Annual Report and unaudited Financial Statements

For the year ended 31 December 2023

Company No. 04340834

Index

	Page(s)
Strategic report	3 - 8
Directors' report	9 – 11
Statement of comprehensive income	12
Statement of financial position	13
Statement of changes in equity	14
Notes to the financial statements	15 - 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 2006. 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 15.

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

Strategy

The strategy of Gamma Telecom Ltd is to support the overall strategy of the ultimate parent company Gamma Communications plc. Gamma Communications plc has four core strategic pillars, all of which are relevant to the company:

- Develop multiple routes to market in each country in which we operate;
- Develop a common pan-European product set for UCaaS and CCaaS for SMEs;
- Become a trusted partner to Enterprises across Europe, transforming their communications estates;
- Create an organisation that engages all our people with a common set of values and goals

Financial overview

Key performance indicators

	2023 £'m	2022 £'m	Change £'m
Turnover	**362.3**	341.1	21.2
Gross profit	**181.5**	170.7	10.8
Gross margin	**50.1%**	50.0%	0.1%
Profit before taxation	**67.7**	69.2	-1.5

The growth and improvement in Turnover and Gross profit 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 costs increased by £12.4m to £113.6m in 2023 (2022: £101.2m), in part due to a transfer of employees from a fellow group entity. There were also significant inflationary price increases to property and network costs.

In 2023 Gamma Telecom Ltd was charged £30.8m (2022: £29.3m) by its parent company Gamma Telecom Holdings Limited for the use of the network assets.

Strategic Report

Principal risks and uncertainties

The directors set out the principal risks facing the business below. The risks outlined are as published in the financial statements for the year ended 31 December 2023 of the ultimate parent company Gamma Communications plc, however the directors of Gamma Telecom Ltd also consider these to be applicable to this Company.

Failure to develop new routes to market in response to changing buying behaviors

Potential Impact

Gamma's inability to adapt to market changes in a timely manner could limit its opportunity to grow as the business needs to have access to the largest possible proportion of its target audience for each of its key products and services. If new routes to market are not identified and executed successfully this could result in competitors gaining market share.

Mitigating actions

- Gamma continually assesses the effectiveness of its current routes to market: direct, indirect and digital.
- The Company also routinely assesses how customer buying behaviour is changing in its core markets

Changes in the year

Gamma continues to focus on the harmonisation of its brand and product portfolio, with investment having been made in both product and brand personnel to serve unique country markets. Rebranding activities have also occurred across its European subsidiaries to enhance brand awareness. Gamma finalised organisational changes that aligned its sales and marketing teams to customer segments, providing focused efforts towards addressing how each segment procures IT and communications products and services.

Opportunities

The market for buying and selling communication services is changing and businesses are researching and procuring services in a wider range of ways. Gamma is well placed to respond rapidly to these changes, therefore improving customer acquisition rates and the value of each customer relationship.

An uncertain competitive landscape causes loss of market share

Potential Impact

If the Company loses its competitive edge, in terms of product, pricing strategy and service development, then its plans for revenue growth and market position may be negatively impacted. This would be caused by the loss of its customers and a diluted addressable market.

Mitigating actions

- Gamma consistently gathers market insight to ensure that its products, marketing and customer service are closely aligned to the evolution of market demands and adoption of relevant technologies.
- In addition, Gamma monitors the development of third-party products to ensure a fast follower approach when taking products to market.
- Gamma's build, buy or partner strategies are informed by its competitive position and strengths in key market segments.

Changes in the year

Gamma has continued to observe both market consolidation and advancing UCaaS and CCaaS product portfolios from global technology giants targeting certain market segments, particularly large enterprise. Gamma responds to these types of market trends by continually testing the relevance of its own product portfolio within each market.

Opportunities

Gamma's continued ability to select the right market segments to serve with its own products as well as distribute third-party products will widen its addressable market.

