to Zegona's advisers for seeking professional advice at Zegona's expense and our culture is to discuss openly any important issues and frequently engage with Board members outside of formal meetings. The operating and financial responsibility for all subsidiary companies is the responsibility of the Board.

The Board has adopted a Board Charter, available on Zegona's website, which sets out:

- the Board's collective vision on Zegona's strategy and objectives;
- the Board's approach to the conduct of its business and the parameters within which it will operate, including the management of any Board or investor disagreements; and

- the Board's agreed focus areas for further action.

The Board meets formally at least six times a year but also frequently meets additionally on an ad hoc basis where necessary. The Directors are encouraged to have free and open contact with management at all levels and full access to all relevant available information. The Executive Directors actively and constructively encourage challenge and seek input from the Non-Executive Directors to draw on their extensive experience and knowledge. The Board believes that the role of the Non-Executive Directors in providing independent challenge is a vital component of an effective Board.

The Board delegates the day to day responsibility for running Zegona to the executive management, however there are a number of matters which are required to be or should only be decided by the Board of directors as a whole in accordance with the UK Corporate Governance Code. An updated schedule of Matters reserved for the Board, approved by the Board on 9 June 2020, can be found on Zegona's website[20].

Board committees

The Board has established two principal committees, the Audit and Risk Committee and the Nomination and Remuneration Committee, to assist it in the execution of its duties. If the need should arise, the Board may set up additional committees as appropriate. The committees' terms of reference are available on Zegona's website, www.zegona.com, or by request from the Company Secretary. Each of the committees is authorised, at Zegona's expense, to obtain legal or other professional advice to assist in carrying out its duties. No person other than a committee member is entitled to attend the meetings of these committees, except by invitation of the chairman of that committee.

Current membership of the committees is shown on pages 19 and 20. The composition of these committees is reviewed regularly, taking into consideration the recommendations of the Nomination and Remuneration Committee.

Independence of the Board

The Code specifies that the Board should identify in the annual report each Non-Executive Director it considers to be independent. The Board considers that Ashley Martin, Richard Williams, Kjersti Wiklund and Suzi Williams are independent Non-Executive Directors for the purposes of the Code and have no relationships or circumstances which are likely to affect, or could appear to affect, their judgement as Directors.

Board and committee attendance

Attendance at the Board and committee meetings held during 2020 was:

	Board	Nomination and Remuneration Committee	Audit and Risk Committee
Eamonn O'Hare	15/15	-	-
Robert Samuelson	15/15	-	-
Mark Brangstrup Watts[21]	7/7	2/2	-
Murray Scott[22]	7/8	1/1	1/1
Richard Williams	15/15	4/4	3/3
Ashley Martin	15/15	4/4	3/3
Suzi Williams[23]	13/13	4/4	-
Kjersti Wiklund[24]	13/13	-	3/3

[20] https://www.zegona.com/investor-relations/shareholder-information.aspx.
[21] Mark Brangstrup Watts resigned on 12 May 2020.
[22] Murray Scott did not stand for re-election and ceased to be a Director on 9 June 2020.
[23] Suzi Williams was appointed Non-Executive Director on 5 February 2020.
[24] Kjersti Wiklund was appointed Non-Executive Director on 5 February 2020.

Directors' terms of service

Zegona's Articles of Association require each Director to retire from office and offer themself for re-election or election, as the case may be, at each AGM. Accordingly, each of the Directors will retire from office at the 2021 AGM and seek to be re-elected by Zegona's shareholders. The Chairman is satisfied that the performance of the Directors continues to be effective and demonstrates their ongoing commitment to the role and as such supports their re-election.

The Executive Directors have service contracts which may be terminated on no less than 12 months' notice by either party. The Non-Executive Directors each have current service contracts which can be terminated on 6 months' notice. All Non-Executive Directors' continued service is dependent on annual re-election by shareholders and the annual Board effectiveness review. Details of the unexpired terms of the service contracts are set out in the Directors' Remuneration Report.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006 (the "**Act**"). The indemnity was in force throughout 2020 and is currently in force. This confirmation is given and should be interpreted in accordance with the provisions of section 236 of the Act.

Zegona also purchased and maintained throughout the year Directors' and Officers' liability insurance.

Conflicts of interest

Zegona's Articles of Association provide for a procedure for the disclosure and management of risks associated with Directors' conflicts of interest. Zegona's Board Charter sets out the process for managing significant Board or investor disagreements and/or conflicts. Notwithstanding that no material conflict of interest has arisen in the year, the Board considers these procedures to have operated effectively.

Company secretary

Crestbridge Corporate Services Limited was appointed Zegona's Company Secretary on 24 February 2021, replacing Mark Millar of Foot Anstey LLP, who replaced Axio Capital Solutions Limited (**"Axio")** as Zegona's Company Secretary on 15 July 2020. The Company Secretary assists the directors in ensuring Zegona is managed, controlled and administered within the parameters of its governing and constitutional documents. All Directors have access to the advice of the Company Secretary, which is responsible for guiding the Board on all governance matters.

Compliance with the UK Corporate Governance Code

The Code sets out a number of principles in relation to: board leadership and company purpose; division of responsibilities; composition, succession and evaluation; audit, risk and internal control; and remuneration. A copy of the Code is available on the FRC's website at www.frc.org.uk.

Following admission to the Main Market the Board has voluntarily (as Zegona has a Standard Listing) complied with the UK Corporate Governance Code except in the instances set out below:

Combined Chairman and CEO

Provision 9 of the Code recommends that the roles of Chairman and the Chief Executive Officer should not be exercised by the same person and that the Chairman should be independent on appointment. Zegona does not comply with this requirement. The Board presently believes that Eamonn O'Hare's skills, knowledge and leadership have enabled him to effectively perform both roles. Zegona also maintains a schedule of Matters reserved for the Board which prevents Eamonn from authorising certain corporate actions without a formal resolution of the Board which is re-enforced by the Board's culture of detailed review and robust challenge on significant matters. As discussed below, the board consider that it is important that this should continue to be kept under active review.

Zegona has paid close attention to this matter since its incorporation and has formally reconsidered it on a number of occasions. Separation of the roles was determined to be a low priority in the corporate governance review completed by Ernst & Young LLP, "**EY**" in 2017. This matter has also been actively reconsidered both as part of the EY-facilitated exercise to develop Zegona's Board Charter in 2018/19 and as part of each of Zegona's annual assessments of Board effectiveness. The Board remains aware of this area of non-compliance and following discussion at its recent annual assessment of Board effectiveness, it will ensure that this matter continues to be kept under active review.

Appointment of a Senior Independent Director ("SID")
Provision 12 of the Code recommends that one Non-Executive Director should be appointed as a senior independent director to provide a sounding board for the chair and serve as an intermediary for the other Directors and shareholders. Zegona does not currently have a SID and this has been the subject of active consideration since Zegona's formation. The Board fully recognises the value that can be provided by a SID and was intending to appoint one following its 2020 AGM, however the difficulties of remote working during the Covid-19 pandemic and the ongoing shareholder engagement exercise being led by the Chairs of the two Board committees meant that Zegona concluded it was not appropriate to make an appointment. The Board intends to reconsider whether it should appoint a SID in conjunction with its ongoing active consideration of whether it remains appropriate for the Chairman and CEO roles to be combined.

Employee engagement
Provisions 2, 5 and 6 provide guidance for the implementation of procedures meant to ensure Zegona engages with and monitors its workforce. Given Zegona currently has only six employees (excluding Directors), the Board believes the implementation of any formal steps or procedures to engage with the workforce are not required as informal communications occur regularly between all employees and the Executive Directors, including weekly team meetings.

Evaluation of the Board, committees and individual Directors
The Board has conducted an annual evaluation of its own performance and that of its committees by means of a questionnaire requiring written responses from the Directors. To ensure independence and objectivity, the questionnaire was designed, administered and reviewed on a confidential basis. The questionnaire was drafted having regard to the balance of skills, experience, independence and knowledge contributed by its members, as well as the successful operation of the Board as a unit, its diversity and the other key factors relevant to its effectiveness.

The anonymous responses was sent to each Non-Executive Director for consideration and discussion at a meeting of the full Board.

The findings of the review were generally positive. The Board noted that 2020 has been a unique and challenging year which coincided with a significant change in the composition of the Board. The Board recognised that Zegona is unusually agile and entrepreneurial and that has meant the Board has needed to meet the considerable challenge of being flexible, fast-moving and decisive while still upholding the highest governance standards. The Board considered that this had been achieved and the robust challenge provided by the Non-Executive Directors had been valuable. The board also highlighted a number of matters for the Board to focus on in the coming year, including. These included; ensuring that the questions of whether the Chairman and CEO roles should continue to be combined and/or a SID should be appointed are kept under active reconsideration, continuing to focus on strengthening governance and continuing to build on the improvements made in risk assessing key decisions.

Whistleblowing policy
All employees are encouraged to raise genuine concerns about possible improprieties in the conduct of Zegona's business, whether in matters of financial reporting or other malpractices, at the earliest opportunity and in an appropriate way. Zegona has put in place a whistleblowing policy to facilitate this.

The aims of this policy are:

- to encourage employees to report suspected wrongdoing as soon as possible, in the knowledge that their concerns will be taken seriously and investigated as appropriate, and that their confidentiality will be respected;
- to provide employees with guidance as to how to raise those concerns; and
- to reassure employees that they should be able to raise genuine concerns in good faith without fear of

reprisals, even if they turn out to be mistaken.

Share dealing

Zegona has in place systems to ensure compliance by the Board and its applicable employees in relation to dealings in securities of Zegona and Euskaltel. We believe that the share dealing code adopted by the Board is appropriate for Zegona's size and complexity and that it complies with the EU Market Abuse Regulation (2014/596/EU). The Board complies with these provisions and takes all reasonable steps to ensure compliance by Zegona's 'applicable employees'.

Relations with Zegona's stakeholders

Zegona does not currently have an operating business and, until it does so again, has a limited number of stakeholders outside of its shareholders given that Zegona has no customers and its suppliers are primarily professional advisers. All Directors have frequent interactions with Zegona's small workforce.

The Board is always available for communication with shareholders and the Executive Directors frequently engage constructively with current and potential shareholders, with feedback regularly discussed in depth at Board meetings. This has been supplemented this year with the consultations with major shareholders undertaken by the Committee Chairs. All shareholders have the opportunity, and are encouraged, to attend and vote at the general meetings during which the Board is available to discuss issues affecting Zegona. Barclays Bank plc and Canaccord Genuity Limited, as Zegona's joint corporate broker, provides reports and attend Board meetings, as appropriate, to provide feedback to the Non-Executive Directors on shareholders' views.

Annual general meeting

The next AGM will be held at 10 Snow Hill, London, EC1A 2AL at 12:00 p.m. on 30 June 2021. The AGM is an opportunity for shareholders to vote on certain aspects of Zegona's business. The Directors will also be available to answer any shareholder questions prior to and after the meeting.

GOVERNANCE | AUDIT AND RISK REPORT

Audit and Risk Committee Report

I am pleased to present the 2020 report of the Audit and Risk Committee (the "**A&RC**"). The A&RC is an essential part of Zegona's governance framework, to which the Board has delegated oversight of Zegona's financial reporting, internal controls, risk management and the relationship with the external auditor.

In discharging its duties, the A&RC embraces its role of protecting the interests of shareholders with respect to the integrity of financial information published by Zegona, control effectiveness and the effectiveness of the audit process[25].

Committee membership and meetings

The members of the A&RC during 2020 were Ashley Martin (Chairman), Richard Williams, Murray Scott and Kjersti Wiklund, all of whom are independent Non-Executive Directors as required by provision 24 of the Code. Kjersti Wiklund was appointed to the A&RC on 5 February 2020, bringing additional IT and telecommunications experience to the A&RC and Murray Scott stepped down on 9 June 2020. The Board has determined that Ashley Martin has recent and relevant financial experience due to his previous CFO roles at listed and private equity backed businesses. Both Ashley and Richard qualified as Chartered Accountants. In line with the Code, the A&RC as a whole possesses competence relevant to the sector in which Zegona operates through the digital media and consumer experience of Ashley Martin and the telecommunications experience of Richard Williams and Kjersti Wiklund.

The A&RC normally meets at least three times a year with additional meetings arranged if necessary. In 2020, the A&RC met in May, August and December and has subsequently met in April 2021. The scheduling of these meetings is designed to be aligned with the financial reporting timetable, thereby enabling the A&RC to review

[25] The A&RC's role and responsibilities are set out in its terms of reference, which are available on Zegona's website and from the Company Secretary.

the interim financial report, the audit plan ahead of the year end audit and the annual report, as well as to maintain a view of the internal controls and risk management processes throughout the year.

The Company Secretary acts as secretary to the A&RC. The A&RC invites the Chief Financial Officer to all meetings and other members of the finance and management team as may be appropriate for the business of the meeting, as well as senior representatives of the external auditor. The A&RC meets separately with the external auditors to seek their views without management present, and the A&RC Chair keeps in touch with the Chief Financial Officer as well as other members of the management team and the lead audit partner periodically outside of formal meetings. The A&RC has the right to invite any other Directors and/or employees to attend meetings where this is considered appropriate.

The A&RC Chair reports formally to the Board on the key matters considered at each A&RC and minutes of those meetings are circulated to the Board.

Committee effectiveness

The effectiveness of the A&RC was considered by the Board as part of the annual Board effectiveness evaluation. The feedback was positive and confirmed that the A&RC remains effective and provides robust challenge.

Activities during the year

Since the last Audit and Risk Committee Report, the A&RC has undertaken the following activities:

Financial reporting:

- Confirmed that the Financial Statements were fair balanced and understandable. In this respect, the A&RC considered, inter alia:
  - the key messages in the annual report and their consistent application in the front and back end of the report;
  - whether the whole story is presented and whether any sensitive material has been omitted; and
  - whether there is a clear and cohesive framework for the annual report.

- Reviewed the going concern assumption and the assessment forming the basis of the longer term viability statement. The A&RC reviewed the work undertaken by management to assess Zegona's resilience to the principal risks under various stress test scenarios and confirmed that a 3-year assessment period remained appropriate.

- Considered the key judgements and estimates made by management in preparing the Financial Statements, as follows:
  - **Valuation of the contingent consideration -** the A&RC reviewed the model and the conclusions related to the valuation of the contingent consideration and the related disclosure. Euskaltel has now provided for the full amount of €8.7million, therefore, Zegona is confident that it will receive this amount shortly after the Euskaltel board is released of its duty of passivity following the completion of the Offer for Euskaltel. This formed the basis of the inputs to the probability weighted discounted cashflow valuation model that calculated the fair value of the contingent consideration of €7.5 million at 31 December 2020. The A&RC reviewed this model and was satisfied with the valuation.

  - **Treatment of the Contingent tax liability –** the A&RC reviewed the conclusions related to the ongoing activity around the EU Commission decision that the Group Financing Exemption contained within the UK's Controlled Foreign Company (''CFC'') legislation constituted State Aid. The Committee noted that while the UK Government has lodged an appeal for annulment of the decision, HMRC had issued Zegona with a charging notice in February 2021 in the amount of £4.1 million (€4.9 million). The issuance of charging notices is a collection mechanism only and not an arbitration on the merits of the on-going litigation. Consequently, this does not change Zegona's view that while it is finely balanced, it remains more likely than not that the appeals made by other UK taxpayers and the UK Government will be successful and ultimately Zegona will not incur any liability and therefore no provision is required in respect of this matter. The A&RC reviewed the third party advice and agreed with management's conclusion.

- **Impairment considerations at the end of each reporting period**. Reviews of indicators of impairment and impairment assessments of our investments in associates and subsidiaries are judgmental, in particular for assets where a readily available market does not exist. In the case of Zegona's associate, Euskaltel, Zegona has used a range of external sources of information to conclude that no indicators of impairment exist at 31 December 2020. The most important source was Euskaltel's quoted share price and market capitalisation at 31 December 2020, but other sources included analysts' reports on Euskaltel and the telecommunications market in Spain and other public information on Euskaltel such as its business plans, results and other public announcements. The A&RC reviewed the indicators of impairment assessments for our investment in associates and subsidiaries and was satisfied with the conclusions made and the related disclosures.

- **Accounting treatment and valuation of the incentive arrangements** – the A&RC reviewed and agreed with management's interpretation of IFRS 2 when concluding that the renewal of the incentive scheme constitutes a new incentive scheme, whose grant date cannot be until Zegona's shareholders vote to ratify the renewal at the 2021 AGM. In these circumstances, IFRS 2 requires the fair value of the award to be estimated at each balance sheet date and an expense recognised in the Income Statement from the date the holders of the shares begin to render services.

In all of the above judgements, the A&RC also considered the work undertaken by KPMG and reports to the A&RC in support of the position adopted by Management.

Other considerations:

- Reviewed the effectiveness of Zegona's risk management and internal controls and disclosures made in the annual report on this matter, including the review of an annual assurance statement provided by management assessing the effectiveness of Zegona's risk management and internal control systems;
- Reviewed and agreed the scope of the audit work to be undertaken by the external auditor and assessed the audit and non-audit fees to be paid, as well as the independence and objectivity of the auditor;
- Considered the effectiveness of the external audit process, following the receipt of feedback from the management team, Executive Directors, Non-Executive Directors and other service providers involved in the audit process by way of a questionnaire;
- Reviewed and made a recommendation to the Board with regard to the re-appointment of the external auditor, taking into account auditor effectiveness and independence, partner rotation and other factors which may impact the external auditor's re-appointment;
- Assess any potential threats to independence that were reported by KPMG. The A&RC considered KPMG to be independent and KPMG, in accordance with professional ethical standards, provided the A&RC with written confirmation of its independence for the duration of 2020;
- Reviewed the need for an internal audit function and made a recommendation to the Board;
- Reviewed the interim Financial Statements, including the critical accounting judgements and estimates used in preparing them;
- Reviewed management's updates to Zegona's main control document, the Financial Position and Prospects memorandum. The A&RC also reviewed the updates made to Zegona's risk register; and
- Reviewed Zegona's whistleblowing policy and anti-bribery and anti-corruption policy.

External auditor

Our external auditor, KPMG LLP (**"KPMG"**), has now completed its fifth audit and the A&RC is involved in the audit partner rotation process. Zegona will not be required to tender for the audit until the 2026 financial year end. KPMG continues to provide robust challenge to management and independent advice to the Committee on specific financial reporting and judgements.

KPMG was appointed as Zegona's external auditor on 15 December 2016, with no changes to the key audit partner since appointment.

During 2020, non-audit fees were pre-approved in relation to KPMG's agreed upon procedures on the interim financial statements for the six months ended 30 June 2020. The fees for these procedures totalled €29,000, which is significantly lower than the audit fees for the Financial Statements for the year ended 31 December 2020 and therefore auditor objectivity and independence is not deemed to be compromised by the level of non-audit fees.

The A&RC has set a threshold of €11,000 (£10,000) for pre-approving non-audit fees. All of KPMG's services have been pre-approved and reported to the A&RC.

