# Notes to the financial statements
For the year ended 31 December 2020

## 1. Accounting policies

### Basis of preparation
These financial statements are prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("EU"). The financial statements are prepared on a going concern basis and have been prepared on a historical cost basis, except for certain financial instruments which have been measured at fair value.

The financial statements are presented in Pounds Sterling and, unless otherwise stated, have been rounded to the nearest 0.1 million (£m).

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

### Going concern
The Group continues to adopt the going concern basis of accounting in preparing the financial statements. Further details can be found in the financial review on pages 30 to 34.

### Basis of consolidation
The Group financial statements consolidate the financial statements of Gamma Communications plc ('the Company') and the entities controlled by the Company (its subsidiaries). All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests or amounts previously recognised in other comprehensive income in relation to that subsidiary.

The consolidated financial statements consist of the results of the entities shown in note 18.

### Exemption from audit
For the year ending 31 December 2020 the following UK subsidiaries will take advantage of the audit exemption under s479A of the Companies Act 2006.

| Subsidiary name | Company registration number |
|---|---|
| Gamma Europe Holdco Limited | 12651762 |
| Gamma Group Holdings Limited | 12648657 |
| Gamma Telecom Holdings Limited | 04287779 |
| Gamma Telecom Limited | 04340834 |
| Gamma Business Communications Limited | 02998021 |
| Gamma Network Solutions Limited | 06783485 |
| Exactive Limited | SC285583 |
| Exactive Holdings Limited | SC293070 |
| Telsis Communication Services Limited | 09235326 |
| Telsis Direct Limited | 02977905 |
| Telsis Services Limited | 02304971 |

For the year ending 31 December 2020, Gamma Communications Europe B.V. and Gamma Communications Benelux B.V. (formerly DX Groep B.V.) were entitled to exemption from preparation of consolidated financial statements under Section 408 of the Dutch Civil Code (consolidation exemption for intermediate holding companies).

### Business combinations
The acquisition method of accounting is used for the acquisition of subsidiaries. The cost of the acquisition is measured at the aggregate fair value of consideration given. Acquisition-related costs are recognised in the Consolidated statement of profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value. Certain assets and liabilities are not recognised at fair value at the acquisition date as they are accounted for using other applicable IFRSs. These include deferred tax assets/liabilities.

The interest of the non-controlling shareholders in the acquiree may initially be measured either at fair value or at the non-controlling shareholders' proportion of the net fair value of the identifiable assets acquired, liabilities and contingent liabilities assumed. The choice of measurement basis is made on an acquisition-by-acquisition basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period of one year from the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement measured at fair value at the acquisition date. Subsequent changes are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

### Put option arrangements
The cash payments related to put options issued by the Group over the equity of subsidiary companies are accounted for as financial liabilities when such options may only be settled by exchange of cash.

The amount that may become payable under the option on exercise is initially recognised within liabilities with a corresponding charge directly to equity. The charge to equity is recognised separately as written put options over non-controlling interests, adjacent to non-controlling interests in the net assets of consolidated subsidiaries. The Group recognises the cost of writing such put options, determined as the excess of the fair value on the option over any consideration paid, as a financing cost.

Such options are subsequently measured at amortised cost, using the effective interest rate method, in order to accrete the liability up to the amount payable under the option at the date at which it first becomes exercisable. The charge arising is recorded as a financing cost.

### Goodwill
Goodwill arises on business combinations and represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired business at the acquisition date.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the Consolidated statement of profit or loss. Where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration paid, the excess is credited in full to the Consolidated statement of profit or loss on the acquisition date. Impairment tests on goodwill are undertaken annually at the financial year end.

Goodwill on acquisitions prior to the date of transition to IFRS have been retained at the previous UK GAAP amounts subject to impairment testing.

### Revenue
Revenue represents the fair value of the consideration received or receivable for communication services and equipment sales, net of discounts and sales taxes. One of the Group's German subsidiaries also has revenue from the commission earned on the sale of mobile phone contracts.

Revenue is recognised when the Group has fulfilled its performance obligations under the relevant customer contract.

The Group sells a number of communications products each of which typically consists of all or some of four main types of revenue – voice and data traffic, a subscription or rental, equipment sales and installation fees. Revenue for each element of the sale of the product is recognised as described below.

To the extent that invoices are raised in a different pattern to the revenue recognition described below, appropriate adjustments are made through contract liabilities and contract assets to account for revenue when the performance obligations have been met.

The Group has two types of channel partners. For the majority of the channel partners, the Group receives payment for products and services from channel partners who onwardly sell to end users. These channel partners are treated as the principal in that transaction because the channel partner has the primary responsibility for providing the products or services to the end user; the channel partner carries the inventory risk; the channel partner is free to establish its own prices either with or without bundling in other goods or services which are not supplied by the Group; and the channel partner bears the credit risk for the amount receivable from the end user. The Group therefore recognises revenue based on the transactions with the channel partner and not the end user.

The Group also has other channel partners that do not meet the criteria above and hence are not recognised as the principal in the transaction. For sales relating to these channel partners the Group recognises revenue based on transactions with the end user and recognises commission paid to the channel partner as an expense.

#### Voice and data traffic
Revenue from traffic is recognised at the time the call is made or data is transferred.

Revenue arising from the interconnection of voice and data traffic between other telecommunications operators is recognised at the time of transit across the Group's network.

#### Subscriptions and rentals
Revenue from the rental of analogue and digital lines is recognised evenly over the period to which the charges relate. Subscription fees, consisting primarily of monthly charges for access to ethernet, broadband, hosted UCaaS services and other internet access or voice services, are recognised as revenue as the service is provided.

A minority of sales of the Cloud PBX product are made under an 'upfront' model whereby a channel partner buys the right to use a service for an unspecified period of time into the future. This is treated as an option to obtain future services at a discount and the revenue is spread equally over the estimated future period of usage of that service.

#### Equipment sales
Revenue from the sale of peripheral and other equipment is recognised when control of the asset has transferred to the buyer, normally the date the equipment is delivered and accepted by the customer.

#### Installation fees
Revenue from installations which cannot be separated from an ongoing service contract, i.e. installations with no standalone value to the customer, are allocated to initial equipment sale (if any) and ongoing service revenues. The latter element results in a contract liability which is released over the length of the contract.

#### Arrangements with multiple deliverables
Where goods and/or services are sold in a bundled transaction, the total arrangement consideration is allocated to the individual elements based on their relative fair values. This fair value is based on amounts charged on a standalone basis, or by using comparable pricing arrangements observable in the market.

#### Commission from mobile network operators
Our German business (Epsilon Telecommunications GmbH) receives commission from mobile network operators in relation to the activation of SIMs. It recognises the revenue in the month in which it was earned once it has been notified of them by the mobile network operators. Annual commission is recognised on an accruals basis based on the estimated value for the year.

### Advances made to channel partners
Advances are sometimes made to channel partners as part of an incentive deal. Where the Group can demonstrate recovery of the advances through contractual clawback provisions and past evidence of recovery, they are deferred and recognised over the period of the contract. Where this is not possible, they are charged directly to the Consolidated statement of profit or loss.

### Incentive deals
Where the Group enters into incentive deals the costs are spread over the period of the deal and attributes a proportion of revenue against these costs. Where there is no revenue the credit is shown against revenue over the period of the deal.

# Notes to the financial statements continued
For the year ended 31 December 2020

## 1. Accounting policies continued

### Foreign currency
The consolidated financial statements are presented in Pounds Sterling, which is the functional currency of the Company.

Foreign currency transactions are translated into the functional currency at the prevailing rates when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates prevailing at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.

On consolidation, the results of European operations are translated into Pounds Sterling at rates approximating those prevailing when the transactions took place. The balance sheets of European operations are translated at the prevailing rate at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of European operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

Exchange differences recognised in the profit or loss of Group entities on the translation of long-term monetary items forming part of the Group's net investment in the European operation concerned are reclassified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation.

### Financial instruments
Financial assets and financial liabilities are recognised on the Consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument. Financial assets are classified as either fair value through profit or loss, fair value through other comprehensive income, or amortised cost. Classification and subsequent remeasurement depends on the Group's business model for managing the financial asset and its cash flow characteristics. Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost.

All financial assets are recognised and derecognised on a trade date basis, where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe of the market concerned.

### Financial assets
**Trade and other receivables**
Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as financial assets measured at amortised cost. Trade receivables do not contain significant financing components and therefore are initially recognised at their transaction price, and subsequently treated in line with other financial assets.

**Cash and cash equivalents**
Cash and cash equivalents comprise cash in hand, deposits held at banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Impairment of financial assets**
Except for trade receivables, impairment provisions are recognised as an expected credit loss provision under the general approach, being the expected credit loss over the next 12 months. Where there is a credit risk on a financial asset that has increased significantly, the impairment provision is measured at the lifetime expected credit loss. Impairment for trade receivables will be measured under the simplified approach with an expected credit loss percentage applied to each ageing category. All financial assets will be reported net of impairment; when the Group has no reasonable expectation of recovering a financial asset, the portion that is not recoverable is derecognised.

### Financial liabilities
**Trade payables**
Trade payables are other financial liabilities initially measured at fair value and subsequently measured at amortised cost.

**Equity instruments**
Equity instruments are recorded at the proceeds received, net of direct issue costs. Gamma Communications plc Ordinary Shares held by the Group are classified in equity as Own Shares. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income, and are not subsequently reclassified to the Group income statement, including on derecognition.

**Derivatives**
Forward exchange contracts are entered into to mitigate foreign exchange risk. These contracts are derivatives and therefore measured at fair value through profit or loss. Hedge accounting has not been applied.

**Borrowings**
Borrowings represent bank loans, initially measured at net proceeds and subsequently measured at amortised cost, using the effective rate method.

**Offsetting financial instruments**
Financial assets and liabilities are offset and presented on a net basis in the Consolidated statement of financial position, only if the Group holds an enforceable legal right of set-off for such amounts and there is an intention to settle on a net basis or to realise an asset and settle the liability simultaneously. In all other instances they are presented gross in the Consolidated statement of financial position.

**Measurement**
The financial instruments included on the Consolidated statement of financial position are measured at fair value or amortised cost. The measurement of this fair value can in some cases be subjective and can depend on the inputs used in the calculations. The different valuation methods are called 'hierarchies' and are described below:

- Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair values measured using inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly.
- Level 3: Fair values measured using inputs for the asset or liability that are not based on observable market data.

### Dividends
Dividends are accounted for when they become legally payable. In the case of interim dividends to equity shareholders, this is upon payment. For final dividends, this is when they are approved by the shareholders at the AGM. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date. Dividends are disclosed in note 14.

### Share based payment expense

Equity settled share based payments awarded to employees are measured at the fair value of the options at the grant date. The fair value excludes the effect of non-market based vesting conditions. The fair value is expensed on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

Each year end, the Group revises its estimate of the number of equity instruments expected to vest as a result of non-market based vesting conditions. The impact of the revision of the estimate, if any, is recognised in the Consolidated statement of comprehensive income so that, ultimately, the cumulative amount recognised reflects the latest estimates with a corresponding adjustment to the share option reserve.

Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Consolidated statement of proft and loss over the remaining vesting period.

The fair value of the options is measured by use of either the Black-Scholes method or the Monte Carlo method. The latter methodology is used where there are market conditions attached to the share awards.

### Hedge accounting

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for undertaking the hedge transaction. The Group also documents its assessment of whether the hedge is expected to be, and has been, highly effective in offsetting the risk in the hedged item, both at inception and on an ongoing basis.

Changes in the fair value of hedging instruments that are designated and qualify as a hedge of a net investment in a foreign operation (net investment hedges) or a hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction or a firm commitment (cash flow hedges), and that prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income and a separate reserve within equity. Gains and losses accumulated in this reserve are included in the income statement on disposal of the relevant investment or occurrence of the cash flow as appropriate.

