Driving innovation in communications

Gamma Communications plc
Annual Report and Accounts 2017

Gamma is an AIM-listed communications company.

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

Welcome to our 2017 Annual Report.

Highlights

£238.4m +12%

Revenue grew from £213.5m in 2016 to £238.4m

£113.0m +14%

Gross profit improved from £98.8m to £113.0m

£39.6m +27%

EBITDA grew by 27% from £31.3m to £39.6m

£41.6m +22%

Adjusted EBITDA grew by 22% from £34.2m to £41.6m

£35.2m +33%

Net cash flows from operating activities was £35.2m, up 33% from £26.5m in 2016

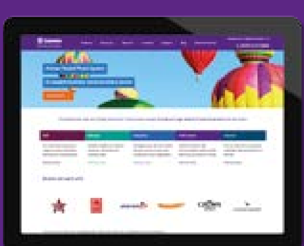
23.9p +27%

EPS (fully diluted) increased by 27% from 18.8p in 2016 to 23.9p

24.6p +17%

Adjusted EPS (fully diluted) grew by 17% from 21.1p to 24.6p

All alternative performance measures set out throughout this document are described as 'adjusted' and are defined and reconciled in the Financial Review section and are applied consistently. Where reference is made to adjusted EPS this is stated on a fully diluted basis.



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

2001 –2010

2011

2012

2013

A history of innovation

Gamma has competed on innovative products for the last ten years. We work hard to provide our partners and customers with products that are both different and better than others in the market.

VOICE

Our voice product portfolio (SIP Trunking, Cloud PBX and Inbound) is designed to meet the needs of a modern business.

650 interconnects – now one of top 3 alternative carriers

Launch Horizon hosted telephone system

Carries 8% of UK telephony traffic

DATA

Data access products are designed to assure quality of service for our voice products and services and provide a single support structure.

Launch of superfast data services

Becomes ISP

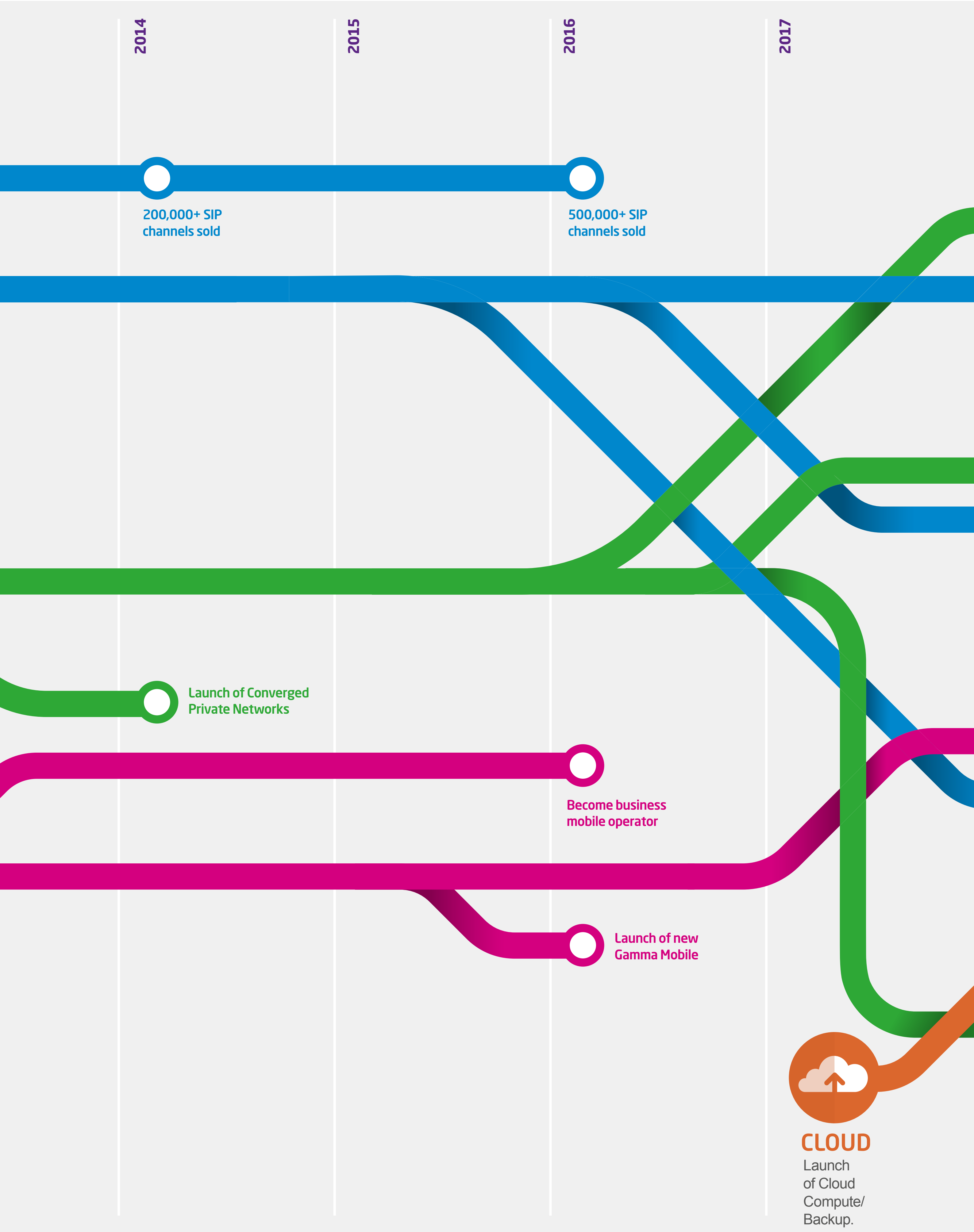
Launch of Converged ethernet

Launch of The Loop - Manchester fibre network

MOBILE

Gamma owns its mobile core network, giving us the same control as we have over fixed voice product and services (routing of all calls, texts and data traffic onto the Gamma network).

MVNA wholesale agreement


2014
2015
2016
2017
200,000+ SIP channels sold
500,000+ SIP channels sold
Launch of Converged Private Networks
Become business mobile operator
Launch of new Gamma Mobile
CLOUD
Launch of Cloud Compute/ Backup.

The rise of combined product solutions

One third of customers with SIP Trunking take Gamma broadband/ethernet/CPN to provide quality of service.

See the case study page 14

VOICE DATA

60% of Horizon (Cloud PBX) customers choose Gamma Data Services to support their critical business applications.

See the case study page 16

VOICE DATA

Connect service brings all of the benefits of voice services to mobile users.

See the case study page 18

VOICE MOBILE

Customers accessing cloud services/applications via a secure/quality ethernet/CPN service.

See the case study page 20

VOICE DATA MOBILE

Contents

Throughout this report Gamma or the Group means the Group headed by Gamma Communications plc.

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.

Our products and services

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
- Direct peering with key content providers as well as geographically diverse internet transit
- POP sites around UK

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 three million calls per hour during the peak business hours

MOBILE

- Gamma owns its 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 has independent control of its core network
- Primary mobile network is with Three UK
- Premium MultiNet provides access to multiple networks in one single SIM
- 4G data service

CLOUD

- The Cloud Compute service from Gamma is a public cloud based Infrastructure as a Service ('IaaS') product that provides a cloud based alternative to a business buying and installing a hardware server to run their business applications
- The service is hosted in the highly resilient and secure Amazon Web Services infrastructure in the UK
- Cloud Backup from Gamma is a managed 'Backup as a Service' ('BaaS') product
- It allows organisations to automate the backup of the data stored on their servers onto a secure and highly resilient storage facility within the Amazon Web Services ('AWS') cloud infrastructure in the UK

How we sell

We supply a broad range of simplified communications and software services to small, medium and large sized business customers, both through our large network of channel partners and direct.

Indirect business via:

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

Users:

76%
of sales

£181.4m
2017 sales

Business review page 32

Direct business into:

- Public sector
- Mid-market/SME
- Enterprise

Users:

24%
of sales

£57.0m
2017 sales

Who we are

901 staff

Our expert staff are a key part of our success and product development.

6 main sites

We have five main sites in the UK with a small, highly capable development team in Budapest.

1st place

Channel Product of the Year (Software – Horizon)

49

Gamma was recognised as 49th in 'The Sunday Times Top 100 Best Companies To Work For – 2017'

Corporate social responsibility
page 39

Jargon buster

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 providing greater flexibility than dedicated voice lines.

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

CPN
Converged Private Networks ('CPN') 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.

MVNO
A Mobile Virtual Network Operator ('MVNO') is a wireless communications services provider that does not own the wireless radio access network assets.

Cloud PBX
A 'multi company' phone system that is located in Gamma data centres and provides advanced phone system functionality. It also enables businesses to pay for phone services out of Opex rather than Capex.

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.

Cloud Compute
The Gamma Cloud Compute service is an Infrastructure as a Service ('IaaS') solution. It is a virtualised form of cloud computing that provides virtualised computing resources that can host business applications, that can be connected to over an IP connection.

Cloud Backup
Cloud Backup, is a Backup as a Service solution, that enables businesses to backup data and files from a server to a cloud based storage solution. It provides a secure online way of safely storing data, and allowing the business to recover that data if required.

Continued momentum

2017 has been a year of continued, consistent performance.

Richard Last
Chairman and Independent Non-Executive Director

Introduction

I am very pleased to present the Annual Report and Accounts of Gamma Communications plc (referred to as the 'Group' or 'Gamma' throughout the Annual Report and Accounts) for the year ended 31 December 2017.

Gamma is extremely well positioned in the UK communications market with a strong portfolio of voice, data and mobile services to meet the growing communications needs of a modern business. With a strong core technical capability, the Group is able to bring innovative, and often disruptive, products to the market.

Overview of results

Group turnover for the year ended 31 December 2017 increased by £24.9m to £238.4m (2016: £213.5m), an increase of 11.7% on the prior year. Of this increase £12.4m came from the indirect channel's business where turnover increased to £181.4m (2016: £169.0m), while £12.5m came from the direct business which saw turnover increase to £57.0m (2016: £44.5m). Gross profit for the year to 31 December 2017 rose to £113.0m an increase of 14.4% compared to the £98.8m achieved in 2016, whilst the gross margin increased to 47.4% (2016: 46.3%). Adjusted EBITDA for the Group increased by 21.6% to £41.6m (2016: £34.2m). EBITDA for the Group increased by 26.5% to £39.6m (2016: £31.3m).

Adjusted EPS (FD) for the year ended 31 December 2017 increased by 16.6% to 24.6p (2016: 21.1p). EPS (FD) for the year ended 31 December 2017 increased by 27.1% to 23.9p (2016: 18.8p).

Cash generated from operations for the year was £38.8m compared to £31.3m in 2016. This represents cash generated from operations to adjusted EBITDA conversion ratio in respect of 2017 of 93%, compared to 92% for 2016. Net cash and cash equivalents as at 31 December 2017 amounted to £31.6m compared to £28.2m as at 31 December 2016.

Dividend

The Board is pleased to propose a final dividend, in respect of the year ended 31 December 2017, of 5.6p per share (2016: 5.0p) which, subject to the necessary shareholder approval at the forthcoming AGM, will be payable on Thursday 21 June 2018 to shareholders on the register on Friday 1 June 2018. When added to the 2.8p interim dividend (2016: 2.5p) this makes a total dividend declared of 8.4p for the year as a whole (2016: 7.5p).

Business review

2017 has been an excellent year of progress for Gamma on many fronts. The business continues to have considerable momentum in the market, coupled with a strong reputation for service quality and innovation.

In the channel – Gamma's primary route to market – the business has enjoyed solid growth; increasing the number of active channel partners to close to 1,100. Over the last two years increased emphasis has also been placed on actively supporting existing partners to take a higher overall share of the market by providing strong support, differentiated products and in helping our partners to broaden their portfolio. This has proved to be most successful.

The direct business is now well established with significant growth coming, as intended, from larger Enterprises and the Public Sector. New contracts have been agreed with organisations such as Savills plc, for whom we have provided a UK and European network, and in the Public Sector we have had success with a number of councils and NHS Trusts, including City and County of Swansea and the full SIP estate of Manchester University NHS Foundation Trust.

The Gamma network, which underpins our capability, has undergone significant investment and we are pleased to see the benefits of this now coming through, giving the business a simpler and more flexible capability, and positioning it well for future growth through new product development.

Gamma's strategic products of SIP and Cloud PBX continue to be the main drivers of growth; the market for both of these products remains healthy and we continue to invest significantly in their development. I was also encouraged by the increased volume of sales of our data products as the capital investments to reduce the costs of sale came to fruition. Although more commoditised and lower margin, these products are an important part of the overall bundle of products – as is mobile. Early in 2017 we completed the transfer of customers on to our 'Full' MVNO service. Our data volumes on the new service grew in the second half of the year, albeit from a low base. In November we launched, to a select number of partners, the first release of our converged fixed/mobile service 'Connect'. This has been a significant

£238.4m

Revenue grew from £213.5m in 2016 to £238.4m

8.4p

Per share dividend for 2017

development for Gamma, removing the distinction between the fixed and mobile phone and making new services – such as single voicemail and MIFID II compliant call recording available across fixed and mobile devices.

The Group's strategy, which is regularly reviewed by the Board, remains focused on having a strong, relevant and differentiated product portfolio, with a healthy new product pipeline and a high quality service offering.

Risk Committee

In recognition of the importance of the Group's services to the business market and the changing nature of threats, the Board has established a Risk Committee under the chairmanship of Martin Lea, Independent Non-Executive Director.

The Group remains particularly vigilant to cyber security threats and regularly reviews the health of our security governance, to ensure appropriate resourcing and a high priority is placed on mitigating risk in this area. The Group subscribes to a number of sources of security intelligence, as well as participating in relevant national working groups. It regularly employs expert third parties to carry out penetration testing against its network, product platforms and online interfaces to ensure any vulnerabilities are understood and addressed. We continue to invest in skills and technology to ensure we keep pace with the increasing quantity and complexity of cyber-crime and the constantly evolving best practice in this area.

Board and employees

Post period end, on 16 March, Bob Falconer, Chief Executive Officer, announced his decision to retire at the conclusion of this year's AGM on 23 May. He has served Gamma with distinction during his time with the business and leaves the Group in a very good position to continue the strong growth it has delivered under his stewardship. We wish him a happy retirement.

At the same time, the Group reported that it had appointed Andrew Taylor as CEO Designate, Andrew will join the Board on 4 April and take over the role of Chief Executive Officer following the conclusion of the AGM on 23 May. We look forward to welcoming him to the business.

Richard Bligh, Director of Business Development, stepped down from the Board on 30 June 2017 following a decision to retire from executive roles. I am pleased to say that we continue to benefit from Richard's significant industry experience on a part-time consultancy basis.

We are privileged to have an active and experienced Board and a strong senior team, with real strength in depth of management. A policy of developing and growing talent from within has proved successful in both maintaining a clear culture and a high level of staff loyalty. The employees remain the bedrock of Gamma and they have significantly contributed to the creation of the successful Group 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

Gamma has made a significant investment in new product development and is in great shape for 2018 and the foreseeable future. The infrastructure is in place, the products are strong and the routes to market established.

Richard Last
Chairman and Independent Non-Executive Director

Board composition

11 Board meetings

Board members	Attendance
Richard Last Chairman and Independent Non-Executive Director	11/11
Bob Falconer Chief Executive Officer	10/11
Andrew Belshaw Chief Financial Officer	11/11
Alan Gibbins Independent Non-Executive Director	11/11
Martin Lea Independent Non-Executive Director	11/11
Andrew Stone Non-Independent Non-Executive Director	7/11
Wu Long Peng Non-Independent Non-Executive Director	9/11

Corporate governance page 42

Developing sustainable communication solutions

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

Introduction

In part, 2017 was a continuation of 2016. The business concentrated on what it does well and, as a consequence, made excellent progress across sales, product growth, service quality and network modernisation.

Meanwhile our development teams successfully made many important incremental enhancements to our existing products, whilst also bringing new products to market, particularly Connect – our initial fixed/mobile converged service.

We were pleased with the growth in both our direct and indirect routes to market (29% and 11% gross profit growth respectively). The indirect channel remains our primary focus (76% of revenue) and provides an unrivalled route to the small and medium business market. Our direct sales teams concentrate on the larger Enterprise and Public Sector markets which generally demand a more tailored solution and acceptance onto framework agreements.

Where the customer's requirements are more complex, and might involve, for example outsourcing or other broader customer specific services that we don't supply, then we would work closely with the larger Systems Integrators ('SI') and Business Process Outsourcing ('BPO') organisations.

£39.6m

EBITDA grew by 27% from £31.3m to £39.6m

Indirect business

Throughout 2017, the number of channel partners actively trading with Gamma expanded from 970 to 1,089 whilst revenues grew by £12.4m to £181.4m in 2017 (2016: £169.0m). The channel now represents 76% of our total revenues.

Although we continued to grow the number of channel partners trading actively with us, in 2017 we have placed more emphasis on working closely with existing partners to help them succeed and take a greater overall share of the business market, from which both parties directly benefit.

As part of this initiative, our digital marketing programme 'Accelerate' has put the latest marketing tools in the hands of even our smallest partners, enabling them to generate highly focussed marketing campaigns; in 2017 over 600 channel partners have taken advantage of this capability.

In a similar vein, the Gamma Academy provides an on-line training suite, enabling partners to become accredited with an impressive level of product knowledge. In 2017 over 15,200 courses were undertaken by individuals working for our channel partners, helping them to deliver a quality service to their end customers.

Product differentiation, however, remains the most valued asset and directly helped some of our channel partners move further into the mid-market. For example, the fast growing Focus Group has been highly successful in the property sector (e.g. The Kings Group), and winning the business of companies such as Fleet Alliance, as well growing its position in the Care sector. Additionally our partner G3 sold SIP to Hello Magazine.

In data, the improved competitiveness of our products helped partner TSI win an order for 243 ethernet circuits to a nationwide retail chain, and a 100 site national MPLS solution is currently being rolled out to the National Autistic Society with Integrated Business Telecommunications.

Overall, SIP Trunking and Horizon (Cloud PBX) have continued to be the prime contributor to growth in the channel, and the approach of providing all services – line, data, handsets, and calls as a bundle – continues to resonate.

Priorities

- Exploiting existing services
- Infrastructure investment
- Introducing new services
- Developing the market

Strategy for growth
page 22

Direct business

Our direct business again grew strongly in 2017, with revenues rising to £57.0m (2016: £44.5m) and gross profit rising to £26.5m (2016: £20.6m). This growth can be attributed to the delivery and billing of contracts won in late 2016, and contracts won and delivered efficiently in 2017. The growth was concentrated in the Enterprise and Public Sectors where our brand is growing and Gamma's Managed Communications Services are making significant inroads into these markets.

Some £54.5m of new contract awards were won during 2017, many of which will commence in 2018. In the Public Sector we saw success with the Financial Ombudsman Service, Intellectual Property Office, Leicester City Council and the City and County of Swansea who all migrated from legacy solutions to SIP. In healthcare we had further success with many NHS trusts, including Manchester University NHS Foundation Trust who have consolidated their entire estate onto Gamma SIP Trunking. To strengthen our position in this sector, we are in the process of being accredited for the Health and Social Care Network; if successful this will allow Gamma and its partners to compete for the replacement to the current N3 network. This accreditation process is expected to conclude mid-2018.

Customer Service continues to be at the core of our direct business and I am pleased to report that our Net Promoter Score ('NPS') was 40 which is well above our industry average. This is one of the key reasons we secured £15.3m of customer contract renewals and extensions in 2017.

Fibre and 'The Loop' in Manchester

We are pleased to see initiatives from several companies to increase the rate of installation of 'fibre to the premises' ('FTTP'), and to see Ofcom's desire to ensure more of the duct and fibre resources held by BT can be used by other telecoms providers to increase the availability of high speed connectivity across the UK. Both of these initiatives will help to facilitate Gamma's service offering to business end-users nationally.

The trend towards FTTP will also encourage more intensive use of our own unique fibre network – branded 'The Loop' – in Manchester. This is a discrete part of Gamma's business and is a 161km, wholly owned, fibre network across the authorities of Manchester, Salford and Trafford which now connects all of Manchester's key datacentres and media-hubs (including Media City), as well as providing high capacity internet to a growing number of leading businesses in the area.

