Driving success in a growing market

Gamma Communications plc
Annual Report and Accounts 2015

Gamma is an AIM-listed communications company.

We are a leading supplier of business communications services to the UK market.

Welcome to our 2015 Annual Report.

Read more at **gamma.co.uk**

Financial highlights

£191.8m

Overall revenue grew from £173.2m in 2014 to £191.8m (up 11%).

£82.3m

Gross profit improved from £67.6m to £82.3m (up 22%).

£29.9m

Unadjusted EBITDA grew by 67% from £17.9m to £29.9m.

£28.3m

Adjusted EBITDA grew by 23% from £23.1m to £28.3m.

£28.2m

Net cash inflow from operating activities was £28.2m, up 72% from £16.4m in 2014.

£22.6m

PBT grew by 97% from £11.5m to £22.6m.

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Taylor Wimpey: our new FTSE 100 client signs up

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Increased potential for public sector contracts

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Development of core infrastructure for mobile network

Who we are and what we do

Gamma is a rapidly growing, technology-based provider of advanced communications services to the UK business market. We create simplified communications and software services for business.

Who and where we are

670 staff

As of December 2015, Gamma had 670 staff.

6 sites

We have five main sites in the UK with one small development team in Budapest.

What we do for our customers

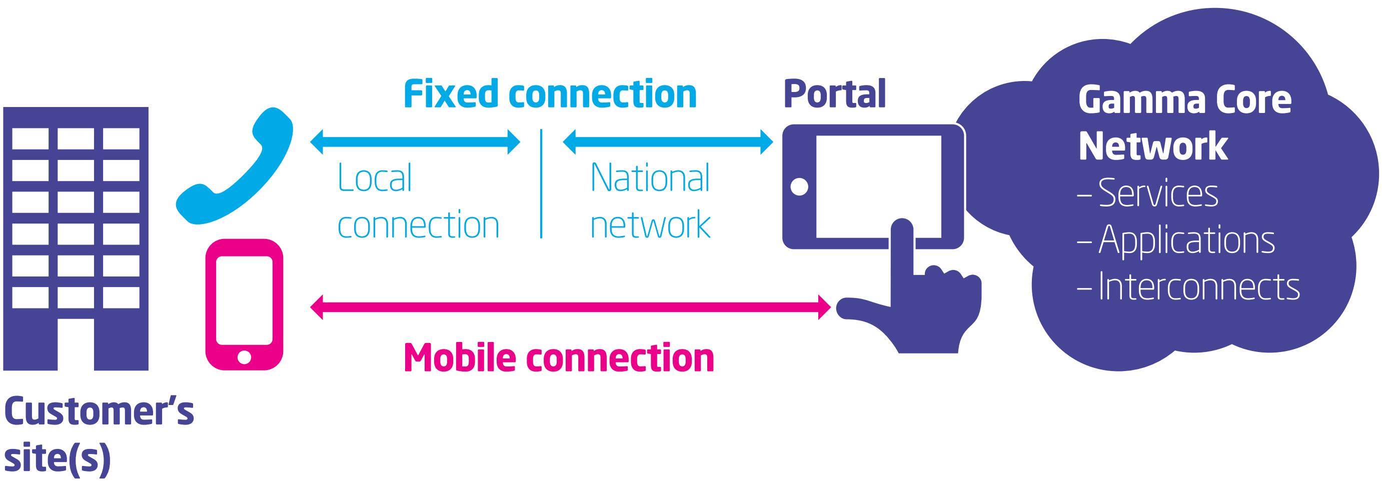
The way people work, communicate and collaborate is undergoing profound change. It is all in the quest for increased business productivity and efficiency while at the same time reducing operational and IT costs.

We supply a broad range of communications to small, medium and large-sized business customers, the public sector and not-for-profit organisations, both through our large network of channel partners and direct. Our products include fixed telephony, IP telephony, Cloud PBX solutions, broadband and data connections, mobile services, and unified communications solutions.

What makes us different

- Outstanding customer service
- Excellent network availability and resilience
- Innovative services
- Commercial strength and stability
- Strong balance sheet and consistent market strategy

Creating simplified communications for business



9.7m

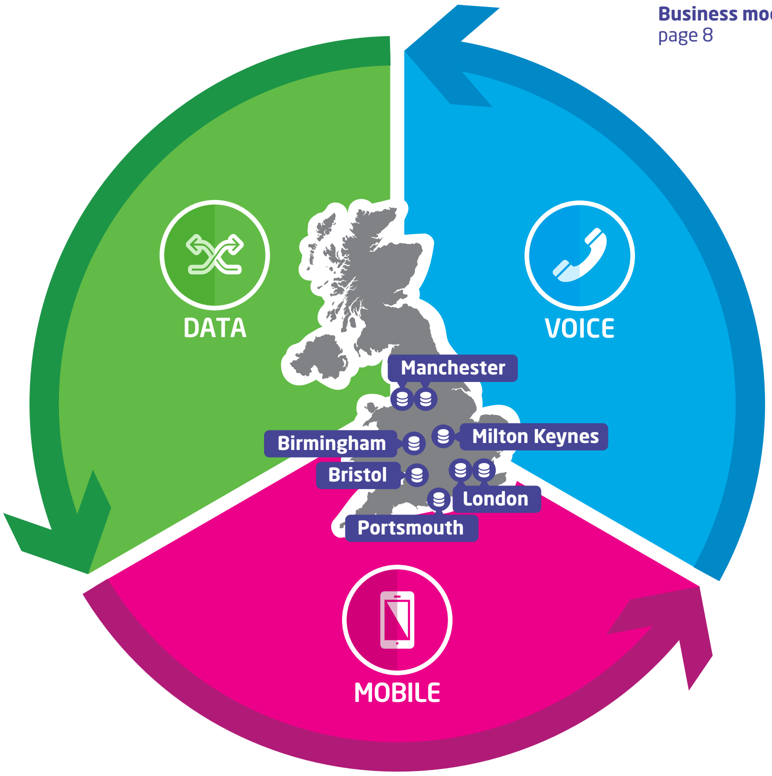
Mobile business connections in UK.

£819m

The anticipated UK SIP market size is £819m per annum by 2018.

We lead on network strength

Business model
page 8



DATA

- Data access products are designed to assure quality of service for our voice services and provide a single support structure
- Data service architecture is fully integrated with our national voice network, allowing a fully-converged service offering
- Fully-resilient solution delivered into more than one network node
- High capacity MPLS core network (10Tb capable routers)
- Direct peering with key content providers as well as geographically diverse internet transit
- POP sites around UK
- Primary and secondary interconnect points

MOBILE

- 4G data service
- Gamma owns mobile core network giving us the same control as we have over fixed voice services (routing of all calls, text and data traffic onto the Gamma network)
- Gamma Mobile is independent from mobile operator control
- Primary mobile network is with 3
- Premium MultiNet provides access to multiple networks in one single SIM

VOICE

- Our voice product platforms (SIP Trunking, Hosted telephony and Inbound) are an integral part of our national voice and data network
- Our underlying voice switching fabric is a carrier class, highly resilient, distributed, next generation, national softswitch network
- We are part of the UK's national switching infrastructure
- Interconnects with all major UK, international, fixed and mobile carriers
- We process over 2 million calls during the peak business hours

A history of Gamma

2001–2002

- Initially formed through selective acquisition of UK national network assets and relevant staff from the administrators of Atlantic Telecom.

2003–2004

- Agreement with Telia to enable its channel partners to transfer their UK voice services to Gamma.
- Won major supply contracts with Tiscali, AOL and Pipex.
- Acquired a direct sales channel through the acquisition of Uniworld Communications Limited for £10.4m.

2005–2006

- Invested £10m into the core network to position the business for next generation services.
- Acquired the IPR on billing and support systems, and specialist software skills in Budapest.

2007–2008

- First phase SIP Trunking launched.
- Full carbon offset, becoming first carbon-neutral carrier.

2009–2010

- Launched Inbound Call Control Services.
- Expanded to 350 channel partners.

2011–2014

- Broadened the portfolio substantially to include data services, Cloud PBX (branded Horizon) and Mobile.
- Acquisition of Varidion Limited, a small systems integrator and wide area data specialist, thereby strengthening the Company's capability with large Enterprise and public sector customers.
- Launch of "The Loop" in Manchester to exploit the extensive fibre and ducting assets the Group has in the city.
- Acquisition of a mobile infrastructure enabling Gamma to develop and manage a range of mobile services, effectively becoming a full MVNO.
- Listed on the Alternative Investment Market ("AIM").

2015

- Launch of Converged Private Networks, providing secure, multi-site data connectivity.
- Gaining a strong position on the new Government Crown Commercial Services framework (RM1045) opens up new markets in the public sector.

Understanding and responding in a fast-moving industry

Our services are designed to meet the needs of the UK business market, from small businesses to national enterprises. We do not compete in either the residential market or the international market. Our focus is on software-based services that we can supply from the core of our network (i.e. cloud-based) and we minimise our involvement with equipment on the customer's premises.

SIP Trunking: Business Grade VoIP
SIP Trunking is increasingly being used by business customers to replace traditional ISDN lines. At the end of 2015, there were estimated to be 1.95m SIP Trunking channels deployed in the UK, of which Gamma has a 19% share and is the market leader. The broader directly relevant market, however, is the 2.9m business ISDN channels for which SIP Trunking offers a modern, more cost-effective alternative. Gamma's growth rate in sales of SIP Trunking services in 2015 was 54%.

Cloud PBX: A phone system in the Cloud
The total UK business PBX market (including on-premise and hosted) is approximately 17.6m seats, of which close to 2.2m are hosted PBX seats. Cloud PBX services are increasingly replacing traditional, on-premise PBX infrastructure with seat volumes growing at circa 32% per annum including private Cloud PBXs. In 2015, Gamma's growth rate in Cloud PBX seats was 67%.

Inbound
The market for Inbound Call Control Services ranges from large enterprises to small organisations for which professionally managing inbound calls (such as for sales and customer services) is important as it enables them to queue, record and route calls effectively. Gamma grew the base of telephone numbers in 2015 by over 30%.

Major trends impacting growth in our market:

- The shift of hardware to the Cloud
- Availability of optical fibre access for businesses
- The growth in smartphones
- Growing convergence of communications and IT

75%

of SMEs have adopted one or more Cloud service.

£8.5bn

calls and lines total market size.

30%

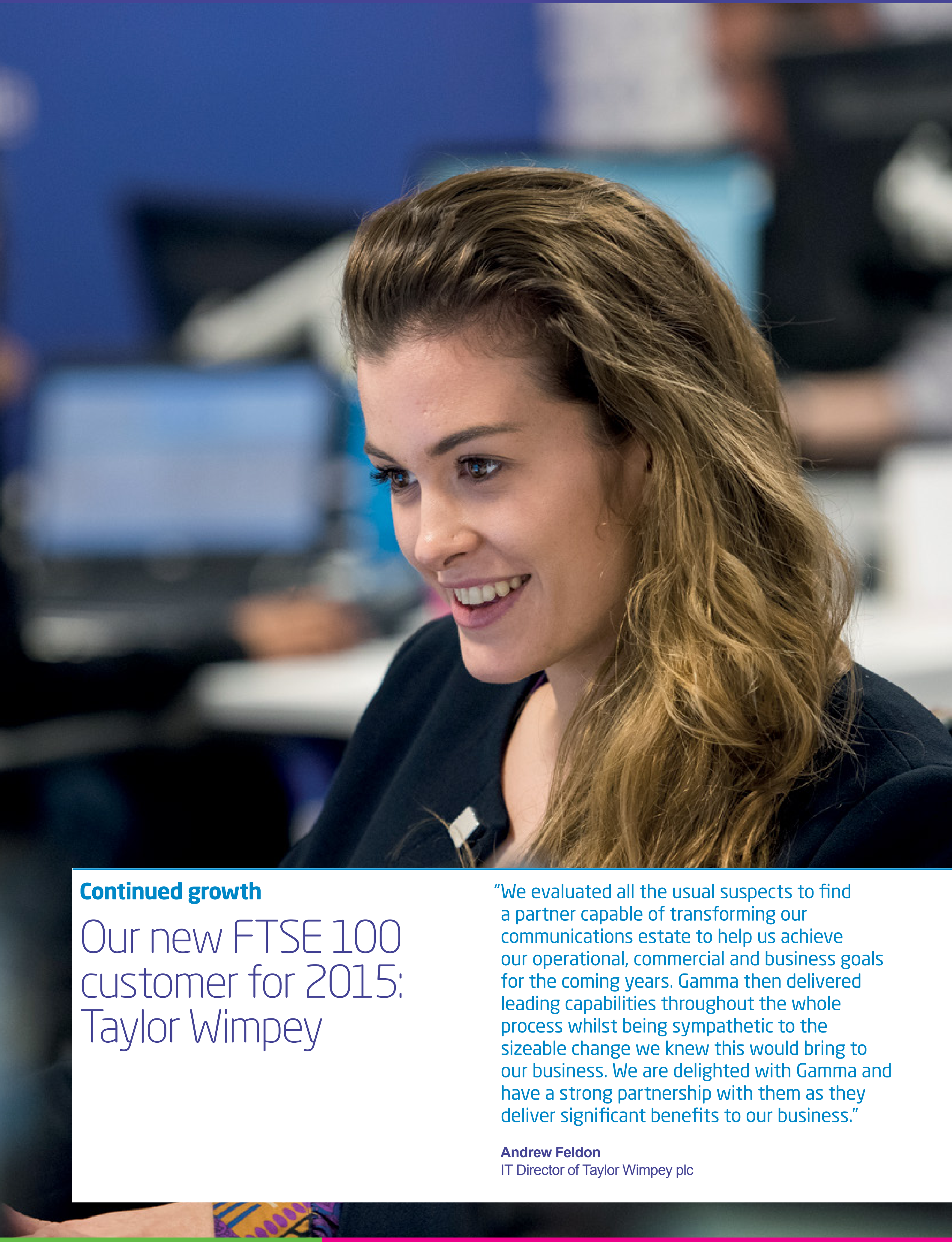
of all broadband connections are now superfast.

Ethernet
Ethernet is becoming the dominant Wide Area Network transmission technology because it can transport large amounts of any type of data in a fast, assured and economic manner. Ethernet connectivity between Local Area Networks enables multiple services and applications to operate seamlessly across different geographical locations. Gamma has substantially increased Ethernet connections in the past 12 months, and views Ethernet as a key enabling technology for its more strategic services such as SIP Trunking and Cloud PBX.

Broadband
Gamma offers a quality business-grade broadband service and does not compete for the residential market. Connections grew by 37% in 2015.

Mobile services
Gamma acts as a virtual operator, either under its own brand or that of its channel partner. In 2015, Gamma's market share of the UK business market stood at just 0.7%, leaving plenty of opportunity for further growth. At the end of 2014, Gamma acquired a mobile infrastructure enabling it to develop and manage a range of mobile services, effectively becoming a full MVNO. The first of these services will be launched in the first half of 2016.

Routes to market
Gamma sells all of its products through both the indirect channels (via 834 channel partners) which generates 79% of its revenue, as well as selling to end users through the direct channel.



Continued growth

Our new FTSE 100 customer for 2015: Taylor Wimpey

"We evaluated all the usual suspects to find a partner capable of transforming our communications estate to help us achieve our operational, commercial and business goals for the coming years. Gamma then delivered leading capabilities throughout the whole process whilst being sympathetic to the sizeable change we knew this would bring to our business. We are delighted with Gamma and have a strong partnership with them as they deliver significant benefits to our business."

Andrew Feldon
IT Director of Taylor Wimpey plc

An exciting year for Gamma

2015 has been an excellent year for Gamma, with revenue and profit continuing to increase.

Richard Last
Chairman and Independent Non-Executive Director

1st place

in the Comms Business Awards for 'most innovative cloud product' which recognises excellence in the channel.

100

Gamma was recognised as one of 'The Sunday Times Best 100 Companies to Work For – 2015'.

Introduction

I am very pleased to present the full year report on the results of Gamma Communications plc for the year ended 31 December 2015, my first following its successful IPO and listing on the AIM on 10 October 2014.

Gamma operates in the very dynamic UK communications market; a market that is increasingly hard to define as the boundary between communications and IT blurs. This presents many new opportunities.

Overview of results

Group turnover for the year ended 31 December 2015 increased by £18.6m to £191.8m (2014: £173.2m), an increase of 10.7% on the prior year. Of this increase £15.1m came from the indirect channels business where turnover increased to £152.0m (2014: £136.9m), while £3.5m came from the direct business which saw turnover increase to £39.8m (2014: £36.3m). Gross profit for the year to 31 December 2015 rose to £82.3m an increase of 21.7% compared to the £67.6m achieved in 2014, whilst the gross margin increased to 42.9% (2014: 39.0%). Adjusted EBITDA, (being before exceptional items and share based payments) for the Group increased by 22.5% to £28.3m (2014: £23.1m).

Adjusted fully diluted earnings per share for the year ended 31 December 2015 increased by 19.3% to 17.9p (2014: 15.0p) (EPS is adjusted for share based payments, exceptional items and the tax effect thereon).

The net operating cash inflow (pre-tax and non-recurring income from the ladder pricing settlement) for the year was £25.3m compared to £19.4m in 2014.

This represents a cash to adjusted EBITDA conversion ratio in respect of 2015 of 89%, compared to 84% for 2014. Net cash as at 31 December 2015 amounted to £24.8m, which is significantly up from £13.4m as at 31 December 2014.

Dividend

As stated at the time of the IPO, Gamma is committed to a progressive dividend policy. The Board is therefore pleased to propose a final dividend, in respect of the year ended 31 December 2015, of 4.4p per share (2014: 3.95p) which, subject to the necessary shareholder approval at the forthcoming AGM, will be payable on 23 June 2016 to shareholders on the register on Friday 3 June 2016. When added to the 2.2p interim dividend this makes a total dividend of 6.6p for the year as a whole.

Exceptional gain

Gamma had previously reported a contingent asset which related to ladder pricing. Ladder pricing was a mechanism which was used by fixed line operators to bill other operators for calls to certain 08 numbers. Gamma had been in commercial negotiations for a settlement in regard to its ladder pricing policy with the affected operators and these have now concluded, resulting in an exceptional gain to Gamma of £5.7m for the year ending 31 December 2015.

Business development

I am pleased that the business has grown across a range of fronts, the number of channel partners has grown as has the average volume of trading with each partner. The shift to more strategic products continues and the direct business has grown successfully, winning larger accounts, such as Taylor Wimpey in the Enterprise market and Peabody Housing in the charity sector.

Chairman's introduction to corporate governance
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Gaining a strong position on the new Government Crown Commercial Services framework (RM1045) opens up new markets in the public sector, both directly and through our channel partners, and we have strengthened our sales team in this area.

In December 2014 Gamma purchased the control equipment that provides the core of a mobile network. The Board is very pleased with the progress that was made during 2015 in building this capability into a "full MVNO" ready for a planned service launch in June 2016.

Given BT's acquisition of EE, the timing of that launch is very opportune. Business customers are increasingly looking to buy all their communications services from a single supplier and this new mobile capability positions Gamma as one of only a small number of operators that have full technical capability across fixed telephony, mobile telephony and data services.

Board and employees

On 1 December 2015 I was delighted to welcome Richard Bligh onto the Board as Chief Operating Officer reporting to Bob Falconer, Chief Executive Officer. Richard had previously been the Company's Group Marketing Director and Managing Director of Gamma's Direct Mid-Market Channel. Richard has been with Gamma since 2004 and has over 20 years' experience in telecoms in a variety of marketing and business development roles.

The senior executives, managers and employees are the bedrock of Gamma and they have significantly contributed to the creation of the successful company we have today. I should like to thank them for their consistent hard work and continued support.

Gamma is fully supportive of apprenticeship schemes and employee volunteering within the local community and has a policy of matched funding for charitable activities by staff. Employee motivation and development are fundamental principles of Gamma and lead to a stronger and more successful business.

Outlook

The Board looks forward enthusiastically to 2016 and beyond. The emerging market for converged fixed and mobile services presents many opportunities, and Gamma is well placed to exploit these with its clear focus on the UK business market and its commitment to new product development. We believe that Gamma has the experience, resources and capabilities to continue to achieve its objectives.

Richard Last
Chairman and Independent
Non-Executive Director

Board of Directors

Richard Last
Chairman and Independent Non-Executive Director

- Chairman of the Nomination Committee
- Member of the Audit Committee
- Member of the Remuneration Committee

Bob Falconer
Chief Executive Officer

Andrew Belshaw
Chief Financial Officer

Richard Bligh
Chief Operating Officer

Alan Gibbins
Independent Non-Executive Director

- Chairman of the Audit Committee
- Member of the Nomination Committee
- Member of the Remuneration Committee

Martin Lea
Independent Non-Executive Director

- Chairman of the Remuneration Committee
- Member of the Nomination Committee
- Member of the Audit Committee

Andrew Stone
Non-Independent Non-Executive Director

- Member of Nomination Committee

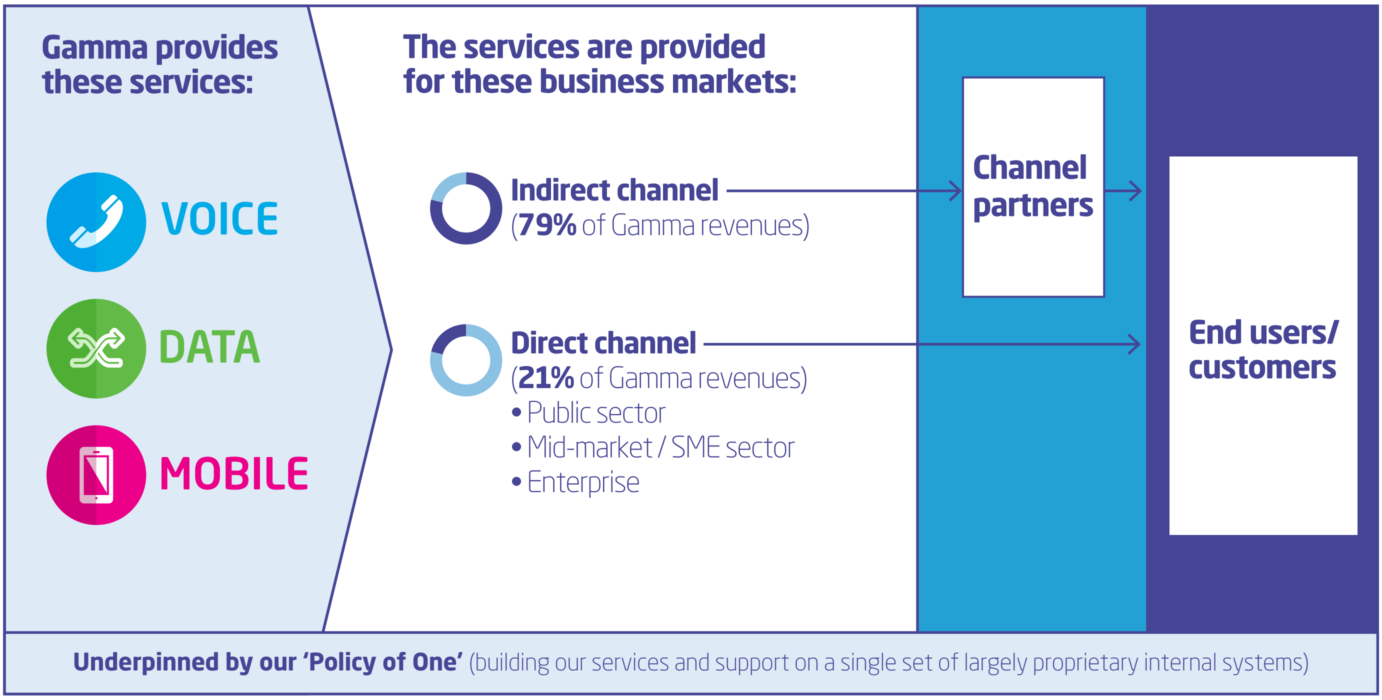
Wu Long Peng
Non-Independent Non-Executive Director

- Member of Nomination Committee

How Gamma creates value

Highly cash generative with a resilient business model, a broad customer base and low customer concentration, Gamma has seen strong growth driven by repeating revenues.