Changes in the fair value of hedging instruments that are designated and qualify as a hedge of the fair value of a recognised asset or liability (fair value hedges) are recognised in the income statement. The gain or loss on the hedged item that is attributable to the hedged risk is recognised in the income statement. This applies even if the hedged item is an available for sale financial asset or is measured at amortised cost. If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment made to the carrying amount of the hedged item is amortised to the income statement, based on a recalculated effective interest rate over the residual period to maturity. In cases where the hedged item has been derecognised, the cumulative adjustment is released to the income statement immediately.

### Leased assets

Leased assets consist of rental property, cars and fibre networks where the Group has the right to control the identified asset.

A right of use asset and corresponding lease liability are recognised at commencement of a lease. The right of use asset is measured at cost, which consists of the initial measurement of the lease liability, any initial direct costs and any dilapidation or restoration costs. The right of use asset is depreciated on a straight line basis over the shorter of the lease term or the useful life of the underlying asset. The right of use asset is tested for impairment if there are any indicators of impairment.

The lease liability is measured at the present value of the lease payments, discounted at the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprises of fixed or variable payments, amounts expected to be payable under the residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequently, the liability will be reduced for payments made and increased for the interest applied and it is remeasured to reflect any reassessment or contract modifications. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset or in the Consolidated statement of profit or loss if the right of use asset is already reduced to zero.

Where lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Short term leases of 12 months or less and leases of low value are expensed to the Group Consolidated statement of profit or loss.

Where the Group has a contract to use part of a fibre or copper pathway and does not have substantially all of the capacity of the asset this is not classified as a lease and payments are expensed. In some instances, a pathway may have a small incidental linkage where the Group is using substantially all of the capacity of a very minor part of the pathway. In this instance the whole contract is not treated as a lease.

### Taxation

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The tax expense represents the sum of the tax currently payable and deferred tax.

#### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years, it includes items that are tax deductible but do not affect net profit and it further excludes items that are never taxable or deductible.

# Notes to the financial statements continued
For the year ended 31 December 2020

## 1. Accounting policies continued

**Deferred tax**
Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the statement of profit or loss, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Property, plant and equipment**
Property, plant and equipment is stated at costs less accumulated depreciation and any accumulated impairment losses. Costs comprises purchase price, any other directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Depreciation is calculated by charging equal annual instalments to the Consolidated profit or loss at the following rates:

| Category | Depreciation rate |
|---|---|
| Land and buildings | 3% – 6% per annum straight line |
| Network assets | 14% – 25% per annum straight line |
| Computer equipment | 15% – 33% per annum straight line |
| Fixtures and fittings | 8% – 33% per annum straight line |

The charge in respect of periodic depreciation is calculated after establishing an estimate of the asset's useful life and the expected residual value at the end of its life. The useful lives of Group assets are determined by management at the time the assets are acquired and reviewed annually for appropriateness. These lives are based on historical experience with similar assets.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised when the carrying value of an asset exceeds its recoverable amount.

Assets in the course of construction for use in the supply of communication products, or for administration purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

**Acquired intangible assets**
Separately identified intangible assets acquired as part of a business combination are initially valued at their fair value (regarded as cost). Intangible assets are subsequently valued at cost less accumulated amortisation and any impairment losses. Amortisation is charged on a straight-line basis over the estimated useful life of the asset. The carrying value of the intangible asset is reviewed for impairment if events or changes in circumstance indicate the carrying value may not be recoverable. The expected useful economic life of the intangible assets represents the best estimates available and are outlined below:

| Category | Useful Economic Life |
|---|---|
| Customer contracts | Four to ten years |
| Development costs | Two to five years |
| Brand | Three to ten years |

**Development costs**
Expenditure on the research phase of an internal project is recognised as an expense in the period in which it is incurred. Development costs incurred on specific projects (whether in respect of new products or enhancement of existing products) are capitalised when all the following conditions are satisfied:

- completion of the asset is technically feasible so that it will be available for use or sale;
- the Group intends to complete the asset and use or sell it;
- the Group has the ability to use or sell the asset and the asset will generate probable future economic benefits (over and above cost);
- there are adequate technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred. The cost of an internally generated asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. These typically include employee costs incurred and third-party costs.

Judgement is applied when deciding whether the recognition requirements for development costs have been met. Judgements are based on the information available at each statement of financial position date. In addition, all internal activities related to the research and development of new projects are continuously monitored. Amortisation is charged to the Statement of profit or loss on a straight-line basis over the estimated useful life from the date the asset is available for use.

### Software
Software is comprised of licences purchased from third parties and is initially recognised at cost. Amortisation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Amortisation is provided on software over the useful economic life assigned, but no more than five years.

### Impairment of non-financial assets
Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment is reviewed by assessing the asset's value in use when compared to its carrying value.

Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ("CGUs"). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

### Inventory
Inventory (which is all finished goods) are valued at the lower of cost and net realisable value. Cost comprises all purchase costs, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Weighted average cost is used to determine the cost of ordinarily interchangeable items.

### Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event. The amount recognised as a provision is the best estimate of the cost required to settle the obligation at the reporting date, after taking account of the risks and uncertainties surrounding the obligation. Provisions are disclosed in note 27.

### Employee Benefit Trust ("EBT")
As the Company is deemed to have control of its EBT, it is treated as a subsidiary and consolidated for the purposes of the consolidated financial statements. The EBT's assets (other than investments in the Company's shares), liabilities, income and expenses are included on a line-by-line basis in the consolidated financial statements.

# Notes to the financial statements continued
For the year ended 31 December 2020

## 2. Critical accounting estimates and judgements

Preparation of the consolidated financial statements requires the Group to make certain estimations, assumptions and judgements regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including best estimates of future events. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment within the next financial year are discussed below.

### Critical accounting judgements

Critical judgements, apart from those involving estimations, applied in the preparation of the consolidated financial statements are discussed below:

**(a) Principal vs agent classification of channel partners**

The Group receives payment for products and services from channel partners who onwardly sell to end users. The Group has considered whether channel partners are acting as a principal or an agent under the criteria in IFRS 15.

Where a channel partner has the primary responsibility for providing the products or services to the end user, carries the inventory risk, is free to establish its own prices and bears the credit risk for the amount receivable from the end user then the channel partner is treated as the principal in that transaction. The Group therefore recognises revenue earned in this way based on the transactions with the channel partner and not the end user. For more information on the Group's revenue please see note 5, Segment information.

**(b) Revenue recognition**

Revenue recognition on contracts may involve providing services over multiple years and involving a number of products. In such instances, judgement is required to identify the date of transaction of separable elements of the contract and the fair values which are assigned to each element. The Group also regularly assesses customer credit risk inherent in the carrying amounts of receivables, contract costs and estimated earnings. For more information on the Group's revenue recognition policy please see note 1, Accounting policies.

### Key accounting estimates

**(a) Put option liability**

On 1 July 2020, the Group acquired 80.25% of HFO Holding AG (HFO). The remaining 19.75% can be purchased in three tranches via put and call options. When calculating the liability, management has made an estimate of the 2021 EBITDA and the 2022 run rate monthly net additional cloud seats. The Group has a put option liability of £11.2m at 31 December 2020. This is calculated on an expected returns approach.

A change in the number of net additions to cloud seats could change the put option liability by £2.7m (€3m). Further detail can be found in note 19, Business combinations.

## 3. Alternative performance measures

Adjustments to the income statement have been presented because the Group believes that adjusted performance measures (APMs) provide valuable additional information for users of the financial statements in assessing the Group's performance. These are also used by the Board and management as key KPIs and one reason for this is to understand how the business is performing. Moreover, they provide information on the performance of the business that management is more directly able to influence and on a basis comparable from year to year.

The measures are adjusted for the following items:

### (a) Depreciation and amortisation

Depreciation and amortisation relate to the assets which were acquired by the Group. These are omitted from adjusted operating expenses to allow users of the accounts to compare against other external data sources.

### (b) Depreciation and amortisation arising due to business combinations

This adjustment is made to improve the comparability between acquired and organically grown operations, as the latter cannot recognise internally generated intangible assets. Adjusting for amortisation provides a more consistent basis for comparison between the two.

### (c) Change in fair value of acquisitions

The change in fair value of deferred consideration and put option liability is adjusted for to improve the comparability between acquired and organically grown operations, providing a more consistent basis for comparison between the two.

### (d) Exceptional items

The Group treats certain items which are considered to be one-off or not representative of the underlying trading of the Group as exceptional in nature.

The Directors apply judgement in assessing the particular items, which by virtue of their scale or nature should be classified as exceptional items. The Directors consider that separate disclosure of these items is relevant to an understanding of the Group's financial performance. Any changes to items that are initially identified as exceptional in one year will consistently be treated as exceptional in subsequent periods.

Changes in deferred consideration, reduction of intangible assets and goodwill, and profit upon disposal of a subsidiary are considered to be exceptional where of a certain scale as they are not representative of the primary activities of the Group.

### (e) Adjusting tax items

Where movements to tax balances arise and these do not relate to the underlying trading current year tax charge, these are adjusted in determining certain APMs as they do not reflect the underlying performance in that year.

The impact of these adjustments is shown in the table below:

**2020**

| Measure | Statutory Basis | Depreciation and amortisation on business combinations | Change in fair value of acquisitions | Adjusting tax items | Exceptional items ** | Adjusted basis |
|---|---|---|---|---|---|---|
| PBT (£m) | 75.0 | 6.0 | 0.3 | – | (19.6) | 61.7 |
| PAT* (£m) | 64.2 | 6.0 | 0.3 | (1.5) | (19.6) | 49.4 |
| EPS (FD) (p) | 66.6 | 6.2 | 0.3 | (1.5) | (20.3) | 51.3 |

**2019**

| Measure | Statutory basis | Depreciation and amortisation on business combinations | Change in fair value of acquisitions | Adjusting tax items | Exceptional items ** | Adjusted basis |
|---|---|---|---|---|---|---|
| PBT (£m) | 45.2 | 2.0 | – | – | 0.9 | 48.1 |
| PAT* (£m) | 34.5 | 2.0 | – | 1.6 | 0.9 | 39.0 |
| EPS (FD) (p) | 36.1 | 2.1 | – | 1.7 | 0.9 | 40.8 |

* Profit after tax (PAT) is the amount attributable to the ordinary equity holders of the Company.
** See note 9 for further details.

In addition to the above we add back the depreciation and amortisation charged in the year to Profit from Operations (2020: £75.7m; 2019: £45.5m) to calculate a figure for EBITDA (2020: £98.6m; 2019: £62.6m) which is commonly quoted by our peer group internationally and allows users of the accounts to compare our performance with those of our peers. We further adjust EBITDA for exceptional items as this gives a reader of the accounts a view of the underlying trading picture which is comparable from year to year (2020: £79.0m; 2019: £63.5m).

## 4. Changes in accounting policies

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective and in some cases had not yet been adopted by the UK:

- IFRS 17 – Insurance Contracts
- IFRS 10 and IAS 28 (amendments) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current
- Amendments to IFRS 3 – Reference to the Conceptual Framework
- Amendments to IAS 16 – Property, Plant and Equipment—Proceeds before Intended Use
- Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018-2020 Cycle – Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

# Notes to the financial statements continued
For the year ended 31 December 2020

## 5. Segment information

The Group's main operating segments are outlined below:

- **UK Indirect** – This division sells Gamma's products to channel partners and contributed 63% (2019: 70%) of the Group's external revenue.
- **UK Direct** – This division sells Gamma's products to end users in the SME, enterprise and public sectors together with an associated service wrap. It contributed 25% (2019: 25%) of the Group's external revenues. This also includes the Exactive entities acquired during the year.
- **European (formerly Overseas)** – This division consists of sales made in Europe by Gamma Communications Benelux B.V. (formerly DX Groep B.V.) and its subsidiaries (including the newly acquired GnTel entities) in the Netherlands, by VozTelecom Oigaa360 S.A. and its subsidiaries in Spain and by HFO Holding GmbH (formerly HFO Holding A.G.) and its subsidiaries in Germany contributing 12% (2019: 5%) of the Group's external revenues.
- **Central functions** – This is not a revenue-generating segment but is made up of the central management team and wider Group costs.