Strategic Report

Principal risks and uncertainties (continued)

Over-reliance on any single supplier

Potential Impact

An over-reliance on any single supplier may result in missed opportunities where supplier market-led plans are misaligned with Gamma's core markets. Failure of key suppliers to perform may have an impact on the Company's ability to deliver products and services and its creditability in the business market.

Mitigating actions

- Gamma reviews and adjusts the Company policy and plans regarding the diversification of its supply chain.
- Gamma continues to carefully consider build, buy or partner strategies, reducing the risk of over-reliance on any one supplier.
- Gamma performs ongoing supplier monitoring through regular performance reviews and adherence to service KPIs.
- Gamma utilises market intelligence to understand the competitive landscape and the intentions of strategic suppliers.

Changes in the year

Gamma has established new supplier relationships over the course of 2023 with a view to further strengthening its market opportunities within the UK and Europe.

Opportunities

Leveraging multiple long-term partnerships with suppliers in key product and technology areas will increase Gamma's addressable markets and geographical reach.

Inability to attract and retain talent

Potential impact

Gamma is dependent on its employees to achieve its strategic priorities. Therefore, reliance is placed on the Company's ability to recruit, develop and retain employees. If the Company loses key people, this could have an impact on its ability to deliver business objectives.

Mitigating actions

- Nurturing talent across Gamma remains a crucial part of its strategy and internal succession plans.
- Gamma conducts a regular review of remuneration packages, share schemes, training and communication with employees as well as maintaining annual performance review processes which promote positive employee engagement.
- Employee satisfaction is measured bi-annually using the "Gamma Pulse survey". Anonymous feedback is provided through this platform which enables managers to act more swiftly to reinforce positive trends and tackle any negative sentiment.

Changes in the year

Gamma has introduced a number of employee benefit schemes which have had a positive impact on employee attrition rates. For example, Gamma introduced a virtual GP, electronic vehicle schemes and private medical insurance (UK employees).

Opportunities

The growth of the overall Gamma Group has increased the opportunities for internal promotion and transfers which will enable Gamma to develop its workforce of the future.

Strategic Report

Principal risks and uncertainties (continued)

Unplanned service disruption

Potential impact

If any of Gamma's services are disrupted, and therefore unavailable to its customers, for any material length of time, then this could result in loss of customer confidence.

Mitigating actions

- Gamma has a comprehensive operational governance framework to manage the availability and performance of services.
- Business continuity planning and disaster recovery plans are established in critical areas.
- A 24/7 crisis response framework is utilised and regularly tested.

Changes in the year

The Company has continued to advance personnel skills and technology used within its Business Continuity department within 2023. Gamma's crisis management processes were further enhanced in 2023. This involved formalising a crisis response framework, in conjunction with specialist third parties. Further adoption of highly resilient and automated public cloud services for parts of Gamma's product infrastructure has reduced the likelihood of service disruption.

Opportunities

Continuing the programme of investment in Gamma's resilience and crisis management policies and processes will further differentiate Gamma in the business market. This could lead to higher than anticipated customer and product growth.

Data loss and cyber attacks

Potential impact

A major security incident could have a significant reputational impact and in some cases impact Gamma's commercial position. Potential fines could also be enforced if the Company were found to be in breach of its obligations relating to various regulations e.g. the Telecommunications Security Act or the General Data Protection Regulations ("GDPR").

Mitigating actions

- Ongoing penetration testing and continuous compliance checks are extended across critical infrastructure.
- Integrated security behaviours training is in place and well adopted.
- Ongoing investment in Gamma's cyber security strategy will continue to advance threat detection and controls.
- Continual review of adherence to ISO 27001 and National Cyber Security Centre Essentials Plus schemes are in place within the Company.
- Gamma has representation on industry forums to stay aware of emerging threats.

Changes in the year

Through partnerships with bigger companies with global brands and growth in the UK public sector, Gamma is becoming increasingly visible to malicious actors.

Gamma has continued to evolve its security control environment and governance structure at pace, investing in both personnel and technology to improve security in 2023. Gamma's standard security controls have matured to include routine and bespoke penetration testing; continuous compliance checks; and integrated security behaviours training, which is mandatory for all employees. In addition the acquisition of Satisnet enhances our own internal capabilities in mitigating this risk.

