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 31 December 2021 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 statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the consolidated related notes 1 to 36; and
- the parent company's related 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).

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.

2. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • *Revenue: accuracy of volume and pricing of indirect usage revenue* Within this report, the key audit matter is identified as follows: ⟺ Similar level of risk
Materiality	The materiality that we used for the group financial statements was £3.4m which was determined on the basis of 5% of profit before tax.
Scoping	The Group engagement team have performed a full scope audit for the entire UK group with the exception of the newly-acquired 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 89% (2020: 91%) of the Group's revenue, 95% (2020: 96%) of the Group's statutory profit before tax and 80% (2020: 90%) of the Group's net assets. The Group engagement team have worked with component auditors to perform specific audit procedures over the German subsidiaries HFO Telecom GmbH and Epsilon Telecommunications GmbH (together "HFO") and analytical review procedures over the remainder of the Group.
Significant changes in our approach	In the prior year, we identified a key audit matter relating to the the valuation of customer contract intangible assets identified as part of the acquisitions of HFO and Voz; this is no longer relevant as the acquisition accounting has been finalised.

3. 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 the period up to June 2023;
- Evaluating the historical accuracy of the Group's forecasts;
- Understanding the relevant assumptions 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 sensitivity of the model to 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.

4. 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.

4.1. 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 segment, 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 2021 the group's revenues were £447.7m (2020: £393.8m) of which UK indirect usage revenue represents £78.5m (2020: £76.4m), as disclosed in note 5 to the financial statements. The group's revenue recognition principles are disclosed in note 1.
How the scope of our audit responded to the key audit matter	Working with our specialist IT auditors we tested, and placed reliance on, IT controls relevant to revenue, the most critical of which was the matching of the call rates input and call data records within the system 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 invoice information to call data records. 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 materially accurate.

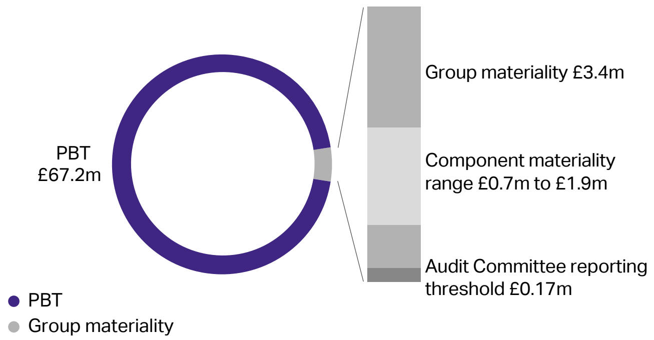
5. Our application of materiality

5.1. 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	£3.4m (2020: £2.8m)	£1.2m (2020: £1.4m)
Basis for determining materiality	5% of profit before tax (2020: 5% of profit before tax excluding gain on disposal of The Loop)	2% (2020: 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.	Net assets has been chosen as the benchmark as it is considered the most relevant benchmark for an investment holding company.



5.2. 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.

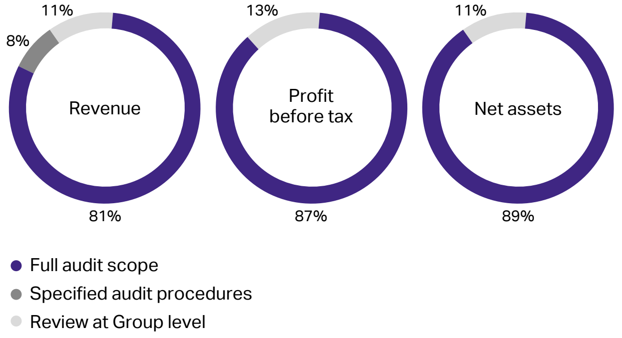
	Group financial statements	Parent company financial statements
Performance materiality	70% (2020: 70%) of group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • our historical knowledge of the group's business and our ability to forecast misstatements; • 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.	

5.3. Error reporting threshold
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.17m (2020: £0.14m), 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.

6. An overview of the scope of our audit
6.1. 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 4 components (2020: 4), being the four largest trading entities in the UK. These 4 components represent the principal business units within the Group and account for 81% (2020: 85%) of the Group's revenue, 87% (2020: 96%) of the Group's statutory profit before tax and 89% (2020: 90%) of the Group's net assets.

Specified audit procedures around revenue, cash and trade receivables have also been performed for HFO by our component auditors, which has given us a further 8% coverage over revenue.

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.



6.2. Our consideration of the control environment
We have taken a controls reliance in relation to revenue. Please see section 5.1 for a description of our approach. We also performed design and implementation procedures around controls relating to the risk of Management override. We took a fully substantive approach for all other areas of the audit.

6.3. 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.

7. 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.

8. 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.

9. 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.

10. 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.

10.1. 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;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - 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 teams 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 UK indirect 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 and AIM Listing Rules.

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.

10.2. Audit response to risks identified

As a result of performing the above, we identified UK indirect revenue accuracy 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 matters.

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 significant 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

11. 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.

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

12.1. 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.

12.2. 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.

13. 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
21 March 2022

Consolidated statement of profit or loss
For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Revenue	5	**447.7**	393.8
Cost of sales		**(219.2)**	(193.0)
Gross profit		**228.5**	200.8
Operating expenses		**(160.2)**	(125.1)
Earnings before depreciation, amortisation and exceptional items		**95.4**	79.0
Exceptional items	8	**–**	19.6
Earnings before depreciation and amortisation		**95.4**	98.6
Depreciation and amortisation (excluding business combinations)	7	**(17.6)**	(16.9)
Depreciation and amortisation arising due to business combinations	7	**(9.5)**	(6.0)
Profit from operations		**68.3**	75.7
Finance income	10	**0.1**	0.4
Finance expense	10	**(1.2)**	(1.1)
Profit before tax		**67.2**	75.0
Tax expense	11	**(13.2)**	(10.6)
Profit after tax		**54.0**	64.4
Attributable to:			
Equity holders of Gamma Communications plc		**53.6**	64.2
Non-controlling interests		**0.4**	0.2
		54.0	64.4
Earnings per share			
Basic per Ordinary Share (pence)	12	**55.9**	67.5
Diluted per Ordinary Share (pence)	12	**55.2**	66.6

Adjusted earnings per share is shown in note 12.

All income recognised during the year was generated from continuing operations.

Consolidated statement of comprehensive income
For the year ended 31 December 2021

	2021 £m	2020 £m
Profit after tax	**54.0**	64.4
Other comprehensive expense		
Items that may be reclassified subsequently to the income statement (net of tax effect)		
Exchange differences on translation of foreign operations	**(3.5)**	(0.1)
Total comprehensive income	**50.5**	64.3
Attributable to:		
Equity holders of Gamma Communications plc	**50.1**	64.1
Non-controlling interests	**0.4**	0.2
	50.5	64.3

The notes on pages 95 to 126 form part of these financial statements.

Consolidated statement of financial position
As at 31 December 2021

	Notes	2021 £m	2020 £m
Assets			
Non-current assets			
Property, plant and equipment	14	**36.8**	36.3
Right of use assets	15	**10.2**	11.5
Intangible assets	16	**129.3**	95.3
Deferred tax assets	30	**7.0**	5.7
Trade and other receivables	20	**14.3**	14.8
		197.6	163.6
Current assets			
Inventories	19	**7.9**	8.1
Trade and other receivables	20	**98.4**	93.7
Cash and cash equivalents	21	**52.8**	53.9
Current tax asset		**5.1**	2.6
		164.2	158.3
Total assets		**361.8**	321.9
Liabilities			
Non-current liabilities			
Other payables	22	**2.0**	1.5
Borrowings	24	**2.5**	4.6
Lease liabilities	25	**9.8**	10.8
Provisions	29	**1.1**	1.9
Contract liabilities	23	**10.0**	8.3
Contingent consideration	27	**3.7**	1.2
Put option liability	26	**2.3**	5.6
Deferred tax	30	**10.0**	9.0
		41.4	42.9
Current liabilities			
Trade and other payables	22	**48.1**	54.9
Borrowings	24	**0.8**	1.3
Lease liabilities	25	**2.1**	2.3
Provisions	29	**0.9**	0.6
Contract liabilities	23	**7.4**	7.6
Contingent consideration	27	**2.6**	1.8
Put option liability	26	**3.4**	5.6
Current tax liability		**0.9**	0.5
		66.2	74.6
Total liabilities		**107.6**	117.5
Net assets		**254.2**	204.4
Equity			
Share capital	31	**0.2**	0.2
Share premium reserve	32	**14.9**	9.0
Other reserves	32	**4.5**	6.1
Retained earnings	32	**239.1**	197.5
Equity attributable to owners of Gamma Communications plc		**258.7**	212.8
Non-controlling interests	32	**2.2**	3.0
Written put options over non-controlling interests	32	**(6.7)**	(11.4)
Total equity		**254.2**	204.4