***Factors that Management used to identify the Group's operating segments***

The Group's reportable segments are strategic business units that offer products and services into different markets. They are managed separately because each business requires different marketing strategies and are reported separately to the Board and management team.

***Measurement of operating segment profit or loss, assets and liabilities***

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

The Group evaluates performance on the basis of profit or loss from operations but excluding non-recurring losses, such as goodwill impairment, the effects of share based payments and exceptional income.

Inter-segment sales are priced in line with sales to external customers, with an appropriate discount being applied to encourage use of Group resources at a rate acceptable to local tax authorities. This policy was applied consistently throughout the current and prior year.

| 2020 | UK Indirect £m | UK Direct £m | European £m | Central functions £m | Total £m |
|---|---|---|---|---|---|
| Segment revenue | 268.5 | 98.1 | 48.5 | – | 415.1 |
| Inter-segment revenue | (21.3) | – | – | – | (21.3) |
| **Revenue from external customers** | 247.2 | 98.1 | 48.5 | – | 393.8 |
| | | | | | |
| Timing of revenue recognition | | | | | |
| At a point in time | 14.7 | 4.0 | 15.8 | – | 34.5 |
| Over time | 232.5 | 94.1 | 32.7 | – | 359.3 |
| | 247.2 | 98.1 | 48.5 | – | 393.8 |
| | | | | | |
| **Gross profit** | 132.2 | 46.3 | 22.3 | – | 200.8 |
| Operating expenses | (87.3) | (4.2) | (25.6) | (8.0) | (125.1) |
| | | | | | |
| **Earnings before depreciation, amortisation and exceptional items** | 59.6 | 23.4 | 4.0 | (8.0) | 79.0 |
| Exceptional items | – | 19.5 | 0.1 | – | 19.6 |
| **Earnings before depreciation and amortisation** | 59.6 | 42.9 | 4.1 | (8.0) | 98.6 |
| Depreciation and amortisation (excluding business combinations) | (13.6) | (0.5) | (2.8) | – | (16.9) |
| Amortisation arising due to business combination | (1.1) | (0.3) | (4.6) | – | (6.0) |
| | | | | | |
| **Profit/(loss) from operations** | 44.9 | 42.1 | (3.3) | (8.0) | 75.7 |

External revenue of customers has been derived principally in the geographical area of the operating segment and no single customer contributes more than 10% of revenue.

| | UK Indirect £m | UK Direct £m | European £m | Central functions £m | Total £m |
|---|---|---|---|---|---|
| **Additions to non-current assets** | 16.4 | 0.2 | 4.5 | – | 21.1 |
| **Reportable segment assets** | 199.6 | 31.1 | 90.9 | – | 321.6 |
| **Reportable segment liabilities** | 60.1 | 15.0 | 42.1 | – | 117.2 |

The UK Indirect revenue and gross profit is further split between traditional and growth products below:

| | 2020 £m | 2019 £m |
|---|---|---|
| Traditional products and services | **42.2** | 43.6 |
| Growth (being strategic and enabling) products and services | **205.0** | 186.5 |
| **Total revenue from external customers** | **247.2** | 230.1 |

| | 2020 £m | 2019 £m |
|---|---|---|
| Traditional products and services | **12.3** | 12.4 |
| Growth (being strategic and enabling) products and services | **119.9** | 106.7 |
| **Total gross profit** | **132.2** | 119.1 |

Given that the decline in the traditional business has now stabilised and that element of the business is no longer material, this will be the final year where we show this split. We believe that it is no longer needed by a user of the accounts to understand the growth of the business.

The UK Direct revenue by market is detailed below:

| | 2020 £m | 2019 £m |
|---|---|---|
| Mid-markets | **27.3** | 27.5 |
| Enterprise | **47.9** | 36.1 |
| Public sector | **21.6** | 18.6 |
| The Loop[1] | **1.3** | 1.4 |
| **Total revenue from external customers** | **98.1** | 83.6 |

[1]The Group completed the sale of The Loop business on 31 December 2020.

Following a re-organisation, the UK Direct business is now managed with a common management team and hence this will be the last year that we split the revenue by sub-channel.

# Notes to the financial statements continued
For the year ended 31 December 2020

## 5. Segment information continued

| 2019 | UK Indirect £m | UK Direct £m | European £m | Central functions £m | Total £m |
|---|---|---|---|---|---|
| Segment revenue | 251.6 | 83.6 | 15.2 | – | 350.4 |
| Inter-segment revenue | (21.5) | – | – | – | (21.5) |
| **Revenue from external customers** | **230.1** | **83.6** | **15.2** | **–** | **328.9** |
| Timing of revenue recognition | | | | | |
| At a point in time | 16.4 | 5.6 | – | – | 22.0 |
| Over time | 213.7 | 78.0 | 15.2 | – | 306.9 |
| | 230.1 | 83.6 | 15.2 | – | 328.9 |
| **Gross profit** | **119.1** | **38.2** | **9.2** | **–** | **166.5** |
| Operating expenses | (81.5) | (20.3) | (12.7) | (6.5) | (121.0) |
| **Earnings before depreciation, amortisation and exceptional items** | **51.6** | **18.1** | **0.3** | **(6.5)** | **63.5** |
| Exceptional items | – | – | (0.9) | – | (0.9) |
| **Earnings before depreciation and amortisation** | **51.6** | **18.1** | **(0.6)** | **(6.5)** | **62.6** |
| Depreciation and amortisation (excluding business combinations) | (13.9) | (0.2) | (1.0) | – | (15.1) |
| Amortisation arising due to business combination | (0.1) | – | (1.9) | – | (2.0) |
| **Profit/(loss) from operations** | **37.6** | **17.9** | **(3.5)** | **(6.5)** | **45.5** |

External revenue of customers has been derived principally in the geographical area of the operating segment and no single customer contributes more than 10% of revenue.

| | UK Indirect £m | UK Direct £m | European £m | Central functions £m | Total £m |
|---|---|---|---|---|---|
| **Additions to non-current assets** | 11.6 | – | 0.8 | – | 12.4 |
| **Reportable segment assets** | 190.4 | 23.0 | 25.0 | – | 238.4 |
| **Reportable segment liabilities** | 62.0 | 12.4 | 11.5 | – | 85.9 |

## 6. Revenue

Revenue in all periods principally arises from the provision of products and services.

### Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

| | 2020 £m | 2019 £m |
|---|---|---|
| Receivables, which are included in 'Trade and other receivables' | **49.0** | 34.8 |
| Contract assets, which are included in 'Trade and other receivables' | **39.1** | 33.1 |
| Contract liabilities | **15.9** | 17.1 |

The amount of revenue recognised in 2020 from performance obligations satisfied (or partially satisfied) in previous periods is £nil (2019: £nil).

The contract liabilities are deferred income arising from installations and Horizon upfront subscriptions, which are released to the income statement over the life of the contract.

The contract assets are accrued income, where invoices are raised in a different pattern compared to the revenue recognition to account for revenue when performance obligations have been met.

Significant changes in the contract liabilities balances during the year are as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Revenue recognised that was included in the contract liability balance at the beginning of the period | (10.4) | (7.8) |
| Increases due to cash received, excluding amounts recognised as revenue during the period | 9.1 | 9.2 |

Revenue expected to be recognised in future periods for performance obligations that are not complete (or are partially complete) at the reporting date are £17.6m (2019: £19.5m). This will substantially be recognised as revenue within three years.

## 7. Contract costs

Capitalised contract costs consist of commissions from the UK Direct division which are directly associated with specific customer contracts and installation costs.

| | 2020 £m | 2019 £m |
|---|---|---|
| **Commissions** | | |
| Capitalised | 1.1 | 1.6 |
| Amortised | 1.6 | 1.7 |
| **Installation costs** | | |
| Capitalised | 2.6 | 3.7 |
| Amortised | 2.3 | 2.3 |

There was no impairment loss in relation to the costs capitalised (2019: £nil).

# Notes to the financial statements continued
For the year ended 31 December 2020

## 8. Profit on ordinary activities

Profit on ordinary activities is stated after charging/(crediting) the following amounts:

| | 2020 £m | 2019 £m |
|---|---|---|
| Net foreign exchange | **0.1** | 0.2 |
| Research costs | **10.2** | 9.9 |
| Employee costs (note 10) | **83.3** | 67.2 |
| Depreciation of property, plant and equipment | **9.7** | 9.8 |
| Depreciation on right of use assets | **2.2** | 1.7 |
| Amortisation of intangible assets (excluding business combinations) | **5.0** | 3.6 |
| Amortisation arising due to business combinations | **6.0** | 2.0 |
| Cost of inventories recognised as an expense | **11.7** | 15.5 |
| Impairment of trade receivables | **(0.1)** | (0.6) |
| Fees payable to the Group's auditor | **0.4** | 0.2 |

Fees payable to the Group's auditor for the audit of the Company and the consolidated financial statements totalled £386k (2019: £205k), which includes £48k (2019: £41k) in respect of the half-year review which is considered a non-audit service. In addition, there was a charge in the year of £75k in respect of an overrun above the previously reported fee for 2019.

## 9. Exceptional items

| | 2020 £m | 2019 £m |
|---|---|---|
| Contingent consideration adjustment – DX Groep | **–** | 8.1 |
| Reduction of goodwill carrying value | **–** | (4.2) |
| Reduction of intangible assets carrying value | **–** | (3.9) |
| Exceptional items related to DX Groep acquisition[1] | **–** | – |
| Contingent consideration adjustment – Nimsys[2] | **0.1** | (0.9) |
| Profit upon disposal of subsidiary[3] | **19.5** | – |
| **Total exceptional items** | **19.6** | (0.9) |

1 In 2019, the Gamma Communications Benelux Group (formerly DX Groep) experienced a higher than expected attrition rate of legacy customers taking ISDN. This resulted in lower than expected revenues. Therefore, the estimated contingent consideration due was revised and the associated intangible assets including goodwill were reduced.

2 At 31 December 2020, contingent consideration due in respect of Nimsys was remeasured and updated as a result of the 2020 EBITDA being slightly lower than the estimate. The overall balance due decreased by £0.1m (2019: increase £0.9m) which was credited to the statement of comprehensive income, further detail can be found in note 26.

3 Relates to the sale of The Loop Manchester on 31 December 2020, further detail can be found in note 18.

## 10. Employee costs

| | 2020 £m | 2019 £m |
|---|---|---|
| Employee costs (including Directors) comprise: | | |
| Wages and salaries | **67.3** | 54.6 |
| Defined contribution pension cost | **4.6** | 3.9 |
| Social security contributions and similar taxes | **7.9** | 6.1 |
| | **79.8** | 64.6 |
| Share based payment expense (note 32) | **3.5** | 2.6 |
| | **83.3** | 67.2 |

The Group operates a defined contribution pension scheme for the benefit of its employees. The assets of the scheme are administered by trustees in a fund independent from those of the Group.

### Employee numbers

The average monthly number of Group employees was:

| | 2020 Number | 2019 Number |
|---|---|---|
| Operational | **786** | 632 |
| Selling, administration and distribution | **621** | 481 |
| | **1,407** | 1,113 |

**Key management personnel compensation**

Key management personnel comprise the Board of Directors (listed on pages 50 and 51) and the Senior Leadership Team (listed on pages 52 and 53).

| | 2020 £m | 2019 £m |
|---|---|---|
| Salary | **4.0** | 3.3 |
| Post-employment benefits | **0.1** | 0.1 |
| Short-term employee benefits | **0.9** | 0.8 |
| | **5.0** | 4.2 |
| Share based payment expense (note 34) | **1.8** | 1.1 |
| | **6.8** | 5.3 |

Remuneration in respect of the Board of Directors is summarised below:

| | 2020 £m | 2019 £m |
|---|---|---|
| Salary | **1.8** | 1.7 |
| Social security contributions and similar taxes | **0.3** | 0.3 |
| | **2.1** | 2.0 |
| Share based payment expense | **0.8** | 0.5 |
| | **2.9** | 2.5 |

During the year, the aggregate amount of gains made by the Executive Directors on the exercise of share options was £0.4m.