Robust and scalable business model



Gamma is a rapidly growing, technology-based provider of communications services to the UK business market. Gamma's services, such as Cloud PBX, Inbound Call Control Services and SIP Trunking, are designed to meet the increasingly complex voice, data and mobility requirements of businesses, through the exploitation of its know-how and own intellectual property.

Gamma also provides services such as business-grade broadband, Ethernet, mobile and data services. Also, as a consequence of its history, Gamma has a substantial voice service capability, completing its comprehensive range of communication services.

Growing our business

The business has consistently grown its margins over the last six years and this growth has come from right across our different channels. We do not have a target mix for indirect and direct business – we will let the business market decide. This growth has come despite industry reductions in regulated prices and difficult economic conditions.

Strategic services

The single biggest factor in the success of the business over the last six years has been the transition from selling traditional services, such as calls and lines, to providing the more strategic services of Cloud PBX, SIP Trunking and Inbound Call Control Services. For the customer, these services have three inherent advantages over the services they replace: they cost less, they are more flexible and feature-rich, and they do not require significant capital expenditure to implement.

For Gamma, the investment in product development is returned with improved margins, longer contracts and lower churn as the products are more integral to a business operation. The enabling services of Ethernet, mobile and broadband (see service portfolio diagram) are prerequisites for providing the strategic services and for ensuring that Gamma, and its channel partners, maximise the revenue opportunity from each customer.

Public sector

This is becoming an increasingly important market for Gamma, both through a number of key channel partners, who are active and successful in the public sector, and our own direct sales capability. Through framework agreements we now have a significant presence in education, health and local government. Gamma is now on the new Government Crown Commercial Services

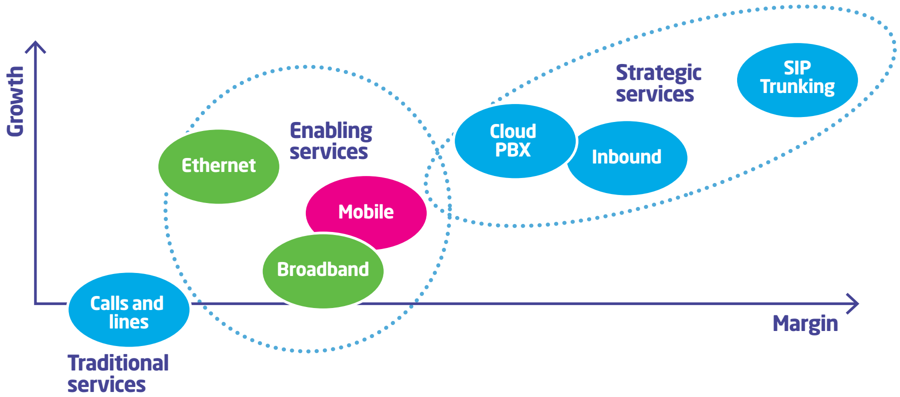
Business unit review
page 20

framework (RM1045), positioning the business well for opportunities in the central government area of the public sector, an area where Gamma is currently under-represented.

Our services

Our portfolio comprises voice, data and mobile services that are sold indirectly through channel partners and directly to end users. These services are sold in a standard, repeatable way to both partners and customers. What creates value and differentiation in our services is the way we deliver them to our partners via the Gamma portal. The business invests significantly in software resources to automate, simplify and speed up the provisioning and billing of our services. This focus on "ease of use" for all our services across one platform is a key differentiator, and reduces the back office costs of our partners.

Service portfolio



Emerging market

UK Government focus on expanding the supply chain for telecoms services

Gaining a strong position on the new Government Crown Commercial Services framework (RM1045) opens up new markets in the public sector, both directly and through our channel partners, and we have strengthened our team in this area accordingly.

Strong momentum in the business

The outlook for Gamma remains positive, and we look forward to continuing the strong momentum in the business and delivering sustainable long term value for our stakeholders.

Bob Falconer
Chief Executive Officer

Following its first full financial year on AIM, 2015 saw an excellent financial and operational performance from Gamma with strong growth in strategic products.

Overall, revenue grew from £173.2m in 2014 to £191.8m (+11%) whilst gross profit improved from £67.6m to £82.3m (+22%). Adjusted EBITDA grew by 23% from £23.1m to £28.3m, while adjusted profit before tax increased to £21.0m, up 26% from £16.7m in 2014.

The outlook for Gamma continues to be positive, the product pipeline is strong, and we look forward to delivering sustainable long term value for our stakeholders. Our investment in developing new services continues.

Gamma operates primarily through a network of channel partners and this represents 79% of the revenue and 69% of profit from operations. Direct sales are increasingly focused on areas that the channel is less active in, such as large enterprise and the public sector.

Channel partners

With our channel route to market showing growth in revenues of £15.1m to £152.0 in 2015 (2014: £136.9m) and profit after tax of £13.8m in 2015 (2014: £6.1m), we have successfully met our three key objectives in this market of a) successfully growing our business with existing partners b) shifting the balance of revenues in favour of more strategic products, and c) expanding the number of partners that actively trade with us (from 725 to 834 during 2015).

The channel remains a fast-changing and diverse market, with channel operators seeking to broaden their range of offerings to the UK business market. Unlike many of our competitors, the channel is our primary route to market and our focus is on helping our partners grow their businesses with a strong differentiated product set. During 2015, we added significantly to the marketing expertise and services we provide to our partners, directly working with them to use the latest digital techniques to successfully drive new business.

In the latter part of the year, we were particularly pleased to work successfully as a supplier to Fujitsu on the conversion of HMRC's traditional ISDN telephony estate to SIP, as a part of a much wider transformation programme. With some 97,000 numbers ported onto the Gamma network and 13,000 SIP trunks deployed, this was one of the largest and most complex ISDN to SIP conversions in the UK to date. We are pleased that it all transferred smoothly and on time.

Direct sales

The direct arm of Gamma's business also showed strong growth with revenues rising to £39.8m (2014: £36.3m) and profit after tax of £4.5m (2014: £3.3m). This included wins such as a £3.5m, three year agreement with Taylor Wimpey plc for a managed communications infrastructure service. Gamma will take over the existing traditional fixed and mobile voice services to all Taylor Wimpey UK locations, and is in the process of migrating these services to Gamma's Cloud-based unified communications service.

Gamma was also selected by IT and business process services provider CGI Group Inc. to play a key part in the roll-out of smart meters across the UK by connecting energy firms to the core datacentres.

In the public sector, we were very pleased to be awarded a Government framework agreement on eight out of the ten possible 'Lots' on the new Crown Commercial Service Network Services agreement (RM1045). This framework will replace a number of legacy agreements, and the 'Lots' cover all communications services

78%

Gamma's Cloud PBX product has achieved growth of 78% over the last year.

including data, voice, mobile and integrated communications. This gives Gamma the ability to compete in a sector where we have been materially restricted in the past – particularly in competing for national government business. Our public sector team was successful in winning a number of new contracts including Peabody Housing Trust, and NHS Trusts such as North & East London, and Maidstone & Tunbridge Wells.

Read more about our strategy on page 14

Exploiting existing services | **Infrastructure investment** | **Introducing new services** | **Developing the market** | **Execution**

Strategic products

Our strategic products of SIP Trunking (business grade VoIP) and Horizon (our Cloud PBX service) have continued to grow strongly.

Our SIP product – which is a more flexible and cost effective alternative to traditional ISDN – grew by 54%; from 234,000 to 360,000 channels during 2015. We have continued to invest in our SIP product, maintaining our product leadership. We also introduced a number of service enhancements, including additional resiliency options and new pricing initiatives that bundle in calls to mobile destinations. Gamma remains the current UK market leader in SIP Trunking, and has exceeded significantly the general 25% market growth of SIP Channels in the UK (Ilume Report June 2015).

The market for cloud-based telephony services as an alternative to a traditional PBX is now well established. In 2015 the number of connected handsets on our own Cloud telephony product, Horizon, grew by 78% from 80,000 to 142,000, helped by the number of partners accredited to sell the product growing from 258 to 345. The product is subjected to a programme of continued enhancements, the most significant of which was the addition of call-centre functionality allowing any business that receives inbound calls to better manage, monitor and control their inbound call activity; from businesses with sales teams, help desks, accounts departments, receptionists or customer service representatives, right through to smaller professional call-centre environments.

For both SIP and Horizon, we are now seeing a growth in competition, from both UK based and overseas operators, however the market remains very buoyant, and in the past 12 months Gamma has outgrown significantly the general market growth.

Enabling products

In June we were pleased to be able to launch on time our multi-site data network product (branded CPN – Converged Private Network). By the end of 2015, we have received eight orders for the product from larger organisations and the pipeline continues to grow. This product underpins our ability to provide full communications services for mid-market companies.

Gamma's enabling services of Ethernet, business-grade broadband, and mobile also grew significantly during the year. For example, the number of business-grade broadband connections grew from 29,000 to 40,000 and Gamma's Ethernet base expanded to 2,400 live connections.

These services enable Gamma to provide converged voice and data services to businesses and extend its practice of providing more functionally bundled services.

Traditional products

Margins on the traditional business, which we define as conventional wholesale calls and lines, have shown only a small decline (£0.3m of gross profit decline from 2014 to 2015), ahead of the general and continuing reduction in the size of this market.

Operational performance

With Gamma now providing services to a growing proportion of UK businesses, the quality of Gamma's operational services remains absolutely paramount, and an area where the business seeks to differentiate itself from its competitors.

Overall, across all Gamma products, the 2015 operational performance was above the defined and published service levels and the service level trend has been one of continuous improvement over several years. Strong emphasis continues to be placed on the quality of the operational service, the elimination of risk and improvements in security and, to this end the business has maintained its certification in both ISO 27001 and ISO 22301.

During the year we have developed a number of online tools that allow partners to self-diagnose and rectify over 50% of faults; not only does this mean the partner can provide a better service to their customers, but it also means we can improve our own operational efficiency.

Cyber security

Over the last few years, the risk profile associated with cyber security has changed significantly, with several high profile cases hitting the press in 2015. Whilst no company can declare they are 100% immune from a cyber attack, our stringent governance in this area is independently audited and tested through both our ISO certifications and regular penetration testing. Alongside our ISO 27001 certification, we also gained certification to the Cyber Essentials standard and we participate in the UK's Cyber-security Information Sharing Partnership (CiSP), which is a joint industry-government initiative to share cyber threat and vulnerability information. The Board regularly reviews the health of our security governance, to ensure appropriate resource and priority is placed on mitigating risk in this area.

Regulatory
Gamma had been in commercial negotiations for a settlement in regard to its ladder pricing policy. I am pleased to report that we have now concluded a cash settlement and have recognised an exceptional gain of £5.7m for the year ending 31 December 2015.

Mobile services
We announced last year that we had made an opportunistic, but strategic, acquisition of equipment that comprises the ‘core’ of a mobile network, i.e. the equipment which controls the voice and data services used by a mobile customer.

I am pleased to report that progress on developing a full mobile service (including 4G) has gone well and we are currently in full testing with plans for the service to go live in June 2016. Roaming and radio access agreements are in place and plans are advanced for the transfer of our existing base of some 66,000 customers on to the new full MVNO service. Gamma will look to position itself as the fourth mobile operator in the UK business market.

Looking forward, we recognise the importance of fixed-mobile integration, and Gamma is one of a very small number of operators with a strong capability in all the core technologies of fixed voice, mobile and data services. This is where we will be placing much of our development effort going forward.

People and property
The average number of people in the Gamma Group increased over the year from 519 to 626, primarily to support the growth in product volume and future product development.

Once again, Gamma was recognised as one of “The Sunday Times 100 Best Companies to Work For 2015” and retained its 2-star accreditation by Best Companies as an Outstanding Company. As well as aiding recruitment and retention, the survey process provides us with valuable and detailed feedback from our employees.

To cater for the growth in the business, upon expiry of the lease for our Fareham office in December we relocated to improved premises in Port Solent (near Portsmouth). An additional floor of meeting space was also agreed opportunistically for our London office in the City, and our small Budapest office was relocated following the expiry of the lease.

Outlook
And so to 2016, where our core strategy is to remain a leader in the high growth sectors of the business communications market (such as SIP Trunking and Cloud PBX), underpinned by absolutely the best-in-class quality of service and with the best and most motivated staff we can hire.

We expect the volumes to continue to grow in new products (SIP Trunking, Cloud PBX etc) and to continue to decline in traditional services (phone calls and lines), with our margins continuing to migrate from traditional to strategic.

The industry as a whole continues to undergo major changes, such as the acquisition of EE by BT, much of it driven by larger players looking to take multiple service offerings to the consumer market. Gamma, by contrast, remains wholly focused on the UK business market and the indirect channel is an effective route to that market.

Bob Falconer
Chief Executive Officer

Growing our profitability and market share

This strategy will be principally pursued organically, but Gamma is also well placed to consider strategically relevant acquisitions as the opportunities arise.

Our objective
Gamma's objective is to continue to grow both its market share and profitability by developing new innovative communications products for organisations.

This is delivered via five strategic pillars:

Exploiting existing services

- Maintaining focus on the high-growth market opportunities for services such as SIP Trunking and Cloud PBX.
- Continuing to minimise the erosion of traditional services in spite of anticipated market size reductions by offering customers extra features and a migration path to strategic services and enabling services.
- Increasing flexibility of approach to increase share of end-customer wallet over time as multiple services procured from the same supplier and individual incumbent contracts expire.

Infrastructure investment

- We have an ongoing infrastructure investment programme in order to better position the business to supply more converged services and multi-site data services.
- Reducing cost by expanding the data network deeper into the regulated BT Openreach exchanges.

Introducing new services

- Launched an MPLS data service in 2015 to address the needs of larger multi-site organisations supported by a single set of IT systems and Gamma's portal.
- Developing more converged services and commercial bundles of services to meet the demand for such services in the UK business market.
- Seeking commercial opportunities to expand and deepen its technical capability in mobile services.

Developing the market

- Growing the number of channel partners that Gamma works with and deepening the relationship with existing channel partners by providing attractive services and support.
- Growing business in the public sector.
- Growing Gamma's brand awareness in the UK business market in support of the above.

Execution

- Maintaining our "Policy of One" in terms of underlying systems.

Key performance indicators
page 16

Executing our strategy

Development of core infrastructure for mobile network

During 2015 Gamma continued with the development of its 'mobile core' (the central switching and intelligence which controls a mobile service). Ownership of this mobile core, together with Gamma's existing fixed line network infrastructure and its software development capability, gives Gamma the ability to create new products tailored to the business market. The initial service will be ready for launch once all the relevant processes (e.g. number porting and international roaming) have been fully tested with the relevant operators, anticipated in the first half of 2016.

£5.0m

initial capital investment spent.

Measuring our success

Revenue (£m)

£191.8m

2015	191.8
2014	173.2
2013	148.7

Definition
Revenue from sales made to all customers (excluding intra-group sales which eliminate on consolidation).

Outlook
Ongoing growth driven by increased sales of strategic and enabling products.

Gross profit (£m)

£82.3m

2015	82.3
2014	67.6
2013	53.9

Definition
Revenues less direct costs of sales (excluding depreciation on specific assets which is shown as depreciation).

Outlook
Ongoing growth driven by increased sales of strategic and enabling products.

Gross margin (%)

42.9%

2015	42.9
2014	39.0
2013	36.2

Definition
Gross margin as a percentage of revenue.

Outlook
Continued growth but slowing as the product mix of strategic and enabling versus traditional tends to an equilibrium.

Adjusted EBITDA (£m)

£28.3m

2015	28.3
2014	23.1
2013	17.2

Definition
Adjusted earnings before interest, taxation, depreciation and amortisation stated before exceptional items and share based payment charges.

Outlook
Continued growth.

Net cash (£m)

£24.8m

2015	24.8
2014	13.4
2013	14.6

Definition
Cash and cash equivalents held at the end of the year.

Outlook
The Group intends to maintain a cash balance at this level subject to any acquisition opportunities that may arise.

Net operating cash flows (£m)

£28.2m

2015	28.2
2014	16.4
2013	14.0

Definition
Net cash flows from operating activities.

Outlook
In 2015, unusually high due to laddering income. In the future, growth in line with EBITDA – cash conversion is expected to remain strong.

PBT (£m)

£22.6m

2015	22.6
2014	11.5
2013	11.5

Definition
Profit before tax.

Outlook
Continued growth is expected.

Adjusted EPS (£p)

17.9p

2015	17.9
2014	15.0
2013	10.8

Definition
Adjusted earnings after tax divided by the fully diluted number of shares. Unadjusted earnings per share were 19.6p (2014: 10.0p).

Outlook
Continued growth.

Performance metrics

Strategy for growth
page 14

Number of Hosted seats ('000s)

142

2015	142
2014	80
2013	43

Definition
Number of billed seats at end of year on all of the Cloud PBX products.

Outlook
Continued growth.

Relevant strategy pillars

Number of SIP channels ('000s)

360

2015	360
2014	234
2013	161

Definition
Number of billed SIP Channels at end of the year.

Outlook
Continued growth.

Relevant strategy pillars

Strategic and enabling services as percentage of gross margin (%)

72%

2015	72
2014	65
2013	56

Definition
Margin from strategic products (Inbound, SIP Trunking and Cloud PBX) and enabling products (Ethernet, Broadband and Mobile) as a percentage of the total margin.

Outlook
Continued growth.

Relevant strategy pillars

Cross sell ratios per channel partner (%)

73%

2015	73
2014	72
2013	62

Definition
The percentage of margin of our wholesale business derived from channel partners who are taking four or more strategic or enabling products.

Outlook
Similar or improving.

Relevant strategy pillars

Network availability (%)

99.997%

2015	99.997
2014	99.997
2013	99.993

Definition
Availability of strategic platforms.

Outlook
Similar or improving.

Relevant strategy pillars

Direct customer profile

109

2015	109
2014	90
2013	69

Definition
Number of direct customers generating monthly revenues of above £5,000 at the end of the year.

Outlook
Continued growth.

Relevant strategy pillars

Customer satisfaction (%)

40.0%

2015	40.0
2014	22.3
2013	43.1

Definition
The Net Promoter Score of a random selection of direct customers measured quarterly and averaged over the year.

Outlook
We expect our NPS score to remain above 20%.

Relevant strategy pillars

Number of channel partners

834

2015	834
2014	725
2013	627

Definition
Number of wholesale channel partners with monthly billing over £500 at the end of the year.

Outlook
Continued growth.

Relevant strategy pillars

Strategic pillars: Exploiting existing services · Infrastructure investment · Introducing new services · Developing the market · Execution

Understanding the risks that affect our Company

As with any business, Gamma is exposed to a number of different risks. Whilst some are clear and straightforward to manage, others are less apparent and may be outside Gamma's direct control. Therefore, in all aspects of risk management we identify new risk areas as they arise, as well as building contingency options into our plans and processes.

To this end, Gamma operates a robust and well established structure for the identification, evaluation, monitoring and mitigation of the potential risks to its performance. There is a comprehensive operational governance structure, with regular and documented meetings to track risks through the four stages on the opposite page. Each generic area of risk (e.g. Security) has clearly assigned accountability at Director level within the management team, with reporting lines to the CEO and ultimately the Board.

Gamma's business is heavily reliant on the performance of its network and associated application platforms. It ensures that the network architecture and operational support processes are robust and can cope with the vast majority of failures without impacting customer service. Gamma holds certification to ISO 27001, 22301 and ND 1643 which cover the security and business continuity of its primary products, as well as its core operational functions. In 2015 Gamma added the 'Cyber Essentials' standard to its list of certifications. Gamma carries out a full set of business continuity rehearsals, covering both technical failure and loss of access to physical locations.

The principal risks to the business are listed with a short description of their potential impact and what is being done to mitigate them. This is not an exhaustive list and, as described, the risk profile of the business is constantly evolving:

Risk	Description
Security	By its very nature, our 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. Over the last few years the profile around cyber security has changed significantly and the Company has adapted its governance accordingly.
Maintaining customer service levels	Communications services are critical to businesses. The ability to order and deliver them easily, and reach support quickly when something goes wrong, are key areas that any service provider is assessed on when a customer is placing business.
Network and systems performance	Reliable, high quality voice and data services are critical to any business and are the core components of Gamma's products. Therefore, maintaining very high levels of service availability is central to any service provider's credibility in this market.
Increased competition	New entrants or existing service providers extend their product set to compete directly with our products and services.
Evolution of technology and markets	The communications market is constantly evolving both in terms of the available technologies and also in how people look to purchase certain products.
Suppliers	The business relies on a number of key suppliers to provide elements of its products and services.
Regulatory environment	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.
Key personnel	The business has grown rapidly over the last few years, with very low staff turnover. Therefore, there are individuals who have been instrumental in its development and are important to its ongoing success.

Identification
Risks recorded in controlled risk registers.

Evaluation
Risk exposure reviewed and prioritised.

Monitoring
Risks analysed for impact and probability.

Mitigation
Risk owners identified and action plans implemented. Robust mitigation strategy subject to regular and rigorous review.

Potential impact	Mitigating actions	Impact	Change
A breach of security could have a significant impact on the Company's reputation and, in the case of telephony fraud, there could also be the chance of commercial impact.	Gamma's core infrastructure and operating capability is certified under ISO 27001 for security. We have a proactive approach to identifying any threat or attack and well proven procedures for neutralising such events. We also employ external agencies to carry out penetration testing on our systems as well as carrying out our own security incident rehearsals. We have also undergone assessment and certification to meet the 'Cyber Essentials' standard. In light of the increasing profile of cyber security we have enhanced our governance to ensure that we follow best practice in the identification and management of associated risk, including: increased frequency and broadened scope of both routine and bespoke penetration testing, mandated cyber security training for all our employees, dedicated security roles to track how cyber threats are evolving and are best detected, and Board visibility of the 'health' of the governance structure. Our fraud management applications aim to identify unusual traffic patterns within a short space of time and we have a 24/7 operational capability to then assess and mitigate the risk.	High	↑
Delivering poor customer service has two potential impacts: firstly on our ability to sustain and grow revenues and secondly, dealing with failure increases the costs of the support operation.	We have a comprehensive service development plan that captures customer feedback and seeks to best align the support interfaces (system and human) with the needs of our customers. This programme delivers additional self-serve tools, online training material and specific customer service training for our support teams. Our objective is to eliminate any cause of frustration and ensure any interaction is as straightforward as possible. In terms of governance, we hold a monthly quality forum chaired by the CEO that reviews performance across all parts of the business. This forum has its own action register to track through any improvements highlighted.	High	–
If our network and systems perform below the market expectations then this will impact our ability to grow and sustain revenues.	We operate a comprehensive operational governance framework to manage the availability and performance of our services. This includes the design and architecture of our platforms, capacity planning, change management, security, business continuity planning and rehearsals, incident management and monitoring. This structure is subject to external audit via our ISO 27001, ISO 22301 and ND 1643 certifications.	High	–
This may dilute the addressable market and slow down growth.	Gamma aims to provide services which are more attractive to our customers than those of competitors.	Moderate	↑
If the business does not at least keep pace with this evolving market then its plans for growth may be impacted.	Gamma plans, develops and markets products which match the evolution of market demand and of relevant technologies, and develops its core platforms to support these products.	Moderate	–
Failure of one of these suppliers to perform may have an impact on our ability to deliver products and services.	Where possible, we avoid reliance upon a single supplier for a particular element of our service, and ensure key supplier contracts have appropriate clauses in place to assure their performance.	Moderate	–
Our activities within the UK can also be impacted by the decisions of relevant legislative, regulatory and judicial bodies both domestically and in the European Union, with the primary potential impact of new decisions being changes to buy and sale prices for products and the way in which we are required to engage with our customers. Should our activities be found to be in breach of the requirements of our General Authorisation, the primary impact would be the cost of negative publicity and any financial penalty levied.	Gamma mitigates this risk by continuing to monitor likely regulatory changes; assessing their risk and potential impact; and engaging with regulators as appropriate.	Low	–
Loss of key individuals could have an impact on the continuing development of the business.	The business has a well-established team and a reputation for being a good employer. In 2015, it came 47th in 'The Sunday Times Best 100 Companies To Work For' ranking. This process involves a comprehensive staff survey, the feedback from which is actively reviewed and addressed by the senior management team.	Low	↓

We divide our business into indirect and direct business units serving different markets with broadly the same portfolio of services.