Located in close proximity to a number of key public and private sector buildings, The Loop is playing a leading role in supporting Greater Manchester's Mayor Andy Burnham's Digital Strategy. It is also a key component in an initiative with Tameside Metropolitan Borough Council to take fibre into TfGM (Transport for Greater Manchester) tram ducts, a pilot that utilises existing infrastructure to improve integration between the ten authorities of Greater Manchester.

The Loop provides services to 42 customers including The NHS, The BBC, Manchester Metropolitan University and Equinix, and it has recently been announced as strategic Fibre Partner to Manchester City Council.

Products

Unusually, Gamma devotes circa 20% of its staff resources to developing and enhancing its products. This significant, but finite, resource uses software and technology and focusses on taking products developed by others for a global market by tailoring and integrating them so they are highly accessible and relevant to the UK business market.

SIP Trunking

Although we anticipated a slowdown in the rate of conversion from ISDN to SIP in 2017 this has not been evident, and our SIP Trunking volumes have grown steadily over the year from 511,000 channels at the end of 2016 to 680,000 channels (+ 33%). Our SIP Trunk Call Manager enhancement, which provides added features such as business continuity and call reporting, has proved successful in adding value and differentiation to the product.

Gamma remains the UK market leader in SIP Trunking, and continues to outpace the general UK market growth (Cavell Report June 2017).

Although this is a displacement market, the Ofcom Market report 2017, indicated that at the end of 2016 there were still approximately 2.5m ISDN channels in operation, indicating that today there remains just shy of 2 million lines still to convert to a SIP Trunking or Cloud PBX solution.

Cloud PBX (Horizon)

In preparation for growth in 2016 the focus was on increasing both the scale and the underlying resilience of the Horizon platform. This has proved invaluable as during 2017, the number of Horizon 'seats' grew from 230,000 to 331,000 (+ 44%).

Over 2017 we were able to turn our attention back to product enhancements including, for example, providing greater integration with widely used CRM (Customer Relationship Management) systems in both the Healthcare and Recruitment Sectors thereby increasing the appeal of the product in these vertical markets.

Compliance is a growing driver in many sectors, but particularly so in both Finance and Retail. In response to this, and in particular to the challenges of MiFiD II and PCI compliance, we now provide enhanced call recording and credit card payment services and will add to this capability progressively during 2018.

It is worthy of note that the core underpinning platform of Horizon is provided by Broadsoft Inc. who have been recently acquired by Cisco. We believe that the added capability that Cisco can bring to the platform will increase its appeal, particularly to businesses and channel partners already strategically committed to Cisco products.

The Cloud PBX market continues to grow strongly (22% pa – Cavell June 2017) and Gamma continues to grow ahead of the market rate.

Cloud Compute/Backup

In 2017, we launched a Cloud based server and backup service, based on the Amazon Web Services platform. As anticipated, it has been a relatively slow start as channel partners assess the product and consider the implications of adding it to their portfolio. To date over 100 partners have been accredited to sell the product, and we are now beginning to see the first set of orders being provisioned and billed.

Network and Data

Volumes on the Gamma network continued to grow strongly over the year: voice traffic grew 21%, whilst data more than doubled. This, very welcome, demand is being addressed through a programme of major network investments that will provide higher speed access and significant additional capacity.

In particular, I am pleased to report that the build out of Gamma's new core fibre backbone continues according to plan; 85% of the route has now been delivered by our partner CityFibre, and the overlay of our 100Gbit/s core router network remains scheduled for the second half of 2018. This overlay network greatly simplifies our infrastructure, deepens the interconnects into Openreach, thereby reducing our cost of sale and enabling the removal of legacy network elements and associated costs.

This is in addition to the interconnects we have now built into other carriers, such as TalkTalk and Virgin Media, to further improve the reach and cost base of our underlying service.

As prices fall ethernet becomes a more attractive high-speed alternative to broadband for many smaller businesses with growing connectivity needs. It will also give us the ability to provide selected customers with speeds up to 10Gbit/s and links on our national network of up to 100Gbit/s.

We have, therefore, seen healthy growth in the data market. We now have over 5,000 ethernet services under management and business broadband connections grew over the year from 54,000 to 76,000 (+41%), driven largely by Fibre to the Cabinet ('FTTC') services bringing higher speeds and reliability to businesses. We believe there is considerable scope for increasing our share of the growing market for higher speed and quality of services.

Mobile services

At the end of March 2017 we finally closed down our 'thin' MVNO with Vodafone and completed the transfer of the remaining customers that had agreed to transfer on to our own 'Full' MVNO. Mobile is now all about data, with voice just a part of the bundle. As the Gamma service became more established, and we developed the proposition, our data volumes grew in H2 2017 to 62.5 TB (H1 2017 35.0 TB).

As we anticipated, the services had a slower start in the channel relative to the direct business. Channel partners were either new to the Gamma mobile service and cautious, or contracted in to agreements with the main operators. We did, nevertheless, see encouraging growth in the channel in the second half of the year.

It is important to emphasise that our strategy in mobile is not to enter a mature market late in the day with a value proposition competing against much larger mobile operators with sunk costs. The objective is to leverage the inherent strengths of Gamma to create a sufficiently differentiated service for the UK business market. That is what we have been doing with the development of Connect – our first release fixed/mobile converged service.

Connect was launched to a limited number of channel partners in November 2017. The product enables users to combine their Horizon fixed line service with their Gamma mobile so it appears as a single service. Users can choose which number (fixed or mobile) to present to the called party and all the features of Horizon – including a single voicemail service – are available to the mobile. The user can make or receive calls on either device using the same services and numbers. The product will progressively be made available to all channel partners.

Operational and service performance

The business market is, quite rightly, highly intolerant of any service disruption and this is an area where the business seeks to differentiate from its competitors. Emphasis on continuous improvement, good capacity planning, rigorous change control and robust design – whilst never guaranteeing freedom from problems – does in the long term drive up service levels.

Our major platforms supporting SIP, Horizon and Mobile services all exceeded their service level targets for the year. With the levels of growth and change that have been driven through the platforms this is a major achievement and a strong testimony to our quality based approach. The business has retained its certification to ISO27001, Cyber Essentials (mandatory for relevant government contracts) and ISO22301, Business Continuity.

Additionally, our 'Straightforward to do business with' programme seeks to make it as easy as possible for our customers to interact with us. The result of this effort was backed up by an NPS score of +45 in a recent customer satisfaction survey in our indirect business.

People

The average number of employees in the Gamma Group increased over the year from 732 to 845. The main areas of growth were in support of the growth in volumes, particularly the connection of new customers, sales, and the development of new products.

We have continued to focus on the recruitment of high quality graduates across the business and we have increased the opportunities available for apprentices.

Outlook

Looking forward to 2018, whilst technology marches on, our core strategy remains fundamentally unchanged. Our current product set presents us with ample growth opportunities and having a deep capability across data, IP voice and mobility, coupled with a clean, high capacity core network, gives us the opportunity to continue to innovate and disrupt in established markets. The move into IT services as a value added intermediary between the channel and large scale players such as AWS, as a route to the SMB market is logical, although it will take time to build significant volumes.

We anticipate the direct business to continue to grow healthily, particularly in large Enterprise, based on a strong reputation and product capability with an increasing contribution from the Public Sector, where we are still under-represented.

The business is in an excellent shape and well poised for future growth.

Bob Falconer
Chief Executive Officer

The shift to converged communications

We have identified key trends in our markets showing how the face of business communications is changing and how Gamma is addressing these trends.

Supporting business communications in an ever changing world.

Alan Mackie
Product Director

The rise of converged communication services

Businesses are no longer static operations with users constrained by the location that they work in. Business operational efficiency is increasingly dependent on employees and customers being able to communicate from any location, at any time and on any device, be that a phone call, email, text or instant message. Underpinning these business and user trends are a number of technology and industry directions that support the overall changes on how business operates. Whilst businesses look to adopt these operational trends they are also seeking service simplicity and cost savings in their communications solutions. To further drive business efficiency, these solutions boast features such as single voicemail, single phone numbers and call reporting. With the combination of efficiency boosting features, streamlined support and single suppliers, converged services are being readily adopted by many businesses.

The Gamma response

Gamma launched Connect in November 2017, a solution that provides the business-critical features of our Cloud PBX service, Horizon, seamlessly onto company mobiles. Connect combines the core Gamma voice and mobile service as a simple to use solution that provides real business efficiency for users, ensuring that customer interactions are dealt with effectively, regardless of location. This service will be extended in 2018 to include a more advanced voicemail and instant messaging service, enabling the solution to be adopted by a wider range of businesses.

Superfast connectivity

Businesses simply cannot survive without high-speed access to their data, application and customer information through the internet. As more and more data is accessed remotely, simple connectivity is not enough. Technology has enabled businesses to move from a simple phone or email conversation with a customer to interactive video, online chat or screen sharing. Therefore, it has been essential to have fast, secure and scalable connectivity that supports the key business applications, separate to those needs of an individual customer.

44%

of all fixed broadband connections were able to receive actual download speeds of 30Mbit/s or more, up from 38% a year previously

Source: Ofcom Communications Market Report 2017

The Gamma response

Throughout 2017, Gamma has seen a significant rise in demand for high bandwidth broadband and ethernet. We have met this demand and our connectivity services are now a significant part of the Gamma product portfolio, ensuring customers have access to key business cloud applications. By utilising our network reach to build out ethernet nodes in a number of population centres, we have reduced our cost of supply, allowing us to drive volume in a competitively priced market.

Network flexibility

It continues to be essential for many providers to increase their network flexibility, as customers demand they support changes to their business communications in a fast and flexible manner. New ‘Over the top’ (‘OTT’) providers can offer applications that are easy to use, but the customer connectivity may not have the capacity or security to support it, whilst large network based operators may have the core capacity but not the flexibility to deliver the applications that the customer requires. For a provider to ensure both, the business needs a balance between fast to deploy applications over a scalable and secure infrastructure that supports all users.

The Gamma response

Gamma is an infrastructure-light provider with a core network that can support the key routing of voice, data and mobile traffic in an integrated core. This core integration combined with the network architecture built without legacy platforms allows us to develop differentiated services, such as the Connect solution. Our network ensures Gamma can provide simple, easy to consume services underpinned by automated provisioning and support models.

The rise and rise of Cloud services

More and more businesses are reliant on cloud-based applications to drive their key business processes, as the flexibility that on-demand software solutions provide to all businesses enables them to deploy new solutions faster and more efficiently. Whilst this flexibility can be enjoyed by small or large businesses, it has been the SME market that has adopted cloud services more readily, as it can offload the IT burden on to the cloud provider and have no need to own, manage or maintain any of the underlying hardware. The simplicity of this offering and the added support, availability and reliability has made cloud services an attractive proposition for businesses.

The Gamma response

Gamma's Horizon solution is a cloud-based application that has been successfully deployed to hundreds of thousands of users over the last ten years. In 2017, we launched our Cloud Compute service based on virtual servers from which customers can run their normal business applications. These virtual servers are provided as a direct alternative to the traditional on-premise or data centre hosted servers and are accompanied by appropriate storage, security and networking facilities. The focus for our 2017 launch of Cloud Compute was building the initial go-to-market offer and creating the sales channel to support selling these services to small and mid size business in 2018.

88%

UK business cloud adoption rate

Source: Cloud Industry Forum

19%

UK Software as a Service growth (CAGR)

Source: Gartner IDC

Outlook

As we look to 2018 our aim is to continue to add value to the core Cloud PBX and SIP Trunking services by focusing on:

- Supporting customer compliance requirements with call recording and credit card clearing solutions.
- The continued roll out of the Connect solution to more customers and further develop the features for this service.
- Developing and adding messaging, conferencing and collaboration functionality to the Cloud PBX service.

For the wider Gamma business, we will continue to drive product cross sell ratios to end customers and through the channel base, remain focused on customer service and improve our NPS scores further for both our direct customers and indirect channel partners and explore new routes to market with our industry leading SIP Trunking and Cloud PBX solutions.

Strategy for growth
page 22

The ongoing requirement for compliance

As the world of communications becomes more complex, businesses are increasingly challenged to communicate with customers via different routes and at the same time protect customer data within a framework of compliance regulations. Ensuring that the business remains flexible and at the same time compliant is a challenge, regardless of business size, with specific requirements for select industries such as MiFiD for the financial services sector and PCI for credit card transactions.

The introduction of GDPR in 2018 will increase this burden for all businesses regardless of size or sector that they operate in.

The Gamma opportunity

- Gamma is an infrastructure-light provider, with a core network that can support the key routing of voice/data and mobile traffic in an integrated core.
- This core integration allows us to develop differentiated services, such as the Connect service.
- Providing simple, easy to consume services, underpinned by automated provisioning and support models.

Business model

Delivering solutions to the market

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.

Our strengths

Providing business communication and supporting services that solve customer problems and make their businesses more efficient. Delivering these services from scalable network, operational and sales platforms that enable a wide range of routes to market via indirect channel partners and our direct sales teams.

The right people and expertise

Outstanding customer service

Excellent network availability and resilience

Innovative services

Commercial strength and stability

Strong balance sheet and consistent market strategy

Our products & services

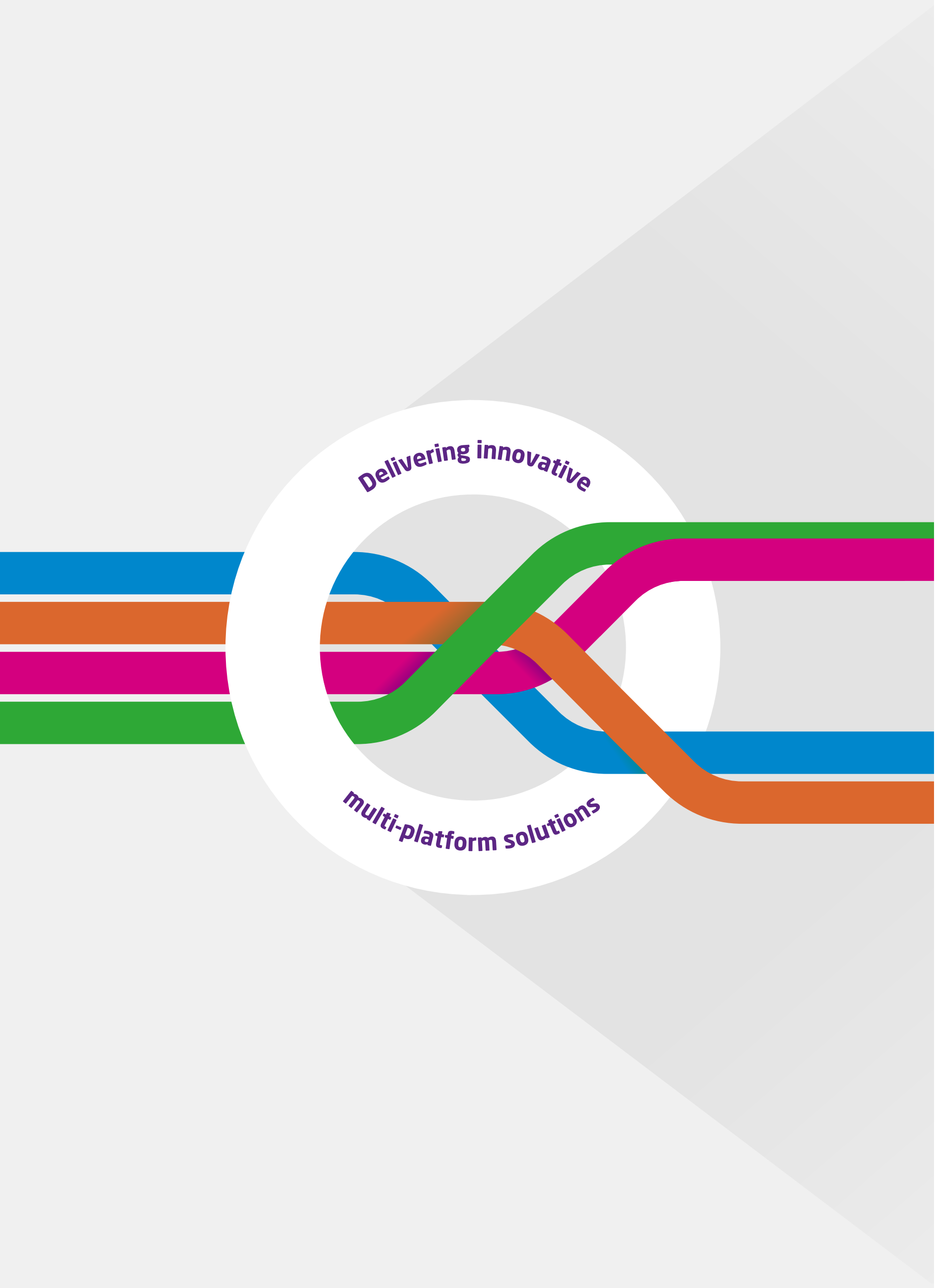
VOICE
Our voice product portfolio (SIP Trunking, Cloud PBX and Inbound) is designed to meet the needs of a modern business.

DATA
Our Data Access products are designed to assure quality of service to businesses accessing their critical business applications in the cloud, including Gamma voice products, with all services supported via a single support structure.

CLOUD
Launch of Cloud Compute/Backup. In 2017 Gamma launched a Cloud Compute and Cloud Backup service, targeted at SMBs looking to move their business applications to a highly scalable and secure public cloud platform.

MOBILE
Gamma owns its mobile core network, giving us the same control as we have over fixed voice product and services (routing of all calls, texts and data traffic onto the Gamma network).

The markets we serve



Indirect business

Our primary route to market, the channel, is at the heart of what we do. Providing services to 1,089 partners, with the partner owning the end customer contract and the relationship.

76%

Indirect business revenue income percentage

Channel partners

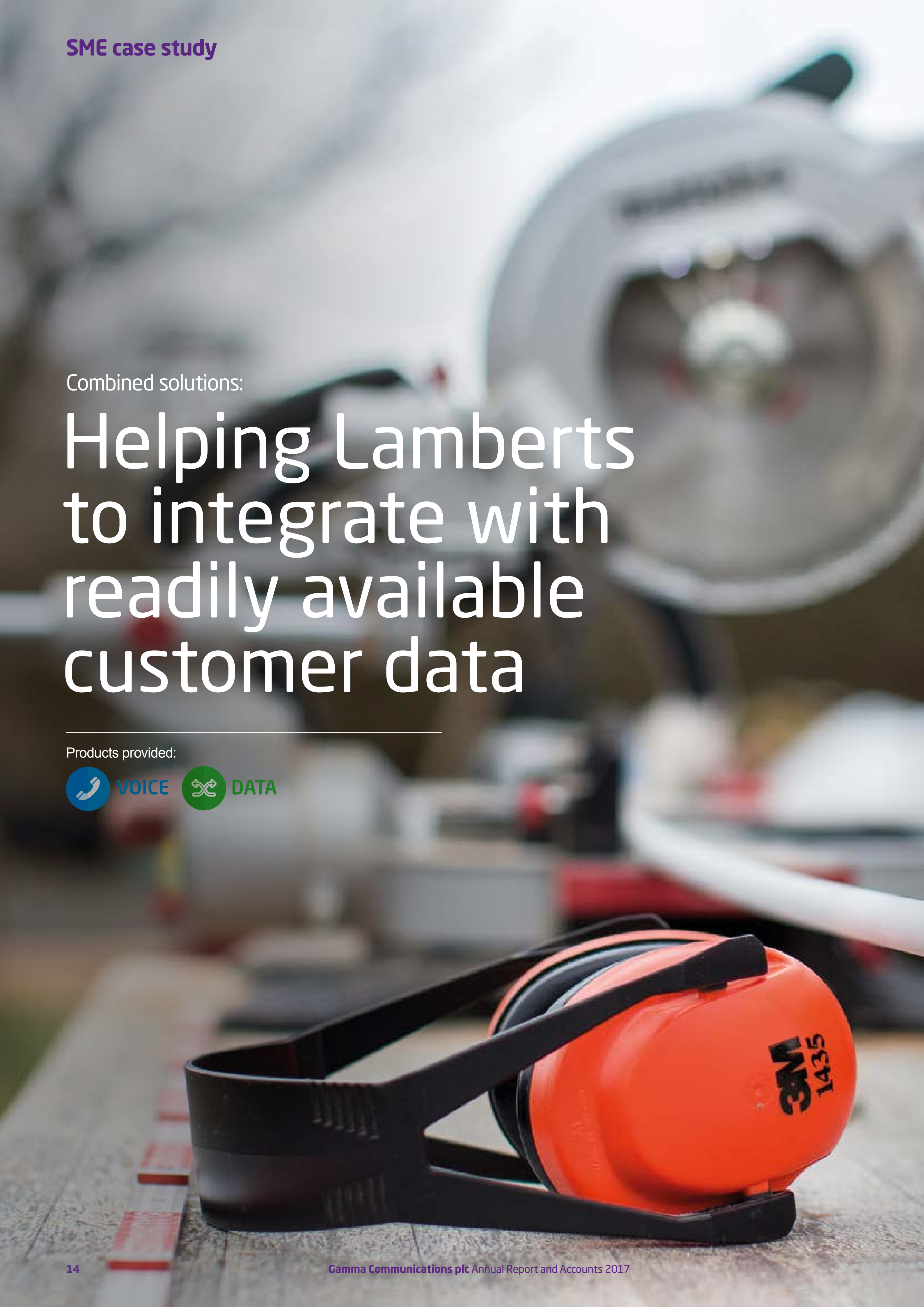
Direct business

Gamma supports a number of direct customer relationships, focusing on customers where they are looking for a contract with the network operator. The direct business, among other businesses, supports the requirements of Enterprise and Public Sector organisations.