During the year, one Executive Director (2019: one Executive Director) participated in a private money purchase defined contribution pension scheme.

## 11. Finance income and expense

| | 2020 £m | 2019 £m |
|---|---|---|
| **Finance income** | | |
| Interest received on bank deposits | **0.4** | 0.1 |
| **Total finance income** | **0.4** | 0.1 |
| | | |
| **Finance expense** | | |
| Lease liability interest costs | **(0.5)** | (0.4) |
| Movements of fair value | **(0.3)** | - |
| Interest on borrowings | **(0.3)** | – |
| **Total finance expense** | **(1.1)** | (0.4) |
| | | |
| **Net finance expense** | **(0.7)** | (0.3) |

# Notes to the financial statements continued
For the year ended 31 December 2020

## 12. Tax expense

| | 2020 £m | 2019 £m |
|---|---|---|
| **Current tax expense** | | |
| Current tax on profits for the year | **12.1** | 9.9 |
| Adjustment in respect of prior year | **0.1** | (0.6) |
| Overseas tax | **0.5** | 0.7 |
| **Total current tax** | **12.7** | 10.0 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | **(2.3)** | (1.2) |
| Adjustment in respect of prior years | **0.1** | 0.5 |
| Tax rate change | **0.1** | (0.2) |
| Adjusting tax items | **–** | 1.6 |
| **Total deferred tax (note 29)** | **(2.1)** | 0.7 |
| **Total tax expense** | **10.6** | 10.7 |

The reasons for the difference between the actual tax charge for the period and the standard rate of corporation tax in the United Kingdom applied to profits for the period are as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Profit before income taxes | **75.0** | 45.2 |
| Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 19% (2019: 19%) | **14.3** | 8.6 |
| Effects of: | | |
| Tax-exempt income[1] | **(3.7)** | – |
| Tax effect of expenses that are not deductible in determining taxable profit | **–** | 0.5 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(0.2)** | (0.2) |
| Tax rate change | **–** | (0.2) |
| Tax on business combinations | **–** | 0.5 |
| Adjusting tax items | **–** | 1.6 |
| Adjustment in respect of prior year | **0.2** | (0.1) |
| **Total tax expense** | **10.6** | 10.7 |

1 Includes gain on the disposal of The Loop Manchester Limited (note 18)

Deferred tax was calculated based on the tax laws and rates that were enacted or substantively enacted at the balance sheet date. After the balance sheet date, during the budget, a change in corporation tax rate in 2023 was announced; the change will be immaterial.

## 13. Earnings per share

| | 2020 | 2019 |
|---|---|---|
| **Earnings per Ordinary Share – basic (pence)** | **67.5** | 36.6 |
| **Earnings per Ordinary Share – diluted (pence)** | **66.6** | 36.1 |

The calculation of the basic and diluted earnings per share is based on the following data:

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Profit attributable to the ordinary equity holders of the Company | **64.2** | 34.5 |

| **Shares** | No. | No. |
|---|---|---|
| Weighted average number of Ordinary Shares for basic earnings per share | **95,058,880** | 94,370,938 |
| Effect of dilution resulting from share options | **1,273,867** | 1,246,648 |
| **Diluted weighted average number of Ordinary Shares** | **96,332,747** | 95,617,586 |

On 28 February 2020, the Group acquired Exactive Holdings Limited and its subsidiaries; £0.9m of Ordinary Shares (69,024 shares) were issued as part consideration in March 2020.

Adjusted earnings per share is detailed below:

| | 2020 | 2019 |
|---|---|---|
| **Adjusted earnings per Ordinary Share – basic (pence)** | **51.9** | 41.3 |
| **Adjusted earnings per Ordinary Share – diluted (pence)** | **51.3** | 40.8 |

Adjusted profit used in the calculation of adjusted earnings per share is detailed below:

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Profit attributable to the ordinary equity holders of the Company | **64.2** | 34.5 |
| Amortisation arising on business combinations | **6.0** | 2.0 |
| Movement in fair value on put option liability | **0.3** | – |
| Exceptional items (disposal of subsidiary) | **(19.5)** | – |
| Exceptional items (change in value of deferred consideration) | **(0.1)** | 0.9 |
| Adjusting tax items | **(1.5)** | 1.6 |
| **Adjusted profit after tax for the year** | **49.4** | 39.0 |

# Notes to the financial statements continued
For the year ended 31 December 2020

## 14. Dividends

The following dividends were paid by the Group to its shareholders:

| | 2020 £m | 2019 £m |
|---|---|---|
| Final dividends for the year ended 31 December 2018 of 6.2p per ordinary share | **–** | 5.8 |
| Interim dividend for the year ended 31 December 2019 of 3.5p per ordinary share | **–** | 3.4 |
| Final dividends for the year ended 31 December 2019 of 7.0p per ordinary share | **6.6** | – |
| Interim dividend for the year ended 31 December 2020 of 3.9p per ordinary share | **3.8** | – |
| | **10.4** | 9.2 |

A final dividend of 7.8p will be proposed at the Annual General Meeting but has not been recognised as it requires approval. The total amount of dividends proposed is 11.7p. The payments of these dividends do not have any tax consequences for the Group.

## 15. Property, plant and equipment

| | Land and buildings £m | Network assets £m | Computer equipment £m | Fixtures and fittings £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2020 | – | 67.9 | 9.1 | 1.4 | 78.4 |
| Additions | – | 7.2 | 2.2 | 0.1 | 9.5 |
| Acquisition of subsidiaries | 4.9 | 0.1 | 0.3 | 0.5 | 5.8 |
| Disposals | – | (3.1) | – | – | (3.1) |
| Exchange difference | (0.1) | (0.2) | – | – | (0.3) |
| **At 31 December 2020** | 4.8 | 71.9 | 11.6 | 2.0 | 90.3 |
| **Depreciation** | | | | | |
| At 1 January 2020 | – | 38.6 | 6.8 | 0.9 | 46.3 |
| Charge for the year | 0.1 | 8.1 | 1.1 | 0.4 | 9.7 |
| Disposals | – | (1.6) | – | – | (1.6) |
| Exchange difference | – | (0.4) | – | – | (0.4) |
| **At 31 December 2020** | 0.1 | 44.7 | 7.9 | 1.3 | 54.0 |
| **Net book value** | | | | | |
| At 1 January 2020 | – | 29.3 | 2.3 | 0.5 | 32.1 |
| **At 31 December 2020** | **4.7** | **27.2** | **3.7** | **0.7** | **36.3** |

Refer to note 24 for information on non-current assets pledged as security by the Group. The property, plant and equipment has been considered for impairment indicators and there was no impairment.

## 16. Right of use assets

| | Land and buildings £m | Other £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2020 | 13.6 | 0.3 | 13.9 |
| Additions | 0.4 | 2.4 | 2.8 |
| Disposals | (0.9) | – | (0.9) |
| Exchange differences | 0.2 | (0.1) | 0.1 |
| **At 31 December 2020** | **13.3** | **2.6** | **15.9** |
| **Depreciation** | | | |
| At 1 January 2020 | 2.4 | 0.1 | 2.5 |
| Charge for the year | 1.6 | 0.6 | 2.2 |
| Disposals | (0.3) | – | (0.3) |
| **At 31 December 2020** | **3.7** | **0.7** | **4.4** |
| **Net book value** | | | |
| At 1 January 2020 | 11.2 | 0.2 | 11.4 |
| **At 31 December 2020** | **9.6** | **1.9** | **11.5** |

The Group's lease commitments are predominantly made up of office premises, other leases for land and buildings, and cars.

Disposals of right of use assets relate to the decision to exercise break clauses for office premises and the expiration of car leases.

No replacement leases have been committed to in the year ended 31 December 2020 (2019: none).

## 17. Intangible assets

| | Goodwill £m | Customer contracts £m | Brand £m | Development costs £m | Software £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2020 | 24.0 | 22.4 | 1.1 | 10.3 | 13.4 | 71.2 |
| Additions | – | 3.0 | – | 2.7 | 3.2 | 8.9 |
| Acquisition of subsidiaries | 32.0 | 22.6 | 1.4 | 4.7 | – | 60.7 |
| Acquisition adjustment[1] | (0.8) | – | – | – | – | (0.8) |
| Exchange difference | (0.2) | 0.6 | (0.1) | (0.1) | – | 0.2 |
| **At 31 December 2020** | **55.0** | **48.6** | **2.4** | **17.6** | **16.6** | **140.2** |
| **Amortisation and impairment** | | | | | | |
| At 1 January 2020 | 8.7 | 8.0 | 0.3 | 7.8 | 9.0 | 33.8 |
| Charge for the year | – | 5.5 | 0.4 | 2.3 | 2.8 | 11.0 |
| Exchange difference | 0.1 | – | – | – | – | 0.1 |
| **At 31 December 2020** | **8.8** | **13.5** | **0.7** | **10.1** | **11.8** | **44.9** |
| **Carrying value** | | | | | | |
| At 1 January 2020 | 15.3 | 14.4 | 0.8 | 2.5 | 4.4 | 37.4 |
| **At 31 December 2020** | **46.2** | **35.1** | **1.7** | **7.5** | **4.8** | **95.3** |

[1]This relates to amendments made within the 12 months of acquisition date to the provisional amounts recognised for those acquisitions.

Amortisation on intangible assets is charged to the consolidated statement of profit or loss and included in operating expenses.

# Notes to the financial statements continued
For the year ended 31 December 2020

## 17. Intangible assets continued

The carrying amount of goodwill is allocated to the cash generating units ("CGUs") as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Gamma Business Communications Limited | **6.8** | 6.8 |
| Gamma Network Solutions Limited | **1.2** | 1.2 |
| Gamma Communications Benelux B.V. (formerly DX Groep B.V.) and its subsidiaries | **2.8** | 3.0 |
| Nimsys B.V. | **2.1** | 2.2 |
| Telsis Group | **1.3** | 2.1 |
| Exactive Holdings Limited and its subsidiaries | **5.3** | – |
| VozTelecom Oigaa360 S.A. and its subsidiaries | **15.2** | – |
| HFO Holding GmbH and its subsidiaries | **7.3** | – |
| GnTel B.V. and its subsidiaries | **4.2** | – |
| | **46.2** | 15.3 |

CGUs are determined based on how the business units are reported internally. The carrying value of the Group's goodwill was tested for impairment at 31 December 2020 and 2019.

The recoverable amount has been determined on a value-in-use basis on each CGU using the Board approved budgets, where gross margin percentage is assumed to be held constant and budgeted revenue and overheads are forecasted to grow. These budgets are built on past experience with the entities and are over five years plus terminal value. The long-term growth rates used were 2% (2019: 2%).

We have estimated the pre-tax discount rate using the Group's WACC. The pre-tax discount is 9.5%. We risk-adjusted the discount rate for risks specific to each market, adding between nil and 2% to the WACC as appropriate. For Gamma Communications Benelux this was 9.5%, 11.5% for Voz Telecom and 9.5% for HFO.

When considering the recoverable amount the break-even point for the assumptions is calculated to understand the sensitivity of the assumptions.

Based on the results of the impairment reviews carried out for each year the recoverable amount is greater than the carrying amount of goodwill.

When considering the recoverable amount, the break-even point for the assumptions is calculated to understand the sensitivity of the assumptions. Based on the results of the impairment reviews carried out for each year the recoverable amount is greater than the carrying amount of goodwill.

