

Independent auditor's report to the members of Gamma Communications plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Gamma Communications Plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31st December 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the consolidated related notes 1 to 38; and
- the parent company's notes 1 to 11.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion..

3. Summary of our audit approach

Key audit matters The key audit matters that we identified in the current year were:

- *Revenue: accuracy of volume and pricing of indirect usage revenue*
- *Carrying amount of goodwill: revenue growth forecast within the Spain CGU*

Within this report, the key audit matters are identified as follows:

- ⓘ Newly identified
- ↑ Increased level of risk
- ↔ Similar level of risk
- ↓ Decreased level of risk

Materiality The materiality that we used for the group financial statements was £3.8m which was determined on the basis of 5% of profit before tax excluding exceptional items.

Scoping The Group engagement team have performed a full scope audit for the entire UK group with the exception of Mission Labs Limited, Exactive Holdings Limited ("Exactive") and Telsis Communication Services Limited ("Telsis"). The entities we perform full scope audit procedures over represent the principal business units and account for 84% of the Group's revenue, 85% of the Group's statutory profit before tax and 90% of the Group's net assets.

The Group engagement team have performed specified procedures over Mission Labs Limited and worked with component auditors to perform specific audit procedures over the German subsidiaries Gamma Telecommunications GmbH and Epsilon Telecommunications GmbH (together "Gamma Germany"). We have performed analytical review procedures over the remainder of the Group.

Significant changes in our approach As part of the annual impairment test, a £12.2m impairment was recognised in relation to the Spain CGU following revisions to the five-year forecast. We consider the key assumptions in relation to revenue growth within the value in use model to be a new key audit matter in the current year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Understanding the Group's process for assessing going concern, and relevant management review controls underpinning this assessment;
- Assessing the liquidity position of the Group and evaluating cash forecasts which were prepared for at least 12 months from the approval of accounts;
- Evaluating the historical accuracy of the Group's forecasts;
- Understanding the relevant assumptions including those in relation to the macroeconomic environment, used in the going concern models, including the Strategic Plan, and challenging them by comparison to our understanding of the business, external information and evidence gathered from other audit procedures; and
- Evaluating management's stress tests and break-even analyses, and performing our own independent analysis, in order to assess the reasonableness of the assumptions used.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Revenue: accuracy of volume and pricing of indirect usage revenue ↻

Key audit matter description Revenue from the Group's indirect usage customer base, which wholly relates to the UK, is calculated based on the volume of call traffic and associated call rates. We identified a key audit matter relating to the accuracy of traffic volumes as well as the accuracy of the pricing within this revenue stream, due to the volume of transactions. Inaccuracies in call rates, whether due to fraud or error, could result in a material misstatement in revenue.

In 2022 the group's revenues were £484.4m (2021: £444.7m) of which UK indirect usage revenue represents £73.4m (2021: 78.5m). The group's revenue recognition principles are disclosed in note 1.

How the scope of our audit responded to the key audit matter With the involvement of our IT specialists we tested, and placed reliance on, IT controls relevant to UK indirect usage revenue, the most critical of which was the automated matching of the call rates input and call data records to calculate the billing for each transaction.

We have also tested and relied upon a number of other controls relevant to revenue, specifically in relation to rate-change reviews, the revenue reconciliations performed thereof, and the analysis of monthly revenue trends.

We have tested the volumes and prices involved in indirect usage revenues by tracing a sample of customers with changes through to call data records and evidence of rate changes. We recalculated the revenue in relation to the calls by multiplying the appropriate rate against the call minutes.

In addition we performed substantive analytical procedures of total indirect usage revenues for the year based on the month-on-month trends, movements in minutes, as well as call rate fluctuations.

We also traced a sample of credit notes raised post year end to supporting documentation to test for possible overstatement of revenue.

Key observations We are satisfied that the UK indirect usage revenue is appropriate.

5.2. Carrying amount of goodwill: revenue growth forecast within the Spain CGU ⚠

Key audit matter description The Group's evaluation of goodwill for impairment involves the comparison of the recoverable amount of each operating segment to which goodwill is allocated to its carrying amount. Recoverable amount represents the higher of fair value less costs to sell and value in use. The Group used a discounted cash flow model to estimate value in use, which requires significant estimates and assumptions. Changes in these assumptions could have a significant impact on the amount of any goodwill impairment charge and the disclosures made in the financial statements

As part of the acquisition of Voz in 2020, goodwill of £14.5 million was recorded within the Spain CGU. As part of management's annual goodwill impairment test in which management assessed the fair value less costs to sale and the value in use, an impairment of £12.2m million was recorded.

We identified a key audit matter in respect of revenue growth forecasts in the Spain CGU. Given the significant judgements made in determining the forecast revenue used in the value in use models, we have performed audit procedures requiring a high degree of auditor judgement and increased effort to evaluate the reasonableness of the estimates and assumptions. Further details are included within the audit committee report on page 64 and note 8 to the financial statements.

How the scope of our audit responded to the key audit matter We obtained an understanding of relevant controls in relation to the annual impairment evaluation process, in particular relevant controls that ensure the reasonableness of the Board-approved budget used in the value in use model, and the preparation and review of the impairment assessment.

We evaluated management's ability to accurately forecast future revenues by comparing current year forecast of revenue growth to actual performance to assess historical accuracy of forecasting, with special focus on assessing the performance against forecasts.