24%

Direct business revenue income percentage

End users/customers



Combined solutions:

Helping Lamberts to integrate with readily available customer data

Products provided:

VOICE DATA

Lamberts is a family run company which has been operating since 1963 offering an extensive range of products to the manufacturing, agriculture and food production sectors. The company is committed to maintaining the best traditions of personal service, coupled with the efficiencies gained from advanced technology.

The challenge

Lamberts was using an old premises-based legacy system (BT Meridian) operating on telephony cabling and ISDN connections. The system did not allow easy communication between the two offices. This was a particular issue for them as clear and easy communication was vital to keep track of orders and operate efficiently, ensuring they maximised profits.

They also required call reporting as there was no way of tracking calls, which was vital to keeping orders under control. The management team also needed to understand the call volumes to ensure adequate resource was in place.

Eastern Voice & Data was shortlisted, and as the only provider offering cloud telephony as a solution, they addressed the above challenges. The business was won following a presentation to the Board.

The solution

Eastern Voice & Data implemented Gamma FTTC at each site and moved all of the legacy telecoms estate from the two offices over to IP. They reduced multiple analogue lines and ISDN30 down to just three FTTC managed connections retaining all of the legacy numbers previously used. The Peterborough office was networked and was no longer a remote office but fully integrated into the business communications. Horizon Integrator was implemented allowing computer/telephony integration meaning that customer information was readily available. This made the process more efficient for Lamberts as previously customer data was stored separately and it would take time to find out specific details. Horizon call recording was provided, adding a further layer of compliance to the taking of telephone orders.

"Having had our previous antiquated telephone system for what felt like decades, understandably we were apprehensive of the potential upheaval a new system would bring. But we needn't have worried. From the very first meeting with Russell and his team, their knowledge and empathy of our concerns and situation gave us complete reassurance of a smooth transition, and it was just that. I can't recommend Eastern Voice & Data highly enough.

Managing Director
Lamberts (Norwich) Ltd

The benefits

- Improved efficiency through a flexible hosted solution with many business features
- A new site network dispensed with legacy telephony cabling
- Managed Gamma FTTC provides enterprise-grade WiFi for the business thus giving added value to the FTTC installation
- Legacy cabling was dispensed with and replaced with Cat5e improving the company network
- Full call reporting and call recording improved management and compliance
- Telephony costs were fixed and future expansion can be easily provided
- Ability to deploy after-hours, weekend and bank holiday messages to callers

Combined solutions:

Enabling a superior bandwidth solution for Virgin Wines

Products provided:

VOICE DATA

With most sales being self-service online, Virgin Wines has a loyal following of more discerning customers who prefer to discuss their choices with expert staff over the phone. These separate sales channels mean reliable networking and telecommunications are crucial.

The challenge

Upon splitting from former parent Direct Wines in 2013, the newly reborn Virgin Wines needed to quickly migrate to a new networking and telecoms provider since it could no longer rely on the infrastructure of its previous owner.

Network and telephony links were needed for the head office and an inbound/outbound call centre in Norwich, a warehousing and distribution centre in Preston and a third-party hosting and Web platform provider in Woking.

Gamma was chosen for both the networking and telephony elements of the new system, providing high speed, managed data services between Norwich, Preston and Woking while at the same time delivering SIP telephony and PSTN connectivity to complement Virgin Wines' ISDN links.

When the time came to improve both resilience and capacity across the Virgin Wines' network, the wine supplier chose to stay with Gamma. The current solution adds more bandwidth together with diversely routed backup circuits while at the same time removing single points of potential failure in the network.

The solution

For its initial requirement to move to a new provider we provisioned managed data links for Virgin Wines' three sites providing ethernet, SIP and Internet connectivity to complement its existing ISDN telephony. As the business grew we were asked to provide additional capacity and resilience and this was achieved by adding further links using diverse routing. Bandwidth currently stands at 100Mbit/s into Norwich, 50Mbit/s into Preston and 20Mbit/s into the hosting provider in Woking.

ISDN circuits have been retained too, adding yet another layer of resilience into what is already a belt and braces solution. We also provided a competitive calls package which has reduced Virgin Wines' call costs considerably.

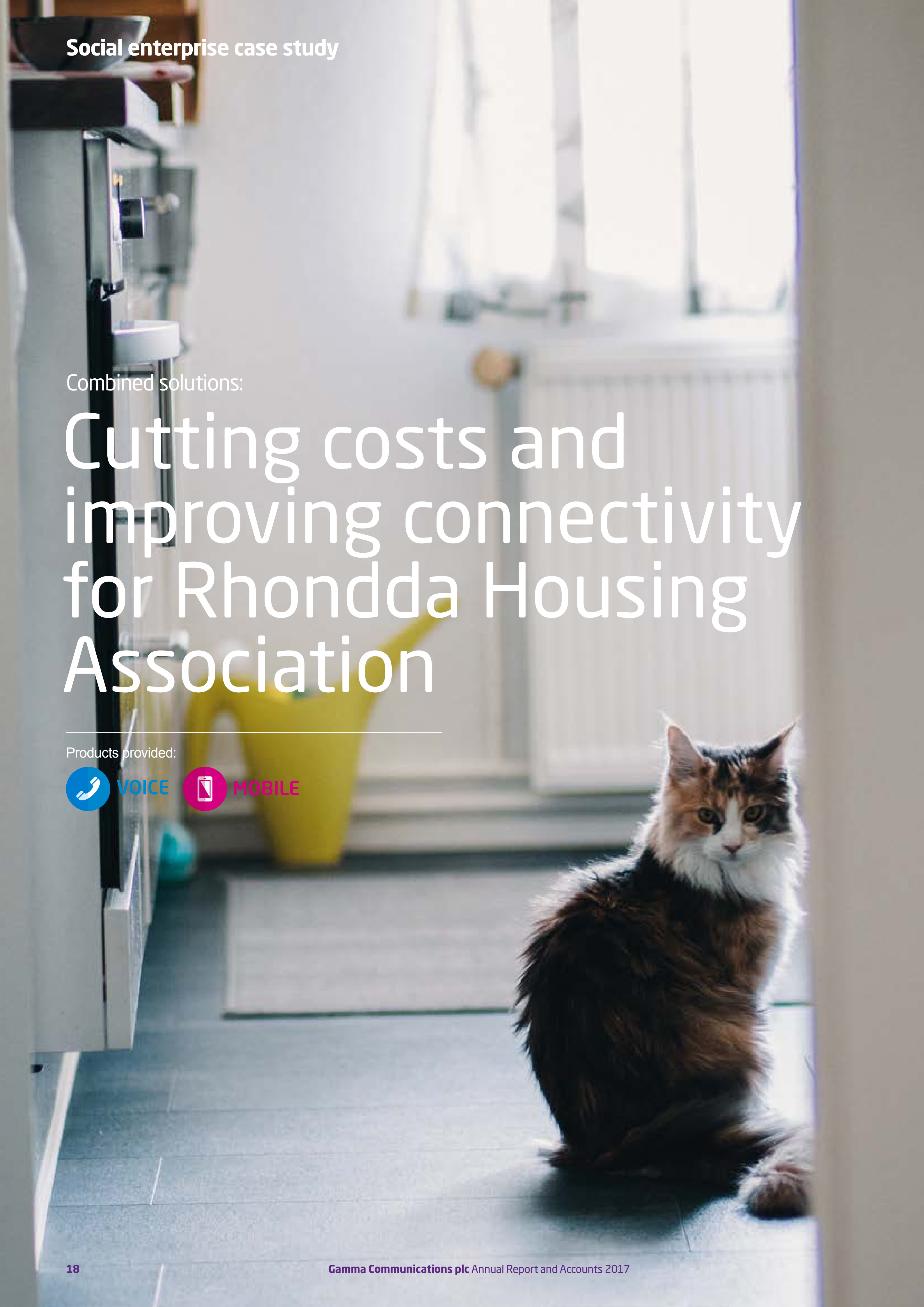
This, together with other savings achieved by working closely with the customer elsewhere in the system, has made it possible to deliver a scaled up, more resilient data service with no increase in overall cost.

"Gamma understands exactly where its services can meet our needs. Gamma has done, and continues to do a good job. The risks of moving to another provider were simply not justified. Now we have a faster network that's as robust as it can be, and because Gamma has been able to achieve savings on voice provision we've now got a much more resilient service at the same cost as before."

Karl Warham
CIO, Virgin Wines

The benefits

- Vastly improved resilience
- Improved level of backup with diverse routing
- Significant cost reductions in voice
- Supports contingency recovery plans
- Works alongside ISDN for further resilience
- Voice savings paid for data upgrades – no extra costs
- Seamlessly meets seasonal peak demands



Combined solutions:

Cutting costs and improving connectivity for Rhondda Housing Association

Products provided:

VOICE MOBILE

Rhondda Housing Association is a not for profit organisation that owns and rents out some 1,700 domestic properties and is headquartered at Tonypandy, around 20 miles north of Cardiff. Its housing stock, a mixture of flats, houses and bungalows, is scattered throughout the Rhondda and Cynon Valleys, enabling it to meet the housing needs of a range of clients from single pensioners to growing families.

The challenge

The Association's contract with incumbent telco BT was coming to an end, creating the opportunity for a new agreement with an alternative, less costly and more flexible provider for some 70 desk-phones, an on-premises PBX, and SIP trunks providing PSTN connectivity.

At the same time, the Association sought to improve voice and data communications for 50 field-based staff, including 25 equipped with iPads running a customised application that supports and automates interactions with tenants such as the creation of moving-in-day inventories, rent account status queries and building maintenance requests.

The solution

Competitive tenders saw Gamma selected by the Association as provider of both its fixed and mobile needs.

Association staff were involved in the selection of Yealink desk phones, and trained in their use in advance of the cut-over date to the newly installed IP Cortex phone system, linked via SIP to Gamma's UK-wide network.

Gamma's high quality project management team ensured that the transition from old to new systems was seamless, and earned warm praise from Rhondda Housing Association IT manager Nigel Lee. The Association was interested in the Gamma MultiNet Mobile bolt on which enables users to do business in more places than would be possible with just a single network. Mobile coverage in this part of Wales with its deep valleys was a real problem with the previous network, with staff always complaining.

"The Gamma service has enabled us to improve the efficiency and speed with which we react to tenant requests and needs" Nigel Lee, Rhondda Housing Association IT manager.

"

…we have equipped every handset and every iPad with MultiNet. Staff no longer complain about connectivity and it's enabled us to improve the efficiency and speed with which we react to tenant requests and needs.

Nigel Lee
Rhondda Housing Association
IT manager

The benefits

- Land-line telephone costs slashed by £9k a year
- Mobile costs lower too
- Gamma MultiNet delivers greater mobile coverage
- Gamma fixed/mobile solution enables better, faster service to tenants
- Lower costs equals more money for core mission of quality social housing

Combined solutions:

Selling more Gamma products to increase revenue and margin

Products provided:

VOICE DATA MOBILE

“The Gamma Cloud PBX service (Horizon) is a key product in the Fidelity Group portfolio. Together with Fidelity Group partners, we’ve reached 30,000 hosted handsets managed on Anvil, our proprietary billing engine. This corresponds to about 1% of the total UK hosted marketplace today.

Alan Shraga
Managing Director

Fidelity
group communications

A partner who is supported by Gamma can extend their product set beyond their core competence. They will receive quality products and services at competitive commercials, a range of ongoing training and support, from pre-sales to technical support. As telecoms revenues diminish over time, selling multiple products adds revenue, margin and ‘stickiness’ to cement a partner’s status as a trusted advisor as well as a provider of services.

Fidelity Group is one of the UK’s fastest growing communications providers. Based in Oxfordshire, they have won numerous industry awards and have featured twice on the Sunday Times TechTrack 100. Over the last ten years Fidelity have been a proactive partner with Gamma, taking advantage of the full Gamma product set. Fidelity recognised the opportunity for growth in revenue and margin by providing an end-to-end solution from just one supplier.

The product offering

Whilst Fidelity recognise that there are benefits to each product, it has been the Horizon platform that has been the stand out for them compared to alternative hosted products. The features and capabilities in Horizon have provided Fidelity with the ability to support their own network of channel partners and their various vertical markets with confidence in what they are selling. Throughout the years they have recognised the need to diversify their product offering. By selling a combination of voice and data products from Gamma, Fidelity have been able to increase margin and growth in customers, to benefit both Fidelity Group and the end user. Part of having this offering is knowing that they will be fully supported by Gamma to ensure their customers experience the highest service levels.

The Gamma difference

As a long term Gamma partner, Fidelity have found the level of support they have received to be maintained at a high level, even as Gamma has continued to grow and add new products. Training and information is provided to Fidelity, enabling them to launch new products to their channel, in line with Gamma’s launch of these products to the market.

Alan Shraga said “We were concerned that the level of support and flexibility would be impacted as Gamma went through expedited growth, eventually listing on AIM, but this has not been the case. Gamma have demonstrated on more than one occasion that they are committed to our success. This ranges from providing commercial support on call rates to win call traffic, to providing various levels of support for successful bids.”

Outlook

“We believe in the strength of our partnership and that Gamma will continue to provide the highest levels of service, from marketing to product knowledge and technical support. We pride ourselves on the service we provide to our customers, and Gamma allows us to guarantee the highest levels of service delivery that our partners have come to expect from us.” Alan Shraga Managing Director.

A strategy driven by an engaging culture

Our engaging culture feeds directly into our strategy, which will be principally pursued organically, but Gamma is also well placed to consider strategically relevant acquisitions as the opportunities arise.

Strategic pillars

Our objective

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

Engaging culture

– Insight
– Experience
– Flexibility
– Innovation

Exploiting existing services

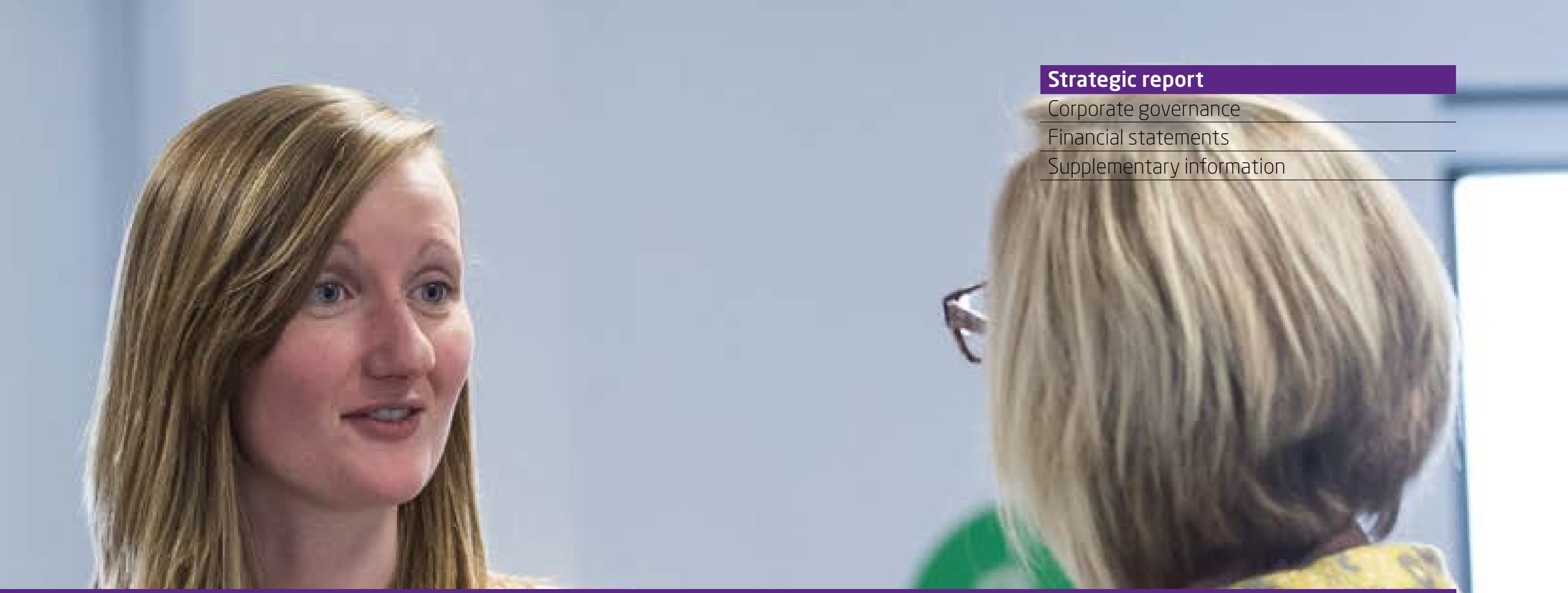
Infrastructure investment

Introducing new services

Developing the market

Execution
The four strategic pillars are all underpinned by our 'Straightforward to do business with' culture which seeks to make it as easy as possible for our customers to interact with us.

Corporate social responsibility
page 39



What we've achieved in 2017	Priorities for 2018	Performance*
• Continuing to add value to existing services to open up new markets, for example adding CRM vertical integrations on Horizon, specifically EMIS for GPs and Bullhorn for recruitment. • Increasing functionality in SIP Trunking with additional call routing services, increasing the value of the service to the end customer, and increasing the margin per sale. • Continuing the roll out of ethernet exchanges to provide high bandwidth and low cost connections in new geographic areas. • Increasing cross sell opportunities with converged solutions such as Connect, that combines Cloud PBX and Gamma Mobile.	• Adding features to the Cloud PBX service to increase market share in verticals that require call recording and credit card payment support to ensure market compliance. • Increased bandwidth on ethernet and MPLS services to 10GB. • Delivering enhanced coverage on the Mobile service with investment in WiFi calling. • Enhancing the Cloud Compute service to include customer data migration services and disaster recovery solutions, to 'round out' the SMB focussed customer offering.	Strategic and enabling services as percentage of gross margin (%) **86%**
• Fully enabled IP Interconnection into the BT Voice Network and removal of all legacy multiple voice interconnects into BT Exchanges. • Migrations of voice services onto our new voice architecture. • Decommissioning of legacy fibre in some areas. • Closure of legacy voice switching platforms including the exit from one London location. • Expansion of our direct data access into BT Openreach exchanges has continued and we have enabled a further 17 locations during 2017. • We have significantly invested into the upgrade of our Northern data centre for both power and air conditioning; this investment has included a brand new super lab.	• Complete build out of new fibre network and start migration of services onto this network. • Continue to review and enable direct data access to an increased number of BT Openreach exchanges, thereby reducing the cost of ethernet data service. • Completion of the removal of the remaining legacy equipment, associated support costs, and a reduction in national fibre costs.	Network availability (%) **99.997%**
• Fixed and Mobile convergence through the initial launch of Connect, a solution that integrates Gamma's Cloud PBX and Mobile services. • Increasing the number of ethernet tail circuit providers to offer a more cost-effective range of services with wider geographic coverage. • Introduction of Cloud Compute and Cloud Backup services, providing solutions for SMBs to manage their data securely in the cloud. The service is delivered in partnership with Amazon Web Services.	• Call recording and PCI compliance (MiFID II) across multiple products including Horizon, SIP and Mobile, to support customers with regulatory and compliance requirements. • Expansion of the Cloud PBX service to include enhanced web/video conferencing and desktop collaboration, to address the changing needs of business communications. • Enhancing the Connect, Cloud PBX and Mobile integration service, by adding an easy to use app and WiFi calling to increase user coverage.	Revenue (£m) **£238.4m**
• Gamma launched an online channel partner marketing platform, called Accelerate. This platform provides marketing collateral and support for channel partners to generate leads and close new business with Gamma products. • The online training platform, Gamma Academy, was further developed to increase the efficiency of channel partners when on-boarding and supporting Gamma services. • Further focus on developing the Enterprise and Public Sector markets with targeted marketing and business development Programmes.	• Focus on developing further channel routes to market in the IT Reseller and System Integrator space. • Increased investment in the Accelerate programme to increase the number of products that are supported and the number of partners utilising the service. • Increased penetration in the Public Sector area, with specific focus in the Healthcare sector via new network infrastructure.	Number of channel partners **1,089** Direct customers billing over £5,000/month **152**

Customer satisfaction (Indirect)	Customer satisfaction (Direct)
+45 2015: +0, 2016: +26	**+40** 2015: +40, 2016: +45

*See pages 28 and 29 for comparative performance measures.

