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

Report on the audit of the financial statements

1. Opinion

In our opinion:

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

We have audited the financial statements which comprise:

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

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

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • *Revenue: accuracy of volume and pricing of indirect usage revenue* • *Carrying amount of goodwill: revenue growth forecast within the Spain CGU* Within this report, the key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £3.8m which was determined on the basis of 5% of profit before tax excluding exceptional items.
Scoping	The Group engagement team have performed a full scope audit for the entire UK group with the exception of Mission Labs Limited, Exactive Holdings Limited ("Exactive") and Telsis Communication Services Limited ("Telsis"). The entities we perform full scope audit procedures over represent the principal business units and account for 84% of the Group's revenue, 85% of the Group's statutory profit before tax and 90% of the Group's net assets. The Group engagement team have performed specified procedures over Mission Labs Limited and worked with component auditors to perform specific audit procedures over the German subsidiaries Gamma Telecommunications GmbH and Epsilon Telecommunications GmbH (together "Gamma Germany"). We have performed analytical review procedures over the remainder of the Group.
Significant changes in our approach	As part of the annual impairment test, a £12.2m impairment was recognised in relation to the Spain CGU following revisions to the five-year forecast. We consider the key assumptions in relation to revenue growth within the value in use model to be a new key audit matter in the current year.

4. Conclusions relating to going concern

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

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

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

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

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

5. Key audit matters

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

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

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

Key audit matter description	Revenue from the Group's indirect usage customer base, which wholly relates to the UK, is calculated based on the volume of call traffic and associated call rates. We identified a key audit matter relating to the accuracy of traffic volumes as well as the accuracy of the pricing within this revenue stream, due to the volume of transactions. Inaccuracies in call rates, whether due to fraud or error, could result in a material misstatement in revenue. In 2022 the group's revenues were £484.4m (2021: £444.7m) of which UK indirect usage revenue represents £73.4m (2021: 78.5m). The group's revenue recognition principles are disclosed in note 1.
How the scope of our audit responded to the key audit matter	With the involvement of our IT specialists we tested, and placed reliance on, IT controls relevant to UK indirect usage revenue, the most critical of which was the automated matching of the call rates input and call data records to calculate the billing for each transaction. We have also tested and relied upon a number of other controls relevant to revenue, specifically in relation to rate-change reviews, the revenue reconciliations performed thereof, and the analysis of monthly revenue trends. We have tested the volumes and prices involved in indirect usage revenues by tracing a sample of customers with changes through to call data records and evidence of rate changes. We recalculated the revenue in relation to the calls by multiplying the appropriate rate against the call minutes. In addition we performed substantive analytical procedures of total indirect usage revenues for the year based on the month-on-month trends, movements in minutes, as well as call rate fluctuations. We also traced a sample of credit notes raised post year end to supporting documentation to test for possible overstatement of revenue.
Key observations	We are satisfied that the UK indirect usage revenue is appropriate.

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

Key audit matter description	The Group's evaluation of goodwill for impairment involves the comparison of the recoverable amount of each operating segment to which goodwill is allocated to its carrying amount. Recoverable amount represents the higher of fair value less costs to sell and value in use. The Group used a discounted cash flow model to estimate value in use, which requires significant estimates and assumptions. Changes in these assumptions could have a significant impact on the amount of any goodwill impairment charge and the disclosures made in the financial statements As part of the acquisition of Voz in 2020, goodwill of £14.5 million was recorded within the Spain CGU. As part of management's annual goodwill impairment test in which management assessed the fair value less costs to sale and the value in use, an impairment of £12.2m million was recorded. We identified a key audit matter in respect of revenue growth forecasts in the Spain CGU. Given the significant judgements made in determining the forecast revenue used in the value in use models, we have performed audit procedures requiring a high degree of auditor judgement and increased effort to evaluate the reasonableness of the estimates and assumptions. Further details are included within the audit committee report on page 64 and note 8 to the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls in relation to the annual impairment evaluation process, in particular relevant controls that ensure the reasonableness of the Board-approved budget used in the value in use model, and the preparation and review of the impairment assessment. We evaluated management's ability to accurately forecast future revenues by comparing current year forecast of revenue growth to actual performance to assess historical accuracy of forecasting, with special focus on assessing the performance against forecasts. We obtained evidence of post year-end performance compared this to the initial forecast assumptions. We evaluated the reasonableness of the revenue growth rates assumed by management in the value in use models by comparing them to third party analyst and industry reports. We tested the mathematical accuracy of the fair value less costs to sell assessment and value in use models. We evaluated the appropriateness of the sensitivity disclosures included within the consolidated financial statements.
Key observations	We are satisfied that the carrying value of Spain goodwill is reasonable and that the revenue growth assumptions support management's impairment review are within an acceptable range of values.

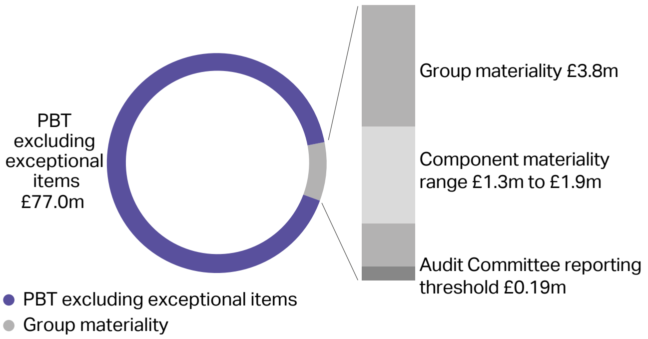
6. Our application of materiality

6.1. Materiality

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

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

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



6.2. Performance materiality

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

	Group financial statements	Parent company financial statements
Performance materiality	70% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • our historical knowledge of the group's business; • the quality of the control environment and the fact that we were able to rely on controls for revenue; • the nature of, and low volume and small size of, corrected and uncorrected misstatements identified in the previous audits; • management's willingness to investigate and correct misstatements; and • low turnover of management or key accounting personnel.	

6.3. Error reporting threshold

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

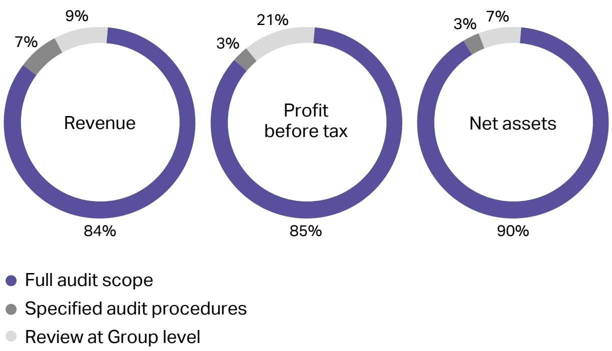
7. An overview of the scope of our audit

7.1. Identification and scoping of components

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

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

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



7.2. Our consideration of the control environment

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

7.3. Our consideration of climate-related risks

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

7.4. Working with other auditors

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

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

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

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

13.1. Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

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

We have nothing to report in respect of this matter.

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

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

20 March 2023

Consolidated statement of profit or loss
For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Revenue	5	**484.6**	447.7
Cost of sales		**(236.9)**	(219.2)
Gross profit		**247.7**	228.5
Operating expenses		**(182.3)**	(160.2)
Earnings before depreciation, amortisation and exceptional items		**105.1**	95.4
Exceptional items	8	**(12.5)**	–
Earnings before depreciation and amortisation		**92.6**	95.4
Depreciation and amortisation (excluding business combinations)	7	**(17.7)**	(17.6)
Depreciation and amortisation arising due to business combinations	7	**(9.5)**	(9.5)
Profit from operations	7	**65.4**	68.3
Finance income	10	**0.8**	0.1
Finance expense	11	**(1.3)**	(1.2)
Profit before tax		**64.9**	67.2
Tax expense	12	**(15.4)**	(13.2)
Profit after tax		**49.5**	54.0
Attributable to:			
Equity holders of Gamma Communications plc		**49.3**	53.6
Non-controlling interests		**0.2**	0.4
		49.5	54.0
Earnings per share			
Basic per Ordinary Share (pence)	13	**51.1**	55.9
Diluted per Ordinary Share (pence)	13	**50.6**	55.2

Adjusted earnings per share is shown in note 13.

