

Annual Report and unaudited Financial Statements Gamma Telecom Ltd

For the year ended 31 December 2021



Company No. 04340834

Company information

Company registration number 04340834 (England and Wales)

Registered office 5 Fleet Place
London
England
EC4M 7RD

Directors A S J Belshaw
M C Goddard
A G Taylor

Company secretary M C Goddard

Index

	Page(s)
Strategic report	3 - 10
Directors' report	11 - 12
Statement of comprehensive income	13
Statement of financial position	14
Statement of changes in equity	15
Notes to the financial statements	16 - 32

Strategic Report

Principal activities and business review

Gamma Telecom Ltd (“the Company”) is a company incorporated in the United Kingdom under the Companies Act. The Company is a private company limited by shares and is registered in England and Wales. The address of the Company’s registered office is shown on page 1.

The Company is principally engaged in the provision of communications and software services for business.

Strategy

The Company’s strategy is to continue to grow both its market share and profitability by developing new innovative communications products for organisations, including Unified Communications as a Service (UCaaS).

Financial overview

Key performance indicators

	2021	2020	Change
	£ 'm	£'m	£'m
Turnover	311.1	289.4	21.7
Gross profit	156.1	144.8	11.3
Gross margin	50.2%	50.0%	0.1%
Profit before taxation	60.1	47.4	12.7

The growth and improvement in Turnover and Gross Profit/Margin metrics were contributed to by an increase in the number of channel partners and growth in existing product sales levels/new business to our existing channel partner base.

The directors are pleased with the strong performance during the year and believe the Company is well placed to continue this growth.

Operating costs

The Company’s operating expenses decreased by £1.4m to £95.7m in 2021 (2020: £97.1m). In 2021 Gamma Telecom Ltd was charged £28.5m (2020: £27.1m) by its parent company Gamma Telecom Holdings Limited for the use of the network assets.

Strategic Report (continued)

The directors set out the principal risks facing the business as follows:

Unplanned service disruption

Description

Reliable, high-quality business communications services are critical to Gamma and are the core components of its products and strategy. Therefore, maintaining very high levels of service availability is central to Gamma's credibility, competitive positioning and its financial performance. This is particularly so as it serves the business market, and any disruption to Gamma's service affects the ability for its customers to provide services.

Potential impact

If Gamma's products and services perform below our customers' expectations, then this could have a direct impact on product and revenue growth through reputational impact and could also result in significant financial loss.

Mitigating actions

Gamma operates a comprehensive operational governance framework to manage the availability and performance of its services. This includes the design and architecture of the network for resilience, capacity planning, change management and security.

Business continuity planning and rehearsals are routine components of the governance framework. This governance is subject to external audit via the ISO 22301 certification.

Regular reviews take place with key suppliers and there is an internal fortnightly 'Supplier Management Meeting' chaired by Gamma's procurement team, which seeks to improve supplier performance as well as address risks as they arise.

There is a mature Incident Management process that is rehearsed on a regular basis. This capability is available 24x7x365 and ensures the business can respond immediately to events that may impact the performance of the services provided to customers.

The Company has established an Emergency Communications Committee as part of the communications process which is initiated during any major service incident. This committee ensures that the Company maintains effective communication both internally and externally with customers, suppliers and where necessary the media and regulatory bodies (the latter supported by specialist agencies). This process is normally rehearsed at least once a year and was last tested during the heightened cyber security threat in mid-2021.

Gamma recognises that occasional technology failures cannot be avoided and are more open to this risk when it comes to the deployment of new products at pace to maintain a competitive advantage.

Data loss and cyber attacks

Description

By its very nature, Gamma's network infrastructure provides customers with open access to the internet and global voice networks. As such there is a risk from cyber threat and telephony fraud, as well as to the physical infrastructure. Cyber attacks are constantly evolving, and Gamma recognises that it could be a target for both sophisticated targeted attackers as well as nuisance attackers. Gamma may also be targeted based on the downstream services provided to key sectors within the UK and European markets or may also be subject to potential breaches of security within its supply chain. Gamma holds various types of data and its network carries customer communications, which heightens the risk of data related attacks.

Strategic Report (continued)

Data loss and cyber attacks (continued)

Potential impact

A breach of security could have a significant impact on the Company's reputation and in some cases also impact its commercial position. Potential fines could also be enforced if the Company was found to be in breach of its obligations relating to various regulations.

Mitigating actions

Gamma continues to adapt its governance structure to ensure best practice is followed in the identification and management of information and cyber security threats. This includes increased frequency and broadened scope of both routine and bespoke penetration testing; continuous compliance checks; integrated security behaviours training, which is mandatory for all employees; dedicated security roles to track how cyber threats are evolving and are best detected; and Board visibility of the maturity of the governance structure.