The financial statements on pages 91 to 126 were approved and authorised for issue by the Board of Directors on 21 March 2022 and were signed on its behalf by:

Andrew Belshaw
Chief Financial Officer

The notes on pages 95 to 126 form part of these financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Cash flows from operating activities			
Profit for the year before tax		**67.2**	75.0
Adjustments for:			
Depreciation of property, plant and equipment	14	**8.3**	9.7
Depreciation of right of use assets	15	**2.7**	2.2
Amortisation and reduction in value of intangible assets	16	**16.1**	11.0
Change in fair value of contingent consideration	8	**–**	(0.1)
Share-based payment expense		**4.8**	3.5
Interest income	10	**(0.1)**	(0.4)
Finance expense	10	**1.2**	1.1
Gain on disposal of subsidiary undertaking	8	**–**	(19.5)
		100.2	82.5
Increase in trade and other receivables		**(5.4)**	(6.1)
Decrease in inventories		**0.2**	0.3
Decrease in trade and other payables		**(6.2)**	(6.1)
Increase/(decrease) in contract liabilities		**1.5**	(1.2)
(Decrease)/increase in provisions		**(0.5)**	0.9
Cash generated by operations		**89.8**	70.3
Taxes paid		**(13.3)**	(14.1)
Net cash flows from operating activities		**76.5**	56.2
Investing activities			
Gain on disposal of property, plant and equipment	14	**0.1**	–
Purchase of property, plant and equipment	14	**(9.1)**	(9.5)
Purchase of intangible assets	16	**(7.7)**	(5.9)
Interest received		**0.1**	0.4
Acquisition of subsidiaries net of cash acquired	18	**(49.3)**	(47.7)
Disposal of subsidiary net of disposed cash		**–**	19.4
Net cash used in investing activities		**(65.9)**	(43.3)
Financing activities			
Lease liability repayments	25	**(3.1)**	(2.1)
Repayment of borrowings	24	**(2.3)**	(1.6)
Interest paid		**(0.5)**	(0.3)
Share issues		**5.9**	1.5
Dividends	13	**(11.7)**	(10.4)
Net cash used in financing activities		**(11.7)**	(12.9)
Net decrease in cash and cash equivalents		**(1.1)**	–
Cash and cash equivalents at beginning of year		**53.9**	53.9
Cash and cash equivalents at end of year		**52.8**	53.9

The notes on pages 95 to 126 form part of these financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2021

	Share capital £m	Share premium reserve £m	Other reserves[2] £m	Retained earnings £m	Total £m	Non-controlling interests £m	Written put options over non-controlling interests £m	Total equity £m
1 January 2020	0.2	6.6	4.8	140.9	152.5	–	–	152.5
Issue of shares	–	2.4	(1.4)	1.3	2.3	–	–	2.3
Share-based payment expense	–	–	2.8	–	2.8	–	–	2.8
Tax on share-based payment expense:								
Current tax	–	–	–	1.0	1.0	–	–	1.0
Deferred tax	–	–	–	0.5	0.5	–	–	0.5
Non-controlling interests on acquisition of subsidiary	–	–	–	–	–	2.8	–	2.8
Equity put rights	–	–	–	–	–	–	(11.4)	(11.4)
Dividend paid[1]	–	–	–	(10.4)	(10.4)	–	–	(10.4)
Transaction with owners	–	2.4	1.4	(7.6)	(3.8)	2.8	(11.4)	(12.4)
Profit for the year	–	–	–	64.2	64.2	0.2	–	64.4
Other comprehensive expense	–	–	(0.1)	–	(0.1)	–	–	(0.1)
Total comprehensive (expense)/income	–	–	(0.1)	64.2	64.1	0.2	–	64.3
31 December 2020	0.2	9.0	6.1	197.5	212.8	3.0	(11.4)	204.4
1 January 2021	0.2	9.0	6.1	197.5	212.8	3.0	(11.4)	204.4
Issue of shares	–	5.9	(2.2)	2.2	5.9	–	–	5.9
Share-based payment expense	–	–	4.1	–	4.1	–	–	4.1
Tax on share-based payment expense:								
Current tax	–	–	–	1.7	1.7	–	–	1.7
Deferred tax	–	–	–	(0.7)	(0.7)	–	–	(0.7)
Non-controlling interests on acquisition of subsidiary	–	–	–	1.2	1.2	(1.2)	–	–
Equity put rights	–	–	–	(4.7)	(4.7)	–	4.7	–
Dividend paid[1]	–	–	–	(11.7)	(11.7)	–	–	(11.7)
Transaction with owners	–	5.9	1.9	(12.0)	(4.2)	(1.2)	4.7	(0.7)
Profit for the year	–	–	–	53.6	53.6	0.4	–	54.0
Other comprehensive expense	–	–	(3.5)	–	(3.5)	–	–	(3.5)
Total comprehensive (expense)/income	–	–	(3.5)	53.6	50.1	0.4	–	50.5
31 December 2021	**0.2**	**14.9**	**4.5**	**239.1**	**258.7**	**2.2**	**(6.7)**	**254.2**

1 Refer to note 13.
2 Refer to note 32.

The notes on pages 95 to 126 form part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2021

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 United Kingdom ("UK"). 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 32 to 35.

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 17.

Exemption from audit
For the year ending 31 December 2021 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
Mission Labs Limited	10040088
Telsis Communication Services Limited	09235326
Telsis Direct Limited	02977905
Telsis Services Limited	02304971

For the year ending 31 December 2021, Gamma Communications Europe B.V. and Gamma Communications Benelux 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).

Dormant companies
For the year ending 31 December 2021 the following dormant UK subsidiaries will prepare and file individual accounts under s394A and s448A of the Companies Act 2006.

Subsidiary name	Company registration number
CircleLoop Limited	11056242
Exactive Online Limited	SC377506
Uniworld Bureau Services Limited	07136383

Notes to the financial statements continued
For the year ended 31 December 2021

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 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 annual impairment tests undertaken at 30 September each year 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.

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; carries the inventory risk; 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 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, 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 is activated by the mobile network operators. Annual commission is recognised on an accruals basis once the performance obligations can be measured reliably.

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.

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.

Notes to the financial statements continued
For the year ended 31 December 2021

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.

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.

Equity instruments

Equity instruments are recorded as 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.

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 13.

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 profit 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 statement of profit or loss 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 statement of profit or loss. The gain or loss on the hedged item that is attributable to the hedged risk is recognised in the statement of profit or loss. 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 statement of profit or loss, 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 statement of profit or loss 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 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.

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 comprise 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.

Notes to the financial statements continued
For the year ended 31 December 2021

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 29.

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.

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

There are no key accounting estimates that will have a significant risk of causing a material adjustment within the next financial year.

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, also represents the underlying performance of the Group. 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.

Notes to the financial statements continued
For the year ended 31 December 2021

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

2021

Measure	Statutory Basis	Depreciation and amortisation on business combinations	Change in fair value of acquisitions	Adjusting tax items	Exceptional items**	Adjusted basis
PBT (£m)	67.2	9.5	0.5		–	77.2
PAT* (£m)	53.6	9.5	0.5	(1.5)	–	62.1
EPS (FD) (p)	55.2	9.8	0.5	(1.5)	–	64.0

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

* Profit after tax (PAT) is the amount attributable to the ordinary equity holders of the Company.
** See note 8 for further details.

In addition to the above we add back the depreciation and amortisation charged in the year to Profit from Operations (2021: £68.3m; 2020: £75.7m) to calculate a figure for EBITDA (2021: £95.4m; 2020: £98.6m) 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 (2021: £95.4m; 2020: £79.0m).

An adjustment to cash and cash equivalents has 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 as Net Cash is a better measure of liquidity.