Indirect channel

- System integrators
- Resellers
- Unified communications
- Value added resellers
- Cloud and infrastructure

page 22

Direct channel

- Public sector
- Mid-market/SME sector
- Enterprise

page 24


Gamma

Indirect channel business unit

The largest part of our business, and very much at the heart of what we do; providing services to over 834 channel partners across the UK. These partners work closely with us, are loyal, and growing in number. The channel business is close to 80% of Group revenues.

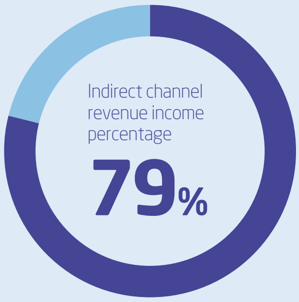
The business unit has grown external revenues by 11% in 2015 with gross profit up 22% to £64m. The main drivers of profit growth have been a steady increase in number of partners and also the increased market penetration with our higher margin services SIP Trunking and Inbound. Our Cloud PBX, Horizon, has continued to be in demand, with 47% of our partners actively selling the service to their customers. The volume of these orders placed in 2015 has grown by over 50%.

We have successfully launched our CPN data network offering – partners have contracted with customers including Weatherseal, Churchills and Toni & Guy.

Gamma grew the number of active partners from 725 to 834 during 2015. We have continued success in expanding our range of channel partners, having signed up more than 50% of the 'Microsoft Gold' partners to work with us, giving us more of a presence at the 'Microsoft Gold' forums. We also have 39% penetration of the Systems Integrators Top 100 CRN Rich List, and an ongoing campaign to target IT specialists.

This diversity and breadth of the business models of new channel partners confirms the convergence of IT and telecoms, and our industry's appetite to broaden service portfolios. To support the growth in partners, our sales team grew by 27% over the year. 24% of our sales team have been with Gamma for more than five years, with 14% over ten years. There have been a few developments within the team – separating the systems integrator channel from value added resellers to make five channel teams. The 'Carrier' channel has expanded to cover cloud and infrastructure and now provides UK services to over 50 of the UK's hosted telephony/Unified Communications as a Service ("UCaaS") platforms.

Key facts and figures



What we did in 2015

- Successfully launched our MPLS data product through the channel.
- Continued to grow the number of channel partners in emerging segments.
- Increased the level of business from Microsoft partners and systems integrators as a proportion of the whole.
- Increased cross sell ratios into the partner base.

Looking ahead in 2016, we plan to:

- Successfully launch our new mobile offering.
- Increase the level of business from mobile partners in the second half of the year.
- Continue to maintain cross sell ratios into the partner base.
- Encourage our partners with commercial deals which drive growth and commitment.
- Continue to grow the number of channel partners in emerging segments.

Current channel partner examples

CAPITA

alternative

O2

FUJITSU

New customers through channel partners

COSTCO WHOLESALE

SIXT rent a car

109

Gamma added 109 new actively trading channel partners in 2015.

22%

Gross profit grew 22% over the year.

We have successfully sold our UK Carrier infrastructure as a service offering to Telstra, the Australian carrier, and have several other large international carriers interested in the service.

As ever, we have worked hard on deepening the relationship with our partners to ensure we are well connected right across their business and are supporting all relevant aspects of their operations. Over the year we ran sales training sessions, operational workshops to support our partners' back office staff, and regular webinars on product market issues and important regulatory information. All of these activities combined to help generate a depth of relationship that hopefully puts Gamma at the core of our partners' business; creating long term partnerships as opposed to short term transactional relationships.

Major partners during the year included companies such as Fujitsu, Freedom Communications, Olive, Capita IT, Daisy, Alternative, Azzurri, Focus, HighNet and Sabio. We continue to benefit from a broad spread of customers and low customer concentration. Our top ten partners accounted for 23% of total revenues at the end of 2015.

We have continued to develop our commercial frameworks with partners to build stronger, longer term and mutually beneficial relationships, increasing our visibility of forward revenues. The new Platinum Partner scheme has been introduced – select partners have been offered a 'platinum' contract, trading increased support for a longer term commitment to grow the volume of their SIP and/or Horizon products. In exchange they receive marketing assistance, a marketing fund and a dedicated line for any escalations.

Channel case study:
Vonage

"I can highly recommend Gamma as a very good, trustworthy, reliable partner in a quite turbulent market. Gamma do what they say, when they say and provide a service that works well. I would seriously recommend Gamma as a potential partner."

Simon Burckhardt
UK Managing Director, Vonage

London based Gamma partner selling Cloud PBX and Inbound services.

Direct channel business unit

We find that some customers, particularly larger enterprises, prefer or even insist on working directly with the network bearing operator. Some, such as the public sector, have very specific requirements that require a more tailored response. This is where our direct capability is mostly focused.

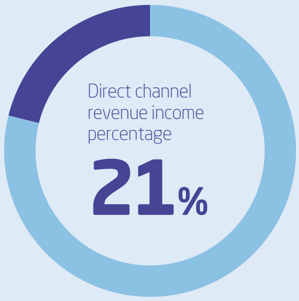
Public sector
Our public sector business unit continues to evolve at speed with an enlarged customer base and a considerably enhanced position on key framework procurement processes. During 2015, we brought greater focus to this market, breaking public sector out as a distinct business unit to drive our capabilities and revenues forward.

Gamma had particular success with the key government procurement framework "Network Services RM1045", gaining access to eight lots out of ten. We expect this to be a cornerstone of the public sector landscape for the next decade. The business also earned positions on the latest G-Cloud and JANET frameworks, while we continue to supply services through both Procurement for Housing and Scottish Government organisations.

Wins in 2015 included a £3.4m contract for Peabody Housing Trust to provide the Wide Area Network and Horizon hosted telephony to over 1,000 users. We also had several prominent SIP awards including NHS North and East London, Maidstone and Tunbridge Wells NHS Trust, with several more County Councils taking our services. Of the top 20 new business wins, 19 included SIP Trunking services, cementing our position as market leader. Our churn was once again negligible with no losses from the major accounts team. Customers retained in the year include Northumberland County Council covering SIP, Inbound, ADSL, Ethernet and the conversion of the Cheshire Police ISDN estate to SIP.

We are rapidly expanding some of our product lines in order to meet customers' requirements, recently adding a major PBX vendor to our capability with two more to complete in early 2016. The addition to these of Gamma's own 4G Mobile services will significantly increase the ratio of tenders where we are able to meet requirements and bid competitively.

Key facts and figures



What we did in 2015

- Increased the average size of direct customers and new contracts.
- Built market share in the public sector by maximising opportunities from our framework contracts.
- Continued to have a CSAT Net Promoter Score above 20%.
- Pushed Cloud PBX and SIP Trunking harder into the mid-market.

Looking ahead in 2016, we plan to:

- Continue to increase our average size of direct customers.
- Widen our service portfolio in the public sector to bid and win more tenders.
- Continue to have a CSAT Net Promoter Score above 20%.
- Successfully launch our new mobile offering into our direct businesses.
- Win more FTSE listed companies for managed service contracts.

Current customer examples

Crown Paints
Knight Frank
Lidl
americangolf

New direct customers

Metro Bank
Money Super Market
The Law Society
Taylor Wimpey

20%

Gross profit grew 20% over the year.

Mid-market/SME sector

In the Mid-market and SME sector it was apparent that 2015 saw a significant flip of sales from traditional telephony to Cloud PBX and SIP Trunking services.

There have been very few new customers that have been won which have taken solely traditional voice services. Where this has been the case, the strategy has been to sign them up on the basis that they will employ next generation services once their estates have been placed under the Gamma umbrella and the project of migrating them onto a new service design (with IP telephony at its core) can begin.

Along with this notable shift, it has also now almost become the norm for customers to opt to bundle in their calls to their fixed rental/recurring charges. New customers such as Just Eat, Metro Bank and Money Supermarket.com have all opted for this model, which brings comfort over call spend and an easy to understand invoice.

A dramatic increase in Cloud PBX sales has been in the main part driven by the SME channel, selling to the 10-100 seat business market. Clearly, this market is still being served in the main by BT. However, having the ability to sell Cloud PBX to this market, which means that the SME can enjoy the features and benefits plus the limited or even zero capital expenditure which only much larger organisations have traditionally enjoyed, is starting to grab the attention of this market segment.

The major accounts team are now starting to really cement relationships with our ~300 key accounts. Marsh & Parsons, Estée Lauder, Mills & Reeve, Haymarket Media, Keatons Estate Agents and Softcat, to name a few, all re-signed contracts in 2015.

Enterprise

It was another strong year for the Enterprise side of our business. This growth can be attributed to a combination of our Cloud unified voice, data and mobility solutions that are highly sought by Enterprise customers, combined with the fact that Gamma's brand is rapidly becoming recognised as a trusted provider of communication services to medium and large enterprise organisations. It is to this end Gamma was awarded a three year managed communications services contract to provide the FTSE listed house builder Taylor Wimpey plc with a Cloud unified voice, data and mobility solution. We had additional big wins with NBC Universal, Americana International and Sinclair International Limited.

Our existing customers are very important and delivering them world class service is our aspiration. To ensure our contract growth does not impact our current customers we bolstered our Enterprise support function, moving it to our centre of excellence in Manchester, where we were rewarded with an increase in organic growth from our existing managed service customers. All direct contract awards are for next generation cloud services, where we help large organisations navigate the blurred line between fixed and mobile communications. This appeals to large organisations because they reduce the cost and complexity of owning and operating large communications estates with our flexible model, but still retain the confidence they are dealing with a network operator directly. This is why our direct Enterprise customers commit to multi-year service agreements, typically three or five years.

Customer service

Customer service continues to be at the heart of our proposition and we track our performance quarterly with CSAT surveys. We use the Net Promoter Score methodology as a method of quantifying and tracking our customers' perceptions on service. Our average score for the year across four quarters of measurement was 40.0% (up from 22.3% in 2014).

New customers

City of Glasgow College turns to SIP for resilience and cost savings

"Gamma's proposal met all the requirements, didn't cost us a fortune which it would have done with other vendors, and we could lose ISDN completely and use JANET which we already had. It's also good that Gamma has a major support centre here in Glasgow. We're never going to get such a personal service from anyone else."

Liam Mulgrew
New Campus Telecommunications Officer, City of Glasgow College

Excellent financial performance in 2015

Andrew Belshaw describes a positive set of results for 2015 as Gamma reports for the first full year as a listed group.

Andrew Belshaw
Chief Financial Officer

17.9p
+2.9p

Adjusted EPS grew from 15.0p to 17.9p.

Revenue

Indirect Business

Revenue from the indirect business grew from £136.9m to £152.0m and gross profit grew from £52.4m to £64.1m – an increase of £11.7m of gross profit year on year.

Unlike many of Gamma's peers, the performance of the traditional business (which includes calls and lines and trade with other carriers) showed only a small decline in gross profit, down to £18.5m (2014: £18.8m). Revenues declined from £64.5m in 2014 to £58.2m as a consequence of reductions in the cost base, which were reflected in lower pricing (i.e. regulated cost base reductions can result in reduced prices to channel partners). Gamma continues to attract traditional business as a by-product from channel partners who chose to buy our new products such as Cloud PBX and SIP Trunking. The number of channel partners actively trading with Gamma increased from 725 at the start of the year to 834 by the end of the year.

The percentage of gross profit coming from channel partners who buy four or more products (excluding traditional calls and lines) from Gamma remains high at 73% (2014: 72%). Both the increase in channel partners and the fact that they are selling more products meant that the revenue from new product sales increased from £72.4m to £93.8m and gross profit grew from £33.6m to £45.6m. Gross margin grew from 46.4% to 48.6%, which reflects the fact that the main contributor to this growth was SIP Trunking, which is our highest margin product.

Direct Business

The direct business has also had a solid year although growth in the second half was lower than hoped for due to the length of the order to cash cycle. Revenue increased from £36.3m in 2014 to £39.8m and gross profit from £15.2m to £18.2m.

Gross margin increased from 41.9% to 45.7%. The growth was attributable to sales of new product and profit on these products grew from £10.6m to £14.0m. This includes multi-product solution sales to larger enterprises. This is particularly pleasing because much of the new business is won on multi-year contracts.

Operating expenses

Operating expenses before exceptional items and share based payments grew from £50.9m to £61.4m. This was due to a number of factors:

- The growth in the number of customers switching to new products for the first time continues to be a driver of overhead.
- The new mobile platform cost £1.8m to maintain in the year, which was cost incurred without any corresponding improvement in margins, which will come in the second half of 2016.
- We also continue to increase our investment in product development and, whilst internal spend of £0.9m was capitalised in the year, we spent more on the research and initial development of new product offerings and variants on our existing product set as we continue to build for the future.
- The Group continues to invest in its systems to ensure that, as sales increase, the number of customer service personnel required does not increase at the same rate.

Adjusted EBITDA

The combination of increasing sales of new products and operational improvements means that adjusted EBITDA grew from £23.1m to £28.3m or 23% – an impressive performance (adjusted EBITDA is stated before share based payments and exceptional Items).

Highlights

£191.8m
+11%

Overall revenue grew from £173.2m in 2014 to £191.8m.

£29.9m
+67%

Unadjusted EBITDA grew by 67% from £17.9m to £29.9m.

£28.3m
+23%

Overall EBITDA before exceptional items and share based payments grew from £23.1m in 2014 to £28.3m.

£23.1m
+£6.7m

Adjusted cashflow from operating activities grew from £16.4m to £23.1m (cashflow has been adjusted downwards by £5.1m to reflect the non-recurring inflow from the "ladder pricing" settlement).

Exceptional items and share based payments

In the current year there was an exceptional gain of £5.7m relating to "ladder pricing". Share based payment charges for the year were £4.1m in 2015 (2014: £3.2m) as a result of additional options being issued to senior management, a SIP scheme offered to all staff where Gamma matched shares bought by staff with one free matching share for each share purchased, and the increasing costs of Employers National Insurance on Share Option Gains. We anticipate share based payments decreasing in future years.

Cash flows

The cash balance at the end of the year was £24.8m, which is up from £13.4m at the end of the previous year.

The trading cash flows were bolstered by an exceptional inflow of £5.1m in respect of the ladder pricing settlement (some cash had been received previously but no income had been recognised in respect of this in the income statement due to an ongoing dispute). Therefore, whilst the cash flow from operations is shown as £28.2m, the underlying cash inflow is actually £23.1m. This adjustment gives a cash inflow before taxation of £25.3m which represents 89% of adjusted EBITDA for the year; in line with our historical rates of cash conversion.

Capital expenditure for the year was £11.5m, which is a decrease from £12.1m in the previous year. This is discussed in detail below.

The Group continues to be debt free and a number of lenders have indicated that they would be willing to support the Group with debt were it to be required for capital expenditure or an acquisition.

Capital expenditure

The Group spent £11.5m on capital, which was split as follows:

- £3.4m was on increasing capacity and development of the core network (2014: £4.8m).
- An additional £1.0m was spent on augmenting the mobile platform purchased in 2014 in preparation for a live service in 2016 (2014: £4.0m).
- £0.4m was spent on building out our data network into a number of London Exchanges which will reduce our cost base for our Ethernet product from mid-2016 (2014: £Nil).
- £0.9m was the capitalisation of development costs incurred during the year; this is in line with previous years (2014: £0.9m).
- £4.4m was on customer premises equipment ("CPE"); this is "success based" expenditure and is expected to increase in line with sales growth in our data and Cloud PBX products (2014: £1.0m).
- £1.4m of other assets which are predominantly related to IT and Fixtures and Fittings (2014: £1.4m).

Taxation

The effective tax rate for the year was 19.0% (2014: 18.3%). The tax rate is lower than the statutory rate for the year (20.25%) because the Group benefits from research and development tax credits. These credits are however lower in 2015 than previously because the Group has moved into the large company regime where the credits are lower.

Dividends

The Board has proposed a final dividend of 4.4p representing a full year dividend of 6.6p per share. This is an increase of 11% against our pro-forma dividend for 2014 of 5.93p and is in line with our progressive dividend policy.

Subject to shareholder approval, the final dividend will be paid on 23 June 2016 to shareholders on the register as at 3 June 2016.

Andrew Belshaw
Chief Financial Officer

An engaging culture, central to our business growth and ideals

Our culture has been instrumental in the growth and success of the business to date. This is aided by trusting our staff, delegating as far as possible, and creating an informal, constructive environment.

Communicating with staff is obviously paramount in maintaining an involved and informed group of employees. We have quarterly conference calls where the management team individually brief the whole staff, supported by regular staff newsletters, CEO briefings (by location) and an annual survey (see Best Companies to Work For).

Our staff churn across the business is low relative to industry norms, and particularly so in our customer service teams where knowledgeable, experienced staff are so vital to offering good customer service. Wherever we can, our preference is to grow our own staff from graduates or apprentices. In sales, for example, our strategy is to recruit graduates as desk-based support staff, developing them into field-based sales and ultimately sales management. The average tenure of our sales staff is well over five years, with many of our sales management having been with us for over ten years.

The business also offers staff a choice in terms of flexible benefits. We believe this flexibility gives our employees freedom and choice in selecting a customised basket of benefits to suit their specific needs and individual lifestyle. We also aim to provide a degree of peace of mind for our people through the provision of income protection and life assurance policies. For those employees juggling work, family or carer commitments, or trying to enhance their work/life balance, we provide the option for them to purchase additional holidays.

Staff learning and development remains a key priority for Gamma. It helps us to maximise the potential of our people, retain skills and grow the business. As a technically-based business in a fast-changing market we need to keep our people's skills up to date and give them the opportunity to grow and develop as best they can. A wide range of learning and development opportunities are available, including funding by Gamma to undertake Masters level courses and other professional development courses.

Chosen charity: Woodland Trust

We are proud to support the Woodland Trust, an organisation dedicated to the protection and promotion of natural woodlands across the UK.

Policy on staff support for good causes

Gamma operates a policy of "matched funding" for all qualifying staff charity activities in addition to supporting the Woodland Trust. In 2015, we also ran two charity events with our customers – car rallying and cycling. The Charity Mountain Bike event raised £3,700 for the Samaritans and Rays of Sunshine whilst the Gammaball Rally raised a staggering £140,000 for Special Effects and ATE (Action Through Enterprise).

Apprenticeships

Gamma continues to welcome and assist apprentices to gain invaluable work experience, continue their education and gain nationally recognised qualifications. With apprentices currently employed in IT, Infrastructure Support, Software Development and Customer Service, we have a good track record of offering permanent employment at the end of the apprenticeships.

Flexible benefits

Gamma offers all UK based staff access to a pension scheme, life assurance cover and income protection. In response to staff feedback, Gamma offers a flexible benefits package which allows staff to trade salary for benefits such as a bike to work, gym membership, childcare vouchers and additional holiday. Gamma has also partnered with Reward Gateway to offer staff a variety of discounts from various retail outlets.

Volunteering policy

Gamma actively encourages and supports employees who wish to volunteer within the community or for charities. Supporting volunteers helps the Company to build relationships with the local community and improves its perception within it. Employees who do volunteering work can use the skills that they have developed at work to help in the community, or learn new skills, such as leadership, helping to improve their morale, physical health and overall work/life balance.

The environment and CarbonNeutral®

We made a commitment to reducing our carbon footprint across our network back in 2006, through investment in the efficiency of our IP based network and other assets as well as an active offset management programme. This means Gamma is a fully certified CarbonNeutral® company, making us one of the few communications providers in the UK to have a net zero carbon footprint.

Share scheme

In addition to the long term incentive schemes which offer options to key employees, the Company is keen to ensure that all employees who would like to be shareholders can do so in the most efficient way. Therefore, the Company has historically offered a Share Incentive Plan ("SIP") and, for 2016, will be offering a Save as you Earn ("SAYE") scheme, both of which allow all eligible employees to acquire shares. At 31 December 2015, 176 employees were shareholders via the SIP scheme.

GammaFest 2015

GammaFest is an excellent example of how we put a lot of time and effort into trying to be different from the larger companies that we compete against, and how we protect our culture as we expand.

The first GammaFest was held during September 2015 at Keele University with some great bands and singers, DJ sets, fun activities and plenty of food. The event was a big hit with employees who travelled from all our offices to spend the weekend together – some of them even formed bands that performed on the main stage.

The Sunday Times Best Companies To Work For

Three times recognised in the Top 100 Best Companies To Work For.

Top factor ranks

Wellbeing	23rd
My manager	41st
Leadership	45th
Male/female ratio	72:28
Average age	36
Voluntary Leavers	8%
Earning £35,000+	39%

THE SUNDAY TIMES 100 BEST COMPANIES TO WORK FOR 2015

The Sunday Times Best Companies To Work For 2015 recognises the opinion of Britain's motivated workforces and it is widely acknowledged as the most searching and extensive research into employee engagement carried out in this country. All the scores and ratings that are assessed to compile the lists are based on employee opinions. In 2015 Gamma was recognised as the '47th Best Company To Work For'.

The strategic report was approved by the Board of Directors on 21 March 2016.

Andrew Belshaw
Chief Financial Officer

Chairman's introduction to corporate governance

The Board recognises that sound corporate governance is an essential underpinning for a growing, publicly quoted business, and is committed to ensuring the integrity of both its processes and of those of the Company as a whole.

Richard Last
Chairman and Independent Non-Executive Director

The Directors support high standards of corporate governance. Although as an AIM-quoted company, the Company is not required to comply with the UK Corporate Governance Code, we have reported on our corporate governance arrangements by drawing upon best practice available, including those aspects of the Code we consider to be relevant to the Company and best practice.

The Board is responsible for establishing and maintaining the system of internal controls which has been in place throughout 2015. The effectiveness of the Group's system of internal control is reviewed annually by the Audit Committee on behalf of the Board, as referred to in the Audit Committee report.

The Board comprises eight Directors, three of whom are Executive Directors and five of whom are Non-Executive Directors, reflecting a blend of different experience and backgrounds. Of the Non-Executive Directors, the Group regards Richard Last, Alan Gibbins and Martin Lea as Independent Non-Executive Directors within the meaning of the UK Corporate Governance Code 2014.

The Board meets regularly to consider strategy, performance and the framework of internal controls. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings.

The Company has established Audit, Nomination and Remuneration Committees of the Board with formally delegated duties and responsibilities. The Company's commitment to strong corporate governance and risk management will remain central to the business during 2016 and beyond.

Board of Directors

Richard Last
Chairman and Independent Non-Executive Director

Bob Falconer
Chief Executive Officer

Andrew Belshaw
Chief Financial Officer

Richard Bligh
Chief Operating Officer

Alan Gibbins
Independent Non-Executive Director

Martin Lea
Independent Non-Executive Director

Andrew Stone
Non-Independent Non-Executive Director

Wu Long Peng
Non-Independent Non-Executive Director

Audit Committee
Chaired by Alan Gibbins. Members: Richard Last and Martin Lea.

Nomination Committee
Chaired by Richard Last. Members: Martin Lea, Alan Gibbins, Wu Long Peng and Andrew Stone.