Gamma's core infrastructure and operations is certified under ISO 27001 for security.

Gamma carefully considers the cost vs benefit when it comes to investing in controls against cyber attacks, as well as how its peers are approaching this risk. Targeted investments are made in preventative, detective and responsive controls but it is accepted that some service disruption resulting from cyber attacks is possible.

A large proportion of the Gamma workforce has continued to work remotely in 2021, and Gamma has invested in automated data controls to limit the chance of data leakage as well as continuing with an online awareness training package adapted to focus on security threats relevant to remote working.

The Company is represented in various industry forums to ensure it is aware of emerging risk, methods employed by malicious actors and best practice in the identification and mitigation of cyber risk.

The Company also has fraud management applications used to identify unusual voice traffic patterns quickly with its 24/7 operational monitoring.

Over-reliance on suppliers

Description

The business relies on a number of key suppliers to provide elements of its products and services. For example, access circuits purchased from other operators to connect to customer premises, and equipment from various hardware and software suppliers that facilitate the provision of Gamma's services.

Potential impact

Failure of one of these suppliers to perform may have an impact on the Company's ability to deliver products and services within the UK and European markets. Due to the nature of the services provided over-reliance may result in unplanned service interruptions or inability to provide equipment required to provide services. The latter has materialised in 2021 with the global shortage of chipsets.

Mitigating actions

Where possible, the business avoids significant reliance on suppliers, reducing the potential for operational issues or resulting in Gamma's inability to react to market and customer developments. Gamma is more tolerant when it comes to reliance on dominant "tech suppliers" as their risk profile is lower and working with them is essential in certain selected market or product segments.

Strategic Report (continued)

Over-reliance on suppliers (continued)

Suppliers of important services are monitored carefully and are subject to regular performance reviews which include adherence to Gamma's information security requirements and broader service KPIs. The Risk Committee reviews the most significant risks and the status of related mitigation actions quarterly. Recognising the global shortage of chipsets in the supply chain during 2021, Gamma invested in over £5m of stock which ensures that the Company is well positioned to continue to provide product hardware to its customers. In addition, new hardware options have also been introduced into the Gamma portfolio so that the Company can ensure continuity of service to customers and partners should key stock lines become scarce.

Inability to attract and retain top talent

Description

The business has grown rapidly over the last few years and so far, has experienced low staff turnover, and has generally been able to develop or recruit the number and quality of staff required to support Gamma's strategic development.

There is a risk to continued growth, product portfolio expansion and entry into new markets, if the business cannot attract, develop and retain people of the required skill and experience.

The COVID-19 pandemic has intensified the market demand for UCaaS skills and as this market continues to accelerate, it will become increasingly important to differentiate the Company's business and brand to continue to attract new talent to Gamma.

Potential impact

Loss of key individuals or an inability to recruit the required quantity or quality of people could have an impact on the future growth of the business or the quality of services provided. For instance, in order for the business to achieve its strategic priorities, it is dependent upon recruiting and retaining highly skilled technical development and operational people with experience of modern technologies and design principles.

Mitigating actions

Gamma has a well-established reputation for being a good employer. Gamma encourages internal promotions with external hires in specialist areas, Gamma recognises the need for strong mitigation activities including appropriate value and reward propositions supported by performance management systems. In order to attract new technology focused skills, the Company has launched a technology careers webpage, demonstrating the different roles within Gamma and showcasing its existing talent.

Employee satisfaction is measured formally every six months using the Gamma Pulse survey. Anonymous feedback is provided through this platform which has enabled managers to act more swiftly to reinforce positive trends and tackle any negative sentiment.

Gamma sees the opportunity that flexible working provides as part of its employee value proposition and in 2021 established a flexible work framework which will be open to all its employees from 2022.

Additionally, the Company is committed to regularly reviewing the employee rewards package to ensure that it remains competitive for existing staff and attractive for new starters. The Company is committed to its People Agenda, with focus on development and leadership programmes, succession planning, employee wellbeing, developing our diversity, charitable giving, as well as effective employee engagement initiatives.

Strategic Report (continued)

Uncertain competitive landscape

Description

The lack of a clear view of the competitive landscape and Gamma's future positioning within the market could result in Gamma being unable to identify new entrants or potential competitive threats and respond accordingly. These threats could include for example, new market entrants such as software firms, disruptive technologies and competitive market consolidation.

Potential impact

These factors may impact Gamma's position in the market due to the loss of its customers and growing competition may dilute the addressable market and slow down the rate of business growth. If the Company does not at least keep pace with the evolving market in terms of product and service development, then its plans for revenue growth may be negatively impacted.