We obtained evidence of post year-end performance compared this to the initial forecast assumptions.

We evaluated the reasonableness of the revenue growth rates assumed by management in the value in use models by comparing them to third party analyst and industry reports.

We tested the mathematical accuracy of the fair value less costs to sell assessment and value in use models.

We evaluated the appropriateness of the sensitivity disclosures included within the consolidated financial statements.

Key observations We are satisfied that the carrying value of Spain goodwill is reasonable and that the revenue growth assumptions support management's impairment review are within an acceptable range of values.

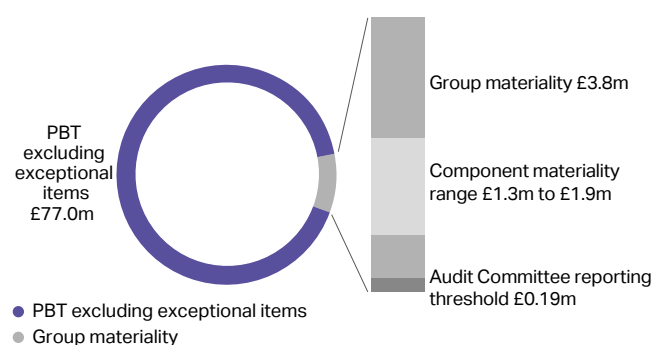
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£3.8m (2021: £3.4m)	£1.9m (2021: £1.2m)
Basis for determining materiality	5% of profit before tax excluding exceptional items (5.9% of statutory profit before tax) (2021 : 5% of profit before tax). Refer to note 8 for details of exceptional items.	2.5% of net assets (2021: 2% of net assets)
Rationale for the benchmark applied	We chose this measure as it is the primary statutory measurement used by the users of the accounts and key stakeholders to measure the performance of the group. There were no exceptional items to consider in the prior year.	We consider net assets to be the most appropriate benchmark as the Parent Company is a non-trading entity, whose primary function within the Gamma Group is to act as a holding company.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> our historical knowledge of the group's business; the quality of the control environment and the fact that we were able to rely on controls for revenue; the nature of, and low volume and small size of, corrected and uncorrected misstatements identified in the previous audits; management's willingness to investigate and correct misstatements; and low turnover of management or key accounting personnel. 	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.19m (2021: £0.17m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

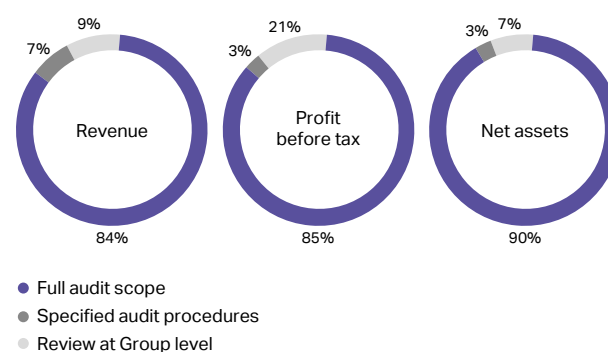
7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, the Group audit team have performed full scope audits at 5 components (2021: 4), being the five largest trading entities in the UK. These components represent the principal business units within the Group and account for 84% (2021: 89%) of the Group's revenue, 85% (2021: 87%) of the Group's statutory profit before tax and 90% (2021: 89%) of the Group's net assets.

Specified audit procedures around revenue, cash and trade receivables have also been performed for Gamma Germany by our component auditors, which has given us a further 7% (2021: 8%) coverage over revenue and 1% (2021: 1%) of net assets. The group engagement team also performed specified audit procedures on capitalised development costs in Mission Labs Limited increase net asset coverage by 2%.

We also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.



7.2. Our consideration of the control environment

We have taken controls reliance in relation to indirect usage revenue, we have identified areas for improvement in the controls processes consistent with those disclosed in the Audit Committee section on page 64. Please see section 5.1 for a description of our approach. We also obtained an understanding of controls relating to the risk of management override of controls and the impairment of the Spain CGU. We took a fully substantive approach for all other areas of the audit.

7.3. Our consideration of climate-related risks

The Group has assessed whether there is a material impact on the Group's carrying value of assets and liabilities at the balance sheet date as a result of climate-related risks and have concluded that there is not. We read the related disclosures in the strategic report to consider whether it is materially consistent with the financial statements and our knowledge obtained in the audit.

7.4. Working with other auditors

The Group audit team engaged component audit team to perform the audit procedures as set out in section 7.1. The Group audit team held regular communication with the component auditors in planning for, and throughout, the audit process. Oversight of the component auditors included attending internal planning and status meetings, attending close meetings held with local management, reviewing relevant audit documentation, and discussing the results with both management and the component auditors.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities including those that are specific to the group's sector;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
 - the matters discussed among the audit engagement team including component audit teams and relevant internal specialists, including tax,
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
 - the matters discussed among the audit engagement team including component audit team and relevant internal specialists, including tax, valuations and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in relation to the accuracy of volume and pricing of indirect usage revenue. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Quoted Companies Alliance, AIM Listing Rules, and pensions legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included Ofcom regulations, Health and Safety regulations, the Telecoms Act and GDPR compliance.

11.2. Audit response to risks identified

As a result of performing the above, we identified Revenue: accuracy of volume and pricing of indirect usage revenue as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Tolley FCA

(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom

20 March 2023