	2021 £m	2020 £m
Cash and cash equivalents	**52.8**	53.9
Borrowings	**(3.3)**	(5.9)
Net Cash	**49.5**	48.0

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 have not yet been adopted by the UK:

- IFRS 17 (including the June 2020 Amendments to IFRS 17) – Insurance Contracts
- Amendments to IFRS 10 and IAS 28 – 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 – Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies
- Amendments to IAS 8 – Definition of Accounting Estimates
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

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 60% (2020: 63%) of the Group's external revenue.

UK Direct – This division sells Gamma's products to end users in the SME, Enterprise and Public Sector together with an associated service wrap. It contributed 24% (2020: 25%) of the Group's external revenues.

European – This division consists of sales made in Europe by Gamma Communications Benelux B.V. and its subsidiaries in the Netherlands, by VozTelecom Oigaa360 S.A.U. and its subsidiaries in Spain and by HFO Holding GmbH and its subsidiaries in Germany contributing 16% (2020: 12%) 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. Management are in the process of reviewing the go to market segments.

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 and exceptional items.

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.

2021	UK Indirect £m	UK Direct £m	European £m	Central functions £m	Total £m
Segment revenue	293.6	104.8	72.7	–	471.1
Inter-segment revenue	(23.4)	–	–	–	(23.4)
Revenue from external customers	270.2	104.8	72.7	–	447.7
Timing of revenue recognition					
At a point in time	17.5	2.7	27.4	–	47.6
Over time (recurring)	252.7	102.1	45.3	–	400.1
	270.2	104.8	72.7	–	447.7
Gross profit	143.2	52.6	32.7	–	228.5
Operating expenses	(90.3)	(27.6)	(34.3)	(8.0)	(160.2)
Earnings before depreciation, amortisation and exceptional items	66.7	27.3	9.4	(8.0)	95.4
Exceptional items	–	–	–	–	–
Earnings before depreciation and amortisation	66.7	27.3	9.4	(8.0)	95.4
Depreciation and amortisation (excluding business combinations)	(12.8)	(0.9)	(3.9)	–	(17.6)
Amortisation arising due to business combinations	(1.0)	(1.4)	(7.1)	–	(9.5)
Profit/(loss) from operations	52.9	25.0	(1.6)	(8.0)	68.3

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	13.3	2.4	2.7	–	18.4
Reportable segment assets	241.7	18.9	101.2	–	361.8
Reportable segment liabilities	56.1	17.0	34.5	–	107.6

Notes to the financial statements continued
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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 (recurring)	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 combinations	(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

6. Contract costs

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

	2021 £m	2020 £m
Commissions		
Capitalised	**1.3**	1.1
Amortised	**2.2**	1.6
Installation costs		
Capitalised	**1.6**	2.6
Amortised	**1.7**	2.3

There was no impairment loss in relation to the costs capitalised (2020: £nil).

7. Profit on ordinary activities

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

	2021 £m	2020 £m
Net foreign exchange	**0.7**	0.1
Research costs	**14.8**	10.2
Employee costs (note 9)	**96.5**	83.3
Depreciation of property, plant and equipment	**8.3**	9.7
Depreciation on right of use assets	**2.7**	2.2
Amortisation of intangible assets (excluding business combinations)	**6.6**	5.0
Amortisation arising due to business combinations	**9.5**	6.0
Cost of inventories recognised as an expense	**11.9**	11.7
Fees payable to the Group's auditor	**0.4**	0.4

Fees payable to the Group's auditor for the audit of the Company and the consolidated financial statements totalled £380k (2020: £386k), which includes £51k (2020: £48k) in respect of the half-year review which is considered a non-audit service.

8. Exceptional items

	2021 £m	2020 £m
Contingent consideration adjustment – Nimsys[1]	**–**	0.1
Profit upon disposal of subsidiary[2]	**–**	19.5
Total exceptional items	**–**	19.6

1 Contingent consideration due in respect of Nimsys was decreased by £0.1m, this was credited to the statement of comprehensive income.
2 Relates to the sale of The Loop Manchester on 31 December 2020.

9. Employee costs

	2021 £m	2020 £m
Employee costs (including Directors) comprise:		
Wages and salaries	**76.9**	67.3
Defined contribution pension cost	**5.4**	4.6
Social security contributions and similar taxes	**9.4**	7.9
	91.7	79.8
Share-based payment expense (note 33)	**4.8**	3.5
	96.5	83.3

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:

	2021 Number	2020 Number
Operational	**934**	786
Selling, administration and distribution	**737**	621
	1,671	1,407

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Key management personnel compensation
Key management personnel comprise the Executive Directors and the Senior Leadership Team (listed on pages 52–53).

	2021 £m	2020 £m
Salary	**4.5**	4.0
Defined contribution pension cost	**0.1**	0.1
Social security contributions and similar taxes	**1.0**	0.9
	5.6	5.0
Share-based payment expense (note 33)	**2.8**	1.8
	8.4	6.8

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

	2021 £m	2020 £m
Salaries and fees	**1.9**	1.8
Social security contributions and similar taxes	**0.3**	0.3
	2.2	2.1
Share-based payment expense (note 33)	**1.3**	0.8
	3.5	2.9

During the year, the aggregate amount of gains made by the Executive Directors on the exercise of share options was £2.6m (2020: £0.4m).

The average number of employees in Gamma Communications plc during the financial year was three (2020: none).

During the year, one Executive Director (2020: one) participated in a private money purchase defined contribution pension scheme.

10. Finance income and expense

	2021 £m	2020 £m
Finance income		
Interest received on bank deposits	**0.1**	0.4
Total finance income	**0.1**	0.4
Finance expense		
Lease liability interest costs	**(0.5)**	(0.5)
Movements of fair value	**(0.5)**	(0.3)
Interest on borrowings	**(0.2)**	(0.3)
Total finance expense	**(1.2)**	(1.1)
Net finance expense	**(1.1)**	(0.7)

11. Tax expense

	2021 £m	2020 £m
Current tax expense		
Current tax on profits for the year	**13.4**	12.1
Adjustment in respect of prior year	**0.6**	0.1
Overseas tax	**1.0**	0.5
Total current tax	**15.0**	12.7
Deferred tax expense		
Origination and reversal of temporary differences	**(1.7)**	(2.3)
Adjustment in respect of prior years	**(0.5)**	0.1
Tax rate change	**0.4**	0.1
Total deferred tax (note 30)	**(1.8)**	(2.1)
Total tax expense	**13.2**	10.6

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

	2021 £m	2020 £m
Profit before income taxes	**67.2**	75.0
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 19% (2020: 19%)	**12.8**	14.3
Effects of:		
Tax-exempt income[1]	**–**	(3.7)
Tax effect of expenses that are not deductible in determining taxable profit	**0.2**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(0.1)**	(0.2)
Tax rate change	**0.4**	–
Adjusting tax items	**(0.2)**	–
Adjustment in respect of prior year	**0.1**	0.2
Total tax expense	**13.2**	10.6

1 Includes the gain on the disposal of The Loop Manchester Limited in December 2020.

Deferred tax was calculated based on the tax laws and rates that were enacted or substantively enacted at the balance sheet date.

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12. Earnings per share

	2021	2020
Earnings per Ordinary Share – basic (pence)	**55.9**	67.5
Earnings per Ordinary Share – diluted (pence)	**55.2**	66.6

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

	2021 £m	2020 £m
Profit attributable to the ordinary equity holders of the Company	**53.6**	64.2
Shares	**No.**	No.
Weighted average number of Ordinary Shares for basic earnings per share	**95,894,913**	95,058,880
Effect of dilution resulting from share options	**1,166,725**	1,273,867
Diluted weighted average number of Ordinary Shares	**97,061,638**	96,332,747

In 2021, as part of Gamma's acquisitions certain vendors of Mission Labs reinvested £2.8m (182,086 ordinary shares) and the vendors of HFO reinvested £0.7m (37,294 ordinary shares). In June 2021 £0.3m of Ordinary Shares (15,844 ordinary shares) were issued as part of the deferred consideration for the acquisition of Exactive Holdings Limited.