Exploiting existing services

When reviewing the development roadmap we take a number of elements into account. Which new features will give us extended market reach, can they be upsold into existing accounts, will they complement and enhance existing functionality, but most importantly, can they capitalise on specific market verticals that have not been addressed previously. It is important to us that we do not dictate our roadmap to our partners and customers, instead we let their needs and requirements prioritise our developments, through regular feedback sessions. Whilst a new feature can assist in targeting a specific sector such as retail, health or education, we know these sectors have multiple facets with differing requirements. Therefore, we aim to take a more granular approach when addressing specific verticals, by applying solutions that are not only tailored to them, but can also add value in terms of efficiency and even additional revenues.

Our work with estate agents is a key example of this. Rather than just replacing their legacy telephony solution with Horizon, we translate the bundle of features we provide such as hunt groups, click to dial and CRM integration to name a few, into a tailored solution specific to this vertical. For example if the inbound caller details are held within the estate agent's CRM, the details will automatically pop up on the agent's screen including information of the last house viewing or budget. This gives a complete picture for the agent to handle that call personally, professionally and efficiently. We have also focussed on integrating Horizon with leading CRM platforms such as Bullhorn for recruitment and EMIS and Patient Connect for healthcare. These integrations provide users with simple 'click to dial' directly from the CRM and also personally answer inbound calls with automated screen popping of the inbound caller, enhancing professionalism and efficiency for that business.

Infrastructure investment

The increase in the number of customers and the volume generated per customer has resulted in a strong year of growth in traffic volumes on the Gamma network. The network now carries over 1.2 billion minutes of voice traffic each month, whilst data traffic has increased by 30%. To cater for this growth, we have an ongoing infrastructure investment programme in place to better position the business to supply more converged services and multi-site data services. We are pleased to have completed a number of projects as part of this programme in 2017, whilst maintaining the core network availability at 99.997%.

Completed projects include fully enabled IP Interconnection into the BT voice network and removal of all legacy multiple voice interconnects into BT exchanges. The closure of legacy voice switching platforms included the decommission of all equipment in both our London and Manchester data centres.

Finally, we completed the upgrade of our northern data centre for both power and air conditioning and a brand new super lab for all our network services and platforms. We have progressed on other significant engineering projects including the decommissioning of legacy fibre in some areas with the full decommission of 70% of the data POPs that supported this ring. Expansion of our direct data access into BT Openreach exchanges has continued and we have enabled a further 17 locations.

Migrations of voice services onto our new voice architecture has started and this will continue to progress for completion into early 2018.

The project to retire and replace parts of the fibre network started during 2017 and significant progress has been achieved on the build, enablement and installation of this network. Following the Admission Document in 2014, where the Directors indicated their expectation that this work needed to be carried out, Gamma entered into a contract with CityFibre for the provision of dark fibre interconnecting various data centres, Gamma locations and BT nodes in a ring including London, Manchester and other major cities. Traffic will be gradually phased across on to this new fibre backbone, replacing the existing one and underpinning Gamma's ability to handle our customers' rising needs for high data-rate connectivity.

By the end of 2017, minutes of voice traffic each month reached

1.2 billion

Introducing new services

We believe that the success of launching a new service into a rapidly changing market is reliant on several key factors. Gamma has developed a specific combination of attributes that allows the service to differentiate itself from both a commercial and functional perspective and in our case through the speed and agility of development needed to capitalise on new opportunities as and when they present themselves.

With the launch of our managed Cloud Compute and Backup services, we believe that we have addressed these needs and, in addition, taken an innovative approach to a seemingly complex service which has increased our market opportunity into a new and exciting space.

Partnering with Amazon Web Services, this service reflects the growing ambitions of the SME market, to migrate their existing server infrastructure to the cloud and enjoy unlimited scalability with upgrades to servers and storage quickly, without the need to configure and manage themselves. They also benefit from an Opex driven expenditure, allowing them to focus on their business IT and not the platform.

This provides us with a large market opportunity, but one which we are well positioned to exploit through our extensive channel network. For the channel the key proposition is that by using the Gamma Portal we've made it easy to quote, configure and deploy these services without having to invest in significant new technical skills.

Customers can enjoy the flexibility and commercial benefits of a highly resilient cloud-based platform, the channel partner gets access to an attractive new revenue stream and we get to broaden our portfolio with complementary new services and capture a whole new part of the customer spend.

Developing markets

As our partner base continues to grow we are aware of increasing demand for marketing support services and the opportunities for helping partners 'go to market' more effectively. We know that listening to and investing in our partners not only helps us create the right tools and services to support them but also helps shape future development of our managed service.

The launch of Accelerate this year has provided partners with an integrated online marketing portal designed specifically for the channel. Accelerate is aimed at making it easy for Gamma partners to rebrand white label marketing material, run integrated campaigns to generate new leads, and more effectively engage with prospects and customers to boost sales.

Since launch Accelerate has proven itself as an effective platform for boosting lead generation and partner uptake is continually increasing with more than 600 users to date.

Launched in line with Accelerate, the Gold Partner Programme is going from strength to strength, with over 20 partners now signed up. Gold Partners have access to dedicated support for delivery of lead generation activities, including managed campaigns through Accelerate and funding towards marketing activity. They also benefit from access to enhanced training and support.

With Accelerate at the heart of boosting partner marketing activity, we have started to build a range of additional services to help support partners including telemarketing, digital support and design services. In addition to this we want to help our partners work smarter and more efficiently.

To achieve this we recently launched our exclusive sales and marketing consultancy delivered by Richard Bligh, one of Gamma's former Directors. Drawing on his extensive industry experience, Richard reviews the partner's approach and activities, from website to lead generation to sales tools and processes, identifying key areas where they could grow their business faster.

600 partners on Accelerate

Measuring our success

Revenue (£m)

£238.4m

2017	238.4
2016	213.5
2015	191.8

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)

£113.0m

2017	113.0
2016	98.8
2015	82.3

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 (%)

47.4%

2017	47.4
2016	46.3
2015	42.9

Definition
Gross profit as a percentage of revenue.

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

Adjusted EBITDA (£m)

£41.6m

2017	41.6
2016	34.2
2015	28.3

Definition
Adjusted earnings before interest, taxation, depreciation, gains and losses on disposal of fixed assets and amortisation stated before exceptional items and share based payment charges.

Outlook
Continued growth.

Relevance
By removing share based payments and non-recurring items from this metric, a better understanding of the performance of the business is gained.

Cash (£m)

£31.6m

2017	31.6
2016	28.2
2015	24.8

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)

£35.2m

2017	35.2
2016	26.5
2015	28.2

Definition
Net cash flows from operating activities.

Outlook
Expected to grow in line with EBITDA – cash conversion is expected to remain strong.

EPS (p)

23.9p

2017	23.9
2016	18.8
2015	19.6

Definition
Earnings after tax divided by the fully diluted number of shares.

Outlook
Expected to grow in the absence of any unforeseen exceptional items.

Adjusted EPS (p)

24.6p

2017	24.6
2016	21.1
2015	17.9

Definition
Adjusted earnings after tax divided by the fully diluted number of shares.

Outlook
Continued growth.

Relevance
By removing share based payments and non-recurring items from this metric, a better understanding of the performance of the business is gained.

Performance metrics

Number of Hosted seats ('000s)

331

2017	331
2016	230
2015	142

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)

680

2017	680
2016	511
2015	360

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 (%)

86%

2017	86
2016	79
2015	72

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

Direct customer profile

159

2017	159
2016	131
2015	109

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

Outlook
Continued growth.

Relevant strategy pillars

Network availability (%)

99.997%

2017	99.997
2016	99.996
2015	99.997

Definition
Availability of strategic platforms.

Outlook
Similar.

Relevant strategy pillars

Number of channel partners

1,089

2017	1,089
2016	970
2015	834

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

Outlook
Continued growth.

Relevant strategy pillars

Net Promoter Score – direct (%)

40.0%

2017	40.0
2016	45.0
2015	40.0

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

Outlook
Similar.

Relevant strategy pillars

Net Promoter Score – indirect (%)

45.0%

2017	45.0
2016	26.0
2015	0

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

Outlook
Similar.

Relevant strategy pillars

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

The KPI 'Cross sell ratios per channel partner (%)' (which measures the percentage of margin of our indirect business derived from channel partners who are taking four or more growth products) has been removed because it has remained consistent at c73% for the past few years and has reached an asymptote which reflects the Company's ability to cross-sell its products well to channel partners. A number of channel partners will, for various reasons, only ever sell fewer than four products. Instead we substitute the Net Promoter Score for the indirect business which is also a measure of customer satisfaction in this important route to market.

Understanding the risks that affect the Group

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.

Risk management process

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.

In recognition of the importance of the Group's services to the business market and the changing nature of threats, during 2017 the Board appointed a Committee to consider non-financial risk under the chairmanship of Martin Lea, Independent Non-Executive Director.

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 this page. Each generic area of risk (e.g. Security breach) has clearly assigned accountability at Director-level within the management team, with reporting lines to the CEO, the Risk Committee and ultimately the Board.

Gamma has a series of policies regarding anti-corruption/anti-bribery, human rights, the environment and social matters, but the Board does not consider there to be significant risks in this area.

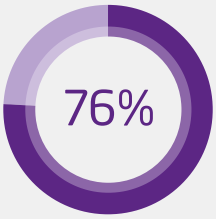
The principal risks to the business are listed with a short description of their potential impact and what is being done to mitigate them. This is not an exhaustive list and, as described, the risk profile of the business is constantly evolving.

Risk	Description
Operational - Security Breach	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 Group has adapted its governance accordingly.
Operational - Network 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.
Supplier	The business relies on a number of key suppliers to provide elements of its products and services.
Market Landscape	New entrants or existing service providers extend their product set to compete directly with our products and services. The communications market is constantly evolving both in terms of the available technologies and also in how people look to purchase certain products.
Legal and Regulatory	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 statutes, 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.
Reputational	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.
Brexit	Britain's impending departure from the EU creates uncertainty and will result in changes for some businesses. This is likely to produce both risks and opportunities for Gamma.

Potential impact	Mitigating actions	Impact	Change
A breach of security could have a significant impact on the Group'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	↑
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	↔
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 ensure their performance.	Moderate	↔
This may dilute the addressable market and slow down growth. If the business does not at least keep pace with this evolving market then its plans for growth may be impacted.	Gamma aims to provide services which are more attractive to our customers than those of competitors. 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	↔
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. Gamma is currently conducting a full review of its personal data controls and processes in order to comply with GDPR.	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 2017, it came 49th in 'The Sunday Times Top 100 Best 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	↔
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 that reviews performance across all parts of the business. This forum has its own action register to track through any improvements highlighted. We also employ external agencies to carry out penetration testing on our systems as well as carrying out our own security incident rehearsals. The business has retained its certification to ISO 27001 and Cyber Essentials (mandatory for relevant government contracts).	High	↔
The main risks anticipated are possible reduction in economic activity across the UK; possible long term reduction in the size of the financial sector in London and possible increases in the costs of international call termination and international mobile roaming.	Gamma will manage both its pricing policies and its contractual arrangements with customers and suppliers in the light of the evolution of the government's Brexit negotiations.	Low	↔

Indirect business

The channel is right in the DNA of Gamma, contributing 76% of our revenue. Our clear objective is to provide the channel with something that is both different and of quality, and really drive sales in the hard to reach SMB market.



Indirect sales	76%
Direct sales	24%

119

Gamma added 119 new actively trading channel partners in 2017

11%

Gross profit increase in 2017 to £86.5m for indirect business

Current channel partner examples

2017 was another excellent year for the indirect business and the 1,089 partners we now work with. Gross profit rose from £78.2m in 2016 to £86.5m, and revenues grew from £169.0m to £181.4m.

Our services are designed to give our partners the edge to drive growth in both their business and ours. As a consequence, more channel partners than ever are actively choosing to work with us – 1,089 at the end of 2017 (970 at the end of 2016). However, this is something we can never take for granted. Channel partners contract directly with the business customer, often blending Gamma's products with their own and that of others to meet the customer's specific requirements.

As communications and IT services converge, both business customers and resellers are making choices on how to consolidate on to fewer suppliers. The gaining suppliers have to offer something extra over often excellent single product providers – be they large technology, telco incumbents or over the top providers from anywhere in the world.

Our approach is threefold. Firstly, to provide an excellent portfolio of differentiated and disruptive products. Secondly, to increasingly integrate and bundle these products to the customer's advantage and, finally, to really support the channel partner in growing its market share.

To achieve all this, we have made step changes in both the marketing and e-learning capabilities we make available to partners.

'Gamma Accelerate' is a marketing and lead generation platform that Gamma makes available to participating partners, giving them the latest digital marketing techniques to help grow their business. The service is backed by dedicated Gamma people who develop and execute lead nurture campaigns on their behalf. In 2017, over 630 different channel partners utilised Accelerate to some degree, generating in excess of 900 qualified leads, resulting in significant new business for both parties.

The Gamma Academy is an online training environment developed by Gamma to provide partners with comprehensive support tools, training, and product data to help them confidently win and support customers and compete effectively with larger asset-owning competitors. In 2017 this really took off, with over 15,200 courses undertaken by individuals working in our channel partner community. These bite sized online courses cover all aspects of our services from provisioning to technical support.

The Gamma Portal remains a one-stop shop for our partners and this is continually being developed and remains a key differentiator.

This has been coupled with our accreditation programmes that recognise our Platinum and Gold Partners by providing enhanced support and access.

In most cases, business customers are provisioned and supported by partners with no direct involvement from Gamma staff. As some of our partners penetrate the mid-market, however, the level of engagement increases. One example of this is a recent win with our partner Online Systems who have secured orders from Park Dean Resorts for 200 SIP channels, 900 Inbound numbers and 32 ethernet circuits – leveraging our rounded portfolio. Sabio, another key partner, was successful in winning a national travel and insurance company providing 4,000 SIP channels across a resilient architecture.

The market for SIP Trunking for PBX connectivity and ISDN replacement is competitive and prices are trending down. We would logically expect this pressure to increase as the market matures over the next few years. Currently, Gamma continues to both outpace the market growth rate and add value to the SIP Trunking proposition with services such as SIP Trunk Call Manager, which adds a growing number of call management features to the service, taking it beyond basic connectivity.

Daryl Pile,
Managing Director – Channel

Our Cloud PBX product, Horizon, has multiple competitors ranging from ‘big-tech’ to local niche operators, with many focussing on particular vertical markets. Over 2017, Gamma added over 30 feature enhancements to the Horizon service. This supported our continued market growth. A key strength is being able to provide a complete solution inclusive of the connectivity, calls and handset, with integrated mobile now added through the new Connect converged fixed and mobile service.

Our partners continue to use their sales, marketing, product and service wraps to enrich our offering and differentiate themselves. Developments planned for 2018 will augment those efforts further and help partners move deeper into mid-market solutions.

Our data services have gained momentum in 2017, benefitting from our enhanced portfolio and the addition of our private multi-site CPN service. We are seeing a growth in orders for both ethernet and broadband, as we continue our capital investments to drive down the cost of sale. This helped us, for example, to secure an ethernet order across 243 sites for a large high street brand, and with the roll out of a 100 site+ national CPN solution to the National Autistic Society with further services to be overlaid.

Our mobile service is beginning to deliver real differentiation for partners with the launch of our Connect service in November. Combining the features of Horizon with Gamma Mobile, Connect allows a mobile handset to become an extension of the Horizon product. Users can benefit from features such as call reporting, call recording, hunt group and single voicemail regardless of device.

In mid-2017, we launched a cloud-based server infrastructure and backup service, based on the Amazon Web Services platform. 2017 was a phase of introducing the service and assisting channel partners to market to their customers, and over 100 partners have signed up to the programme. As I write this report we are beginning to see the first set of orders being provisioned and billed.

To manage the significantly increased number of accounts we have grown our intake of internal account managers taken directly from universities and looking to start their career in sales. They are already contributing significantly to the sales operation, which bodes well for the future as these individuals develop.

I am extremely proud of the channel sales team and very grateful for the fantastic efforts of the whole Gamma team across the country, who have all helped us and our partners to achieve our results in 2017. We look forward to the next year with confidence.

Strategy in action
Focus Group

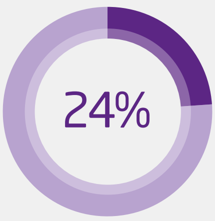
Strategy links:

“As a Platinum Partner, we receive a number of valuable benefits to help us achieve a higher return on investment. Gamma continue to work with us to identify new opportunities in the market to further strengthen our business. One of these opportunities is selling the combination of Horizon with Gamma Data services. Since taking this proposition to market we have made more margin and our business has gone from strength to strength.”

Ralph Gilbert
Director, Focus Group
Sussex-based Gamma Platinum Partner selling Cloud-PBX, SIP Trunking, Inbound and Data Services.

Direct business

The direct business has had an encouraging year, delivering revenues of £57.0m and gross profit of £26.5m, up 28% and 29% respectively. The Gamma brand has continued to gain recognition as a quality provider of Cloud ICT solutions and I was particularly pleased with our growth in the Enterprise and Public Sector markets.



● Direct sales	24%
● Indirect sales	76%

29%

Gross profit increased in 2017 to £26.5m from £20.6m in 2016 for the direct business

Current customer examples

Enterprise

Our major contract wins at the end of 2016 with Reed, OCS and Nandos significantly contributed to our growth in 2017. This is particularly pleasing because in 2017 we focused on reducing our delivery lead times for more complex managed service deployments such as those. It is clear, as Enterprise customers drive towards convergence, that Gamma's market-leading cloud communication products, combined with our managed service, creates a compelling solution that is well received and as a consequence these customers are asking us to do more and more for them.

This was evidenced through 2017 as our Enterprise team secured £25.4m of new and existing customer contracts, with the majority of these for managed next generation cloud communication services. Some notable wins in 2017 include; Savills plc – the global real estate services provider, who contracted with us for a 132 site UK and European data and SIP network to support their voice and business applications. Health and social care provider Care UK deployed our Cloud PBX Horizon across 128 sites supporting 2,500 users. In retail, we continue to expand with new wins including ITSU, Bravissimo and Rush who have all selected Gamma to run their large ICT estates.

Mid-markets

In 2017 we generated additional business from our existing customers by focusing on strategic account management, cross-selling and upselling. In this respect we have had a very successful year, upselling £3.2m of additional contract revenue across the mid-market. One example is Thrifty Car and Van Rental who have extended their existing agreement and added our new Cloud Compute services.

We are finding that customers are looking for one supplier to do more for them, including taking responsibility for more of their telephony and IT estates. In their view, having one trusted supplier removes complexity and means fewer staff can manage more services, ultimately reducing internal costs.