Risk management and internal control systems

The Board is responsible for establishing and maintaining Zegona's system of internal control and reviewing its effectiveness. The Board has delegated the annual review of the adequacy and effectiveness of Zegona's internal financial controls and internal control and risk management systems to the A&RC.

Internal control systems are designed to meet the needs of Zegona and the risks to which it is exposed to ensure the integrity of the financial and accounting information, promote accountability and prevent fraud. The procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable but not absolute assurance against material misstatement or loss.

Zegona does not have a separate internal audit function as the Board does not feel this is currently necessary due to the size of the business and the simplicity and low volume of transactions, coupled with the nature and the extent of internal controls and Board oversight and involvement. The A&RC will continue to regularly review the need for an internal audit function as the business evolves and develops.

Zegona's risk management framework incorporates a risk assessment that identifies and assesses the strategic, operational and financial risks facing the business, mitigating controls, and appropriate corrective actions, if and when needed. This assessment is continually updated by management and reviewed and discussed by the A&RC at least twice per year.

Zegona has in place a robust internal controls system over financial reporting, which encompasses a mixture of detective, preventative and corrective controls, including:

- Entity level controls which encompass guidelines for Zegona's governance, financial analysis and integrity, and its adherence to applicable laws and professional standards;
- Systems and procedures in place to identify, assess, control and monitor principal and emerging strategic, commercial, financial and regulatory risks are considered by the Board regularly;
- A team of professional advisers including legal, capital markets, M&A, accounting, regulatory, and PR providing advice to management and the Board;
- A schedule of Matters reserved for the Board to ensure that the Board is involved in all critical decisions of Zegona which is reviewed regularly;
- Regular updates directly from the CEO of Euskaltel on the competitive landscape and on the prospects for the business;
- A comprehensive system of budgeting, forecasting and monthly reporting and rigorous analytical review procedures;
- A comprehensive risk register which is reviewed at least bi-annually and updated to take account of development within Zegona;
- Segregation of duties for all financial reporting and accounts payable critical tasks; and
- An in-house treasury function responsible for managing cash, foreign exchange risk and ensuring compliance with banking and loan agreements.

Through the above procedures the Board with advice from the A&RC has reviewed the effectiveness of the internal control system throughout the year and up to the day of this report. No significant control findings or weaknesses have been identified from this review.

Ashley Martin
Chairman of the Audit and Risk Committee

GOVERNANCE | NOMINATION AND REMUNERATION REPORT

Nomination and Remuneration Committee Report

Dear Shareholder,

On behalf of the Board, I am pleased to present the Nomination and Remuneration Committee ("the Committee") Report for the year ended 31 December 2020, this being my first report having taken over as Chair of the Committee from Richard Williams on 9 June 2020. I want to take this opportunity to thank Richard for his tenure and for his ongoing contribution as a member of the Committee.

The following pages set out the Committee's operations and activities in the year and how we have addressed a number of important matters. Zegona is committed to transparency, equivalence and engagement with shareholders. And in these matters we have made progress this year. The fundamental principles underpinning our policy remain:

- Alignment between management and shareholders over the long term
- Focus on performance - with a high percentage of variable pay
- Transparency and simplicity for the benefit of all stakeholders

The Committee met four times during 2020, supported by a number of full board discussions. The matters we discussed are set out on page 34. In addition to this, as 2020 was the final year of a five year management incentive scheme and in order to specifically consider the long-term incentive arrangements, we formed a separate independent committee made up of the full group of Independent Non-Executive directors. This Committee held a significant number of discussions in relation to the outcomes to the Management Incentive Plan and I include further details on this later in this letter.

Zegona's approach to remuneration - ensuring management interests are fully aligned with shareholders over the long term

Zegona seeks to ensure that Executive directors and senior management are remunerated fairly and transparently for creating a high-performance culture that delivers Zegona's strategy, while ensuring their interests are fully aligned with shareholders over the long term.

Accordingly, Zegona has designed a Remuneration Policy to meet these objectives. Under this Policy Executives and senior management receive a mix of remuneration which is geared towards a higher percentage of variable pay and includes an incentive arrangement which rewards shareholder value creation over the long term.

This approach to remuneration received strong support when it was last presented to shareholders for approval at the 2019 AGM with more than 86% of the votes cast in favour of the Remuneration Policy. I have set out below how our implementation of that policy fits with Zegona's strategy and the desired outcomes for our shareholders.

Company performance and context – strong performance in a challenging environment

In an unprecedented year, Zegona and Euskaltel performed well. Zegona continued to be Euskaltel's largest shareholder, actively supporting the management team in delivering operating efficiency and expanding nationally. Zegona's leadership successfully drove a number of key initiatives that contributed to Euskaltel delivering strong results for 2020 in spite of the global Coronavirus pandemic. These included:

- Integrating three operating companies into one business to generate €40 million of annual EBITDA run-rate efficiencies within the existing business;
- Driving significant growth by launching services nationally across Spain under the Virgin telco brand in May 2020.

Euskaltel achieved the key financial and customer growth targets it set itself in its business plan and saw accelerating growth, driven in particular by the success of Virgin telco. During 2020, Euskaltel achieved the highest annual customer growth since it was listed in 2015, and Virgin telco growth was more than 50% ahead of plan. This drove accelerating revenue growth, with fourth quarter revenue up 4.6% to €179.5 million and full year 2020 revenue up 1.7% to €697.1 million. Profitability and cash generation were strong, with the 2020 EBITDA target met and EBITDA growth in 2020 of 2.3%. This encouraging progress at Euskaltel forms the backdrop of the key remuneration matters that we have dealt with in the year, which have included:

Shareholder engagement - addressing last year's AGM results

An important Nomination and Remuneration Committee activity this year was to engage with shareholders following the results of the 2020 Annual General Meeting ("AGM").

At the AGM on 9th June 2020, all resolutions were approved with at least 60% of votes in favour. However, shareholders owning 32% of Zegona's shares voted against the resolution approving the Company's Remuneration Report while shareholders owning 20% voted against the resolution re-appointing Richard Williams, the then chair of the Nomination and Remuneration Committee to the Board. Nearly all of these votes against these two resolutions were cast by two shareholders, who together own 28.4% of Zegona. Both shareholders voted against the Remuneration Report and one of them also voted against the reappointment of Richard Williams. No other shareholder owning more than 2.1% of Zegona voted against either resolution.

Richard Williams had already announced his intention to step down as Chair of the Committee and on 9th June 2020, I was appointed as the new Chair of the Committee. Together with Ashley Martin (Chair of the Audit & Risk Committee), we took the opportunity across the summer to hold a fully independent remuneration consultation with seven major shareholders representing over 65% of the ownership of Zegona and nearly 90% of the shareholders who had voted against or abstained on remuneration-related resolutions at the 2020 AGM. The consultation was conducted with a view specifically to understand any shareholder concerns in relation to the vote at the 2020 AGM and also, more generally, to ensure shareholder engagement and transparency on remuneration matters.

Two specific areas directly related to remuneration were highlighted by some of the shareholders involved in this consultation:

1) A small number of shareholders raised the question of holding periods. One significant shareholder wished to see changes to the holding requirements upon the exercise of incentive rights. This shareholder voted against the Remuneration Report as this shareholder has a policy that recipients of share incentive awards should be exposed to equity risk for at least five years. While Zegona's scheme is designed to last for up to five years, management can exercise the incentive between three and five years without any post-vesting holding requirement. Following further discussions between the Committee, this shareholder and the Board, holders of the Management Shares have agreed - in line with best practice governance – that if the share incentive is exercised in advance of the full five-year period, any shares received will be held by management until at least five years have elapsed from the start of that period. This holding requirement will not apply in certain situations, such as on a takeover of Zegona or a sale of the main assets of the business. This additional commitment has been agreed with the shareholder who raised the issue and is being implemented through holders of the Management Shares entering into irrevocable deeds[26].

2) Certain shareholders asked about the timing of the redemption of the Management Shares in June 2020 and the calculation of the resulting baseline share price for the next Calculation Period. A core principle of the scheme is that management can exercise between three and five years and the redemption occurred four years and ten months into this maximum five-year Calculation Period. The redemption resulted in the start of a new Calculation Period with a baseline share price of £0.955 as discussed below. The Committee has confirmed that both the redemption timing and baseline share price for the new Calculation Period were in line with the rules of the scheme and communicated this to the shareholders who had requested clarification.

In considering all shareholder feedback received on the management incentive arrangements, and whether any changes are called for, the Committee has taken into account the Offer from MásMovíl to acquire 100% of Euskaltel. It is important to note that if, as is expected, Zegona's stake in Euskaltel is sold at the Offer price of

[26] The holders of Management Shares may exercise their rights during Measurement Periods, which are three to five years after the previous Calculation Date. Shares received upon the exercise of performance rights, net of tax obligations, must generally be retained until a period of at least five years has elapsed since the previous Calculation Date. This additional post-exercise holding period will be waived in the event that substantially all of the company's main assets are sold, or there is a Takeover, Board Change of Control, liquidation or Winding Up of the company, if the Parent ceases to be the Holder of 50% or more in nominal value of the issued ordinary Shares in the capital of the Company, or if a Drag Along Notice has been issued.

€11.17, Zegona will have generated an Annualized Return since IPO of nearly 11%, significantly in excess of the Management Incentive Scheme Preferred Return target of 5%.

Outside of remuneration matters, some shareholders also asked questions and expressed views about the potential distribution by Zegona of Euskaltel shares directly to its shareholders. As this is not strictly a remuneration issue, this is discussed in the Business and Financial Review on page 5, and has in any case been superseded as an issue by the Offer from Masmovil for Zegona's 21.44% stake in Euskaltel.

This engagement from shareholders was much appreciated by the Nomination and Remuneration Committee and led to a number of further discussions between the Nomination and Remuneration Committee, the Board and certain shareholders.

We will continue to engage with shareholders on remuneration and will take into account the feedback received in the development and implementation of remuneration policy. That policy will be put forward to a formal vote at The AGM in 2022.

Remuneration decision for 2020 – reviewing outcomes against company performance

Redemption of the management incentive scheme

Given that the first 5-year Calculation Period of the management incentive scheme was due to end in August 2020, as I mentioned above, an independent committee of the Board comprising all the NEDs was formed in April 2020 to review a number of matters relating to the incentive arrangements. It was determined by the Committee that while the value of Zegona's underlying assets was considerably above the preferred return, Zegona's Market Capitalisation was not. This meant that under the terms of the Zegona Limited Articles of Association ("Articles") which govern the incentive scheme, no payment was made or due to management for this initial five year period.

Following this decision, and in accordance with the Articles, on 25 June 2020, Zegona management redeemed 99% of A Ordinary shares ("Management Shares") in accordance with the terms of the Articles. The redemption was shortly in advance of the end of the first Calculation Period on 14 August 2020 and outside any anticipated closed periods. Management received no payment from this redemption.

As a result of this redemption, a new Calculation Period for the unredeemed Management Shares commenced on 25 June 2020. These unredeemed shares have rights to 15% of the growth in value of Zegona on similar terms to the shares previously redeemed unless 75% of shareholders do not approve a resolution to renew the scheme that will be presented to the 2021 AGM. The Baseline value for the new Calculation Period was set at £0.955 being the higher of Zegona's Market Capitalisation and its Net Shareholder Invested Capital on this date as laid out in the Articles.

At the start of the first Calculation Period, Zegona's largest and founding shareholder, Marwyn, was also issued Core Investor Shares in Zegona Limited. This entitled them to 5% of the growth in value of Zegona, provided that ordinary shareholders achieve a 5% Preferred Return on a similar basis to the Management Shares. This first Calculation Period started on the 14 August 2015 and expired unexercised on 14 August 2020. As the Preferred Return was not met, no payment was due or made to Marwyn and in accordance with the Articles, the Core Investor incentive arrangements ceased to exist after 14 August 2020.

2020 Bonus

The Committee carefully reviewed performance against the targets set for the 2020 bonus scheme and determined an overall outcome of 75% was appropriate. Importantly this reflects targets being largely met against the commercial aspects of the scorecard despite a particularly challenging Spanish telecoms market. The commercial outcomes relate to performance of Euskaltel, which was broadly in line with targets and to the share price performance of Euskaltel which outperformed the relevant indices across an extremely tough period. Targets were met to a reasonable extent for the strategic elements of the scorecard. See page 37 for more detail.

Application of remuneration policy for 2021 – no salary increases and no changes to the bonus framework

Following a review of the executive remuneration arrangements, the Committee agreed that there would be no increase in base salary for either of the Executive Directors and as such their salaries will remain unchanged for the year ahead.

The Remuneration Committee will apply the same bonus approach as for 2020 where Zegona Directors have an opportunity to earn 100% of their salary as a bonus. Importantly no less than 85% of bonus metrics will be commercial, with the remainder strategic and personal. The detail of these metrics continues to be commercially sensitive throughout the year. For this reason, the precise targets will be shared retrospectively in the next annual report.

I would like to take the opportunity again to thank shareholders for their engagement and feedback over the past year and look forward to your support at the upcoming AGM in June.

Suzi Williams
Chair of the Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee

The Committee is responsible for nomination and remuneration matters, from the recruitment and retention of high calibre individuals to the design of appropriate incentivisation mechanisms (and the ongoing monitoring of performance against these) while delivering value creation for shareholders and other key stakeholders.

The role of the Committee continues to be ensuring that the Directors are appropriately rewarded, through making recommendations regarding remuneration policy and framework. The Committee monitors and reviews the effectiveness of the Remuneration Policy and considers its impact and compatibility with remuneration policies across the wider workforce. To facilitate this remit, the Committee is provided with information and context on pay, benefits and incentive structures in place across Zegona to support its decision making.

Membership, attendance and other activities

The members of the Committee are Suzi Williams (Chairman), Richard Williams, and Ashley Martin. During 2020 Mark Brangstrup Watts and Murray Scott served as members until their resignations on 12 May 2020 and 9 June 2020 respectively. All members of the Committee are now independent.

In 2020 the Committee met 4 times and has subsequently met in April 2021. The Company Secretary attends these meetings and Executive Directors are invited at the Chairman's discretion. The scheduling of the formal Committee meetings is designed to be aligned with the Committee's recurring annual activities, including: setting of bonus metrics and evaluation of performance against them; overseeing the performance evaluation of the Board, its principal Committees and individual directors; overseeing succession planning for the Board and key members of the senior management team, taking into account expertise and diversity; and reviewing the annual nominations and remuneration report contained within the annual report.

In addition to the matters discussed above, since the last Nomination and Remuneration Committee Report, the Committee has also:

- Reviewed the remuneration package for the Executive Directors and management team for 2021, including bonus metrics;
- Reviewed the Articles of Association of Zegona Limited, which contain the terms of the management incentive scheme;
- Reviewed the Directors' remuneration policy and the nomination and remuneration disclosures in the annual report;
- Reviewed the recommendations arising from the 2020 Board effectiveness review, its committees and its individual Directors and, where appropriate, proposed actions to address those recommendations; and
- Reviewed workforce remuneration and its alignment to Zegona's purpose, values and strategy.

Advisers

The Committee received input and advice from external advisers on specific topics during 2020. The Committee formally engaged PwC LLP's (**"PwC"**) as an adviser in 2021. The Committee's decision reflected the quality and objectivity of the independent advice that PwC had provided to the Committee on remuneration matters during 2020.

For 2020, total fees of €11,285 were incurred in relation to remuneration advice provided by PwC.

Executive pay at a glance

Base salary			
Purpose	Current policy	2020 Implementation	2021 Implementation
To reflect market value of the role and individual's performance and contribution and enable Zegona to recruit and retain Executive Directors of sufficient calibre to drive Zegona's ambitions.	Reviewed every twelve months. Base salary increases are applied in line with the outcome of the review. In respect of existing Executive Directors, it is anticipated that salary increases will generally be in line with inflation or those of salaried employees as a whole.	Effective from 1 January 2020: CEO: £563,000 COO: £419,000	Effective from 1 January 2021: CEO: no increase COO: no increase
Pension contributions			
Purpose	Current policy	2020 Implementation	2021 Implementation
To provide a market competitive pension	Pension contributions are made to the individual's private pension arrangements or paid to them in cash in lieu of such arrangements. Executive Directors receive a pension contribution of up to 20% of base salary	No change	No change
Other benefits			
Purpose	Current policy	2020 Implementation	2021 Implementation
To provide market competitive benefits	Benefits may include car allowances, personal tax advice, private medical insurance, critical life and death in service cover. Benefits may vary by role and individual circumstances and will be reviewed periodically.	No change	No change
Annual cash bonus			
Purpose	Current policy	2020 Implementation	2021 Implementation
To incentivise delivery of Zegona's annual financial and strategic goals	Performance is measured on an annual basis for each Executive Director in respect of each financial period. The maximum annual bonus available is 100% of base salary per annum. The Committee retains discretion to apply malus or clawback provisions	Maximum: no change Award: 75% of salary	Maximum: no change
Management incentive scheme			
Purpose	Current policy	2020 Implementation	2021 Implementation
To drive performance, aid retention and align the interests of Executive Directors and senior management with shareholders over the long term	The Committee may allocate Management Shares in Zegona Limited to Executive Directors or senior management. Zegona's management incentive arrangements entitle participants in aggregate to receive up to 15% of the	No payment on redemption on 25 June 2020 No change	Next exercise period starts 25 June 2023 For additional commitments made by management refer to page 31.

	growth in value of Zegona subject to a shareholders' 5% preferred return. Incentive may be exercised between 3 and 5 years after each renewal.

All disclosures in the Directors' remuneration report are unaudited unless otherwise stated. The annual report on remuneration gives details on the amounts earned in the year ended 31 December 2020 and how the Directors' remuneration policy will be applied in 2021. The remuneration report will be subject to an advisory vote at the 2021 AGM.

2020 Executive Directors remuneration summary (Audited)

In the interests of clarity, since the Executive Directors' salaries are set and paid in Sterling, the table has been presented in both Sterling and euros (Zegona's presentational currency). These tables only include remuneration received by the Executive Directors in respect of their employment by Zegona. The fees received from their appointments as proprietary Directors of Euskaltel are disclosed on page 46.

	Executive Directors (Sterling)			
	Eamonn O'Hare (Chairman & CEO)		Robert Samuelson (COO)	
	2020 £	2019 £	2020 £	2019 £
Base salary	563,000	500,000	419,000	375,000
Pension contributions	112,600	100,000	83,800	75,000
Taxable benefits	21,321	22,024	21,321	21,321
Company health insurance scheme	6,548	5,866	6,304	5,659
Total fixed pay	**703,469**	**627,890**	**530,425**	**476,980**
Annual cash bonus	422,250	470,000	314,250	375,000
Incentive scheme redemptions	-	-	-	-
Total variable pay	**422,250**	**470,000**	**314,250**	**375,000**
Total fixed and variable pay	**1,125,719**	**1,097,890**	**844,675**	**851,980**

	Executive Directors (euros)			
	Eamonn O'Hare (Chairman & CEO)		Robert Samuelson (COO)	
	2020 €	2019 €	2020 €	2019 €
Base salary	635,320	570,174	472,822	427,631
Pension contributions	127,064	114,035	94,564	85,526
Taxable benefits	24,060	25,115	24,060	24,313
Company health insurance scheme	7,389	6,690	7,114	6,453
Total fixed pay	**793,833**	**716,014**	**598,560**	**543,923**
Annual cash bonus	476,490	535,964	354,617	427,631
Incentive scheme redemptions	-	-	-	-
Total variable pay	**476,490**	**535,964**	**354,617**	**427,631**
Total fixed and variable pay	**1,270,323**	**1,251,978**	**953,177**	**971,554**

None of the Executive Directors' remuneration in 2020 was attributable to Zegona's share price growth. No discretion has been exercised to determine remuneration as a result of either Zegona's share price appreciation or depreciation.

