

10 April 2019

**Porta Communications Plc
("Porta" or "the Group" or the "Company")**

**New Funding Arrangements
and
Notice of General Meeting**

Porta Communications Plc (AIM: PTCM) announces that it has entered into an agreement for the provision of a £1.0 million conditional, convertible loan (the "**SEC Convertible Loan**") with SEC S.p.A ("**SEC**"), a significant shareholder of Porta, the proceeds of which are to be used to fund general working capital requirements (the "**SEC Convertible Loan Agreement**"). In addition, the Company has agreed a new facility to refinance its existing loan with Retro Grand Limited ("**Retro Grand**"), and the Company has agreed a conditional facility with Hawk Investment Holdings Limited ("**Hawk**") which would only be available for drawdown, and consequently only utilised by the Company, in the event that the SEC Convertible Loan does not receive shareholder approval and/or other conditions to which the availability of the SEC Convertible Loan is subject are not satisfied.

Background

The Group maintained a positive level of adjusted underlying EBITDA in 2018 despite the major restructuring of the UK businesses which was both costly and time consuming. As well as the removal of net annualised costs of £3.6 million over the last eighteen months, the restructuring included the successful integration of Redleaf Polhill Limited, ICAS Limited (trading as "Publicasity") and Newgate Communications Limited into a cohesive market facing offering run by a single management structure. This process is now nearing its conclusion and the potential of the UK business and Group can be more clearly seen; it is evidenced by EBITDA achieved by Newgate in the UK during the first two months of 2019, which is significantly ahead of the prior year before the new management and restructuring was fully implemented. That said, given the political climate in the UK, there can be no guarantee that this trend will continue.

While the Group is now better positioned from an operational perspective, it needs to repair its Balance Sheet which was damaged by certain businesses in the UK underperforming, certain acquisitions not being fully integrated and managed, compounded by a reliance on major, one-off projects in the UK to support the existing cost structure at the time.

In addition, as announced today, Porta and SEC have entered into discussions concerning a possible all-share merger of the two companies (the "**Potential Merger**").

The Group's three major shareholders and existing connected party lenders have offered to provide funding to enable the next stage of Porta's development to be funded appropriately and for the discussions in respect of the Potential Merger to be held. The SEC Convertible Loan Agreement set out in this notification and in the Circular should be viewed in the context of the Potential Merger.

SEC Convertible Loan

The Company announces it has entered into an agreement for the provision of a conditional £1.0 million unsecured convertible loan from SEC. The SEC Convertible Loan will have an interest rate of 5 per cent. per annum and, in certain circumstances, may be converted into ordinary shares of £0.01 each in the capital of the Company ("**Ordinary Shares**") at the election of the Company or SEC at a conversion price of 1.0137 pence per share. The SEC Convertible Loan will become due for conversion on 26 August 2019 being 4 months from the date of the General Meeting. This date will be extended in the event that a scheme of arrangement or offer to effect the Potential Merger has commenced but is not yet effective. Conversion could also take place sooner in the event that the Potential Merger has completed in accordance with its terms. SEC also has the right to convert the SEC Convertible Loan upon the occurrence of an Event of Default. Draw down of the SEC Convertible Loan is conditional, *inter alia*, on shareholders granting directors authority to allot, and to disapply statutory pre-emption rights over, sufficient Ordinary Shares to satisfy the conversion of the SEC Convertible Loan ("**Resolutions**") and is expected to occur on or around 1 May 2019. In the event that the Resolutions are not passed, the SEC Convertible Loan Agreement will lapse in accordance with its terms.

SEC may elect to receive a cash payment under the SEC Convertible Loan upon the occurrence of an event of default under the SEC Convertible Loan Agreement. If there has been no conversion, the Company will pay any outstanding debt under the SEC Convertible Loan on 30 June 2020.

The number of Conversion Shares to be issued is capped such that SEC does not become interested in more than 29.99 per cent. of the voting rights of the Company, with any part of the SEC Convertible Loan not converted remaining as an outstanding, unsecured obligation of the Company on the terms of the SEC Convertible Loan Agreement which would be payable by the Company to SEC by no later than 31 December 2019. The conversion of the SEC Convertible Loan would currently result in the issue of a maximum of 94,552,550 new Ordinary Shares ("**Conversion Shares**") and a resultant maximum interest in the Company assuming no other Ordinary Shares are issued of 180,266,836 Ordinary Shares representing 29.99 per cent. of the enlarged issued share capital of the Company, and a remaining £41,500 of principal under the SEC Convertible Loan (plus interest).

Further details on the SEC Convertible Loan are included in the Circular which has been posted to shareholders today.

SEC is interested in 16.9 per cent. of Porta's issued share capital. Consequently, the SEC Convertible Loan constitutes a related party transaction pursuant to Rule 13 of the AIM Rules for Companies. The Directors of Porta (excluding Fiorenzo Tagliabue, who is beneficially interested in approximately 67.5 per cent of SEC's issued share capital) consider, having consulted with the Company's nominated adviser, that the terms of the SEC Convertible Loan are fair and reasonable insofar as the Company's shareholders are concerned.

Hawk Loan

In the event that the Resolutions are not passed and/or other conditions to which the availability of the SEC Convertible Loan is subject are not satisfied, the Company would be unable to draw down funds under the SEC Convertible Loan Agreement which would lapse in accordance with its terms. In such circumstances Hawk has agreed to provide the Company with a conditional loan of £1.0 million (the "**Hawk Loan**"). The Hawk Loan will only be available for drawdown by the Company in the event that shareholders do not approve the Resolutions and/or other conditions to which the availability of the Convertible Loan is subject are not satisfied. Consequently, should the Resolutions be approved and other conditions attaching to the SEC Convertible Loan be satisfied, the Hawk Loan will not be utilised and will lapse.