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

Consolidated statement of comprehensive income
For the year ended 31 December 2022

	2022 £m	2021 £m
Profit after tax	**49.5**	54.0
Other comprehensive income/(expense)		
Items that may be reclassified subsequently to the income statement (net of tax effect)		
Exchange differences on translation of foreign operations	**2.9**	(3.5)
Total comprehensive income	**52.4**	50.5
Attributable to:		
Equity holders of Gamma Communications plc	**52.2**	50.1
Non-controlling interests	**0.2**	0.4
	52.4	50.5

The notes on pages 101 to 130 form part of these financial statements.

Consolidated statement of financial position
As at 31 December 2022

	Notes	2022 £m	2021 £m
Assets			
Non-current assets			
Property, plant and equipment	15	**33.8**	36.8
Right of use assets	16	**9.1**	10.2
Intangible assets	17	**124.3**	129.3
Deferred tax assets	29	**5.5**	7.0
Trade and other receivables	20	**13.0**	14.3
		185.7	197.6
Current assets			
Inventories	19	**10.2**	7.9
Trade and other receivables	20	**109.4**	98.4
Cash and cash equivalents	21	**94.6**	52.8
Current tax asset		**6.9**	5.1
		221.1	164.2
Total assets		**406.8**	361.8
Liabilities			
Non-current liabilities			
Other payables	22	**2.7**	2.0
Borrowings	23	**1.7**	2.5
Lease liabilities	24	**8.6**	9.8
Provisions	25	**0.9**	1.1
Contract liabilities	26	**7.8**	10.0
Contingent consideration	27	**1.5**	3.7
Put option liability	28	**–**	2.3
Deferred tax	29	**11.3**	10.0
		34.5	41.4
Current liabilities			
Trade and other payables	22	**54.0**	48.1
Borrowings	23	**0.4**	0.8
Lease liabilities	24	**2.5**	2.1
Provisions	25	**0.7**	0.9
Contract liabilities	26	**9.2**	7.4
Contingent consideration	27	**3.5**	2.6
Put option liability	28	**1.8**	3.4
Current tax liability		**0.5**	0.9
		72.6	66.2
Total liabilities		**107.1**	107.6
Net assets		**299.7**	254.2
Equity			
Share capital	33	**0.2**	0.2
Share premium reserve		**18.0**	14.9
Other reserves	34	**9.0**	4.5
Retained earnings		**273.9**	239.1
Equity attributable to owners of Gamma Communications plc		**301.1**	258.7
Non-controlling interests		**0.8**	2.2
Written put options over non-controlling interests		**(2.2)**	(6.7)
Total equity		**299.7**	254.2

The financial statements on pages 97 to 130 were approved and authorised for issue by the Board of Directors on 20 March 2023 and were signed on its behalf by:

Bill Castell
Chief Financial Officer

The notes on pages 101 to 130 form part of these financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Cash flows from operating activities			
Profit for the year before tax		**64.9**	67.2
Adjustments for:			
Depreciation of property, plant and equipment	15	**9.5**	8.3
Depreciation of right of use assets	16	**2.8**	2.7
Amortisation of intangible assets	17	**14.9**	16.1
Impairment of goodwill	8	**12.2**	–
Change in fair value of contingent consideration/put option liability		**(0.9)**	–
Share-based payment expense		**4.3**	4.8
Interest income	10	**(0.8)**	(0.1)
Finance expense	11	**1.3**	1.2
Loss on disposal of subsidiary undertaking	8	**0.3**	–
		108.5	100.2
Increase in trade and other receivables		**(10.1)**	(5.4)
(Increase)/decrease in inventories		**(2.6)**	0.2
Increase/(decrease) in trade and other payables		**4.1**	(6.2)
(Decrease)/increase in contract liabilities		**(0.4)**	1.5
Decrease in provisions		**(0.4)**	(0.5)
Cash generated by operations		**99.1**	89.8
Taxes paid		**(14.4)**	(13.3)
Net cash flows from operating activities		**84.7**	76.5
Investing activities			
Gain on disposal of property, plant and equipment	15	**0.4**	0.1
Purchase of property, plant and equipment	15	**(6.8)**	(9.1)
Purchase of intangible assets	17	**(13.9)**	(7.7)
Interest received		**0.8**	0.1
Acquisition of subsidiaries net of cash acquired	18	**(9.8)**	(49.3)
Disposal of subsidiary net of disposed cash		**(0.3)**	–
Net cash used in investing activities		**(29.6)**	(65.9)
Financing activities			
Lease liability repayments	24	**(2.8)**	(3.1)
Repayment of borrowings	23	**(0.7)**	(2.3)
Interest paid		**(0.1)**	(0.5)
Share issues		**3.1**	5.9
Dividends	14	**(13.3)**	(11.7)
Net cash used in financing activities		**(13.8)**	(11.7)
Net increase/(decrease) in cash and cash equivalents		**41.3**	(1.1)
Cash and cash equivalents at beginning of year		**52.8**	53.9
Effects of exchange rate changes on cash and cash equivalents		**0.5**	–
Cash and cash equivalents at end of year		**94.6**	52.8

The notes on pages 101 to 130 form part of these financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2022

	Share capital[2] £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 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 January 2022	**0.2**	**14.9**	**4.5**	**239.1**	**258.7**	**2.2**	**(6.7)**	**254.2**
Issue of shares	–	3.1	(2.7)	2.7	3.1	–	–	3.1
Share-based payment expense	–	–	4.3	–	4.3	–	–	4.3
Tax on share-based payment expense:								
Current tax	–	–	–	0.1	0.1	–	–	0.1
Deferred tax	–	–	–	(1.1)	(1.1)	–	–	(1.1)
Non-controlling interests on acquisition of subsidiary	–	–	–	1.6	1.6	(1.6)	–	–
Equity put rights				(4.5)	(4.5)	–	4.5	–
Dividend paid[1]	–	–	–	(13.3)	(13.3)	–	–	(13.3)
Transaction with owners	–	3.1	1.6	(14.5)	(9.8)	(1.6)	4.5	(6.9)
Profit for the year	–	–	–	49.3	49.3	0.2	–	49.5
Other comprehensive income	–	–	2.9	–	2.9	–	–	2.9
Total comprehensive income	–	–	2.9	49.3	52.2	0.2		52.4
31 December 2022	**0.2**	**18.0**	**9.0**	**273.9**	**301.1**	**0.8**	**(2.2)**	**299.7**

1 Refer to note 14.

2 Refer to note 33 and 34.

The notes on pages 101 to 130 form part of these financial statements.

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 38 to 40.

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 36.

Exemption from audit

For the year ending 31 December 2022 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
Gamma Communications No1 Limited	14311174

For the year ending 31 December 2022, Gamma Communications Europe B.V. and Gamma Communications Benelux B.V. were entitled to exemption from the 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 2022 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
Gamma Managed Services Limited	07136383

Revenue recognition

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.

1. Accounting policies continued

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.

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.

On acquisition, 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.

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

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

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

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

Financial instruments

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

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

Financial assets

Trade and other receivables

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

Cash and cash equivalents

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

Impairment of financial assets

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

Financial liabilities

Trade payables

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

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.

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.

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.

Dividends

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

Share-based payment expense

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

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

1. Accounting policies continued

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.

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.

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.