Components of remuneration: Base salary

Implementation in 2020

As advised in last year's Directors' Remuneration Report, effective from 1 January 2020, the Committee awarded an increase of 12.6% to Eamonn O'Hare's base salary partly in recognition of the fact that he had received no increase in base salary since 2015. Also effective from 1 January 2020, the Committee also awarded an 11.7% increase to Robert Samuelson's base salary, which recognises his role in supporting Euskaltel's partnership with Virgin and his ongoing contribution to this aspect of Zegona's plan to create value from its investment in Euskaltel.

Implementation in 2021

Following a review of the executive remuneration arrangements, the Committee agreed that there would be no increase in base salary for either of the Executive Directors and as such their salaries will remain unchanged for the year ahead.

Components of remuneration: Pension contributions

In 2020 both Executive Directors received a pension contribution of 20% of their base salary, which will continue in 2021. This level of pension contribution has remained the same since Zegona was first listed.

Components of remuneration: Taxable benefits and Company Health Insurance Scheme

In 2020 both Executive Directors received car allowances, personal tax advice, private medical insurance, and death in service cover, which will continue in 2021.

Components of remuneration: Annual cash bonus

Implementation in 2020

The Committee carefully reviewed performance against the key bonus objectives during the year and concluded that the Executive Directors met a significant majority of their indicators of achievement in relation to the 2020 bonus scheme and Eamonn O'Hare was rewarded with 75% and Robert Samuelson with 75% of their maximum bonus opportunity of 100% of salary. The performance against key objectives was as follows:

Objective	Weighting	Result	Award
Achieve key operational and governance milestones within Euskaltel	35%	• Euskaltel successfully launched national expansion with Virgin telco launching in May 2020. • Refinancing of €215 million amortising debt to December 2023 bullet repayment ensured appropriate debt structure. Leverage reduced from 4.3x to 4.2x. • Euskaltel Board restructured: size reduced to 10 members. • 2020 budget delivered broadly in line with targets.	31%
Drive Euskaltel equity value	35%	• Euskaltel share price, considerably outperformed peers during a difficult period for telcos. • December 2020 VWAP between €9-€10 per share	31%
Identify or execute a new acquisition/ sale	15%	• Incredibly challenging year for M&A activity across the sector in light of impact of Covid-19 pandemic on macro-economic environment. • Significant work carried out to explore the market and prepare groundwork for M&A,	3%
Excellence in leadership and governance	15%	• Increased board diversity and independence, including the appointment of two new independent NEDs as well as a company secretary and an independent adviser to the Nomination and Remuneration Committee • Extensive engagement with investors and opportunity to continue to enhance this, including more regular and proactive dialogue, in order to achieve "best-in-class" approach. • Use of a fully Independent Committee approach to look at key issues during the year.	10%
Bonus awarded (% of base salary)			75**%**

The Committee believes the Directors' remuneration policy in respect of Executive Directors operated as intended in terms of Zegona's performance and quantum.

Implementation in 2021

The Remuneration Committee will apply the same bonus approach as for 2020 where Zegona Directors have an opportunity to earn 100% of their salary as a bonus. Importantly no less than 85% of bonus metrics will be commercial, with the remainder strategic and personal. The detail of these metrics continues to be commercially sensitive throughout the year. For this reason, the precise targets will be shared retrospectively in the next annual report.

Components of remuneration: management incentive scheme

Although the Committee feels it is important to remunerate and incentivise the Executive Directors through their basic pay, benefits and annual bonus, it also feels very strongly that Executive Directors' long-term incentives should be linked to the creation and delivery of real returns to shareholders. A key element of Zegona's remuneration policy for the Executive Directors and senior management is Management Shares in Zegona Limited, which were put in place when Zegona was founded and were designed to provide ongoing remuneration aligned with shareholders.

Overview of the scheme

The holders of the Management Shares are entitled to 15% of the growth in value of Zegona during a series of up to five separate Calculation Periods, provided that ordinary shareholders achieve a 5% Preferred Return[27] in each Calculation Period. The first Calculation Period began on 14 August 2015 and, as discussed below, ended on 25 June 2020, at which point the Second Period began.

Holders of the Management Shares may exercise them at any point between the third and fifth anniversary of the start of each Calculation Period by redeeming substantially all of them. There are also provisions for exercise by management if there is a takeover or acquisition of Zegona (including by a scheme of arrangement), or Zegona sells all or substantially all of its assets and distributes the net proceeds to shareholders.

Upon exercise, if the Preferred Return has been met, holders of the Management Shares receive 15% of the increase in value of Zegona in either Zegona ordinary shares or cash at the discretion of Zegona's Board at the time of the exercise on advice from the Committee in accordance with the Articles. If the Preferred Return has not been achieved, no payment is made. It is currently anticipated that the exercise of Management Shares could result in management receiving ordinary shares, which, depending on the amount of value created, could potentially lead to management becoming a significant shareholder.

Upon exercise of the Management Shares, a new Calculation Period automatically begins for the 1% of unredeemed shares with management still entitled to 15% of the growth in value of Zegona over the new Calculation Period, provided the Preferred Return is achieved over this period. The starting value against which the growth in value and the Preferred Return are calculated (the "Baseline") at the beginning of the new Calculation Period is set at the higher of the Market Capitalisation of Zegona, defined as 30-day VWAP, and the Net Shareholder Invested Capital on that date.

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

Scheme developments in 2020

Exercise of shares and start of the Second Calculation Period

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[27] Return (a 5% per annum return on a compounded basis on shareholders' net investment).

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

In accordance with the scheme rules, Zegona management redeemed its Management Shares on 25th June 2020 which was in advance of the end of the first Calculation Period on 14 August 2020 and outside of anticipated closed periods. At this date, the value of Zegona's investment in Euskaltel and its cash and cash equivalents net of bank borrowings[28] on this date was worth £1.28 per Zegona share. However, the value of Zegona shares (based on the 30-day volume weighted average price, **"VWAP"**) which was below the £1.234 level required for the Preferred Return to be met. Consequently, management received no value from the redemption and the Baseline for the new Calculation Period was equal to shareholders net invested capital of £0.955 per share as shown in the table below.

	Net invested capital (unadjusted) £	5% pa Preferred Return at 25 June 2020 £	Preferred Return hurdle at 25 June 2020 £
Share issue – March 2015	30,000,000	38,789,862	8,789,862
Share issue – August 2015	256,567,440	325,284,925	68,717,485
Dividend – October 2016	(4,411,012)	(5,298,047)	(887,035)
Dividend – March 2017	(4,411,012)	(5,190,725)	(779,713)
Share buy-back – October 2017	(139,651,022)	(159,249,709)	(19,598,687)
Dividend – November 2017	(4,922,558)	(5,610,350)	(687,792)
Dividend – April 2018	(4,922,558)	(5,472,174)	(549,616)
Dividend – December 2018	(3,534,145)	(3,800,946)	(266,801)
Dividend – February 2019	(3,155,486)	(3,364,849)	(209,363)
Share issue – February 2019	100,501,514	107,460,544	6,959,030
Dividend – August 2019	(5,548,379)	(5,785,669)	(237,290)
Dividend – March 2020	(4,410,465)	(4,476,103)	(65,638)
Share buy-backs – 2020[29]	(2,461,592)	(2,506,488)	(44,896)
	209,640,725	**270,780,271**	**61,139,546**
Shares outstanding	**219,492,730**	**219,492,730**	**219,492,730**
Per share (£)	**0.955**	**1.234**	**0.279**

Following the redemption, 51,546,370 Management Shares in Zegona Limited remained allotted, issued and fully paid. No Management Shares were awarded during the year (2019: nil). At the time of signing this report and as at 31 December 2020, the total Management Shares held by the Directors were as shown in the table below:

	Participation in growth in value	Number of Management Shares	Nominal value of Management Shares
Eamonn O'Hare	8.88%	30,500,000	£3.05
Robert Samuelson	4.44%	15,250,000	£1.53

[28] Defined by Zegona at 31 December 2020 as "Underlying Asset Value per Share" – excludes the value of contingent consideration receivable and any value for Zegona Management Shares.
[29] Includes cost of all shares purchased back under the first programme (7 January – 31 March) and calculation of the preferred returns using the underlying purchase dates.

Other Zegona senior managers	1.68%	5,796,370	£0.58
		51,546,370	£5.16

The Executive Directors are entitled to keep their Management Shares for a period of time if they are terminated, save if they are terminated for cause. The time period is two exercise periods, save in the case of death or permanent disability when it is until the end of the current exercise period.

Expiry of Core Investor Shares

During the first Calculation Period, Marwyn Long Term Incentive LP (**"Marwyn"**), Zegona's largest and founding shareholder, had been issued Core Investor Shares in Zegona Limited. The Core Investor Shares carried no voting rights. Marwyn, as holder of the Core Investor Shares, was entitled to 5% of the growth in value of Zegona, provided that ordinary shareholders achieve a 5% Preferred Return on a similar basis to the Management Shares. This first Calculation Period started on the 14 August 2015 and ended on 14 August 2020. As the Preferred Return was not met, no payment was due or made to Marwyn and the Core Investor incentive arrangements ceased to exist after 14 August 2020. Therefore, the aggregate entitlement of the growth in value Zegona's value accruing to incentive schemes has reduced from 20% to 15%, which leaves a higher proportion of value growth for Ordinary shareholders.

Illustration of scheme value

To explain how Zegona's incentive scheme operates, we have set out here an illustration of how much value would be earned by the management team assuming a hypothetical exercise date of 31 December 2020, even though the Management Shares were not exercisable at that date[30].

The illustration assumes that the exercise was based on the market value of Zegona's ordinary shares at the hypothetical exercise date and, since the deemed market capitalisation of £233.8 million was higher than the Preferred Return target, the holders of the Incentive Shares would have received a payment to reflect this excess. At the same time, Zegona's Underlying Asset Value[31] was £339.2 million and it is likely that had an exercise occurred under certain specific conditions such as takeover or a Board change of control, the holders of the Management Shares would have received a payment that reflected some or all of this higher value.

	Since 25 June 2020 (£)	
Net invested capital[32]		203,330,256
	At 31 December 2020 (£)	
Number of shares	218,970,076	
Average share price[33]	1.0677	
Deemed market capitalisation		233,788,779
Growth in value per the incentive scheme		30,458,523
Split between:		
Management Shares	15%	4,568,779
Ordinary Shares	85%	25,889,744

[30] The scheme will actually become exercisable either on 25 June 2023 or at the date that certain specific conditions such as a takeover or a Board change of control occur as explained in note 18 to the Consolidated Financial Statements. At the date of this report, none of these conditions have occurred and the rights under the incentive schemes are not exercisable.

[31] The value of Zegona's main assets is the Sterling equivalent of the fair value of Zegona's investment in Euskaltel and its net cash position on 31 December 2019 as discussed on page 10.

[32] Calculated in accordance with Zegona Limited's Articles of Association as the sum of Zegona Communications plc's subscription proceeds minus dividends and capital returns.

[33] Calculated in accordance with Zegona Limited's Articles of Association as the volume weighted average mid-market price of Zegona Communications plc's ordinary shares for the previous 30 trading days to 31 December 2020.

	Net invested capital (unadjusted) £	5% pa Preferred Return at 31 December 2020 £	Preferred Return hurdle at 31 December 2020 £
At 25 June 2020[34]	209,640,725	214,992,573	5,351,848
Share buy-backs[35]	(604,456)	(617,968)	(13,512)
Dividend- July 2020	(5,706,014)	(5,823,200)	(117,186)
	203,330,255	**208,551,405**	**5,221,150**
Shares outstanding	**218,970,076**	**218,970,076**	**218,970,076**
Per share (£)	**0.929**	**0.952**	**0.023**

2020 Non-Executive Directors remuneration summary (Audited)

The remuneration of the Non-Executive Directors during the year is detailed below. Non-Executive Directors fee is a basic fixed salary of £50,000 with a fixed increment of £10,000 if the Non-Executive Director is Chair of a Committee. In the interest of clarity, since the Non-Executive Directors' salaries are set and paid in Sterling, the table has been presented in both Sterling and euros (Zegona's presentational currency).

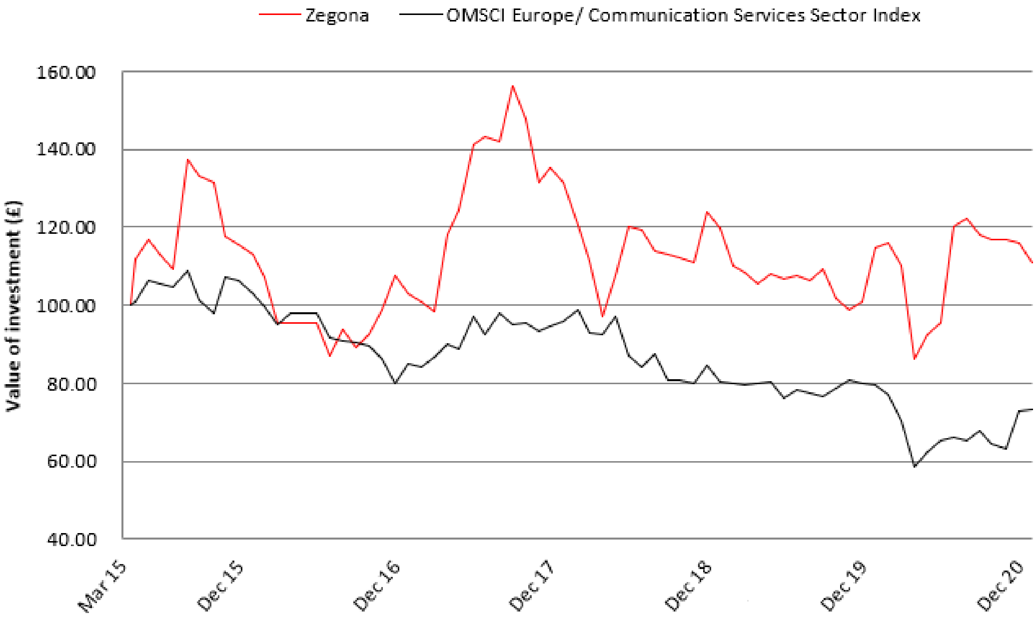
	Non-Executive Directors fees[36]			
	2020 £	2019 £	2020 €	2019 €
Richard Williams[37]	54,462	60,000	61,457	68,421
Ashley Martin	60,000	60,000	67,707	68,421
Kjersti Wiklund[38]	45,128	-	50,925	-
Suzi Williams[39]	50,808	-	57,334	-
Mark Brangstrup Watts[40]	18,174	50,000	20,508	57,017
Murray Scott[41]	21,987	50,000	24,812	57,017
Total	**250,559**	**220,000**	**282,743**	**250,876**

There is no element of the Non-Executive Directors' remuneration that is linked to the performance of the business.

Summary of total shareholder return and Chief Executive remuneration (Audited)

The total shareholder return graph below shows the value as at 31 December 2020 of £100 invested on IPO on 19 March 2015, compared with £100 invested in the OMSCI Europe/Communication Telecom Services Index. The Committee considers this index to be appropriate for the purposes of this comparison because it includes mostly European telecommunications companies. The data shown below assumes that all cash returns to shareholders made by Zegona (including the share buyback) are immediately reinvested in ordinary shares. The single figure remuneration for the Chief Executive over the same period, together with the outcomes of the respective annual incentive awards, is presented in the following table.

[34] Net invested capital on 25 June 2020, the date of commencement of the second Calculation Period.
[35] Includes cost of all shares purchased back under the second programme (24 June- 15 September) and calculation of the preferred returns using the underlying purchase dates.
[36] The Non-Executive Directors have not received any other form of remuneration during the current or prior year.
[37] Richard Williams stepped down as Chairman of the Nominations and Remuneration Committee on 9 June 2020.
[38] Kjersti Wiklund was appointed Non-Executive Director on 5 February 2020.
[39] Suzi Williams was appointed Non-Executive Director on 5 February 2020 and Chairman of the Nominations and Remuneration Committee on 9 June 2020.
[40] Mark Bangstrup-Watts resigned on 12 May 2020.
[41] Murray Scott did not stand for re-election and ceased to be a Director on 9 June 2020.



	2015[42]	2016	2017	2018	2019	2020
Total remuneration €m	**0.67**	**0.77**	**1.29**	**0.71**	**1.25**	**1.27**
Annual bonus (% of maximum)	**0%**	**0%**	**100%**	**0%[43]**	**94%**	**75%**

As discussed on page 10, since Zegona acquired its investment in Euskaltel, the market value of Zegona's shares has typically been less than the Underlying Asset Value per share[44]. At 31 December 2020, the Underlying Asset Value per share was £1.39 per Zegona share (2019: £1.37). This value was 34% higher than Zegona's share price on 31 December 2020 of £1.04 (2019: 26% higher than Zegona's share price of £1.09).

Comparison of Directors' and employees' pay and relative importance of spend on pay (Audited)

The following table compares the changes in each Director's pay with changes in employee pay between 2019 and 2020:

	Base salary change %	Taxable benefits change %	Annual cash bonus change %
Executive Directors			
Eamonn O'Hare	13%	3%	12%
Robert Samuelson	12%	2%	5%
Non-executive Directors			
Mark Brangstrup Watts[45]	n/a	n/a	n/a

[42] Period from incorporation on 19 January 2015 to 31 December 2015.
[43] Eamonn did meet several indicators of achievement in relation to his 2018 bonus objectives, however Eamonn waived his 2018 bonus in order to maximise the cash raised from the equity placing in February 2019.
[44] The Underlying Asset Value is the Sterling equivalent of the fair value of Zegona's investment in Euskaltel and its net cash position and other assets as discussed on page 10.

[45] Mark Brangstrup Watts resigned on 12 May 2020.