Opportunities

Continuing the evolution of Gamma's approach to security controls and embedding these in Gamma's day-to-day operations will allow the Company to continue to leverage its reputation as a robust and credible communications provider to the business market.

Strategic Report

Principal risks and uncertainties (continued)

Legal and regulatory non-compliance in the telecommunications market

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 noncompliance could lead to significant reputational damage and resultant fines.

Mitigating actions

- Ongoing monitoring of likely legislative or regulatory changes within each market is in place.
- Gamma engages with regulators as appropriate, lobbying where the impact of legislative changes could be of material consequence.
- When changes are identified, internal resource is aligned to ensure the impact is understood and controls required are applied.
- Training surrounding competition law and anti-competitive behaviour is provided to employees with roles where this risk may occur.

Changes in the year

Changes in legislation or regulation will result in additional investment being required to comply, such as the Network and Information Security Directive ("NIS2") and Critical Entities Resilience ("CER") legislation in Europe. Additionally, Gamma has invested in a programme of work to respond to the impact of the Telecommunications Security Act ("TSA").

Opportunities

Through the convergence of telecoms and ICT customer buying behaviours, there will be further opportunity for Gamma to establish strategic partnerships in adjacent markets where ICT companies are unable to fulfil all parts of a customer requirement.

Customer needs become misaligned with Gamma's products

Potential impact

If Gamma fails to deliver against market demands, products are likely to become unattractive to existing and prospective customers resulting in lost revenue and market share.

Mitigating actions

- Gamma's product strategy is regularly assessed to diversify and/or rationalise Gamma's portfolio according to market demands.
- Gamma ensures that it maintains a two-way dialogue with its customers to understand their needs, primarily via direct customer and wholesale channel partner feedback processes.

Changes in the year

In 2023 Gamma undertook a thorough assessment of its UCaaS product strategy. The outcome of this assessment identified significant partnership opportunities which will help better align its portfolio to market needs for the long term.

Opportunities

Gamma's ability to effectively migrate customers to next generation cloud voice platforms and services will ensure Gamma strengthens its market position as a leading voice provider in the UK and Europe.

Financial risk management

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 banking insitution fails to meet its contractual obligations.

Strategic Report

Financial risk management (continued)

Trade receivables
It is Company policy to assess the credit risk of new customers before entering into contracts. The Company'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. At the reporting date the Company does not expect any losses from non-performance by the counterparties in addition to those already provided against.

Contract assets
The Company considers the credit quality of contract assets on a customer-by-customer basis. As with trade receivables, which contract assets convert to upon invoicing, there is considered to be a low risk of default due to the high number of recurring customers. In determining the recoverability of a contract asset, the Company considers the specific circumstances of each contract asset and any change in the circumstances of the balance.

Cash and cash equivalents
For banks and financial institutions, only independently rated parties with a credit rating of at least medium-grade and moderate risk are accepted, unless approval is obtained from the CFO of the Company's ultimate parent company, Gamma Communications plc.

Market risk
Foreign exchange 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. As of 31 December 2022 and 31 December 2023 the Company'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.

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. The Company generates positive cash flows from operating activities and these fund short-term working capital requirements.

Capital risk management
The Company'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.

This report was approved by the board on 24th June 2024 and signed on its behalf.

P Maher
Director

Directors' Report

The directors present their report and the unaudited financial statements of Gamma Telecom Ltd (the "Company") for the year ended 31 December 2023.

Directors

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

A S J Belshaw
P Maher
D J Williams (appointed 31 March 2023)
M C Goddard (resigned 31 March 2023)

Company secretary

R A Matzopoulos

Audit

For the year ending 31 December 2023 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 of the Companies Act 2006.

Future developments

The Strategic Report contains an overview of the principal activities and future strategy of the Company. The directors do not anticipate any significant change to these in the foreseeable future.

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 £51.5m (2022: £53.9m). Dividends are disclosed in note 12.

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.