Intangible assets

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 recognised as an intangible asset.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment charges. Impairment charges on goodwill are not reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

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.

Brands

Separately acquired brands are recognised at fair value (regarded as cost) at the date of purchase. Brands acquired in a business combination are recognised at fair value at the acquisition date. Brands acquired separately or through a business combination are assessed at the date of acquisition as to whether they have an indefinite life. The assessment includes whether the brand name will continue to trade, and the expected lifetime of the brand. All brands acquired to date have been assessed as having an indefinite life as they are expected to continue to contribute to the long-term future of the Group. The brands are reviewed annually for impairment, being carried at cost less accumulated impairment charges.

The fair value of a brand at the date of acquisition is based on the Relief from Royalties method, which is a valuation model based on discounted cash flows.

Customer relationships

Customer relationships acquired in a business combination are recognised at fair value (regarded as cost) at the acquisition date. The customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship.

The fair value of the customer relationships at the acquisition date is based on the Multiple Excess Earnings Method ("MEEM") which is a valuation model based on discounted cash flows. The useful lives of customer relationships are based on the churn rate of the acquired portfolio and are up to 10 years corresponding to a yearly amortisation of between 10% and 25%. The useful lives of all intangible assets are reviewed annually and amended, as required, on a prospective basis.

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.

1. Accounting policies continued

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.

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 25.

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, and also represent the underlying performance of the Group. These are also used by the Board and management as KPIs 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. Reference to 'underlying' reflects the trading results of the Group without the impact of depreciation and amortisation of acquired intangible assets, exceptional items, changes in fair value consideration and any tax related effects that would otherwise impact the users understanding of the Group's performance. The Directors believe that adjusted results provide additional useful information on the core operational performance of the Group, and review the results of the Group on an adjusted basis internally.

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, impairment of intangible assets and goodwill, and profit or loss upon disposal of a subsidiary are considered to be exceptional where of a certain scale as they are not representative of the principal activities of the Group.

(e) Adjusting tax items

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

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

2022

Measure	Statutory Basis	Depreciation and amortisation on business combinations	Change in fair value of acquisitions	Exceptional items**	Adjusting tax items	Adjusted basis
PBT (£m)	64.9	9.5	0.9	12.5	–	87.8
PAT* (£m)	49.3	9.5	0.9	12.5	(2.2)	70.0
EPS (FD) (p)	50.6	9.8	0.9	12.8	(2.3)	71.8

2021

Measure	Statutory Basis	Depreciation and amortisation on business combinations	Change in fair value of acquisitions	Exceptional items**	Adjusting tax 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

* 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 (2022: £65.4m; 2021: £68.3m) to calculate a figure for EBITDA (2022: £92.6m; 2021: £95.4m) 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 (2022: £105.1m; 2021: £95.4m).

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.

	2022 £m	2021 £m
Cash and cash equivalents	**94.6**	52.8
Borrowings (excluding IFRS16)	**(2.1)**	(3.3)
Net Cash	**92.5**	49.5

4. Changes in accounting policies

New standards, amendments and interpretations applied for the first time are shown below. There were no new standards, amendments or interpretations applied for first time that had a material impact on the Consolidated Financial Statements. The accounting policies set out in the 2022 Annual Report and Accounts have been applied consistently to both periods presented in these Consolidated Financial Statements:

- Amendments to IAS 16 - Property, Plant and Equipment — Proceeds before Intended Use
- Annual Improvements to IFRS Standards 2018–2020 (May 2020) - Reference to the Conceptual Framework
- Amendments to IFRS 3 (May 2020) - Reference to the Conceptual Framework
- Amendments to IAS 37 (May 2020) - Onerous Contracts - Cost of Fulfilling a Contract

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 and December 2021 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 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 61% (2021: 60%) 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% (2021: 24%) 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 Gamma DE GmbH (formerly HFO Holding GmbH) and its subsidiaries in Germany contributing 15% (2021: 16%) 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 Executive Committee to use for decision making. Management are reviewing the go-to-market segments and will start to report against the new segments during 2023.

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.

2022	UK Indirect £m	UK Direct £m	European £m	Central functions £m	Total £m
Segment revenue	320.5	116.4	73.4	–	510.3
Inter-segment revenue	(24.6)	(0.9)	(0.2)	–	(25.7)
Revenue from external customers	295.9	115.5	73.2	–	484.6
Timing of revenue recognition					
At a point in time	17.5	6.7	28.7	–	52.9
Over time (recurring)	278.4	108.8	44.5	–	431.7
	295.9	115.5	73.2	–	484.6
Gross profit	155.6	57.4	34.7	–	247.7
Operating expenses	(93.8)	(29.3)	(48.8)	(10.4)	(182.3)
Earnings before depreciation, amortisation and exceptional items	76.7	29.8	9.0	(10.4)	105.1
Exceptional items	–	–	(12.5)	–	(12.5)
Earnings before depreciation and amortisation	76.7	29.8	(3.5)	(10.4)	92.6
Depreciation and amortisation (excluding business combinations)	(12.7)	(1.3)	(3.7)	–	(17.7)
Amortisation arising due to business combinations	(2.2)	(0.4)	(6.9)	–	(9.5)
Profit/(loss) from operations	61.8	28.1	(14.1)	(10.4)	65.4

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	18.7	0.9	3.2	–	22.8
Reportable segment assets	295.7	49.6	61.5	–	406.8
Reportable segment liabilities	50.9	25.6	30.6	–	107.1

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

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.

	2022 £m	2021 £m
Commissions		
Capitalised	**1.5**	1.3
Amortised	**1.0**	2.2
Installation costs		
Capitalised	**1.7**	1.6
Amortised	**1.6**	1.7

There was £nil impairment loss in relation to the costs capitalised (2021: £nil).

7. Profit on ordinary activities

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

	2022 £m	2021 £m
Net foreign exchange	**(0.1)**	0.7
Research costs	**16.0**	14.8
Employee costs[1] (note 9)	**102.2**	96.5
Depreciation of property, plant and equipment	**9.5**	8.3
Depreciation on right of use assets	**2.8**	2.7
Amortisation of intangible assets (excluding business combinations)	**5.4**	6.6
Amortisation arising due to business combinations	**9.5**	9.5
Cost of inventories recognised as an expense[2]	**12.3**	11.9
Fees payable to the Group's auditor	**0.5**	0.4

1 Employee costs includes £13.6m (2021: £12.1) of costs included in research costs.

2 Included in the cost of inventory recognised as an expense is the movement of the provision of £0.2m.

7. Profit on ordinary activities continued

Fees payable to the Group's auditor for the audit of the Company and the consolidated financial statements totalled £536k (2021: £380k), which includes £91k (2021: £51k) principally in respect of the half-year review which is considered a non-audit service.

8. Exceptional items

	2022 £m	2021 £m
Impairment of goodwill[1]	**12.2**	–
Loss on disposal of subsidiary[2]	**0.3**	–
Total exceptional items	**12.5**	–

1 An impairment of the Spanish CGU has been recognised. This CGU has been impacted by the challenging local market economic conditions. It is anticipated that the achievement of future business performance targets may take longer than originally forecast as a result of the timing of growth in the Spanish UCaaS market. This, combined with the increase in discount rates has resulted in an impairment, see note 18. There is no tax impact of this item.

2 Relates to the sale of ComyMedia, previously part of the Spanish CGU, on 5 August 2022, see note 18. There is no tax impact of this item.

9. Employee costs

	2022 £m	2021 £m
Employee costs (including Directors) comprise:		
Wages and salaries	**80.4**	76.9
Defined contribution pension cost	**6.1**	5.4
Social security contributions and similar taxes	**11.4**	9.4
	97.9	91.7
Share-based payment expense (note 35)	**4.3**	4.8
	102.2	96.5

Employee costs are shown net of amounts capitalised of £10.3m (2021: £4.8m). 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:

	2022 Number	2021 Number
Operational	**899**	934
Selling, administration and distribution	**808**	737
	1,707	1,671

Key management personnel compensation

Key management personnel comprise the Executive Directors and the Executive Committee (listed on pages 56 to 57).