Murray Scott[46]	n/a	n/a	n/a
Richard Williams	-9%	n/a	n/a
Ashley Martin	0%	n/a	n/a
Kjersti Wiklund[47]	n/a	n/a	n/a
Suzi Williams[48]	n/a	n/a	n/a
Employees	**0%**	**87%**	**-21%%**

The table below shows the relative importance of the spend on remuneration paid to or receivable by all employees in Zegona when compared to distributions to shareholders by way of dividend or share buyback:

	2020 €000	2019 €000
Employee pay	4,024	3,610
Returns to shareholders	14,886	9,860
Of which:		
Dividends	11,348	9,860
Share buyback	3,538	-

Directors' terms and conditions

Service contract duration

Director	Contract duration	Notice period
Eamonn O'Hare	Unlimited	12 months
Robert Samuelson	Unlimited	12 months
Richard Williams	Unlimited*	6 months
Ashley Martin	Unlimited*	6 months
Kjersti Wiklund	Unlimited*	6 months
Suzi Williams	Unlimited*	6 months

* Under the terms of the service agreements, these appointments are contingent on annual re-election by shareholders and completion of the annual Board effectiveness review.

Other than payments for notice periods, the service agreements contain no entitlements to termination payments. There are no malus or clawback provisions in respect of base salary, pension contributions or benefits, however, the Committee retains discretion to apply such provisions in the case of any bonus award paid to an Executive Director whose appointment is subsequently terminated.

External appointments

Executive Directors are allowed to accept external appointments with the consent of the Board as long as these are not likely to lead to conflicts of interests or significant time commitments. Executive Directors are allowed to retain the fees paid.

During 2020, Eamonn O'Hare earned and retained Non-Executive Director fees in relation to his external appointments of €200,916 and €80,000 in relation to his appointment as a propriety director of Euskaltel.

[46] Murray Scott did not stand for re-election and ceased to be a director on 9 June 2020.
[47] Kjersti Wiklund was appointed Non-Executive Director on 5 February 2020.
[48] Suzi Williams was appointed Non-Executive Director on 5 February 2020 and Chairman of the Remuneration and Nominations Committee on 9 June 2020.

During 2020, Robert Samuelson earned and retained €71,000 in relation to his appointment as a proprietary director of Euskaltel.

Reappointment

Under the terms of Zegona's Articles of Association, all Directors will be proposed for re-election at the 2021 AGM. All Board members have service contracts and details of the unexpired terms of these service contracts are set out above.

Compensation for loss of office

No payment was due, and Zegona made no payment during the year to Murray Scott or Mark Brangstrup Watts as compensation for loss of office.

The Directors are not entitled to any special compensation for loss of office pursuant to their directorship or employment contracts following a change of control. However, certain changes of control will entitle the Directors to exercise rights held by them as holders of Management pursuant to the long-term incentive plan in force in respect of Zegona.

Directors' interests in ordinary shares (Audited)

The Committee intends to keep under consideration the need to adopt formal guidelines in connection with the building of shareholdings in Zegona by Executive Directors. During the year, no such formal requirements or guidelines were adopted and the Committee remains of the view that no such requirements or guidelines are currently needed given that the Executive Directors acquired ordinary shares in the Placing and their interests are significantly aligned with shareholders through their participation in the incentive scheme.

The shareholdings of the Directors at 31 December 2020 are set out below. There have been no changes in the shareholdings of the Directors from 31 December 2020 to the date of this report.

Director	Number of shares	% of issued share capital
Eamonn O'Hare	2,032,185	0.93
Robert Samuelson	657,902	0.30
Richard Williams	62,570	0.03
Ashley Martin	10,479	0.00
Kjersti Wiklund	-	-
Suzi Williams	-	-

The following information provided in this part of the Directors' Remuneration Report is not subject to audit.

Review of workforce remuneration matters

Whilst there is only a small number of employees in Zegona, in line with the provisions of the UK Corporate Governance Code, the Committee continues to review the effectiveness of the remuneration framework for Zegona's workforce. This involves being kept up to date with changes in workforce remuneration, and ensuring that workforce remuneration continues to remain aligned to Zegona's purpose, values and strategy.

Statement of voting at General Meetings

The following table sets out the voting results in respect of the resolutions to approve the Directors' Remuneration Report and the Directors' Remuneration Policy:

	Date of AGM	For the resolution	Against the resolution	Votes withheld
Directors' Remuneration Report for the year ended 31 December 2019	9 June 2020	60.15%	39.85%	–
(votes cast)		106,148,644	70,314,928	30,045,950

Directors' Remuneration Policy	10 June 2019	86.41%	13.59%	-
(votes cast)		137,477,802	21,628,261	42,325,186

Suzi Williams
Chairman of the Nomination and Remuneration Committee
19 April 2021

GOVERNANCE | DIRECTORS' REPORT

Result

For the year ended 31 December 2020, Zegona's profit before tax was €14.0 million (2019: €42.1 million). Other comprehensive loss was €18.7 million (2019: gain of €15.2 million). Therefore, the total comprehensive loss for 2020 was €4.7 million (2019: income of €57.2 million). Reviews of performance, likely future developments and corporate responsibility are set out in the Strategic Report on pages 1 to 16.

Dividends

Zegona declared an interim dividend on 10 June 2020 at a rate of 2.6 pence per share, totalling £5.7 million (€6.3 million). The dividend was paid on 31 July 2020.

Zegona declared a further interim dividend, in lieu of a final dividend for 2020, on 21 December 2020 at a rate of 2.2 pence per share, totalling £4.8 million (€5.6 million). The dividend was paid on 9 March 2021.

Authority to make distributions in specie

At the general meeting on 22 September 2017, the shareholders approved a resolution to permit the Board to satisfy the payment of any dividends declared by Zegona wholly or partly by the distribution of shares in Euskaltel or any successor entity of Euskaltel, from time to time.

Contracts of significance

Mark Brangstrup Watts, a Non-Executive director until his resignation on 12 May 2020, is an ultimate beneficial owner of Axio. Zegona entered into an agreement with Axio dated 19 December 2016 pursuant to which Axio provided certain company secretarial & administration services and financial & accounting services. For the period to 12 May 2020, services totalling €172,661 were received from Axio (2019: €354,182). Axio no longer provides services to Zegona.

Mark Brangstrup Watts is a designated member of Marwyn Capital LLP (**"Marwyn"**). Zegona entered into an agreement with Marwyn dated 14 March 2016 pursuant to which Marwyn provided office accommodation, services and supplies. For the period to 12 May 2020, services totalling €25,372 were received from Marwyn (2019: €68,717). This agreement was terminated on 13 November 2020.

Events since the end of the financial year

Zegona received a dividend on 12 February 2021 from Euskaltel at a rate of €0.14 per share, totalling €5.4 million. In accordance with Zegona's dividend policy, this was passed through to Zegona's shareholders by payment of a dividend at a rate of 2.2p per share, totalling £4.8 million (€5.6 million). The Zegona dividend was declared on 21 December 2020 and paid on 9 March 2021.

On 2 March 2021, as part of an internal reorganisation designed to simplify the structure of its holdings in Euskaltel, Zegona Communications PLC contributed 3,878,965 shares in Euskaltel S.A. with a value as at the closing mid-price on 2 March 2021 of €31,807,513 to its subsidiary, Zegona Limited, in exchange for one Ordinary Share of Zegona Limited.

On 28 March 2021, a wholly-owned subsidiary of MásMóvil Ibercom, S.A.U. ("MásMóvil"), a Spanish telecommunications operator and portfolio company of the private equity funds KKR, Providence and Cinven, announced that it had launched a tender offer to acquire 100% of Euskaltel for €11.17 per share in cash (the "Offer"). The Offer values Zegona's 21.44% shareholding at c.€427.7 million.

On 8 April 2021, Zegona Limited entered into a Deal Contingent Forward Purchase Agreement with Barclays Bank PLC to hedge the full amount of proceeds it expects to receive on the successful completion of the Offer. Under the terms of the contract, Zegona has sold €430 million and will receive between £371.9 million and £372.1 million (depending on the actual date of settlement) only if the Offer is successfully completed.

Share buy-back programme

The shareholders passed a resolution to authorise Zegona to make market purchases of up to 10% of its current issued ordinary share capital (within specified price parameters) in the 2020 AGM, which expires on the earlier of the end of 2021 AGM or 18 months after the date of 2020 AGM. A resolution to renew this authority is proposed for the 2021 AGM. It is intended that we will exercise this authority only if the Board considers that it is in the best interests of Zegona at the time. Any shares repurchased by Zegona may be held in treasury and subsequently resold for cash, cancelled or used for employee share scheme purposes.

During 2020 Zegona announced two buyback programmes of its ordinary shares for an aggregate purchase price of up to £10 million (the "**Buyback Programme**"). Zegona's Board set a buyback policy that allowed shares to be acquired at prices up to the Underlying Asset Value Per Share (defined for any day as the value in Sterling on the previous trading day of Zegona's investment in Euskaltel (using the €/£ FX rate on that day) and net cash balance divided by the number of Zegona ordinary shares in issue). Zegona purchased and cancelled a total of 2,965,101 ordinary shares for a total of £3,066,047, representing 1.35% of the total shares in issue. Further information can be found in Note 21 to the Consolidated Financial Statements.

Significant agreements subject to change of control provisions

Zegona Limited has issued Management Shares as part of Zegona's incentive arrangements. On a change of control of Zegona, subject to the requirements of the Articles of Association of Zegona Limited, the Management Shares can be exercised with their value being delivered either through the issue of ordinary shares or in cash.

Substantial shareholders

At 31 December 2020 and up to the date of approval of this report, Zegona had been notified under DTR 5 of the following holdings in 3% or more of the issued ordinary shares, which are all held indirectly by asset managers:

Asset manager	Shareholding at 19 April 2021	% of ordinary share capital as at 19 April 2021	Shareholding at 31 December 2020	% of ordinary share capital as at 31 December 2020
Marwyn Asset Management[49]	42,062,035	19.21	42,062,035	19.21
Artemis Investment Management	30,045,950	13.72	30,045,950	13.72
Fidelity Management & Research	21,896,999	10.00	21,898,999	10.00
Canaccord Genuity Group Inc	21,368,375	9.76	21,557,601	9.85
Fidelity Investments Limited	20,328,930	9.28	20,328,930	9.28
Capital Research & Management Company	17,921,987	8.18	17,921,987	8.18
Aberforth Partners LLP	13,650,347	6.23	13,404,347	6.12
Chelverton Asset Management	11,750,000	5.37	11,140,000	5.09
	179,024,623	**81.76**	**178,359,849**	**81.45**

Independent auditor

KPMG has expressed its willingness to continue to act as auditor to Zegona and a resolution for its re-appointment will be proposed at the 2021 AGM. KPMG has confirmed that it remains independent of Zegona.

Political donations

[49] Mark Brangstrup Watts is a Non-Executive Director of Marwyn Asset Management Limited and was a Non-Executive Director of the Company until 12 May 2020.

Zegona does not make any political donation and has no intention of altering this policy.

Disclosure of information to the auditor

Each of the persons who is a Director at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which Zegona's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that Zegona's auditor is aware of that information.

Statement of going concern

The Directors have considered all available information, including specific consideration of forecast financial information, about the possible future outcomes of events and changes of conditions, and the realistically possible responses to such events and conditions that are available to the Directors. The Board considers that there are no material uncertainties affecting Zegona's ability to continue in business or meet its liabilities as they fall due for the next 12 months and therefore believes it is appropriate to prepare the Financial Statements on the going concern basis.

By order of the Board

Eamonn O'Hare
Chairman and Chief Executive Officer
19 April 2021

GOVERNANCE | DIRECTORS' RESPONSIBILITY STATEMENT

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report, Directors' Remuneration Report, Corporate Governance Report and the Zegona group and parent company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company Financial Statements for each financial year. Under that law, they are required to prepare the Zegona group Financial Statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (**"IFRSs** as adopted by the EU") and applicable law, and have elected to prepare the parent company Financial statements on the same basis.
Under company law, the Directors must not approve the Financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess Zegona's position and performance, business model and strategy.

By order of the Board

Eamonn O'Hare
Chairman and Chief Executive Officer
19 April 2021

Robert Samuelson
Chief Operating Officer
19 April 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2020 €000	2019 €000
Administrative and other operating expenses:			
Corporate costs	5	(5,631)	(5,639)
Incentive scheme costs	18	(914)	-
Significant project costs	6	(292)	(342)
Operating loss		**(6,837)**	**(5,981)**
Finance income	7	3,775	38,190
Finance costs	7	(554)	(674)
Share of profit of associate	12	16,309	9,094
Net foreign exchange gains		1,273	1,427
Profit for the year before income tax		**13,966**	**42,056**
Income tax expense	8	-	-
Profit for the year attributable to equity holders of the parent		**13,966**	**42,056**
		€	**€**
Earnings per share			
Basic and diluted earnings per share attributable to equity holders of the parent	23	0.06	0.20

The notes on pages 68 to 95 form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	2020 €000	2019 €000
Profit for the year	**13,966**	**42,056**
Other comprehensive (loss)/ income – items that will or may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(18,703)	15,195
Total other comprehensive (loss)/ income	**(18,703)**	**15,195**
Total comprehensive (loss)/ income for the year, net of tax, attributable to equity holders of the parent	**(4,737)**	**57,251**

The notes on pages 68 to 95 form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2020 €000	As at 31 December 2019 €000
Assets			
Non-current assets			
Property, plant and equipment		12	2
Interest in associate	12	322,737	334,343
		322,749	**334,345**
Current assets			
Derivatives	14	39	-
Prepayments and other receivables	13	170	92
Financial assets measured at fair value through profit or loss	15	7,499	3,997
Cash and cash equivalents		15,244	27,035
		22,952	**31,124**
Total assets		**345,701**	**365,469**
Equity and liabilities			
Equity			
Share capital	19	2,821	2,855
Other reserves	20	289,643	304,556
Share-based payment reserve	20	799	105
Foreign currency translation reserve	20	(6,884)	11,819
Retained earnings	20	46,072	32,000
Total equity attributable to equity holders of the Parent		**332,451**	**351,335**

Non-current liabilities			
Bank borrowings	17	-	11,578
Current liabilities			
Accruals and other payables	16	2,279	2,556
Bank borrowings	17	10,971	-
		13,250	**2,556**
Total liabilities		**13,250**	**14,134**
Total equity and liabilities		**345,701**	**365,469**

The notes on pages 68 to 95 form an integral part of these Consolidated Financial Statements.

The Financial Statements of Zegona Communications plc (registered number 09395163) were approved by the Board of Directors on 19 April 2021 and were signed on its behalf by:

Eamonn O'Hare
Director

Robert Samuelson
Director

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2020 €000	As at 31 December 2019 €000
Assets			
Non-current assets			
Property, plant and equipment		12	2
Investment in subsidiaries	9	252,322	265,711
Interest in associate		32,194	31,736
		284,528	**297,449**
Current assets			
Derivatives	14	39	-
Prepayments and other receivables	13	183	110
Cash and cash equivalents		15,149	26,023
		15,371	**26,133**
Total assets		**299,899**	**323,582**
Equity and liabilities			
Equity			
Share capital	19	2,821	2,855
Other reserves		289,643	304,556
Share based payment reserve		694	-
Foreign currency translation reserve		(79,268)	(63,686)
Retained earnings		52,510	52,186
Total equity attributable to the shareholders of the Company		**266,400**	**295,911**
Non-current liabilities			
Bank borrowings	17	-	11,578

	Note		
Current liabilities			
Accruals and other payables	16	22,528	16,093
Bank borrowings	17	10,971	-
		33,499	**16,093**
Total liabilities		**33,499**	**27,671**
Total equity and liabilities		**299,899**	**323,582**

The notes on pages 68 to 95 form an integral part of these Consolidated Financial Statements.

The Financial Statements of Zegona Communications plc (registered number 09395163) were approved by the Board of Directors on 19 April 2021 and were signed on its behalf by:

Eamonn O'Hare
Director

Robert Samuelson
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital €000	Other reserves €000	Share-based payment reserve €000	Foreign currency translation reserve €000	Retained earnings €000	Total equity €000
Balance at 1 January 2020		**2,855**	**304,556**	**105**	**11,819**	**32,000**	**351,335**
Profit for the year		-	-	-	-	13,966	13,966
Other comprehensive loss		-	-	-	(18,703)	-	(18,703)
Cancellation of shares purchased	21	(34)	(3,565)	-	-	-	(3,599)
Net cost of incentive arrangements	18	-	-	694	-	106	800
Dividends paid	24	-	(11,348)	-	-	-	(11,348)
Balance at 31 December 2020		**2,821**	**289,643**	**799**	**(6,884)**	**46,072**	**332,451**

	Note	Share capital €000	Other reserves €000	Share-based payment reserve €000	Foreign currency translation reserve €000	Retained (deficit)/ earnings €000	Total equity €000
Balance at 1 January 2019		**1,763**	**205,623**	**105**	**(3,376)**	**(10,056)**	**194,059**
Profit for the year		–	–	–	–	42,056	**42,056**
Other comprehensive loss		–	–	–	15,195	–	**15,195**
Issue of shares, net of directly attributable costs	19,20	1,092	108,793	–	–	–	**109,885**
Dividends paid	24	–	(9,860)	–	–	–	**(9,860)**
Balance at 31 December 2019		**2,855**	**304,556**	**105**	**11,819**	**32,000**	**351,335**

The notes on pages 68 to 95 form an integral part of these Consolidated Financial Statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

	Note	Share capital €000	Other reserves €000	Share-based payment reserve €000	Foreign currency translation reserve €000	Retained earnings €000	Total equity €000
Balance at 1 January 2020		**2,855**	**304,556**	**-**	**(63,686)**	**52,186**	**295,911**
Profit for the year		-	-	-	-	219	219
Other comprehensive loss		-	-	-	(15,582)	-	(15,582)
Cancellation of shares purchased	21	(34)	(3,565)	-	-	-	(3,599)
Net cost of incentive arrangements	18	-	-	694	-	105	799
Dividends paid	24	-	(11,348)	-	-	-	(11,348)
Balance at 31 December 2020		**2,821**	**289,643**	**694**	**(79,268)**	**52,510**	**266,400**

	Note	Share capital €000	Other reserves €000	Foreign currency translation reserve €000	Retained earnings €000	Total equity €000
Balance at 1 January 2019		**1,763**	**205,623**	**(77,020)**	**55,159**	**185,525**
Loss for the year		–	–	–	(2,973)	**(2,973)**
Other comprehensive income		–	–	13,334	–	**13,334**
Issue of shares, net of directly attributable costs	19,20	1,092	108,793	–	–	**109,885**
Dividends paid	24	–	(9,860)	–	–	**(9,860)**
Balance at 31 December 2019		**2,855**	**304,556**	**(63,686)**	**52,186**	**295,911**

The notes on pages 68 to 95 form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2020 €000	2019 €000
Operating activities			
Profit before income tax		13,966	42,056
Adjustments to reconcile profit before income tax to operating cash flows:			
Depreciation of property, plant and equipment		3	1
Share of profit in associate		(16,309)	(9,094)

Incentive scheme costs	18	793	-
Net foreign exchange gains		(1,273)	(1,427)
Finance income	7	(3,775)	(38,190)
Finance costs	7	554	674
Working capital adjustments:			
(Increase)/decrease in prepayments and other receivables		(78)	2,036
(Decrease) in accruals and other payables		(435)	(887)
Interest received		13	45
Interest paid		(518)	(427)
Net cash flows used in operating activities		**(7,059)**	**(5,213)**
Investing activities			
Purchase of property, plant and equipment		(13)	(1)
Dividends received	7	11,842	10,236
Purchases of non-current financial assets measured at fair value through profit or loss and of interest in associate	12	(1,690)	(92,798)
Proceeds from current financial assets measured at fair value through profit or loss	15	-	981
Net cash flows from/(used in) investing activities		**10,139**	**(81,582)**
Financing activities			
Dividends paid to shareholders	24	(11,348)	(9,860)
Shares purchased and cancelled	19,21	(3,599)	-
Net proceeds from loans and borrowings	17	-	10,980
Proceeds from issue of shares, net of directly attributable costs	19,20	-	109,885
Net cash flows (used in)/from financing activities		**(14,947)**	**111,005**
Net (decrease)/increase in cash and cash equivalents		(11,867)	24,210
Net foreign exchange difference		76	(313)
Cash and cash equivalents at the beginning of the year		27,035	3,138
Cash and cash equivalents at the end of the year		**15,244**	**27,035**

The notes on pages 68 to 95 form an integral part of these Consolidated Financial Statements.