Mitigating actions

Gamma is not an innovator of novel products but a "fast follower" and seeks to address growing markets tailoring products for the target market quickly. However, in light of the changing competitive landscape close monitoring is required to remain relevant and competitive and it is accepted that Gamma will likely need to become more disruptive and innovative in selected segments going forward.

Gamma aims to provide products and supporting services which are more attractive to its customers than those of its competitors. The planning, development and marketing of products and customer service that Gamma provides are closely aligned to the evolution of market demand and of relevant technologies.

Market insight is gathered, both through recognised industry and market experts, and internal analysis. This insight informs decision making and execution plans across multiple time horizons.

In addition, the Company undertakes a thorough strategic review every three years and in 2021 Gamma 'stress-tested' its UCaaS strategy considering the market changes and evolving competitive landscape. This has driven complementary strategies to continue to grow market share within its UK and European geographies.

Price erosion

Description

Gamma could be exposed to increasing pricing pressure in its existing markets. This could be due to factors such as market consolidation, increased competition or the commoditisation of its products. Whilst Gamma focus' on its UCaaS strategy, it continues to benefit from its position within more mature markets within the UK such as SIP trunking where price erosion could become more prevalent.

Potential impact

Price erosion may not be comparable with Gamma's cost base as the Company grows, which may impact margins achieved. This may ultimately impact Gamma's profitability and reduce outside investment interest.

Mitigating actions

Gamma takes a cautious approach to protect price and margin on its existing products and services. This is tightly governed by its pricing committee in the UK. However, it strives to be more creative and disruptive with pricing models for future or improved products and services.

Gamma's strategy is to leverage its skills and experience of operating communications products at scale in mature markets and penetrate less mature markets with its modern UCaaS product portfolio. In addition,

Strategic Report (continued)

Price erosion (continued)

it continues to introduce complementary features and services to its products to add value and protect profitability.

Gamma also strives to reduce operating costs by driving efficiency activities throughout the business.

Legal and regulatory non-compliance

Description

The UK's telecommunications sector does not have a 'licence' requirement; it operates under a General Authorisation regime whereby, in combination with relevant UK and European statute, the Sector's regulator outlines the required compliance which is presumed from telecommunications companies such as Gamma. As UCaaS develops and begins to diverge from traditional telephony, each regulator may take a different view on the level of regulation required and therefore Gamma may either inadvertently breach local numbering regulations (resulting in regulatory penalties and reputational damage) or could be slow to act and lose ground to competitors through overcompliance with regulation which no longer applies. As Gamma broadens its routes to market, the territories in which it operates and its pricing strategies evolve, there could be a greater risk of anti-competitive behaviour and non-compliance to competition law.

Potential impact

The Company's activities can be impacted by the decisions of relevant legislative, regulatory, or judicial bodies both domestically and in other non-UK territories within which it operates, the outcomes of which could put Gamma at a competitive disadvantage in its target markets. Legal and regulatory non-compliance could lead to significant reputational damage and resultant fines.

Mitigating actions

Gamma does not seek to influence regulations in every market, but may choose to do so in selected markets, considering various factors, such as the market size, our presence, and the regulatory maturity of that market.

Gamma mitigates this risk by continuing to monitor likely legislative or regulatory changes within UK and non-UK territories, assessing their risk and potential impact, and by regularly engaging with regulators as appropriate.

In addition, Gamma carefully governs its pricing strategies, setting reasonable thresholds and a governance process that extends across the Gamma Group. In the UK where Gamma carries a large market share of Cloud PBX and SIP trunking, a central pricing committee operates to control and agree pricing limits and incentives.

Furthermore, specific training surrounding competition law and anti-competitive behaviour is provided to employees with roles where this risk may occur.

Emerging risks

In addition to the Principal Risks facing Gamma, the Company also considers emerging risks, which have different characteristics and are defined as a risk which is either highly ambiguous and therefore cannot yet be impact assessed or is a risk that materialises and evolves rapidly and therefore requires frequent re-assessment to gauge the potential impact to Gamma.

Russian / Ukraine conflict

Gamma is closely following the conflict between Russia and the Ukraine and continues to monitor and adjust its risk assessment as the situation evolves.

Strategic Report (continued)

Emerging risks (continued)

Gamma does not have customers in either Russia, the Ukraine or any other non-EU bordering territories and therefore does not anticipate any immediate threat to financial performance. Additionally, Gamma does not anticipate any significant impact to the Company through the application of sanctions. Direct operational threats have been assessed as well as potential consequences in Gamma's upstream and downstream supply chain.