The Hawk Loan will have a loan period of 364 days from 26 April 2019 (the "**Repayment Date**") and interest will be payable at a rate of 5 per cent. per annum. If there is capital or interest outstanding under the Hawk Loan at the Repayment Date then additional interest will accrue at a rate of 12 per cent. per annum in addition to the normal 5 per cent. interest rate, to the date of repayment. The Hawk Loan has an arrangement fee of £5,000 and a utilization fee of £15,000, the latter only being payable should the Hawk Loan be drawn down by the Company.

The Independent Directors consider the terms of the Hawk Loan to be considerably less commercially advantageous than the SEC Convertible Loan for the following reasons:

- the default interest rate under the Hawk Loan on overdue principal and interest is 12 per cent. above the standard interest rate of 5 per cent., whereas the default interest rate under the SEC Convertible Loan is 5 per cent.; and
- the Hawk Loan is repayable in cash only. The SEC Convertible Loan is convertible into Ordinary Shares in the circumstances described above.

For the above reasons, the Independent Directors believe that the Hawk Loan would add to the already large debt burden borne by the Company when compared with the SEC Convertible Loan which it is expected will convert into Ordinary Shares.

Retro Grand Loan

The Company has also entered into a replacement facility with Retro Grand to re-finance the existing convertible loan from Retro Grand that had a face value of approximately £5.2 million (see announcement on 3 August 2017) (the "**Existing Retro Grand Loan**"), with a new loan with a face value of approximately £5.7 million (the "**New Retro Grand Loan**"). Retro Grand has also agreed to write-off approximately £0.5 million of default interest accrued on the Existing Retro Grand Loan. Consequently, the face value of the New Retro Grand Loan consists of the principal sum of approximately £5.2 million under the Existing Retro Grand Loan and accrued standard and additional interest thereon, and previously incurred arrangement fees in relation to the Existing Retro Grand Loan. No new money will be advanced to the Company under the New Retro Grand Loan.

The New Retro Grand Loan has similar terms to the Existing Retro Grand Loan. The New Retro Grand Loan will have a loan period of 364 days from 10 April 2019 and interest will be payable at a rate of 8 per cent. per annum, compounded quarterly. In certain circumstances, including upon the occurrence of an event of default under the

New Retro Grand Loan, Retro Grand will have the option of converting the loan into Ordinary Shares, with the conversion price calculated on the basis of the volume weighted average closing price of Ordinary Shares for the five business days immediately prior to the conversion option being exercised. Such conversion is conditional on the Company securing the requisite Shareholder authority to allot the relevant number of conversion shares.

Morton PTC Limited, as the trustee of the Morton Family Trust, is the legal owner of Hawk (a substantial shareholder of the Company) and, as the trustee of the Edward Morton Family Trust, is the legal owner of Retro Grand. Consequently, the Hawk Loan and the New Retro Grand Loan constitute related party transactions pursuant to Rule 13 of the AIM Rules for Companies. The directors consider, having consulted with the Company's nominated adviser, that the terms of these transactions are fair and reasonable insofar as the Company's shareholders are concerned.

Importance of the Resolutions and Recommendation

As noted above, draw down of the SEC Convertible Loan is conditional on, among other things, shareholder approval of the Resolutions. Shareholders should be aware that in the event the Resolutions are not passed, the SEC Convertible Loan Agreement will not become unconditional and will lapse in accordance with its terms. In such circumstances the Company expects to instead draw down the Hawk Loan, the terms of which are considered to be less commercially favourable than the terms of the SEC Convertible Loan.

The Independent Directors consider the SEC Convertible Loan to be in the best interests of the Company and its Shareholders as a whole and accordingly unanimously recommend that Shareholders vote in favour of the Resolutions to be proposed at the General Meeting as they have irrevocably undertaken to do in respect of their beneficial holdings amounting, in aggregate, to 34,433,427 Ordinary Shares, representing approximately 6.8 per cent. of the existing issued ordinary share capital of the Company. Fiorenzo Tagliabue has not participated in the recommendation of the SEC Convertible Loan as he is not considered to be independent for the purposes of such recommendation as a result of his shareholding in and directorship of SEC.

Irrevocable undertakings in respect of the Resolutions have been received from (i) SEC in respect of 85,714,286 Ordinary Shares, (ii) from Hawk and RGL in respect of 105,192,008 Ordinary Shares and (iii) from the Independent Directors in respect of 34,433,427 Ordinary Shares which in aggregate represent approximately 44.5 per cent. of the existing issued ordinary share capital of the Company.

General Meeting

The Company has today posted to shareholders a circular and notice of a general meeting to be held at 10 a.m. on 26 April 2019 at Sky Light City Tower, 50 Basinghall Street, London, EC2V 5DE (the "**General Meeting**"). The business of the General Meeting is to seek shareholders' approval to allot shares and disapply statutory preemption rights in connection with the SEC Convertible Loan.

The circular and notice of General Meeting will shortly be available on the Company's website: www.portacomms.com.

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Notes to Editors:

- Porta is a fully integrated communications and marketing group, operating locally, nationally and internationally, with specialisms including financial, corporate and consumer public relations, public affairs and research and multi-capability marketing, brand and creative communications
- The Group has offices in Abu Dhabi, Beijing, Brisbane, Bristol, Canberra, Cardiff, Edinburgh, Hong Kong, London, Manchester, Melbourne, Perth, Shanghai, Singapore and Sydney
- Further information on Porta Communications is available at www.portacomms.com
- Further information on Newgate Communications is available at www.newgatecomms.com