Remuneration Committee
Chaired by Martin Lea. Members: Richard Last and Alan Gibbins.

Corporate governance framework

The Board has a coherent corporate governance framework, as illustrated opposite, with clearly defined responsibilities and accountabilities designed to safeguard and enhance long term shareholder value and provide a robust platform to realise the Company's strategy.

An experienced Board

We have an experienced Board which blends industry expertise with public company experience and the knowledge and skills of our long standing shareholders.

Richard Last
Chairman and Independent Non-Executive Director

Richard is currently Chairman and Non-Executive Director of Servelec Group plc, a UK-based technology group, Tribal Group plc, an education software, systems and services group, and of British Smaller Companies VCT 2 plc, a venture capital trust, all listed on the London Stock Exchange. Richard is also Chairman and Non-Executive Director of AIM-listed Arcontech Group plc, a financial services software company, and of Lighthouse Group plc, an AIM-quoted financial services group. He is also a Non-Executive Director of Corero Network Security plc, an AIM-quoted IT security solutions provider, and a number of private companies.

Richard is a Fellow of the Institute of Chartered Accountants in England and Wales.

Year joined
2014

Committee membership
- Chairman of the Nomination Committee
- Member of the Audit Committee
- Member of the Remuneration Committee

Bob Falconer
Chief Executive Officer

Bob began his career at BT's Research Laboratories before joining ICI in 1987, rising to become the global telecoms manager for the Group. In 1994 Bob took a directorship at Racal Network Services (later Racal Telecom and Global Crossing UK) where he stayed until 2002, during which time he was responsible for group operations. Bob joined Gamma in 2003 as COO before being appointed CEO in 2004.

Bob has a BSc in Electrical and Electronic Engineering from Heriot-Watt University, Edinburgh and is a Fellow of the Institution of Engineering and Technology.

Year joined
2003

Committee membership
—

Andrew Belshaw
Chief Financial Officer

Andrew has been with Gamma since 2007, having previously been Finance Director, and was appointed to the Board in October 2014. A Chartered Accountant by background, he has worked in both audit and corporate finance at Deloitte and Ernst & Young, specialising in providing advice to a wide range of clients in the technology sector. After leaving private practice, Andrew worked alongside the Commercial Director in a new business development role at Xansa plc before joining Gamma.

Andrew has a degree in Maths from St John's College, Cambridge and gained an MBA from Warwick University Business School. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Year joined
2007

Committee membership
—

Richard Bligh
Chief Operating Officer

Richard joined Gamma in 2004 and has nearly 20 years' telecoms experience in a variety of marketing and business development Vice President roles. These include UK and international experience in ECI Conferencing, Intertek plc, Global Crossing and Racal Telecom. Richard has extensive experience of business markets from serving multinational corporates to selling via the channel. Richard was appointed COO in December 2015.

Richard is a graduate of Cardiff University and a member of the Chartered Institute of Marketing.

Year joined
2004

Committee membership
—

Alan Gibbins
Independent
Non-Executive Director

Alan has extensive experience of public company reporting and financial services spanning 30 years with Price Waterhouse and PricewaterhouseCoopers LLP, having been a Partner from 1985 until 2006.

His responsibilities included one of the main London audit groups and he was an Audit and Business Assurance Partner. Alan has been a Non-Executive Director and Audit Committee Chairman for BlueBay Asset Management plc as well as being a Non-Executive Director for a number of private companies. Alan joined Gamma in June 2014 and is Chairman of the Audit Committee.

Alan has an MA in Modern History from Lincoln College, Oxford and is a member of the Institute of Chartered Accountants in England and Wales.

Year joined
2014

Committee membership
- Chairman of the Audit Committee
- Member of the Nomination Committee
- Member of the Remuneration Committee

Martin Lea
Independent
Non-Executive Director

Martin has over 20 years' experience leading businesses within the support services, telecommunications and network, integration and service sectors. Most recently, he served as interim CEO at Multicom Security Group and was President and CEO of Invitel from 2004 to 2011. Prior to Invitel, Martin was Executive Vice President of Intertek Group plc and Managing Director of Racal Telecom, a national UK alternative telecom operator and managed service provider. Martin joined Gamma in June 2014 and is Chairman of the Remuneration Committee. Martin is also an Independent Non-Executive Director of Epsilon Global Communications PTE Ltd, a privately owned provider of global communications and infrastructure services.

Martin has a BA 1st class (hons) degree in Business Studies, and is a Fellow of the Institute of Directors.

Year joined
2014

Committee membership
- Chairman of the Remuneration Committee
- Member of the Nomination Committee
- Member of the Audit Committee

Andrew Stone
Non-Independent
Non-Executive Director

Andrew is a founding Director of Greenstone+ Ltd (formerly Greenstone Carbon Management Ltd) and was previously a Non-Executive Director of Armajaro Trading Ltd, a global soft commodity trading house, from 2011 until 2012 when he was appointed Global Head of Commodities and one of the CEOs from January 2013 to July 2013. Andrew has also acted as Non-Executive Director at Openfield plc, one of the UK's largest grain marketing organisations. From 1993 to 2006, Andrew was employed at ED&F Man in a variety of senior positions including Managing Director of ED&F Man Asia, and a director of both SIS 88 Pte Ltd and Asian Blending Pte Ltd. He is also a Director of Epsilon Global Communications Pte Ltd.

Year joined
2011

Committee membership
- Member of the Nomination Committee

Wu Long Peng
Non-Independent
Non-Executive Director

Long Peng has more than 30 years' experience in finance and corporate affairs. He is an Executive Director of Kuok (Singapore) Limited, Pacific Carriers Limited and Malaysian Bulk Carriers Berhad (a company listed on Bursa Malaysia). He is also a Non-Executive Director of Pacc Offshore Services Holdings Limited (a company listed on the Singapore Exchange) and a Director of Epsilon Global Communications Pte Ltd. Long Peng joined the Board of Gamma in 2011.

Long Peng is a Fellow Member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Institute of Singapore Chartered Accountants.

Year joined
2011

Committee membership
- Member of the Nomination Committee

Robust leadership

The Gamma management team has many years' experience in both Gamma and the communications industry. The average tenure at Gamma is over nine years. Commitment, knowledge and a passion for Gamma are what drives this team.

Andy Morris
Group Operations Director

Andy joined Gamma in 2006 with a proven track record of establishing and running high quality, customer orientated operations. Previously at Cable & Wireless he successfully ran a business unit responsible for 12 of Cable and Wireless' largest corporate customers including Marks and Spencer and Alliance & Leicester. Prior to that he was involved with a number of telecoms start-ups both in the UK and across a number of European countries.

He spent the early part of his career with GEC Marconi Aerospace and is an engineering graduate of Nottingham Trent University.

Daryl Pile
Director – Public Sector

Daryl joined Gamma in 2003 and has a proven track record in overseeing revenue and margin growth in the telecoms industry. With over 17 years of experience, he has taken a number of business development roles including Head of Channel and Sales Director at companies such as Telia, Uniworld and Gamma. Prior to his current position, Daryl was Head of Sales for the PBX/UC channel overseeing the development of around half of our channel partners.

Daryl is a graduate of the University of Surrey with a degree in economics.

Paul Peel
Development Programme Director

Paul joined the leadership team as its Programme Director having spent over 20 years managing programmes and projects in technology intensive industries. A graduate of the RMA Sandhurst, he spent his early years in telecoms with the Royal Signals, completing a degree in Electronic Systems Engineering en route. He joined Gamma from General Dynamics in 2003 since when he has been involved in delivering many of Gamma's significant business transformation projects.

He has an MBA and Masters degrees from King's College London and Cranfield University. He is also a Member of the British Computer Society, reflecting his wider role at the head of Gamma's software development teams.

Malcolm Goddard
Group Commercial Director
and Company Secretary

Malcolm joined Gamma in 2005 bringing over 15 years' experience in mergers and acquisitions, multinational procurement, business management and IT outsourcing.

Malcolm's early career was with ICI and AstraZeneca, and he has a degree in Engineering from Cambridge University.

David Macfarlane
Managing Director – Gamma Network Solutions

David joined Gamma in 2012 following Gamma's acquisition of his managed services business Varidion Limited and now heads up the Enterprise solutions division.

Prior to this, David was the CTO at Sirocom and latterly the Group CTO at Azzurri Communications and has over 25 years' experience in creating and delivering managed services.

Alan Mackie
Product Director

Alan has over 20 years' experience in the telecoms and data managed services industry, in senior product management, marketing and project management roles. Immediately prior to his current role, Alan was Head of Voice Services at Gamma, having undertaken product/project management roles at application hosting companies Aspective and Global Crossing earlier in his career.

Alan is a graduate of Napier University, with a degree in Communications Engineering.

Corporate governance report

The workings of the Board and its Committees

At 31 December 2015, the Board was comprised of five Non-Executive Directors, one of whom is the Chairman, and three Executive Directors. Of the Non-Executive Directors, three are considered to be independent. The Board is responsible to the Shareholders for the proper management of the Group. It meets regularly, as set down in the table opposite, to review trading performance, set and monitor strategy, examine acquisition and divestment possibilities, approve major capital expenditure projects and other significant financing matters and report to shareholders. The Board delegates authority to the management for the day-to-day business under a set of delegated authorities which cover: routine operational matters, purchasing procedures, financial authority limits, contract approval procedures and the hiring of full time and temporary staff and consultants.

Matters for review by the Board are communicated in advance of formal meetings. All of the Directors are subject to election by shareholders at the first AGM after their appointment to the Board and to re-election by shareholders at least once every three years. In addition, any Non-Executive Director who has served on the Board for more than nine years will be subject to annual re-election.

The Chairman and Non-Executive Directors have other third party commitments including directorships of other companies. The Company is satisfied that these associated commitments have no measurable impact on their ability to discharge their responsibilities effectively. The Executive Directors have no third party commitments.

New Directors receive induction on their appointment to the Board which covers the activities of the Group and its key business and financial risks, the terms of reference of the Board, and its committees, and the latest financial information about the Group.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. In addition, the Company Secretary will ensure that the Directors receive appropriate training as necessary. The appointment and removal of the Company Secretary is a matter for the Board as a whole. All Directors are supplied with information in a timely manner in a form, and of a quality, appropriate to enable them to discharge their duties. The following is a table of attendance:

	Board meeting	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Bob Falconer	8/8	N/A	N/A	N/A
Andrew Belshaw	8/8	N/A	N/A	N/A
Richard Bligh	1/1	N/A	N/A	N/A
Non-Executive Directors				
Richard Last (Independent)	8/8	4/4	4/4	1/1
Alan Gibbins (Independent)	8/8	4/4	3/4	1/1
Martin Lea (Independent)	8/8	4/4	4/4	1/1
Wu Long Peng	8/8	N/A	N/A	1/1
Andrew Stone	8/8	N/A	N/A	1/1

Richard Bligh was appointed as a Director of the Company on 1 December 2015.

During 2015, certain Directors who were not committee members attended meetings of the Audit Committee and Remuneration Committee by invitation. These details have not been included in the table. Where a Director is unable to attend meetings of the Board or of Board committees, such Director is invited to review the relevant papers for the meetings and provide his comments to the Board or the Board committees in advance of such meetings.

Board performance

The Company has a formal process of annual performance evaluation for the Board, its committees and individual Directors. The Board and its committees are satisfied that they are operating effectively.

A performance evaluation of the Board, the Board committees and individual Directors will continue to be conducted annually and the method for such review will continue to be reviewed by the Board in order to optimise the process.

The Company has Directors' and officers' liability insurance in place.

Committees

The following committees deal with specified aspects of the Group's affairs.

Audit Committee

The make-up and workings of the Audit Committee are set out in the Audit Committee report on page 38.

Remuneration Committee

The make-up and workings of the Remuneration Committee, together with details of the Directors' remuneration, interest in options, together with information on service contracts, are set out in the Report on Directors' Remuneration. No Director is involved in the decision about their own remuneration.

Nomination Committee

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition and make-up of the Board and any committees of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors or committee members as the need may arise. The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience and the size, structure and composition of the Board and committees of the Board, retirements and appointments of additional and replacement Directors and committee members and will make appropriate recommendations to the Board on such matters.

The Nomination Committee is chaired by Richard Last and its other members are Martin Lea, Alan Gibbins, Wu Long Peng and Andrew Stone.

The Company's policy is to attract and develop a highly qualified and diverse workforce, to ensure that all selection decisions are based on merit and that all recruitment activities are fair and non-discriminatory. We continue to focus on encouraging diversity of business skills and experience, recognising that Directors and managers with diverse skills sets, capabilities and experience gained from different backgrounds enhance the Group.

Relations with shareholders

Communication with shareholders is given high priority by the Board and is undertaken through press releases, general presentations at the time of the release of the annual and interim results and face-to-face meetings. The Group issues its results promptly to individual shareholders and also publishes the same on the Company's website. Regular updates to record news in relation to the Company are also included on the website.

In order to ensure that the members of the Board develop an understanding of the views and concerns of major shareholders there is regular dialogue with institutional shareholders, including meetings after the announcement of the Company's annual and interim results. The Board uses the AGM to communicate with private and institutional investors and welcomes their participation.

Signed on behalf of the Board by:

Richard Last
Chairman and Independent
Non-Executive Director
21 March 2016

Audit Committee report

Alan Gibbins
Audit Committee Chairman

Membership

The members of the Audit Committee and meetings attended are:

Name	Meetings attended
Alan Gibbins, Chairman	4/4
Richard Last	4/4
Martin Lea	4/4

The Committee consists of the three Independent Non-Executive Directors, including the Chairman of the Board, who between them have a balance of recent and relevant financial experience and accounting training, and general business knowledge. There were no changes to the membership of the Committee during the year.

The Committee meets at least three times a year generally just prior to Board meetings to facilitate immediate and efficient reporting to the Board, with additional meetings where necessary. The external auditors are invited to each meeting. The Chief Executive Officer, Chief Financial Officer and the other Non-Executive Directors also attend by invitation.

The Committee also meets separately with the external auditors without others being present, and the Chairman of the Committee maintains a regular dialogue with the Chief Financial Officer and his team.

Objectives and responsibilities

The Committee's key objectives are to provide effective governance over Gamma's financial reporting and the performance of the external auditors; to provide oversight of the Group's systems of internal financial control; and to report to the Board on these matters.

In fulfilment of these objectives the Committee:

- reviews Gamma's financial statements and announcements, including compliance with statutory and listing requirements. As an AIM-listed company, Gamma is not required fully to comply with the UK Corporate Governance Code, but seeks nevertheless to comply in all material respects;
- considers whether these statements and announcements provide a balanced and understandable view of Gamma's strategy and performance, and of the associated risks;
- considers the appropriateness of accounting policies and significant accounting judgements and the disclosure of these in the financial statements;
- reviews the effectiveness of financial controls and systems. In this context the Committee continues to keep under review the need for an internal audit function; and
- oversees the relationship with and performance of the external auditors.

Activities of the Committee during the year

In fulfilment of the responsibilities set out above, the Committee's activities have focused on financial reporting and the related statutory audit, and the assessment of internal controls. In addition, the Committee conducted a tender for the external audit, which is also explained below.

Financial reporting and statutory audit

The Committee has reviewed with both management and the external auditors the half year and annual financial statements, focusing on:

- the overall truth and fairness of the results and financial position, including the clarity of disclosures shown in the statements and their compliance with statutory, listing and best practice requirements;
- the appropriateness of the accounting policies and practices used in arriving at those results;
- the resolution of significant accounting judgements or of matters raised by the external auditors during the course of their half year review or annual statutory audit; and
- the quality of the Annual Report taken as a whole, including disclosures on governance, strategy, risks and remuneration, and whether it gives a fair and balanced picture of the Group.

External audit

The Committee discussed, challenged and agreed with Deloitte LLP their detailed audit plans prepared in advance of the audit, which set out their assessment of key audit risks and materiality. There were particular discussions on the complexity of auditing revenues and associated costs and the use of specialist audit techniques for Gamma's billing and related IT systems. To help with these discussions, the Billing and Revenue Assurance Manager presented to the Committee on what Gamma itself does on a daily basis to ensure the accuracy of billings to clients and that Gamma only pays for the proper amount of any corresponding external cost. The Committee satisfied itself that the appropriate degree of audit rigour and scepticism would be applied in this crucial area.

Accounting policies, practices and judgements

The selection of appropriate accounting policies and practices is the responsibility of management, and the Committee discussed these with both management and the external auditors.

Significant areas considered by the Committee in relation to the 2015 financial statements are set out below.

→ Revenue recognition. Gamma has a number of revenue streams arising from its various products and services which should be recognised in line with relevant contractual terms.

  As discussed earlier in this report, the Committee's consideration of this area took into account the extensive work carried out by Gamma's Revenue Assurance function on the integrity of amounts billed and charges received and the audit work on the relevant systems carried out by Deloitte.

→ Exceptional items. These should be disclosed, fully described in the notes to the accounts and taken into consideration for year on year comparisons, including the calculation of EPS.

  The Committee considered the quantum and disclosure of relevant amounts.

→ Capitalisation of internal development costs. Gamma carries out a significant level of in-house development which is capitalised and amortised where appropriate – that is, where projects are technically feasible, can be completed and the asset can or will be capable of use or sale.

  The Committee considers management's capitalisation process and the assumptions used when assessing whether expenditure should be capitalised or otherwise.

→ Impairment of goodwill. In accordance with accounting standards, Gamma is required to test annually whether goodwill has suffered any impairment.

  The Committee reviews the impairment testing carried out, including estimates of future cash flows (the achievability of the long term business plan) and the choice of discount rate.

→ Share based payments. The charge in the financial statements for share based payments can be complex, often involving estimates around market volatility and yield.

  The Committee reviewed the calculations prepared by Gamma's external advisers in this area, calculations by management, the assumptions relating to performance conditions and the findings of the external auditors.

→ Leasehold dilapidations. Provisions for leasehold dilapidations are estimates of the cost of returning leasehold properties to a defined condition at the end of the lease.

  The Committee has satisfied itself as to the basis of the estimates made, particularly the costs to be incurred at the end of each lease.

→ Taxation. The Group recognises tax liabilities based on its assessment of the supportability of its tax return positions.

  The Committee considered the estimates involved in arriving at the provision for taxation, in particular where there is any possibility of challenge upon review by the tax authorities.

Assessment of internal financial control

Management is responsible for putting in place internal financial controls over financial reporting and to protect the business from identified material risks.

As reported last year, extensive due diligence was carried out in 2014 on the Group's financial controls as part of the IPO process. Those controls were also reviewed by the external auditors as part of the statutory audit. With the change in auditors for 2015 the financial controls have had another fresh review and the external auditors have reported their findings to the Audit Committee. The Committee has also, as described above, received a presentation from Gamma's Revenue Assurance team on the systems and procedures surrounding revenue and associated costs.

Given the level of controls in place, the Committee is satisfied at present that no internal audit establishment is required. The Committee will, however, continue to keep this under review.

Audit tender process

Following the conclusion of the statutory audit of the 2014 financial statements, the Board, on the Committee's recommendation, considered that it was appropriate to put the audit for the 2015 financial year out to tender. The previous auditors, Grant Thornton LLP, were not invited to take part in this process, having already served as Gamma's auditors for over ten years.

The tender process and the Committee's involvement are set out below.

→ visits by the Chairman of the Audit Committee and the Chief Financial Officer to the local offices of major audit practices to assess their interest in tendering for the audit;

→ provision of 'data room' materials to those tendering;

→ presentation of the Group by management to all firms tendering;

→ meetings of those firms with members of the finance team and the Chairman of the Audit Committee;

→ submission of written proposals outlining the audit team, audit approach, proposed transition arrangements and issues, independence considerations and proposed fees;

→ oral presentation by key members of proposed audit teams to a panel comprised of the Audit Committee and the Chief Financial Officer;

→ evaluation of the firms taking into account feedback from each stage of the tender process; and

→ recommendation to the Board.

As a result of this process, the Audit Committee proposed and it was unanimously resolved by the Board to appoint Deloitte LLP as Gamma's auditors for the 2015 audit, including the review of the half year results.

External audit effectiveness

Following the publishing of the 2015 financial statements, the Audit Committee will be carrying out an assessment of the external auditors and the external audit process. The outcome will be reported in the 2016 Annual Report.

Alan Gibbins
Audit Committee Chairman
21 March 2016

Remuneration Committee report

Martin Lea
Remuneration Committee Chairman

This report is on the activities of the Remuneration Committee for the period to 31 December 2015. It sets out the remuneration policy and the remuneration details for the Executive and Non-Executive Directors of the Company.

The report is split into three main areas:

Membership

The members of the Remuneration Committee and meetings attended are:

Name	Meetings attended
Martin Lea, Chairman	4/4
Richard Last	4/4
Alan Gibbins	3/4

Dear Shareholders

I am pleased to introduce the Director's Remuneration Report for the 2015 financial year. The Chairman's statement (on pages 6 to 7) provides a summary of the progress the Group has made over the year. The Remuneration Committee is committed to structuring senior executive remuneration that is competitive, incentivises and rewards good performance, and that will help the Company to continue building on this strong performance, thereby creating value for shareholders. The Remuneration Committee is appointed by the Board, and comprises the three Independent Non-Executive Directors.

The Committee is primarily responsible for determining and agreeing with the Board the broad policy for the remuneration and employment terms of the Executive Directors, Chairman and other senior executives and, in consultation with the CEO, for determining the total individual remuneration packages of senior executive managers. The Committee is also responsible for the review of, and making recommendations to the Board in connection with share incentive plans, and performance related pay schemes and their associated targets, and for the oversight of employee benefit structures across the Group. The Committee's full terms of reference are reviewed regularly and approved by the Board. No Director or manager is involved in any decisions as to their own remuneration.

Short term performance for senior executives is incentivised using an annual bonus scheme based on the achievement of profitability. Long term performance is incentivised by way of a long term incentive plan (LTIP) based on the achievement of Total Shareholder Return (TSR) and Earnings Per Share (EPS) growth goals, over a three year measurement period.

In order to further facilitate the alignment of employee and shareholder interests, prior to its admission to AIM, the Group also adopted a Group-wide general Share Incentive Plan (SIP) and a Company Share Option Plan (CSOP).

Under the SIP, awards of 256,320 free shares were made to all employees in October 2014. In March 2015, employees purchased 98,501 partnership shares under the SIP, which were matched 1:1 by the Company. In May 2015, employees indicated their intention to purchase 121,353 partnership shares under the SIP, which will be matched 1:1 by the Company.

The CSOP is designed to enable the Group to selectively incentivise key high performing employees. In May 2015, 370,349 awards of options were made to high performing employees under the CSOP. In 2016, it is planned to introduce a new Company wide SAYE share save scheme. These various schemes provide the Board with the tools to help the alignment of employee and shareholder interests.

Employees in the Group generally participate in a bonus scheme that enables them to earn up to 10% of basic salary based half on personal performance and half on Company performance. Furthermore, based on the Company's performance in 2015, and the contribution and hard work of all the employees, the Board was pleased to approve a 2% general salary increase at the 2015 year end.

This Remuneration Committee report includes a summary of the remuneration policy, details of Directors' Service Agreements as well as the Annual Report on Remuneration.

As an AIM-listed company, this report is not mandatory, but is included as a matter of best practice. Gamma's Remuneration Committee report was approved unanimously on an advisory basis at the 2015 AGM and we are not proposing any material policy changes for the current financial year. This Remuneration Committee report will again be put to an advisory vote at the forthcoming 2016 AGM.

Martin Lea
Remuneration Committee Chairman
21 March 2016

Directors' remuneration policy

This part of the Directors' Remuneration Report sets out the remuneration policy of the Company with regard to its Directors.