	2022 £m	2021 £m
Salary	**5.0**	4.5
Defined contribution pension cost	**0.2**	0.1
Social security contributions and similar taxes	**1.3**	1.0
	6.5	5.6
Share-based payment expense (note 35)	**2.8**	2.8
	9.3	8.4

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

	2022 £m	2021 £m
Salaries and fees	**2.4**	1.9
Social security contributions and similar taxes	**0.4**	0.3
	2.8	2.2
Share-based payment expense (note 35)	**1.5**	1.3
	4.3	3.5

During the year, the aggregate amount of gains made by the Executive Directors on the exercise of share options was £0.8m (2021: £2.6m).

The average number of employees in Gamma Communications plc during the financial year was four (2021: three).

During the year, two Executive Directors (2021: one) participated in a private money purchase defined contribution pension scheme.

10. Finance income

	2022 £m	2021 £m
Finance income		
Interest received on bank deposits	**0.8**	0.1
Total finance income	**0.8**	0.1

11. Finance expense

	2022 £m	2021 £m
Finance expense		
Lease liability interest costs	**(0.4)**	(0.5)
Unwinding of put option liability and contingent consideration	**(0.8)**	(0.5)
Interest on borrowings	**(0.1)**	(0.2)
Total finance expense	**(1.3)**	(1.2)

12. Tax expense

	2022 £m	2021 £m
Current tax expense		
Current tax on profits for the year	**13.7**	13.4
Adjustment in respect of prior year	**(0.4)**	0.6
Overseas tax	**1.1**	1.0
Total current tax	**14.4**	15.0
Deferred tax expense		
Origination and reversal of temporary differences	**(0.2)**	(1.7)
Adjustment in respect of prior years	**0.2**	(0.5)
Tax rate change	**1.0**	0.4
Total deferred tax (note 29)	**1.0**	(1.8)
Total tax expense	**15.4**	13.2

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:

	2022 £m	2021 £m
Profit before income taxes	**64.9**	67.2
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 19% (2021: 19%)	**12.3**	12.8
Effects of:		
Tax effect of expenses that are not deductible in determining taxable profit	**2.8**	0.2
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(0.2)**	(0.1)
Tax rate change	**1.0**	0.4
Other tax items	**(0.3)**	(0.2)
Adjustment in respect of prior year	**(0.2)**	0.1
Total tax expense	**15.4**	13.2

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

13. Earnings per share

	2022	2021
Earnings per Ordinary Share – basic (pence)	**51.1**	55.9
Earnings per Ordinary Share – diluted (pence)	**50.6**	55.2

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

	2022 £m	2021 £m
Profit attributable to the ordinary equity holders of the Company	**49.3**	53.6

Shares	No.	No.
Weighted average number of Ordinary Shares for basic earnings per share	**96,543,985**	95,894,913
Effect of dilution resulting from share options	**948,689**	1,166,725
Diluted weighted average number of Ordinary Shares	**97,492,674**	97,061,638

In 2022, as part of Gamma's acquisition of Gamma Holding GmbH (formerly HFO) the vendor reinvested £0.5m and purchased 44,558 Ordinary Shares.

Adjusted earnings per share is detailed below:

	2022	2021
Adjusted earnings per Ordinary Share – basic (pence)	**72.5**	64.8
Adjusted earnings per Ordinary Share – diluted (pence)	**71.8**	64.0

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

	2022 £m	2021 £m
Profit attributable to the ordinary equity holders of the Company	**49.3**	53.6
Amortisation arising on business combinations	**9.5**	9.5
Movement in fair value on put option liability and deferred consideration	**0.9**	0.5
Exceptional items (disposal of subsidiary)	**0.3**	–
Exceptional items (reduction in carrying value of goodwill)	**12.2**	–
Tax effect of adjusting items	**(2.2)**	(1.5)
Adjusted profit after tax for the year	**70.0**	62.1

14. Dividends

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

	2022 £m	2021 £m
Final dividend 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
Final dividend for the year ended 31 December 2021 of 8.8p per ordinary share	**8.5**	–
Interim dividend for the year ended 31 December 2022 of 5.0p per ordinary share	**4.8**	–
	13.3	11.7

A final dividend of 10.0p will be proposed at the 2023 Annual General Meeting but has not been recognised as it requires shareholder approval. The total amount of dividends proposed for the year ended 31 December 2022 is 15.0p. The payments of these dividends do not have any tax consequences for the Group.

15. Property, plant and equipment

	Land and buildings £m	Network assets £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost					
At 1 January 2022	4.5	78.7	12.3	2.4	97.9
Additions	0.2	5.5	1.0	0.1	6.8
Acquisition of subsidiary	–	–	0.1	–	0.1
Disposals	–	(16.7)	–	–	(16.7)
Disposal of subsidiary	–	–	(0.1)	–	(0.1)
Exchange difference	–	(0.1)	0.2	0.3	0.4
At 31 December 2022	**4.7**	**67.4**	**13.5**	**2.8**	**88.4**
Depreciation					
At 1 January 2022	0.3	50.3	9.0	1.5	61.1
Charge for the year	0.1	7.5	1.6	0.3	9.5
Disposals	–	(16.3)		–	(16.3)
Disposal of subsidiary			(0.1)		(0.1)
Exchange difference	(0.1)	0.3	0.2	–	0.4
At 31 December 2022	**0.3**	**41.8**	**10.7**	**1.8**	**54.6**
Net book value					
At 1 January 2022	4.2	28.4	3.3	0.9	36.8
At 31 December 2022	**4.4**	**25.6**	**2.8**	**1.0**	**33.8**

	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 subsidiary	–	–	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 23 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.

16. Right of use assets

	Land and buildings £m	Other £m	Total £m
Cost			
At 1 January 2022	15.1	1.5	16.6
Acquisition of subsidiary	–	–	–
Additions	1.8	0.3	2.1
Disposals	(0.9)	(0.6)	(1.5)
At 31 December 2022	**16.0**	**1.2**	**17.2**
Depreciation			
At 1 January 2022	5.7	0.7	6.4
Charge for the year	2.4	0.4	2.8
Disposals	(0.5)	(0.6)	(1.1)
At 31 December 2022	**7.6**	**0.5**	**8.1**
Net book value			
At 1 January 2022	9.4	0.8	10.2
At 31 December 2022	**8.4**	**0.7**	**9.1**

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.

Two replacement leases have been committed to in the year ended 31 December 2022 (2021: none).

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

17. Intangible assets

	Goodwill £m	Customer contracts £m	Brand £m	Development costs £m	Software £m	Total £m
Cost						
At 1 January 2022	91.8	47.6	2.2	28.1	18.5	188.2
Additions	–	–	–	13.1	0.8	13.9
Acquisition of subsidiaries	4.0	1.3	0.1	–	–	5.4
Disposal of subsidiaries	–	–	–	(0.2)	–	(0.2)
Disposals	–	–	(0.9)	(0.8)	–	(1.7)
Exchange difference	1.7	2.0	–	0.2	–	3.9
At 31 December 2022	**97.5**	**50.9**	**1.4**	**40.4**	**19.3**	**209.5**
Amortisation and impairment						
At 1 January 2022	8.7	20.2	0.9	14.8	14.3	58.9
Charge for the year	–	7.9	0.7	4.0	2.3	14.9
Impairment charge	12.2	–	–	–	–	12.2
Disposal of subsidiaries	–	–	–	(0.2)	–	(0.2)
Disposals	–	–	(0.9)	(0.8)	–	(1.7)
Exchange difference	(0.1)	1.0	–	0.2	–	1.1
At 31 December 2022	**20.8**	**29.1**	**0.7**	**18.0**	**16.6**	**85.2**
Carrying value						
At 1 January 2022	83.1	27.4	1.3	13.3	4.2	129.3
At 31 December 2022	**76.7**	**21.8**	**0.7**	**22.4**	**2.7**	**124.3**

In 2022 an impairment of the goodwill of the Spanish CGU was recognised, for more detail see note 8. Included in development costs are assets not yet in service of £10.2m (2021: £1.4m).