The Directors are therefore satisfied that the Company has adequate financial resources to continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of this report. Accordingly, the going concern basis of accounting continues to be used in the preparation of the Annual Report for the year ended 31 December 2023.

Section 172 Statement

The Board of Directors considers, both individually and together, that they have acted in the way that it considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in section 172 (a)-(f) of the Companies Act in the decisions taken during the year. The Board considers the matters set out in section 172 of the 2006 Act in all its discussions and decision making. That includes:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations in the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct;
- the need to act fairly as between members of the company

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.

Directors' Report

Directors' responsibilities statement (continued)

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.

ON BEHALF OF THE BOARD

P Maher
Director
24th June 2024
Company number: 04340834

Statement of comprehensive income

	Note	2023 £'m	2022 £'m
Revenue	4	**362.3**	341.1
Cost of sales		**(180.8)**	(170.4)
Gross profit		**181.5**	170.7
Operating expenses		**(113.6)**	(101.2)
Operating profit before depreciation and amortisation		**75.0**	73.8
Depreciation		**(1.0)**	(1.4)
Amortisation		**(6.1)**	(2.9)
Operating profit	6	**67.9**	69.5
Finance income	9	**0.1**	-
Finance costs	10	**(0.3)**	(0.3)
Profit **on ordinary activities before taxation**		67.7	69.2
Tax on profit	11	**(16.2)**	(15.4)
Profit **for the financial year**		51.5	53.8
Total comprehensive income for the year		**51.5**	53.8

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	**2023 £'m**	2022 £'m
Non-current assets			
Right-of-use asset	13	**3.3**	5.2
Intangible assets	14	**0.2**	3.7
Trade and other receivables	16	**9.9**	8.2
		13.4	17.1
Current Assets			
Inventories	15	**8.7**	8.3
Trade and other receivables	16	**125.4**	98.6
Cash and cash equivalents		**2.2**	8.6
		136.3	115.5
Creditors: amounts falling due within one year	18	**(67.9)**	(50.4)
Net current assets		**68.4**	65.1
Total assets less current liabilities		**81.8**	82.2
Creditors: amounts falling due in more than one year	19	**(8.8)**	(12.4)
Provisions for liabilities	20	**(1.9)**	(1.3)
Net assets		**71.1**	68.5
Equity			
Ordinary shares	22	**-**	-
Other reserves		**7.1**	8.6
Retained earnings		**63.9**	59.9
Total shareholders' funds		**71.0**	68.5

For the year ending 31 December 2023 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 of the Companies Act 2006.

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 24th June 2024 and are signed on its behalf by:

P Maher
Director

Statement of changes in equity

	Note	Ordinary shares £'m	Other reserves £'m	Retained earnings £'m	Total £'m
1 January 2023		-	8.6	59.9	68.5
Exercised share options	21	-	(4.1)	4.1	-
Share based payment charge	21	-	2.6	-	2.6
Current tax on share based payment transactions		-	-	-	-
Deferred tax on share based payment transactions		-	-	(0.1)	(0.1)
Cashflow hedge reserve		-	-	-	-
Dividend paid	12	-	-	(51.5)	(51.5)
Transaction with owners		-	(1.5)	(47.5)	(49.0)
Total comprehensive income		-	-	51.5	51.5
31 December 2023		-	7.1	63.9	71.0

	Note	Ordinary shares £'m	Other reserves £'m	Retained earnings £'m	Total £'m
1 January 2022		-	7.1	58.3	65.4
Exercised share options	21	-	(2.7)	2.7	0.0
Share based payment charge	21	-	4.3	-	4.3
Current tax on share based payment transactions		-	-	-	0.0
Deferred tax on share based payment transactions		-	-	(1.1)	(1.1)
Cashflow hedge reserve		-	(0.1)	-	(0.1)
Dividend paid	12	-	-	(53.9)	(53.9)
Transaction with owners		-	1.5	(52.2)	(50.7)
Total comprehensive income		-	-	53.8	53.8
31 December 2022		-	8.6	59.9	68.5

Notes to the financial statements

1. General information

Gamma Telecom Ltd ("the Company") is a private company incorporated and domiciled in the United Kingdom. The address of the registered office is The Scalpel, 18th Floor, 52 Lime Street, London EC3M 7AF.