However, the following areas of risk have been identified and remain under regular review. The increasing cyber threat, where Russian state sponsored attacks could be targeted at UK or European communications providers and national infrastructure as a direct response to sanctions. The risk of further escalating energy and fuel costs in the medium term would subsequently increase Gamma's costs to power its data centres and offices. Longer-term economic downturn or a period of high inflation may have a detrimental impact on Gamma's financial performance.

Gamma's core network operates within the UK and best practice is followed in the identification and management of information and cyber security threats which are constantly evolving. Gamma also receives intelligence from the National Cyber Security Centre, which enables the dynamic adaptation of cyber controls to help mitigate targeted threats. As a precautionary measure Gamma has also brought forward planned cyber security investments to further strengthen its rapid response capability in preparation for any large-scale network attack. Energy supply to Gamma's UK data centres represents the largest proportion of the company's usage and Gamma has multi-year fixed energy pricing on its UK office facilities and its largest UK data centre. This helps to contain company exposure to short-term price escalation; however, risks do still remain with energy price increases to power network equipment located in 3rd party data centres.

Financial risk management objectives and policies

The Company is exposed to the following financial risks:

Credit risk

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

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

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

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

Strategic Report (continued)

Credit risk (continued)

Due to the Company's procedures for managing credit risk, expected credit losses on all non-trade receivable financial assets are expected to be negligible. Expected impairment for trade receivables is calculated based on historical default rates.

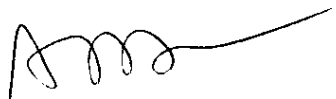
Market risk

Market rate risk relates to foreign exchange. Foreign exchange risk arises when the Company enters into transactions denominated in a currency other than their functional currency; the Company has very few customers who are invoiced in currency other than sterling and only a handful of regular suppliers that invoice in currency other than sterling. As of the 31 December 2021 and 31 December 2020 the Company's exposure to market risk was not material.

Liquidity risk

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

This report was approved by the board on 12 April 2022 and signed on its behalf.



A S J Belshaw
Director

Directors' Report

The directors present their annual report and the unaudited financial statements of the Company for the year ended 31 December 2021.

Directors

The directors who served the Company during the year and up to the date of signing were as follows:

A S J Belshaw
M C Goddard
A G Taylor

Audit

For the year ending 31 December 2021 the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies. The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476.

Future developments

The Company plans to continue to develop opportunities in, and invest in, convergence technology. This continued development will enable the Company to support the Group in maintaining its position as a leading provider of convergence communication services for the business market.

Matters covered in the Strategic Report

Details of the principal risks and uncertainties facing the Company and its financial risk management objectives and policies are given in the Strategic report.

Dividend

The directors have recommended and have paid a dividend totalling £48m (2020: £38m). Dividends are disclosed in note 10.

Directors' and Officers' liability insurance

The Company has, as permitted by s234 and 235 of the Companies Act 2006, maintained insurance cover on behalf of the Directors and Company Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Directors' Report

Going concern

The financial statements are prepared on the going concern basis. In assessing whether the going concern assumption is appropriate, the directors have taken into account all relevant available information about the future trading including profit and cash forecasts and available facilities and funding. The business has a track record of profitable growth and is cash generative and this is expected to continue. It is therefore considered appropriate to adopt the going concern basis of accounting in the preparation of the annual financial statements.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.


Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure framework'.

Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



A S J Belshaw (Director)
12 April 2022

Statement of comprehensive income

	Note	2021 £'m	2020 £'m
Revenue	4	311.1	289.4
Cost of sales		<u>(155.0)</u>	<u>(144.6)</u>
Gross profit		156.1	144.8
Operating expenses		(95.7)	(97.1)
Operating profit before depreciation and amortisation		65.4	51.9
Depreciation expense		(1.2)	(1.2)
Amortisation		(3.8)	(3.0)
Operating profit	6	60.4	47.7
Interest receivable		-	0.1
Finance expense		<u>(0.3)</u>	<u>(0.4)</u>
		(0.3)	(0.3)
Profit on ordinary activities before taxation		60.1	47.4
Tax on profit	9	<u>(9.0)</u>	<u>(9.0)</u>
Profit for the financial year		<u>51.1</u>	<u>38.4</u>
Total comprehensive income for the year attributable to the owners of the parent		<u>51.1</u>	<u>38.4</u>

All of the activities of the Company are classed as continuing.

The Company has no other comprehensive income other than the results for the year as set out above.