	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.

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

	2022 £m	2021 £m
UK Direct	**13.3**	13.3
UK Indirect	**40.0**	40.0
The Netherlands	**7.8**	7.3
Spain	**2.4**	14.0
NeoTel	**4.0**	–
Germany	**9.2**	8.5
Total	**76.7**	83.1

The carrying value of the Group's goodwill was tested for impairment at 30 September 2022 and 2021.

17. Intangible assets continued

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 key assumption for the UK, Spain and Netherlands cash-generating unit on which the impairment tests are based on is the short term growth rates which have a single figure growth. The long-term growth rates used were 2% (2021: 2%).

Post-tax discount rates increased from 2021 to 2022 as a result of macro economic conditions. The post-tax rates calculated were UK 9.1% (2021: 6.9%), The Netherlands 9.6% (2021: 7.0%), Spain 9.7% (2021: 8.9%) and Germany 9.3% (2021: 8.9%). The UK pre-tax discount rate is 11.9% (2021: 9.1%). The rate used for The Netherlands was 11.7% (2021: 9.4%), 10.5% for Spain (2021: 11.5%) and 12.5% (2021: 10.0%) for Germany. In 2022 the more accurate back solve method was used to calculate the pre-tax discount rate.

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 with the exception of the Spanish CGU where an impairment of £12.2m was recognised, for more detail see note 8.

Customer contracts include the following material balances at 31 December 2022:

- Gamma Communications Benelux B.V. and its subsidiaries, £5.8m (2021: £7.0m) carrying value with six years of amortisation remaining.
- VozTelecom Oigaa360 S.A.U. and its subsidiaries, £3.1m (2021: £4.3m) carrying value with three years of amortisation remaining.
- HFO Holding GmbH and its subsidiaries, £5.3m (2021: £7.2m) carrying value with three years of amortisation remaining.

Development cost includes technology acquired on acquisition of Mission Labs, £3.5m (2021: £4.2m) carrying value with six years of amortisation remaining. In addition, there is £7.5m (2021: £1.0m) relating to a technology platform.

18. Business combinations

Summary of acquisitions

On 11 October 2022, the Group acquired 100% of NeoTel 2000 S.L.U. ("NeoTel"). NeoTel is a leading developer of applications to manage cloud contact centres and enhance customer experience in the Spanish market.

The final fair value of identifiable assets acquired and liabilities assumed are as follows:

	Neotel £m
Tangible fixed assets	0.1
Intangible – customer contracts	1.3
Intangible – brand	0.1
Cash	0.2
Other receivables	0.3
Other payables	(0.4)
Deferred tax liability	(0.4)
Total identifiable assets	1.2
Add: Goodwill	4.0
Net assets acquired	5.2

	NeoTel £m
Satisfied by:	
Cash paid	4.5
Deferred consideration[1]	0.5
Contingent consideration[2]	0.2
Total	5.2

1 An amount equal to 10% of the initial purchase payment shall be retained for 18 months from closing date. Once the period has elapsed and provided that the retained amount has not been offset against the price adjustment or against claims or damages and losses the amount will be released to the seller.

2 Contingent consideration is based on the growth rate for the 12 month period ending 30 June 2023. Consideration of up to £3.1m may be payable. The fair value of £5.2m at acquisition is based on a payout of £0.2m which takes into account the weighted probability of expected payout.

Net cash outflow on acquisitions:

	NeoTel £m	Other £m	Total £m
Cash consideration	4.5	–	4.5
Less: cash acquired	(0.2)	–	(0.2)
Net outflow of cash for acquisitions in the year	4.3	–	4.3
Contingent consideration payments during the year	–	1.7	1.7
Put option liability payment in the year	–	3.8	3.8
Net outflow of cash – investing activities	4.3	5.5	9.8

Valuations of intangible assets
Customer contracts were valued under the Income Method and the Brand under the Relief-from-royalty methodology.

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

Acquired receivables
The fair value of acquired trade receivables for NeoTel was £0.0m. The gross contractual amount for trade receivables due is £0.0m.

Revenue and profit contribution
From the date of acquisition, NeoTel has contributed £0.5m of revenue and £0.0m of profit after taxation attributable to the equity holders of Gamma Communications plc. If the acquisition occurred on 1 January 2022, NeoTel would have contributed £2.0m revenue and £0.5m profit after taxation attributable to the equity holders of Gamma Communications plc. These amounts are unaudited.

Summary of Disposal
During the year ended 31 December 2022, the Group completed the disposal of ComyMedia for consideration of €1. The assets and liabilities disposed of were as follows:

	2022 £m
Inventories	**0.3**
Trade and other receivables	**0.7**
Cash and cash equivalents	**0.3**
Deferred tax asset	**0.3**
Trade and other payables	**(0.7)**
Bank loans	**(0.6)**
Net assets disposed	**0.3**
Consideration/Equity value	**–**
Loss on disposal	**0.3**

19. Inventories

	2022 £m	2021 £m
Raw materials and consumables	**10.2**	7.9

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

20. Trade and other receivables

	2022 £m	2021 £m
Trade receivables	**53.2**	46.1
Less: provision for impairment of trade receivables	**(7.6)**	(7.1)
Trade receivables – net	**45.6**	39.0
Contract assets	**42.6**	41.4
Prepayments	**31.2**	25.8
Other receivables	**3.0**	6.5
Total trade and other receivables	**122.4**	112.7
Of which:		
Due within one year	**109.4**	98.4
Due after more than one year	**13.0**	14.3

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

20. Trade and other receivables continued

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

	2022 £m	2021 £m
At 1 January	**7.1**	6.4
Provided during the year	**0.7**	0.9
Receivable written off during the year as uncollectible	**(0.2)**	(0.2)
At 31 December	**7.6**	7.1

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:

	2022 £m	2021 £m
Not due	**3.0**	0.7
Up to 3 months	**1.9**	1.8
3 to 6 months	**0.3**	1.9
6 to 12 months	**0.4**	0.3
Older than 1 year	**2.0**	2.4
	7.6	7.1

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.

	2022 £m	2021 £m
Up to 3 months	**6.3**	7.9
3 to 6 months	**1.8**	0.5
6 to 12 months	**0.6**	0.1
Older than 1 year	**0.1**	–
	8.8	8.5

21. Cash and cash equivalents

	2022 £m	2021 £m
Cash at bank	**50.3**	38.3
Short-term deposits	**44.3**	14.5
Total cash and cash equivalents	**94.6**	52.8

22. Trade and other payables

	2022 £m	2021 £m
Current and non-current		
Trade payables	**9.5**	5.7
Other payables	**4.7**	5.6
Accruals – Cost of sales	**10.8**	10.3
Accruals – Operating expenses (excluding payroll)	**10.7**	8.9
Accruals – Payroll (excluding tax and social security)	**12.4**	11.6
Tax and social security	**5.3**	4.5
Deferred income	**3.3**	3.5
Total trade and other payables	**56.7**	50.1
Book values approximate to fair value at 31 December		
Of which:		
Due within one year	**54.0**	48.1
Due after more than one year	**2.7**	2.0

23. Borrowings

	2022 £m	2021 £m
Secured		
Bank loans	**1.7**	1.8
Total secured borrowings	**1.7**	1.8
Unsecured		
Bank loans	**0.2**	1.0
Other borrowings	**0.2**	0.5
Total unsecured borrowings	**0.4**	1.5
Total borrowings	**2.1**	3.3
Of which:		
Current	**0.4**	0.8
Non-current	**1.7**	2.5

	2022 £m	2021 £m
At 1 January	**3.3**	5.9
Disposal of subsidiaries	**(0.6)**	–
Repayments of borrowings	**(0.7)**	(2.3)
Exchange difference	**0.1**	(0.3)
At 31 December	**2.1**	3.3

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

Of the bank loans, £1.7m (2021:£1.8m) are secured on the Group's land and buildings.