Adjusted earnings per share is detailed below:

	2021	2020
Adjusted earnings per Ordinary Share – basic (pence)	**64.8**	51.9
Adjusted earnings per Ordinary Share – diluted (pence)	**64.0**	51.3

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

	2021 £m	2020 £m
Profit attributable to the ordinary equity holders of the Company	**53.6**	64.2
Amortisation arising on business combinations	**9.5**	6.0
Movement in fair value on put option liability and deferred consideration	**0.5**	0.3
Exceptional items (disposal of subsidiary)	**–**	(19.5)
Exceptional items (change in value of deferred consideration)	**–**	(0.1)
Adjusting tax items	**(1.5)**	(1.5)
Adjusted profit after tax for the year	**62.1**	49.4

13. Dividends

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

	2021 £m	2020 £m
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
Final dividends for the year ended 31 December 2020 of 7.8p per ordinary share	**7.5**	–
Interim dividend for the year ended 31 December 2021 of 4.4p per ordinary share	**4.2**	–
	11.7	10.4

A final dividend of 8.8p will be proposed at the Annual General Meeting but has not been recognised as it requires approval. The total amount of dividends proposed is 13.2p. The payments of these dividends do not have any tax consequences for the Group.

14. Property, plant and equipment

	Land and buildings £m	Network assets £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost					
At 1 January 2021	4.8	71.9	11.6	2.0	90.3
Additions	–	7.5	1.1	0.5	9.1
Acquisition of subsidiaries	–	–	0.1	–	0.1
Disposals	–	(0.6)	(0.3)	(0.1)	(1.0)
Exchange difference	(0.3)	(0.1)	(0.2)	–	(0.6)
At 31 December 2021	**4.5**	**78.7**	**12.3**	**2.4**	**97.9**
Depreciation					
At 1 January 2021	0.1	44.7	7.9	1.3	54.0
Charge for the year	0.2	6.1	1.7	0.3	8.3
Disposals	–	(0.5)	(0.3)	(0.1)	(0.9)
Exchange difference	–	–	(0.3)	–	(0.3)
At 31 December 2021	**0.3**	**50.3**	**9.0**	**1.5**	**61.1**
Net book value					
At 1 January 2021	4.7	27.2	3.7	0.7	36.3
At 31 December 2021	**4.2**	**28.4**	**3.3**	**0.9**	**36.8**

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 in the year.

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15. Right of use assets

	Land and buildings £m	Other £m	Total £m
Cost			
At 1 January 2021	13.3	2.6	15.9
Reclassification[1]	1.8	(1.8)	–
Acquisition of subsidiary	–	0.1	0.1
Additions	1.0	0.6	1.6
Disposals	(1.0)	–	(1.0)
At 31 December 2021	**15.1**	**1.5**	**16.6**
Depreciation			
At 1 January 2021	3.7	0.7	4.4
Reclassification[1]	0.4	(0.4)	–
Charge for the year	2.3	0.4	2.7
Disposals	(0.7)	–	(0.7)
At 31 December 2021	**5.7**	**0.7**	**6.4**
Net book value			
At 1 January 2021	9.6	1.9	11.5
At 31 December 2021	**9.4**	**0.8**	**10.2**

1 Management have performed a review of the classification of assets which has resulted in a reclassification of £1.8m.

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 2021 (2020: none).

16. Intangible assets

	Goodwill £m	Customer contracts £m	Brand £m	Development costs £m	Software £m	Total £m
Cost						
At 1 January 2021	55.0	48.6	2.4	17.6	16.6	140.2
Additions	–	–	–	4.8	2.9	7.7
Acquisition of subsidiaries	38.7	1.5	0.9	5.2	–	46.3
Transfer	–	–	–	0.8	(0.8)	–
Disposals	–	–	(1.0)	–	–	(1.0)
Exchange difference	(1.9)	(2.5)	(0.1)	(0.3)	(0.2)	(5.0)
At 31 December 2021	**91.8**	**47.6**	**2.2**	**28.1**	**18.5**	**188.2**
Amortisation and impairment						
At 1 January 2021	8.8	13.5	0.7	10.1	11.8	44.9
Charge for the year	–	7.4	1.3	4.3	3.1	16.1
Transfer	–	–	–	0.4	(0.4)	–
Disposals	–	–	(1.0)	–	–	(1.0)
Exchange difference	(0.1)	(0.7)	(0.1)	–	(0.2)	(1.1)
At 31 December 2021	**8.7**	**20.2**	**0.9**	**14.8**	**14.3**	**58.9**
Carrying value						
At 1 January 2021	46.2	35.1	1.7	7.5	4.8	95.3
At 31 December 2021	**83.1**	**27.4**	**1.3**	**13.3**	**4.2**	**129.3**

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

16. Intangible assets continued

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

	2021 £m	2020* £m
UK Direct	**13.3**	13.3
UK Indirect	**40.0**	1.3
The Netherlands	**7.3**	7.3
Spain	**14.0**	15.2
Germany	**8.5**	9.1
Total	**83.1**	46.2

* In the current period, the Group revised the approach to impairment testing of goodwill to reflect a change in the level at which goodwill is monitored. This reflects the ongoing structural changes resulting in the integration of the acquisitions made between 2018-2021 with the monitoring of goodwill performed at a level representing an aggregation of CGUs, rather than at the individual CGU level.

The carrying value of the Group's goodwill was tested for impairment at 30 September 2021 and 31 December 2020.

The recoverable amount has been determined on a value-in-use basis on each CGU group, using the Board approved budgets, where gross margin percentage is assumed to be held principally constant and budgeted revenue and overheads are forecasted to grow. These budgets are built on the entity's past experience and are over a five-year period plus terminal value. The long-term growth rates used were 2% (2020: 2%).

We have estimated the pre-tax discount rate using the Group's WACC. The pre-tax discount is 9.1% (2020: 9.5%). We risk-adjusted the discount rate for risks specific to each market, adding up to 3% to the WACC as appropriate. The rate used for The Netherlands was 9.4% (2020: 9.5%), 11.75% for Spain (2020: 11.5%) and 10.0% (2020: 9.5%) for Germany.

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 lifecycle stage with the Group; the headroom between the recoverable amount (determined based on a value in use model) and the carrying value of the Spain CGU is modest at £12m (2020: £11m) at the measurement date. 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 2021, 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 4% (2020: 3%) over this period, would see the headroom reduced to nil.

(2) To break even, the EBITDA margin percentage achieved in year 5 and terminal years would need to reduce by 9% (2020: 5%).

Customer contracts include the following material balances at 31 December 2021:

- Gamma Communications Benelux B.V. and its subsidiaries, £7.0m (2020: £8.6m) carrying value with seven years of amortisation remaining.
- VozTelecom Oigaa360 S.A.U. and its subsidiaries, £4.3m (2020: £6.0m) carrying value with four years of amortisation remaining.
- HFO Holding GmbH and its subsidiaries, £7.2m (2020: £10.2m) carrying value with four years of amortisation remaining.

Development cost includes technology acquired on acquisition of Mission Labs, £4.2m (2020: n/a) carrying value with seven years of amortisation remaining.

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17. Subsidiaries

The Company's subsidiaries at 31 December 2021 are detailed below.