2. Accounting policies

Basis of preparation

These financial statements are prepared in accordance with the Companies Act 2006 and Financial Reporting Standard 101, 'Reduced Disclosure framework' (FRS101). The financial statements are prepared on a going concern basis and 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 material accounting policies adopted in the preparation of the financial statements are set out below. The policies have been applied consistently to all the years presented, unless otherwise stated.

Going concern

The company continues to adopt the going concern basis of accounting in preparing the financial statements. Further details can be found in the Directors Report on pages 9 to 11.

Disclosure exemptions

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 disclosures and comparative information as otherwise required by IAS 1;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel;
- certain disclosures in respect of share based payments;
- 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 company Gamma Communications plc, can be obtained from Companies House.

Notes to the financial statements

2. Accounting policies (continued)

Revenue recognition
Revenue represents the fair value of the consideration received or receivable for communication services, cyber security 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, 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 assets and contract liabilities to account for revenue when the performance obligations have been met. Contract assets are recognised when the right to consideration is met in advance of billing. Contract liabilities are recognised where a customer has paid consideration prior to the transfer of the related good or service.

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.

Notes to the financial statements

2. Accounting policies (continued)

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 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 with a proportion of revenue attributed against these costs. Where there is no revenue, the credit is shown against revenue over the period of the deal.

Contract costs
Contract costs are capitalised when they are associated with the acquisition and fulfilment of contracts with customers. To be eligible for capitalisation, costs must be directly attributable to specific contracts, relate to future activity, and generate future economic benefits. They are subsequently amortised on a straight-line basis over the period that the Company transfers the associated services. Typical capitalised contract costs relate to sales commissions and installation costs. Sales commissions are capitalised where they are a cost to obtaining a customer contract for which the expected customer life covers multi-year periods. Accordingly, the Company amortises sales commissions paid for such new contract on a straight-line basis over the expected customer life. Amortisation is classified as operating expenses. Installation costs are capitalised where they are a required upfront cost to support delivery of a multi-year contract. Amortisation is classified as cost of sales.

Foreign currency
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 the Statement of profit or loss within operating expenses.

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 measured at amortised cost less provision for impairment. The amount of the provision is recognised in the Statement of profit or loss within operating expenses.

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

Notes to the financial statements

2. Accounting policies (continued)

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 is measured under the simplified approach with an expected credit loss percentage applied to each ageing category. All financial assets are 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.

Dividends
Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

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 based on market vesting conditions. The fair value excludes the effect of non-market based vesting conditions. The fair value is expensed in the Statement of profit or loss in operating expenses 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 profit or loss so that, ultimately, the cumulative amount recognised reflects the latest estimates with a corresponding adjustment to the share option reserve.

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.

Where the Monte Carlo method is used, 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.

Notes to the financial statements

2. Accounting policies (continued)

Leased assets

Leased assets consist of rental property and cars 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 comprise 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 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.

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.

Notes to the financial statements

2. Accounting policies (continued)

Deferred tax

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.

Intangible assets

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 seven years. Amortisation is charged to the Consolidated statement of profit or loss through operating expenses on a straight-line basis over the estimated useful life from the date the asset is available for use.

Inventories

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

Provisions

Provisions are recognised when the 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.

Notes to the financial statements

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 following are considered to be the critical accounting judgements and key sources of estimation uncertainty.

Critical accounting judgements

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

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. For more information on the Company's revenue recognition policy please see note 2, Accounting policies.

Key accounting estimates

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

4. Revenue

Revenue arises principally from the provision of products and services.

	2023	2022
	£'m	£'m
United Kingdom	**362.3**	341.1

Contract balances

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

	2023	2022
	£'m	£'m
Receivables, included in trade receivables	**34.0**	33.4
Accrued income, included in other receivables	**25.7**	26.8
Contract liabilities	**11.9**	12.6

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.