COMPANY STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2020 €000	Year ended 31 December 2019 €000
Operating activities			
Profit/(loss) before income tax		219	(2,973)
Adjustments to reconcile profit before income tax to operating cash flows:			
Depreciation of property, plant & equipment		3	1
Share of profit in associate		(1,617)	(793)
Net foreign exchange gains/(losses)		(1,193)	1,520
Finance income	7	(29)	(346)
Finance costs	7	554	674
Working capital adjustments:			
(Increase)/decrease in prepayments and other receivables		(73)	2,034
Increase in accruals and other payables		6,277	8,013

Interest received		13	45
Interest paid		(518)	(427)
Net cash flows from operating activities		**3,636**	**7,748**
Investing activities			
Purchase of property, plant and equipment		(13)	(1)
Dividends received		1,172	492
Purchases of non-current financial assets measured at fair value through profit or loss and of interest in associate	12	(1,690)	(92,798)
Net cash flows used in investing activities		**(531)**	**(92,307)**
Financing activities			
Dividends paid to shareholders	24	(11,348)	(9,860)
Shares purchased and cancelled		(3,599)	-
Net proceeds from loans and borrowings	17	-	10,980
Proceeds from issue of shares, net of directly attributable costs	19,20	-	109,885
Net cash flows (used in)/from financing activities		**(14,947)**	**111,005**
Net (decrease)/increase in cash and cash equivalents		(11,842)	26,446
Net foreign exchange differences		968	(843)
Cash and cash equivalents at the beginning of the year		26,023	420
Cash and cash equivalents at the end of the year		**15,149**	**26,023**

The notes on pages 68 to 95 form an integral part of these Consolidated Financial Statements.

NOTES TO THE FIANNCIAL STATEMENTS

1. GENERAL INFORMATION

The Consolidated Financial Statements of Zegona Communications plc (the **"Company"**) and its subsidiaries (collectively, **"Zegona"**) for the year ended 31 December 2020 (the **"Consolidated Financial Statements"**) were authorised for issue in accordance with a resolution of the Directors on 19 April 2021. The Company was incorporated and is domiciled in England and Wales and has its registered office at 8 Sackville St, Mayfair, London W1S 3DG.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

Zegona's Annual Report will be posted to shareholders on 20 April 2021. The financial information set out in this document does not constitute Zegona's statutory accounts for the years ended 31 December 2020 or 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the registrar of companies, and those for 2020 will be delivered in due course, following the Company's Annual General Meeting, which will be held at 12:00 p.m. on 30 June 2021. The auditor has reported on those accounts; its reports were: (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 2006.

The Company and Consolidated Financial Statements for the year ended 31 December 2020 have been prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (**"**IFRSs as adopted by the EU"), and with those parts of the Companies Act 2006 as applicable to companies reporting under international accounting standards.

The Company Financial Statements present information about the Company as a separate entity and not about its group. The Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual Statement of Comprehensive Income and related notes that form a part of the Company Financial

Statements.

The Consolidated Financial Statements include the results of all subsidiaries wholly owned by the Company as listed in note 9. Certain of these subsidiaries, which are listed below, have taken the exemption from preparing individual accounts for the year ended 31 December 2020 by virtue of section 394A of Companies Act 2006. In order to allow these subsidiaries to take the exemption, the Company has given a statutory guarantee of all these companies' outstanding liabilities as at 31 December 2020:

- Zegona Spanish Holdco Limited (Registered Number: 10159232)
- Zegona Borrower Limited (Registered Number: 10159347)
- Zegona Holdco Limited (Registered Number: 10159604).

The Consolidated Financial Statements and the Company Financial Statements have been prepared under the historical cost convention except for certain financial assets that have been measured at fair value, as disclosed in note 11. The functional currency of the Company is British pounds sterling ("**Sterling**" or £). The Directors have chosen to present the Consolidated Financial Statements and the Company Financial Statements in euros (€). All values are rounded to the nearest thousand (€000) except where otherwise indicated.

The principal accounting policies adopted in the preparation of the Consolidated Financial Statements are set out below. The policies have been consistently applied throughout the years presented.

(b) Going concern

Zegona's Directors have assessed the going concern assumptions during the preparation of the Consolidated 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 twelve months after the preparation of the Consolidated Financial Statements. The assessment includes the review of Zegona cashflow forecast and budget, which included considerations on expected developments in liquidity, debt and capital as well as the potential impact of the on-going COVID-19 pandemic. The Directors have also considered sensitivities in respect of potential 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 Consolidated Financial Statements.

Zegona meets its day to day working capital requirements from cash balances and bank facilities (see Note 17).
On 29 March 2021, Zegona announced that a subsidiary of MásMóvil Ibercom, S.A.U ("MásMóvil"), the Spanish fourth national operator, has launched a Tender Offer for Euskaltel. Zegona expects this offer will be successful. If the offer is completed, Zegona's will receive c. €427.7 million in cash for its entire stake in Euskaltel. This cash will be used to repay its loan in full, and Zegona will have sufficient cash and liquid resources to continue in operation for the foreseeable future. On choosing to return a portion of the proceeds to its shareholders, Zegona will have discretion to retain sufficient cash to ensure it remains viable. Once Zegona exits Spain, it will continue to execute its buy-fix-sell strategy across the European TMT sector.

In the highly unlikely event that the Tender Offer is not successful, Zegona will continue to hold its 21.44% holding of Euskaltel. Euskaltel, Zegona's associate, has indicated that the impact of the on-going Covid-19 pandemic on its operations and financial performance has been limited. Zegona is not dependent on receiving any cash inflows from Euskaltel to meet its liabilities.

In the unlikely scenario that the Tender Offer does not progress, the Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these Financial Statements, which indicate that, taking account of reasonably possible downsides, including possible impacts of the Covid-19 outbreak, Zegona will have sufficient funds to meet its liabilities as they fall due for that period. In addition, the Directors are confident that they will be able to replace or renew the current facilities that mature in October 2021 in similar amounts and on similar terms.

In reaching its conclusion on the going concern assessment, the Directors considered the findings of the work performed to support the statement on the long-term viability of Zegona. As noted on pages 12 to 16, this included key changes to principal risks, including the impact of COVID-19, scenario analysis and mitigating actions to downside scenarios.

In conclusion, based on their review the Directors have a reasonable expectation that the Company and Zegona group have adequate resources to continue in operational existence for the foreseeable future, Accordingly, the Directors continue to adopt the going concern basis in preparing the Consolidated Financial Statements.

(c) New standards and amendments to IFRS

Standards, amendments and interpretations effective and adopted by Zegona:

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

Standard	Effective date
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
Amendments to IFR3: Definition of a Business	1 January 2020

Standards, amendments and interpretations not yet adopted:

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

Standard	Effective date
Amendments to IFRS3: Reference to the conceptual framework	1 January 2022*
Annual improvements to IFRS Standards 2018-2020	1 January 2022*
Amendments to IFRS 16: Property, Plant and Equipment	1 January 2022*
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	1 January 2023*

* subject to UK endorsement

(d) Basis of consolidation

Subsidiaries are entities controlled by the Company, either directly or indirectly. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial information of subsidiaries is included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

Intragroup balances, any gains and losses or income and expenses arising from intragroup transactions, and intragroup cash flows are eliminated on consolidation.

(e) Interests in associates

An associate is an entity over which Zegona has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Zegona evaluates the extent to which it has significant influence in investees on a case-by-case basis, considering all relevant facts and circumstances. Evaluations are updated when there any changes in those facts and circumstances. These evaluations are often subject to significant judgement and the key judgements and considerations underlying material evaluations are more fully discussed in note 3.

Zegona classifies investments in entities over which it has significant influence as associates and accounts for them using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is increased or decreased to recognise changes in Zegona's share of the profit or loss of the investee after the date of acquisition. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The Consolidated Statement of Comprehensive Income reflects Zegona's share of the results of operations of the associate. Any change in Other Comprehensive Income ("**OCI**") of those investees is presented as part of Zegona's OCI.

Investments in associates are assessed at each reporting period date and tested for impairment when there is an indication that the recoverable amount has fallen below the carrying value of the investment; i.e. that the investment may be impaired. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Impairment losses are recognised within 'Share of profit of associate' in the Consolidated Statement of Comprehensive Income.

(f) Foreign currencies

Foreign currency transactions

Sterling is the functional currency of the Company. Transactions in foreign currencies are recorded at the rates of exchange ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the Statement of Comprehensive Income.

Non-monetary items denominated in foreign currencies are translated at the functional currency spot rates of exchange at each reporting date.

Foreign operations

The euro is the presentation currency of the Consolidated Financial Statements. For the purpose of presenting the Consolidated Financial Statements, the assets and liabilities of Zegona's non euro-denominated functional entities are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period.

Currency translation adjustments arising on the restatement of opening net assets of Zegona's non-euro denominated functional entities, together with differences between the entities' results translated at average rates versus closing rates, are recognised in the Statement of Other Comprehensive Income and transferred to the foreign currency translation reserve. All resulting exchange differences are classified as equity until disposal of the subsidiary. On disposal, the cumulative amounts of the exchange differences are recognised as income or expense.

(g) Revenue and expenses

Finance income

Interest income from financial assets is recognised using the effective interest method as finance income in the Consolidated Statement of Comprehensive Income.

Dividend income from financial assets is recognised as finance income in the Consolidated Statement of Comprehensive Income when Zegona's right to receive the payment is established, which for listed securities is when the shares are quoted ex-dividend, and are presented gross of any non-recoverable withholding taxes.

Gains or losses on financial instruments measured at fair value through profit or loss comprise the net change in fair value, excluding interest or dividend income.

(h) Administrative and other operating expenses

Administrative and other operating expenses are recognised on an accruals basis, i.e. when the actual flow of the services they represent occurs, regardless of when the resulting monetary or financial flow arises.

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. These are recognised on an accruals basis and expensed in the Statement of Comprehensive Income unless they are directly related to the issuance of equity instruments in which case they are recognised as a deduction from equity. If qualifying transaction costs are incurred in anticipation of, and directly related to, the issuance of equity instruments and span more than one reporting period, they are deferred until equity instruments are recognised.

If the equity instruments are not subsequently issued, the costs are expensed.

(i) Fair value measurement

Zegona measures certain financial instruments at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by Zegona.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Zegona uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the Financial Statements at fair value on a recurring basis, Zegona determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(j) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at fair value through profit or loss (“**FVPL**”), amortised cost, or fair value through other comprehensive income (“**FVOCI**”).

The classification of a financial asset at initial recognition depends on the financial asset’s contractual cash flow characteristics and Zegona’s business model for managing it. In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest’ on the principal amount outstanding (the “**SPPI Criterion**”).

Financial assets are initially recognised at their fair value plus, for those financial assets not at fair value through profit or loss, transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the settlement date, being the date that an asset is delivered to or by Zegona.

Subsequent measurement
Zegona's financial assets are classified into categories:

- Financial assets at amortised cost comprise assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI Criterion. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised in the Statement of Comprehensive Income. Any gain or loss on derecognition is recognised in the Statement of Comprehensive Income.
- Financial assets at FVPL comprise quoted equity instruments which Zegona had not irrevocably elected, upon initial recognition, to classify at FVOCI and debt instruments whose cash flow characteristics fail the SPPI Criterion. These assets are carried in the Statement of Financial Position at fair value with net changes in fair value recognised as either finance income or finance costs in the Statement of Comprehensive Income.

Derecognition
A financial asset is primarily derecognised and removed from the Statement of Financial Position when:

- the rights to receive cash flows from the asset have expired; or
- Zegona has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) Zegona has transferred substantially all the risks and rewards of the asset, or (b) Zegona has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Zegona has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, Zegona continues to recognise the transferred asset to the extent of its continuing involvement and also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Zegona has retained.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement
Financial liabilities are subsequently measured at amortised cost and in the case of interest-bearing financial liabilities at amortised cost using the effective interest rate method. Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability, the difference of the respective carrying amounts is recognised in the Consolidated Statement of Comprehensive Income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis to realise the assets and settle the liabilities simultaneously.

(k) Impairment of financial assets

For trade receivables, Zegona applies a simplified approach in calculating expected credit losses ("**ECLs**") and recognises a loss allowance based on lifetime ECLs at each reporting date using Zegona's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(l) Property, plant and equipment

Property, plant and equipment is measured initially at acquisition cost and subsequently carried net of any accumulated depreciation and any impairment losses.

The costs of upkeep and maintenance of property, plant and equipment are charged to the administrative and other operating expenses in the Statement of Comprehensive Income in the year in which they are incurred.

Replacements or renewals are recorded as an addition to property, plant and equipment and the units replaced or renewed are derecognised.

Property, plant and equipment in operation is depreciated systematically on the basis of the estimated useful economic life of the items, and the cost of the assets is distributed on a straight-line basis over the estimated useful economic lives. For fixtures and fittings, which comprises primarily computer hardware, the estimated useful economic live is 3 years.

Derecognition of property, plant and equipment

Items of property, plant and equipment are derecognised when they are sold or when no future economic benefit is expected to be obtained from their continuing use. The gain or loss arising on the disposal or derecognition of an item of property, plant and equipment is determined as the difference between the proceeds from the sale and the carrying amount of the asset, and is recognised in the Consolidated Statement of Comprehensive Income.

(m) Leases

Zegona assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Following adoption of IFRS 16 Leases, Zegona has taken the exemption contained under IFRS 16 to not apply IFRS 16 requirements to any of its leases as these leases are short-term in nature (less than 12 months) or low in value.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

(o) Investments in subsidiaries

Investments in subsidiaries within the Company's separate Statement of Financial Position are stated at cost.

At the end of each reporting year, or whenever there are indications of impairment, the Company tests its investments in subsidiaries for impairment to determine whether their recoverable amount has fallen below their carrying amount. The recoverable amount is the greater of fair value less costs to sell and value in use. An impairment loss is recognised when the carrying amount exceeds the recoverable amount.

Value in use is the present value of expected future cash flows, calculated using a risk-free market rate of interest, adjusted for the risks specific to the asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount; however, the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognised in previous years. This reversal of an impairment loss is recognised as income.

The Company makes appropriate provision when the recoverable value is less than the carrying amount, provided the latter cannot be recovered by generating sufficient income to cover all the costs and expenses incurred by usage of the asset.

(p) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in other reserves as a deduction from the initial measurement of the equity instrument.

(q) Dividends payable

The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. A corresponding amount is recognised directly in equity.

(r) Corporation tax

Corporation tax represents the sum of current and deferred tax for the year.

Current tax is the expected tax payable on the taxable income for the year. Taxable profit differs from profit reported in the Consolidated Statement of Comprehensive Income because some items of income and expense are taxable or deductible in different years or may never be taxable or deductible. Zegona's current tax is calculated using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to taxes payable in respect of previous periods.

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the balance sheet liability method.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the tax rates that are expected to apply in the year when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the year end date, and is not discounted.

(s) Pension benefits

Zegona pays contributions to externally administered pension plans on behalf of employees, or the equivalent contribution is paid in cash to the employee. Zegona has no further payment obligations once the contributions have been paid. The contributions are recognised as an expense on the accrual basis.

(t) Earnings per ordinary share

Basic earnings per share ("**EPS**") is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares.

(u) Share-based transactions

Equity-settled share-based payments are measured at the fair value of the equity instruments at the grant date. The grant date is the date on which an employer and an employee agree upon the most essential terms and conditions associated with the award. If shareholder approval is needed, then the grant date is delayed until that approval has been obtained, unless shareholder approval is considered to be perfunctory.

The fair value is expensed through administrative and other operating expenses, with a corresponding increase in equity through the share-based payment reserve, on a straight-line basis over the period that the employees or others providing similar services become unconditionally entitled to the awards or vesting period.

The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates. The fair value of the awards is calculated at each accounting reporting period until the final fair value is measured at the legal grant date.

The dilutive effect of outstanding share-based payments is reflected as share dilution in the computation of diluted EPS.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Consolidated Financial Statements reflect management's choice of accounting policies, assumptions and estimates.

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. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items outlined below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgement from those reached by management for the purpose of these Consolidated Financial Statements.

The main accounting estimates and judgements used by the Directors in applying the accounting policies of Zegona that had the greatest impact on the Consolidated Financial Statements in the current year are:

Accounting estimates

- **Measurement of share-based payments transactions**. Valuation techniques are used in determining the fair value of the management incentive award, which feature significant unobservable inputs and are subject to substantial uncertainty. The main estimates and assumptions used in determining the £0.0786 per share fair value of the management incentive are detailed in note 18.
- **The fair value remeasurement of the contingent consideration receivable**. As there is no observable market data for the valuation of the contingent consideration receivable, the measurement methodology of the fair value is highly judgemental. The main estimates and assumptions used in determining the €7.5 million fair value of the contingent consideration on the basis of significant unobservable inputs are detailed in note 15.

Accounting judgements

- **Impairment considerations at the end of each reporting period**. Reviews of indicators of impairment and impairment assessments of our investments in associates and subsidiaries are judgmental, in particular for assets where a readily available market does not exist. In the case of Zegona's associate, Zegona has used a range of external sources of information to conclude that no indicators of impairment exist at 31 December 2020. The most important source was Euskaltel's quoted share price and market capitalisation at 31 December 2020, but other sources included analysts' reports on Euskaltel and the telecommunications market in Spain and other public information on Euskaltel such as its business plans, results and other public announcements.
- **The treatment of the contingent tax liability**. IFRIC 23 *Uncertainty over Income Tax Treatments* ("IFRIC 23") requires a provision to be made if it is considered that it is more likely than not (i.e. it is probable) that there will be an outflow of resources required to settle an obligation related to an uncertain tax position in the event of an inquiry into the relevant items. The determination of whether an outflow is more likely than not requires significant judgement. An explanation of the key judgements made in determining that a provision was not required under IFRIC 23 in respect of the decision that the Group Financing Exemption contained within the UK's Controlled Foreign Company legislation constituted State Aid are detailed in note 8.