New business in the mid-market sector also had a great year, securing £15m in new contract revenue, a 15% increase on 2016. The drive to Cloud PBX has definitely accelerated as the market has gained more trust in the technology – we see the key drivers as flexibility, business continuity, integration, reporting and cost savings.

David Macfarlane,
Managing Director – Direct

Public Sector
2017 has seen strong growth from our Public Sector unit. The total contracted revenue from new customers for the year was just over £16m, a 60% increase from 2016. This included significant contracts awarded through the Crown Commercial Service RM1045 Network Services, the key framework for Public Sector.

In Central Government, we have been awarded contracts for The Financial Ombudsman Service and the Intellectual Property Office to deliver large Cloud PBX solutions. In local government, we again strengthened our credentials in Cloud PBX, with organisations such as Leicester City Council and the City and County of Swansea, who have entrusted us to migrate them away from their legacy telephony infrastructures to our cloud services.

This positive momentum was also reflected in the Health sector, where we secured contracts for our SIP services with organisations such as Manchester University NHS Foundation Trust, Norfolk and Suffolk NHS Foundation Trust and Abertawe Bro Morgannwg University Health Board.

In Education, our SIP services are increasingly the solution of choice and we added the Universities of Bath, Bournemouth and Sheffield onto our platforms. This brings the total count of Universities directly using at least one of Gamma's cloud solutions to 59.

In Social Housing and the Third Sector, we have secured major contracts with customers such as Cunninghame Housing Association and Macmillan Cancer Support who have both contracted for multi-site Converged Private Networks with Gamma's Cloud PBX replacing legacy infrastructure.

We continue to be approved suppliers on GCloud9, the Janet Telephony Purchasing Service, Scottish Fixed Telephony Services and the Crown Commercial Service RM1045 Network Services frameworks – which all offer procurement routes for buying all Gamma's solutions.

The outlook is positive and to support future growth during 2017 we initiated a Digital Transformation programme to simplify internal systems, reduce the number of touch points in our systems and create a leading digital customer experience for customers. This programme will continue throughout 2018.

Strategy in action
Berendsen

Strategy links:

Berendsen, Europe's leading textile services business, has deployed a 100 site UK network to meet the business challenges of delivering its services to a very demanding client base. Unlike other providers Gamma stood out from the start, our fibre Ethernet Everywhere architecture delivered Berendsen higher resilience, greater speed and more flexibility while removing complexity and ultimately cost from their communications estate. Once connected to our network we simply 'switched on' our SIP service into each of the 100 locations, further simplifying the Berendsen estate.

"The network is everything and our dependency on resiliency and reliability is huge," says Berendsen's head of service delivery Antony Pugh.

"We took a decision to deploy fibre wherever possible and this will give us more reliability and the capacity to add new services, beef up our application delivery and give us the very best voice quality with Gamma SIP services".

BERENDSEN

Positive financial performance

Andrew Belshaw describes a positive set of results for 2017 as Gamma reports for the third full year as a listed Group.

Andrew Belshaw
Chief Financial Officer

Highlights

£238.4m (+12%)
Revenue grew from £213.5m in 2016 to £238.4m

24.6p (+3.5p)
Adjusted EPS grew from 21.1p to 24.6p

23.9p (+27%)
EPS increased by 27% from 18.8p in 2016 to 23.9p

£41.6m (+22%)
Adjusted EBITDA grew by 22% from £34.2m to £41.6m

£39.6m (+27%)
EBITDA grew by 27% from £31.3m to £39.6m

£38.8m (+£7.5m)
Net operating cash inflow before tax grew from £31.3m to £38.8m

Revenue and gross profit

Indirect business

Revenue from the indirect business grew from £169.0m to £181.4m (+7.3%) and gross profit grew from £78.2m to £86.5m – an increase of £8.3m in the year.

This growth is particularly pleasing despite the fact that we faced two notable headwinds. First, the traditional business (which includes calls and lines and trade with other carriers) is declining; in 2017 the gross profit from this part of the business declined by £4.0m to £12.5m (2016: £16.5m). Second, the growth of our new mobile product was slower than we had hoped. However, the increase from other products has more than offset those items. SIP Trunking and our Cloud PBX product (Horizon) grew in line with previous years and our data products have shown increased levels of growth.

We group our data, mobile, SIP and Cloud PBX products as our 'growth' products and revenue from growth product sales increased from £113.2m to £130.9m (+15.6%) and gross profit grew from £61.7m to £74.0m (+19.9%). The gross margin grew from 54.5% to 56.5% which reflects the fact that the main contributor to this growth was SIP Trunking, which has a higher margin than other products.

Direct business

The direct business had its best ever year. Revenue increased from £44.5m in 2016 to £57.0m (+28.0%) and gross profit from £20.6m to £26.5m (+28.6%). Margin increased slightly from 46.3% to 46.5% (but the underlying trend is higher as we had some low margin equipment sales in the first half of the year).

The growth was attributable to sales of growth products and gross profit on these products grew from £16.8m to £22.8m. This business continues to move from selling to smaller customers to larger Enterprise businesses and Public Sector customers on multi-year deals. The order book at the year end remained strong.

Adjusted operating expenses

Adjusted operating expenses grew from £64.6m (2016) to £71.4m. This was due to a number of factors:

- Ongoing growth in the number of customers buying new products for the first time continues to be a driver of overhead, especially in the area of provisioning product to our new Enterprise customers.
- Increased investment in product research that doesn't meet capitalisation criteria.
- Continued investment in our sales teams.

The above increases were offset to some degree by our ongoing programme to reduce the running costs of our network through selective additional investment.

Alternative performance measures

Our policy for alternative performance measures is set out in Note 1.

The tables below reconcile the alternative performance measures used in this document:

2017 Measure	Statutory basis	Depreciation, amortisation and gains on disposal	Share based payment	Tax items	Adjusted basis
Operating Expenses (£m)	**86.8**	**(13.4)**	**(2.0)**	**–**	**71.4**
EBITDA (£m)	**39.6**	**–**	**2.0**	**–**	**41.6**
PBT (£m)	**26.4**	**–**	**2.0**	**–**	**28.4**
PAT (£m)	**22.6**	**–**	**2.0**	**(1.4)**	**23.2**

2016 Measure	Statutory basis	Depreciation, amortisation and gains on disposal	Share based payment	Tax items	Adjusted basis
Operating Expenses (£m)	77.4	(9.9)	(2.9)	–	64.6
EBITDA (£m)	31.3	–	2.9	–	34.2
PBT (£m)	21.6	–	2.9	–	24.5
PAT (£m)	17.7	–	2.9	(0.6)	20.0

The reconciliation of EPS to adjusted EPS is shown below (both are shown on a Fully Diluted basis):

	2017 pence	2016 pence
EPS	**23.9**	18.8
Share based payment expense	**2.1**	3.1
Tax effect associated with share based payment expense	**(0.4)**	(0.6)
Additional effect of dilution	**–**	(0.2)
Non-recurring tax credit due to the conclusion of a previously unresolved tax matter	**(1.0)**	–
Adjusted EPS	**24.6**	21.1

Adjusted EBITDA and EBITDA

The combination of increasing sales of new products and operational improvements means that adjusted EBITDA grew from £34.2m in 2016 to £41.6m or 21.6%. The statutory EBITDA performance was consistent with the adjusted measure increasing by 26.5% from £31.3m to £39.6m.

Taxation

The effective tax rate for 2017 was 14.4%. This rate is however depressed significantly by a non-recurring tax credit of £0.9m which related to a tax overpayment from 2014 and earlier years where the underlying position has only recently been resolved. Taking the credit into account, the underlying effective tax rate for the year was 17.8% (2016: 18.1%). The tax rate is lower than the statutory rate for the year of 19.25% (2016: 20.00%) because the Group benefits from research and development tax credits. Due to the on-going research that the Group does, we would expect the effective tax rate for the Group to remain slightly below the statutory rate.

Cash flows

The cash balance at the end of the year was £31.6m, up from £28.2m at the end of the previous year. The cash generated from operations for the year was £38.8m which represents 93% of adjusted EBITDA for the year (2016: 92%). Management believes that the conversion of EBITDA into pre-tax cashflow is a key metric for the business because it demonstrates that the profitability of the business is underpinned by cashflow.

Capital spend for the year was £24.7m, which is an increase from £19.6m in the comparative period. This is discussed in detail overleaf.

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 programmes or M&A activity.

Capital expenditure

The Group spent £24.7m (2016: £19.6m) on capital which was split as follows:

- £13.2m was on enhancement and replacement of existing assets (2016: £11.3m). Of this amount:
  - £4.4m was spent on our new national network which will replace our existing fibre ring. This will provide Gamma with a core infrastructure for the next twenty-five years (and is therefore not representative of the underlying run rate spend). (2016: nil). There is another £1.0m of spend to come in 2018 on this project.
  - £7.7m was the cost of increasing capacity and development of the core network as well as other minor items such as IT and fixtures and fittings (2016: £8.6m).
  - There was no significant spend on the build out of our data network (2016: £1.8m).
  - £1.1m was the capitalisation of development costs incurred during the year (2016: £0.9m).
- £11.5m was on customer premises equipment; this is 'success based' expenditure and has increased in line with sales in our data and Cloud PBX products (2016: £8.3m). (See also note 3 on the impact of implementation of IFRS15).

Adjusted EPS (FD) and Statutory EPS (FD)

Adjusted EPS (FD) increased from 21.1p to 24.6p (16.6%). The growth in adjusted EPS (FD) is slightly behind that of adjusted EBITDA due to depreciation and amortisation in the year increasing from £9.9m in 2016 to £13.4m. This is driven by the investment programme and success based capital spend described above. The statutory EPS (FD) performance was better than the adjusted measure increasing by 27.1% from 18.8p to 23.9p; this was caused by a settlement of a historical tax liability resulting in a non-recurring tax credit.

Dividends

The Board has proposed a final dividend of 5.6p representing a full year dividend of 8.4p per share. This is an increase of 12% against our dividend for 2016 of 7.5p and is in line with our progressive dividend policy.

Subject to shareholder approval, the final dividend is payable on Thursday 21 June 2018 to shareholders on the register as at Friday 1 June 2018.

New accounting standards

Gamma has now concluded its analysis in respect of the new accounting standards relating to revenue recognition (IFRS 15), leases (IFRS 16) and Financial Instruments (revision to IFRS 9). Our full assessment is discussed in Note 3. As indicated at the half year, EPS (FD) for 2017 would not have been materially affected had the new standards been applied.

IFRS 15 will be adopted from 1 January 2018 and therefore in next year's audited financial statements, Gamma will restate the 2017 figures under the new accounting policies (which are set out in Note 3). The effect of implementing IFRS 15 in 2017 would have been as follows:

	As reported (current GAAP)	Restatement following implementation of IFRS 15	Change
Revenue	£238.4m	£242.9m	+1.9%
EBITDA	£39.6m	£36.8m	-7.1%
Adjusted EBITDA	£41.6m	£38.8m	-6.7%
PBT	£26.4m	£26.5m	+0.4%
Adjusted PBT	£28.4m	£28.5m	+0.3%
EPS (FD)	23.9p	24.0p	+0.4%
Adjusted EPS (FD)	24.6p	24.7p	+0.4%
Net Assets	£98.8m	£95.3m	-3.5%

A full reconciliation and explanation for the above changes is given in Note 3.

The Group will also be implementing IFRS 16 from 1 January 2018 (which is earlier than required). The Group will take advantage of the practical expedient whereby modified retrospection is allowed and therefore will not restate the comparatives when the 2018 financial statements are prepared. As an indication of the effect of IFRS 16 at 1 January 2018 the Group will recognise a liability of £6.4m and a corresponding right of use asset of £6.1m. Management estimates that the effect on the statement of income for 2018 will be that £1.6m which would have been shown as 'operating expense' will now be shown as £1.3m of depreciation and £0.2m of interest. Note that these figures assume the Group's property portfolio remains unchanged over the course of 2018.

The Group's review of the changes to IFRS 9 has not resulted in any material changes to accounting policies and therefore no impact is expected on EPS in future years.

Andrew Belshaw
Chief Financial Officer

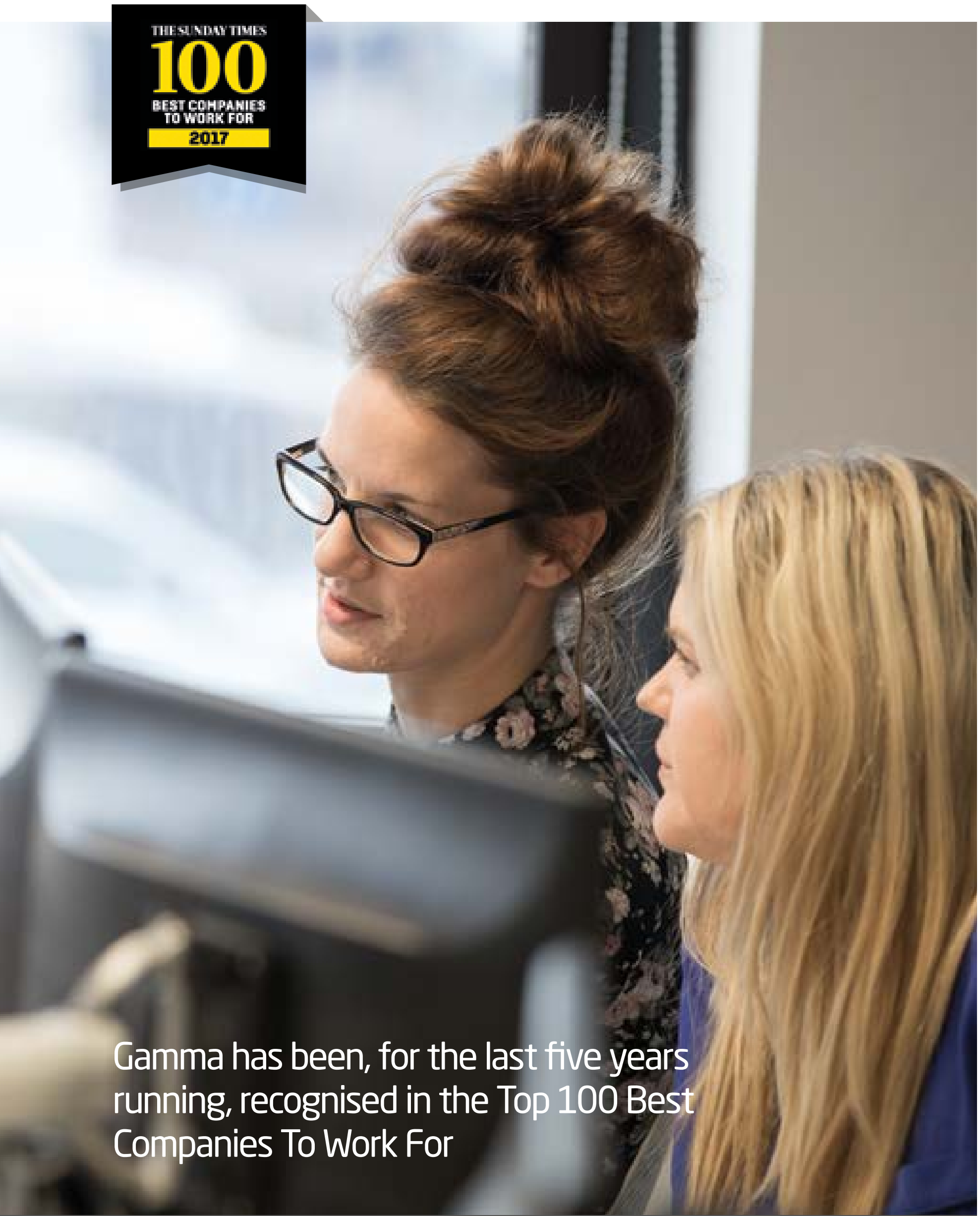
Celebrating the power of people

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 and CEO briefings (by location). Our staff churn across the business is low compared 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 existing staff and ensure we provide learning opportunities for everyone. We have also recruited and developed both graduates and 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. We also offer employees the opportunity to improve their own health and wellbeing through discounted gym memberships and we also provide free fruit.

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 Master's level courses and other professional development courses.



Gamma has been, for the last five years running, recognised in the Top 100 Best Companies To Work For

The Sunday Times Top 100 Best Companies To Work For 2017 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 are assessed to compile the lists that are based on employee opinions. In 2017 Gamma was recognised as the 49th best Company to work for.

Top factor ranks

My Team	39th
Wellbeing	39th
Leadership	40th
Male/female ratio	71/29
Average age	36
Voluntary leavers	10%
Earning £35,000+	41%

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, which led to £500 of donations for employee chosen charities in 2017. In 2017 we kicked off our first ever 5-a-side charity football tournament which led to £12,500 being raised for Special Effect (a UK charity which aims to put the fun and inclusion back into the lives of people with physical disabilities) and Action Through Enterprise (this fantastic charity supports a community in Ghana). We also held our annual cycling event, which raised £3,250 for Action Through Enterprise. Gamma holds annual events across our offices to raise money for charities, such as Macmillan Coffee Mornings and Save the Children Christmas Jumper Day. We have also held collections in our offices for those from disadvantaged backgrounds, whether collecting food for local foodbanks or collecting shoeboxes with donations to be distributed to those in need in Eastern Europe.

Top: Gamma Great Outdoors weekend.
Above: Finance Fun Day.

Apprenticeships

Gamma continues to welcome and assist apprentices to gain invaluable work experience, continue their education and achieve nationally recognised qualifications. With apprentices currently employed in IT, HR, 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 Salary Sacrifice 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 Group 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. During the year we have been working with the Dogs Trust and have had employees from across our offices volunteering at their centres across the UK. Our employees have also used their volunteering days to work with organisations such as mountain rescue teams, basketball clubs for children from disadvantaged backgrounds and food banks.

Gamma team events

As well as Christmas and summer events at each office, in 2017 we held the first outdoor weekend which was open for all Gamma employees to attend. Held in Edale, the weekend allowed our employees to push themselves to the limit, taking part in events such as abseiling, climbing and canoeing, as well as meeting other employees from around the offices and taking part in team building activities.

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, Gamma is keen to ensure that all employees who would like to be shareholders can do so in the most efficient way. In 2017 Gamma offered a Save As You Earn ('SAYE') scheme which allows all eligible employees to acquire shares.

The strategic report was approved by the Board of Directors on 21 March 2018.

Andrew Belshaw
Chief Financial Officer

Top: Gamma Charity Football Championship.
Above: Port Solent, 90s themed, Summer Party.

Chairman's introduction to corporate governance

"The Company's commitment to strong corporate governance and risk management will remain central to the business during 2018 and beyond."

Richard Last
Chairman and Independent
Non-Executive Director

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.

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 including those aspects of the Code we consider to be relevant to the Group.

The Board is responsible for establishing and maintaining the system of internal controls which has been in place throughout 2017. The effectiveness of the Group's system of internal controls is reviewed annually by the Audit Committee on behalf of the Board, as referred to in the Audit Committee report.

The Board comprises seven Directors, two 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 Group has established Audit, Nomination, Remuneration and Risk Committees of the Board with formally delegated duties and responsibilities. The Group's commitment to strong corporate governance and risk management will remain central to the business during 2018 and beyond.

Richard Last
Chairman and Independent
Non-Executive Director

Corporate governance framework

The Board has a coherent corporate governance framework, as illustrated below, 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.

Board of Directors

Richard Last
Chairman and Independent Non-Executive Director

Bob Falconer
Chief Executive Officer

Andrew Belshaw
Chief Financial 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.

Risk Committee
Chaired by Martin Lea.
Members:
Richard Last, Alan Gibbins, and Bob Falconer.