Notes to the financial statements

4. Revenue (continued)

In 2022 deferred income of £2.1m was included within Trade and other payables. In 2023 deferred income was instead classified within contract liabilities to better align with other similar transactions.

The movement on contract liabilities can be explained as below:

	2023	2022
	£'m	£'m
At 1 January	**12.6**	13.4
Additions	**6.4**	8.8
Amortisation	**(9.1)**	(9.6)
Reclassification from deferred income	**2.0**	-
At 31 December	**11.9**	12.6

The amount of revenue recognised in 2023 for performance obligations satisfied (or partially satisfied) in previous periods is £nil (2022: £nil).

The amount of revenue recognised in 2023 that was included in the contract liabilities balance and deferred income included within creditors at 31 December 2022 as described previously was £7.4m (2022: £7.7m).

The company expects to recognise the balance as at December 2023 in:

	Less that 1 year	Between 1 and 2 years	between 2 and 5 years	Over 5 years
Contract liabilities as at 31 December 2023	6.3	2.8	1.8	1.0

5. Contract costs

Capitalised contract costs relate to installation costs. Capitalised installation costs amounted to £1.3m at 31 December 2023 (31 December 2022: £1.1m). The amount of amortisation was £1.7m in 2023 (2022: £0.8m) and there was no impairment loss in relation to the costs capitalised. Capitalised installation costs are included within prepayments in note 16.

6. Operating profit

Operating profit is stated after charging:

	2023	2022
	£'m	£'m
Inventory recognised as an expense	**10.4**	10.3
Foreign exchange (gains)/losses	**0.2**	0.2
Staff costs (note 7)	**53.4**	50.4
Depreciation	**1.0**	1.4
Amortisation of intangible assets	**6.1**	2.9

Notes to the financial statements

7. Directors and employees

The average monthly number of employees employed by the Company during the financial year amounted to:

	2023	2022
	No.	No.
Operational	536	493
Selling, administration and distribution	308	306
	844	799

The aggregate payroll costs of the above were:

	2023	2022
	£'m	£'m
Wages and salaries	42.6	35.9
Social security costs	4.4	3.7
Other pension costs	3.6	3.2
	50.6	42.8
Share based payment expense (note 21)	2.8	4.8
	53.4	47.6

8. Directors remuneration and transactions

The remuneration of the directors of Gamma Telecom Ltd is included within the financial statements of this Company and that of the ultimate parent company, Gamma Communications plc.

The directors provide services to the Group as a whole, and their principal activities are not specific to the business of this Company. It is not possible to make an accurate apportionment of their emoluments to this Company.

Emoluments of the directors of this Company as borne by the Company and fellow group undertakings are as follows:

	2023	2022
	£'m	£'m
Emoluments receivable	1.5	1.7
Long term incentive ("LTIP")	0.3	0.8
	1.8	2.5

Post employment benefits are accruing for three (2022: three) directors under the Group's money purchase pension schemes.

Notes to the financial statements

8. Directors remuneration and transactions (continued)

The value of the LTIP in 2023 relates to the vesting of the 2020 LTIP awards, and the value has been calculated using the share price on the vesting date of 21 April 2023.

Remuneration of the highest paid director:

	2023 £'m	2022 £'m
Total emoluments (excluding pension contributions)	**1.0**	0.8
Long term incentive ("LTIP")	**0.2**	0.3
	1.2	1.1

9. Finance income

	2023 £'m	2022 £'m
Interest received	**0.1**	-

10. Finance costs

	2023 £'m	2022 £'m
Interest on lease liabilities	**(0.3)**	(0.3)

11. Tax on profit

(a) Analysis of charge in the year

	2023 £'m	2022 £'m
Current tax:		
UK corporation tax on the results for the year	**16.4**	13.6
Adjustment in respect of prior years	**0.4**	1.5
Total current tax	**16.8**	15.1
Deferred tax:		
Origination and reversal of temporary differences	**0.3**	0.3
Adjustment in respect of prior years	**(0.9)**	-
Tax rate change	**-**	-
Total deferred tax (note 17)	**(0.6)**	0.3
Total tax charge	**16.2**	15.4