Policy on Executive Director remuneration

The Company's remuneration policy is designed to ensure that the Company is able to attract, retain and motivate executives and senior management of the right quality to enable the Company to fulfil its objectives and longer term potential. The retention of key management and the alignment of management incentives with the creation of shareholder value are a key objective of this policy.

Setting base salary levels for Executive Directors at an appropriate level is key to management retention. Therefore, the Remuneration Committee seeks to ensure that salaries are market competitive for comparable companies. The aim is to set total compensation within a range around the median level for the Company's peer group.

The Remuneration Committee is directly responsible for setting the remuneration of Executive Directors and for giving guidance on and approving recommendations for the remuneration of other members of the senior management team.

The main components of the remuneration policy for the year ending 31 December 2016 and how they are linked to and support the Company's business strategy are summarised below:

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Base salary			
To be set at a level which is sufficiently competitive to recruit and retain individuals of the appropriate calibre to deliver the Company's strategy, and which takes into account the Director's experience and personal contribution to the Company's strategy.	Salaries are typically reviewed annually, with any changes effective from 1 January. The review takes into account: • Company performance; • the role, experience and performance of the individual Director; and • average workforce salary adjustments within the Company. Salaries are benchmarked from time to time against comparable roles at companies of a similar size and complexity in the Telecoms and IT services sectors.	The CEO's base salary was reviewed on 1 January 2016 (the prior review being in October 2014) and was increased by 2% to £299,880. The CFO's salary was reviewed on 1 January 2016 and increased by 2% to £183,600. The prior review was in June 2015 at the time of his promotion to CFO. The COO was appointed to this position on 1 December 2015. His salary is £200,000 with effect from 1 January 2016.	Not applicable.
Benefits			
To complement basic salary by providing market competitive benefits to attract and retain executives.	Reviewed from time to time to ensure that benefits when taken together with other elements of remuneration remain market competitive. Benefits for the Executive Directors currently comprise participation in the Company's life assurance and income protection schemes.	The cost of providing these benefits vary year on year depending on the schemes' premiums. The Remuneration Committee monitors the overall cost of the benefits package.	Not applicable.

Remuneration Committee report

continued

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Pension			
To provide retirement benefits, which when taken together with other elements of the remuneration package, will enable the Company to attract and retain executives.	The Executive Directors (together with all other eligible staff) are able to participate in the Company's defined contribution (money purchase) pension scheme. The Company contributes a maximum of 5.1% of salary.	A contribution of up to 5.1% per annum of salary is paid into the scheme, by the Company, on behalf of the COO and CFO. The COO and CFO are able to request that the Company, at the discretion of the Remuneration Committee, makes additional contributions where salary or bonus has been waived. The CEO does not participate in the scheme.	Not applicable.
Annual bonus			
To incentivise the achievement of the Company's annual financial targets.	The Executive Directors (as well as the other senior executive managers) participate in a discretionary, annual, performance related bonus scheme. Targets are set at the beginning of each year based on the recommendations of the Remuneration Committee. Bonuses are paid in cash based on audited financial results.	For the Executive Directors, the maximum capped bonus potential is 100% of salary. For 2015, the Executive Directors achieved the maximum capped bonus of 100% of salary.	For the year ending 2015, the targets were based on growth in Adjusted Profit Before Tax (PBT). For 2016, targets are again based on growth in Adjusted Profit Before Tax (PBT).
Long Term Incentive Plan (LTIP)			
To motivate executives and incentivise the achievement of longer term financial performance. To align the interests of executives and shareholders.	The Executive Directors (as well as other senior executive managers) participate in a discretionary LTIP. The plan entitles participants to an allocation of, or options over, free (or nominal value) shares after a performance period of three years, subject to certain performance and service conditions being met. Participation is at the discretion of the Remuneration Committee. Awards will typically be made annually based on a multiple of annual salary. Performance conditions are set by the Remuneration Committee at the time of the award. The plan rules amongst other things include claw-back provisions and a limitation to ensure that new shares issued, when aggregated with all other employee share awards, must not exceed 10% of issued share capital over any ten year period.	The Remuneration Committee would in normal circumstances expect to make annual LTIP awards to the Executive Directors (and other senior executive managers) at a value of 100% of base salary. Following the announcement of the Group's results for 2014, awards were granted under this scheme at a value of 100% of base salary. These awards will vest in April 2018, subject to service and performance conditions. It is anticipated that further awards will be made in April 2016 following announcement of the Group's annual results.	Vesting of the LTIP awards is conditional upon the following performance conditions: 15% of the shares if annual compound total shareholder return (TSR) over the performance period equals 8%, and 50% of the shares if annual compound TSR over the performance period equals 15% or higher, with straight line vesting in between. 15% of the shares if annual compound growth of adjusted earnings per share (adjusted for exceptional costs and share based payment costs) over the performance period equals 8%, and 50% of the shares if annual compound growth of adjusted EPS over the performance period equals 20% or higher, with straight line vesting in between. In both cases (TSR and EPS) the Committee determined that at this stage of Gamma's development and its market position, absolute performance measures would be more appropriate than relative measures.

Alignment of executive remuneration and the market

In 2014, ahead of the IPO, the Company engaged h2glenfern, a remuneration advisory practice, to undertake a benchmarking exercise for use in considering the remuneration levels of the Executive Directors as well providing advice on longer term incentive plan structures. In undertaking this work h2glenfern took into account Gamma's size, position, profile and outlook, and reviewed the remuneration data for a number of comparable UK quoted telecoms/technology companies. It is planned that a similar benchmarking exercise will be undertaken every three years.

In addition to such formal benchmarking exercises, the Committee takes advantage of various annual AIM Directors' Remuneration reports as well as available data about similar and competing companies. The Company aims to position Gamma Directors' salary and annual bonus at the median level, but to also ensure there is significant incentive and reward for better than average longer term results through the performance based Long Term Incentive Plan.

Consideration of employment conditions elsewhere in the Group

The Committee considers the pay and conditions of employees throughout the Company when determining the remuneration arrangements for Executive Directors although no direct comparison metrics are applied. In particular, the Committee considers the relationship between general changes to UK employees' remuneration and Executive Director reward. Whilst the Committee does not directly consult with our employees as part of the process of determining executive pay, the Board does receive feedback from employee surveys that takes into account remuneration in general. The Committee also receives updates from the Head of Group HR.

Policy on Non-Executive Director remuneration

The Chairman and the other Non-Executive Directors' remuneration comprises only fees. The Chairman's fee is approved by the Board on the recommendation of the Remuneration Committee. The other Non-Executives' fees are approved by the Board on the recommendation of the Chairman and CEO. The Non-Executive Directors are not involved in any decisions about their own remuneration.

Additional fees over and above the base fee are payable to the chairmen of the Audit and Remuneration Committees. They are reviewed annually with changes effective from 1 January each year. The Chairman and the other Independent Non-Executive Directors are entitled to be reimbursed for reasonable expenses.

Details of the fees paid for 2015 are set out in the Annual Report on Remuneration. There were no changes to the general Non-Executive Director fees at the start of 2016, however the Committee Chair fees for the chairs of the Remuneration and Audit Committees were increased by £1,000 each with effect from 1 January 2016.

The current fees are as follows:

Director	Directors' Fee	Committee Chair Fee	2016
Richard Last	£75,000	–	£75,000
Alan Gibbins	£35,000	£6,000	£41,000
Martin Lea	£35,000	£6,000	£41,000
Wu Long Peng	£35,000	–	£35,000
Andrew Stone	£35,000	–	£35,000

Remuneration Committee report

continued

Directors' Service Agreements

Executive Directors' Service Agreements

The key elements of the Executive Directors' Service Agreements are summarised in the table below:

Key element	CEO Bob Falconer	CFO Andrew Belshaw	COO Richard Bligh
Effective date of Service Agreement	10 October 2014	10 October 2014	1 January 2016
Notice period	6 months' notice given by either party	6 months' notice given by either party	6 months' notice given by either party
Basic salary	£299,880 per annum	£183,600 per annum	£200,000 per annum
Annual bonus	Discretionary performance related	Discretionary performance related	Discretionary performance related
Pension	None	Company contributes up to 5.1% of basic salary into defined contribution money purchase scheme	Company contributes up to 5.1% of basic salary into defined contribution money purchase scheme
Benefits	Participation in Company life assurance and income protection schemes	Participation in Company life assurance and income protection schemes	Participation in Company life assurance and income protection schemes
Share schemes	Eligible to participate in Company share schemes	Eligible to participate in Company share schemes	Eligible to participate in Company share schemes
Termination payments	The Company has the discretion to make a payment of basic salary in lieu of notice to terminate the employment forthwith in the event of notice being given	The Company has the discretion to make a payment of basic salary in lieu of notice to terminate the employment forthwith in the event of notice being given	The Company has the discretion to make a payment of basic salary in lieu of notice to terminate the employment forthwith in the event of notice being given

Non-Executive Director Letters of Appointment

The Non-Executive Directors have Letters of Appointment stating that their appointment is for an initial term of three years from the date of the appointment letter. The Letters of Appointment provide for termination of the appointment with three months' notice by either party.

The current Non-Executive Directors' appointments commenced on the following dates:

Director	Date of appointment
Alan Gibbins	17 June 2014
Richard Last	17 June 2014
Martin Lea	17 June 2014
Wu Long Peng	6 June 2014
Andrew Stone	6 June 2014

Annual Report on Remuneration

Introduction

This Annual Report on Remuneration sets out information about the remuneration of the Directors of the Company, for the period ended 31 December 2015.

Remuneration Committee

Membership

The Remuneration Committee consisted of the following Directors during the year to 31 December 2015.

Martin Lea (Chairman), Independent Non-Executive Director.
Alan Gibbins, Independent Non-Executive Director.
Richard Last, Independent Non-Executive Director and Chairman of the Board.

Role of the Remuneration Committee

The role of the Remuneration Committee is to determine and recommend to the Board the remuneration policy for the Executive Directors. This includes base salary, annual and long term incentive awards and pension arrangements. In determining the remuneration policy, the Remuneration Committee takes into account many factors including the need for a significant proportion of the Executive Directors' remuneration to be structured so as to link rewards to business performance.

Activities of the Remuneration Committee in 2015

The Committee met four times in 2015 in order to conduct the following main items of business: agree the annual Remuneration Committee report; review the terms of the new Company SIP and CSOP schemes; approve the 2015 LTIP and CSOP awards and LTIP targets; review the projected dilution impact of various share schemes; consider the Company annual salary review; consider the terms of a new SAYE Company-wide share save scheme and discuss revisions to Executive Directors' remuneration and Service Agreements and the executive annual bonus scheme structure and targets.

Advisers

There were no material external adviser fees incurred in connection with remuneration matters during the course of 2015.

Remuneration of the Executive Directors

Bonuses are shown on an accrued basis.

The share option remuneration has been calculated as the excess of the share price on the vesting date over the exercise price for share options that vested during the year.

Director	Salary and fees	Benefits	Annual bonus	Pension	Share options	Total for 2015
Bob Falconer	£294,000	–	£294,000	–	£1,732,287	**£2,320,287**
Andrew Belshaw	£131,305	–	£140,000	£36,706	£195,363	**£503,374**
Richard Bligh	£150,765	£10,000	£120,612	£7,689	£366,933	**£655,999**

Andrew Belshaw waived £28,695 of his salary for 2015 and received a pension contribution of the same amount.

Richard Bligh became a Director of the Company on 1 December 2015 and his salary from then until the end of 2015 was £12,564.

In addition to the above, the Company provides life assurance and group income protection for the Executive Directors.

Director	Salary and fees	Benefits	Annual bonus	Pension	Share options	Total for 2014
Bob Falconer	£250,793	–	£294,000	–	–	£544,793
Andrew Belshaw	£113,797	–	£40,000	£114,189	–	£267,986

Bob Falconer became a Director on 27 June 2014 but was also a director of the former group holding company (Gamma Telecom Holdings Limited). His remuneration is shown assuming that Gamma Communications plc had been the holding company.

Andrew Belshaw became a Director of the Company on 1 October 2014 and his salary from then until the end of the period was £38,505. He waived £100,000 of his bonus relating to 2014 and received a pension contribution of the same amount.

On 2 October 2014, the Company made an interest free loan of £2.6m to Bob Falconer to enable him to maintain his holding of 5% of the issued Ordinary Share capital of the Company. At the year end, the outstanding loan was £2.6m (2014: £2.6m).

On 6 May 2014, a subsidiary (Gamma Telecom Holdings Limited) made an interest free loan of £50,000 to Andrew Belshaw to enable him to repay a loan of £50,000 from the Employee Benefit Trust. This loan was repaid on 2 December 2015.

On 6 May 2014, a subsidiary (Gamma Telecom Holdings Limited) made an interest free loan of £75,000 to Richard Bligh to enable him to repay a loan of £75,000 from the Employee Benefit Trust. This loan was repaid on 31 March 2015. On 2 July 2014, a subsidiary (Gamma Telecom Limited) made an interest free loan of £250,000 to Richard Bligh. This loan was fully repaid by 3 June 2015.

Remuneration of the Non-Executive Directors

Director	Directors' Fee	Committee Chair Fee	Total for 2015
Richard Last	£75,000	–	**£75,000**
Alan Gibbins	£35,000	£5,000	**£40,000**
Martin Lea	£35,000	£5,000	**£40,000**
Wu Long Peng	£35,000	–	**£35,000**
Andrew Stone	£35,000	–	**£35,000**

Remuneration Committee report

continued

Director	Directors' Fee	Committee Chair Fee	Total for the 7 months to December 2014
Richard Last	£43,750	–	£43,750
Alan Gibbins	£20,416	£2,917	£23,333
Martin Lea	£20,416	£2,917	£23,333
Wu Long Peng	£20,417	–	£20,417
Andrew Stone	£20,417	–	£20,417

Share scheme interests awarded during the year ended 31 December 2015

Deferred Share Scheme (DSS)

The following awards were made under the DSS in respect of the financial performance for the 18 months ended 30 June 2014. There are no performance conditions attached.

Director	Type of scheme interest	Basis of award	Number of awards	Vesting date	Exercise price	Exercise date
Bob Falconer	Nil-Cost Option	Discretionary	219,496	1 Feb 2015	£0.0025	–
	Nil-Cost Option	Discretionary	329,244	10 Oct 2015	£0.0025	–
Andrew Belshaw	Nil-Cost Option	Discretionary	71,765	1 Feb 2015	£0.0025	2 Dec 2015
	Nil-Cost Option	Discretionary	71,765	1 Feb 2016	£0.0025	–
	Nil-Cost Option	Discretionary	35,882	1 Feb 2017	£0.0025	–
Richard Bligh	Nil-Cost Option	Discretionary	134,778	1 Feb 2015	£0.0025	23 Mar 2015
	Nil-Cost Option	Discretionary	134,778	1 Feb 2016	£0.0025	–
	Nil-Cost Option	Discretionary	67,389	1 Feb 2017	£0.0025	–

Unapproved share option plan

There were no awards made under the unapproved share option plan during the year ended 31 December 2015.

The following award was made under an unapproved share option plan during the year ended 31 December 2014. There are no vesting conditions.

Director	Type of scheme interest	Basis of award	Number of awards	Vesting date	Exercise price	Exercise date
Andrew Belshaw	Option	Discretionary	31,204	Immediate	£1.87	2 Dec 2015

This award was made pre-IPO to compensate Andrew Belshaw for the fact that he was unable to exercise existing options on IPO.

Long Term Incentive Plan (LTIP)

The following awards were made under the LTIP. The performance conditions are set out below the table.

2015 Director	Type of scheme interest	Basis of award	Number of awards	Vesting date	Exercise price	Exercise date
Bob Falconer	Nil-Cost Option	100% of Salary	108,888	1 April 2018	£0.0025	–
Andrew Belshaw	Nil-Cost Option	100% of Salary	51,851	1 April 2018	£0.0025	–
Richard Bligh	Nil-Cost Option	100% of Salary	55,838	1 April 2018	£0.0025	–

2014 Director	Type of scheme interest	Basis of award	Number of awards	Vesting date	Exercise price	Exercise date
Bob Falconer	Nil-Cost Option	200% of Salary	288,220	1 April 2017	£0.0025	–
Andrew Belshaw	Nil-Cost Option	200% of Salary	170,732	1 April 2017	£0.0025	–
Richard Bligh	Nil-Cost Option	200% of Salary	179,376	1 April 2017	£0.0025	–

At the time of making an award the Remuneration Committee sets challenging long term performance targets in order to align the interests of the Directors with shareholders and which, together with continuous employment conditions, must be satisfied before an award vests.

The LTIP awards have a performance period of three years starting from the vesting commencement date. The awards will vest as follows:

- 15% of the shares if annual compound total shareholder return ("TSR") over the performance period equals 8%, and 50% of the shares if annual compound TSR over the performance period equals 15% or higher with pro rata straight line vesting in between; and
- 15% of the shares if the annual compound growth of the Company's adjusted earnings per share between the financial years at the beginning and the end of the performance period is equal to 8%, and 50% of the shares if the annual compound growth of the Company's adjusted earnings per share over the same period is equal to or in excess of 20% with pro rata straight line vesting in between.

Statement of Directors' shareholding and share interests

Directors' share interests at 31 December 2015 are set out below:

		Options			
2015	Number of beneficially owned shares	With performance measures	Without performance measures	Vested but unexercised	Exercised during the year
Executive Director					
Bob Falconer	4,567,193	397,168	–	548,740	Nil
Andrew Belshaw	277,002	222,587	107,647	–	179,306
Richard Bligh	422,222	235,214	202,167	–	134,778
Non-Executive Director					
Richard Last	53,475	–	–	–	Nil
Alan Gibbins	13,368	–	–	–	Nil
Martin Lea	13,368	–	–	–	Nil
Wu Long Peng	–	–	–	–	Nil
Andrew Stone	3,650,000	–	–	–	Nil

		Options			
2014	Number of beneficially owned shares	With performance measures	Without performance measures	Vested but unexercised	Exercised during the year
Executive Director					
Bob Falconer	4,567,193	288,280	329,234	219,496	Nil
Andrew Belshaw	277,002	170,732	179,412	107,541	Nil
Richard Bligh	422,222	179,376	336,904	–	130,508
Non-Executive Director					
Richard Last	53,475	–	–	–	Nil
Alan Gibbins	13,368	–	–	–	Nil
Martin Lea	13,368	–	–	–	Nil
Wu Long Peng	–	–	–	–	Nil
Andrew Stone	3,700,000	–	–	–	Nil

Richard Bligh was appointed as a Director of the Company on 1 December 2015.

This Remuneration Committee report will be put to an advisory vote at the forthcoming 2016 AGM. This report was approved by the Board of Directors on 21 March 2016 and signed on its behalf by

Martin Lea
Remuneration Committee Chairman

Directors' report

The Directors present their Annual Report on the affairs of the Group, together with the financial statements for the year ended 31 December 2015.

An indication of likely future developments in the business of the Company and details of research and development activities are included in the strategic report.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 18 to the financial statements.

Dividends

The Directors recommend a final dividend of 4.4p (2014: 3.95p) per Ordinary Share to be paid on 23 June 2016 to ordinary Shareholders on the register on 2 June 2016. An interim dividend of 2.2p (2015: £Nil) per Ordinary Share was paid on 23 October 2015 to all shareholders on the register at 25 September 2015.

Directors

The names and biographies of the Directors during the year are disclosed on pages 32 to 33.

Share capital and share options

Details of the share capital of the Company and options over shares of the Company are set out in notes 21 and 25 to the Group financial statements. Over the period, the Company had three share incentive schemes by which Directors and employees may: (i) be granted options under a long term incentive scheme to subscribe for nil cost shares in the Company, (ii) be issued shares under the Company Share Option Plan, and (iii) be issued shares under a Share Incentive Plan.

The maximum aggregate number of shares which may be issued in respect of these schemes is limited to 10% of the issued share capital.

Composition of the Group

Details concerning subsidiary undertakings are given in note 13 to the Group financial statements.

Directors' interest in share capital

The Directors' interest in share capital is shown within the Remuneration Report.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefits of its Directors which were made during the course of the year and remain in force at the date of this report.

Going concern

The Group's business activities, together with the factors likely to affect the future development, performance and position, are set out in the strategic report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review section in the strategic report and in note 18. Further information on the Group's exposure to financial risks and the management thereof is provided in note 18.

The Board's review of the accounts, budgets and financial plan leads the Directors to believe that the Group has sufficient resources to continue in operation for the foreseeable future. The financial accounts are therefore prepared on a going concern basis.

Treasury policy
The objective of the Group's treasury policy is to manage the Group's financial risk and to minimise the adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on the cash flows of the Group. Note 18 sets out the particular risks to which the Group is exposed, and how these are managed.

Interests in contracts
There have been no contracts or arrangements during the financial year in which a Director of the Company was materially interested and which were significant in relation to the Group's business.

Health, safety, the environment and the community
The Group has a formal Health, Safety and Environmental Policy which requires all operations within the Group to pursue economic development whilst protecting the environment. The Directors aim not to damage the environment of the areas in which the Group operates, to meet all relevant regulatory and legislative requirements and to apply responsible standards of its own where relevant laws and regulations do not exist.

It is the policy of the Group to consider the health and welfare of employees by maintaining a safe place and system of work as required by legislation in each of the countries where the Group operates.

Political donations
No political donations were made in the year.

Employee consultation
Gamma recognises the essential importance of employees to the success of the business and ensures that they are fully informed of events that directly affect them and their working conditions. Information on matters of concern to employees is given in briefings that seek to provide a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance.

During both the year and the prior year Gamma undertook the Best Companies Limited employee engagement survey and achieved a 2-star accreditation. The results from this survey attracted a listing in the Sunday Times Best 100 Companies to Work For and Gamma was placed in the top 50 companies in the UK.

Disabled employees
Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. It is the policy of the Company that training and promotion opportunities should be available to all employees.

Auditors and their independence
A resolution to appoint auditors for the year to 31 December 2016 will be proposed at the AGM. The Company has a policy for approval by the Audit Committee of non-audit services by the Auditor, to preserve independence.

Disclosure of information to auditors
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the Board:

Andrew Belshaw
Chief Financial Officer
21 March 2016

Statement of Directors' responsibilities

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 such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

- → select suitable accounting policies and then apply them consistently;
- → make judgements and 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.

In so far as each of the Directors is aware:

- → there is no relevant audit information of which the Company's auditors are unaware; and
- → the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Auditor

During the year, Grant Thornton UK LLP resigned as auditors of the Company. Deloitte LLP were appointed by the Directors to fill the casual vacancy arising and will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Andrew Belshaw
Chief Financial Officer
21 March 2016

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

We have audited the financial statements of Gamma Communications plc for the year ended 31 December 2015 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cashflows, the Consolidated Statement of Changes in Equity, the Company Balance Sheet, the Company Statement of Changes in Equity, and the Group and Company related notes 1 to 29 and 1 to 9 respectively. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- → the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2015 and of the Group's and the parent company's profit for the year then ended;
- → the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- → the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- → the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- → adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- → the parent company financial statements are not in agreement with the accounting records and returns; or
- → certain disclosures of Directors' remuneration specified by law are not made; or
- → we have not received all the information and explanations we require for our audit.

Andrew Bond FCA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
21 March 2016

Consolidated statement of comprehensive income
For the year ended 31 December 2015

	Notes	**2015 £m**	2014 £m
Revenue	3	**191.8**	173.2
Cost of sales		**(109.5)**	(105.6)
Gross profit		**82.3**	67.6
Other operating income		**5.7**	–
Operating expenses	5	**(65.5)**	(56.1)
Operating profit before share based payment, exceptional items, depreciation and amortisation	5	**28.3**	23.1
Share based payment expense	25	**(4.1)**	(3.2)
Exceptional items	6	**5.7**	(2.0)
Operating profit before depreciation and amortisation		**29.9**	17.9
Depreciation and amortisation	5	**(7.4)**	(6.4)
Profit from operations	5	**22.5**	11.5
Finance income	8	**0.1**	–
Profit before tax		**22.6**	11.5
Tax expense	9	**(4.3)**	(2.1)
Profit after tax		**18.3**	9.4
Total comprehensive income attributable to the owner of the parent		**18.3**	9.4
Earnings per share	10		
Basic per Ordinary Share (pence)		**20.4**	10.6
Diluted per Ordinary Share (pence)		**19.6**	10.0

Adjusted earnings per share is shown in note 10.