Given the recent acquisition date of Voz in April 2020, the company is still in its early integration life cycle stage with the Group; the headroom between the recoverable amount (determined based on a value in use model) and the carrying value of the Voz CGU is modest at £11m at 31 December 2020. We expect the headroom to increase in future periods as the business delivers its UCaaS growth strategy. We have considered reasonably possible changes in key assumptions that could cause an impairment at 31 December 2020, and have identified two key assumptions relating to the cash flows in years 1 to 5, being:

(1) The Group's value in use cash flows assumes a double digit revenue CAGR over the five year period. A decrease in the forecast revenue CAGR by 3% over this period, would see the headroom reduced to nil.

(2) To breakeven, the EBITDA margin percentage achieved in year 5 would need to reduce by 5%.

Included within customer contracts are the following material balances:

- Gamma Communications Benelux B.V. (formerly DX Groep B.V.) and its subsidiaries, £8.6m net book value at 31 December 2020 with eight years of amortisation remaining.
- VozTelecom Oigaa360 and its subsidiaries, £6.0m net book value at 31 December 2020 with five years of amortisation remaining.
- HFO Holding GmbH and its subsidiaries, £10.2m net book value at 31 December with five years of amortisation remaining.

## 18. Subsidiaries

The principal subsidiaries of Gamma Communications plc are as follows:

| Name | Country of incorporation | Nature of business | Registered office |
|---|---|---|---|
| Gamma Group Holdings Limited | United Kingdom | Intermediate holding company | (a) |
| Gamma Europe Holdco Limited | United Kingdom | Intermediate holding company | (a) |
| Gamma Telecom Holdings Limited | United Kingdom | Intermediate holding company | (a) |
| Gamma Telecom Limited | United Kingdom | Telephony services | (a) |
| Gamma Business Communications Limited | United Kingdom | Telephony services | (a) |
| Gamma Network Solutions Limited | United Kingdom | Telephony services | (a) |
| Telsis Direct Limited | United Kingdom | Other telecommunication activities | (a) |
| Telsis Communication Services Limited | United Kingdom | Other telecommunication activities | (a) |
| Telsis Services Limited | United Kingdom | Other telecommunication activities | (a) |
| Telsis GmbH | Germany | Other telecommunication activities | (b) |
| Gamma Development KfT | Hungary | Software services | (c) |
| Gamma Communications Europe B.V. | Netherlands | Intermediate holding company | (d) |
| Gamma Communications Benelux B.V. (formerly DX Groep B.V.) | Netherlands | Intermediate holding company | (e) |
| Dean One B.V. | Netherlands | Telephony services | (e) |
| Schiphol Connect B.V. | Netherlands | Telephony services | (e) |
| Nimsys Groep B.V. | Netherlands | Telephony services | (f) |
| GnTel B.V. | Netherlands | Other telecommunication activities | (g) |
| GnTel GmbH | Germany | Other telecommunication activities | (h) |
| VozTelecom Oigaa360 | Spain | Telephony Services | (i) |
| VozTelecom Comunicación Inteligente, S.L.U. | Spain | Other telecommunication activities | (i) |
| VozTelecom Puntos de Servicio, S.L.U. | Spain | Other telecommunication activities | (j) |
| VozTelecom Maroc S.A.R.L. A.U. | Morocco | Customer Service Centre | (k) |
| ComyMedia Proyectos y Servicios S.L.U | Spain | Information technology consultancy activities | (l) |
| VozTelecom Andalucía | Spain | Other telecommunication activities | (m) |
| Gamma Communications Germany GmbH | Germany | Intermediate holding company | (n) |
| HFO Holding GmbH (formerly HFO Holding AG) (80.25% ownership) | Germany | Telephony Services | (o) |
| HFO Telecom GmbH | Germany | Telephony Services | (o) |
| Epsilon Telecommunications GmbH | Germany | Telephony Services | (o) |
| HFO Technology GmbH | Germany | Other telecommunication activities | (o) |
| Exactive Holdings Limited | United Kingdom | Information technology consultancy activities | (p) |
| Exactive Limited | United Kingdom | Information technology consultancy activities | (p) |
| Exactive Poland sp. zoo | Poland | Software services | (q) |
| Gamma Communications Ireland Ltd | Ireland | Telephony services | (r) |
| Exactive Online Limited | United Kingdom | Information technology consultancy activities | (p) |
| Gamma Communications US Inc | United States | Dormant | (s) |
| Uniworld Bureau Services Limited | United Kingdom | Dormant | (a) |
| Gamma Telecomunicaciones Spain Holdings S.L. | Spain | Dormant | (l) |

Notes:
All Group entities are wholly owned subsidiaries unless otherwise stated.

**Registered Office**
(a) 5 Fleet Place, London, EC4M 7RD, England.
(b) Rößlerstraße 88, 64293 Dlstadt, Germany
(c) 1054 Budapest, Széchenyi Rakpart 8, Hungary.
(d) Office address: 5 Fleet Place, LondonIC4M 7RD, England.
(e) Office address: Krijgsman 14, 1186 DR Amstelveen, the Netherlands.
(f) Administrative Office: Herengracht 124-128, Amsterdam, the Netherlands
(g) Barbara Strozzilaan 201, 1083 HN Amsterdam, the Netherlands
(h) Stadttor 1, 40219 Dusseldorf, Germany
(I) Calle Aresans 10, Parc Tecnologic del Vallés, Cerdanyola de; Vallés, Barcelona, Spain
(j) Calle Ortega y Gasset, 63 Planta 1,Puerta B, 28006, Madrid, Spain
(k) Park Tetouanshore, route de Cabo Negro Shore 3 Local 004, Comune de Martil – Tétouan CP 93150, Morocco
(l) Parque Empresarial Zuatzu, Edificio Zurriola, local 2, planta baja, 20018 San Sebastián, Guipúzcoa, Spain
(m) Calle Isaac Newton 3, Edificio Bluenet, PCT Cartuja, 41092 Sevilla, Spain
(n) C/O Bird & Bird LLP, Maximiliansplatz 22, 80333 Munich, Germany
(o) Ziegeleistraße 2, 95145, Oberkotzau, Germany
(p) 30 & 34 Reform Street, Dundee, Scotland DD1 1RJ
(q) ul. Abrahama 1A, 80-307 Gdańsk, Poland
(r) 6th Floor, 2 Grand Canal Square, Dublin 2.
(s) 1313 N. Market Street, Suite 5100, Wilmington, Delaware, 19801, USA.

# Notes to the financial statements continued
For the year ended 31 December 2020

## 18. Subsidiaries continued

Gamma Telecom Limited is also a member of NP4UK Limited which is a dormant company (limited by guarantee) incorporated in the United Kingdom.

The Group also consolidates the Gamma Communications plc SIP Trust.

Through the acquisition of the Voz Telecom Group, the Group acquired a 39.99% stake in VozTelecom Latinoamerica, registered in Mexico. The investment value is £0.025m and is accounted for under the equity method. The Group holds no other interests in unconsolidated structured entities.

### Disposals

During the year ended 31 December 2020, the Group completed the disposal of The Loop Manchester Limited for consideration of £19.6m. The business was transferred into a company that was set up on 20 May 2020 having been trading as a separate business unit for a number of years previously. The assets and liabilities disposed of were as follows:

| | 2020 £m |
|---|---|
| Property, plant and equipment | **1.5** |
| Trade and other receivables | **0.4** |
| Cash and cash equivalents | **0.2** |
| Current tax payable | **(0.1)** |
| Trade and other payables | **(1.9)** |
| **Net assets disposed** | **0.1** |
| Consideration/Equity value | **(19.6)** |
| **Gain on disposal** | **(19.5)** |

## 19. Business combinations

### Summary of acquisitions

During 2020, the Group completed a total of four acquisitions, all of which are 100% owned by the Group unless otherwise stated.

| Acquisition | Acquired | Principal activity |
|---|---|---|
| Exactive Holdings Limited and its subsidiaries (Exactive) | February | Exactive is a leading UK Microsoft Gold Partner and specialist Microsoft Teams UCaaS provider and operates in the United Kingdom. |
| VozTelecom Oigaa360[1] and its subsidiaries (Voz Telecom) | April | VozTelecom provides telecommunication services to end users directly and through a network of wholesale partners, franchisees and dealers and operates primarily in Spain. |
| HFO Holding AG[2] and its subsidiaries (HFO) | July | The core HFO business is one of the leading SIP Trunk providers in Germany. It also has a subsidiary which focuses on mobile distribution which trades under the Epsilon brand. |
| GnTel B.V. and GnTel GmbH (GnTel) | July | GnTel operates VoIP platform services, EasyConference and other activities and operates in the Netherlands and Germany. |

1 On 9 April 2020, the Group acquired 94.9% of the issued share capital of VozTelecom Oigaa360 S.A., with the remaining 5.1% acquired by 30 June 2020.
2 On 1 July 2020, the Group acquired 80.25% of HFO Holding AG (HFO), with an option to acquire the remaining shareholding, held by management, over the next three years.

The identifiable assets acquired and liabilities assumed are as follows:

| | Exactive £m | Voz Telecom £m | HFO £m | GnTel £m | Total £m |
|---|---|---|---|---|---|
| Tangible fixed assets | – | 0.7 | 5.1 | – | 5.8 |
| Intangible – development costs | – | 2.5 | 1.5 | 0.7 | 4.7 |
| Intangible – customer contracts | 1.8 | 7.1 | 11.6 | 2.1 | 22.6 |
| Intangible – brand | – | 0.7 | 0.5 | 0.2 | 1.4 |
| Cash | 0.9 | 1.4 | – | 0.6 | 2.9 |
| Trade receivables | 0.6 | 1.3 | 5.5 | 0.5 | 7.9 |
| Other receivables | 0.3 | 4.4 | 0.6 | 0.7 | 6.0 |
| Inventories | – | 0.3 | – | – | 0.3 |
| Trade payables | (0.2) | (3.2) | (2.2) | (0.1) | (5.7) |
| Other payables | (1.1) | (7.2) | (4.8) | (1.0) | (14.1) |
| Deferred tax liability | (0.3) | (0.4) | (3.8) | (0.5) | (5.0) |
| Total identifiable assets | 2.0 | 7.6 | 14.0 | 3.2 | 26.8 |
| Less: Non-controlling interests | – | – | (2.8) | – | (2.8) |
| Add: Goodwill | 5.3 | 15.2 | 7.3 | 4.2 | 32.0 |
| **Net assets acquired** | 7.3 | 22.8 | 18.5 | 7.4 | 56.0 |

| | Exactive £m | Voz Telecom £m | HFO £m | GnTel £m | Total £m |
|---|---|---|---|---|---|
| Satisfied by: | | | | | |
| Cash paid | 4.1 | 17.7 | 18.5 | 7.4 | 47.7 |
| Ordinary Shares issued | 0.9 | – | – | – | 0.9 |
| Consideration for convertible bonds | – | 5.1 | – | – | 5.1 |
| Contingent consideration[1] | 2.3 | – | – | – | 2.3 |
| **Total** | 7.3 | 22.8 | 18.5 | 7.4 | 56.0 |

1 Contingent consideration is based on Exactive achieving predetermined EBITDA targets for fiscal years 2020 and 2021. Additional consideration of up to £1.5m may be payable in 2021 and 2022 of which 80% will be in cash and 20% by the issue of consideration shares. The fair value of the contingent consideration at acquisition of £2.3m was based on Exactive achieving £0.9m EBITDA for 2020 giving £1.5m contingent consideration and achieving £1.9m EBITDA for 2021 giving £0.9m contingent consideration. At 31 December 2020 the maximum £1.5m relating to EBITDA for 2020 is expected to be paid and £0.9m relating to the EBITDA targets for 2021.

### HFO – Remaining Shareholding

The Group has an option to acquire the remaining 19.75% of the shares (which are held by management) in two tranches of c8% in 2021 and 2022 (where the consideration will be based on the results of the preceding financial year) and one final tranche of c4% in 2023 (based on net additions to cloud seats in the preceding financial year). This additional consideration will in aggregate be between €7.5m and €17.5m and will be payable in cash. As part of the transaction, management has agreed to re-invest approximately 17% of the cash proceeds it will receive from each tranche of the additional consideration into Gamma shares which will then be "locked up" for two years after each re-investment. The upper end of the option price will only be achieved if HFO achieves challenging growth targets related to its IP telephony business. This has been included as a put option liability based on the estimated gross obligation, which is detailed in note 25.