Maturity analysis of borrowings is shown in note 30.

24. Lease liabilities

	2022 £m
At 1 January 2022	**11.9**
Acquisition of subsidiary	**–**
Additions	**1.8**
Disposals	**(0.5)**
Repayments	**(2.8)**
Finance expense	**0.4**
Exchange differences	**0.3**
At 31 December 2022	**11.1**

	2022 £m	2021 £m
Lease liabilities included in the statement of financial position at 31 December		
Current	**2.5**	2.1
Non-current	**8.6**	9.8
	11.1	11.9
Amounts recognised in the statement of comprehensive income		
Interest expense on lease liabilities	**0.4**	0.3
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 £2.8m (2021: £3.1m).

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 2022 (2021: £nil).

Maturity analysis of leases representing undiscounted contractual cash flows is detailed below:

	2022 £m	2021 £m
Less than 1 year	**2.6**	2.4
Between 1 and 5 years	**6.9**	8.2
Over 5 years	**2.5**	2.7

25. Provisions

	Leasehold dilapidation provision £m	Onerous contracts £m	Other provisions £m	Total £m
At 1 January 2022	1.1	0.3	0.6	2.0
Additional provision in the year	0.3	0.1	–	0.4
Utilisation of provision	(0.1)	(0.3)	(0.4)	(0.8)
At 31 December 2022	**1.3**	**0.1**	**0.2**	**1.6**
Of which:				
Due within one year				0.7
Due after more than one year				0.9

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.

26. Contract liabilities

	2022 £m	2021 £m
Contract liabilities	**17.0**	17.4

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:

	2022 £m
At 1 January 2022	**17.4**
Additions	**11.5**
Amortisation	**(11.9)**
At 31 December 2022	**17.0**

The amount of revenue recognised in 2022 for performance obligations satisfied (or partially satisfied) in previous periods is £nil (2021: £nil).

27. Contingent consideration

	2022 £m	2021 £m
Current	**3.5**	2.6
Non-current	**1.5**	3.7
	5.0	6.3

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

	Exactive £m	Voz Telecom £m	Mission Labs £m	NeoTel £m	Total £m
1 January 2022	0.9	0.2	5.2	–	6.3
Acquisition of subsidiary	–	–		0.2	0.2
Contingent consideration paid	–	(0.1)	(1.6)	–	(1.7)
Adjustment to contingent consideration	–	(0.1)	0.3	–	0.2
31 December 2022	0.9	–	3.9	0.2	5.0

Contingent consideration for Exactive was based on the EBITDA performance for 2021.

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 2022 and 2023. Consideration of up to £4.4m may be payable. The fair value of £3.9m at 31 December 2022 is based on a payout of £4.1m which takes into account the weighted probability of payout.

Contingent consideration for NeoTel is based on gross profit for the period July 2022 to July 2023, consideration of up to £3.1m may be payable. The fair value of £0.2m at 31 December 2022 is based on a payout of £0.2m which takes into account the weighted probability of expected payout.

28. Put option liability

	2022 £m	2021 £m
Current	**1.8**	3.4
Non-current	**–**	2.3
	1.8	5.7

The Group has an option to acquire the remaining 3.95% of the shares in Gamma Holding GmbH, formerly HFO Holding GmbH, (which are held by management). This is based on growth targets on cloud seats in 2022, as well as certain financial metrics. This additional consideration will in aggregate be between €1.5m and €4.5m and will be payable in cash. This has been included as a put option liability based on the estimated gross obligation.

29. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using the tax rate at which it is expected to unwind, being 25% (2021: 25%) for UK companies.

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

	2022 £m	2021 £m
Net liability at 1 January	**(3.0)**	(3.3)
Tax charge recognised in profit or loss	**(1.0)**	1.8
Recognised directly in equity	**(1.1)**	(0.7)
Tax arising on acquisition and disposal	**(0.6)**	(1.4)
Exchange difference	**(0.1)**	0.6
Net liability at 31 December	**(5.8)**	(3.0)

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:

2022	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	–	(4.6)	(4.6)	(3.1)	–
Other temporary and deductible differences	4.0	–	4.0	(0.1)	–
Deferred tax on share options	1.5	–	1.5	0.1	(1.1)
Deferred tax on acquisition of subsidiaries	–	(6.7)	(6.7)	2.1	–
Deferred tax asset/(liability)	5.5	(11.3)	(5.8)	(1.0)	(1.1)

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)

30. Financial instruments

Financial assets

	2022 £m	2021 £m
Cash and cash equivalents	**94.6**	52.8
Trade receivables – net	**45.6**	39.0
Contract assets	**42.6**	41.4
Other receivables	**3.0**	6.5
Financial assets at amortised cost	**185.8**	139.7

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December 2022 was £185.8m (2021: £139.7m).

30. Financial instruments continued

Financial liabilities

	2022 £m	2021 £m
Trade payables	**9.5**	5.7
Other payables	**4.1**	5.6
Accruals – Cost of sales	**10.8**	10.3
Accruals – Operating expenses (excluding payroll)	**10.7**	8.9
Accruals – Payroll (excluding tax and social security)	**12.4**	11.6
Lease liabilities	**11.1**	11.9
Borrowings	**2.1**	3.3
Financial liabilities at amortised cost	**60.7**	57.3

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

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
2022	43.6	5.0	1.5	–
2021	40.9	2.7	1.8	–

Fair value of financial instruments

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.

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

Financial liabilities	2022 £m	2021 £m
Contingent consideration (note 27)	**5.0**	6.3
Put option liability (note 28)	**1.8**	5.7

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) Mission Labs (£3.9m) and Neotel (£0.2m). Please refer to note 27 for further details.

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.

31. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, market risk (including foreign exchange risk and interest rate risk), and liquidity risk. 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 Executive Committee. The Board receives monthly reports from the Executive Committee through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or banking institution fails to meet its contractual obligations.

Trade receivables

Credit risk relating to trade receivables is managed on a Group basis. It is Group policy, implemented locally, to assess the credit risk of new customers before entering into contracts. The Group's review includes external ratings where available. If there is no independent rating, risk control processes assess the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set by the Credit Committee, based on internal or external ratings. The utilisation of credit limits is regularly monitored. 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. Expected impairment for trade receivables is calculated based on historical default rates. Details of this provision are shown in note 22. At the reporting date does not expect any losses from non-performance by the counterparties in addition to those already provided against

Cash and cash equivalents
For banks and financial institutions, only independently rated parties with a credit rating above medium-grade are accepted, 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 Gamma 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 2021 and 31 December 2022 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.

Cash flow hedges
At 31 December 2022, the Group had foreign exchange contracts outstanding designated as hedges of future purchases from suppliers outside the UK for which the Group have firm commitments.

	Foreign currency m	Average rate	Pounds Sterling £m
Foreign currency bought			
US Dollar	4.5	1.1858	3.8

The terms of the forward exchange contracts have been negotiated to match the terms of the commitments.

The cash flow hedge of expected future purchases was assessed to be effective and an unrealised loss of £0.1m relating to the hedging instrument is included in other comprehensive income.