Board of Directors

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 ITE Group plc, a leading international exhibition and conference organiser and of British Smaller Companies VCT 2 plc, a venture capital trust, both listed on the London Stock Exchange. Richard is also Chairman and Non-Executive Director of AIM-listed Tribal Group plc, an education software, systems and services group, Arcontech Group plc, a financial services software company, and Lighthouse Group plc, a 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
- Member of the Risk 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
- Member of the Risk Committee

Andrew Belshaw
Chief Financial Officer

A Chartered Accountant by background, Andrew has worked in both audit and corporate finance at Deloitte LLP 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
—

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, is Chairman of the Audit Committee at Jeffries International Ltd, and is 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 Fellow 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
- Member of the Risk 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. Martin joined Gamma in June 2014 and is Chairman of the Remuneration and Risk Committees. 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
- Chairman of the Risk Committee
- Member of the Nomination Committee
- Member of the Audit Committee

Andrew Stone
Non-Independent
Non-Executive Director

Andrew is Managing Partner of St Albans Capital LLP, a family investment management vehicle. Andrew is also a Founder and Director of Greenstone+, a market leader in non-financial reporting software. Andrew recently joined the Board of Frugalpac, a recycling packaging business. Andrew also sits on the Boards of Epsilon Global Communications Pte Ltd and Calcot Hotels Limited. From 1993-2006 Andrew held various positions at ED&F Man including Managing Director of ED&F Man Asia.

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 a Director of 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

Some of our key people

The Gamma management team is made up of knowledgeable and passionate people. Strong leadership at all levels drives the business to success. Below are only some examples of our key people.

David Doherty
Product Director – Access & Digital Strategy

David has been with Gamma since 2016 and leads the Networking and Access Product Portfolio. He is also responsible for Gamma's overall Digital Strategy. Outside work David enjoys cooking, photography and has recently taken up running.

Sarah England
Head of Bid Management and Direct Product GNS

Sarah heads up the Bid Management team and is also responsible for Direct Product within Gamma. She has been with the Group for nearly six years and is passionate about attention to detail and quality. In her time off work Sarah is slowly travelling her way around the world with Japan at the top of her current wish list.

Keely Westbury
Group Purchase Ledger Manager

Keely has been with Gamma for five years and oversees supplier accounts and staff expenses. She is very determined and loves problem solving, and in her spare time she loves spending time with her family.

David Macfarlane
Managing Director – Direct

David is a technoholic, advising Gamma's customers how best they can innovate their business through embracing technology. When offline he's a football, hockey and netball coach to his teenage kids.

Danny Jacobs
Head of Channel Support

Danny has been with Gamma since 2012 and his focus is driving up the support levels across the Gamma Product set and helping channel partners support their customers. Outside of work he plays squash, shoots clays and enjoys walks.

Helen Higgons
Group Financial Controller

Helen is responsible for a team of 17 people and has been with Gamma for six years. Helen enjoys spending time with friends and family outside work.

Matt Davies
Head of Customer Programme Management

Matt has been with Gamma since 2010 leading the project delivery of Gamma managed services. In his spare time Matt enjoys the outdoors and spending time with his family.

Justin Coombes
Head of Marketing

Justin has been with Gamma for ten years and embraces B2B marketing with innovative techniques. In his spare time Justin likes the great outdoors and is a keen boater and cyclist.

John Murphy
Customer Service Director

John leads the Customer Operations teams of over 200 people and has been with Gamma for over seven years. John has a passion for innovation within customer service and employee development. In his spare time John enjoys travel, adventure and the great outdoors.

Andy Morris
Managing Director Service and Operations

Since 2006 Andy has been responsible for managing Gamma's Network, product platforms and Customer Service teams. Away from work, Andy loves the great outdoors and live music.

Akua Richardson
HR Manager

Akua joined Gamma in July 2017. She lives by the motto 'Aspire to make a difference' and believes we can achieve the impossible if we dare to try. Outside of work she is a passionate cook and enjoys movies, writing, singing and the odd adventure.

Phil Stubbs
Development Director

Phil joined this year to lead the Company's technical strategy and manage the end-to-end design and development of the Gamma network and products. Phil spends many weekends waiting for the weather to clear so he can fly a small plane.

Malcolm Goddard
Commercial Director and Company Secretary

Malcolm joined Gamma in 2005. He oversees the Group's contractual relationships with customers and suppliers; procurement; M&A activity; and the Group's legal and regulatory compliance. He enjoys mountain walking.

Pam Williams
HR Director

Pam has led the HR team since 2014. She is passionate about learning and development and loves to see people unleash their full potential to achieve things they did not think were possible. Outside of work Pam enjoys yoga, family walks and reading.

Jo Shuttleworth
Head of Business Process Engineering

Jo leads a team of 17 people and has been with Gamma for eight years. Jo has a passion for improving the customer experience through developing systems, processes and training support. In her spare time Jo is a keen runner.

Samantha Russell
Head of Service Provisioning

Sam joined Gamma in 2009 and is now responsible for the provisioning teams within Customer Operations, focusing on delivering excellent service.

Daryl Pile
Managing Director – Channel

Daryl has been with Gamma for 15 years and delivers innovative propositions helping our partners grow and succeed. He is a part time LEGO construction foreman for his two sons and loves to travel.

Haleem Gul
Network Director

Haleem manages a team of 50 engineers and has been with Gamma for 14 years. In his spare time Haleem enjoys road cycling, walking and spending quality time with his family.

Alan Mackie
Product Director

Alan has been at Gamma since 2006 and heads up the Application Services Product team, as well as the Pre Sales and Marketing teams within Gamma. Outside work, Alan enjoys running (very slowly!).

Siobhan Carr
Head of Direct Support

Siobhan has been with Gamma for six years and looks after three teams which are the forefront for faults and provisioning giving Gamma customers a proactive and over and above experience. Outside of work Siobhan loves travelling.

James Bushell
Head of Product Management, Application Services

James leads the Application Services product management team and has been with Gamma since early 2003. His focus is on quality product delivery through understanding the needs of Gamma's customers. In his spare time he enjoys travel, good food and wine.

Cem Ahmet
Managing Director – Gamma Business Communications

Cem has been with Gamma for over 12 years and leads his 60+ strong army into the SME and mid-market battlefields. Outside of work Cem likes the odd game of golf and a good read.

Corporate governance report

The workings of the Board and its Committees

At 31 December 2017, the Board was comprised of five Non-Executive Directors, one of whom is the Chairman, and two 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 our Directors are subject to election by shareholders at the first AGM after their appointment to the Board. Thereafter, all Directors are subject to re-election by shareholders at each AGM. 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	Risk Committee
Executive Directors					
Bob Falconer	10/11	N/A	N/A	N/A	N/A
Andrew Belshaw	11/11	N/A	N/A	N/A	N/A
Non-Executive Directors					
Richard Last (Independent)	11/11	3/3	5/5	2/2	1/1
Alan Gibbins (Independent)	11/11	3/3	5/5	2/2	1/1
Martin Lea (Independent)	11/11	3/3	5/5	2/2	1/1
Wu Long Peng	9/11	N/A	N/A	2/2	1/1
Andrew Stone	7/11	N/A	N/A	2/2	1/1

During 2017, 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 50.

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.

Risk Committee

The Risk Committee was formed in December 2017 to assist the Board in its duty to carry out a robust assessment of the principal non-financial risks facing the Company (financial risk is considered by the Audit Committee). Its main function is to review the risk register prepared and maintained by management and to re-confirm that the principal risks have been identified and (where appropriate) mitigated. The Committee has identified six ongoing risk areas – Operational, Suppliers, Market Landscape, Legal and Regulatory, Key Personnel and Reputational. In addition, the Committee will consider the risk that Brexit poses to the Company.

The purpose of the Committee is to manage rather than eliminate risk and therefore it cannot provide absolute assurance against any one risk. The role of the Committee will be to review reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied. It will also indicate a need for more extensive monitoring.

The Risk Committee is chaired by Martin Lea and its other members are Richard Last, Bob Falconer, Alan Gibbins and Andy Morris (Managing Director – Services and Operations).

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 2018

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	3/3
Richard Last	3/3
Martin Lea	3/3

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 and Chief Financial Officer (together with members of the finance team as appropriate) and the other Non-Executive Directors also attend by invitation.

The pattern of meetings follows the public reporting and audit cycle, with meetings to consider the external audit plan; the half year announcement together with the external auditors' review of those results; and the full year Report and Accounts, again with the external auditors' observations and opinions.

The Committee also meets separately at least once a year with the external auditors without others being present. The Chairman of the Committee continues to maintain a regular dialogue with the Chief Financial Officer and his team and with the external auditors.

Objectives and responsibilities

The Committee works within a framework of approved terms of reference. Its key objectives are to provide effective governance over Gamma's financial reporting, including the adequacy of disclosures made in the financial statements; to review 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 finance-related 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. Compliance is reviewed each year with the Chief Financial Officer and enhancements are made as appropriate;
- considers whether these statements and announcements provide a fair, balanced and understandable view of Gamma's strategy and performance, and of the associated risks. Further consideration of these matters is also provided by the Board as a whole and now also by the Risk Committee;
- 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. Gamma does not have an internal audit function and the Committee continues to be of the view that Gamma is not yet of a size and complexity to warrant the establishment of such a function. The Committee's consideration of internal audit matters is described throughout; 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 focussed on financial reporting and the related statutory audit; the assessment of internal financial controls; and on the Group's preparation for the future implementation of IFRS 15 (Revenue from Contracts with Customers), IFRS 16 (Leases) and IFRS 9 (Financial Instruments).

Financial reporting and statutory audit

The Committee has reviewed with both management and the external auditors the half year and annual financial statements, focussing 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. This includes accounting disclosures and whether at least equal prominence is given to GAAP results where non-GAAP amounts are disclosed. The Audit Committee is satisfied that Gamma is transparent on these matters and follows best practice;
- 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 and annual statutory audit. Key issues are described in more detail on the right; 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. Key risks were assessed to be:

- Revenue recognition on multi-element contracts.
- The risk inherent to all companies of management override of internal controls.

As in the previous year, there were particular discussions on the complexity of auditing revenues and associated costs (to ensure the accuracy of billings to clients and that Gamma only pays for the proper amount of any corresponding external cost) and the use of specialist audit techniques for Gamma's billing and related IT systems. The head of revenue assurance is involved in discussions.

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.

Revenue recognition and the associated cost of sales continues to be the principal area of focus for the Committee. Gamma has a number of revenue streams arising from its various products and services which should be recognised in line with relevant contractual terms.

The Committee's consideration of this area takes into account the work of 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. In addition, last year the Committee commissioned an internal audit by KPMG of the billing systems, the report on which was received in 2017 with no significant matters found. Having considered all of this work the Audit Committee continues to be satisfied as to the robustness of the reporting of revenues and associated costs.

As described elsewhere, the Committee has also received reports on progress towards implementing IFRS 15 and 16. Particular attention was paid to the related disclosures in the notes to the accounts.

Since flotation, we have reported on the Committee's review of a number of other areas including the capitalisation of internal development costs; impairment of fixed assets and goodwill; the calculation of the charge for share based payments; the adequacy of provisions for leasehold dilapidations; and provisions for taxation. The Committee is satisfied that in all of these areas Gamma's processes and procedures are well developed and appropriate for each of the areas concerned, and that each is properly accounted for. As such, these are no longer considered material areas of accounting judgement.

Regulators and our financial reporting

During the year the FRC Corporate Reporting Review Team reviewed our 2016 Group Financial Statements and requested further information about our indirect channel sales and our Revenue Recognition Policies, not to verify information but to ensure compliance with reporting requirements. We are pleased to report that the FRC is satisfied that no adjustments are required to Gamma's results. In this year's Report we are providing further disclosure on our accounting policies which we agree will be helpful to the reader of the Report.

Assessment of internal financial control

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

As described last year, the Audit Committee commissioned an internal audit review of Gamma's billing systems from KPMG which reported in 2017 with no substantive issues.

It was also noted that with the increase in physical stock now being held, management is considering whether a new stock system is appropriate. In advance of this, during the year a limited exercise was commissioned by Gamma from PwC to review controls over physical stock. This has resulted in a number of control improvement recommendations which are being implemented.

The Chairman of the Audit Committee and the CFO are maintaining a dialogue with external providers of internal audit services to keep under review possible future internal audit initiatives.

New accounting standards

The Committee has been kept appraised of progress on Gamma's preparations for the implementation of three accounting standards which will affect the amounts disclosed in Gamma's financial statements, IFRS 9 (Financial instruments), IFRS 15 (Revenue) and IFRS 16 (Leases). As described in the half year announcement and again in this Report, Gamma is in a good position to implement these standards and the effect on the results is not expected to be material.

External audit

Effectiveness

The Committee followed up last year's assessment of the performance of Deloitte and we are pleased to report that Gamma and Deloitte are working and communicating well together. We are again able to report that the external audit has run smoothly and constructively.

Fees

£30,000 of fees were paid to the external auditors for non-audit work (reviewing the half year results). Certain fees have already been incurred in respect of advance audit procedures in relation to the implementation of IFRS 15 and 16 and these are reflected in these accounts.

Alan Gibbins
Audit Committee Chairman
21 March 2018

Remuneration Committee report

Martin Lea
Remuneration Committee Chairman

This report is for the period to 31 December 2017. 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	5/5
Richard Last	5/5
Alan Gibbins	5/5

The information provided in this part of the Annual Report on Remuneration is unaudited.

Dear shareholder

I am pleased to introduce the Directors' Remuneration Report for the 2017 financial year. The Chairman's statement (on pages 4 to 5) 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 continue to grow profitably, 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 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. This Remuneration Committee report includes a summary of the remuneration policy, details of Directors' Service Agreements as well as the Annual Report on Remuneration.

The Executive Directors receive an amount of fixed pay made up of a base salary, and in some cases a benefits package and pension contribution. In line with the general Company wide salary increase, and taking into account the performance of the business, it was decided to increase the base pay of the CEO and CFO by 2% with effect from January 2018. The Non-Executive Directors' fees were also increased by the same percentage.

Short term performance for senior executives is incentivised using an annual bonus scheme based on the achievement of profitability goals. 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. There are no changes to the structure of these schemes planned for 2018. In the policy table and the Annual Report on Remuneration we have included details of the targets associated with both the annual bonus scheme and the long term incentive plan for the relevant 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').

The CSOP is designed to enable the Group to selectively incentivise key high performing employees. In 2017 awards of 184,032 options were made to high performing employees under the CSOP.

In 2017, in order to continue to stimulate employee wide share ownership, the Company repeated the Company wide SAYE share save scheme, which was initially introduced in 2016. Under this scheme, employees who choose to participate are granted options, at a 20% discount to market price, and then save a pre-determined sum over a period of three years. The money saved can then be used by the employee to exercise their options. In 2017 30% (2016: 44%) of all employees chose to participate, with options being granted over 274,664 (2016:

641,053) shares. The take-up was lower than previously as there is a statutory maximum limit for savings which a number of employees had reached in the previous year. There were no shares issued under the SIP in 2017 (2016: nil).

These various schemes provide the Board with tools to help it to continue to strengthen the alignment of employee and shareholder interests.

Employees in the Group generally participate in a bonus scheme that enables them to earn up to and in exceptional circumstances over 10% of basic salary based on a combination of personal and Company performance. Furthermore, based on the Company's performance in 2017, and the contribution and hard work of all the employees, the Board was pleased to approve a 2% general salary increase at the 2017 year end.

As an AIM-listed company, this report is not mandatory, but is included as a matter of best practice, and it is our intention to continue to increase the scope and content of the report. Gamma's Remuneration Committee report was approved on an advisory basis at the 2017 AGM with 100% of votes cast in favour. 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 2018 AGM.

Martin Lea
Remuneration Committee Chairman
21 March 2018

Directors' remuneration policy

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

Consideration of shareholders' views on remuneration

The Company welcomes dialogue with its shareholders over matters of remuneration, and will seek the views of its significant shareholders if and when any major policy changes are being planned. The Chairman of the Remuneration Committee is available for contact with institutional investors concerning the Company's approach to remuneration.

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 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.

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. In addition to the above, salaries are independently 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 2018 (the prior review being in January 2017) and was increased by 2% to £311,996. The CFO's base salary was reviewed on 1 January 2018 (the prior review being in January 2017) and was increased by 2% to £191,017. The Director of Business Development resigned on 30 June 2017 after which he worked as an employee for three months. Following this period he occasionally works for Gamma Communications plc as a consultant.	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.

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 Executive Directors. The Executive Directors are able to request that the Company, at the discretion of the Remuneration Committee, makes additional contributions where salary or bonus has been waived. In 2018 the CEO will 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. The bonus scheme rules include a claw-back provision.	For the Executive Directors, the maximum capped bonus potential is 100% of salary. For 2017, the Executive Directors achieved the maximum capped bonus of 100% of salary.	For the year ending 2017, the targets were based on growth in Adjusted Profit Before Tax ('PBT'). To achieve maximum bonus the performance target was set at 15.5% annual growth in Adjusted Profit Before Tax ('PBT'). At or below 3.0% growth in PBT no bonus would be payable, with a linear relationship between 3% and 15.5% growth. For 2018, 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. The scheme rules however do allow the Remuneration Committee discretion to make higher value awards. Following the announcement of the Group's results for 2016, awards were granted under this scheme at a value of 100% of base salary. These awards will vest in April 2020, subject to service and performance conditions. It is anticipated that further awards will be made in April 2018 following announcement of the Group's annual results.	Vesting of the 2017 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 EPS (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 are more appropriate than relative measures.

Illustrations of application of the policy

The graph below seeks to demonstrate how pay varies with performance for the Executive Directors based on the Directors' Remuneration Policy described above. This is based on pay for the year ending 31 December 2018.

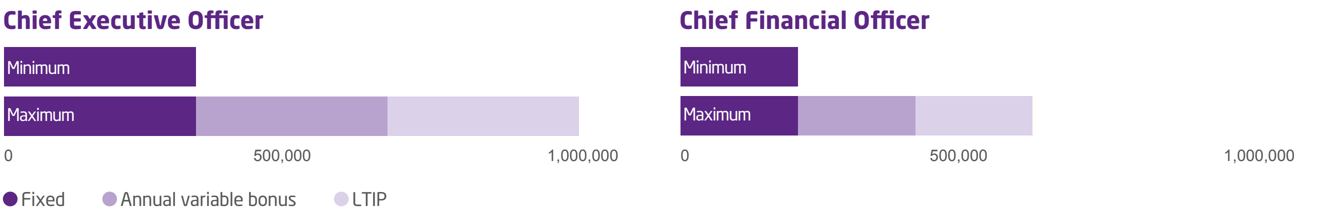
Element	Description
Fixed	Fixed remuneration is made up of total salary, pension and benefits.
Annual variable bonus	The annual variable bonus is a cash bonus incentive scheme where remuneration in the form of money is received or receivable as a result of the performance conditions that relate to that period.
LTIP	The long term incentive plan is an incentive scheme where remuneration in the form of shares is received or receivable as a result of the performance conditions that relate to that period.

Assumptions used in determining the level of pay out under given scenarios is as follows:

Element	Description
Minimum	Under the minimum pay it is assumed that only fixed pay i.e. salary, pension and benefits are received. It is assumed that performance conditions for the annual variable bonus and the LTIP are not achieved.
Maximum	The maximum salary assumes that the Directors receive not only their fixed remuneration but achieve their performance targets for the annual bonus and LTIP.

The Company does not present an 'on target' figure because the incentive scheme is structured with stretching targets which if achieved result in the executives receiving their maximum remuneration as depicted in the graphs below.

The expected future LTIP remuneration is calculated as the value at the time of the award, i.e. 100% of salary.



Alignment of executive remuneration and the market

In September 2016, the Company engaged h2glenfern, a remuneration advisory practice, to undertake a benchmarking exercise for use in considering the remuneration levels of the Executive and Non-Executive Directors. The Committee would normally expect to undertake such an exercise every three years. 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.

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 HR Director.

Policy on recruitment

When hiring a new Executive Director the Committee will consider the overall remuneration package by reference to the remuneration policy set out in this report. The Committee would not usually expect to pay sign-on payments or compensate new Directors for any variable remuneration forfeited from any employment prior to joining the Board other than in exceptional circumstances, and in such circumstances would aim to compensate the new Executive through the Company's long term incentive plan. Long term incentive plan ('LTIP') awards will be made on an ongoing basis in line with our policy for other Directors. In the year of recruitment a higher award may be made within the limits of the plan (maximum of 200% of salary other than in exceptional circumstances). Salary and annual bonus levels will be set so as to be competitive at the median level with comparable roles in companies in similar sectors, and also taking into account the experience, seniority and the scope of responsibility of the appointee coming into the role. New Executive Directors will be able to participate in the annual bonus scheme on a pro-rated basis for the portion of the financial year for which they are in post. New Executive Directors will receive benefits and pension contributions in line with the Company's existing policy.