4. SEGMENTAL ANALYSIS

For management purposes, Zegona is currently organised into two segments:

(i) investment in Euskaltel, which comprises Zegona's share of the profit of Euskaltel (and dividend income and the movements in fair value of the investment prior to recognising Euskaltel as an associate); and
(ii) central costs, which comprises costs incurred in supporting Zegona's corporate activities.

The information presented to the Board does not include a detailed analysis of the assets and liabilities of each segment and as such this information has not been included in the information on reportable segments set out below.

For the year ended 31 December 2020	Investment in Euskaltel 2020 €000	Central costs 2020 €000	Consolidated 2020 €000
Incentive scheme costs	-	(914)	(914)
Depreciation and amortisation	-	(3)	(3)
Other operating expenses	-	(5,920)	(5,920)
Operating loss	**-**	**(6,837)**	**(6,837)**
Finance income	-	3,775	3,775
Finance costs	-	(554)	(554)
Share of profit of associate	16,309	-	16,309
Net foreign exchange gains	-	1,273	1,273
(Loss)/profit before tax	**16,309**	**(2,343)**	**13,966**
Income tax	-	-	-
(Loss)/profit for the year	**16,309**	**(2,343)**	**13,966**
Cash flows			
Net cash used in operating activities	-	(7,059)	(7,059)
Net cash (used in)/from investing activities	11,842	(1,703)	10,139
Net cash used in financing activities	-	(14,947)	(14,947)
Net cash flows	**11,842**	**(23,709)**	**(11,867)**

For the year ended 31 December 2019	Investment in Euskaltel 2019 €000	Central costs 2019 €000	Consolidated 2019 €000
Depreciation and amortisation	–	(1)	(1)
Other operating expenses	–	(5,980)	(5,980)
Operating loss	**–**	**(5,981)**	**(5,981)**
Finance income	37,993	197	38,190
Finance costs	–	(674)	(674)
Share of profit of associate	9,094	–	9,094
Net foreign exchange gains	–	1,427	1,427
Profit/(loss) before tax	**47,087**	**(5,031)**	**42,056**
Income tax	–	–	–
Profit/(loss) for the year	**47,087**	**(5,031)**	**42,056**

Cash flows			
Net cash used in operating activities	–	(5,213)	(5,213)
Net cash (used in)/from investing activities	(82,562)	980	(81,582)
Net cash from financing activities	–	111,005	111,005
Net cash flows	**(82,562)**	**106,772**	**24,210**

5. ADMINISTRATIVE AND OTHER OPERATING EXPENSES – CORPORATE COSTS

	Consolidated 2020 €000	Consolidated 2019 €000
Salaries, bonuses and staff benefits	3,694	3,610
Employment related taxes	530	504
Pension costs	304	268
Other operating expenses	1,103	1,257
Corporate costs	**5,631**	**5,639**

Staff numbers

The average number of employees (including Executive Directors but excluding Non-Executive Directors) during the year by activity was as follows:

	Consolidated 2020	Consolidated 2019
Operations	7	5
Administration	1	1
	8	**6**

6. ADMINISTRATIVE AND OTHER OPERATING EXPENSES – 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. The classification of projects as significant is subjective in nature and therefore judgement is required in its determination and is a matter of qualitative assessment. Significant projects are usually related to acquisition, disposal or joint venture transactions where incremental and identifiable external costs are incurred by Zegona in order to make or evaluate the potential transaction, even if it is not consummated.

In 2020, €54,000 (2019: €0.3 million) of significant project costs were principally professional fees related to projects related to increasing Zegona's investment in Euskaltel.

7. FINANCE INCOME AND COSTS

	Note	Consolidated 2020 €000	Consolidated 2019 €000
Dividend income		-	10,236
Net gain on currency forward instruments		16	-
Gain on fair value changes of investment in Euskaltel		-	27,756
Gain on fair value changes of contingent consideration	15	3,746	152
Bank interest		13	46
Finance income		**3,775**	**38,190**

Interest on bank borrowings	(554)	(674)
Finance costs	**(554)**	**(674)**

Dividend income

Dividend income relates to dividends received from the investment in Euskaltel when it was recognised as an investment prior to 10 July 2019.

Gain on fair value of investment in Euskaltel

Gain on fair value of investment in Euskaltel relates to fair value movements on the interest in Euskaltel recognised as a financial instrument at fair value through profit and loss prior to 10 July 2019, when Euskaltel become an associate.

8. TAXATION

	Consolidated 2020 €000	Consolidated 2019 €000
Current tax expense		
Current year	-	–
Income tax expense for the year	-	–

Zegona believes that its accruals for tax liabilities are adequate for all open tax years based on its assessments of many factors, including interpretations of tax law and prior experience. The normal UK statute of limitations is four years from the end of the accounting period.

Reconciliation of effective tax rate

	Consolidated 2020 €000	Consolidated 2019 €000
Profit before tax from continuing operations	13,966	42,056
At UK statutory income tax rate (19% (2019: 19%))	2,653	7,991
Effect of tax rate used in other jurisdictions	-	(20)
Income not taxable	(3,810)	(9,771)
Expenses not deductible for tax purposes	232	155
Unrecognised tax losses	925	1,645
Income tax expense	-	-

In the UK 2019 Budget it was announced that the UK corporation tax rate would not reduce to 17% but would remain at 19% from 1 April 2020. Consequently, Zegona has remeasured its UK deferred tax assets at the end of the reporting period at the rate of 19%. In the UK 2021 Budget it was announced that the UK corporation rate will increase to 25% from 1 April 2023.

Income relating to the investment in Euskaltel, including dividends and gains in fair value and foreign exchange, is not taxable as the dividends are in respect of non-redeemable ordinary shares and the investment is expected to meet the substantial shareholdings exemption which provides an exemption from corporation tax for capital gains. The majority of significant project costs is not deductible for tax purposes as the projects relate to acquisitions or disposals and are therefore capital in nature.

Unrecognised deferred tax assets

Deferred tax assets of the UK tax-resident companies of €5.0 million (2019: €3.0 million) have not been recognised in respect of tax losses, because it is not probable that future taxable profit will be available against which the companies can maximise the benefits therefrom. Under UK law there is no expiry for the use of tax losses.

Contingent tax liability

In October 2017, the European Commission (the ''EC'') announced it was conducting a state aid investigation into the Group Financing Exemption contained within the UK's Controlled Foreign Company (''CFC'') legislation. On 20 August 2019, the EC published its final. The EC concluded that the Group Financing Exemption was an aid scheme and amounted to illegal state aid to the extent that there were UK Significant People or Function ("SPF") activities involved in generating non-trading finance profits.

Both the UK Government and a number of other impacted taxpayers have submitted appeals to the EU General Court to annul the EU Commission's findings. No date has yet been set for a General Court Hearing in respect of these appeals and any Decision of the General Court may be subject to further appeals which could take considerable additional time.

While these appeals are ongoing, the UK Government is required to recover the State Aid and a new law was enacted in December 2020 which empowers HMRC to issue a charging notice to cover all periods for which they consider additional tax is due. These charging notices must be paid within 30 days and while they may be appealed, there is no right to postpone payment. However, this new law is a charging mechanism only and not an arbitration on the merits of the on-going litigation. If the state aid decision is annulled by the EU General Court (or on appeal), then any amounts paid will be returned to Zegona following this final determination.

Following the issuance of the European Commission judgement, Zegona engaged an independent tax adviser to undertake a review of its historic financing structures, to establish the extent to which the relevant SPFs were carried out in the UK. This review identified a small proportion of activities performed by UK personnel. On this basis, Zegona estimated that if the Commission judgement is upheld, a potential tax liability of between €1m and €1.8m may exist, which reflects the relatively modest proportion of SPFs undertaken in the UK.

HMRC have taken the view that SPF allocations should in almost all cases be either 100% or 0% and consistent with this interpretation, HMRC issued Zegona with a charging notice in February 2021 in the amount of £4.1 million, (€4.9 million) which represents 100% of the CFC tax relief received. Zegona strongly disagrees with HMRCs interpretation, however as required by the new legislation, Zegona paid the notice in full on 4 March 2021 (within 30 days of receipt). At the same time, Zegona submitted an appeal against the determination and the notice which was accepted by HMRC on 8 March 2021. This appeal is likely to be stayed until the final outcome of all appeals to the EU Courts in respect of the EU Commission's original decision are known, which may take several years.

As mentioned above, the issuance of charging notices is a collection mechanism only and not an arbitration on the merits of the on-going litigation. Consequently, the issuance and the settlement of the charging notice does not change Zegona's view that while it is finely balanced, it remains more likely than not that the appeals made by other UK taxpayers and the UK Government will be successful and ultimately Zegona will not incur any liability and therefore no provision is required in respect of this matter.

In accordance with the provisions of IFRIC 23, Zegona intends to recognise a receivable against both HMRC charging notice paid in March 2021 and further notice of approximately £250,000 that it expects to receive and pay in respect of interest. Zegona will continue to evaluate the recoverability of this receivable until a final resolution is reached.

9. INVESTMENT IN SUBSIDIARIES

The Consolidated Financial Statements in the current year include the following subsidiaries:

Subsidiary	Nature of business	Country of incorporation	Shares held directly by the Company	Shares held indirectly by the Company
Zegona Limited	Incentive company	Jersey (1)	100%	–
Zegona Spanish Holdco Limited	Dormant	UK (2)	–	100%
Zegona Borrower Limited	Dormant	UK (2)	–	100%
Zegona Holdco Limited	Dormant	UK (2)	–	100%

The registered office addresses of the subsidiaries are:

1. 47 Esplanade, St Helier, Jersey, JE1 0BD
2. 8 Sackville St, Mayfair, London, W1S 3DG

There are no restrictions on the Company's ability to access or use the assets and settle the liabilities of the Company's subsidiaries, other than immaterial assets controlled by liquidators.

Carrying value of the Company's direct investment in subsidiary

The movement in value of the Company's direct investment in subsidiary during 2020 have decreased due to the foreign exchange translation of the Company's Sterling denominated Financial Statements, the functional currency of the Company, into euro, the presentational currency of Zegona.

10. FINANCIAL RISK MANAGEMENT

Zegona's activities expose it to market risk, principally interest rate risk and currency risk.

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 rate. On 18 December 2020, Zegona extended its facility agreements for a total £15 million which bear interest at a spread over the 3-month LIBOR. £10 million has been drawn on these facilities with an additional £5m available until 14 September 2021. Zegona also has a small overdraft facility, which bears interest at 1.5% per annum over the Bank of England base rate but is currently undrawn.

In the opinion of the Directors, a significant movement in LIBOR would be required to have a material impact on the cash flow of Zegona. The Executive Directors and the Chief Financial Officer regularly review the placing of cash balances and Zegona's leverage.

Foreign currency risk

The Board and the Chief Financial Officer control and monitor financial risk management, including foreign currency risk, in accordance with internal policy and the strategic plan defined by the Board. Zegona is exposed to three types of exchange risk: transaction, translation and economic risk.

Transaction risk is the risk of loss that Zegona bears when it enters into monetary transactions denominated in currencies other than Sterling, the currency in which Zegona operates. A loss (or gain) may occur due to the change in relative value of currencies from the date on which the transaction is entered to the date the settlement takes place.

As at 31 December 2020, Zegona had euro monetary net assets of €7.7 million (2019: €25.4 million). The table below shows the transactional impact of a 10% change in euro against Sterling at 31 December 2020:

	+/- 10% movement
Currency impact	**€000**
Profit before tax gain/loss	-/+ 631
Equity gain/loss	-/+ 631

Zegona is also exposed to foreign exchange translation risk which is accounting in nature. It is the risk that the value of net assets and net profit will change as a result of translation of the Financial Statements of companies within the group with a different functional currency to the presentational currency from one period to the next. In the case of Zegona, this is the conversion of Sterling into euro.

The table below show the translation impact of 10% movement in Sterling against the euro at 31 December 2020:

	+/- 10% movement
Currency impact	**€000**
Profit before tax gain/loss	-/+ 1,399
Equity gain/loss	-/+ 33,246

Lastly, Zegona is exposed to economic risk due to its interest in associate operating in euros. Dividends from

Zegona's investment in Euskaltel will be received in euro and therefore an exchange rate risk may arise on conversion of those dividends into Sterling. In addition, the Sterling value of the proceeds from any future sale of Euskaltel shares will impact the amount in Sterling that Zegona will distribute to its shareholders unless Zegona chooses to hedge the foreign exchange exposure.

Credit risk

Credit risk arises from cash and cash equivalents, prepayments and other receivables and contingent consideration. Zegona uses the ratings awarded by independent agencies, where available, otherwise Zegona assesses the counterparty's credit rating taking into account its financial situation, past experience and other factors.

There are no material financial assets that are written down, past due or impaired as at 31 December 2020, and there is no collateral or other credit enhancement feature on Zegona's financial assets.

The material exposures to credit risk by credit quality classification and external rating at 31 December 2020 are shown in the table below:

Quality classification	External credit rating	Cash and cash equivalents €000	Contingent consideration €000	Total €000
Strong	A- and above	15,244	-	15,244
Satisfactory	BB + to B	-	7,499	7,499
		15,244	**7,499**	**22,743**

Credit quality classification definitions:

- Strong exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.
- Satisfactory exposures require closer monitoring and demonstrate and average-to-fair capacity to meet financial commitments, with moderate default risk.

The Directors consider that the carrying amounts best represent the maximum exposure to credit risk.

Liquidity risk

Prudent liquidity risk management implies holding sufficient cash and marketable securities and the availability of financing through a sufficient level of available credit lines. Management assesses regularly Zegona's liquidity forecasts which consider cashflow projections and existing facilities.

At 31 December 2020, Zegona had cash balances held with banks amounting to €15.2 million (2019: €27.0 million), compared to Zegona's total liabilities amounting to €13.8 million (2019: €14.1 million). In addition, Zegona has unsecured undrawn facilities of £6.5 million, equivalent to €7.2 million (2019: £21.5 million, equivalent to €25.3 million).

11. FINANCIAL INSTRUMENTS

The following tables shows the carrying amounts and the fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities measured at amortised costs as their carrying amount is a reasonable approximation of fair value.

Financial instrument classification and fair values – Consolidated

	Fair Value 2020 €000	Amortised cost 2020 €000	Fair value 2019 €000	Amortised cost 2019 €000

Prepayments and other receivables	-	170	-	92
Derivatives (Level 2)	39	-	-	-
Financial assets designated at fair value (Level 3)	7,499	-	3,997	-
Cash and cash equivalents	-	15,244	-	27,035
Total current financial assets	**7,538**	**15,414**	**3,997**	**27,127**

	Fair Value 2020 €000	**Amortised cost 2020 €000**	**Fair value 2019 €000**	**Amortised cost 2019 €000**
Bank borrowings	-	-	-	11,578
Total non-current financial liabilities	-	-	-	**11,578**
Accruals and other payables	-	2,279	-	2,556
Bank borrowing	-	10,971	-	-
Total current financial liabilities	-	**13,250**	-	**2,556**

Further detail on the valuation technique used when measuring the Level 3 Financial assets designated at fair value, the reconciliation of movements during the year and the significant unobservable inputs used can be found on Note 15. There have been no transfers fair value hierarchy levels during the year (2019: Nil).

Financial instrument classification and fair values – Company

	Fair Value 2020 €000	**Amortised cost 2020 €000**	**Fair value 2019 €000**	**Amortised cost 2019 €000**
Prepayments and other receivables	-	183	-	22
Derivatives (Level 2)	39	-	-	-
Cash and cash equivalents	-	15,149	-	26,023
Total current financial assets	**39**	**15,332**	-	**26,045**

	Fair Value 2020 €000	**Amortised cost 2020 €000**	**Fair value 2019 €000**	**Amortised cost 2019 €000**
Bank borrowings	-	-	-	11,578
Total non-current financial liabilities	-	-	-	**11,578**
Accruals and other payables	-	22,528	-	16,093
Bank borrowings	-	10,971	-	-
Total current financial liabilities	-	**33,499**	-	**16,093**

12. INTEREST IN ASSOCIATE

At 31 December 2020, Zegona owned 38.3 million shares (2019: 38.1 million) in Euskaltel, a Spanish telecommunications company incorporated in Spain and operating in the Basque Country, Asturias and Galicia under regional brands and nationally under the Virgin telco brand, which represents approximately 21.44% (2019: 21.3%) of the ordinary shares and voting rights of Euskaltel.

Summarised financial information for associate

The following tables summarise the Statement of Financial Position and Statement of Comprehensive Income of Euskaltel as disclosed in its own audited financial statements prepared in accordance with IFRS as adopted by the EU, adjusted to recognise certain assets and liabilities in line with their fair value at acquisition date and differences in accounting policies. The preparation of Euskaltel's financial statements for the year ended 31 December 2020 required certain estimates and judgements concerning the future. There is a risk that different judgements would have led to materially different accounting treatments or that the final outcome of those estimates may differ from the amounts initially recognised. The estimates and judgements that present a significant risk of material adjustment to Euskaltel's carrying amounts of assets and liabilities in subsequent reporting periods, and therefore to Zegona's carrying value of investment in associate, are: capitalisation of tax credits, volume discounts from suppliers, share-based payments and the useful life of cable network assets.

Statement of Comprehensive Income

For the period to 31 December 2020	**€000**
Revenue	677,785
Profit for the period (continuing operations)	77,306
Total comprehensive income for the period	77,306
Zegona's share of profit for the period (21.37% weighted average)	16,560

Statement of Financial Position

As at 31 December 2020	**€000**
Non-current assets	2,039,629
Current assets	233,779
Non-current liabilities	(1,613,053)
Current liabilities	(381,957)
Net assets	**278,398**

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

	31 December 2020 €000
Euskaltel's net assets	278,398
Zegona's share of Euskaltel's net assets (21.44%)	59,688
Goodwill recognised*	264,556
Foreign exchange and other movements	(1,507)
Interest in associate	**322,737**
Fair value of interest in associate	335,105

*Includes €1.4 million of additional goodwill[50] recognised on purchases, with a cost of €1.7 million, made in 2020.

The fair value of the interest in associate is based on its quoted market price. Euskaltel had no contingent liabilities as at 31 December 2020.

[50] Zegona has applied an allocation approach similar to that applied on the date Euskaltel become an associate, whereby goodwill is calculated on incremental interest acquired as a residual after valuing the incremental share of identifiable net assets at fair value of €0.3 million.

Zegona has granted security to Euskaltel by a share pledge over 1,663,158 of its shares in Euskaltel with respect to certain tax assets generated in favour of Telecable. At 31 December 2020, 4,478,965 shares are unpledged, with the remainder granted as security to Barclays as described in Note 17.