Timing of cash outflows/(inflows) relating to foreign currency is as follows:

	1 – 6 months	7 – 12 months
Foreign currency in millions		
US Dollar	3.4	1.1

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 £2.1m 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.

Capital risk management

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.

31. Financial risk management continued

	2022 £m	2021 £m
Borrowings (note 23)	**(2.1)**	(3.3)
Lease liabilities (note 24)	**(11.1)**	(11.9)
Cash and cash equivalents (note 21)	**94.6**	52.8
Total equity	**299.8**	254.2
Capital	**381.2**	291.8

32. Capital commitments

As at 31 December 2022, amounts contracted for but not provided in the financial statements amounted to £nil for the Group (2021: £nil).

33. Share capital

At 31 December the share capital was as follows:

	2022 Number	2022 £m	2021 Number	2021 £m
Authorised, allotted and fully paid				
Ordinary Shares of £0.0025 each	**96,847,301**	**0.2**	96,323,054	0.2

Ordinary Share movement in the year is as follows:

	Number	Notes
As at 1 January 2022	96,323,054	
January	5,291	(a)
March	10,516	(a)
April	14,401	(a)
June	13,591	(a)
July	264,824	(a)
July	44,558	(b)
September	91,911	(a)
October	43,264	(a)
November	11,655	(a)
December	24,236	(a)
As at 31 December 2022	**96,847,301**	

(a) Ordinary shares were issued to satisfy options which had been exercised.

(b) Ordinary shares were issued to a certain vendor of Gamma DE, formerly HFO Holding GmbH, as a result of reinvestment in Gamma.

34. Other reserves

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 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
1 January 2022	2.3	7.1	(4.2)	(0.7)	4.5
Issue of shares	–	(2.7)	–	–	(2.7)
Share-based payment expense	–	4.3	–	–	4.3
Other comprehensive income	–	–	2.9	–	2.9
31 December 2022	**2.3**	**8.7**	**(1.3)**	**(0.7)**	**9.0**

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.

35. Share-based payment expense

Share options granted

On 31 March 2022, the Board approved awards under the Deferred Bonus Plan for the senior management team. 14,042 options were granted over £0.0025 Ordinary Shares at an exercise price of £0.0025 per share which will vest on 31 March 2025. 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 2022.

On 31 March 2022 and 6 May 2022, the Board approved awards under the long-term incentive plan for the Executive Directors. 243,017 and 42,763 options were granted over £0.0025 Ordinary Shares at an exercise price of £0.0025 per share which will vest on 1 April 2025 subject to performance conditions. The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2022.

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 25 March 2022 the Board approved an issue of options under the Company Share Option Plan which granted 266,330 options over £0.0025 Ordinary Shares at an exercise price of £13.24. These will vest in May 2025.

On 6 May 2022 the Board approved an issue of options under a Save As You Earn scheme which granted 257,201 options over £0.0025 Ordinary Shares at an exercise price of £10.40. These options will vest in July 2025.

The weighted average fair value of awards granted during the year was £4.98 (2021: £6.93).

35. Share-based payment expense continued

Share options movements

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

The options below were exercised at a weighted average share price of £11.16, and weighted average exercise price of £5.29, and the weighted average exercise price of share options exercisable at 31 December 2022 was £7.68.

2022 Date of grant	Start of year	Granted	Forfeited/ Cancelled	Exercised	End of year	Exercise price	Class of share	Notes
8 May 2015	10,309	–	–	(2,000)	8,309	£2.7000	Ordinary	(a)
15 April 2016	2,294	–	–	–	2,294	£4.3575	Ordinary	(a)
5 April 2017	23,439	–	–	(2,020)	21,419	£4.9325	Ordinary	(a)
8 May 2018	1,457	–	(550)	(907)	–	£5.5520	Ordinary	(a)
23 May 2018	77,293	–	–	(18,529)	58,764	£7.3400	Ordinary	(a)
8 May 2019	298,433	–	(7,777)	(267,435)	23,221	£8.2800	Ordinary	(a)
13 May 2019	128,654	–	(6,438)	(10,634)	111,582	£10.9000	Ordinary	(a)
3 June 2019	217,590	–	(56,314)	(161,276)	–	£0.0025	Ordinary	(a)
20 September 2019	3,422	–	(901)	(2,521)	–	£0.0025	Ordinary	(a)
22 November 2019	9,209	–	–	(9,209)	–	£0.0025	Ordinary	(a)
28 April 2020	292,486	–	(37,713)	(2,861)	251,912	£8.000	Ordinary	(b)(o)
7 May 2020	181,188	–	(14,403)	(2,041)	164,744	£12.6500	Ordinary	(c)(o)
14 September 2020	237,301	–	(2,357)	–	234,944	£0.0025	Ordinary	(d)
14 September 2020	18,310	–	–	–	18,310	£0.0025	Ordinary	(e)
1 April 2021	168,490	4,651	(16,289)	–	156,852	£0.0025	Ordinary	(f)
1 April 2021	11,405	–	–	–	11,405	£0.0025	Ordinary	(g)
6 May 2021	174,186	–	(22,243)	–	151,943	£17.9600	Ordinary	(h)
7 May 2021	145,856	–	(73,715)	(112)	72,029	£14.1120	Ordinary	(i)(o)
25 March 2022	–	266,330	(13,764)	–	252,566	£13.2400	Ordinary	(j)
31 March 2022	–	14,042	–	–	14,042	£0.0025	Ordinary	(k)
31 March 2022	–	243,017	(42,601)	–	200,416	£0.0025	Ordinary	(l)
6 May 2022	–	42,763	–	–	42,763	£0.0025	Ordinary	(m)(o)
6 May 2022	–	257,201	(22,628)	(144)	234,429	£10.4000	Ordinary	(n)

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 2020.

(c) The awards granted will have a performance period of three years starting from the grant date, being 7 May 2020.

(d) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2020.

(e) The awards granted will vest in full on the third anniversary of the vesting commencement date, being 31 March 2020.

(f) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2021.

(g) The awards granted will vest in full on the third anniversary of the vesting commencement date, being 1 April 2021.

(h) The awards granted will vest in full on the third anniversary of the vesting commencement date, being 6 May 2021.

(i) The awards granted will vest in full on the third anniversary of the vesting commencement date, being 1 July 2021.

(j) The awards granted will vest in full on the third anniversary of the vesting commencement date, being 25 March 2022.

(k) The awards granted will vest in full on the third anniversary of the vesting commencement date, being 31 March 2022.

(l) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2022.

(m) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2022.

(n) The awards granted will vest in full on the third anniversary of the vesting commencement date, being 1 July 2022.

(o) 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 (2021: none).

Apart from the options noted as exercisable, all other options above are outstanding. The share options outstanding at 31 December 2022 represented 2% of the issued share capital as at that date (2021: 2%) and would generate additional funds of £15.6m (2021: £14.4m) if fully exercised. The weighted average remaining life of the share options was 15 months (2021: 15 months), with a weighted average remaining exercise price of £7.68 (2021: £7.21).

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 £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	£0.0025	Ordinary	(d)
20 September 2019	3,422	–	–	–	3,422	£0.0025	Ordinary	(d)
1 October 2019	4,183	–	(1,194)	(2,989)	–	£0.0025	Ordinary	(d)
22 November 2019	9,209	–	–	–	9,209	£0.0025	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	£0.0025	Ordinary	(g)
14 September 2020	18,310	–	–	–	18,310	£0.0025	Ordinary	(h)
1 April 2021	–	178,320	(9,830)	–	168,490	£0.0025	Ordinary	(i)
1 April 2021	–	11,405	–	–	11,405	£0.0025	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.

35. Share-based payment expense continued

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:

	2022 £m	2021 £m
Share options issued to key management	**2.8**	2.8
Share options issued to other employees	**1.5**	2.0
Total share-based payment expense	**4.3**	4.8

Included within the total share-based payment expense of £4.3m (2021: £4.8m) is National Insurance of £0.0m (2021: £0.7m).