Other comprehensive income is not shown as it is less than £0.1m.

The notes on pages 56 to 81 form part of these financial statements.

Consolidated statement of financial position
As at 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Non-current assets			
Property, plant and equipment	11	**23.4**	18.9
Intangible assets	12	**10.4**	10.8
Deferred tax asset	20	**2.0**	2.3
		35.8	32.0
Current assets			
Inventories	14	**2.3**	1.1
Trade and other receivables	15	**35.2**	32.5
Cash and cash equivalents	16	**24.8**	13.4
		62.3	47.0
Total assets		**98.1**	79.0
Liabilities			
Non-current liabilities			
Provisions	19	**1.4**	0.9
Deferred tax liability	20	**0.4**	0.2
		1.8	1.1
Current liabilities			
Trade and other payables	17	**27.3**	25.9
Current tax liability		**2.3**	0.8
		29.6	26.7
Total liabilities		**31.4**	27.8
Issued capital and reserves attributable to owners of the parent			
Share capital	21	**0.2**	0.2
Share premium reserve	22	**3.7**	3.2
Merger reserve	22	**2.3**	2.3
Share option reserve	22	**3.8**	2.4
Investment in own shares	22	**(0.8)**	–
Retained earnings	22	**57.5**	43.1
Total equity		**66.7**	51.2
Total equity and liabilities		**98.1**	79.0

The financial statements on pages 52 to 81 were approved and authorised for issue by the Board of Directors on 21 March 2016 and were signed on its behalf by:

Andrew Belshaw
Chief Financial Officer

The notes on pages 56 to 81 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Profit for the year before tax		**22.6**	11.5
Adjustments for:			
Depreciation of property, plant and equipment	11	**6.1**	5.1
Amortisation of intangible assets	12	**1.3**	1.3
Change in fair value of contingent consideration	6, 26	**–**	0.6
Share based payment expense	25	**4.1**	3.0
Net interest income	8	**(0.1)**	–
		34.0	21.5
Increase in trade and other receivables		**(3.3)**	(3.3)
Increase in inventories		**(1.2)**	(0.6)
Increase in trade and other payables		**0.4**	1.9
Increase/(decrease) in provisions and employee benefits		**0.5**	(0.1)
Taxes paid		**(2.2)**	(3.0)
Net cash flows from operating activities		**28.2**	16.4
Investing activities			
Purchases of property, plant and equipment	11	**(10.6)**	(11.2)
Expenditure on development costs	12	**(0.9)**	(0.9)
Payment of deferred consideration	26	**(0.1)**	(2.6)
Loans made to individuals to subscribe for shares	28	**0.5**	(2.8)
Interest received	8	**0.1**	–
Net cash used in investing activities		**(11.0)**	(17.5)
Financing activities			
Share buybacks and cancellations		**–**	(3.1)
Share issues		**0.5**	3.0
Investment in own shares		**(0.8)**	–
Dividends	10	**(5.5)**	–
Net cash used in financing activities		**(5.8)**	(0.1)
Net increase/(decrease) in cash and cash equivalents		**11.4**	(1.2)
Cash and cash equivalents at beginning of year		**13.4**	14.6
Cash and cash equivalents at end of year	16	**24.8**	13.4

Included within operating cashflow is £5.1m (2014: £Nil) of cash received relating to the laddering settlement which management considers to be non-recurring in nature.

The notes on pages 56 to 81 form part of these financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2015

	Share capital £m	Share premium £m	Merger reserve £m	Share option reserve £m	Investment in own shares £m	Retained earnings £m	Total equity £m
1 January 2014	0.2	–	2.3	1.1	–	33.3	36.9
Share option cancellations	–	–	–	(0.6)	–	(2.4)	(3.0)
Issue of shares	–	3.2	–	(1.1)	–	0.9	3.0
Deferred tax on share based payments	–	–	–	–	–	1.9	1.9
Recognition of share based payments	–	–	–	3.0	–	–	3.0
Transaction with owners	–	3.2	–	1.3	–	0.4	4.9
Profit for the year	–	–	–	–	–	9.4	9.4
Total comprehensive income	–	–	–	–	–	9.4	9.4
31 December 2014	0.2	3.2	2.3	2.4	–	43.1	51.2
1 January 2015	0.2	3.2	2.3	2.4	–	43.1	51.2
Issue of shares	–	0.5	–	(1.6)	–	1.6	0.5
Current tax on share based payments	–	–	–	–	–	0.7	0.7
Deferred tax on share based payments (note 20)	–	–	–		–	(0.7)	(0.7)
Recognition of share based payments	–	–	–	3.0	–	–	3.0
Dividend paid (note 10)	–	–	–	–	–	(5.5)	(5.5)
Investment in own shares	–	–	–	–	(0.8)	–	(0.8)
Transaction with owners	–	0.5	–	1.4	(0.8)	(3.9)	(2.8)
Profit for the year	–	–	–	–	–	18.3	18.3
Total comprehensive income	–	–	–	–	–	18.3	18.3
31 December 2015	**0.2**	**3.7**	**2.3**	**3.8**	**(0.8)**	**57.5**	**66.7**

Notes forming part of the financial statements

For the year ended 31 December 2015

1. Accounting policies

Basis of preparation

Gamma Communications plc (the "Company") is a company domiciled in England. The Company was incorporated on 17 March 2014 as Gamma Communications Limited. The Company changed its name to Gamma Communications plc on 3 October 2014 when it became a public company.

The Group was formed on 12 May 2014 when Gamma Communications Limited acquired the entire share capital of Gamma Telecom Holdings Limited and its wholly owned subsidiaries through the issue of 20,590,196 Ordinary Shares and 1,699,983 B1 Shares (further detail on the share capital is set out in note 21).

The acquisitions of the subsidiaries are deemed to be 'combinations under common control' as ultimate control before and after the acquisition was the same. As a result, the transaction is outside the scope of IFRS 3 "Business combinations" and has been included under the principles of merger accounting by reference to UK GAAP.

Accordingly, although the units which comprise the Group did not form a legal group for the entirety of the prior period, the comparative results comprise the results of the subsidiary companies as if the Group had been in existence throughout the entire prior period.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs"), and are in accordance with IFRS as issued by the IASB, and are presented in 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.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, certain new standards and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. New accounting standards expected to be relevant to the Group are listed below.

- → IFRS 15 Revenue and Contracts with Customers (effective 1 January 2018).
- → IFRS 16 Leases (effective 1 January 2019).
- → Amendments to IAS 16 and IAS 38 clarifying Acceptable Methods of Depreciation and Amortisation (effective date 1 January 2016).
- → Annual improvements to IFRSs 2012-2014 Cycle (effective 1 January 2016).

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement.

IFRS 15 was published in May 2014 and the effective date has been delayed to reporting periods beginning on or after 1 January 2018. Therefore, following the finalisation of the standard and IFRS 16, the Group is in the process of assessing the impact of this.

Going concern

The Directors prepare a detailed annual budget and constantly reforecast for the next 12 month period. The Group has a significant cash balance of £24.8m (2014: £13.4m) and is not reliant on any debt facilities. Therefore, at the time of approving the financial statements, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries. The parent controls a subsidiary if it has power over the investee to significantly direct the activities, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-Group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

The consolidated financial statements consist of the results of the entities shown in note 13.

As set out in the basis of preparation note, the units which comprise the Group have all been under common management and control throughout the period presented in the consolidated financial information but they did not form a legal group throughout the prior period, the Group coming into existence on 12 May 2014. As a result, the Group Reconstruction is outside the scope of IFRS 3 "Business combinations". In accordance with IAS 8, the Directors have determined that the most appropriate method of accounting for the Group Reconstruction is to follow the principles of merger accounting by reference to UK GAAP.

The aim of merger accounting is to show the results and financial position of the Group as if the Group had always been in existence, as follows:

- the results of the subsidiaries have been included in the consolidated results for the entire comparative period during which the Group Reconstruction took place; and
- the consolidated results include the assets and liabilities of the subsidiaries at the book values at which they were recorded prior to the Group Reconstruction: there is no requirement to fair value, and no goodwill arises as a result.

The share capital issued to effect the merger has been shown as if it had always been issued.

These financial statements incorporate the results of business combinations using the acquisition method with the exception of the common control transaction on the forming of the Group. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

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 it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue and associated costs can be measured reliably.

The Group sells a number of communications products (both traditional and new) each of which typically consists of all or some of four main types of revenue – voice and data traffic, a subscription or rental, equipment 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 to a different pattern than the revenue recognition described below, appropriate adjustments are made through deferred and accrued income to account for revenue when the underlying service has been performed or goods have transferred to the customer.

Voice and data traffic

Revenue from traffic is recognised at the time the call is made.

Revenue arising from the interconnection of voice and data traffic between other telecommunications' operators is recognised at the time of transit across the Group's network.

Subscriptions and rentals

Revenue from the rental of analogue and digital lines is recognised evenly over the period to which the charges relate.

Subscription fees, consisting primarily of monthly charges for access to broadband, hosted IP services and other internet access or voice services, are recognised as revenue as the service is provided.

Equipment sales

Revenue from the sale of peripheral and other equipment is recognised when all the significant risks and rewards of ownership are transferred to the buyer, which is normally the date the equipment is delivered and accepted by the customer. Where the buyer has a right of return, the Group defers recognition of revenue until the right to return has lapsed. However, where the Group retains only insignificant risks of ownership due to the right of return, revenue is not deferred, but the Group recognises a provision based on previous experience and other relevant factors. The same policy applies to warranties.

Installations

Revenue arising from installation and connection services is recognised when it is earned, upon activation.

Arrangements with multiple deliverables

Where goods and/or services are sold in one bundled transaction, the Group allocates the total arrangement's consideration to the different individual elements based on their relative fair values. Management determines the fair values of individual components based on actual amounts charged by the Group on a stand-alone basis, or alternatively based on comparable pricing arrangements observable in the market.

Advances made to channel partners

Where the Group can demonstrate recovery of the asset (being the advances made) through contractual claw back provisions and past evidence of recovery they are deferred and are recognised over the period of the contract. Where this is not possible they are charged directly to the consolidated statement of comprehensive income.

Business Combinations

Goodwill represents the excess of the cost of a business combination over, in the case of business combinations completed prior to 1 January 2011, the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired and, in the case of business combinations completed on or after 1 January 2011, the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

For business combinations completed prior to 1 January 2011, cost comprised the fair value of assets acquired, liabilities assumed and equity instruments issued, plus any direct costs of acquisition. Changes in the estimated value of contingent consideration arising on business combinations completed by this date were treated as an adjustment to cost and, in consequence, resulted in a change in the carrying value of goodwill.

For business combinations completed on or after 1 January 2011, cost comprises the fair value of assets acquired, liabilities assumed and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree.

Notes forming part of the financial statements
For the year ended 31 December 2015 continued

1. Accounting policies continued

Contingent consideration
Contingent consideration is included in cost at its acquisition date fair value and is classified as a financial liability, re-measured at fair value subsequently through profit or loss. Contingent consideration classified as equity is not re-measured.

Direct costs
For business combinations completed on or after 1 January 2011, direct costs of acquisition are recognised immediately as an expense.

Goodwill
Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

Intangible assets
An intangible asset, which is an identifiable 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 Group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Intangible assets acquired as part of a business combination are shown at fair value at the date of the acquisition less accumulated amortisation. Amortisation is charged on a straight line basis through the profit or loss. The rates applicable, which represent the Directors' best estimate of the useful economic life, are:

→ customer contracts – five years.

Impairment of non-financial assets (excluding inventories and deferred tax assets)
Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows: its cash generating units ('CGUs'). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

Development costs
Expenditure on the research phase of an internal project is recognised as an expense in the period in which it is incurred. Development costs incurred on specific projects (whether in respect of new products or enhancement of existing products) are capitalised when all the following conditions are satisfied:

→ completion of the asset is technically feasible so that it will be available for use or sale;

→ the Group intends to complete the asset and use or sell it;

→ the Group has the ability to use or sell the asset and the asset will generate probable future economic benefits (over and above cost);

→ there are adequate technical, financial and other resources to complete the development and to use or sell the asset; and

→ the expenditure attributable to the asset during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred. The cost of an internally generated asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee (other than Directors') costs incurred along with third party costs.

Judgement by the Directors is applied when deciding whether the recognition requirements for development costs have been met. Judgements are based on the information available at each statement of financial position date. In addition, all internal activities related to the research and development of new projects are continuously monitored by the Directors. Amortisation is charged to the income statement on a straight line basis over the estimated useful life from the date the asset is available for use.

Foreign currency
Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

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

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers have been identified as the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and the Management Committee. For further details please see note 4.

Financial assets

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

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset.

They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

Financial liabilities

Apart from contingent consideration in the prior year the Group does not have any financial liabilities that would be classified as fair value through profit or loss. Therefore, these financial liabilities are classified as financial liabilities at amortised cost, as defined below.

Other financial liabilities include the following items:

- trade payables and other short term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Share capital

The Group's Ordinary Shares and Deferred Shares are classified as equity instruments.

Retirement benefits: defined contribution schemes

Contributions to defined contribution pension schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

Share based payments

Where equity settled shares or share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income 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 being used where there are market conditions attached to the share awards.

Prior to flotation, the Group also operated a shadow share option scheme (a cash settled share based payment). An option pricing model was used to measure the Group's liability at each reporting date, taking into account the terms and conditions on which the bonus is awarded and the extent to which employees have rendered service. Movements in the liability were recognised in the consolidated statement of comprehensive income. All such awards crystallised on flotation and were settled in 2014. No new awards have been made.

Notes forming part of the financial statements

For the year ended 31 December 2015 continued

1. Accounting policies continued

Exceptional items

The Group treats certain items which are considered to be one-off and not representative of the underlying trading of the Group as exceptional in nature.

The Directors apply judgement in assessing the particular items, which by virtue of their scale and nature should be classified as exceptional items. The Directors consider that separate disclosure of these items is relevant to an understanding of the Group's financial performance.

Leased assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight line basis.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the Directors. In the case of final dividends, this is when approved by the Shareholders at the AGM. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

Taxation

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 comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, it includes items that are tax deductible but which do not affect net profit and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

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.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Assets in the course of construction for use in the supply of communication products, or for administration purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Assets which are supplied to customers as part of a service (for example, a broadband router or a telephone handset), known as Customer Premises Equipment, are capitalised and depreciated over the expected period of the provision of that service.

Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following rates:

Network assets	10%–33% per annum straight line
Customer Premises Equipment	20%–50% per annum straight line
Computer equipment	25%–50% per annum straight line
Fixtures and fittings	20%–25% per annum straight line

Inventories
Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, 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.

Work in progress is stated at the lower of cost, comprising direct materials and labour plus attributable overheads less provision for foreseeable losses and progress payments, and net realisable value.

Employee Benefit Trust (EBT)
As the Company is deemed to have control of its EBTs, they are treated as subsidiaries and consolidated for the purposes of the consolidated financial statements. The EBTs' assets (other than investments in the Company's shares), liabilities, income and expenses are included on a line-by-line basis in the consolidated financial statements.

Provisions
The Group recognises provisions where there is a present obligation as a result of a prior event. The Group has recognised provisions for liabilities of uncertain timing or amount relating to leasehold dilapidations or onerous lease provision. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability.

Adjusted measures
Throughout this report, adjusted EBITDA is defined as earnings before interest, taxation, depreciation and amortisation stated before exceptional items and share based payment charges. Also, adjusted EPS is defined as earnings after tax adjusted for share based payment charges, exceptional items and the associated tax effect. These are non-GAAP measures. Exceptional items are those which are considered significant by virtue of their nature, size or incidence, and are presented separately in the income statement to enable a full understanding of the Group's financial performance. The Group believes that adjusted EBITDA provides valuable additional information for users of the financial statements in assessing the Group's performance since it provides information on the performance of the business that local managers are more directly able to influence and on a basis consistent across the Group.

2. Critical accounting estimates and judgements
The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Valuation of intangibles
Acquisitions may result in customer contracts being recognised. These are valued using discounted cash flow methods which require the application of certain key judgements and estimates. In particular, management has had to estimate the likely future rate of contract renewals, which involves a level of judgement due to the short trading history of the acquisition. If the contract renewals are lower than estimated, this may result in an impairment to the asset valuation. The level of renewal experienced to date supports management's estimates.

(b) Impairment of goodwill
The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary. Impairment testing has not indicated any impairment in goodwill over the period end dates.

(c) Taxation
Significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the Group's belief that its tax return positions are supportable, the Group believes that certain positions could be challenged upon review by tax authorities. The Group believes that its accruals for tax liabilities are adequate for all open years based on its assessment of many factors, including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgements about future events. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

(d) Leasehold dilapidations
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. Once the stage of the lease has been reached at which a reliable estimate of the costs can be made, a provision is recognised in the profit and loss. The main uncertainty relates to estimating the cost that will be incurred at the end of the lease.

(e) Capitalisation of internal development costs
The Group carries out a number of research and development projects. Some of these projects consist of speculative research whilst others are considered to be closer to the maintenance of existing systems. However, where a piece of development is producing an asset which will be used within the business or sold directly (and it is probable that it will generate future economic benefits) then the development cost is capitalised and amortised over the useful economic life. Each year the Directors consider the work which has been performed by the development team and, where it is assessed that the appropriate criteria are met, the costs are capitalised; this involves inherent judgement as to the likely future economic benefit to be derived from the asset.

Notes forming part of the financial statements
For the year ended 31 December 2015 continued

(f) Share based payment charges
The Company runs a number of share option schemes which give rise to share based payment charges. The calculation of the charges involves a significant level of estimate particularly around market volatility and yield. In instances where there are performance conditions (i.e. the LTIP scheme) the Directors must also consider the likelihood of the performance conditions being met. The Directors use the services of a firm of Chartered Accountants (who are not the Auditor) to assist with these valuations.

3. Revenue
Revenue in all periods principally arises from the provision of services. There is an immaterial level of sales of goods (which are not part of a service).

4. Segment information
The Group has two main operating segments:

- indirect – this division sells Gamma's traditional and new products and services to channel partners and contributed 79% (2014: 79%) of the Group's external revenue; and
- direct – this division sells Gamma's traditional and new products and services to end users in the SME, Enterprise and public sectors together with an associated service wrap. They contributed 21% (2014: 21%) of the Group's external revenues.

There are no material non UK segments and no material non-current assets outside the UK.

Both operating segments sell a combination of traditional products and services (which is mainly voice traffic from which revenues are derived from channel partners and other carriers as well as rentals for wholesale lines) and new products and services (which consist of IP voice traffic, rental income derived from SIP Trunking, hosted IP voice systems and Gamma's hosted inbound product and data products).

Factors that management used to identify the Group's reportable segments
The Group's reportable segments are strategic business units that offer products and services into different markets. They are managed separately because each business requires different marketing strategies and are reported separately to the Board and management team.

Measurement of operating segment profit or loss, assets and liabilities
The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The Group evaluates performance on the basis of profit or loss from operations but excluding non-recurring losses, such as goodwill impairment, the effects of share based payments and exceptional income.

Inter-segment sales are priced along the same lines as sales to external customers, with an appropriate discount being applied to encourage use of Group resources at a rate acceptable to local tax authorities. This policy was applied consistently throughout the current and prior period.

Loans and borrowings are allocated to the segments based on relevant factors (e.g. funding requirements). Details are provided in the reconciliation from segment assets and liabilities to the Group position.

	Indirect £m	Direct £m	Total £m
2015			
Traditional products and services	58.2	11.5	69.7
New (being strategic and enabling) products and services	93.8	28.3	122.1
Total revenue from external customers	**152.0**	**39.8**	**191.8**
Inter-segment revenue	*29.2*	–	*29.2*
Traditional products and services	18.5	4.2	22.7
New (being strategic and enabling) products and services	45.6	14.0	59.6
Total gross profit	**64.1**	**18.2**	**82.3**
Segment operating profit before share based payment, depreciation, amortisation and exceptional items	**20.6**	**7.7**	**28.3**
Share based payment expense	(4.1)	–	(4.1)
Exceptional Items	5.7	–	5.7
Segment EBITDA	**22.2**	**7.7**	**29.9**
Depreciation and amortisation	(6.6)	(0.8)	(7.4)
Profit from operations	**15.6**	**6.9**	**22.5**
Finance income	0.1	–	0.1
Tax	(1.9)	(2.4)	(4.3)
Group profit after tax	13.8	4.5	18.3

External revenue of customers has been derived principally from the United Kingdom and no single customer contributes more than 10% of revenue.

	Indirect £m	Direct £m	Total £m
Additions to non-current assets	11.0	0.5	11.5
Reportable segment assets	67.6	30.5	98.1
Reportable segment liabilities	9.0	22.4	31.4

	Indirect £m	Direct £m	Total £m
2014			
Traditional products and services	64.5	13.7	78.2
New (being strategic and enabling) products and services	72.4	22.6	95.0
Total revenue from external customers	136.9	36.3	173.2
Inter-segment revenue	*8.2*	–	*8.2*
Traditional products and services	18.8	4.6	23.4
New (being strategic and enabling) products and services	33.6	10.6	44.2
Total gross profit	52.4	15.2	67.6
Segment operating profit before share based payment, depreciation, amortisation and exceptional items	17.4	5.7	23.1
Share based payment expense	(3.2)	–	(3.2)
Exceptional Items	(1.4)	(0.6)	(2.0)
Segment EBITDA	12.8	5.1	17.9
Depreciation and amortisation	(5.8)	(0.6)	(6.4)
Profit from operations	7.0	4.5	11.5
Tax	(0.9)	(1.2)	(2.1)
Group profit after tax	6.1	3.3	9.4

External revenue of customers has been derived principally from the United Kingdom and no single customer contributes more than 10% of revenue.

Notes forming part of the financial statements
For the year ended 31 December 2015 continued

4. Segment information continued

	Indirect £m	Direct £m	Total £m
Additions to non-current assets	11.6	0.5	12.1
Reportable segment assets	54.2	24.8	79.0
Reportable segment liabilities	12.2	15.6	27.8

5. Profit on ordinary activities
Profit on ordinary activities is stated after charging the following amounts:

	2015 £m	2014 £m
Net foreign exchange	**0.1**	0.1
Research and development costs	**6.1**	5.1
Staff costs (see note 7)	**37.1**	30.1
Depreciation of property, plant and equipment (incl. impairment)	**6.1**	5.1
Amortisation of intangible assets	**1.3**	1.3
Cost of inventories recognised as an expense	**3.5**	4.6
Fees payable to the Company's auditors for other services:		
– Audit of the Company's subsidiaries pursuant to legislation	**0.1**	0.1
– Other services – including IPO	**–**	0.3
Operating lease expense:		
– Property	**1.2**	1.2

Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements totalled £55k (2014: £16k) for the year.

6. Exceptional items

	2015 £m	2014 £m
IPO costs	**–**	(1.2)
Change in the fair value of contingent consideration relating to the purchase of Varidion Limited (note 26)	**–**	(0.6)
Restructuring	**–**	(0.2)
Income from ladder pricing	**5.7**	–
	5.7	(2.0)

IPO costs relate to the professional fees incurred on the admission of the Group to AIM.

The change in the fair value of contingent consideration is because during the course of the year ended 31 December 2014 the Directors took an opportunity to settle the consideration relating to the purchase of Varidion Limited.