Policy on loss of office

The following sets out the Company's policy with regard to exit payments in relation to each remuneration element for Executive Directors. These apply other than in circumstances where the Executive is dismissed for breach of contract, including serious dishonesty, gross misconduct or incompetence, or wilful neglect of duty, in which cases no amount will be payable.

Basic salary: This will be paid over the contractual notice period (six months based on the current policy) however the Company has the discretion to make a lump sum payment for termination in lieu of notice. Benefits and pension contributions: These will normally continue to be provided over the notice period, however the Company has the discretion to make a lump sum payment on termination equal to the value of the benefits payable during the notice period. Annual bonus: The payment of any annual bonus would be entirely at the discretion of the Remuneration Committee and if made would be pro-rated to the time of active service in the year that employment ceased. The decision of the Committee, in such circumstances, would take into consideration the financial performance of the Company, the performance of the individual, and the circumstances of the termination of employment. Long term incentive plan ('LTIP'): This is governed by the rules of the LTIP scheme. If the Executive Director's employment ceases for reasons of death, ill health, injury, disability or redundancy during the performance period of the LTIP award, then normally in these circumstances, the participant's award will vest on a time pro rata basis subject to the Remuneration Committee assessment of the satisfaction of the performance conditions applying to the award for the period prior to cessation of employment. The Committee retains discretion to decide to waive in full or in part the performance conditions if it feels that is appropriate in particular circumstances. In all other circumstances if an Executive Director's employment ceases then the award will lapse on the date of cessation, unless the Remuneration Committee determines in its discretion prior to the date of cessation that the award should vest on a pro rata basis.

Richard Bligh resigned from his position as Director of Business Development on 30 June 2017 and worked as an employee for a three month period. Following this period he works for Gamma Communications plc as a consultant. Upon resignation Richard waived his right to his bonus, and LTIP. Richard received no compensation for loss of office.

Policy on Non-Executive Director remuneration

The Chairman and the other Non-Executive Directors' remuneration comprise 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 2017 are set out in the Annual Report on Remuneration. The Directors' fees were increased by 2% with effect from January 2018. Martin Lea was appointed chair of a newly formed Risk Committee and his Committee chair fees were increased by £6,000 with effect from January 2018.

The current fees are as follows:

Director	Directors' fee	Committee Chair fee	2018
Richard Last	£78,030	–	£78,030
Alan Gibbins	£36,414	£6,000	£42,414
Martin Lea	£36,414	£12,000	£48,414
Wu Long Peng	£36,414	–	£36,414
Andrew Stone	£36,414	–	£36,414

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
Effective date of Service Agreement	10 October 2014	10 October 2014
Notice period	6 months' notice given by either party	6 months' notice given by either party
Basic salary	£311,996 per annum	£191,017 per annum
Annual bonus	Discretionary performance related	Discretionary performance related
Pension	None	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
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

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
Richard Last	17 June 2014
Alan Gibbins	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 2017.

Remuneration Committee

Membership

The Remuneration Committee consisted of the following Directors during the year to 31 December 2017:

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 2017

The Committee met five times in 2017 in order to conduct the following main items of business: agree the annual Remuneration Committee report; review the Chairman's fees; set senior executive bonus targets for 2017; review and approve proposals for the 2018 all employee SAYE share scheme; approve senior executive bonus payments relating to 2016; approve the 2017 LTIP and CSOP awards and set LTIP targets; review the projected dilution impact and cost of various share schemes; conduct the annual review of Remuneration Committee terms of reference; consider the Company annual salary review and any changes to overall Company remuneration structure and review Executive Directors and other senior executive salaries and bonus structures.

Advisers

The Company typically engages external advisers to undertake a benchmarking exercise relating to Directors' remuneration every three years. No specific advisory work was commissioned in 2017 although a number of independent Directors' remuneration reports have been reviewed.

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	Share options	Pension	Total for 2017
Bob Falconer	£305,885	–	£305,878	1,631,665	–	**2,243,428**
Andrew Belshaw	£187,277	–	£187,277	1,138,038	£9,620	**1,522,212**
Richard Bligh	£135,416	–	–	1,337,720	£6,069	**1,479,205**

Richard Bligh received £6,069 salary in 2017 in lieu of a contribution by the Company to his pension of £6,906. Richard Bligh ceased to be a Director on 30 June 2017 but was employed between 1 July and 30 September 2017 during which time he earned £43,750; he also occasionally acts as a consultant to the Company and earned £6,000 in fees from 1 October to 31 December 2017.

The bonus payment was the maximum based on achieving a target of 15.5% annual growth in adjusted PBT. No amount of the bonus was deferred. The share options vesting during the year relate to the pre-IPO awards made under the 2014 DSS scheme and which had no performance conditions attached, and the 2014 LTIP which contain the same vesting conditions as the 2017 LTIP, which are specified above.

The Directors have no rights under any Company pension schemes that are designated as defined benefit schemes.

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	Share options	Pension	Total for 2016
Bob Falconer	£299,880	–	£299,880	–	–	£599,760
Andrew Belshaw	£161,459	–	£183,600	£299,978	£31,467	£676,504
Richard Bligh	£202,241	–	£200,000	£563,372	£7,500	£973,113

Richard Bligh received £2,241 salary in 2016 in lieu of a contribution by the Company to his pension of £2,550.

Andrew Belshaw waived £22,141 of his salary for 2016 and received a pension contribution of the same amount.

Remuneration of the Non-Executive Directors

Director	Directors' fee	Committee Chair fee	Total for 2017
Richard Last	£76,500	–	**£76,500**
Alan Gibbins	£35,700	£6,000	**£41,700**
Martin Lea	£35,700	£6,000	**£41,700**
Wu Long Peng	£35,700	–	**£35,700**
Andrew Stone	£35,700	–	**£35,700**

Director	Directors' fee	Committee Chair fee	Total for 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

Share scheme interests awarded during the year ended 31 December 2017

Long term incentive plan ('LTIP')

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

2017 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	62,296	31 Mar 2020	£0.0025	–
Andrew Belshaw	Nil-cost option	100% of salary	38,140	31 Mar 2020	£0.0025	–
Richard Bligh	Nil-cost option	100% of salary	37,238	31 Mar 2020	£0.0025	–

2016 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	71,870	31 Mar 2019	£0.0025	–
Andrew Belshaw	Nil-cost option	100% of salary	44,002	31 Mar 2019	£0.0025	–
Richard Bligh	Nil-cost option	100% of salary	47,932	31 Mar 2019	£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. Upon his resignation from the Company, all of Richard Bligh's share options have lapsed.

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.

Save As You Earn ('SAYE')

There were no awards made to Directors under the SAYE during the year ended 31 December 2017. The only SAYE shares held by Executive Directors during the year were held by Richard Bligh, and lapsed upon his resignation.

In the year ended 31 December 2016 the following awards were made under the SAYE. The performance conditions are set out below the table.

Director	Type of scheme interest	Basis of award	Number of awards	Vesting date	Exercise price	Exercise date
Richard Bligh	Discounted option	Savings-related share option	3,135	19 April 2019	£3.444	–

The awards granted had a performance period of three years starting from the grant date, being 19 April 2016 and have lapsed prior to this date.

Statement of Directors' shareholding and share interests

Directors' share interests at 31 December 2017 are set out below:

		Options			
2017	Number of beneficially owned shares	With performance measures	Without performance measures	Vested but unexercised	Exercised during the year
Executive Director					
Bob Falconer	3,490,609	243,054	–	–	288,280
Andrew Belshaw	278,188	133,993	–	–	206,618
Non-Executive Director					
Richard Last	53,475	–	–	–	–
Alan Gibbins	13,368	–	–	–	–
Martin Lea	13,368	–	–	–	–
Wu Long Peng	–	–	–	–	–
Andrew Stone	473,500	–	–	–	–

		Options			
2016	Number of beneficially owned shares	With performance measures	Without performance measures	Vested but unexercised	Exercised during the year
Executive Director					
Bob Falconer	3,490,075	469,038	–	–	548,740
Andrew Belshaw	277,654	266,587	35,882	–	71,765
Richard Bligh	412,222	286,281	67,389	–	134,778
Non-Executive Director					
Richard Last	53,475	–	–	–	–
Alan Gibbins	13,368	–	–	–	–
Martin Lea	13,368	–	–	–	–
Wu Long Peng	–	–	–	–	–
Andrew Stone	1,286,500	–	–	–	–

Percentage change in remuneration of the Director undertaking the role of CEO

The table below illustrates the percentage movement in the CEO's remuneration (salary, fees, benefits, and annual bonus) between the 2016 and 2017 financial years compared to the movement in the average remuneration of all other Gamma Communications plc employees based within the UK over the same period. Gamma Communications plc has a small number of employees based in Hungary where different economic and labour market conditions do not represent an appropriate comparison.

2017	% increase in CEO remuneration in 2017 compared with 2016	% increase in employee remuneration in 2017 compared with 2016
Salary, other pay and benefits	2.0	2.7
Annual bonus	2.0	3.7

During the 2017 AGM, a motion was set for the shareholders to approve on an advisory only basis the Directors' Remuneration Report. 100% votes were cast in favour of the motion. In addition, a motion was set for the shareholders to approve on an advisory only basis the Directors' remuneration policy. 100% votes were cast in favour of the motion.

This Remuneration Committee report will be put to an advisory vote at the forthcoming 2018 AGM. This report was approved by the Board of Directors on 21 March 2018 and signed on its behalf by:

Martin Lea
Remuneration Committee Chairman
21 March 2018

Directors' report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2017.

The Corporate Governance Statement set out on pages 42 to 43 forms part of this report.

There were no significant events since the balance sheet date. 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 5.6p per ordinary share to be paid on Thursday 21 June 2018 to ordinary shareholders on the register on Friday 1 June 2018 which, together with the interim dividend of 2.8p paid on Thursday 19 October 2017, makes a total of 8.4p for the year (2016: 7.5p).

Capital Structure

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 four share incentive schemes by which Directors and employees may: (i) be granted options under a long term incentive plan to subscribe for nil cost shares in the Company, (ii) be granted options under the Company Share Option Plan, (iii) be issued shares under a Share Incentive Plan, and (iv) be granted options under a Save As You Earn 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

The names and biographies of the Directors during the year are disclosed on pages 44 to 45.

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 benefit of its Directors which were made during 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 Financial 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 contributions

No political contributions were made in the year.

Disabled employees

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

Employee consultation

The Group 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 2017 and 2016 the Group 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 Top 100 Best Companies To Work For and the Group was placed in the top 50 companies in the UK.

Auditors and their independence

A resolution to appoint auditors for the year to 31 December 2018 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

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself 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.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board,

Andrew Belshaw
Chief Financial Officer
21 March 2018

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 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 elected to prepare the parent company financial statements in accordance with FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

Andrew Belshaw
Chief Financial Officer
21 March 2018

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

Report on the audit of the financial statements

Opinion

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 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('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 including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Gamma Communications plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the company only balance sheet;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the group's related notes 1 to 29; and
- the parent company's related notes 1 to 10.

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

Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • revenue: complex contracts – cut-off; and • revenue: amounts billed to other carriers.
Materiality	The materiality that we used for the group financial statements was £1.4m which was determined on the basis of profit before tax.
Scoping	We audited the entire group to full scope with the exception of one location which is subject to desktop analytical review procedures. Given the nature of the entity subject to desktop analytical review procedures, our approach results in approximately 100% coverage of profit before tax, revenue and net assets.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

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

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

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

Revenue: complex contracts – cut-off

Key audit matter description	The group has contracts in place that contain multiple services, products and performance obligations. The elements of each contract may relate to one-off projects (such as installations) as well as more regular services. The timing of recognition may vary depending on the nature of the goods or service offered. This is particularly evident within Gamma Network Solutions Limited, where the business performs bespoke projects and provides continuing services thereafter. We have therefore identified a key audit matter that revenue may be inappropriately recognised in the period and pinpointed this to new or renewed multi-element contracts in the year. The group's revenue recognition and arrangements with multiple deliverables policies are disclosed in note 1.
How the scope of our audit responded to the key audit matter	We have assessed the adequacy of the design and implementation of controls over the review of contracts and identification of the elements within it. We have performed substantive audit procedures on multi-element contracts, focussing on new and renewed contracts, which included the following: • Original contracts were obtained and reconciled to the management revenue and cost reports and the general ledger. • Reviewed and assessed the contracts to confirm the completeness of the identified elements. • Compared a sample of the identifiable elements of a contract to the 'revenue and cost' report and general ledger. • Assessed the accuracy of the installation and service go-live dates. • Recalculated the revenue recognised in the period and compared this to that recognised in the results for the year.
Key observations	Based on our procedures, revenue in respect of new and renewed multi-element contracts has been recognised in the appropriate period.

Revenue: amounts billed to other carriers

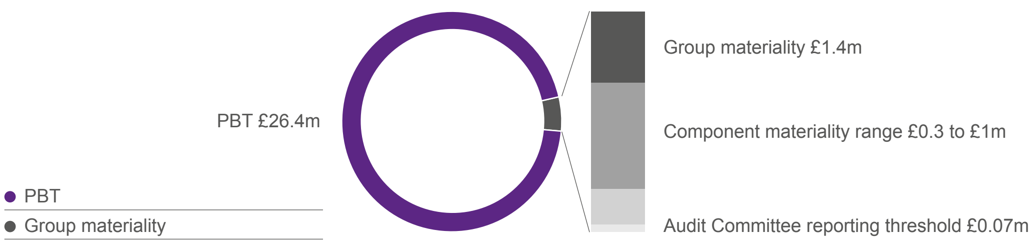
Key audit matter description	In the telecoms industry calls and data are passed from one carrier to another giving rise to a significant level of billing between carriers. The carrier billing process involves an element of manual intervention, which results in a risk that carrier billings may be materially misstated. The group's revenue recognition policy is disclosed in note 1.
How the scope of our audit responded to the key audit matter	We have assessed the adequacy of the design, implementation and operating effectiveness of controls over the amounts billed to other carriers and have performed substantive audit procedures as follows: • Obtained evidence to validate the amounts billed to other carriers as reconciling items for the year. • Obtained a breakdown of the amounts billed and agreed the total to the reconciliation between revenue billed and that recognised in the year. • Selected a sample of amounts billed per the reconciliation and agreed these to actual invoice and subsequent cash receipt, where this had been received prior to the signing of the audit report. • Performed journal testing over journals posted to a revenue general ledger code.
Key observations	Based on our procedures, revenue in respect of amounts billed to other carriers has been appropriately recognised.

Our application of materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£1.4m	£0.8m
Basis for determining materiality	5.3% of profit before tax	2% of net assets
Rationale for the benchmark applied	We chose this measure as it is the primary statutory measurement used by the users of the accounts and key stakeholders to measure the performance of the group.	Net assets has been chosen as a benchmark as it is considered the most relevant benchmark for an investment holding company.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £70k for the group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit
We audited the entire group to full scope with the exception of one location which is subject to desktop analytical review procedures. Given the nature of the entity subject to desktop analytical review procedures, our approach results in approximately 100% coverage of profit before tax, revenue and net assets. At the parent entity level we also tested the consolidation process. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team. Our audit work of the components was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £0.3m to £1m.

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

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

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

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

We have nothing to report in respect of these matters.

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

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

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

We have nothing to report in respect of this matter.

Andrew Bond FCA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
21 March 2018

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Notes	**2017 £m**	2016 £m
Revenue	5	**238.4**	213.5
Cost of sales		**(125.4)**	(114.7)
Gross profit		**113.0**	98.8
Operating expenses		**(86.8)**	(77.4)
Operating profit before share based payment expense, depreciation, amortisation and gain on disposal		**41.6**	34.2
Share based payment expense	25	**(2.0)**	(2.9)
Operating profit before depreciation, amortisation and gain on disposal		**39.6**	31.3
Depreciation and amortisation	6	**(14.1)**	(9.9)
Gain on disposal of property, plant and equipment	6	**0.7**	–
Profit from operations		**26.2**	21.4
Finance income	8	**0.2**	0.2
Profit before tax		**26.4**	21.6
Tax expense	9	**(3.8)**	(3.9)
Profit after tax		**22.6**	17.7
Total comprehensive income attributable to the owners of the parent		**22.6**	17.7
Earnings per share			
Basic per Ordinary Share (pence)	10	**24.4**	19.4
Diluted per Ordinary Share (pence)	10	**23.9**	18.8

Adjusted earnings per share is shown in note 10.

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

The notes on pages 72 to 99 form part of these financial statements.

Consolidated statement of financial position
As at 31 December 2017

	Notes	2017 £m	2016 £m
Assets			
Non-current assets			
Property, plant and equipment	11	**44.1**	33.5
Intangible assets	12	**10.0**	10.0
Deferred tax asset	20	**1.7**	1.8
		55.8	45.3
Current assets			
Inventories	14	**3.2**	3.0
Trade and other receivables	15	**50.6**	39.9
Cash and cash equivalents	16	**31.6**	28.2
		85.4	71.1
Total assets		**141.2**	116.4
Liabilities			
Non-current liabilities			
Provisions	19	**1.8**	1.9
Deferred tax	20	**–**	0.2
		1.8	2.1
Current liabilities			
Trade and other payables	17	**39.8**	32.5
Current tax		**0.8**	1.6
		40.6	34.1
Total liabilities		**42.4**	36.2
Issued capital and reserves attributable to owners of the parent			
Share capital	21	**0.2**	0.2
Share premium reserve		**3.8**	3.8
Merger reserve		**2.3**	2.3
Share option reserve		**2.8**	3.5
Own shares		**(0.8)**	(0.8)
Retained earnings		**90.5**	71.2
Total equity		**98.8**	80.2
Total equity and liabilities		**141.2**	116.4

The financial statements on pages 68 to 71 were approved and authorised for issue by the Board of Directors on 21 March 2018 and were signed on its behalf by:

Andrew Belshaw
Chief Financial Officer

The notes on pages 72 to 99 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Cash flows from operating activities			
Profit for the year before tax		**26.4**	21.6
Adjustments for:			
Depreciation of property, plant and equipment	6	**13.0**	8.6
Amortisation of intangible assets	7	**1.1**	1.3
Share based payment expense		**2.0**	2.9
Interest income		**(0.2)**	(0.2)
		42.3	34.2
Increase in trade and other receivables		**(10.0)**	(7.3)
Increase in inventories		**(0.2)**	(0.7)
Increase in trade and other payables		**6.8**	4.6
Increase in provisions and employee benefits		**(0.1)**	0.5
Cash generated by operations		**38.8**	31.3
Taxes paid		**(3.6)**	(4.8)
Net cash flows from operating activities		**35.2**	26.5
Investing activities			
Purchases of property, plant and equipment	6	**(23.6)**	(18.7)
Expenditure on development costs	7	**(1.1)**	(0.9)
Interest received		**0.2**	0.2
Net cash used in investing activities		**(24.5)**	(19.4)
Financing activities			
Share issues		**–**	0.1
Repayment of loans made to individuals to subscribe for shares		**–**	2.6
Dividends		**(7.3)**	(6.4)
Net cash used in financing activities		**(7.3)**	(3.7)
Net increase in cash and cash equivalents		**3.4**	3.4
Cash and cash equivalents at beginning of year		**28.2**	24.8
Cash and cash equivalents at end of year		**31.6**	28.2

The notes on pages 72 to 99 form part of these financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2017

	Share capital £m	Share premium reserve £m	Merger reserve £m	Share option reserve £m	Own shares £m	Retained earnings £m	Total equity £m
1 January 2016	0.2	3.7	2.3	3.8	(0.8)	57.5	66.7
Issue of shares	–	0.1	–	(2.5)	–	2.5	0.1
Recognition of share based payment expense	–	–	–	2.2	–	–	2.2
Deferred tax on share based payment expense	–	–	–	–	–	(0.1)	(0.1)
Dividend paid (note 10)	–	–	–	–	–	(6.4)	(6.4)
Transaction with owners	–	0.1	–	(0.3)	–	(4.0)	(4.2)
Profit for the year	–	–	–	–	–	17.7	17.7
Total comprehensive income	–	–	–	–	–	17.7	17.7
31 December 2016	0.2	3.8	2.3	3.5	(0.8)	71.2	80.2
1 January 2017	0.2	3.8	2.3	3.5	(0.8)	71.2	80.2
Issue of shares	–	–	–	(2.2)	–	2.2	–
Recognition of share based payment expense	–	–	–	1.5	–	–	1.5
Current tax on share based payment expense	–	–	–	–	–	2.1	2.1
Deferred tax on share based payment expense	–	–	–	–	–	(0.3)	(0.3)
Dividend paid (note 10)	–	–	–	–	–	(7.3)	(7.3)
Transaction with owners	–	–	–	(0.7)	–	(3.3)	(4.0)
Profit for the year	–	–	–	–	–	22.6	22.6
Total comprehensive income	–	–	–	–	–	22.6	22.6
31 December 2017	**0.2**	**3.8**	**2.3**	**2.8**	**(0.8)**	**90.5**	**98.8**

Notes forming part of the financial statements

For the year ended 31 December 2017

1. Accounting policies

Basis of preparation

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 financial statements have been prepared on a historical cost basis.