Statement of financial position

	Note	2021 £ 'm	2020 £ 'm
Non current assets			
Right of use asset	11	5.3	6.6
Intangible assets	12	5.8	6.7
		<u>11.1</u>	<u>13.3</u>
Current Assets			
Stocks	13	6.5	7.1
Debtors	14	96.1	154.0
Cash and cash equivalents		8.1	7.4
		<u>110.7</u>	<u>168.5</u>
Creditors: amounts falling due within one year	16	(41.4)	(108.3)
Net current assets		<u>69.3</u>	<u>60.2</u>
Total assets less current liabilities			
		80.4	73.5
Creditors: amounts falling due in more than one year	17	(13.5)	(14.7)
Provisions	18	(1.5)	(1.6)
Net assets		<u>65.4</u>	<u>57.2</u>
Capital and reserves			
Called up share capital	20	-	-
Share option reserve		-	-
Other reserves		7.1	5.2
Profit and loss account		58.3	52.0
Total Shareholder's funds		<u>65.4</u>	<u>57.2</u>

For the year ending 31 December 2021 the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies. The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476.

The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

These financial statements of Gamma Telecom Ltd (Registered number 04340834) were approved by the Board of directors and authorised for issue on 12 April 2022 and are signed on their behalf by:



A S J Belshaw
 Director

Statement of changes in equity

	Note	Called up share capital £ 'm	Share option reserve £ 'm	Other reserves £ 'm	Profit and loss account £ 'm	Total equity £ 'm
1 January 2021		-	-	5.2	52.0	57.2
Exercised share options	19	-	-	(2.2)	2.2	-
Share based payment charge	19	-	-	4.1		4.1
Current tax on share based payment transactions		-	-	-	1.7	1.7
Deferred tax on share based payment transactions		-	-	-	(0.7)	(0.7)
Dividend paid	10	-	-	-	(48.0)	(48.0)
<i>Transaction with owners</i>		-	-	1.9	(44.8)	(42.9)
Total comprehensive income		-	-	-	51.1	51.1
31 December 2021		-	-	7.1	58.3	65.4

	Note	Called up share capital £ 'm	Share option reserve £ 'm	Other reserves £ 'm	Profit and loss account £ 'm	Total equity £ 'm
1 January 2020		-	-	3.8	48.7	52.5
Exercised share options	19	-	-	(1.4)	1.4	-
Share based payment charge	19	-	-	2.8		2.8
Current tax on share based payment transactions		-	-	-	1.0	1.0
Deferred tax on share based payment transactions		-	-	-	0.5	0.5
Dividend paid	10	-	-	-	(38.0)	(38.0)
<i>Transaction with owners</i>		-	-	1.4	(35.1)	(33.7)
Total comprehensive income		-	-	-	38.4	38.4
31 December 2020		-	-	5.2	52.0	57.2

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

1. General information

Gamma Telecom Ltd provides Telephony services. The Company is a private company and is incorporated and domiciled in the United Kingdom. The address of the registered office is 5 Fleet Place, London, England, EC4M 7RD. The principal activity of the Company is the provision of telephony services.

2. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention, and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 financial statements are prepared on the going concern basis. In assessing whether the going concern assumption is appropriate, the directors have taken into account all relevant available information about the future trading including profit and cash forecasts and available facilities and funding. The business has a track record of profitable growth and is cash generative and this is expected to continue. It is therefore considered appropriate to adopt the going concern basis of accounting in the preparation of the annual financial statements.

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:

- certain comparative information as otherwise required by EU endorsed IFRS;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- certain disclosures in respect of revenue from contracts with customers;
- the disclosure of the remuneration of key management personnel;
- disclosure of related party transactions with other wholly owned members of the Group headed by Gamma Communications plc; and
- disclosures in respect of financial instruments.

The financial statements of the ultimate parent Gamma Communications plc can be obtained from Companies House.

Revenue

Revenue represents the fair value of the consideration received or receivable for communication services and equipment sales, net of discounts and sales taxes. Revenue is recognised when the Company has fulfilled its performance obligations under the relevant customer contract.

The Company sells a number of communications products, 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.

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

2. Accounting policies (continued)

Revenue (continued)

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 Company receives payment for products and services from channel partners who onwardly sell to end users.

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

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 Company'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.

Advances made to channel partners

Advances are sometimes made to channel partners as part of an incentive deal. Where the Company can demonstrate recovery of the advances through contractual clawback provisions and past evidence of

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

2. Accounting policies (continued)

Revenue (continued)

recovery, they are deferred and recognised over the period of the contract. Where this is not possible, they are charged directly to the statement of profit or loss.