# Notes to the financial statements continued
For the year ended 31 December 2020

## 19. Business combinations continued

### Net cash outflow on acquisitions:

| | Exactive £m | Voz Telecom £m | HFO £m | GnTel £m | Total £m |
|---|---|---|---|---|---|
| Cash paid | 4.1 | 18.0 | 18.5 | 7.4 | 48.0 |
| Less: cash acquired | (0.9) | (1.4) | – | (0.6) | (2.9) |
| **Net outflow of cash for acquisitions in the year** | 3.2 | 16.6 | 18.5 | 6.8 | 45.1 |
| Deferred consideration payments during the year | | | | | 2.6 |
| **Net outflow of cash – investing activities** | | | | | 47.7 |

The cash consideration for Voz Telecom includes the additional £0.3m made to acquire the non-controlling interest.

### Valuations of intangible assets
Customer contracts were valued under the Income Method and the brand under the Relief from Royalty Method.

### Goodwill
The goodwill is attributable to the acquired entities. The goodwill is not deductible for tax purposes.

### Acquired receivables
The fair value of acquired trade receivables for Exactive, Voz Telecom, HFO and GnTel is £0.6m, £1.3m, £5.5m and £0.5m respectively. The gross contractual amount for trade receivables due is £0.6m, £1.3m, £6.0m and £0.5m respectively, of which £0.5m in Voz Telecom is expected to be uncollectible.

### Revenue and profit contribution
From the date of acquisition, the acquired businesses have contributed £36.2m of revenue and £1.0m of profit after taxation attributable to the equity holders of Gamma Communications plc:

| | Revenue £m | Profit/(loss) before tax £m | Profit/(loss) after tax £m |
|---|---|---|---|
| Exactive | 3.3 | 0.6 | 0.4 |
| Voz Telecom | 9.8 | (0.5) | (0.4) |
| HFO | 21.0 | 1.4 | 0.9 |
| GnTel | 2.1 | 0.2 | 0.1 |
| | 36.2 | 1.7 | 1.0 |

If these acquisitions had occurred on 1 January 2020, the acquired businesses would have contributed revenue and profit after taxation attributable to the equity holders of Gamma Communications plc as outlined in the table below. The amounts below are unaudited.

| | Revenue £m | Profit/(loss) before tax £m | Profit/(loss) after tax £m |
|---|---|---|---|
| Exactive | 3.8 | 0.6 | 0.5 |
| Voz Telecom | 13.1 | (1.9) | (1.5) |
| HFO | 38.3 | 3.1 | 1.9 |
| GnTel | 5.0 | 0.8 | 0.5 |
| | 60.2 | 2.6 | 1.4 |

## 20. Inventories

| | 2020 £m | 2019 £m |
|---|---|---|
| Raw materials and consumables | 8.5 | 8.5 |
| Provision | (0.4) | (0.4) |
| **Total inventories** | 8.1 | 8.1 |

The replacement cost of inventories equals the statement of financial position amount.

## 21. Trade and other receivables

| | 2020 £m | 2019 £m |
|---|---|---|
| Trade receivables | **44.2** | 34.8 |
| Less: provision for impairment of trade receivables | **(6.4)** | (4.4) |
| Trade receivables – net | **37.8** | 30.4 |
| Contract assets | **43.9** | 33.1 |
| Prepayments | **22.4** | 25.8 |
| Other receivables | **4.4** | 3.2 |
| **Total trade and other receivables** | **108.5** | 92.5 |
| Of which: | | |
| Due within one year or less | **93.7** | 77.5 |
| Due after more than one year | **14.8** | 15.0 |

The Directors consider that the carrying value of the trade and other receivables is approximately equal to their fair value.

Movements on the provision for impairment of trade receivables are as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| At beginning of the year | **4.4** | 4.6 |
| Acquisition of subsidiaries | **0.5** | - |
| Provided during the year | **1.5** | 0.4 |
| Receivable written off during the year as uncollectible | **-** | (0.6) |
| | **6.4** | 4.4 |

The movement on the provision for impaired receivables has been included in the revenue line or operating expense line as appropriate in the Consolidated statement of profit or loss.

The main factors considered by the finance function in determining that the amounts due are impaired are that the customers are unlikely to be trading or the debts are three months and more past due. We provide for all receivables based on knowledge of customer and historical experience and estimate irrecoverable amounts by reference to past default experience. The ageing of these receivables is as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Not due | **1.0** | 0.2 |
| Up to 3 months | **2.8** | 2.3 |
| 3 to 6 months | **0.2** | 0.8 |
| 6 to 12 months | **0.5** | 0.5 |
| Older than 1 year | **1.9** | 0.6 |
| | **6.4** | 4.4 |

The Group does not have any concentration of credit risk. None of the customers represents more than 10% of trade receivables.

As at 31 December 2020 and 2019 trade receivables as shown below were past due but not impaired. They relate to customers with no default history or where we have an offset arrangement. The ageing analysis of these receivables is as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Up to 3 months | **2.7** | 4.1 |
| 3 to 6 months | **0.8** | 0.5 |
| 6 to 12 months | **0.8** | 0.2 |
| Older than 1 year | **0.1** | – |
| | **4.4** | 4.8 |

# Notes to the financial statements continued
For the year ended 31 December 2020

## 22. Cash and cash equivalents

| | 2020 £m | 2019 £m |
|---|---|---|
| Cash at bank | **53.9** | 53.9 |

## 23. Trade and other payables

| | 2020 £m | 2019 £m |
|---|---|---|
| Current and non-current | | |
| Trade payables | **9.4** | 6.1 |
| Other payables | **8.6** | 3.1 |
| Accruals – Cost of sales | **16.0** | 13.3 |
| Accruals – Operating expenses (excluding payroll) | **6.4** | 6.5 |
| Accruals – Payroll (excluding tax and social security) | **10.2** | 8.8 |
| Tax and social security | **3.2** | 4.5 |
| Deferred income | **2.6** | 4.0 |
| **Total trade and other payables** | **56.4** | 46.3 |
| | | |
| Book values approximate to fair value at 31 December | | |
| Of which: | | |
| Due within one year or less | **54.9** | 46.1 |
| Due after more than one year | **1.5** | 0.2 |

Within 'Accruals – Cost of sales' is an amount which represents the estimated costs which have yet to be billed by other carriers. This accrual is required because in the telecoms industry, calls and data are passed from one carrier to another and there is a significant level of billing between carriers, and reconciliations are carried out between the data records of each carrier. In some cases, these reconciliations may take some time to perform. Even when a bill has been received, most carriers reserve the right to issue additional bills if they discover that the units thereon were incomplete or the calls were not correctly rated.

## 24. Borrowings

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Current £m | Non-current £m | Total £m | Current £m | Non-Current £m | Total £m |
| **Secured** | | | | | | |
| Bank loans | **0.4** | **2.0** | **2.4** | – | – | – |
| Total secured borrowings | **0.4** | **2.0** | **2.4** | – | – | – |
| | | | | | | |
| **Unsecured** | | | | | | |
| Bank loans | **0.4** | **2.1** | **2.5** | | | |
| Other borrowings | **0.5** | **0.5** | **1.0** | – | – | – |
| Total unsecured borrowings | **0.9** | **2.6** | **3.5** | – | – | – |
| | | | | | | |
| **Total Borrowings** | **1.3** | **4.6** | **5.9** | – | – | – |

| | 2020 £m |
|---|---|
| At 1 January 2020 | - |
| Acquisition of subsidiaries | 7.6 |
| Repayments of borrowings | (1.6) |
| Exchange difference | (0.1) |
| **At 31 December 2020** | 5.9 |

All of the loans were held by trading subsidiaries outside of the UK and pre-date acquisition by Gamma.

Of the bank loans, £2.4m are secured on the Group's land and buildings. Other secured borrowings are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The Group has complied with the financial covenants of its borrowing facilities during the year.

## 25. Put option liability

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Current £m | Non-current £m | Total £m | Current £m | Non-Current £m | Total £m |
| Put option Liability | **5.6** | **5.6** | **11.2** | – | – | – |

The Group has an option to acquire the remaining 19.75% of the shares in HFO Holdings (which are held by management) in two tranches of c8% in 2021 and 2022 (where the consideration will be based on the results of the preceding financial year) and one final tranche of c4% in 2023 ( based on net additions to coud seats in the preceding financial year). This additional consideration will in aggregate be between €7.5m and €17.5m and will be payable in cash. The upper end of the option price will only be achieved if HFO achieves challenging growth targets related to its IP telephony business. This has been included as a put option liability based on the estimated gross obligation.

## 26. Financial instruments – risk management

The Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

### Principal financial instruments

| | 2020 £m | 2019 £m |
|---|---|---|
| Cash and cash equivalents | **53.9** | 53.9 |
| Trade receivables – net | **37.8** | 30.4 |
| Contract assets | **43.9** | 33.1 |
| Other receivables | **4.4** | 3.2 |
| **Financial assets at amortised cost** | **140.0** | 120.6 |

| | 2020 £m | 2019 £m |
|---|---|---|
| Trade payables | **9.4** | 6.1 |
| Other payables | **8.6** | 3.1 |
| Accruals – Cost of sales | **16.0** | 13.3 |
| Accruals – Operating expenses (excluding payroll) | **6.4** | 6.5 |
| Accruals – Payroll (excluding tax and social security) | **10.2** | 8.8 |
| Lease liabilities | **13.1** | 12.6 |
| Borrowings | **5.9** | - |
| **Financial liabilities at amortised cost** | **69.6** | 50.4 |

### General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's Senior Leadership Team (SLT). The Board receives monthly reports from the SLT through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering into contracts.

The Credit Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings where available. Purchase limits are established for each customer, which represent the maximum open amount without requiring further approval from the Credit Committee.

The Credit Committee determines concentrations of credit risk by monitoring the creditworthiness rating of existing customers and through regular reviews of the trade receivables' ageing analysis. During the COVID-19 pandemic, senior members from the finance, commercial and sales teams have been meeting weekly to monitor customer performance and payments in order to identify any credit risk at the earliest possible stage.

The Group does not enter into derivatives to manage credit risk.

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 21.

Due to the Group's procedures for managing credit risk, expected credit losses on all non-trade receivable financial assets are expected to be negligible. Expected impairment for trade receivables is calculated based on historical default rates. Details of this provision are shown in note 21.

# Notes to the financial statements continued
For the year ended 31 December 2020

## 26. Financial instruments – risk management continued

**Financial assets – maximum exposure**

| | 2020 £m | 2019 £m |
|---|---|---|
| Cash and cash equivalents | **53.9** | 53.9 |
| Trade receivables – net | **37.8** | 30.4 |
| Contract assets | **43.9** | 33.1 |
| Other receivables | **4.4** | 3.2 |
| **Total financial assets** | **140.0** | 120.6 |

The Credit Committee monitors the utilisation of the credit limits regularly and at the reporting date does not expect any losses from non-performance by the counterparties in addition to those already provided against.

**Cash in bank**
The Group is continually reviewing the credit risk associated with holding money on deposit in banks and seeks to mitigate this risk by only holding deposits with banks with a credit rating of A or above, unless Board approval is obtained.

**Market risk**
*Foreign exchange risk*

Foreign exchange risk arises because the Group has operations located in Europe and the acquired companies under Gamma Communications Benelux B.V. (formerly DX Groep B.V.), Voz Telecom OIGAA360 S.A. and HFO Holding GmbH which are not in the Group's functional currency. The Group's operational risk is reduced by the fact that its European operations are small compared to those in the UK. The Group's net assets arising from such European operations are exposed to currency risk resulting in gains or losses on retranslation into Pound Sterling. Given the levels of materiality, the Group does not hedge its net investments in European operations as the cost of doing so is disproportionate to the exposure.