13. PREPAYMENTS AND OTHER RECEIVABLES

	Consolidated 31 December 2020	Consolidated 31 December 2019
	€000	€000
Prepayments	42	70
VAT recoverable	24	21
Other receivables	104	1
Total	**170**	**92**

	Company 31 December 2020	Company 31 December 2019
	€000	€000
Prepayments	35	67
Amounts due from subsidiary undertakings	20	21
VAT recoverable	24	21
Other receivables	104	1
Total	**183**	**110**

14. DERIVATIVES

The following table shows the notional amount and fair value amounts by product contract type held by the Company.

	Notional contract amount 31 December 2020	Fair value- Assets 31 December 2020	Notional contract amount 31 December 2019	Fair value- Assets 31 December 2019
	€000	€000	€000	€000
Foreign exchange	4,343	39	-	-
	4,343	**39**	**-**	**-**

The notional contract amounts of foreign exchange contracts indicate the nominal value of transaction outstanding at the balance sheet date; they do not represent amounts at risk.

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

The current financial assets balance of €7.5 million (31 December 2019: €4.0 million) comprises solely the contingent consideration receivable from the sale of Telecable. The contingent consideration is payable by Euskaltel in cash up to a maximum amount of €15 million in aggregate upon confirmation that a range of net tax assets are available to Euskaltel and may be used to offset its future tax payments.

	Note	€000

Balance at 31 December 2019		**3,997**
Fair value changes recognised in profit or loss	7	3,746
Foreign exchange differences		(244)
Balance at 31 December 2020		**7,499**

Calculation of fair value at 31 December 2020

For all periods prior to December 2020, the fair value of the contingent consideration was calculated using a probability-weighted discounted cash flow model that calculated a value based on the assumption that the contingent consideration would be resolved by applying the mechanisms established in the Telecable Sale and Purchase Agreement (**"SPA"**). The SPA required Euskaltel to obtain a binding ruling from the Spanish General Directorate of Taxation (**"DGT"**) confirming certain tax assets are eligible for use upon a qualifying merger of the Telecable entities. This was applied for in 2018 with the expectation that it would take approximately six months to be delivered but has yet to be issued and this delay is a common issue with taxpayers with open rulings before the DGT.

Given this delay, during the second half of 2020, Zegona engaged with Euskaltel to try to devise an alternative arrangement for settling the contingent consideration. As a result of this, Euskaltel carried out a new analysis of the underlying tax credits together with its tax advisers and concluded that they are recoverable. Euskaltel therefore recognized both a deferred tax asset to reflect the credits of approximately €25 million and a short-term financial liability with related parties of €8.7 million in respect of Zegona's entitlement to receive 35% of the value of the credits. Zegona considers that this disclosure constitutes an adjusting post balance sheet event in accordance with the terms of IAS 10 *Events after the reporting period* and has therefore used this information in calculating the fair value of the contingent consideration. Zegona is therefore confident that Euskaltel will settle the full €8.7million liability shortly after the Euskaltel board is released of its duty of passivity following the completion of the Tender Offer for Euskaltel discussed in note 27.

Zegona has calculated the fair value of the contingent consideration financial asset by updating its probability-weighted discounted cash flow model that calculates the present value of the expected cash flows for two main 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, a fair value of €7.5 million was assigned to the contingent consideration which primarily reflects Zegona's high confidence in the base case assumption that the full €8.7 million recorded in Euskaltel's financial statements will be paid shortly after the successful completion of the Tender Offer. The assumptions with the most significant impact on fair value are the time period (227 days) and discount rate (7.5%) applied in discounting for the time value of money and the probability assigned to each outcome. A +/- 10% change in any of the key assumptions would not result in a material impact on the fair value.

Calculation of fair value at 31 December 2019

As at 31 December 2019, Zegona still expected to resolve the contingent consideration by applying the mechanisms established in the Telecable Sale and Purchase Agreement SPA. Applying these mechanisms, 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.

The fair value of the contingent consideration was calculated using a probability-weighted discounted cash flow model that calculates the present value of the expected cash flows for 12 different plausible combinations of outcomes. The fair value was determined by calculating a weighted average of those cash flows according to the probability of each scenario occurring. As a result of this analysis, a fair value of €3.9 million was assigned to the contingent consideration. This value recognises the possibility of certain material downside cases that Zegona considered to be unlikely to occur (particularly in relation to the merger approval discussed below not being granted) and therefore the eventual amount received could be greater than this fair value.

The significant unobservable inputs used in the base case (which had a present value of €5.9 million), 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 31 December 2019, 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:	***Sensitivity of the base case:***
Successful	If the merger is unsuccessful, the revised base case present value would be €nil

Usability of available assets:

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

Input used in the base case model:	***Sensitivity of the base case:***
82% usable	Usability scenarios ranged from 41% to 100%, causing the present value of the base case to range from €3 million to €7.2 million

Timing of merger approval:

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

Input used in the base case model:	***Sensitivity of the base case:***
6 months	If the timing is increased to 18 months, the revised base case present value would be €5.5 million

16. ACCRUALS AND OTHER PAYABLES

	Consolidated 31 December 2020 €000	**Consolidated 31 December 2019 €000**
Trade payables	372	267
Accrued interest	57	103
Other accruals	1,850	2,186
	2,279	**2,556**

	Company 31 December 2020 €000	**Company 31 December 2019 €000**
Trade payables	57	106
Payable to direct subsidiary	21,909	15,527
Other payables	169	74
Accruals	393	386
	22,528	**16,093**

17. BANK BORROWINGS

In December 2020, the Company extended its credit facility with Barclays Bank PLC (**"Barclays"**) for a total of £15 million. The drawdown amount remained unchanged at £10 million. Interest was payable quarterly in arrears on the drawn amount at a rate of 2.6% per annum above the 3-month LIBOR interest rate. A commitment fee of 0.6% per annum was payable on the undrawn amount of £5 million. The Company had the right to prepay the loan at any time.

The Barclays facility is due to mature on 14 October 2021. Additionally, any amounts outstanding would have 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 was secured by a charge over 32.2 million Euskaltel shares.

18. MANAGEMENT INCENTIVE SCHEME

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

Holders of the Management Shares may exercise their shares by redeeming them at any point between the third and fifth anniversary of the start of each Calculation Period. When management exercises its Management Shares, 99% of these shares are redeemed, with the remaining Management Shares continuing to have rights to the management incentive. There are also provisions for exercise by Management if there is a takeover or acquisition of Zegona (including by a scheme of arrangement), or Zegona sells all or substantially all of its assets and distributes the net proceeds to shareholders.

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

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

In accordance with the scheme rules, Zegona management redeemed its Management Shares on 25th June 2020 which was in advance of the end of the first Calculation Period on 14 August 2020 and outside of anticipated closed periods. At this date, the value of Zegona shares (based on the 30-day volume weighted average price, ”VWAP”) was below the £1.21 level required for the Preferred Return to be met. The value of Zegona’s investment in Euskaltel and its cash and cash equivalents net of bank borrowings[51] on this date was worth £1.28 per Zegona share, which was above both the Preferred Return level and the Net Shareholder Invested Capital per share of £0.955.

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

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

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

[51] Defined by Zegona as “Underlying Asset Value per Share” at 31 of December 2020 -excludes the value of contingent consideration receivable and any value for Zegona management.

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

Under IFRS 2, the new Calculation Period constitutes a new share-based payment award for which the holders of the Management Shares began to render services from June 25, 2020. However, for the purposes of IFRS 2, the grant date of the award cannot be until Zegona's shareholders vote to ratify the renewal of the management incentive scheme at Zegona's 2021 AGM.

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

Accordingly, Zegona engaged an independent valuation specialist to estimate the fair value of the award as at 31 December 2020 using a Monte Carlo model. The value of the award on the valuation date was £0.0786 per Management Share which will be recognised in the Consolidated Statement of Comprehensive Income subject to any adjustments for future revaluations discussed above. For the period to 31 December 2020 a total of €0.8 million was recognised and €0.1 million in relation to 3rd party costs incurred in the renewal of Scheme.

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

Share price at measurement date	£1.055
Expected volatility	16%
Dividend yield	0%
Risk-free interest rate	0%
Number of simulations	100,000

19. CALLED UP SHARE CAPITAL

Allotted, called up and fully paid	2020 Number	2020 €'000	2019 Number	2019 €'000
At 1 January	221,935,177	2,855	126,219,449	1,763
Shares issued	-	-	95,715,728	1,092
Less: shares repurchased and cancelled	(2,965,101)	(34)	-	-
At 31 December	**218,970,076**	**2,821**	**221,935,177**	**2,855**

The nominal value of the total ordinary shares is £0.01 and the total allotted, called up and fully paid equates to £2,189,701 (2019: £2,219,352).

During 2020 Zegona purchased and cancelled a total of 2,965,101 ordinary shares for a nominal value of £29,651. For more information on the share buyback programme refer to note 21.

All ordinary shares confer identical rights including in respect of capital, dividends and voting. There are no restrictions on the distributions of dividends or the repayment of capital.

20. RESERVES

Foreign currency translation reserve

The foreign currency translation reserve includes the foreign exchange differences arising from the translation of the Consolidated Financial Statements functional currency of Sterling (**"£"**) to presentational currency euro (**"€"**). This reserve is a non-distributable reserve. The movement in this reserve for the period is driven primarily by the movement in closing €:£ exchange rates from 1.18 at 31 December 2019 to 1.11 at 31 December 2020.

Share-based payment reserve

The share-based payment reserve represents the cumulative build-up of the incentive scheme costs over the vesting period as the employees gradually render service. More information on the share-based Management incentive scheme can be found on Note 18. This is a non-distributable reserve.

Retained earnings

The retained earnings reserve includes cumulative net profits and permitted transfers from the share-based payment reserve. This is a distributable reserve.

Other Reserves

	Capital redemption reserve	**Share premium reserve**	**Other reserve**	**Total Other Reserves**
	€'000	**€'000**	**€'000**	**€'000**
At 1 January 2020	**-**	**108,793**	**195,763**	**304,556**
Cancellation of shares purchased	34	-	(3,599)	(3,565)
Dividend paid	-	-	(11,348)	(11,348)
At 31 December 2020	**34**	**108,793**	**180,816**	**289,643**

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

Capital redemption reserve

When the Company buys back shares out of distributable reserves 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. The capital redemption reserve is a requirement under s692 of the Companies Act 2006 to preserve the Company's capital and is a non-distributable reserve.

Share premium reserve

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

Other reserve

On 8 June 2016, following approval by special resolution of the shareholders at the Annual General Meeting of the Company on 15 April 2016, the share premium account of the Company was cancelled, as confirmed by an Order of High Court of Justice, Chancery Division. Upon the cancellation of the share premium account, the balance of €386.045 million was transferred to the Other reserve. The Other reserve forms part of the distributable reserves of the Company.

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

Distributable reserves

The Company's total distributable reserves as at 31 December 2020 were £140 million, which equates to €156 million at 31 December 2020 foreign exchange rates (2019: £142 million, which equates to €167 million at 31 December 2019 foreign exchange rates).

21. SHARE BUYBACK

On 7 January 2020, Zegona commenced a share buyback programme to purchase its ordinary shares up to a maximum consideration of £10 million. Zegona's Board set a buyback policy that allowed shares to be acquired at prices up to the Underlying Asset Value per Share[52]. This programme concluded on 31 March 2020 and 2,442,447 ordinary shares, with a nominal value of £24,424, were purchased and cancelled for a total of £2,461,592.

On 24 June 2020, Zegona announced a further share buy-back programme for the purchase of up to a maximum of £10 million of its ordinary shares. This programme concluded on 15 September 2020 and 522,654 ordinary shares, with a nominal value of £5,227, were purchased and cancelled for a total of £604,455.

During 2020 Zegona purchased and cancelled a total of 2,965,101 ordinary shares for a total of £3,066,047, representing 1.35% of the total shares in issue.

22. CAPITAL MANAGEMENT

Our objective when managing capital is to maintain a flexible capital structure that optimises the costs and availability of capital at acceptable risk with the primary objective of maximising shareholder value. In the management of capital and its definition, we include share capital and all equity reserves attributable to the equity holders of the Company.

Zegona manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of any covenants. To maintain or adjust the capital structure, Zegona may adjust the dividend payment to shareholders, return capital to shareholders, make distributions of non-cash assets to shareholders or issue new shares.

The Company has authorisation to make market purchases of up to 10% of its current issued ordinary share capital (within specified price parameters) until the end of the 2021 AGM. Any shares repurchased by the Company pursuant to this authority may be held in treasury and subsequently resold for cash, cancelled or used for employee share scheme purposes.

Throughout 2020, Zegona met the financial covenants associated to the facilities described in note 17.

23. EARNINGS PER ORDINARY SHARE

Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. As more fully detailed in note 18, Management Shares in the share capital of Zegona Limited have been issued and, on exercise, the value of these shares is expected to be delivered by the Company issuing new ordinary shares. Hence, the Management Shares could have a dilutive effect, although the Company has the right at all times to settle such value in cash. No adjustment to EPS has been made in respect of the Management Shares as they were anti-dilutive for the year ended 31 December 2020.

	2020	2019

[52] Defined as the value of Zegona's investment in Euskaltel, Zegona's cash and cash equivalents net of bank borrowings per share as discussed in the Nomination and Remuneration Report on page 42.

Profit for the year attributable to equity holders of the parent (€000)	13,966	42,056
Weighted average number of ordinary shares	219,658,462	211,183,547
Basic and diluted EPS (€)	0.06	0.20

24. DIVIDEND PAID

The Company declared an interim dividend on 6 February 2020 at a rate of 2.0p per share, totalling £4.4 million (€5.1 million). The dividend was paid on 6 March 2020. In the comparative period, the Company declared an interim dividend on 31 January 2019 at a rate of 2.5p per share, totalling £3.2 million (€3.7 million), which was paid on 1 March 2019.

On 9 June 2020 the Company declared an interim dividend at the rate of 2.6p per share for a total of £5.7 million (€6.3 million). The dividend was paid on 31 July 2020. In the comparative period, the Company declared a dividend on 2 August 2019 at a rate of 2.5 pence per share, totalling £5.5 million. The dividend was paid on 6 September 2019.

25. RELATED PARTY TRANSACTIONS

In the opinion of the Directors, there is no one single controlling party.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party, or the parties are under common control or influence, in making financial or operational decisions.

Related party transactions of the Company

Mark Brangstrup Watts, a Non-executive Director of Zegona up until 12 May 2020, is a designated member of Marwyn Capital LLP ("**Marwyn**"), which was compensated for various office services provided to the Company. During the period to 12 May 2020, services totalling €25k were received from Marwyn (2019: €69k).

Mark Brangstrup Watts is an ultimate beneficial owner of Axio Capital Solutions Limited ("**Axio**"), which provided company secretarial, administrative and accounting services to Zegona. During the period to 12 May 2020, services totalling €173k were received from Axio (2019: €354k).

Transactions with key management personnel

The Board considers the Executive Directors and Non-Executive Directors of the Company to be the key management personnel of Zegona. Details of the amounts paid to key management personnel are detailed in the Directors' Remuneration Report on pages 36 and 43. Holdings of Management Shares are detailed in note 18.

26. AUDITOR'S REMUNERATION

	2020 €000	2019 €000
Fees for the audit of the Company's annual accounts	288	270
Total audit fees	**288**	**270**
Fees for procedures on interim financial statements	44	11
Total non-audit fees	**44**	**11**

27. POST BALANCE SHEET EVENTS

Tender Offer for Euskaltel

On 28 March 2021, a wholly-owned subsidiary of MásMóvil Ibercom, S.A.U. ("MásMóvil"), a Spanish telecommunications operator and portfolio company of the private equity funds KKR, Providence and Cinven, announced that it had launched a tender offer to acquire 100% of Euskaltel for €11.17 per share in cash (the "Offer").

The Offer values Zegona's 21.44% shareholding at c.€427.7 million

On 27 March 2021 Zegona and MásMóvil entered into an irrevocable agreement, by virtue of which MásMóvil has undertaken to launch the Offer and Zegona to accept the Offer and tender its shareholding during the acceptance period (the **"Irrevocable Undertaking"**). Kutxabank (19.9% shareholder in Euskaltel) and Alba (11% shareholder in Euskaltel) have signed substantially equivalent irrevocable undertakings, resulting in over 52% of Euskaltel's total outstanding shares being subject to irrevocable undertakings to tender in the Offer.

The main terms of the Irrevocable Undertaking are as follows:

The remaining obligations on the offeror, MásMóvil, include (amongst others):

- No right to withdraw the Offer without the authorisation of Zegona if any conditions are required for regulatory approvals.
- A range of commitments in the event that the Offer is successful and MásMóvil is the controlling shareholder of Euskaltel, including to maintain Euskaltel's Basque headquarters and not execute a mass redundancy programme for a period of at least five years, to prioritise the deployment of a 5G network in the Basque Region, and to promote actions to ensure prompt access for Euskaltel's customers to ultra-fast FTTH broadband services.
- An undertaking not to sell, directly or indirectly, Euskaltel's shares to a third party at a price higher than that finally paid in the Offer within a period of 2 years from settlement of the Offer, save in the event of an eventual sale or IPO of MásMóvil Ibercom, S.A.U.

The remaining obligations on Zegona include (amongst others):

- To tender all its Euskaltel shares in the Offer during the acceptance period and not to sell or transfer its Euskaltel shares during the period of the Offer.
- To use its voting rights in Euskaltel to vote against any resolution that could prevent or frustrate the Offer or which could significantly reduce the synergies available.

In the event of a material breach of the Irrevocable Undertaking by either party, the breaching party shall pay the non-breaching party, as liquidated damages, an amount equivalent to 15% of the value of Zegona's Euskaltel shareholding as calculated at the Offer price. This is not an exhaustive remedy for wilful misconduct, gross negligence or fraud.

The Offer is subject to regulatory approvals and the acceptance of the Offer by a number of shares representing at least 75% plus one share of the total outstanding share capital of Euskaltel.

Hedging instrument

On 8 April 2021, Zegona Limited entered into a Deal Contingent Forward Purchase Agreement with Barclays Bank PLC to hedge the full amount of proceeds it expects to receive on the successful completion of the Offer. Under the terms of the contract, Zegona has sold €430 million and will receive between £371.9 million and £372.1 million (depending on the actual date of settlement) only if the Offer is successfully completed.

Interim dividends

Zegona received a dividend on 12 February 2021 from Euskaltel at a rate of €0.14 per share, totalling €5.4 million. In accordance with Zegona's dividend policy, this was passed through to Zegona's shareholders by payment of a dividend at a rate of 2.2p per share, totalling £4.8 million (€5.6 million). The Zegona dividend was declared on 21 December 2020 and paid on 9 March 2021.

Intercompany transfer of Euskaltel shares

On 2 March 2021, as part of an internal reorganisation designed to simplify the structure of its holdings in Euskaltel, Zegona Communications PLC contributed 3,878,965 shares in Euskaltel S.A. with a value as at the closing mid-price on 2 March 2021 of €31,807,513 to its subsidiary, Zegona Limited, in exchange for one Ordinary Share of Zegona Limited.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting (the "**AGM**") of Zegona Communications plc (the "**Company**") will be held at the offices of Travers Smith LLP, 10 Snow Hill, London, EC1A 2AL on 30 June 2021 at 12:00 p.m. for the transaction of the following business:

To consider and, if thought fit, to pass the following resolutions, numbers 1 to 12 of which will be proposed as ordinary resolutions and numbers 13 to 17 of which will be proposed as special resolutions:

1. THAT the Company's financial statements for the year ended 31 December 2020, together with the Directors' report and the auditor's report on those financial statements and on the auditable part of the Directors' remuneration report, be received.