Incentive deals

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

Foreign currencies

The 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.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the Company 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 Company'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

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

2. Accounting policies (continued)

Financial assets (continued)

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 Company 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

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

Dividends

Dividends are recognised when they become legally payable. In the case of final dividends, this is when approved by the board.

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 Company's estimate of equity instruments that will eventually vest.

Each year end, the Company 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 statement of comprehensive income so that, ultimately, the cumulative amount recognised reflects the latest estimates with a corresponding adjustment to the share option reserve.

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

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the 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.

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

2. Accounting policies (continued)

Intangible assets

An intangible asset, which is a non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Company and that its cost can be measured reliably.

Software is comprised of licences purchased from third parties and is initially recognised at cost. Amortisation of these 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.

Leased assets

Leased assets consist of rental property, cars and fibre networks where the Company 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 Company'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 statement of profit or loss.

Where the Company 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 Company 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.

Pension costs

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. The annual contributions payable are charged to the statement of comprehensive income.

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

2. Accounting policies (continued)

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 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 taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the 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 Company 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 Company intends to settle its current tax assets and liabilities on a net basis.

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.

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

2. Accounting policies (continued)

Provisions

Provisions are recognised when the Company 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.

3. Critical accounting estimates and judgments

Preparation of the financial statements requires the Company 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 Company receives payment for products and services from channel partners who onwardly sell to end users. The Company 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 Company therefore recognises revenue earned in this way based on the transactions with the channel partner and not the end user.

(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 Company also regularly assesses customer credit risk inherent in the carrying amounts of receivables, contract costs and estimated earnings

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.

Notes to the financial statements (continued)

4. Revenue

Revenue arises principally from the provision of products and services.

	2021 £'m	2020 £'m
United Kingdom	<u>311.1</u>	<u>289.4</u>

Contract balances

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

	31 December 2021 £'m	31 December 2020 £'m
Receivables, included in trade debtors	28.0	27.7
Accrued income, included in Debtors	25.3	24.3
Contract liabilities	13.4	11.8

In 2021, there was no revenue recognised in respect of performance obligations satisfied (or partially satisfied) in previous periods (2020: £nil).

Contract liabilities

Contract liabilities are deferred income arising from installations and Horizon upfront subscriptions, which are released to the statement of comprehensive income over the life of the contract. The movement on contract liabilities can be explained as below:

	2021 £'m	2020 £'m
At 1 January 2021	11.8	13.4
Additions	7.8	5.1
Amortisation	<u>(6.2)</u>	<u>(6.7)</u>
At 31 December 2021	<u>13.4</u>	<u>11.8</u>

5. Contract costs

Capitalised contract costs relate to installation costs. Capitalised installation costs amounted to £1.5m at 31 December 2021 (31 December 2020: £1.9m). The amount of amortisation was £0.8m in 2021 (2020: £0.7m) and there was no impairment loss in relation to the costs capitalised.

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

6. Operating profit

Profit on ordinary activities before taxation is stated after charging:

	2021 £'m	2020 £'m
Cost of stock recognised as an expense	10.3	9.6
Foreign exchange (gains)/losses	(0.2)	0.1
Staff costs (note 7)	47.6	48.7
Depreciation	1.2	1.2
Amortisation	3.8	3.0
	<u>42.7</u>	<u>42.6</u>

7. Directors and employees

The average monthly number of employees (including executive directors) employed by the Company during the financial year amounted to:

	2021 £'m	2020 £'m
Operational	494	464
Selling, administration and distribution	306	332
	<u>800</u>	<u>796</u>

The aggregate payroll costs of the above were:

	2021 £'m	2020 £'m
Wages and salaries	35.9	38.4
Social security costs	3.7	3.8
Other pension costs	3.2	3.0
	<u>42.8</u>	<u>45.2</u>
Share based payment expense (note 19)	4.8	3.5
	<u>47.6</u>	<u>48.7</u>

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

8. Directors' remuneration and transactions

Remuneration in respect of directors was as follows:

	2021 £ 'm	2020 £ 'm
Emoluments receivable	1.8	1.7
Share based payments expense	1.5	1.0
	<u>3.3</u>	<u>2.7</u>

Remuneration of the highest paid director:

	2021 £ 'm	2020 £ 'm
Total emoluments (excluding pension contributions)	0.9	0.9
Share based payments expense	0.9	0.6
	<u>1.8</u>	<u>1.5</u>

In 2021, one director accrued benefits under the Company's money purchase pension schemes (2020: one).

Three directors exercised share options during the year (2020: two) and three directors were awarded share options under long term incentive schemes (2020: three).