Notes to the financial statements

11. Tax on profit (continued)

(b) Factors affecting total tax charge

The charge for the year can be reconciled to the Statement of comprehensive income as follows:

	2023	2022
	£'m	£'m
Profit before taxation	**67.7**	69.2
Profit multiplied by the standard blended rate of UK corporation tax of 23.5% (2022: 19%)	**15.9**	13.1
Expenses not deductible for tax purposes	**0.8**	0.1
Tax rate change	**-**	-
Adjustment in respect of prior years	**(0.5)**	1.5
Adjusting tax items	**-**	0.7
Total tax charge	**16.2**	15.4

12. Dividend paid

	2023	2022
	£'m	£'m
Dividend paid in the year £10,300 per share (2022: £10,780 per share)	**51.5**	53.9

Notes to the financial statements

13. Right-of-use asset

	Land & buildings £'m	Other £'m	Total £'m
Cost			
At 1 January 2023	9.7	0.2	9.9
Additions	-	0.2	0.2
Disposals	(1.1)	-	(1.1)
At 31 December 2023	**8.6**	**0.4**	**9.0**
Depreciation			
At 1 January 2023	4.6	0.1	4.7
Charge for the year	0.9	0.1	1.0
Disposals	-	-	-
At 31 December 2023	**5.5**	**0.2**	**5.7**
Net book value			
At 1 January 2023	5.1	0.1	5.2
At 31 December 2023	**3.1**	**0.2**	**3.3**

	Land & buildings £'m	Other £'m	Total £'m
Cost			
At 1 January 2022	8.9	0.3	9.2
Additions	1.2	0.1	1.3
Disposals	(0.3)	(0.3)	(0.6)
At 31 December 2022	**9.8**	**0.1**	**9.9**
Depreciation			
At 1 January 2022	3.6	0.3	3.9
Charge for the year	1.3	0.1	1.4
Disposals	(0.3)	(0.3)	(0.6)
At 31 December 2022	**4.6**	**0.1**	**4.7**
Net book value			
At 1 January 2022	5.3	-	5.3
At 31 December 2022	**5.2**	**-**	**5.2**

Notes to the financial statements

13. Right of use asset (continued)

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 2023.

	2023	2022
	£'m	£'m
Maturity analysis – contractual undiscounted cash flows		
In one year or less	**1.3**	1.4
Between one and five years	**3.4**	4.6
In five years or more	**0.2**	1.2
Total undiscounted lease liabilities at 31 December	**4.8**	7.2
Current	**1.9**	1.3
Non-current	**3.2**	5.3
Lease liabilities at 31 December	**5.1**	6.6
Total cash outflow on lease liabilities	**2.6**	1.4
Amounts recognised in the Statement of comprehensive income		
Interest expense on lease liabilities	**0.3**	0.3

14. Intangible assets

	Software 2023 £m
Cost	
At 1 January 2023	22.3
Additions	2.5
At 31 December 2023	24.8
Amortisation	
At 1 January 2023	18.6
Charge for the year	6.1
At 31 December 2023	24.7
Net book value	
At 1 January 2023	3.7
At 31 December 2023	0.2

Notes to the financial statements

15. Inventories

	2023 £'m	2022 £'m
Finished goods and goods for resale	**8.7**	8.3

There is no material difference between the replacement cost of finished goods and goods for resale and their carrying amounts.

16. Trade and other receivables

	2023 £'m	2022 £'m
Trade receivables	**34.0**	33.4
Amounts owed by group undertakings	**52.7**	16.3
Other receivables	**0.9**	1.2
Accrued income	**25.7**	26.8
Prepayments	**18.5**	26.2
Deferred tax asset (note 17)	**3.5**	2.9
	135.3	106.8
Of which:		
Due within one year	**125.4**	98.6
Due after more than one year	**9.9**	8.2
	135.3	106.8

Amounts owed by group undertakings are repayable on demand.