Ladder pricing was a mechanism which was used by fixed line operators to bill other operators for calls to certain 08 numbers. Gamma has now reached a commercial settlement in regard to its ladder pricing policy with the affected operators and these have now concluded, resulting in an exceptional gain of £5.7m. There was a non-recurring cash inflow of £5.1m, £0.6m was received previously but not recognised as income as the invoices had been disputed.

7. Staff costs

	2015 £m	2014 £m
Staff costs (including Directors) comprise:		
Wages and salaries	**28.5**	23.2
Defined contribution pension cost (note 24)	**1.6**	1.2
Social security contributions and similar taxes	**2.9**	2.5
	33.0	26.9
Share based payment expense (note 25)	**4.1**	3.2
	37.1	30.1

Employee numbers

The average number of staff employed by the Group during the financial year amounted to:

	2015 Number	2014 Number
Operational	364	272
Selling, administration and distribution	262	247
	626	519

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the Directors of the Company listed on pages 32 to 33, and the Management Committee listed on pages 34 to 35.

	2015 £m	2014 £m
Salary	2.9	2.3
Defined contribution pension costs	0.2	0.2
Social security contributions and similar taxes	0.5	0.3
	3.6	2.8
Share based payment expense (note 25)	3.6	2.9
	7.2	5.7

Emoluments in respect of Directors are summarised below:

	2015 £m	2014 £m
Salary	1.1	0.9
Compensation for loss of office	–	0.2
Defined contribution pension costs	–	0.1
Social security contributions and similar taxes	0.1	0.1
	1.2	1.3
Share based payment expense	1.2	1.0
	2.4	2.3

Emoluments disclosed above include the following amounts in respect of the highest paid Director.

	2015 £m	2014 £m
Salary	0.6	0.6
Share based payment expense	0.8	0.6
	1.4	1.2

During the year, two Directors (2014: one Director) participated in a private money purchase defined contribution pension scheme.

For the prior year, the remuneration for the Directors who served since flotation is shown within the Remuneration Report. Between incorporation and flotation, there were two additional Directors who received remuneration from the Group. Malcolm Goddard served as Director from incorporation on 17 March 2014 to 30 August 2014 and Gerard Sreeves from 23 May 2014 to 1 October 2014. During those periods their remuneration was as follows:

Director	Salary and fees	Bonus	Compensation for loss of office	Pension	Total for period served as Director
Gerard Sreeves	56,968	–	181,424	9,055	247,447
Malcolm Goddard	49,639	39,994	–	–	89,633

Bonuses are shown on an accrued basis.

Gerard Sreeves also exercised 118,381 options over £0.0025 Ordinary Shares shortly after he ceased to be a Director. A payment of £1,104,000 was also paid for cancellation options over 400,000 A1 Ordinary Shares.

Notes forming part of the financial statements
For the year ended 31 December 2015 continued

8. Finance income
Recognised in profit or loss:

	2015 £m	2014 £m
Finance income		
Interest received on bank deposits	0.1	–
Total finance income	0.1	–

9. Tax expense

	2015 £m	2014 £m
Current tax expense		
Current tax on profits for the year	4.9	2.9
Adjustment in respect of prior year	(0.4)	(0.2)
Total current tax	4.5	2.7
Deferred tax expense		
Origination and reversal of temporary differences (note 20)	(0.4)	(0.6)
Adjustment in respect of prior year	0.2	–
Total deferred tax	(0.2)	(0.6)
Total tax expense	4.3	2.1

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

	2015 £m	2014 £m
Profit before income taxes	22.6	11.5
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 20.25% (2014: 21.5%)	4.6	2.5
Expenses not deductible for tax purposes	–	0.5
Change in tax rates	0.1	–
Additional deduction for R&D expenditure	(0.2)	(0.7)
Adjustment in respect of prior year	(0.2)	(0.2)
Total tax expense	4.3	2.1

The inclusion of legislation to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 and then a further reduction to 18% from 1 April 2020 was substantively enacted on 26 October 2015. For the purposes of deferred tax, the rate change from 20% to 18% was substantively enacted before the balance sheet date.

10. Earnings per share and dividends
Earnings per share
The calculation of basic earnings per Ordinary Share is based on a profit after tax of £18.3m (2014: profit of £9.4m) and 89,488,163 (2014: 88,349,480) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the period (in the prior period, this was adjusted for the fact that there was a share split). Also, in the prior period, because the Group was formed by a share for share exchange, it has been assumed that the number of shares at incorporation was the number of shares between 1 January 2013 and incorporation for the purposes of calculating a weighted average for the earnings per share calculation.

The unadjusted diluted earnings per Ordinary Share is calculated by including in the weighted average number of shares the dilutive effect of potential Ordinary Shares related to committed share options as described in note 25. For 2015, the unadjusted diluted Ordinary Shares were based on 93,226,438 Ordinary Shares (2014: 93,601,600) that included 3,738,275 potential Ordinary Shares (2014: 5,252,120).

The following reflects the income and share data used in the calculation of adjusted earnings per share computations before share based payments, one-off items and their associated tax effect.

	Total 2015 £m	Total 2014 £m
Profit for the year	18.3	9.4
Exceptional (income)/costs	(5.7)	2.0
Share based payment costs	4.1	3.2
Add/(less) tax effect associated with share based payment costs and one-off costs	0.1	(0.6)
Adjusted profit after tax for the year	16.8	14.0

	Total 2015 No.	Total 2014 No.
Weighted average number of Ordinary Shares for basic earnings per share	**89,488,163**	88,349,480
Effect of dilution resulting from share options	**4,591,931**	5,252,120
Weighted average number of Ordinary Shares adjusted for the effect of dilution	**94,080,094**	93,601,600

	2015	2014
Adjusted earnings per Ordinary Share – basic (pence)	**18.8**	15.9
Adjusted earnings per Ordinary Share – diluted (pence)	**17.9**	15.0

There have been no material transactions involving Ordinary Shares or potential shares between the reporting date and the date of completion of the financial statements.

Dividends

An interim dividend of 2.2p was paid on 23 October 2015 (2014: £Nil).

A final dividend of 4.4p will be proposed at the AGM but has not been recognised as it requires approval (2014: 3.95p).

11. Property, plant and equipment

	Network assets £m	Customer/ Premises equipment £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost					
At 1 January 2014	33.0	0.9	11.5	1.1	46.5
Additions	8.8	1.0	1.0	0.4	11.2
At 31 December 2014	41.8	1.9	12.5	1.5	57.7
Depreciation					
At 1 January 2014	23.8	0.2	8.7	1.0	33.7
Charge for the year	3.2	0.6	1.3	–	5.1
At 31 December 2014	27.0	0.8	10.0	1.0	38.8
Net book value					
At 1 January 2014	9.2	0.7	2.8	0.1	12.8
At 31 December 2014	14.8	1.1	2.5	0.5	18.9
Cost					
At 1 January 2015	41.8	1.9	12.5	1.5	57.7
Additions	4.8	4.4	1.4	–	10.6
Disposals	(1.6)	(0.5)	(8.4)	(1.0)	(11.5)
Reclassification	0.9	–	(0.9)	–	–
At 31 December 2015	**45.9**	**5.8**	**4.6**	**0.5**	**56.8**
Depreciation					
At 1 January 2015	27.0	0.8	10.0	1.0	38.8
Charge for the year	3.7	1.4	0.9	0.1	6.1
Disposals	(1.6)	(0.5)	(8.4)	(1.0)	(11.5)
Reclassification	0.3	–	(0.3)	–	–
At 31 December 2015	**29.4**	**1.7**	**2.2**	**0.1**	**33.4**
Net book value					
At 1 January 2015	14.8	1.1	2.5	0.5	18.9
At 31 December 2015	**16.5**	**4.1**	**2.4**	**0.4**	**23.4**

Included within network assets in the prior year were assets in the course of construction with a value of £4.0m for which no depreciation had been charged. Depreciation commenced when the asset entered use.

There was no property, plant or equipment held under finance leases at the end of either year.

There was no property, plant or equipment held as security at the end of either year.

Notes forming part of the financial statements

For the year ended 31 December 2015 continued

12. Intangible assets

	Goodwill on consolidation £m	Development costs £m	Customer contracts £m	Total £m
Cost				
At 1 January 2014	12.5	3.4	2.1	18.0
Additions	–	0.9	–	0.9
At 31 December 2014	12.5	4.3	2.1	18.9
Amortisation				
At 1 January 2014	4.5	1.5	0.8	6.8
Charge for the year	–	0.9	0.4	1.3
At 31 December 2014	4.5	2.4	1.2	8.1
Carrying value				
At 1 January 2014	8.0	1.9	1.3	11.2
At 31 December 2014	8.0	1.9	0.9	10.8
Cost				
At 1 January 2015	12.5	4.3	2.1	18.9
Additions	–	0.9	–	0.9
At 31 December 2015	**12.5**	**5.2**	**2.1**	**19.8**
Amortisation				
At 1 January 2015	4.5	2.4	1.2	8.1
Charge for the year	–	0.9	0.4	1.3
At 31 December 2015	**4.5**	**3.3**	**1.6**	**9.4**
Carrying value				
At 1 January 2015	8.0	1.9	0.9	10.8
At 31 December 2015	**8.0**	**1.9**	**0.5**	**10.4**

The estimates of the useful economic lives of the intangible assets are as follows:

- customer contracts – five years;
- development costs – over anticipated UEL of asset developed but no more than four years; and
- goodwill on consolidation – indefinite (subject to impairment).

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

	2015 £m	2014 £m
Gamma Business Communications Limited	**6.8**	6.8
Gamma Network Solutions Limited	**1.2**	1.2
	8.0	8.0

The carrying value of the Group's goodwill is not subject to annual amortisation and was tested for impairment at 31 December 2015 and 2014. The recoverable amount has been determined on a value-in-use basis on each CGU using the Board approved 12-month budget for each CGU. The base 24-month projection is amended for years two to five as follows: (a) by increasing revenue by 5% for Gamma Business Communications Limited and by 20% for Gamma Network Solutions Limited (being based on historical growth rates); (b) gross margin percentage is assumed to be held constant (based on historical data); and (c) overheads are assumed to grow in line with inflation for Gamma Business Communications Limited and by 15% for Gamma Network Solutions Limited. These cash flows are then discounted at 12% – both CGUs form the direct part of the Group and therefore it is appropriate to use a single discount rate across both CGUs.

Based on the results of the impairment reviews carried out for each period (giving a recoverable amount of £23.9m in respect of Gamma Business Communications Limited and £12.2m in respect of Gamma Network Solutions Limited), no impairment charges have been recognised by the Group in either of the years. Management has considered various sensitivity analyses in order to appropriately evaluate the carrying value of goodwill. Having assessed the anticipated future cash flows, the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to such an impairment charge in any of the years.

13. Subsidiaries

The principal subsidiaries of Gamma Communications plc, all of which are 100% owned and have been included in these financial statements in accordance with the merger accounting as set out in the basis of preparation and basis of consolidation note 1, are as follows:

Name	Country of incorporation	Nature of business	Notes
Gamma Telecom Holdings Limited	United Kingdom	Intermediate holding company	
Gamma Telecom Limited	United Kingdom	Telephony services	
Gamma Metronet Limited	United Kingdom	Dormant	
Gamma Business Communications Limited	United Kingdom	Retail telephony services	
Gamma Network Solutions Limited	United Kingdom	Data and communications networks	(a)
Peach Amber Kft	Hungary	Software services	

Notes:
(a) Gamma Network Solutions Limited is owned by Gamma Business Communications Limited.

Gamma Business Communications Limited held 100% of the share capital of the following dormant subsidiaries, all incorporated in the United Kingdom, at 31 December 2014 and 31 December 2015:

- Blue Spot Technologies Limited;
- Go Worldwide Communications Limited; and
- Uniworld Bureau Services Limited.

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

The Group also consolidates the Gamma Telecom Employee Benefit Trust and the Gamma Communications plc SIP Trust.

The Group held no interests in unconsolidated structured entities.

14. Inventories

	2015 £m	2014 £m
Raw materials and consumables	**2.4**	1.2
Provision	**(0.1)**	(0.1)
Total inventories	**2.3**	1.1

15. Trade and other receivables

	2015 £m	2014 £m
Trade receivables	**19.4**	17.9
Less: provision for impairment of trade receivables	**(1.2)**	(1.2)
Trade receivables – net	**18.2**	16.7
Accrued income	**8.1**	7.6
Prepayments	**5.0**	4.6
Other receivables	**3.9**	3.6
Total trade and other receivables	**35.2**	32.5

Due to the short term nature of trade and other receivables and as the credit risk has been adjusted for, the book value approximates to fair value.

As at 31 December 2015 and 2014, trade receivables as shown below were past due but not impaired. They relate to customers with no default history or where we have an offset arrangement. The ageing analysis of these receivables is as follows:

	2015 £m	2014 £m
Up to 3 months	**1.1**	1.7
3 to 6 months	**0.1**	0.3
6 to 12 months	**–**	0.2
Older than 1 year	**0.1**	0.2
	1.3	2.4

Notes forming part of the financial statements
For the year ended 31 December 2015 continued

15. Trade and other receivables continued
As at 31 December 2015, trade receivables of £0.9m (2014: £0.9m) were past due and impaired. The amount of the provision as at 31 December was £1.2m (2014: £1.2m). The main factors considered by the Credit Committee in determining that the amounts due are impaired are that the customers are unlikely to be trading or the debts are three months and more past due. The ageing of these receivables is as follows:

	2015 £m	2014 £m
Not due	**0.3**	0.3
Up to 3 months	**0.6**	0.1
3 to 6 months	**0.1**	0.3
6 to 12 months	**0.1**	0.2
Older than 1 year	**0.1**	0.3
	1.2	1.2

The Group does not have any concentration of credit risk. None of the customers represents more than 10% of trade receivables.

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

	2015 £m	2014 £m
At beginning of the year	**1.2**	0.9
Provided during the year	**0.5**	0.3
Receivable written off during the year as uncollectible	**(0.5)**	–
	1.2	1.2

The movement on the provision for impaired receivables has been included in the selling and administrative expenses line in the consolidated statement of comprehensive income.

16. Cash and cash equivalent

	2015 £m	2014 £m
Cash at bank available on demand	**24.8**	13.4

17. Trade and other payables

	2015 £m	2014 £m
Current		
Trade payables	**4.4**	3.3
Other payables	**0.8**	0.9
Accruals	**18.7**	17.3
Contingent consideration (note 26)	**–**	0.1
	23.9	21.6
Tax and social security	**1.9**	2.6
Deferred income	**1.5**	1.7
Total trade and other payables	**27.3**	25.9

Book values approximate to fair value at 31 December 2015 and 31 December 2014.

All current trade and other payables are payable within three months of the period end date shown above, with the exception of the contingent consideration in the prior year which was payable between three and 12 months, and as such they are all considered current.

18. Financial instruments - risk management

The Group is exposed through its operations to the following financial risks:

- credit risk;
- fair value or cash flow interest rate risk;
- market risk; and
- liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade receivables;
- cash and cash equivalents; and
- trade and other payables.

A summary of the financial instruments held by category is provided below:

Financial assets – loans and receivables – amortised cost

	2015 £m	2014 £m
Cash and cash equivalents	**24.8**	13.4
Trade receivables – net	**18.2**	16.7
Accrued income	**8.1**	7.6
Other receivables	**3.9**	3.6
Total financial assets	**55.0**	41.3

Financial liabilities – amortised cost

	2015 £m	2014 £m
Trade and other payables	**23.9**	21.5
Total financial liabilities – amortised cost	**23.9**	21.5

Financial liabilities – fair value through profit or loss (FVTPL)

	2015 £m	2014 £m
Contingent consideration	**–**	0.1
Total financial liabilities – FVTPL	**–**	0.1

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's Management Committee. The Board receives quarterly reports from the Management Committee through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

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

Notes forming part of the financial statements
For the year ended 31 December 2015 continued

18. Financial instruments – risk management continued

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

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

The Credit Committee determines concentrations of credit risk by quarterly monitoring the creditworthiness rating of existing customers and through a monthly review of the trade receivables' ageing analysis.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with high credit status are accepted.

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

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 15.

Financial assets – maximum exposure

	2015 £m	2014 £m
Cash and cash equivalents	24.8	13.4
Trade receivables – net	18.2	16.7
Accrued income	8.1	7.6
Other receivables	3.9	3.6
Total financial assets	55.0	41.3

The Credit Committee monitors the utilisation of the credit limits regularly and at the reporting date does not expect any losses from non-performance by the counterparties.

Cash in bank
The Group is continually reviewing the credit risk associated with holding money on deposit in banks and seeks to mitigate this risk by holding deposits with banks with high credit status.

Fair value and cash flow interest rate risk
As of 31 December 2014 and 31 December 2015, the Group's exposure to fair value and cash flow interest rate risk was not material. It is Group policy that all borrowings are approved by the Chief Financial Officer to ensure that it is not taking on significant risk related to possible movements in interest rates. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

Market risk
The market risk relates to foreign exchange. Foreign exchange risk arises because the Group has a small operation located in Hungary whose functional currency is not the same as the functional currency in which the Group companies are operating. Although the fact that its overseas operations are small compared to those in the UK reduces the Group's operational risk, the Group's net assets arising from such overseas operations are exposed to currency risk resulting in gains or losses on retranslation into sterling. Given the levels of materiality, the Group does not hedge its net investments in overseas operations as the cost of doing so is disproportionate to the exposure.

Foreign exchange risk also arises when individual Group entities enter into transactions denominated in a currency other than their functional currency; the Group has very few customers who are invoiced in currency other than sterling and very few suppliers invoice in currency other than sterling. Again, these transactions are not hedged because the cost of doing so is disproportionate to the risk.

As of 31 December 2014 and 31 December 2015, the Group's exposure to foreign exchange risk was not material.

A sensitivity analysis for market risk has not been prepared as the risk is immaterial.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

It is the Group's aim to settle balances as they become due.

The Board receives annual 24-month cash flow projections. At the end of the financial year, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

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

	Up to 3 months £m	**Between 3 and 12 months £m**	**Between 1 and 2 years £m**	**Between 2 and 5 years £m**	**Over 5 years £m**
2015					
Trade and other payables	**23.9**	**–**	**–**	**–**	**–**
Contingent consideration	**–**	**–**	**–**	**–**	**–**
Total	**23.9**	**–**	**–**	**–**	**–**

	Up to 3 months £m	Between 3 and 12 months £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
2014					
Trade and other payables	21.5	–	–	–	–
Contingent consideration	–	0.1	–	–	–
Total	21.5	0.1	–	–	–

More details in regard to the line items are included in the respective notes:

- trade and other payables – note 17.

Capital disclosures

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising its return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year. The Group monitors "adjusted capital", which comprises all components of equity (i.e. share capital, share premium reserve, merger reserve, share option reserve and retained earnings).

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group has historically maintained very low levels of gearing and is not exposed to externally imposed capital requirements. The Group will continue to manage the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

	2015 £m	2014 £m
Total equity	**66.7**	51.2
Cash and cash equivalents	**24.8**	13.4
Capital	**91.5**	64.6
Total equity	**66.7**	51.2
Overall financing	**66.7**	51.2
Capital-to-overall financing ratio	**1.37**	1.26

Notes forming part of the financial statements

For the year ended 31 December 2015 continued

19. Provisions

	2015 £m	2014 £m
Leasehold dilapidation provision	**1.3**	0.9
Onerous lease provision	**0.1**	–
	1.4	0.9
Due within one year or less	**0.1**	0.1
Due after more than one year	**1.3**	0.8

	Leasehold dilapidation provision £m	Onerous lease provision £m	Total £m
At 1 January 2015	0.9	–	0.9
Additional provision in the year	0.4	0.1	0.5
At 31 December 2015	**1.3**	**0.1**	**1.4**

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. Once the stage of the lease has been reached at which a reliable estimate of the costs can be made, a provision is recognised in the profit and loss. 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.

20. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 18% (2014: 20%).

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

	2015 £m	2014 £m
Asset/(liability) at 1 January	**2.1**	(0.4)
Tax credit recognised in profit and loss	**0.2**	0.6
Recognised directly in equity	**(0.7)**	1.9
Asset at 31 December	**1.6**	2.1

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. All deferred tax has been recognised as the Group is consistently profitable.

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

	Asset £m	Liability £m	Net £m	(Charged)/ credited to profit or loss £m	Credited to equity £m
2015					
Difference in capital allowances and depreciation/amortisation	**0.1**	**(0.3)**	**(0.2)**	**(0.1)**	**–**
Other temporary and deductible differences	**0.1**	**–**	**0.1**	**–**	**–**
Deferred tax on share options	**1.8**	**–**	**1.8**	**0.2**	**(0.7)**
Business combinations	**–**	**(0.1)**	**(0.1)**	**0.1**	**–**
Deferred tax asset/(liability)	**2.0**	**(0.4)**	**1.6**	**0.2**	**(0.7)**

	Asset £m	Liability £m	Net £m	(Charged)/ credited to profit or loss £m	Credited to equity £m
2014					
Difference in capital allowances and depreciation/amortisation	(0.1)	–	(0.1)	0.5	–
Other temporary and deductible differences	0.1	–	0.1	(0.4)	–
Deferred tax on share options	2.3	–	2.3	0.4	1.9
Business combinations	–	(0.2)	(0.2)	0.1	–
Deferred tax asset/(liability)	2.3	(0.2)	2.1	0.6	1.9

21. Share capital

At 31 December 2015, the share capital was as follows:

	2015 Number	2015 £m	2014 Number	2014 £m
Allotted and fully paid				
Ordinary Shares of £0.0025 each	**90,250,607**	**0.2**	88,529,127	0.2
Deferred Shares of £0.0025 each	**–**	**–**	1,717,323	–
		0.2		0.2

On 20 February 2015, Gamma Communications plc bought back 1,717,323 Deferred Shares at a price of £0.0025 per share from distributable profits.

Ordinary Share movement in the year is as follows:

	Number	Notes
1 January 2015	88,529,127	
23 March 2015	1,099,111	(a)
21 May 2015	12,000	(a)
9 September 2015	221,561	(a)
2 December 2015	388,808	(a)
31 December 2015	**90,250,607**	

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

In the prior year, the share capital movements were as follows:

On incorporation, the issued share capital of the Company was one Ordinary Share of £1.00. The share capital from 17 March 2014 (incorporation) to 12 May 2014 was as follows:

	2014 Number	2014 £m
Allotted and fully paid		
Ordinary Shares of £1 each	1	0.0
		0.0

On 12 May 2014, the Company acquired the Group headed by Gamma Telecom Holdings Limited by virtue of a share for share exchange. 1,699,983 B1 Ordinary Shares of £0.01 each and 20,590,196 Ordinary Shares of £0.01 were issued on that date. The share capital from 12 May 2014 to 2 October 2014 was as follows:

	2014 Number	2014 £m
Allotted and fully paid		
B1 Ordinary Shares of £0.01 each	1,699,983	–
Ordinary Shares of £0.01 each	20,590,196	0.2
		0.2

In addition to the above shares, the Company also had another class of share being an A1 Ordinary Share of £0.001 each with none in issue.

The Ordinary Shares and B1 Shares together (the "Equity Shares") confer on their holders the right to receive notice of and to attend, speak, and vote at all general meetings of the Company and to sign written resolutions of the Company. The holders of A1 Shares were not entitled to receive notice of or to attend general meetings of the Company and were not entitled to vote thereat nor were they entitled to receive or participate in written resolutions of the Company.

Every dividend to be paid by the Company, other than a dividend payable on or following the occurrence of certain changes of control, will be distributed to the holders of the Equity Shares pro rata to their holdings of Equity Shares. The holders of any shares not being Equity Shares are not entitled to participate in or receive any dividend other than a dividend payable on or following the occurrence of an Event.