During the year, the Group entered into one forward foreign exchange contract to mitigate against the foreign exchange risk on foreign contracts. This is in USD and relates to one supplier. The foreign exchange contract was open at year end to cover payments totalling USD $8.2m.

As of 31 December 2019 and 31 December 2020 the Group's exposure to foreign exchange risk was not material. A sensitivity analysis for foreign exchange risk has not been prepared as the risk is immaterial.

*Interest rate risk*
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At the year end the Group had £5.9m in borrowings and therefore the exposure to interest rate risk is limited. A sensitivity analysis for interest rate risk has not been prepared as the risk is immaterial.

**Liquidity risk**
Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. It is the Group's aim to settle balances as they become due.

The Group generates positive cash flows from operating activities and these fund short-term working capital requirements. The Board receives annual 36-month cash flow projections. At the end of the financial year, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities (excluding lease and contract liabilities):

| | Less than 1 year £m | Between 1 and 2 years £m | Between 2 and 5 years £m | Over 5 years £m |
|---|---|---|---|---|
| **2020** | **50.4** | **3.9** | **1.9** | **0.3** |
| 2019 | 37.7 | 0.1 | – | – |

The Group presents a maturity analysis of lease liabilities within note 28.

For more details on the line items included above, see notes 23 and 24.

**Capital disclosures**

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group's overall strategy remains unchanged from the prior year. The Group monitors 'adjusted capital' which comprises all components of equity that are managed as capital (i.e. share capital, share premium reserve, merger reserve, share option reserve and retained earnings).

The Group has historically maintained very low levels of gearing and is not exposed to externally imposed capital requirements. The Group will continue to manage the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

| | 2020 £m | 2019 £m |
|---|---|---|
| Borrowings (note 24) | **(5.9)** | – |
| Lease Liabilities (note 28) | **(13.1)** | (12.6) |
| Cash and cash equivalents | **53.9** | 53.9 |
| Total equity | **204.4** | 152.5 |
| Capital | **252.4** | 193.8 |

## Fair value of financial instruments

Set out below is the fair values of financial liabilities. All liabilities are classified as level 3.

| Financial liabilities | | 2020 £m | 2019 £m |
|---|---|---|---|
| Contingent consideration | Current | **1.8** | 1.5 |
| | Non current | **1.2** | 1.1 |
| | | **3.0** | 2.6 |
| Put option liability (note 25) | Current | **5.6** | – |
| | Non current | **5.6** | – |
| | | **11.2** | – |

The Group's finance team performs valuations of financial items for financial reporting purposes and in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. The finance team reports directly to the CFO.

The valuation techniques used for instruments categorised in level 3 are described below.

Contingent consideration relates to the acquisition of Exactive and is based on the EBITDA performance for 2020 and expected 2021 EBITDA of the business.

The discount rate used is based on the Group's estimated cost of debt. The effects on the fair value of risk and uncertainty in the future cash flows are dealt with by adjusting the discount rate.

The most significant sensitivity is a change in future EBITDA. The potential undiscounted amount payable under the agreement is between zero and £3.0m. Of this £1.5m relates to the results of 2020. For every £1.00 that the EBITDA for 2021 exceeds the 2021 Hurdle of £800,000 EBITDA an amount of £2.143 is paid up to a maximum of £1.5m

Management has recalculated the fair value at the end of the accounting period and there have been adjustments to Exactive contingent consideration.

The put option liability was valued using a probability weighted expected returns methodology, using a discount rate appropriate to the transaction. Movements in the fair value of the put option liability are charged through the profit and loss.

## Level 3 fair value measurements

The reconciliation of the carrying amounts of contingent consideration is as follows:

| | Nimsys £m | Exactive £m | Voz[1] £m | Total £m |
|---|---|---|---|---|
| 1 January 2020 | 2.6 | – | – | 2.6 |
| Acquisition of subsidiary | – | 2.3 | 0.7 | 3.0 |
| Contingent consideration paid | (2.5) | – | – | (2.5) |
| Adjustment to contingent consideration | (0.1) | – | – | (0.1) |
| **31 December 2020** | – | 2.3 | 0.7 | 3.0 |

1 This related to acquisitions made by Voz prior to the acquisition by the Group.

# Notes to the financial statements continued
## For the year ended 31 December 2020

### 27. Provisions

| | 2020 £m | 2019 £m |
|---|---|---|
| Leasehold dilapidation provision | **1.2** | 1.3 |
| Onerous contracts | **0.1** | – |
| Other provisions | **1.2** | 0.4 |
| **Total provisions** | **2.5** | 1.7 |
| Of which: | | |
| Due within one year or less | **0.6** | 0.9 |
| Due after more than one year | **1.9** | 0.8 |

| | Leasehold dilapidation provision £m | Onerous contracts £m | Other provisions £m | Total £m |
|---|---|---|---|---|
| At 1 January 2020 | 1.3 | – | 0.4 | 1.7 |
| Additional provision in the year | 0.1 | 0.1 | 1.0 | 1.2 |
| Utilisation of provision | (0.2) | - | (0.2) | (0.4) |
| **At 31 December 2020** | 1.2 | 0.1 | 1.2 | 2.5 |

Leasehold dilapidations relate to the estimated cost of returning a leasehold property to a defined condition at the end of the lease in accordance with the lease terms. These balances relate to pre transition to IFRS 16 and the Group chose to apply the modified retrospective approach. Under IFRS 16, dilapidations costs are accounted for within the right of use asset and released to the profit and loss account through depreciation. The main uncertainties relate to estimating the cost that will be incurred at the end of the lease and also whether the option to break from the lease will be exercised. Leasehold dilapidation provisions relate to property rentals and vary from less than 12 months to in excess of five years.

From time to time the Group engages in contracts with suppliers where there is a minimum commitment. This is done in instances where the minimum purchase commitment is considered to be comfortably achievable and there is a material commercial advantage to making that commitment. Rarely, there may be an unforeseen change in circumstances which means that the commitment becomes onerous and a provision is made at the point it appears that the minimum commitments will not be achieved. Provisions for onerous contracts related to contracts less than 12 months in length.

## 28. Lease liabilities

| | 2020 £m | 2019 £m |
|---|---|---|
| **Lease liabilities included in the statement of financial position at 31 December** | | |
| Current | **2.3** | 1.3 |
| Non-current | **10.8** | 11.3 |
| | **13.1** | 12.6 |
| **Maturity analysis – contractual undiscounted cash flows** | | |
| In one year or less | **2.7** | 1.7 |
| Between one and five years | **8.0** | 6.9 |
| In five years or more | **4.1** | 6.6 |
| **Total undiscounted lease liabilities at 31 December** | **14.8** | 15.2 |
| **Amounts recognised in the comprehensive income statement** | | |
| Interest expense on lease liabilities | **0.6** | 0.4 |
| Expenses relating to short-term leases | **–** | – |
| Expenses relating to leases of low value assets, excluding short-term leases of low value assets | **–** | – |

| | **2020 £m** |
|---|---|
| At 1 January 2020 | **12.6** |
| Additions | **2.8** |
| Disposals | **(0.9)** |
| Repayments | **(2.1)** |
| Finance expense | **0.6** |
| Exchange differences | **0.1** |
| **At 31 December 2020** | **13.1** |

The amounts recognised in the statement of consolidated cash flows is £2.1m (2019: £1.1m).

Gamma had no variable lease payments not included in the measurement of lease liabilities, no sale and leaseback transactions and no income from sub-leasing right of use assets in 2020 (2019: £nil).

## 29. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using the tax rate at which it is expected to unwind, being 19%.

The movement on the deferred tax account is as shown below:

| | 2020 £m | 2019 £m |
|---|---|---|
| (Liability)/asset at 1 January | **(0.9)** | 0.5 |
| Tax charge recognised in profit and loss | **2.1** | (0.7) |
| Recognised directly in equity | **0.5** | 0.9 |
| Tax arising on acquisition | **(5.0)** | (1.6) |
| **Net liability at 31 December** | **(3.3)** | (0.9) |

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. All deferred tax has been recognised as the Group is consistently profitable and so expects to have sufficient profits which can be utilised.

# Notes to the financial statements continued
For the year ended 31 December 2020

## 29. Deferred tax continued

The deferred taxation asset/(liability) consists of the tax effect of temporary differences as follows:

| 2020 | Asset £m | Liability £m | Net £m | Credited/ (charged) to profit or loss £m | Credited/ (charged) to equity £m |
|---|---|---|---|---|---|
| Difference in capital allowances and depreciation/amortisation | 0.1 | – | 0.1 | 0.1 | – |
| Other temporary and deductible differences | 2.7 | – | 2.7 | 0.3 | – |
| Deferred tax on share options | 2.9 | – | 2.9 | 0.4 | 0.5 |
| Deferred tax on acquisition of subsidiaries | – | (9.0) | (9.0) | 1.3 | – |
| **Deferred tax asset/(liability)** | 5.7 | (9.0) | (3.3) | 2.1 | 0.5 |

| 2019 | Asset £m | Liability £m | Net £m | Credited/ (charged) to profit or loss £m | Credited/ (charged) to equity £m |
|---|---|---|---|---|---|
| Difference in capital allowances and depreciation/amortisation | – | – | – | (1.9) | – |
| Other temporary and deductible differences | 1.1 | (0.2) | 0.9 | (0.4) | – |
| Deferred tax on share options | 1.9 | – | 1.9 | – | 0.9 |
| Deferred tax on acquisition of subsidiaries | – | (3.7) | (3.7) | 1.6 | – |
| **Deferred tax asset/(liability)** | 3.0 | (3.9) | (0.9) | (0.7) | 0.9 |

## 30. Share capital

At 31 December the share capital was as follows:

| | 2020 Number | 2020 £m | 2019 Number | 2019 £m |
|---|---|---|---|---|
| Authorised, allotted and fully paid Ordinary Shares of £0.0025 each | **95,402,437** | **0.2** | 94,781,312 | 0.2 |
| | | **0.2** | | 0.2 |

Ordinary Share movement in the year is as follows:

| | Number | Notes |
|---|---|---|
| **As at 1 January 2020** | 94,781,312 | |
| January | 7,925 | (a) |
| March | 14,400 | (a) |
| March | 69,024 | (b) |
| April | 39,688 | (a) |
| May | 20,283 | (a) |
| July | 159,208 | (a) |
| September | 265,028 | (a) |
| October | 21,362 | (a) |
| November | 8,449 | (a) |
| December | 15,758 | (a) |
| **As at 31 December 2020** | 95,402,437 | |

(a) Ordinary Shares were issued to satisfy options which had been exercised.
(b) Ordinary shares were issued as consideration to the shareholders of Exactive Holdings Limited.

There is an earn out agreement in place for Exactive, based on Exactive's EBITDA for fiscal years 2020 and 2021. In 2021 an amount of £1.5m will be paid of which 80% will be in cash and 20% by the issue of consideration shares. In 2022, relating to 2021, additional consideration of up to £1.5m may be payable of which 80% will be in cash and 20% by the issue of consideration shares.

## 31. Reserves

The following describes the nature and purpose of each reserve within equity:

| Reserve | Description and purpose |
|---|---|
| Share premium reserve | Amount subscribed for share capital in excess of nominal value. |
| Merger reserve | Represents the share capital and share related movements of the previous holding company Gamma Telecom Holdings Limited following the common control transaction in 2014. These financial statements incorporate the results of business combinations using the acquisition method with the exception of the common control transaction on the forming of the Group. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases. |
| Share option reserve | Represents credit to equity relating to share based payment expense on share options. |
| Foreign exchange reserve | Exchange differences relating to the translation of the net assets of the Group's foreign subsidiaries from their functional currency into the parent's functional currency. |
| Own shares | Purchase of own shares under a SIP scheme. |
| Retained earnings | All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere. |
| Non-controlling interest | Proportion of equity relating to the proportion of non 100% owned subsidiaries. |
| Written put options over non-controlling interest | Represents debit to equity in relation to the put option liability. |

## 32. Share based payment expense

### Share options granted

On 28 April 2020 the Board approved an issue of options under a Save As You Earn scheme which granted 345,953 options over £0.0025 Ordinary Shares at an exercise price of £8.0000. These options will vest in July 2023.