17. 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% (2022: 25%).

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

	2023 £'m	2022 £'m
Asset at 1 January	**2.9**	4.3
Statement of comprehensive income movement in the year	**0.6**	(0.3)
Recognised directly in equity	**(0.1)**	(1.1)
Transfer from group company	**0.1**	-
Asset at 31 December	**3.5**	2.9

Notes to the financial statements

17. Deferred taxation (continued)

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

	2023 £'m	2022 £'m
Excess of depreciation on fixed assets over capital allowances	**0.2**	0.1
Deferred tax on share options	**1.2**	1.5
Other timing differences	**2.1**	1.3
	3.5	2.9

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

18. Creditors: amounts falling due within one year

	2023 £'m	2022 £'m
Trade creditors	**3.8**	5.4
Amounts owed to group undertakings	**0.3**	0.8
Other taxation and social security	**2.7**	2.3
Other creditors	**2.1**	2.0
Deferred income	**-**	0.7
Accruals – Cost of sales	**6.7**	5.8
Accruals – Operating expenses	**4.8**	4.0
Accruals – Payroll	**9.1**	8.2
Lease liability	**1.9**	1.3
Contract liabilities	**6.3**	6.9
Corporation Tax	**30.2**	13.0
	67.9	50.4

Amounts owed to group undertakings are repayable on demand.

Notes to the financial statements

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

	2023 £'m	2022 £'m
Lease liability	**3.2**	5.3
Contract liabilities	**5.6**	5.7
Deferred income	**-**	1.4
	8.8	12.4
Of which:		
Due two to five years	**7.8**	11.3
Due after more than five years	**1.0**	1.1
	8.8	12.4

20. Provisions for liabilities

	Leasehold dilapidation £'m	Other provisions £'m	Total £'m
At 1 January 2023	1.2	0.1	**1.3**
Charged to the income statement	0.9	-	**0.9**
Utilisation of provision	(0.3)	-	**(0.3)**
At 31 December 2023	**1.8**	**0.1**	**1.9**
Due within one year or less	0.1	0.1	**0.2**
Due after more than one year	1.7	-	**1.7**
	1.8	**0.1**	**1.9**

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. 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.

Notes to the financial statements

21. 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 £12.65, £17.96 and £13.24 for the 2020, 2021 and 2022 plans respectively. There are no performance based vesting conditions. There were no awards made under this plan for 2023.

Share options under the Save as You Earn scheme have a vesting period of three years and an exercise price of £14.112, £10.40 and £8.50 for the 2021, 2022 and 2023 schemes respectively. There are no performance based vesting conditions.

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

Information on the performance conditions for LTIP awards can be found in the respective Annual Report of the ultimate parent company Gamma Communications plc, for the year in which the award was made.

The charge for share-based payments recognised in the year was £2.7m (2022: £4.2m), of which £0.1m (2022: £nil) 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 2023 was £11.37 (2022: £11.16). The weighted average exercise price of Gamma Communications plc for options exercised during the year ended 31 December 2023 was £5.49 (2022: £5.29).

The weighted average remaining life of the share options outstanding at 31 December 2023 was 15 months (2022: 15 months), with a weighted average remaining exercise price of £9.50 (2022: £7.68) and a range of remaining exercise prices between £0.0025 to £17.9600 (2022: £0.0025 to £17.9600).

22. Share capital

Allotted and fully paid:

	2023	2022
	£'m	£'m
5,000 (2022: 5,000) Ordinary shares of £1 each	-	-

Notes to the financial statements

23. 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 disclose transactions with other members of the Group headed by Gamma Communications plc. Gamma Telecom Ltd is a wholly owned subsidiary of the Group, and details of all related party transactions are disclosed within the Group accounts.

24. 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 The Scalpel, 18th Floor, 52 Lime Street, London, EC3M 7AF. The financial statements of Gamma Communications plc are publicly available from Companies House, Crown Way, Cardiff, CF14 3UZ.