Name	Registered Address	Country	Ownership %	Class
CircleLoop Limited	5 Fleet Place, London, EC4M 7RD	United Kingdom	100%	Ordinary shares
ComyMedia Proyectos y Servicios SL	Parque Empresarial Zuatzu, Edificio Zurriola, local 2, planta baja, 20018 San Sebastián, Guipúzcoa, Spain	Spain	100%	Ordinary shares
Epsilon Telecommunications GmbH	Ziegeleistraße 2, 95145, Oberkotzau, Germany	Germany	88.15%	Ordinary shares
Exactive Holdings Limited	30 & 34 Reform Street, Dundee, Scotland, DD1 1RJ	United Kingdom	100%	Ordinary shares
Exactive Limited	30 & 34 Reform Street, Dundee, Scotland, DD1 1RJ	United Kingdom	100%	Ordinary shares
Exactive Online Limited	30 & 34 Reform Street, Dundee, Scotland, DD1 1RJ	United Kingdom	100%	Ordinary shares
Exactive Poland sp. zoo.	ul. Abrahama 1A, 80-307 Gdańsk, Poland	Poland	100%	Ordinary shares
Gamma Business Communications Limited	5 Fleet Place, London, EC4M 7RD	United Kingdom	100%	Ordinary shares
Gamma Business Services BV (Formerly Schiphol Connect, merged with Nimsys BV 8 July)	Evert van de Beekstraat 1-63, 1118CL Schiphol, the Netherlands	Netherlands	100%	Ordinary shares
Gamma Communications Benelux BV	Krijgsman 12 1186DM Amstelveen, the Netherlands	Netherlands	100%	Ordinary shares
Gamma Communications Europe BV	Office address: 5 Fleet Place, London, EC4M 7RD	Netherlands	100%	Ordinary shares
Gamma Communications Germany GmbH	c/o Bird & Bird, Maximiliansplatz 22, 80333 München, Germany	Germany	100%	Ordinary shares
Gamma Communications Ireland Limited	6th Floor, 2 Grand Canal Square, Dublin, Republic of Ireland	Ireland	100%	Ordinary shares
Gamma Communications Nederlands BV (Formerly, Dean One BV, merged with gnTel BV 1 December)	Krijgsman 12 1186DM Amstelveen, the Netherlands	Netherlands	100%	Ordinary shares
Gamma Communications US Inc	1313 N. Market Street, Suite 5100, Wilmington, Delaware, 198001	United States	100%	Common stock
Gamma Development KfT	Széchenyi rakpart 8, 1054 Budapest, Hungary	Hungary	100%	Ordinary shares
Gamma Europe Holdco Limited	5 Fleet Place, London, EC4M 7RD	United Kingdom	100%	Ordinary shares
Gamma Group Holdings Limited	5 Fleet Place, London, EC4M 7RD	United Kingdom	100%[1]	Ordinary shares
Gamma Network Solutions Limited	5 Fleet Place, London, EC4M 7RD	United Kingdom	100%	Ordinary shares
Gamma Telecom Holdings Limited	5 Fleet Place, London, EC4M 7RD	United Kingdom	100%[2]	Ordinary and B1 shares
Gamma Telecom Limited	5 Fleet Place, London, EC4M 7RD	United Kingdom	100%	Ordinary shares
Gamma Telecomunicaciones Spain Holdings SL	Calle Artesans 10, Parc Tecnologic del Vallés, 08290 Cerdanyola del Vallés, Barcelona, Spain	Spain	100%	Ordinary shares
gnTel GmbH	Stadttor 1, 40219 Dusseldorf, Germany	Germany	100%	Ordinary shares
HFO Holding GmbH	Ziegeleistraße 2, 95145, Oberkotzau, Germany	Germany	88.15%	Ordinary shares
HFO Technology GmbH	Ziegeleistraße 2, 95145, Oberkotzau, Germany	Germany	88.15%	Ordinary shares
HFO Telecom GmbH	Ziegeleistraße 2, 95145, Oberkotzau, Germany	Germany	88.15%	Ordinary shares
Mission Labs Limited	5 Fleet Place, London, EC4M 7RD	United Kingdom	100%	A, B, C, D ordinary shares
Mission Labs Limited (New Zealand)	C/o TMF Corporate Services Limited, 41 Shortland Street, Auckland Central, 1010, New Zealand	New Zealand	100%	Ordinary shares
Telsis Communications Services Limited	5 Fleet Place, London, EC4M 7RD	United Kingdom	100%	Ordinary shares
Telsis Direct Limited	5 Fleet Place, London, EC4M 7RD	United Kingdom	100%	Ordinary shares
Telsis GmbH	Robert-Bosch-Straße 7, 64293 Darmstadt, Germany	Germany	100%	Ordinary shares
Telsis Services Limited	5 Fleet Place, London, EC4M 7RD	United Kingdom	100%	Ordinary shares
Uniworld Bureau Services Limited	5 Fleet Place, London, EC4M 7RD	United Kingdom	100%	Ordinary shares
VozTelecom Andalucía SL	Calle Isaac Newton 3, Edificio Bluenet PCT Cartuja, 41092 Sevilla, Spain	Spain	100%	Ordinary shares
VozTelecom Comunicación Inteligente SLU	Calle Artesans 10, Parc Tecnologic del Vallés, 08290 Cerdanyola del Vallés, Barcelona, Spain	Spain	100%	Ordinary shares
VozTelecom Maroc, SARL AU	Park Tetouanshore route de Cabo Negro Shore 3 Local 004, Comune de Martil – Tétouan CP 93150, Morocco	Morocco	100%	Ordinary shares
VozTelecom Oigaa360 S.A.U.	Calle Artesans 10, Parc Tecnologic del Vallés, 08290 Cerdanyola del Vallés, Barcelona, Spain	Spain	100%	Ordinary shares
VozTelecom Puntos de Servicio SLU	Calle Ortega y Gasset 63, 1ºB, 28006 Madrid, Spain	Spain	100%	Ordinary shares

1 Directly held by the Company.
2 In December 2021, the ownership of Gamma Telecom Holdings Limited was transferred from Gamma Communications plc to Gamma Group Holdings Limited.

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 40.87% stake in VozTelecom Latinoamerica Sa de CV, 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.

18. Business combinations

Summary of acquisitions

On 3 March 2021 the Group acquired 100% of Mission Labs Limited and its subsidiaries. ("Mission Labs"). Mission Labs is a leading developer of applications to manage cloud contact centres and enhance customer experience.

The identifiable acquired assets and liabilities assumed are as follows:

	Mission Labs £m
Tangible fixed assets	0.1
Right of use assets	0.1
Intangible – development costs	5.2
Intangible – customer contracts	1.5
Intangible – brand	0.9
Cash	2.4
Trade receivables	1.0
Other receivables	0.3
Trade payables	(0.3)
Other payables	(0.5)
Borrowings	(0.2)
Deferred tax liability	(1.3)
Total identifiable assets	9.2
Add: Goodwill	38.7
Net assets acquired	**47.9**

	Mission Labs £m
Satisfied by:	
Cash paid	43.2
Contingent consideration[1]	4.7
Total	**47.9**

1 Contingent consideration is based on Mission Labs achieving milestones in 2021, 2022 and 2023. Consideration of up to £6.0m may be payable. The fair value of £4.7m at acquisition is based on a payout of £5.7m which takes into account the weighted probability of success.

Net cash outflow on acquisitions:

	Mission Labs £m	Other £m	Total £m
Cash consideration	43.2	–	43.2
Less: cash acquired	(2.4)	–	(2.4)
Net outflow of cash for acquisitions in the year	40.8	–	40.8
Contingent consideration payments during the year	–	3.5	3.5
Put option liability payment in the year	–	5.0	5.0
Net outflow of cash – investing activities	40.8	8.5	49.3

Valuations of intangible assets

Customer contracts were valued under the Replacement Cost and Distributor approach as appropriate. Technology was valued under the multi-period excess earning model and Brand under the Relief-from-royalty methodology.

Goodwill

The goodwill encapsulates the ability to grow through new technology and attracting new customers as well as the synergies gained through bringing Mission Labs into the Group and is not deductible for tax purposes. The goodwill has been allocated to the UK Indirect segment which is the level at which the goodwill is monitored for impairment purposes.

Acquired receivables

The fair value of acquired trade receivables for Mission Labs is £1.0m. The gross contractual amount for trade receivables due is £1.0m.

Revenue and profit contribution

From the date of acquisition, Mission Labs has contributed £5.4m of revenue and £2.2m of loss after taxation attributable to the equity holders of Gamma Communications plc. If the acquisition occurred on 1 January 2021, Mission Labs would have contributed £7.1m revenue and £2.3m loss after taxation attributable to the equity holders of Gamma Communications plc. These amounts are unaudited.

19. Inventories

	2021 £m	2020 £m
Raw materials and consumables	**7.9**	8.1

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

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20. Trade and other receivables

	2021 £m	2020 £m
Trade receivables	**46.1**	44.2
Less: provision for impairment of trade receivables	**(7.1)**	(6.4)
Trade receivables – net	**39.0**	37.8
Contract assets	**41.4**	43.9
Prepayments	**25.8**	22.4
Other receivables	**6.5**	4.4
Total trade and other receivables	**112.7**	108.5
Of which:		
Due within one year	**98.4**	93.7
Due after more than one year	**14.3**	14.8

The carrying value of the trade and other receivables is considered to be approximately equal to their fair value.