Notes forming part of the financial statements
For the year ended 31 December 2015 continued

21. Share capital continued
On or following the occurrence of a change of control, the receipts from the acquirer would have been applied as follows:

(a) firstly, to the holders of the Ordinary Shares and A1 Shares, an amount equal to £3.75 for each Ordinary Share or A1 Share held by them on the date of the acquisition or, if the receipts from the acquirer divided by the aggregate number of Ordinary Shares and A1 Shares in issue at the date of the acquisition (on a fully diluted basis) is less than £3.75, the whole of the receipts at such date shall be paid to the holders of the Ordinary Shares and A1 Shares pro rata to the number of Ordinary Shares and A1 Shares held by them;

(b) the balance thereof (if any) shall be paid to the holders of the Equity Shares pro rata to their respective holdings of Equity Shares.

On 2 October 2014, in preparation for the flotation, the share capital of the Company underwent a four for one split. The share capital on 2 October 2014 was as follows:

	2014 Number	2014 £m
Allotted and fully paid		
B1 Ordinary Shares of £0.0025 each	6,799,932	–
Ordinary Shares of £0.0025 each	82,360,784	0.2
		0.2

Following the share split on 2 October 2014, 3,356,528 B1 Ordinary Shares of £0.0025 each in the Company were redesignated as 3,356,528 Ordinary Shares, subject to a payment from the Shareholder of the sum of £3.1m to the Company (being £0.9375 per B1 Ordinary Share registered in his name).

On 6 October 2014, the holders of all the remaining issued B1 Ordinary Shares of £0.0025 in the Company voluntarily converted their B1 Ordinary Shares into 1,726,481 Ordinary Shares and 1,717,323 Deferred Shares pursuant to the articles of association of the Company. The conversion rate was calculated by applying a formula based on the Placing Price to reflect the equity value of the B1 Ordinary Shares.

Also on 6 October 2014, 12,000 Ordinary Shares were issued and allotted to satisfy an exercise of options which had taken place earlier at an exercise price of 62.5p; 608,481 Ordinary Shares were issued following the exercise of options held by certain employees pursuant to the 2013 Unapproved Share Option Scheme and the Unapproved Share Option Scheme. A further 256,320 Ordinary Shares were allotted to the SIP Trust.

On 9 October 2014, an additional 6,152 Ordinary Shares were issued at a price of £1.87.

As a result of the above share transactions, on 10 October 2014 (at flotation) the share capital was as follows:

	2014 Number	2014 £m
Allotted and fully paid		
Ordinary Shares of £0.0025 each	88,326,746	0.2
Deferred Shares of £0.0025 each	1,717,323	–
		0.2

The Deferred Shares had no voting rights and did not carry any entitlement to attend general meetings of the Company, nor were they admitted to trading on AIM or any other market. They did not carry any dividend rights and would only have been entitled to a payment on a return of capital or winding-up of the Company after each Ordinary Share had received a payment of £0.1m. They are not transferable without the prior written consent of the Company.

On 20 November 2014, 202,381 Ordinary Shares were issued to satisfy options which had been exercised.

At 31 December 2014, the share capital was as follows:

	2014 Number	2014 £m
Allotted and fully paid		
Ordinary Shares of £0.0025 each	88,529,127	0.2
Deferred Shares of £0.0025 each	1,717,323	–
		0.2

22. Reserves
The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Represents the share capital and share related movements of the previous holding company Gamma Telecom Holdings Limited following the common control transaction as set out in note 1.
Share option reserve	Represents credit to equity relating to share based payment expense on share options.
Investment in own shares	Purchase of own shares under a SIP scheme.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

23. Leases
The Group had commitments under non-cancellable operating leases as set out below:

	Land and buildings £m	**Other £m**
2015		
In one year or less	**1.0**	**0.1**
Between one and five years	**3.3**	**0.1**
In five years or more	**1.7**	**–**
	6.0	**0.2**

	Land and buildings £m	Other £m
2014		
In one year or less	1.0	–
Between one and five years	3.2	0.2
In five years or more	2.1	–
	6.3	0.2

24. Retirement benefits
The Group operates a defined contribution pension scheme for the benefit of its employees. The assets of the scheme are administered by trustees in a fund independent from those of the Group. The pension costs charged for each year are listed below:

	2015 £m	2014 £m
Defined contribution pension scheme	**1.6**	1.2

25. Share based payment
Share options granted
On 8 May 2015, the Board approved an issue of options under the Company Share Option Plan which granted 370,349 options over £0.01 Ordinary Shares at an exercise price of £2.70. These will vest in May 2018.

On 8 June 2015, the Board approved an award under the Long Term Incentive Plan for the senior management team. 530,999 options were granted over £0.01 Ordinary Shares at an exercise price of £0.0025 per share which will vest on 1 April 2018 subject to performance conditions. The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2015.

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 equals or exceeds 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 Company'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 Company's adjusted earnings per share equals or exceeds 20% with pro rata in between.

Notes forming part of the financial statements

For the year ended 31 December 2015 continued

25. Share based payment continued

Share options modified

On 31 October 2015, the following modifications were made to existing share options:

2015 Date of original grant	No. of options modified	Original vesting date	Modified vesting date	Exercise price
6 October 2014	157,971	1 February 2016	1 June 2016	£0.2500
6 October 2014	49,885	1 February 2017	1 June 2016	£0.2500

There is not considered to be a material impact on the fair value of the options. The options concerned had no performance conditions attached to them.

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

The options below were exercised at a weighted average exercise price of £3.15.

2015 Date of grant	Start of year	Granted	Forfeited	Modified	Exercised	End of year	Exercise price	Class of share	Notes
6 June 2014	716,668	–	–	–	(457,500)	259,168	£0.2500	Ordinary	(a)
6 June 2014	36,000	–	–	–	(36,000)	–	£0.6250	Ordinary	(a)
6 June 2014	100,000	–	–	–	(100,000)	–	£0.7500	Ordinary	(a)
6 June 2014	120,320	–	–	–	(120,320)	–	£0.4940	Ordinary	(a)
6 June 2014	181,078	–	–	–	(181,078)	–	£0.0025	Ordinary	(a)
2 September 2014	1,399,352	–	(243,440)	–	–	1,155,912	£0.0025	Ordinary	(b)
6 October 2014	922,880	–	–	–	(703,383)	219,497	£0.0025	Ordinary	(a)
6 October 2014	329,244	–	–	–	–	329,244	£0.0025	Ordinary	(a)
6 October 2014	703,384	–	–	(157,971)	–	545,413	£0.0025	Ordinary	(c)
6 October 2014	372,477	–	(49,885)	(49,885)	–	272,707	£0.0025	Ordinary	(d)
6 October 2014	123,200	–	–	–	(123,200)	–	£1.8700	Ordinary	(e)
6 October 2014	67,892	–	–	–	–	67,892	£0.0025	Ordinary	(b)
8 May 2015	–	370,349	–	–	–	370,349	£2.7000	Ordinary	(f)
8 June 2015	–	530,999	(75,781)	–	–	455,218	£0.0025	Ordinary	(g)
31 October 2015	–	–	–	207,856	–	207,856	£0.0025	Ordinary	(h)

Notes:

(a) Options have vested and are exercisable.

(b) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 April 2014. The awards will vest as follows:

i. 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

ii. 15% of the shares are subject to an award if annual compound growth of the Company’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 Company’s adjusted earnings per share exceeds or equals 20% with pro rata in between.

(c) Awards vest on 1 February 2016; there are no vesting conditions.

(d) Awards vest on 1 February 2017; there are no vesting conditions.

(e) 123,200 options over Ordinary Shares at an exercise price of £1.87 to compensate holders of options over A Ordinary Shares which were granted in conjunction with the issue of B shares for the loss of capital gains tax treatment in relation to the reorganisation of the share capital. These options are fully vested and exercisable

(f) The awards granted will have a performance period of three years starting from the grant date, being 8 May 2015.

(g) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2015. The awards will vest as follows:

i. 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

ii. 15% of the shares are subject to an award if annual compound growth of the Company’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 Company’s adjusted earnings per share exceeds or equals 20% with pro rata in between.

(h) On 31 October 2015, 49,885 options with a vesting date of 1 February 2017 and 157,971 with a vesting date of 1 February 2016 were modified to have a new vesting date of 1 June 2016.

Apart from the options noted as exercisable, all other options above are outstanding.

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

The options below were exercised at a weighted average share price of £1.96.

2014 Date of grant	Post conversion	Granted	Forfeited	Exercised	End of year	Exercise price	Class of share	Notes
6 June 2014	906,668	–	–	(190,000)	716,668	£0.2500	Ordinary	(a)
6 June 2014	72,000	–	–	(36,000)	36,000	£0.6250	Ordinary	(a)
6 June 2014	100,000	–	–	–	100,000	£0.7500	Ordinary	(a)
6 June 2014	120,320	–	–	–	120,320	£0.4940	Ordinary	(a)
6 June 2014	795,169	–	–	(614,091)	181,078	£0.0025	Ordinary	(a)
2 September 2014	1,399,352	–	–	–	1,399,352	£0.0025	Ordinary	(b)
6 October 2014	–	922,880	–	–	922,880	£0.0025	Ordinary	(c)
6 October 2014	–	329,244	–	–	329,244	£0.0025	Ordinary	(d)
6 October 2014	–	703,384	–	–	703,384	£0.0025	Ordinary	(e)
6 October 2014	–	372,477	–	–	372,477	£0.0025	Ordinary	(f)
6 October 2014	–	123,200	–	–	123,200	£1.8700	Ordinary	(g)
6 October 2014	–	67,892	–	–	67,892	£0.0025	Ordinary	(b)

Notes:

(a) Options have vested and are exercisable.

(b) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 April 2014. The awards will vest as follows:

i. 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

ii. 15% of the shares are subject to an award if annual compound growth of the Company'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 Company's adjusted earnings per share exceeds or equals 20% with pro rata in between.

(c) Awards vest on 1 February 2015; there are no vesting conditions.

(d) Awards vest on 10 October 2015; there are no vesting conditions.

(e) Awards vest on 1 February 2016; there are no vesting conditions.

(f) Awards vest on 1 February 2017; there are no vesting conditions.

(g) 123,200 options over Ordinary Shares at an exercise price of £1.87 to compensate holders of options over A Ordinary Shares which were granted in conjunction with the issue of B shares for the loss of capital gains tax treatment in relation to the reorganisation of the share capital. These options are fully vested and exercisable.

The share options are subject to equity-settled share based payments.

The share options outstanding at 31 December 2015 represented 4% of the issued share capital as at that date (2014: 6%) and would generate additional funds of £1.1m (2014: £0.6m) if fully exercised. The weighted average remaining life of the share options was 16 months (2014: 20 months), with a weighted average remaining exercise price of 33p (2014: 11p).

Shadow Share Option Scheme (cash settled)

Under this scheme, the Group used to award employees with a shadow share option which vested on a change of control in the Company or a listing. Within 30 days of vesting (which was at the time of the listing), the employee received a payment equal to the number of units multiplied by the difference in market value at the date of vesting and market value at the date of grant. No awards were made in either period.

Notes forming part of the financial statements
For the year ended 31 December 2015 continued

25. Share based payment continued
Share based payment expense
Equity-settled share based payments are measured at fair value (excluding the effect of market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Application of the fair value measurement results in a charge to operating expenses within the subsidiary company Gamma Telecom Limited. The charge has been made to the profit and loss account of the subsidiary as the employees' services are provided to the subsidiary company. The charge for each year is as listed below:

	2015 £m	2014 £m
Share options issued to key management	**3.5**	2.9
Share options issued to other employees	**0.5**	0.1
Modified share options in respect of key management	**0.1**	–
Shadow Share Options	**–**	0.2
Total share based payment expense	**4.1**	3.2

Fair value is measured using the Black-Scholes model and the Monte Carlo model where market performance conditions are imposed. The information set out in the table below is used in the calculations. The expected life used in the model assumes that vesting conditions will be met and all options will be exercised at the earliest opportunity.

	2015	2014
Share price at grant date (pence)	**267–284**	187
Exercise price (pence)	**0.25–270**	0–62.5
Expected volatility	**30%**	30%
Risk free rate	**0.97–1.405%**	0.7–1.06%
Expected dividend yield	**2.2%**	3%

The share price at grant date and the exercise price have been adjusted for the share split.

The assumptions relating to volatility and the risk free rate are calculated with reference to other comparable companies within the telecommunications sector.

The Group did not enter into any share based payment transactions with parties other than employees during any of the periods.

26. Fair value measurement of financial instruments
Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- level 3: unobservable inputs for the asset or liability.

The Group only had one Level 3 financial liability in the prior period, being the contingent consideration, and none in the current period.

The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. The finance team reports directly to the Chief Financial Officer.

The valuation techniques used for instruments categorised in Level 3 are described below.

The fair value of contingent consideration related to the acquisition of Gamma Network Solutions Limited (see note 17) was based on the expected gross margins earned by the business in the five years following acquisition. During 2015, the remaining payment was made with regards to the deferred consideration and as at 31 December 2015 no further payments are due.

Level 3 fair value measurements

The reconciliation of the carrying amounts of financial instruments classified within Level 3 is as follows:

	2015 £m	2014 £m
Contingent consideration at 1 January	**0.1**	2.1
Adjustment to contingent consideration	**–**	0.6
Realised during period	**(0.1)**	(2.6)
Contingent consideration at 31 December	**–**	0.1

27. Capital commitments

The Group had no capital commitments at 31 December 2015 and 31 December 2014.

28. Related party transactions

Details of key management's remuneration are given in note 7. As at 31 December 2015, an amount of £3.0m (2014: £3.1m) was owed to the Group by key management personnel.

	1 January 2015 £000	Loan made £000	Repaid £000	31 December 2015 £000
Bob Falconer	2,591	–	–	2,591
Andrew Belshaw	50	–	(50)	–
Richard Bligh	325	–	(325)	–
Other key management	112	448	(112)	448
	3,078	448	(487)	3,039

On 2 October 2014, the Company agreed certain arrangements with Bob Falconer to enable him to maintain his holding of 5% of the issued Ordinary Share capital of the Company for the purposes of enabling him to benefit from "entrepreneur's relief" from UK capital gains tax. In order to achieve this, Bob Falconer agreed to pay to the Company the sum of £3.1m, being £0.9375 in respect of each of the 3,356,528 B1 shares held by him, such that each of his B1 shares converted into one Ordinary Share (each, a "Converted Share"). To part fund that payment, the Company's subsidiary, Gamma Telecom Holdings Limited, made an interest free loan to Bob Falconer of £2.6m ("Loan"). If Bob Falconer ceases to be a Director of the Company the Loan is repayable on expiry of his notice period or three months after termination if no notice period applies. The Loan is also repayable if Bob Falconer disposes of the Converted Shares or upon certain events of default, including his bankruptcy or within six months of his death. There is also a part repayment obligation if Bob Falconer sells only part of the Converted Shares. The Loan is secured by an unregistered charge over 1,580,159 Ordinary Shares registered in Bob Falconer's name. As part of these arrangements, the Company cancelled Bob Falconer's options over 549,132 A shares in return for a cancellation payment to Bob Falconer of £1.6m, being equal to the capped value of the A shares pursuant to the terms of the Company's articles of association in force at that time less the option exercise price for those A shares. Bob Falconer used part of the cancellation payment to repay a loan of £0.3m which had previously been made by Gamma Telecom Holdings Limited to him in April 2014.

On 6 May 2014, a subsidiary (Gamma Telecom Holdings Limited) made an interest free loan of £50,000 to Andrew Belshaw to enable him to repay a loan of £50,000 from the Employee Benefit Trust. This loan was repaid on 2 December 2015.

On 6 May 2014, a subsidiary (Gamma Telecom Holdings Limited) made an interest free loan of £75,000 to Richard Bligh to enable him to repay a loan of £75,000 from the Employee Benefit Trust. This loan was repaid on 31 March 2015. On 2 July 2014, a subsidiary (Gamma Telecom Limited) made an interest free loan of £250,000 to Richard Bligh. This loan was fully repaid by 3 June 2015.

Dividends of £0.6m (2014: £Nil) were paid to Directors during the year and no dividends were payable to Directors at the year end.

There were no other transactions with related parties during the period.

29. Ultimate controlling party

There is no ultimate controlling party.

Company balance sheet
As at 31 December 2015

	Note	**2015 £m**	2014 £m
Fixed assets			
Investments in subsidiaries	2	**3.8**	2.3
		3.8	2.3
Current assets			
Debtors	3	**20.3**	11.4
Cash at bank and in hand		**7.6**	6.7
		27.9	18.1
Net current assets		**27.9**	18.1
Total assets less current liabilities		**31.7**	20.4
Capital and reserves			
Called-up equity share capital		**0.2**	0.2
Share premium account		**3.7**	3.2
Share option reserve		**3.6**	2.1
Retained earnings		**24.2**	14.9
Shareholders' funds		**31.7**	20.4

The financial statements of Gamma Communications plc (registered number 08943488) on pages 82 to 85 were approved and authorised for issue by the Board of Directors on 21 March 2016 and were signed on its behalf by:

Andrew Belshaw
Chief Financial Officer

The notes on pages 84 to 85 form part of these financial statements.

Company statement of changes in equity
For the year ended 31 December 2015

	Share capital £m	Share premium £m	Share option reserve £m	Retained earnings £m	Total equity £m
On incorporation	–	–	–	–	–
Share issues	0.2	3.2	–	–	3.4
Share buybacks and cancellations	–	–	2.1	–	2.1
Transaction with owners	0.2	3.2	2.1	–	5.5
Profit for the year	–	–	–	14.9	14.9
Total comprehensive income	–	–	–	14.9	14.9
31 December 2014	0.2	3.2	2.1	14.9	20.4
1 January 2015	**0.2**	**3.2**	**2.1**	**14.9**	**20.4**
Dividends paid	–	–	–	(5.5)	(5.5)
Share based payments	–	–	3.1	–	3.1
Exercise of share options	–	0.5	(1.6)	–	(1.1)
Transaction with owners	–	0.5	1.5	(5.5)	(3.5)
Profit for the year	–	–	–	14.8	14.8
Total comprehensive income	–	–	–	14.8	14.8
31 December 2015	**0.2**	**3.7**	**3.6**	**24.2**	**31.7**

Notes forming part of the Company financial statements
For the year ended 31 December 2015

1. Accounting policies
Basis of preparation
As advised to shareholders at the AGM on 21 May 2015, the financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements and Financial Reporting Standard 101 Reduced Disclosure Framework.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain properties and financial instruments. The presentation currency used is sterling and amounts have been presented in round millions ("£m").

The accounts 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. It is therefore considered appropriate to adopt the going concern basis of accounting in the preparation of the annual financial statements.

As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the Group financial statements by the virtue of section 408 of the Companies Act 2006. The profit in respect of the Company for the year was £14.8m (2014: £14.9m).

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 disclosures regarding the Company's capital;

→ a statement of cash flows;

→ the effect of future accounting standards not yet adopted;

→ the disclosure of the remuneration of key management personnel; and

→ disclosure of related party transactions with other wholly owned members of the Group headed by Gamma Communications plc.

Investments
Investments are recorded at cost less amounts written off. The cost of acquisition is the amount of cash or cash equivalents paid and the fair value of other purchase consideration given by the acquirer, together with the expenses of the acquisition. Where the payment of consideration for an acquisition is to be made after the date of acquisition, reasonable estimates of the amounts expected to be paid are included in the cost of acquisition at their present values. The cost of acquisition is adjusted when revised estimates are made, with consequential corresponding adjustments continuing to be made to the cost of the investment, and therefore goodwill, until the ultimate amount is known.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities. Dividends and distributions relating to equity instruments are debited direct to equity.

2. Investments

	2015 £m	2014 £m
At 1 January 2015	**2.3**	–
Additions	**1.5**	2.3
At 31 December 2015	**3.8**	2.3

At 31 December 2015, the Company held share capital of the following subsidiaries, all of which are registered in England and Wales with the exception of Peach Amber Kft which is registered in Hungary.

Entity	Nature of business	Proportion held	Note
Gamma Telecom Holdings Limited	Intermediate holding company	100%	
Gamma Telecom Limited	Telephony services	100%	(a)
Gamma Business Communications Limited	Retail telephony services	100%	(a)
Gamma Network Solutions Limited	Data and communications networks	100%	(b)
Peach Amber Kft	Software services	100%	(a)
Gamma Metronet Limited	Dormant	100%	(a)
Uniworld Bureau Services Limited	Dormant	100%	(b)
Go Worldwide Solutions Limited	Dormant	100%	(b)
Blue Spot Technologies Limited	Dormant	100%	(b)

Notes:
(a) All 100% owned via intermediate holding company Gamma Telecom Holdings Limited.
(b) All 100% owned via intermediate trading entity Gamma Business Communications Limited.

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

3. Debtors

	2015 £m	2014 £m
Amounts owed from Group undertakings	**20.2**	11.4
Other debtors	**0.1**	–
	20.3	11.4

4. Share capital
Details of the share capital and movement during the period are given in note 21 to the consolidated accounts.

5. Dividends paid
Details of the dividends paid during the period are given in note 10 to the consolidated accounts.

6. Contingent liabilities
The Company had no contingent liabilities at 31 December 2014 or 31 December 2015.

7. Capital commitments
The Company had no capital commitments at 31 December 2014 or 31 December 2015.

8. Related party transactions
The Company has taken advantage of the exemption available within FRS 101 Reduced Disclosure Framework not to disclose transactions with other members of the Group headed by the Company. See note 28 for details of the disclosed related party transactions.

9. First time adoption of FRS 101 Reduced Disclosure Framework
This is the first year that the Company has presented its financial statements under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council.

The last financial statements under a previous GAAP (UK GAAP) were for the year ended 31 December 2014 and the date of transition to FRS 101 was therefore 1 January 2015.

In applying FRS 101 for the first time the Company has made the following elections:

→ to retain the carrying amounts of property, plant and equipment at the previous carrying amounts under applicable UK accounting standards.

Other than the adoption of the reduced disclosures there was no material effect of applying FRS 101 for the first time.
The disclosure exemptions adopted are included in note 1 to the financial statements.

Glossary of terms

"Cloud PBX"
A "multi-company" phone system that is located in Gamma data centres and provides advanced phone system functionality, and is regularly updated with new features and functionality. It also enables businesses to pay for phone services out of Opex rather than Capex.

This service is part of a wider trend in ICT, whereby businesses are replacing hardware with services from the Cloud. It is impacting significantly on IT, Software and Telecoms.

Inbound
A software-based service that enables businesses to dynamically manage phones calls into their business – where they arrive, who they go to, what services are added (voicemail, call queuing, etc) to inbound calls.

IP telephony
A method of delivering telephony calls over "data" lines, such as broadband, using Internet Protocol. This negates the need for businesses to have both data and voice lines for their premises.

ISDN
Means an integrated service digital network and BT's telephony product of that name which is generally sold and/or resold to businesses. The service is used primarily as a dedicated voice line for businesses.

MPLS
"Multi Protocol Layer Switching". A technology implemented across private wide area data networks that enables businesses to prioritise traffic by type – voice, video, data etc.

"SIP Trunking"
A business grade service that carries voice over a data circuit, instead of having a dedicated voice circuit (such as ISDN), enabling businesses to reduce the number of lines they pay for and has greater flexibility than dedicated voice lines (around phone numbering, capacity changes and speed of installation).

TDM
Time Division Multiplexing: A means of transmitting and switching calls and data across a single channel by providing dedicated time slots.

CPN
Converged Private Networks is our fully-managed WAN (Wide Area Network) solution that interconnects sites to support the passing of data, both internally and externally to the internet, and hosted applications. The service is ideal for businesses with multiple sites that want to boost the performance, improve the security and reduce the cost of their network.

MVNO
A mobile virtual network operator is a wireless communications services provider that does not own the wireless radio access network assets. An MVNO provides mobile services to customers from platforms and systems that interconnect to Mobile Network Operators.

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