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.

	2022 £m	2021 £m
Share price at grant date (pence)	**1142 – 1356**	1700 – 1798
Exercise price (pence)	**0.25 –1324**	0.25 – 1796
Expected volatility	**28.5 – 29%**	28%
Risk–free rate	**0.1430 – 0.1580%**	0.1357 – 0.1730%
Expected dividend yield	**0.0 – 1.16%**	0.0 – 0.6%

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 2022 and 2021.

36. Subsidiaries

The Company's subsidiaries at 31 December 2022 are detailed below.

Name	Registered Address	Country	Ownership %	Class
CircleLoop Limited	The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF	United Kingdom	100%	Ordinary shares
Epsilon Telecommunications GmbH	Ziegeleistraße 2, 95145, Oberkotzau, Germany	Germany	96.05%	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
Gamma Development Poland Sp. Zoo. (formerly Exactive Poland sp. zoo.)	ul. Abrahama 1A, 80-307 Gdańsk, Poland	Poland	100%	Ordinary shares
Gamma Business Communications Limited	The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF	United Kingdom	100%	Ordinary shares
Gamma Business Services BV	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: The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF	Netherlands	100%	Ordinary shares
Gamma Communications Germany GmbH	Ziegeleistraße 2, 95145, Oberkotzau, Germany	Germany	100%	Ordinary shares
Gamma Communications Ireland Limited	6th Floor, 2 Grand Canal Square, Dublin, Ireland	Ireland	100%	Ordinary shares
Gamma Communications Nederlands BV	Krijgsman 12 1186DM Amstelveen, the Netherlands	Netherlands	100%	Ordinary shares
Gamma Development KfT	Futo utca 37-45, 1082 Budapest, Hungary	Hungary	100%	Ordinary shares
Gamma Europe Holdco Limited	The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF	United Kingdom	100%	Ordinary shares
Gamma Group Holdings Limited	The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF	United Kingdom	100%[1]	Ordinary shares
Gamma Network Solutions Limited	The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF	United Kingdom	100%	Ordinary shares
Gamma Telecom Holdings Limited	The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF	United Kingdom	100%	Ordinary and B1 shares
Gamma Telecom Limited	The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF	United Kingdom	100%	Ordinary shares
Gamma Telecomunicaciones Spain Holdings SL	Avda. Universitat, 3, 1B, 08290 Cerdanyola del Vallés, Spain	Spain	100%	Ordinary shares
gnTel GmbH	Stadttor 1, 40219 Dusseldorf, Germany	Germany	100%	Ordinary shares
Gamma Holding GmbH	Ziegeleistraße 2, 95145, Oberkotzau, Germany	Germany	96.05%	Ordinary shares
Gamma Communications GmbH	Ziegeleistraße 2, 95145, Oberkotzau, Germany	Germany	96.05%	Ordinary shares
Mission Labs Limited	The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF	United Kingdom	100%	A, B, C, D ordinary shares
NeoTel 2000 S.L.U.	Calle Fiscal Luís Portero Garcia, 3, 7º, 1ª,Oficina 1A - 29010 Malaga, Spain	Spain	100%	Ordinary shares
Telsis Communications Services Limited	The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF	United Kingdom	100%	Ordinary shares
Telsis Direct Limited	The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF 7RD	United Kingdom	100%	Ordinary shares
Telsis GmbH	Robert-Bosch-Straße 7, 64293 Darmstadt, Germany	Germany	100%	Ordinary shares
Telsis Services Limited	The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF	United Kingdom	100%	Ordinary shares
Gamma Managed Services Limited (formerly Uniworld Bureau Services Limited)	The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF	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	Avda. Universitat, 3, 1B, 08290 Cerdanyola del Vallés, 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.	Avda. Universitat, 3, 1B, 08290 Cerdanyola del Vallés, Spain	Spain	100%	Ordinary shares
VozTelecom Puntos de Servicio SLU	C/Marie Curie, 7 Beta Building, office 6.1 Rivas Vacia Madrid 28521 Madrid Spain	Spain	100%	Ordinary shares

1 Directly held by the Company.

36. Subsidiaries continued

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

The Group also consolidates the Gamma Communications plc SIP Trust.

Through the acquisition of the Voz Telecom Group, the Group acquired a 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.

37. Related party transactions

Details of key management's remuneration are given in note 9.

Dividends of £0.02m (2021: £0.04m) were paid to Directors during the year and no dividends were payable to Directors at the year end.

During the year, £3.7m was paid to a member of key management personnel who holds a non-controlling interest in Gamma Holding GmbH (formerly HFO Holding GmbH). There are future commitments with this party, details of which can be found in note 28.

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

38. 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 2022

	Notes	2022 £m	2021 £m
Assets			
Non-current assets			
Investments	3	**24.5**	19.9
Other receivables	4	**–**	19.3
		24.5	39.2
Current assets			
Other receivables	4	**2.8**	0.3
Cash and cash equivalents		**65.3**	27.2
		68.1	27.5
Total assets		**92.6**	66.7
Creditors: amounts falling due within one year	5	**(16.7)**	(1.4)
Net assets		**75.9**	65.3
Capital and reserves			
Called up share capital	6	**0.2**	0.2
Share premium account		**18.0**	14.9
Share option reserve		**24.5**	19.9
Profit and loss account		**33.2**	30.3
Shareholders' funds		**75.9**	65.3

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 profit in respect of the Company for the year was £16.2m (2021 loss: £4.3m).

The financial statements of Gamma Communications plc (registered number 08943488) on pages 131 to 134 were approved and authorised for issue by the Board of Directors on 20 March 2023 and were signed on its behalf by:

Bill Castell
Chief Financial Officer

The notes on pages 133 to 134 form part of these financial statements.

Company statement of changes in equity
For the year ended 31 December 2022

	Notes	Share capital £m	Share premium reserve[1] £m	Share option reserve[1] £m	Profit and loss account £m	Total equity £m
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 January 2022		0.2	14.9	19.9	30.3	65.3
Dividends paid	7	–	–	–	(13.3)	(13.3)
Share-based payments		–	–	4.6	–	4.6
Issue of shares		–	3.1	–	–	3.1
Transaction with owners		–	3.1	4.6	(13.3)	(5.6)
Profit for the year		–	–	–	16.2	16.2
Total comprehensive income		–	–	–	16.2	16.2
31 December 2022		**0.2**	**18.0**	**24.5**	**33.2**	**75.9**

1 These reserves are not distributable.

The notes on pages 131 to 134 form part of these financial statements.

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 The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF. 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 £3.8m (2021: £4.3m).

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.

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

	2022 £m	2021 £m
At 1 January	**19.9**	15.9
Transfer of ownership of subsidiary[1]	**–**	(0.2)
Capital contributions arising from share-based payments	**4.6**	4.2
At 31 December	**24.5**	19.9

[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 36 to the consolidated financial statements.

4. Other receivables

	2022 £m	2021 £m
Amounts due from Group undertakings	**0.7**	19.3
Prepayments	**0.2**	0.3
Current tax asset	**1.9**	–
	2.8	19.6

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

5. Creditors: amounts falling due within one year

	2022 £m	2021 £m
Amounts due to Group undertakings	**14.9**	–
Accruals	**1.8**	1.4
	16.7	1.4

6. Called up share capital

Details of the share capital and movement during the year are given in note 33 to the consolidated financial statements.

7. Dividends paid

Details of the dividends paid during the year are given in note 14 to the consolidated financial statements.

8. Contingent liabilities

The Company had no contingent liabilities at 31 December 2022 or 31 December 2021.

9. Capital commitments

The Company had no capital commitments at 31 December 2022 or 31 December 2021.

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 37 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.