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

	2021 £m	2020 £m
At 1 January	**6.4**	4.4
Acquisition of subsidiaries	**–**	0.5
Provided during the year	**0.9**	1.5
Receivable written off during the year as uncollectible	**(0.2)**	–
	7.1	6.4

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

The main factors considered by the finance function in determining that 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:

	2021 £m	2020 £m
Not due	**0.7**	1.0
Up to 3 months	**1.8**	2.8
3 to 6 months	**1.9**	0.2
6 to 12 months	**0.3**	0.5
Older than 1 year	**2.4**	1.9
	7.1	6.4

The Group does not have any concentration of credit risk. No customers represent more than 10% of trade receivables.

The ageing analysis of trade receivables that were past due but not impaired are detailed below. They relate to customers with no default history or where we have an offset arrangement.

	2021 £m	2020 £m
Up to 3 months	**7.9**	2.7
3 to 6 months	**0.5**	0.8
6 to 12 months	**0.1**	0.8
Older than 1 year	**–**	0.1
	8.5	4.4

21. Cash and cash equivalents

	2021 £m	2020 £m
Cash at bank	**38.3**	50.4
Short-term deposits	**14.5**	3.5
Total cash and cash equivalents	**52.8**	53.9

22. Trade and other payables

	2021 £m	2020 £m
Current and non-current		
Trade payables	**5.7**	9.4
Other payables	**5.6**	8.6
Accruals – Cost of sales	**10.3**	16.0
Accruals – Operating expenses (excluding payroll)	**8.9**	6.4
Accruals – Payroll (excluding tax and social security)	**11.6**	10.2
Tax and social security	**4.5**	3.2
Deferred income	**3.5**	2.6
Total trade and other payables	**50.1**	56.4
Book values approximate to fair value at 31 December		
Of which:		
Due within one year	**48.1**	54.9
Due after more than one year	**2.0**	1.5

23. Contract liabilities

	2021 £m	2020 £m
Contract liabilities	**17.4**	15.9

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

The movement on contract liabilities can be explained as below:

	2021 £m
At 1 January 2021	**15.9**
Additions	**10.2**
Amortisation	**(8.7)**
At 31 December 2021	**17.4**

The amount of revenue recognised in 2021 for performance obligations satisfied (or partially satisfied) in previous periods is £nil (2020: £nil).

24. Borrowings

	2021 £m	2020 £m
Secured		
Bank loans	**1.8**	2.4
Total secured borrowings	**1.8**	2.4
Unsecured		
Bank loans	**1.0**	2.5
Other borrowings	**0.5**	1.0
Total unsecured borrowings	**1.5**	3.5
Total borrowings	**3.3**	5.9
Of which:		
Current	**0.8**	1.3
Non-current	**2.5**	4.6

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	2021 £m	2020 £m
At 1 January	**5.9**	–
Acquisition of subsidiaries	**–**	7.6
Repayments of borrowings	**(2.3)**	(1.6)
Exchange difference	**(0.3)**	(0.1)
At 31 December	**3.3**	5.9

All loans are held by trading subsidiaries outside of the UK and pre-date acquisition by Gamma. The Group has complied with the financial covenants of its borrowing facilities during the year.

Of the bank loans, £1.8m 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.

Maturity analysis of borrowings is shown in note 28.

25. Lease liabilities

	2021 £m
At 1 January 2021	**13.1**
Acquisition of subsidiary	**0.2**
Additions	**1.7**
Disposals	**(0.3)**
Repayments	**(3.1)**
Finance expense	**0.3**
At 31 December 2021	**11.9**

	2021 £m	2020 £m
Lease liabilities included in the statement of financial position at 31 December		
Current	**2.1**	2.3
Non-current	**9.8**	10.8
	11.9	13.1
Amounts recognised in the statement of comprehensive income		
Interest expense on lease liabilities	**0.3**	0.6
Expenses relating to short-term leases	**–**	–
Expenses relating to leases of low value assets, excluding short-term leases of low value assets	**–**	–

The amounts recognised in the consolidated statement of cash flows is £3.1m (2020: £2.1m).

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 2021 (2020: £nil).

For maturity analysis of leases, see note 28.

26. Put option liability

	2021 £m	2020 £m
Current	**3.4**	5.6
Non-current	**2.3**	5.6
	5.7	11.2

The Group has an option to acquire the remaining 11.85% of the shares in HFO Holdings (which are held by management) in two tranches. In 2022, c8% (where the consideration will be based on the results of 2021) and in 2023 a final tranche of c4% (based on net additions to cloud seats in 2022). This additional consideration will in aggregate be between €4.5m and €11.0m 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.

27. Contingent consideration

	2021 £m	2020 £m
Current	**2.6**	1.8
Non-current	**3.7**	1.2
	6.3	3.0

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

	Exactive £m	Voz Telecom £m	Mission Labs £m	Total £m
1 January 2021	2.3	0.7	–	3.0
Acquisition of subsidiary	–	–	4.7	4.7
Contingent consideration paid	(1.2)	(0.3)	–	(1.5)
Adjustment to contingent consideration	(0.2)	(0.2)	0.5	0.1
31 December 2021	**0.9**	**0.2**	**5.2**	**6.3**

Contingent consideration for Exactive is based on the EBITDA performance for 2021. Management has recalculated the fair value at the end of the accounting period and there have been adjustments to Exactive contingent consideration.

Contingent consideration for the Voz subsidiary relates to acquisitions made by Voz Telecom prior to the acquisition by the Group.

Contingent consideration relating to Mission Labs is based on milestones being achieved in 2021, 2022 and 2023. Consideration of up to £6.0m may be payable. The fair value of £5.2m at 31 December 2021 is based on a payout of £5.7m which takes into account the weighted probability of success.

28. 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

	2021 £m	2020 £m
Cash and cash equivalents	**52.8**	53.9
Trade receivables – net	**39.0**	37.8
Contract assets	**41.4**	43.9
Other receivables	**6.5**	4.4
Financial assets at amortised cost	**139.7**	140.0

	2021 £m	2020 £m
Trade payables	**5.7**	9.4
Other payables	**5.6**	8.6
Accruals – Cost of sales	**10.3**	16.0
Accruals – Operating expenses (excluding payroll)	**8.9**	6.4
Accruals – Payroll (excluding tax and social security)	**11.6**	10.2
Lease liabilities	**11.9**	13.1
Borrowings	**3.3**	5.9
Financial liabilities at amortised cost	**57.3**	69.6

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.

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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 20.

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 20.

Financial assets – maximum exposure

	2021 £m	2020 £m
Cash and cash equivalents	**52.8**	53.9
Trade receivables – net	**39.0**	37.8
Contract assets	**41.4**	43.9
Other receivables	**6.5**	4.4
Total financial assets	**139.7**	140.0

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., Voz Telecom Oigaa360 S.A.U. 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 Pounds 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.

As of 31 December 2020 and 31 December 2021 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 £3.3m 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. Annually, the Board receives five-year 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.

28. Financial instruments – risk management continued

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities at amortised cost:

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
2021	40.9	2.7	1.8	–
2020	50.4	3.9	1.9	0.3

	Less than 1 year £m	Between 1 and 5 years £m	Over 5 years £m
Lease liabilities			
2021	2.4	8.2	2.7
2020	2.7	8.0	4.1

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.

	2021 £m	2020 £m
Borrowings (note 24)	**(3.3)**	(5.9)
Lease liabilities (note 25)	**(11.9)**	(13.1)
Cash and cash equivalents	**52.8**	53.9
Total equity	**254.2**	204.4
Capital	**291.8**	252.4

Fair value of financial instruments

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

Financial liabilities	2021 £m	2020 £m
Contingent consideration (note 27)	**6.3**	3.0
Put option liability (note 26)	**5.7**	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 (£0.9m), Voz subsidiary (£0.2m) and Mission Labs (£5.2m).

Contingent consideration for Exactive is based on the EBITDA performance for 2021.The discount rate used is based on the Group's

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

Contingent consideration for the Voz subsidiary relates to acquisitions made by Voz prior to the acquisition by the Group.

Contingent consideration relating to Mission Labs is based on milestones being achieved in 2021, 2022 and 2023. Consideration of up to £6.0m may be payable. The fair value of £5.2m at 31 December 2021 is based on a payout of £5.7m which takes into account the weighted probability of success.

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.

29. Provisions

	Leasehold dilapidation provision £m	Onerous contracts £m	Other provisions £m	Total £m
At 1 January 2021	1.2	0.1	1.2	2.5
Additional provision in the year	–	0.3	–	0.3
Utilisation of provision	(0.1)	(0.1)	(0.6)	(0.8)
At 31 December 2021	**1.1**	**0.3**	**0.6**	**2.0**
Of which:				
Due within one year				0.9
Due after more than one year				1.1

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.