2. THAT Eamonn O'Hare be re-elected as a Director.

3. THAT Robert Samuelson be re-elected as a Director.

4. THAT Richard Williams be re-elected as a Director.

5. THAT Ashley Martin be re-elected as a Director.

6. THAT Kjersti Wiklund be re-elected as a Director.

7. THAT Suzi Williams be re-elected as a Director.

8. THAT KPMG LLP be re-appointed as auditor to the Company until the conclusion of the next annual general meeting of the Company.

9. THAT the Directors be authorised to fix the auditor's remuneration.

10. THAT the payment of the interim dividend, in lieu of a final dividend, of 2.2p per ordinary share to the Company's shareholders on 9 March 2021 be and is confirmed, approved and ratified for all purposes.

11. THAT the Directors' remuneration report, which is set out in the annual report of the Company for the year ended 31 December 2020, be approved.

12. THAT for the purposes of section 551 Companies Act 2006 (the "**Act**") (and so that expressions used in this resolution shall bear the same meanings as in the said section 551), the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot:

    12.1 shares and to grant such subscription and conversion rights as are contemplated by sections 551(1)(a) and (b) of the Act respectively up to a maximum nominal amount of £729,900 to such persons and at such times and on such terms as they think proper; and further

    12.2 equity securities (as defined in section 560 of the Act) in connection with a rights issue in favour of the holders of equity securities and any other persons entitled to participate in such issue where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by them up to a maximum nominal amount of £729,900,

subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems under the laws of any territory or requirements of any recognised regulatory body or stock exchange in any territory, provided that such authority shall expire at the conclusion of the next annual general meeting of the Company or the date which is 18 months after the date on which this resolution is passed, whichever is the earlier, save that the Company be and is hereby authorised to make, prior to the expiry of such periods, any offer or agreement which would or might require such shares or rights to be allotted or granted after the expiry of the said periods and the Directors may allot such shares or grant such rights under any such offer or agreement as if the authority had not expired.

13. THAT the Company be and is hereby authorised to renew the rights attached to the Management Shares following the commencement of a new calculation period.

14. THAT if resolution 12 set out in the Notice convening this Meeting is passed, the Directors be and are hereby authorised to allot equity securities (as defined in section 560 of the Act) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Act did not apply to any such allotment or sale, such authority to be limited to:

    14.1 the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities (but in the case of an allotment pursuant to the authority granted under resolution 12.2, such power shall be limited to the allotment of equity securities by way of a rights issue only) and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems under the laws of any territory or requirements of any recognised regulatory body or stock exchange in any territory; and

    14.2 the allotment (otherwise than pursuant to paragraph 14.1 above) of equity securities up to a nominal amount of £109,485,

    such authority, unless renewed, to expire at the conclusion of the next annual general meeting of the Company or the date which is 18 months after the date on which this resolution is passed, whichever is the earlier, but in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

15. THAT if resolution 12 set out in the Notice convening this Meeting is passed, the Directors be and are hereby authorised in addition to any authority granted under resolution 12 to allot equity securities (as defined in section 560 of the Act) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be:

    15.1 limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £109,485; and

    15.2 used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice;

    such authority, unless renewed, to expire at the conclusion of the next annual general meeting of the Company or the date which is 18 months after the date on which this resolution is passed, whichever is the earlier, but in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

16. THAT the Company be and is hereby generally and unconditionally authorised for the purpose of section 701

Companies Act 2006 to make market purchases (as defined in section 693 of the said Act) of ordinary shares of £0.01 each in the capital of the Company ("**ordinary shares**") provided that:

16.1 the maximum number of ordinary shares hereby authorised to be purchased is 32,823,614, being equal to 14.99 per cent. of the issued ordinary shares;

16.2 the minimum price (exclusive of expenses) which may be paid for such ordinary shares is £0.01 per share, being the nominal amount thereof;

16.3 the maximum price (exclusive of expenses) which may be paid for such ordinary shares shall be an amount equal to the higher of (i) 5% above the average of the middle market quotations for such shares taken from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made and (ii) the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System (SETS);

16.4 the authority hereby conferred shall (unless previously renewed or revoked) expire on the earlier of the end of the next annual general meeting of the Company and the date which is 18 months after the date on which this resolution is passed; and

16.5 the Company may make a contract to purchase its own ordinary shares under the authority conferred by this resolution prior to the expiry of such authority, and such contract will or may be executed wholly or partly after the expiry of such authority, and the Company may make a purchase of its own ordinary shares in pursuance of any such contract.

17. THAT the Company be and is hereby authorised to provide notice to shareholders of general meetings of the Company of at least 14 clear days' notice.

BY ORDER OF THE BOARD
Secretary: Crestbridge Corporate Services Ltd
Date: 19 April 2021
Registered Office: 47 Esplanade, St Helier, Jersey, JE1 0BD

EXPLANATORY NOTES TO THE RESOLUTIONS

Notes:

Proposed AGM arrangements

(i) As you may know, we are required by law to hold an AGM within six months of our financial year end. However, given the unprecedented circumstances, the Board has decided to put in place contingency arrangements that mean the AGM will not follow its usual format. Only the statutory, formal business (consisting of voting on the resolutions proposed in the Notice of AGM) to meet the minimum legal requirements will be conducted and the AGM will proceed as set out below:

(a) the AGM will be at 10 Snow Hill, London, EC1A 2AL or, if those offices are closed, immediately outside the offices;

(b) the Chairman of the Board and another member of the executive management team who holds shares in the Company will attend the AGM to ensure that the AGM is quorate;

(c) no other Directors will be present in person;

(d) there will be no presentation at the AGM, nor will there be any opportunity to ask questions of the Board;

(e) as would normally be the case, the votes on the resolutions to be proposed at the AGM will be conducted on a show of hands and the chairman of the meeting will vote on a show of hands in accordance with the proxies held; and

(f) the results of the proxy votes will be published immediately following the conclusion of the AGM by way of a stock exchange announcement and on the Company's website.

(ii) Although this is a very unusual approach, the Board considers that in light of the "lockdown" legislation currently in force, proceeding with a "technical" AGM is in the best interests not only of the Company, but also of each of its individual shareholders. By allowing the voting to proceed in accordance with instructions received by proxy, our share allotment and buyback resolutions can be put to shareholders for renewal before they expire and we can comply with our legal requirements, while ensuring that no one will have to travel unnecessarily to attend the AGM.

(iii) Of course, if circumstances change and the restrictions are lifted or relaxed before the AGM, the Company will notify shareholders of any changes to the proposed format for the AGM as soon as possible via its website. The timetable published by the Government gives 21 June as the current intended date for all Covid-related restrictions to be withdrawn. The Company will continue to monitor the situation over the coming weeks.

(iv) A member entitled to attend and vote at the Meeting convened by the above Notice is entitled to appoint a proxy to exercise all or any of the rights of the member to attend and speak and vote on his behalf. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. The right to appoint a proxy does not apply to any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the "**Act**") to enjoy information rights (a "**Nominated Person**").

(v) To appoint a proxy you may:

(a) use the Form of Proxy enclosed with this Notice of Annual General Meeting. To be valid, the Form of Proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of the same, must be received by post or (during normal business hours only) by hand to Link Group, PXS1 Central Square, 29 Wellington Street, Leeds, LS1 4DL or at the electronic address provided in the proxy form, in each case no later than 12:00 p.m. on 28 June 2021; or

(b) if you hold your shares in uncertificated form, use the CREST electronic proxy appointment service as described in the CREST manual or in the Explanatory Notes to the resolutions set out below.

Alternatively, you may submit your proxy electronically using the share portal service at www.signalshares.com. If not already registered for the share portal, you will need your investor code which is located on your share certificate.

Further details on how to direct your proxy to vote on resolutions or withhold their vote are set out in the notes to the Form of Proxy.

(vi) Completion of the Form of Proxy or appointment of a proxy through CREST will not prevent a member from attending and voting in person if he/she wishes to do so.

(vii) Any corporation which is a shareholder in the Company may appoint one or more corporate representatives who may exercise on its behalf all of that corporation's powers as a shareholder of the Company provided that, where there is more than one corporate representative appointed, they do not attempt to exercise the corporations rights in respect of the same shares.

(viii) Any member or his corporate representative or proxy attending the Meeting has the right to ask any question at the Meeting relating to the business of the Meeting.

(ix) Pursuant to section 360B of the Act and Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only shareholders registered in the register of members of the Company as at close of business on 28 June 2021 shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at such time. If the Meeting is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned Meeting is close of business, 48 hours before the time fixed for the adjourned Meeting. Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

(x) In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

(xi) From the date of this notice, copies of the terms and conditions of appointment of the Non-Executive Directors and the service contracts of the Zegona Chairman and Executive Directors are available for inspection at the registered office of the Company, 8 Sackville Street, Mayfair, London, W1S 3DG, during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) until the conclusion of the AGM and will be available for inspection at the place of the AGM for at least 15 minutes prior to and during the Meeting.

(xii) Save as set out in these notes, members who have general queries relating to the AGM should contact Link Group on 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales. Please note that you may not use any electronic address or other contact details provided in this notice of AGM, or any related documents (including the Chairman's letter and Form of Proxy), for any purpose other than those expressly stated.

(xiii) As at 19 April 2021 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 218,970,076 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 19 April 2021 are 218,970,076.

(xiv) The information required to be published by section 311A of the Act (information about the contents of this notice and numbers of shares in the Company and voting rights exercisable at the AGM and details of any members' statements, members' resolutions and members' items of business received after the date of this notice) may be found at www.zegona.com. Subject to the limitations of the resolution approved at the AGM of the Company on 15 April 2016, the Company does not intend to post or email hard copies of shareholder related documents, such as this Report and Notice of Annual General Meeting, to shareholders. All documents will be made available on the Company's website, www.zegona.com.

(xv) A Nominated Person may under an agreement between him/her and the member who nominated him/ her, have a right to be appointed (or to have someone else appointed) as a proxy entitled to attend and speak and vote at the Meeting. Nominated Persons are advised to contact the member who nominated them for further information on this and the procedure for appointing any such proxy.

The purpose of these notes is to explain the resolutions and business to be conducted at the Company's AGM. Resolutions 2 to 13 set out in the Notice detail the ordinary resolutions and resolutions 1 and 14 to 17 detail the special resolutions. Further explanation in relation to the resolutions is set out below.

Resolution 1 – To approve the Annual Report and Financial Statements

Resolution 1 proposes the receipt and adoption of the Annual Report, which includes the Financial Statements of the Company for the year ended 31 December 2020, together with the Directors' report and auditor's report on those Financial Statements.

The Company's Annual Report, including the Financial Statements for the year ended 31 December 2020, is available on the Company's website, www.zegona.com. The Annual Report was prepared in compliance with the requirements of the Act and the requirements of the Listing Rules of the Financial Conduct Authority that would apply if the Company was listed on the Premium segment of the Official List as at the date of their approval by the Board.

Resolutions 2 to 7 – Election of Directors

Resolutions 2 to 7 deal with the re-election of each Director of the Company that, subject to the Articles of Association of the Company (the "**Articles**"), is required to retire at every annual general meeting of the Company. All Directors on the Board will retire at the AGM for this reason. Each of such Directors is offering himself for re-election and resolutions 2 to 7 propose the re-election of such Directors. Biographies of each of the Directors retiring in accordance with the Articles are set out on pages 19 and 20 of the Annual Report. Suzi Williams is the chair of the Nomination and Remuneration Committee. Ashley Martin is the chair of the Audit and Risk Committee and, if re-elected, will continue in this role.

The Chairman has confirmed that, following a performance review in line with the UK Corporate Governance Code, all of the Directors continue to perform effectively and contributed positively to the Board meetings that they attended during 2020 as set out on page 22 of the Annual Report and subsequently to the date of this notice.

Resolutions 8 and 9 – Re-appointment and remuneration of auditor

The appointment of KPMG LLP as auditor of the Company, which started on 18 November 2016, terminates at the conclusion of the AGM. KPMG LLP has indicated its willingness to stand for re-appointment as auditor of the Company until the conclusion of the annual general meeting to be held in 2021. The Directors, as well as the Audit and Risk Committee, recommend that KPMG LLP be re-appointed and that its remuneration be fixed.

Resolution 10 – Dividend payment

This resolution seeks to ratify the payment by the Company of a second interim dividend, in lieu of a final dividend, of 2.2 p per ordinary share to shareholders of the Company on 9 March 2021. The dividend payment followed the Company's interim dividend payment of 2.6 p per ordinary share in July 2020, thus bringing the total shareholder dividend payments for 2020 to 4.8 p per share.

Resolution 11 – Directors' remuneration report

In accordance with the requirements under the Act, shareholders are being asked to approve the Directors' remuneration report set out on pages 30 to 47 of the Annual Report. The actual remuneration paid to Directors in 2020 was made within the boundaries of the Directors' remuneration policy approved by shareholders at the 2019 Annual General Meeting.

Resolution 12 – Directors' authority to allot shares

The existing power granted to the Directors to allot ordinary shares expires at the conclusion of the AGM. Accordingly, resolution 12 is proposed to renew the Directors' authority to allot ordinary shares of up to a maximum nominal amount of (i) £729,900 (being one-third of the Company's issued ordinary share capital as at 19 April 2021) to such persons and upon such conditions as the Directors may determine; and (ii) a further maximum aggregate nominal amount of £729,900 (being one-third of the Company's issued ordinary share capital as at 19 April 2021) in connection with a rights issue (as defined in resolution 12 of the Notice), 19 April 2021 being the latest practicable date before the publication of this notice.

This request for authority to allot shares up to a maximum of two-thirds of the Company's issued ordinary share capital is in line with the guidelines published by the Investment Association.

The authorities sought under resolution 12 will expire on the earlier of (i) the end of the next annual general meeting of the Company and (ii) the date which is eighteen months after the date on which this resolution is passed. The resolution replaces a similar resolution passed at the Annual General Meeting of the Company held on 30 June 2021. The Directors have no present intention of exercising such authority. However, the Directors consider it important to have the maximum ability and flexibility commensurate with good corporate governance guidelines to raise finance to enable the Company to respond to market developments and conditions. No shares are currently held by the Company in treasury.

Resolution 13 – Authorisation to renew the Management incentive scheme

This resolution seeks authority from shareholders for the Company to renew the rights attached to the Management Shares following the commencement of a new Calculation Period on 25 June 2020. A core feature of the incentive scheme is that there must be a shareholder vote to renew the rights attached to the Management Shares (as described in more detail in Note 18 to the financial statements) when a Calculation Period ends and another one automatically starts.

Resolutions 14 and 15 – Disapplication of pre-emption rights
The Act requires that shares or other equity securities allotted for cash are offered first to existing shareholders in proportion to their existing holdings. The passing of resolutions 14 and 15 would allow the Directors to allot shares (or sell any shares which the Company may hold in treasury following a purchase of its own shares) without first offering the securities to existing shareholders.

Accordingly, resolution 14 allows the Directors to allot shares and sell treasury shares for cash (i) in connection with a pre-emptive offer or pre-emptive rights issue and/or (ii) otherwise up to a nominal value of £109,485, equivalent to 5 per cent. of the total issued ordinary share capital of the Company (excluding treasury shares) as at 19 April 2021, being the latest practicable date prior to the date of publication of this notice, without first having to offer them to existing shareholders in proportion to their holdings.

The Pre-Emption Group's Statement of Principles also supports the annual disapplication of pre-emption rights in respect of allotments of shares and sales of treasury shares for cash representing no more than an additional 5 per cent. of issued ordinary share capital (exclusive of treasury shares), to be used only in connection with an acquisition or specified capital investment. The Pre-Emption Group's Statement of Principles defines "specified capital investment" as meaning one or more specific capital investment related uses for the proceeds of an issue of equity securities, in respect of which sufficient information regarding the effect of the transaction on the Company, the assets the subject of the transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable them to reach an assessment of the potential return.

Accordingly, resolution 15 authorises the Directors to allot new shares pursuant to the allotment authority given by resolution 12, or sell treasury shares, for cash up to a further nominal amount of £109,485, being an additional 5 per cent. of the entire issued share capital of the Company as at 19 April 2021, only in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment, or which has taken place in the preceding six month period and is disclosed in the announcement of the allotment. If the authority given in resolution 15 is used, the Company will publish details of the allotment in its next annual report.

The authorities will expire on the earlier of: (i) the end of the next annual general meeting of the Company; and (ii) the date which is 18 months after the date on which this resolution is passed. This resolution replaces a similar resolution passed at the Annual General Meeting of the Company held on 30 June 2021.

Resolution 16 – Purchases of own shares by the Company
This resolution seeks authority from shareholders for the Company to make market purchases of its own ordinary shares, limited to the purchase of 10 per cent. of the ordinary shares in issue as at 19 April 2021.

The maximum and minimum prices payable are also limited in the resolution. The authority will only be exercised if the Directors consider that there is likely to be a beneficial impact on earnings per ordinary share and that it is in the best interests of the Company at the time. The Company will be able to hold the ordinary shares which have been repurchased as treasury shares and re-sell them for cash, cancel them or use them for the purposes of any employee share schemes. No options to subscribe for ordinary shares have been granted and are outstanding as at 19 April 2021, although shares issued in the Company's incentive schemes may be exchanged for ordinary shares in certain circumstances.

Resolution 17 – Reduction of notice period for general meetings of the Company
This resolution seeks authority from shareholders for the Company to call general meetings at 14 clear days' notice, as opposed to 21 clear days' notice. While the Company's Articles already provide that the Company can call any general meeting (other than an annual general meeting) at 14 clear days' notice, the Act requires that, in order to do so, the reduction from 21 days to 14 days must be approved by way of a special resolution of the Company's shareholders. It is the Company's intention to continue to call annual general meetings at 21 clear days' notice.

Action to be taken
You are asked to either:

1. complete the Form of Proxy enclosed with this Notice of Annual General Meeting and return it, together with any power of attorney or other authority under which it is signed or a notarially certified or office copy thereof, to Central Square, 29 Wellington Street, Leeds LS1 4DL, so as to arrive no later than 12:00 p.m. on 28 June 2021; or

2. if you hold your shares in uncertificated form, use the CREST electronic proxy appointment service as described below.

Completion of the Form of Proxy or appointment of a proxy through CREST does not prevent a member from attending and voting in person.

Shares held in uncertificated form – electronic proxy appointment through CREST
CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain the information required for such instructions, as described in the CREST Manual (www.euroclear.com/CREST). The message must be transmitted so as to be received by the issuer's agent, Link Group (ID RA10), by 12:00 p.m. on 28 June 2021. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended)

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