Notes to the financial statements (continued)

9. Tax on profit

(a) Analysis of charge in the year

	2021 £ 'm	2020 £ 'm
Current tax:		
Corporation tax based on the results for the year at 19% (2020: 19%)	10.4	9.2
Adjustment in respect of prior year	0.1	0.4
Total current tax	<u>10.5</u>	<u>9.6</u>
Deferred tax:		
Origination and reversal of temporary differences	<u>(1.5)</u>	<u>(0.6)</u>
Total deferred tax (note 15)	<u>(1.5)</u>	<u>(0.6)</u>
Tax on profit on ordinary activities	<u>9.0</u>	<u>9.0</u>

Corporation tax is calculated at 19% (2020: 19%) of the estimated taxable profit for the year. The charge for the year can be reconciled to the profit in the Statement of comprehensive income as follows:

(b) Factors affecting total tax charge

	2021 £ 'm	2020 £ 'm
Profit before taxation	<u>60.1</u>	<u>47.4</u>
Profit multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	11.4	9.0
Expenses not deductible for tax purposes	-	-
Group relief paid for through intercompany	(2.0)	(0.2)
Adjustment in respect of prior year	0.1	0.4
Adjusting tax items	<u>(0.5)</u>	<u>(0.2)</u>
Total tax charge	<u>9.0</u>	<u>9.0</u>

10. Dividends paid

	2021 £ 'm	2020 £ 'm
Dividend paid in the year £9,600 per share (2020: £7,600 per share)	<u>48.0</u>	<u>38.0</u>

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

11. Leases

	Land & buildings £'m	Other £'m	Total £'m
Cost			
At 1 January 2021	9.8	0.2	10.0
Additions	-	0.1	0.1
Disposals	(0.9)	-	(0.9)
At 31 December 2021	<u>8.9</u>	<u>0.3</u>	<u>9.2</u>
Depreciation			
At 1 January 2021	3.2	0.2	3.4
Charge for the year	1.1	0.1	1.2
Disposals	(0.7)	-	(0.7)
At 31 December 2021	<u>3.6</u>	<u>0.3</u>	<u>3.9</u>
Net book value			
At 31 December 2021	<u>5.3</u>	<u>-</u>	<u>5.3</u>
At 31 December 2020	<u>6.6</u>	<u>-</u>	<u>6.6</u>

The Company'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 expiration of car leases. No replacement leases have been committed to in the year ended 31 December 2021.

	2021 £'m	2020 £'m
Maturity analysis – contractual undiscounted cash flows		
In one year or less	1.2	1.5
Between one and five years	4.9	5.8
In five years or more	1.2	3.0
Total undiscounted lease liabilities at 31 December	<u>7.3</u>	<u>10.3</u>
Current	1.1	1.2
Non-current	6.5	6.8
Lease liabilities at 31 December	<u>7.6</u>	<u>8.0</u>
Amounts recognised in the Statement of comprehensive income		
Interest expense on lease liabilities	<u>0.3</u>	<u>0.4</u>

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

12. Intangible assets

Cost		
At 1 January 2021		18.6
Additions		2.9
At 31 December 2021		21.5
Amortisation		
At 1 January 2021		11.9
Charge for the year		3.8
At 31 December 2021		15.7
Net book value		
At 31 December 2021		5.8
At 31 December 2020		6.7

13. Stocks

	2021	2020
	£ 'm	£ 'm
Finished goods	6.5	7.1

There is no material difference between the Statement of financial position value of stocks and its replacement cost.

14. Debtors

	2021	2020
	£ 'm	£ 'm
Trade debtors	28.0	27.7
Amounts due from group undertakings	12.1	76.3
Other debtors	4.7	2.6
Accrued income	25.3	24.3
Prepayments	21.7	19.6
Deferred tax asset (note 15)	4.3	3.5
	96.1	154.0

Amounts due from group undertakings are payable on demand.

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

15. Deferred taxation

Deferred tax is calculated in full on temporary differences under the liability method using the tax rate at which it is expected to unwind, being 25% (2020: 19%).

The movement in the deferred taxation provision during the year was:

	2021 £ 'm	2020 £ 'm
Asset at 1 January	3.5	2.3
Change in accounting policy	-	-
Restated asset at 1 January	3.5	2.3
Statement of comprehensive income movement in the year	(0.7)	0.6
Recognised directly in equity	1.5	0.6
Asset at 31 December	<u>4.3</u>	<u>3.5</u>

The deferred tax asset consists of the tax effect of timing differences in respect of:

	2021 £ 'm	2020 £ 'm
Excess of depreciation on fixed assets over capital allowances	0.2	0.1
Deferred tax on share options	2.4	2.8
Other timing differences	1.7	0.6
	<u>4.3</u>	<u>3.5</u>

There were no unrecognised deferred tax assets or liabilities in the current or preceding year.