30. 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 25% (2020: 19%) for UK companies.

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

	2021 £m	2020 £m
Net liability at 1 January	**(3.3)**	(0.9)
Tax charge recognised in profit or loss	**1.8**	2.1
Recognised directly in equity	**(0.7)**	0.5
Tax arising on acquisition	**(1.4)**	(5.0)
Exchange difference	**0.6**	–
Net liability at 31 December	**(3.0)**	(3.3)

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 against which deferred tax can be utilised.

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

2021	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	0.2	(1.7)	(1.5)	(1.6)	–
Other temporary and deductible differences	4.3	(0.1)	4.2	1.5	–
Deferred tax on share options	2.5	–	2.5	0.3	(0.7)
Deferred tax on acquisition of subsidiaries	–	(8.2)	(8.2)	1.6	–
Deferred tax asset/(liability)	7.0	(10.0)	(3.0)	1.8	(0.7)

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

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31. Share capital
At 31 December the share capital was as follows:

	2021 Number	2021 £m	2020 Number	2020 £m
Authorised, allotted and fully paid				
Ordinary Shares of £0.0025 each	**96,323,054**	**0.2**	95,402,437	0.2

Ordinary Share movement in the year is as follows:

	Number	Notes
As at 1 January 2021	95,402,437	
January	5,629	(a)
March	8,305	(a)
April	182,086	(b)
April	23,715	(a)
May	47,400	(a)
June	359,377	(a)
June	37,294	(c)
June	15,844	(d)
July	144,727	(a)
August	327	(a)
September	44,536	(a)
October	19,487	(a)
November	10,582	(a)
December	21,308	(a)
As at 31 December 2021	**96,323,054**	

(a) Ordinary shares were issued to satisfy options which had been exercised.
(b) Ordinary shares were issued to certain vendors of Mission Labs as a result of reinvestment in Gamma.
(c) Ordinary shares were issued to a certain vendor of HFO Holding GmbH as a result of reinvestment in Gamma.
(d) Ordinary shares were issued as consideration to the shareholders of Exactive Holdings Limited.

32. 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 subsidiaries which are not 100% owned.
Written put options over non-controlling interest	Represents debit to equity in relation to the put option liability.

A breakdown of other reserves is shown below:

	Merger reserve £m	Share option reserve £m	Foreign exchange reserve £m	Own shares £m	Total Other Reserves £m
1 January 2020	2.3	3.8	(0.6)	(0.7)	4.8
Issue of shares	–	(1.4)	–	–	(1.4)
Share-based payment expense	–	2.8	–	–	2.8
Other comprehensive expense	–	–	(0.1)	–	(0.1)
31 December 2020	2.3	5.2	(0.7)	(0.7)	6.1
1 January 2021	2.3	5.2	(0.7)	(0.7)	6.1
Issue of shares	–	(2.2)	–	–	(2.2)
Share-based payment expense	–	4.1	–	–	4.1
Other comprehensive expense	–	–	(3.5)	–	(3.5)
31 December 2021	**2.3**	**7.1**	**(4.2)**	**(0.7)**	**4.5**

33. Share-based payment expense

Share options granted

On 1 April 2021, the Board approved awards under the Deferred Bonus Plan for the senior management team. 11,405 options were granted over £0.0025 Ordinary Shares at an exercise price of £0.0025 per share which will vest on 31 March 2024. 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 2021.

On 1 April 2021, the Board approved awards under the long-term incentive plan for the Executive Directors. 178,320 options were granted over £0.0025 Ordinary Shares at an exercise price of £0.0025 per share which will vest on 1 April 2024 subject to performance conditions. The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2021.

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 (TSR) over the performance period equals 8% and 50% of the shares are subject to an award if the annual compound TSR 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 (EPS) 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 EPS exceeds or equals 20% with pro rata straight-line vesting in between.

On 6 May 2021 the Board approved an issue of options under the Company Share Option Plan which granted 183,643 options over

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£0.0025 Ordinary Shares at an exercise price of £17.9600. These will vest in May 2024.

On 7 May 2021 the Board approved an issue of options under a Save As You Earn scheme which granted 155,514 options over £0.0025 Ordinary Shares at an exercise price of £14.1120. These options will vest in July 2024.

The weighted average fair value of awards granted during the year was £6.93 (2020: £8.42).

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 £19.27, and weighted average exercise price of £3.10, and the weighted average exercise price of share options exercisable at 31 December 2021 was £5.68.

2021 Date of grant	Start of year	Granted	Forfeited/ Cancelled	Exercised	End of year	Exercise price	Class of share	Notes
8 May 2015	34,810	–	–	(24,501)	10,309	£2.7000	Ordinary	(a)
15 April 2016	11,470	–	–	(9,176)	2,294	£4.3575	Ordinary	(a)
5 April 2017	61,758	–	–	(38,319)	23,439	£4.9325	Ordinary	(a)
3 April 2018	307,334	–	(1,742)	(305,592)	–	£0.0025	Ordinary	(a)
8 May 2018	192,718	–	(2,066)	(189,195)	1,457	£5.5520	Ordinary	(a)(m)
23 May 2018	169,755	–	(4,540)	(87,922)	77,293	£7.3400	Ordinary	(a)(m)
8 May 2019	329,333	–	(27,542)	(3,358)	298,433	£8.2800	Ordinary	(b)(m)
13 May 2019	147,335	–	(12,987)	(5,694)	128,654	£10.9000	Ordinary	(c)(m)
3 June 2019	220,276	–	(2,686)	–	217,590	£0.2500	Ordinary	(d)
20 September 2019	3,422	–	–	–	3,422	£0.2500	Ordinary	(d)
1 October 2019	4,183	–	(1,194)	(2,989)	–	£0.2500	Ordinary	(d)
22 November 2019	9,209	–	–	–	9,209	£0.2500	Ordinary	(d)
28 April 2020	335,536	–	(42,706)	(344)	292,486	£8.000	Ordinary	(e)
7 May 2020	200,839	–	(17,690)	(1,961)	181,188	£12.6500	Ordinary	(f)
14 September 2020	264,936	–	(27,635)	–	237,301	£0.2500	Ordinary	(g)
14 September 2020	18,310	–	–	–	18,310	£0.2500	Ordinary	(h)
1 April 2021	–	178,320	(9,830)	–	168,490	£0.2500	Ordinary	(i)
1 April 2021	–	11,405	–	–	11,405	£0.2500	Ordinary	(j)
6 May 2021	–	183,643	(9,457)	–	174,186	£17.9600	Ordinary	(k)
7 May 2021	–	155,514	(9,658)	–	145,856	£14.1120	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 1 July 2019.
(c) The awards granted will have a performance period of three years starting from the grant date, being 13 May 2019.
(d) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 April 2019.
(e) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2020.
(f) The awards granted will have a performance period of three years starting from the grant date, being 7 May 2020.
(g) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2020.
(h) The awards granted will vest in full on the third anniversary of the vesting commencement date, being 31 March 2020.
(i) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2021.
(j) The awards granted will vest in full on the third anniversary of the vesting commencement date, being 1 April 2021.
(k) The awards granted will vest in full on the third anniversary of the vesting commencement date, being 6 May 2021.
(l) The awards granted will vest in full on the third anniversary of the vesting commencement date, being 1 July 2021.
(m) Options for good leavers vested early on a time pro rata basis and hence exercised before the rest of the scheme becomes exercisable in accordance with the terms of the scheme rules at the time of the award. The unvested shares were cancelled.

There were no lapsed share options during the year (2020: none).

Apart from the options noted as exercisable, all other options above are outstanding. The share options outstanding at 31 December 2021 represented 2% of the issued share capital as at that date (2020: 2%) and would generate additional funds of £12.3m (2020: £12.3m) if fully exercised. The weighted average remaining life of the share options was 15 months (2020: 16 months), with a weighted average remaining exercise price of £7.21 (2020: £5.33).

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 £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 Date of grant	Start of year	Granted	Forfeited/ Cancelled	Exercised	End of year	Exercise price	Class of 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 vested early on a time pro rata basis and hence exercised before the rest of the scheme becomes exercisable in accordance with the terms of the scheme rules at the time of the award. The unvested shares were cancelled.