On 7 May 2020 the Board approved an issue of options under the Company Share Option Plan which granted 201,629 options over £0.0025 Ordinary Shares at an exercise price of £12.6500. These will vest in May 2023.

On 14 September 2020, the Board approved awards under the long-term incentive plan for the Executive Directors. 264,936 options were granted over £0.0025 Ordinary Shares at an exercise price of £0.0025 per share which will vest on 1 April 2023 subject to performance conditions. The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2020.

On 14 September 2020, the Board approved awards under the Deferred Bonus Plan for the senior management team. 18,310 options were granted over £0.0025 Ordinary Shares at an exercise price of £0.0025 per share which will vest on 31 March 2023. The awards granted will not be subject to any performance conditions and will vest in full on the third anniversary of the vesting commencement date, being 1 April 2020.

The awards issued under the long-term incentive plan will vest as follows:

- 15% of the shares are subject to an award if annual compound total shareholder return over the performance period equals 8% and 50% of the shares are subject to an award if the annual compound total shareholder return over the period exceeds or equals 15% with pro rata straight line vesting in between; and
- 15% of the shares are subject to an award if annual compound growth of the Group's adjusted earnings per share over the performance period equals 8% between the financial years at the beginning and the end of the performance period and 50% of the shares are subject to an award if the annual compound growth of the Group's adjusted earnings per share exceeds or equals 20% with pro rata straight line vesting in between.

The weighted average fair value of awards granted during the year was £8.42 (2019: £4.89).

# Notes to the financial statements continued
For the year ended 31 December 2020

## 32. Share based payment expense continued

### Share options movements

Movements in the number of options during the year were as follows:

The options below were exercised at a weighted average share price of £14.21, and weighted average exercise price of £2.71, and the weighted average exercise price of share options exercisable at 31 December 2020 was £4.17.

| 2020<br>Date of grant | Start<br>of year | Granted | Forfeited/<br>Cancelled | Exercised | End<br>of year | Exercise<br>price | Class of<br>share | Notes |
|---|---|---|---|---|---|---|---|---|
| 6 June 2014 | 14,400 | – | – | (14,400) | – | £0.2500 | Ordinary | (a) |
| 8 May 2015 | 35,810 | – | – | (1,000) | 34,810 | £2.7000 | Ordinary | (a) |
| 15 April 2016 | 16,058 | – | – | (4,588) | 11,470 | £4.3575 | Ordinary | (a) |
| 19 May 2016 | 7,925 | – | – | (7,925) | – | £3.4440 | Ordinary | (a) |
| 5 April 2017 | 156,667 | – | – | (94,909) | 61,758 | £4.9325 | Ordinary | (a) |
| 9 May 2017 | 223,785 | – | (1,817) | (221,968) | – | £4.1600 | Ordinary | (a) |
| 22 May 2017 | 198,912 | 165 | – | (199,077) | – | £0.0025 | Ordinary | (a) |
| 3 April 2018 | 315,353 | 9,300 | (17,319) | – | 307,334 | £0.0025 | Ordinary | (b) |
| 8 May 2018 | 200,204 | – | (5,391) | (2,095) | 192,718 | £5.5520 | Ordinary | (c)(l) |
| 23 May 2018 | 175,886 | – | (3,294) | (2,837) | 169,755 | £7.3400 | Ordinary | (d)(l) |
| 8 May 2019 | 362,037 | – | (30,395) | (2,309) | 329,333 | £8.2800 | Ordinary | (e)(l) |
| 13 May 2019 | 154,245 | – | (5,917) | (993) | 147,335 | £10.9000 | Ordinary | (f)(l) |
| 3 June 2019 | 232,674 | – | (12,398) | – | 220,276 | £0.2500 | Ordinary | (g) |
| 20 September 2019 | 3,422 | – | – | – | 3,422 | £0.2500 | Ordinary | (g) |
| 1 October 2019 | 4,183 | – | – | – | 4,183 | £0.2500 | Ordinary | (g) |
| 22 November 2019 | 9,209 | – | – | – | 9,209 | £0.2500 | Ordinary | (g) |
| 28 April 2020 | – | 345,953 | (10,417) | – | 335,536 | £8.000 | Ordinary | (h) |
| 7 May 2020 | – | 201,629 | (790) | – | 200,839 | £12.6500 | Ordinary | (i) |
| 14 September 2020 | – | 264,936 | – | – | 264,936 | £0.2500 | Ordinary | (j) |
| 14 September 2020 | – | 18,310 | – | – | 18,310 | £0.2500 | Ordinary | (k) |

Notes:
(a) Options have vested and are exercisable.
(b) The awards granted will have a performance period of three years starting from the vesting commencement date, being 3 April 2018.
(c) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2018.
(d) The awards granted will have a performance period of three years starting from the grant, being 23 May 2018.
(e) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2019.
(f) The awards granted will have a performance period of three years starting from the grant date, being 13 May 2019.
(g) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 April 2019.
(h) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2020.
(i) The awards granted will have a performance period of three years starting from the grant date, being 7 May 2020.
(j) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2020.
(k) The awards granted will vest in full on the third anniversary of the vesting commencement date, being 31 March 2020.
(l) Options for good leavers were vested early on a pro rata basis and hence exercised before the rest of the scheme becomes exercisable. The unvested shares were cancelled.

There were no lapsed share options during the year (2019: none).

Apart from the options noted as exercisable, all other options above are outstanding. The share options outstanding at 31 December 2020 represented 2% of the issued share capital as at that date (2019:2%) and would generate additional funds of £12.3m (2019: £8.9m) if fully exercised. The weighted average remaining life of the share options was 16 months (2019: 17 months), with a weighted average remaining exercise price of £5.33 (2019: £4.22).

Movements in the number of options during the prior year were as follows:

The options below were exercised at a weighted average share price of £11.13, and weighted average exercise price of £2.57, and the weighted average exercise price of share options exercisable at 31 December 2019 was £2.57.

| 2019<br>Date of grant | Start of year | Granted | Forfeited/ Cancelled | Exercised | End of year | Exercise price | Class of share | Notes |
|---|---|---|---|---|---|---|---|---|
| 6 June 2014 | 20,000 | – | – | (5,600) | 14,400 | £0.2500 | Ordinary | (a) |
| 8 May 2015 | 89,230 | – | (35,183) | (18,237) | 35,810 | £2.7000 | Ordinary | (a) |
| 15 April 2016 | 63,088 | – | (2,294) | (44,736) | 16,058 | £4.3575 | Ordinary | (a) |
| 17 May 2016 | 206,116 | – | – | (206,116) | – | £0.0025 | Ordinary | (b) |
| 19 May 2016 | 565,974 | – | (36,052) | (521,997) | 7,925 | £3.4440 | Ordinary | (c) |
| 5 April 2017 | 170,348 | – | (13,681) | – | 156,667 | £4.9325 | Ordinary | (d) |
| 9 May 2017 | 255,395 | – | (31,610) | – | 223,785 | £4.1600 | Ordinary | (e) |
| 22 May 2017 | 198,912 | – | – | – | 198,912 | £0.0025 | Ordinary | (f) |
| 3 April 2018 | 315,353 | – | – | – | 315,353 | £0.0025 | Ordinary | (g) |
| 8 May 2018 | 221,019 | – | (20,815) | – | 200,204 | £5.5520 | Ordinary | (h) |
| 23 May 2018 | 179,974 | – | (4,088) | – | 175,886 | £7.3400 | Ordinary | (i) |
| 8 May 2019 | – | 377,800 | (15,763) | – | 362,037 | £8.2800 | Ordinary | (j) |
| 13 May 2019 | – | 157,914 | (3,669) | – | 154,245 | £10.9000 | Ordinary | (k) |
| 3 June 2019 | – | 232,674 | – | – | 232,674 | £0.0025 | Ordinary | (l) |
| 20 September 2019 | – | 3,422 | – | – | 3,422 | £0.0025 | Ordinary | (l) |
| 1 October 2019 | – | 4,183 | – | – | 4,183 | £0.0025 | Ordinary | (l) |
| 22 November 2019 | – | 9,209 | – | – | 9,209 | £0.0025 | Ordinary | (l) |

Notes:
(a) Options have vested and are exercisable.
(b) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2016.
(c) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2016.
(d) The awards granted will have a performance period of three years starting from the grant date, being 5 April 2017.
(e) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2017.
(f) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2017.
(g) The awards granted will have a performance period of three years starting from the vesting commencement date, being 3 April 2018.
(h) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2018.
(i) The awards granted will have a performance period of three years starting from the grant date, being 23 May 2018.
(j) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2019.
(k) The awards granted will have a performance period of three years starting from the grant date, being 13 May 2019
(l) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 April 2019.

### Share based payment expense

Equity-settled share based payments are measured at fair value (excluding the effect of market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Application of the fair value measurement results in a charge to operating expenses within the subsidiary company Gamma Telecom Limited. The charge has been made to the profit and loss account of the subsidiary as the employees' services are provided to the subsidiary company. The charge for each year is as listed below:

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Share options issued to key management | **1.8** | 1.1 |
| Share options issued to other employees | **1.7** | 1.5 |
| **Total share based payment expense** | **3.5** | 2.6 |

Included within the total share based payment expense of £3.5m (2019: £2.6m) is National Insurance of £0.7m (2019: £0.6m).

# Notes to the financial statements continued
For the year ended 31 December 2020

## 32. Share based payment expense continued

Fair value is measured using the Black-Scholes model and the Monte Carlo model (where market performance conditions are imposed). The information set out in the table below is used in the calculations. The expected life used in the model assumes that vesting conditions will be met and all options will be exercised at the earliest opportunity.

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Share price at grant date (pence) | **1245 – 1565** | 1060 – 1165 |
| Exercise price (pence) | **0.25 – 1090** | 0.25 – 1090 |
| Expected volatility | **28%** | 27% |
| Risk-free rate | **-0.086 – 0.704%** | 0.531 – 0.770% |
| Expected dividend yield | **0.9%** | 0.9% |

The assumptions relating to volatility and the risk-free rate are calculated with reference to other comparable companies within the telecommunications sector.

The Group did not enter into any share based payment transactions with parties other than employees during 2019 and 2020.

## 33. Capital commitments

As at 31 December 2020, amounts contracted for but not provided in the financial statements amounted to £6.3m for the Group (2019: £11.5m). This amount is for the purchase of software licences in 2021.

The capital commitments in 2020 are payable in USD, with the payable amount being $8.2m. Changes in the exchange rate could cause variances in the value of the commitment.

## 34. Related party transactions

Details of key management's remuneration are given in note 10.

Dividends of £0.07m (2019: £0.03m) were paid to Directors during the year and no dividends were payable to Directors at the year end.

There were no other transactions with related parties outside of the wholly owned group during the year.

## 35. Subsequent events

On 3 March the Group acquired Mission Labs Limited and its subsidiaries for an initial consideration of £42.6m. Mission Labs provide the Group with expertise and product capability in the Cloud Contact Centre as a Service market ("CCaaS"). It also has a solution for micro-business users called Circle Loop which is sold digitally.

The initial consideration for the entire issued share capital of Mission Labs is £40.2m on a cash free basis with up to an additional £6.0m contingent deferred consideration payable over the next three years assuming certain development milestones are met on the existing and future product set.

As part of the transaction, management shareholders (who previously owned 72% of the shares acquired) have agreed to re-invest approximately 10% of their cash proceeds into Gamma shares which will be locked up for three years. These shares will be issued by Gamma following the announcement of its 2020 full year results on 23 March 2021. The price will be based on the average of daily closing price over the 30-day period prior to the release of the results.

Due to the proximity of the acquisition to the publication of these accounts, the Group has not yet completed the purchase price allocation and it is impractical to give further information.