16. Creditors: amounts falling due within one year

	2021 £ 'm	2020 £ 'm
Trade creditors	1.8	6.3
Amounts owed to group undertakings	0.2	59.3
Other taxation and social security	2.1	2.3
Other creditors	3.3	5.6
Deferred income	0.7	0.9
Accruals – Cost of sales	5.5	7.4
Accruals – Operating expenses	3.4	3.5
Accruals – Payroll	7.8	8.2
Lease liability	0.8	1.2
Contract liabilities	7.0	5.4
Corporation Tax	8.8	8.2
	<u>41.4</u>	<u>108.3</u>

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

17. Creditors: amounts falling due in more than one year

	2021 £ 'm	2020 £ 'm
Lease liability	5.8	6.8
Contract liabilities	6.4	6.5
Long Term Liabilities	1.3	1.4
	<u>13.5</u>	<u>14.7</u>

18. Provisions for liabilities

	Leasehold dilapidation £'m	Other provisions £'m	Total £'m
At 1 January 2021	1.1	0.5	1.6
Charged to profit and loss in the year	-	-	-
Utilisation of provision	(0.1)	-	(0.1)
At 31 December 2021	<u>1.0</u>	<u>0.5</u>	<u>1.5</u>

	Leasehold dilapidation £'m	Other provisions £'m
At 1 January 2021	1.1	0.5
Charged to profit and loss in the year	-	-
Utilisation of provision	(0.1)	-
At 31 December 2021	<u>1.0</u>	<u>0.5</u>

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. 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 Company 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 relate to contracts less than 2 years in length.

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements (continued)

19. Share-based payments

Share options subject to equity-settled share-based payments are set out within the financial statements of the ultimate parent company, Gamma Communications plc.

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant using the Black-Scholes model and the Monte Carlo model where market performance conditions are imposed. 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.

Share options under the Company Share Option Plan have a vesting period of three years and exercise prices of £10.9000, £12.6500 and £17.9600 for the 2019, 2020 and 2021 plans respectively. There are no performance based vesting conditions.

Share options under the Save as You Earn scheme have a vesting period of three years and an exercise price of £8.2800, £8.0000 and £14.112 for the 2019, 2020 and 2021 schemes respectively. There are no performance based vesting conditions.

Share options under the Long Term Incentive Plan and Deferred Bonus Plan have a three year vesting period subject to performance criteria, and an exercise price of £0.0025.

The awards issued under the Long Term Incentive Plan will vest as follows:

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

The charge for share based payments recognised in the year was £4.8m (2020: £3.5m), of which £0.7m (2020: £0.7m) related to employers National Insurance contributions.

Share options were exercised regularly throughout the current and preceding year. The weighted average share price of Gamma Communications plc for options exercised during the year ended 31 December 2021 was £19.27 (2020: £14.21). The weighted average exercise price of Gamma Communications plc for options exercised during the year ended 31 December 2021 was £3.10 (2020: £2.71).

The weighted average remaining life of the share options outstanding at 31 December 2021 was 15 months (2020: 16 months), with a weighted average remaining exercise price of £7.21 (2020: £5.33).

Notes to the financial statements (continued)

20. Called up share capital

Authorised, issued and fully paid:

	2021	2020
	£ 'm	£ 'm
5,000 (2020: 5,000) Ordinary shares of £1 each	<u>-</u>	<u>-</u>

21. Capital commitments

As at 31 December 2021, amounts contracted for but not provided amounted to £0.0m (2020: £6.3m). The 2020 commitment related to the purchase of software licences.

22. Related party transactions

The Company is a wholly owned subsidiary of Gamma Telecom Holdings Limited. The Company has taken advantage of the exemption available within FRS 101 'Reduced Disclosure Framework' to not to disclose transactions with other members of the Group headed by Gamma Communications plc. Gamma Telecom Limited is a wholly owned subsidiary of the Group, and details of all related party transactions are disclosed within the Group accounts.

23. Immediate and ultimate parent company

The Company's Immediate parent undertaking is Gamma Telecom Holdings Limited, a company incorporated in England and Wales. The Company's Ultimate parent entity is Gamma Communications plc, a company incorporated in England and Wales by virtue of its 100% shareholding.

The smallest and largest group of undertakings for which consolidated financial statements have been drawn up which include the Company is Gamma Communications plc. The registered office of Gamma Communications plc is 5 Fleet Place, London, EC4M 7RD, England. The financial statements of Gamma Communication plc are publicly available from Companies House, Crown Way, Cardiff, CF14 3UZ.