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 or loss account of the subsidiary as the employees' services are provided to the subsidiary company. The charge for each year is as listed below:

	2021 £m	2020 £m
Share options issued to key management	**2.8**	1.8
Share options issued to other employees	**2.0**	1.7
Total share-based payment expense	**4.8**	3.5

Included within the total share-based payment expense of £4.8m (2020: £3.5m) is National Insurance of £0.7m (2020: £0.7m).

Notes to the financial statements continued
For the year ended 31 December 2021

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.

	2021 £m	2020 £m
Share price at grant date (pence)	**1700 – 1798**	1245 – 1565
Exercise price (pence)	**0.25 – 1796**	0.25 – 1090
Expected volatility	**28%**	28%
Risk-free rate	**0.1357 – 0.1730%**	-0.086 – 0.704%
Expected dividend yield	**0.0 – 0.6%**	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 2021 and 2020.

34. Capital commitments
As at 31 December 2021, amounts contracted for but not provided in the financial statements amounted to £nil for the Group (2020: £6.3m).

35. Related party transactions
Details of key management's remuneration are given in note 9.

Dividends of £0.04m (2020: £0.07m) were paid to Directors during the year and no dividends were payable to Directors at the year end.

During the year, £5.0m was paid to a member of key management personnel who holds a non-controlling interest in HFO Holding GmbH. There are future commitments with this party, details of which can be found in note 26.

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

36. Subsequent events
There have been no subsequent events that the Directors of the Group are aware of at the date of signing.

Company statement of financial position
As at 31 December 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Investments	3	**19.9**	15.9
Other receivables	4	**19.3**	–
		39.2	15.9
Current assets			
Other receivables	4	**0.3**	76.9
Cash and cash equivalents		**27.2**	34.4
		27.5	111.3
Creditors: amounts falling due within one year	5	**(1.4)**	(56.1)
Net current assets		**26.1**	55.2
Total assets less current liabilities		**65.3**	71.1
Capital and reserves			
Called up share capital	6	**0.2**	0.2
Share premium account		**14.9**	9.0
Share option reserve		**19.9**	15.6
Profit and loss account		**30.3**	46.3
Shareholders' funds		**65.3**	71.1

As a consolidated statement of comprehensive income is published, a separate profit or loss account for Gamma Communications plc is omitted from the Group financial statements by virtue of section 408 of the Companies Act 2006. The loss in respect of the Company for the year was (£4.48m) (2020: £1.17m).

The financial statements of Gamma Communications plc (registered number 08943488) on pages 127 to 130 were approved and authorised for issue by the Board of Directors on 21 March 2022 and were signed on its behalf by:

Andrew Belshaw
Chief Financial Officer

The notes on pages 129 to 130 form part of these financial statements.

Company statement of changes in equity
For the year ended 31 December 2021

	Notes	Share capital £m	Share premium reserve[1] £m	Share option reserve[1] £m	Profit and loss account £m	Total equity £m
1 January 2020		0.2	6.6	12.8	57.8	77.4
Dividends paid	7	–	–	–	(10.4)	(10.4)
Share-based payments		–	–	2.8	–	2.8
Issue of shares		–	2.4	–	–	2.4
Transaction with owners		–	2.4	2.8	(10.4)	(5.2)
Loss for the year		–	–	–	(1.1)	(1.1)
Total comprehensive expense		–	–	–	(1.1)	(1.1)
31 December 2020		0.2	9.0	15.6	46.3	71.1
1 January 2021		0.2	9.0	15.6	46.3	71.1
Dividends paid	7	–	–	–	(11.7)	(11.7)
Share-based payments		–	–	4.3	–	4.3
Issue of shares		–	5.9	–	–	5.9
Transaction with owners		–	5.9	4.3	(11.7)	(1.5)
Loss for the year		–	–	–	(4.3)	(4.3)
Total comprehensive expense		–	–	–	(4.3)	(4.3)
31 December 2021		**0.2**	**14.9**	**19.9**	**30.3**	**65.3**

1 These reserves are not distributable.

The notes on pages 129 to 130 form part of these financial statements.

Notes to the Company financial statements
For the year ended 31 December 2021

1. Accounting policies

General information
Gamma Communications plc ("the Company") is a public company limited by shares and is incorporated and domiciled in England and Wales. The address of its registered office is 5 Fleet Place, London, EC4M 7RD. The principal activity of the Company is to act as a holding company for Group subsidiaries and includes the day-to-day running costs of the plc.

Basis of preparation
The Company financial statements have been prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" (FRS101).

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. The financial statements have been prepared on a historical cost basis.

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

The financial statements are prepared on the going concern basis as set out in note 1 of the consolidated financial statements of the Group.

The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented the income statement or a statement of comprehensive income for the Company alone. The loss in respect of the Company for the year was £4.3m (2020: £1.1m).

Disclosure exemptions adopted
In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

(a) certain disclosures regarding the Company's capital;

(b) a statement of cash flows;

(c) the effect of future accounting standards not yet adopted;

(d) the disclosure of the remuneration of key management personnel;

(e) disclosure of related party transactions with other wholly owned members of the Group headed by Gamma Communications plc;

(f) disclosures in respect of financial instruments; and

(g) disclosures in respect of IFRS 2 share-based payments.

Where required equivalent disclosures are given in the consolidated financial statements of the Group.

A summary of the Company's significant accounting policies is set out below.

Investments
Shares in Group undertakings are initially recorded at cost and subsequently adjusted for capital contributions related to share-based payments and any provisions for impairment.

The cost of acquisition is the amount of cash or cash equivalents paid and the fair value of other purchase consideration given by the acquirer, together with the expenses of the acquisition. Where the payment of consideration for an acquisition is to be made after the date of acquisition, reasonable estimates of the amounts expected to be paid are included in the cost of acquisition at their present values.

The cost of acquisition is adjusted when revised estimates are made, with consequential corresponding adjustments continuing to be made to the cost of the investment, and therefore goodwill, until the ultimate amount is known.

Financial assets
The Company does not have any financial assets which it would classify at fair value through profit or loss, available for sale or held to maturity. Therefore, all financial assets are classed as loans and receivables as defined below.

Loans and receivables
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They comprise amounts due from Group undertakings, other receivables and cash and cash equivalents in the statement of financial position. Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within loans and borrowings in current liabilities on the statement of financial position.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Dividends and distributions relating to equity instruments are debited directly to equity.

Notes to the Company financial statements continued
For the year ended 31 December 2021

2. Critical accounting judgements and estimates
Gamma Communications plc is a non-complex entity primarily holding intercompany debtors and creditors. As such there are no critical judgements or accounting estimates that represent a risk of material misstatement over the next 12 months.

3. Investments

	2021 £m	2020 £m
At 1 January	**15.9**	13.0
Transfer of ownership of subsidiary[1]	**(0.2)**	–
Capital contributions arising from share-based payments	**4.2**	2.9
At 31 December	**19.9**	15.9

1 In December 2021 the ownership of Gamma Telecom Holdings Limited was transferred to another member within the Gamma Group.

Details of the subsidiaries held directly or indirectly by Gamma Communications plc are given in note 17 to the consolidated financial statements.

4. Other receivables

	2021 £m	2020 £m
Amounts due from Group undertakings	**19.3**	76.7
Prepayments	**0.3**	0.2
	19.6	76.9

Amounts due from Group undertakings are payable on demand. The expected credit loss on amounts due from Group undertakings is negligible.

5. Creditors: amounts falling due within one year

	2021 £m	2020 £m
Amounts due to Group undertakings	**–**	55.7
Accruals	**1.4**	0.4
	1.4	56.1

6. Called up share capital
Details of the share capital and movement during the year are given in note 31 to the consolidated financial statements.

7. Dividends paid
Details of the dividends paid during the year are given in note 13 to the consolidated financial statements.

8. Contingent liabilities
The Company had no contingent liabilities at 31 December 2021 or 31 December 2020.

9. Capital commitments
The Company had no capital commitments at 31 December 2021 or 31 December 2020.

10. Related party transactions
The Company has taken advantage of the exemption available within FRS 101 Reduced Disclosure Framework not to disclose transactions with other members of the Group headed by the Company. See note 35 to the consolidated financial statements for details of the disclosed related party transactions.

11. Subsequent events
There have been no subsequent events that the Directors of the Company are aware of at the date of signing.