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.

Going concern

The Directors prepare a detailed annual budget and reforecast for the next 12 month period on a quarterly basis. The Group continues to be profitable and cash generative and has a significant cash balance of £31.6m (2016: £28.2m) 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.

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 growth) each of which typically consists of all or some of four main types of revenue – voice and data traffic, a subscription or rental, equipment sales and installation fees.

Revenue for each element of the sale of the product is recognised as described below.

To the extent that invoices are raised 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.

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

Voice and data traffic

Revenue from traffic is recognised at the time the call is made or data is transferred.

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

Subscriptions and rentals

Revenue from the rental of analogue and digital lines is recognised evenly over the period to which the charges relate. Subscription fees, consisting primarily of monthly charges for access to ethernet, broadband, hosted IP services and other internet access or voice services, are recognised as revenue as the service is provided.

A small minority of sales are made under an 'up-front' model whereby a channel partner buys a right to use a service. There are further subscription charges to pay if the service is used. The amount paid is known, non-refundable and there are no further costs to be incurred to provide the right to the channel partner and therefore the amount is recognised at the point the channel partner commits to taking this model for the service (which is via a portal order).

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.

Installation fees
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
Advances are sometimes made to channel partners as part of an incentive deal. 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 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 comprises 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.

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 exceed 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 Statement of Comprehensive Income. 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 inventory 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.

Notes forming part of the financial statements
For the year ended 31 December 2017 continued

1. Accounting policies continued

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 Statement of Comprehensive Income 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-makers. The chief operating decision-makers have been identified as the Chief Executive Officer and Chief Financial Officer. For further details please see note 5.

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

Loans and receivables
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They 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
Financial liabilities include 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.

Financial liabilities – Derivatives
Forward exchange contracts are entered into to mitigate foreign exchange risk. These contracts are derivatives and therefore measured at fair value through profit or loss. Hedge accounting has not been applied.

Share capital
The Group's Ordinary Shares are classified as equity instruments.

Share based payment expense
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.

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 upon payment. 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.

Notes forming part of the financial statements

For the year ended 31 December 2017 continued

1. Accounting policies continued

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	4%–33% per annum straight line
Customer premises equipment	7%–33% per annum straight line
Computer equipment	25%–50% per annum straight line
Fixtures and fittings	20%–25% per annum straight line

Inventory

Inventory (which is all finished goods) is 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.

Employee Benefit Trust ('EBT')

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

Provisions

The Group recognises provisions where there is a present or constructive 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 provisions. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date, and where material discounted at a pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability.

Alternative performance measures

Adjustments to EBITDA, PBT and EPS (fully diluted) have been presented because the Group believes that adjusted measures provide valuable additional information for users of the financial statements in assessing the Group's performance. Moreover, they provide information on the performance of the business that management is more directly able to influence in the short term and on a basis comparable from year to year.

The measures are adjusted for the following items:

(a) Share based payment expense

The adjusted EBITDA excludes share based payment expense because the historical charges are inflated by significant levels of awards made at IPO and have reduced significantly period on period. The charge includes options being issued to senior management, an SAYE and a SIP scheme offered to all staff, and the costs of employer's National Insurance on share option gains. Because of the special float award made in 2014, the Share Based Payment charges have decreased year-on-year and this leads to increases in EBITDA, PBT and EPS which are not reflective of the business performance but are merely reflective of the fact that lower levels of options have been awarded post float. Therefore management excludes Share Based Payments from the adjusted figures to ensure that the trading performance of the business is properly understood.

(b) Depreciation and amortisation

Depreciation and amortisation relate to assets which were acquired by the Group. They are omitted from adjusted operating expenses to allow a user to see how costs which management can control in the short term have varied from period to period.

(c) Gain on disposal of PPE

The Group may sometimes make a gain or loss on disposal of an asset. These gains or losses occur infrequently and are not trading items (the Group does not trade in fixed assets and neither expects to have gains or losses on disposal, nor does it budget for them). These gains or losses will therefore affect EBITDA, PBT and EPS but are not reflective of the ongoing trading profitability of the Group. Therefore management excludes these items from the adjusted figures to ensure that the trading performance of the business is properly understood.

(d) Non-recurring tax credit

During the year there was a non-recurring tax credit of £0.9m arising due to overpayment from 2014 and earlier years where the underlying position has only recently been resolved. This is not expected to recur and distorts the true effective tax rate for the Group. This item impacts EPS. Adjusted EPS is stated before non-recurring tax items to give a better understanding of the true tax position of the Group.

(e) Other non-recurring items

Non-recurring items are those which are considered significant by virtue of their nature, size or incidence, and are presented separately in the Statement of Comprehensive Income to enable a full understanding of the Group's financial performance.

There were none in the period or comparative period which affected EBITDA or PBT.

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.

Critical accounting judgements

(a) Principal vs agent classification of channel partners
The Group receives payment for products and services from channel partners who onwardly sell to end users. The Group have considered whether channel partners are acting as a principal or an agent under the criteria set out in example 21 to IAS 18.

Where a channel partner has the primary responsibility for providing the products or services to the end user and carries the inventory risk and is free to establish its own prices and bears the credit risk for the amount receivable from the end user then the channel partner is treated as the principal in that transaction. The Group therefore recognises revenue earned in this way based on the transactions with the channel partner and not the end user.

Key accounting estimates

(a) Revenue recognition
Revenue recognition on contracts may involve providing services over multiple years and involving a number of products. In such instances, judgement is required to identify the date of transaction of separable elements of the contract and the fair values which are assigned to each element. The Group also regularly assesses customer credit risk inherent in the carrying amounts of receivables and contract costs and estimated earnings.

(b) Accruals for amounts billed from other carriers
In the telecoms industry, calls and data are passed from one carrier to another and there is a significant level of billing between carriers. Measurement of the units of voice traffic and data passed is complex and each unit has to be rated against an agreed price list. A significant amount of processing is required to measure the units and to rate them correctly. Furthermore, reconciliations are carried out between the data records of each carrier and these may suggest under or over billing has occurred. In some cases, these reconciliations may take some time to perform and therefore bills can be received some time after the end of the period to which they relate. Even when a bill has been received, most carriers reserve the right to issue additional bills if they discover that the units thereon were incomplete or the calls were not correctly rated. Similarly, bills may be disputed and these disputes can take several months to resolve given the complexity of the underlying data. As a result, the Group carries a significant accrual for the costs associated with bills from other carriers which have not yet been received. As the number of products sold increases and the number of other carriers who are interconnected with the Group grows, the level of estimation involved in the calculation of this accrual becomes increasingly material.

Change in critical accounting estimates and judgements

Historically the Company had listed leasehold dilapidations, share based payment charges and onerous lease provisions as critical accounting estimates. The Company also had listed capitalisation of internal development costs, impairment and taxation as critical accounting judgements. Due to the increased profitability of the business, these estimates and judgements no longer represent a significant risk of a material change to the financial results (within the next financial year) as a consequence of a change in estimate or judgement.

3. Changes in accounting policies

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. 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 IFRS 9 which replaces IAS 39 (effective date 1 January 2018)
- Annual improvements to IFRSs 2014-2016 Cycle (effective 1 January 2018).

These standards are expected to have a modest effect on both the timing and recognition of revenue items, and also where revenue and costs appear within the Statement of Comprehensive Income.

The Group intends to adopt IFRS 9, IFRS 15 and IFRS 16 with a date of initial application of 1 January 2018, meaning that IFRS 16 shall be early adopted. The Group will apply IFRS 15 retrospectively under a full restatement approach, and IFRS 16 under the retrospective application with no restatement of comparatives. IFRS 9 Financial instruments has also been reviewed but is not expected to have a material effect on the Group.

Notes forming part of the financial statements

For the year ended 31 December 2017 continued

3. Changes in accounting policies continued

Summary of change in accounting policies (IFRS 15)

The following table summarises the impacts of adopting IFRS 15 on the accounting policies of the Group.

Existing accounting policy	Policy to be applied from 1 January 2018
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 growth) each of which typically consists of all or some of four main types of revenue – voice and data traffic, a subscription or rental, equipment sales and installation fees. Revenue for each element of the sale of the product is recognised as described below. To the extent that invoices are raised 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.	**Revenue** Revenue represents the fair value of the consideration received or receivable for communication services and equipment sales, net of discounts and sales taxes. Revenue is recognised when the Group has fulfilled its performance obligations under the relevant customer contract. The Group sells a number of communications products (both traditional and growth) each of which typically consists of all or some of four main types of revenue – voice and data traffic, a subscription or rental, equipment sales and installation fees. Revenue for each element of the sale of the product is recognised as described below. To the extent that invoices are raised 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 performance obligations have been met.
Revenue – Voice and data traffic Revenue from traffic is recognised at the time the call is made or data is transferred. Revenue arising from the interconnection of voice and data traffic between other telecommunications' operators is recognised at the time of transit across the Group's network.	**Revenue – Voice and data traffic** No change to existing policy.
Revenue – Subscriptions and rentals Revenue from the rental of analogue and digital lines is recognised evenly over the period to which the charges relate. Subscription fees, consisting primarily of monthly charges for access to ethernet, broadband, hosted IP services and other internet access or voice services, are recognised as revenue as the service is provided. A small minority of sales are made under an 'up front' model whereby a channel partner buys a right to use a service. There are further subscription charges to pay if the service is used. The amount paid is known, non-refundable and there are no further costs to be incurred to provide the right to the channel partner and therefore the amount is recognised at the point the channel partner commits to making this model for the service (which is via a portal order).	**Revenue – Subscriptions and rentals** Revenue from the rental of analogue and digital lines is recognised evenly over the period to which the charges relate. Subscription fees, consisting primarily of monthly charges for access to ethernet, broadband, hosted IP services and other internet access or voice services, are recognised as revenue as the service is provided. A small minority of sales of the Cloud PBX product are made under an 'up front' model whereby a channel partner buys a right to use a service for an unspecified period of time into the future. This is treated as an option to obtain future services at a discount and the revenue is taken equally over the estimated future period of usage of that service. See adjustment (a) on pages 80 and 81.
Revenue – 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. **Assets – Customer Premises Equipment** 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.	**Revenue – Equipment Sales** Revenue from the sale of peripheral and other equipment is recognised when the control of the asset has transferred to the buyer, which is normally the date the equipment is delivered and accepted by the customer. 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, and which are capable of use independently of that service are treated as having been sold to the customer. See adjustment (b) on pages 80 and 81. At the inception of the service when the CPE is shipped the cost of the asset is taken to cost of sales and revenue is accrued to recognise the sale at a margin typical of sales of that product. A contract asset balance is created in respect of the accrued revenue and this is released over the length of the contract which results in lower ongoing service revenues.

Existing accounting policy	Policy to be applied from 1 January 2018
Revenue – Installations	**Revenue – Installations**
Revenue arising from installation and connection services is recognised when it is earned, upon activation.	Where an installation is not capable of being separated out from an ongoing service contract (i.e. the installation has no standalone value to the customer), revenue will be allocated to the initial equipment sale (if any) and the ongoing service revenues. The latter element will result in a contract liability which will be released amortised over the length of the contract with the effect that ongoing service charges are increased. Costs related to installations are similarly capitalised and released in line with the release of the corresponding revenues. See adjustment (c) on pages 80 and 81.
Commission payments to sales staff	**Commission payments to sales staff**
In our direct business, when a member of the sales team is responsible for winning a multi-year term contract they will receive commission. This is expensed at the time it is paid.	Commission payments to sales staff are capitalised and released over the length of the contract to which they relate. See adjustment (d) on pages 80 and 81.

Based on the above changes in accounting policy which will be applied from 1 January 2018, the Group has restated its 2017 results for the changes in policies required by IFRS 15. These are shown below and will form the comparative figures to the 2018 results.

There are four adjustments derived from the change in accounting policies:

Adjustment (a) has the effect of removing 'up-front' Cloud PBX subscriptions which were previously recognised on purchase. These are now capitalised and amortised over the period for which a customer is expected to use the service.

Adjustment (b) has the effect of removing assets which were supplied as part of a service from the fixed asset register and instead recognising these as a sale at the point of delivery to the customer. There is a corresponding reduction in ongoing service revenues.

Adjustment (c) has the effect of spreading installation revenue over the length of the contract.

Adjustment (d) has the effect of spreading the cost of commissions in the direct business over the length of the contract to which they relate.

Notes forming part of the financial statements
For the year ended 31 December 2017 continued

3. Changes in accounting policies continued

The below table shows the effect of the four adjustments on the consolidated statement of comprehensive income for the year ended 31 December 2017.

The combined effect of the four adjustments is to reduce EBITDA and adjusted EBITDA by £2.8m. Both EPS and adjusted EPS have increased by 0.1p.

Impact on Consolidated Statement of Comprehensive income of IFRS 15

	2017 Under previous accounting policies £m	Cloud PBX adjustment (a)	Customer premises equipment adjustment (b)	Installations adjustment (c)	Sales commissions adjustment (d)	2017 Restated amount under IFRS 15 £m
Revenue	**238.4**	**(1.1)**	**7.4**	**(1.8)**	**–**	**242.9**
Cost of sales	(125.4)	2.5	(11.6)	1.1	–	(133.4)
Gross profit	**113.0**	**1.4**	**(4.2)**	**(0.7)**	**–**	**109.5**
Operating expenses	(86.8)	(1.9)	4.8	–	0.7	(83.2)
Operating profit before share based payment expense, depreciation, amortisation and gain on disposal of property, plant and equipment	**41.6**	**1.4**	**(4.2)**	**(0.7)**	**0.7**	**38.8**
Share based payment expense	(2.0)	–	–	–	–	(2.0)
Operating profit before depreciation, amortisation and gain on disposal of property, plant and equipment	**39.6**	**1.4**	**(4.2)**	**(0.7)**	**0.7**	**36.8**
Depreciation and amortisation	(14.1)	(1.9)	4.8	–	–	(11.2)
Gain on disposal of property, plant and equipment	0.7	–	–	–	–	0.7
Profit from operations	**26.2**	**(0.5)**	**0.6**	**(0.7)**	**0.7**	**26.3**
Finance income	0.2	–	–	–	–	0.2
Profit before tax	**26.4**	**(0.5)**	**0.6**	**(0.7)**	**0.7**	**26.5**
Tax expense	(3.8)	–	–	–	–	(3.8)
Profit after tax	22.6	(0.5)	0.6	(0.7)	0.7	22.7
Total comprehensive income attributable to the owner of the parent	**22.6**	**(0.5)**	**0.6**	**(0.7)**	**0.7**	**22.7**
Earnings per share						
Basic per Ordinary Share (pence)	24.4	(0.5)	0.6	(0.8)	0.8	24.5
Diluted per Ordinary Share (pence)	23.9	(0.5)	0.6	(0.7)	0.7	24.0

Impact on Consolidated Statement of Financial Position of IFRS 15

The below table shows the effect of the same four adjustments on the consolidated statement of financial position as at 31 December 2017. These will form the comparatives for the 2018 financial statements. The combined effect of the four adjustments is to reduce net assets by £3.5m.

	2017 Under previous accounting policies £m	Cloud PBX adjustment (a)	Customer premises equipment adjustment (b)	Installations adjustment (c)	Sales commissions adjustment (d)	2017 Restated amount under IFRS 15 £m
Assets						
Non-current assets						
Property, plant and equipment	44.1	–	(16.5)	–	–	27.6
Intangible assets	10.0	5.5	–	–	–	15.5
Deferred tax asset	1.7	–	–	–	–	1.7
	55.8	5.5	(16.5)	–	–	44.8
Current assets						
Inventories	3.2	–	–	–	–	3.2
Trade and other receivables	50.6	–	18.2	3.1	2.2	74.1
Cash and cash equivalents	31.6	–	–	–	–	31.6
	85.4	–	18.2	3.1	2.2	108.9
Total assets	141.2	5.5	1.7	3.1	2.2	153.7
Liabilities						
Non-current liabilities						
Provisions	1.8	–	–	–	–	1.8
Deferred tax	–	–	–	–	–	–
	1.8	–	–	–	–	1.8
Current liabilities						
Trade and other payables	39.8	11.3	–	4.7	–	55.8
Current tax	0.8	–	–	–	–	0.8
	40.6	11.3	–	4.7	–	56.6
Total liabilities	42.4	11.3	–	4.7	–	58.4
Issued capital and reserves attributable to owners of the parent						
Share capital	0.2	–	–	–	–	0.2
Share premium reserve	3.8	–	–	–	–	3.8
Merger reserve	2.3	–	–	–	–	2.3
Share option reserve	2.8	–	–	–	–	2.8
Own shares	(0.8)	–	–	–	–	(0.8)
Retained earnings	90.5	(5.8)	1.7	(1.6)	2.2	87.0
Total equity	**98.8**	**(5.8)**	**1.7**	**(1.6)**	**2.2**	**95.3**
Total equity and liabilities	**141.2**	**5.5**	**1.7**	**3.1**	**2.2**	**153.7**

Notes forming part of the financial statements
For the year ended 31 December 2017 continued

3. Changes in accounting policies continued

Summary of change in accounting policies (IFRS 16)
The changes in accounting policies required by IFRS 16 are shown below.

Existing accounting policy	Policy to be applied from 1 January 2018
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.	**Leased assets** This policy will typically apply to properties, cars and fibre networks where the Group has substantially all of the capacity of the asset. On entering into a lease, a right of use asset and lease liability will be created. The right-of-use asset will be depreciated over the lease-term and if necessary impaired in accordance with applicable standards. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (application of the effective interest method) and by reducing the carrying amount to reflect the lease payments made. Variable rents are not part of the lease liability and the right-of-use-asset. The payments are recognised as an expense in the period in which they are incurred. Variable payments are presented within the note Right-of-use assets. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Where leases are 12 months or less or of low value then payments made are expensed evenly over the period of usage of that asset in line with the practical expedients set out in IFRS 16. Where the Group has a contract to use part of a fibre or copper pathway and it does not have substantially all of the capacity of the asset then that is not a lease and payments are expensed evenly over the period of usage of that asset. In some instances a pathway may have a small incidental linkage where the Group is using substantially all of the capacity of a very minor part of the pathway but in this instance the whole contract is not treated as a lease.

IFRS 16 comes in to effect on 1 January 2019, however early adoption is allowed as long as IFRS 15 has been adopted and therefore the Group intends to adopt the new standard from 1 January 2018.

The standard allows two options for adoption – fully retrospective and modified retrospective. The Group has elected to take the modified retrospective approach. As a result of this the Group will:

- recognise a lease liability at 1 January 2018 for leases previously classified as operating leases applying IAS 17. The Group will measure lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application.
- recognise a right-of-use asset at 1 January 2018 for leases previously classified as operating leases applying IAS 17. The Group has chosen to measure right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the statement of financial position as at 31 December 2017.
- 2017 comparatives are left unchanged, and any opening adjustment to net assets is recognised on 1 January 2018.

The modified retrospective approach also allows a number of practical expedients which the Group has made use of:

- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics, being 4%.
- Reliance on an assessment of whether a lease is onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review using the principles in IAS 36 Impairment of Assets.
- No recognition of leases whose term ends within 12 months of the date of initial application.
- Exclusion of initial direct costs from the measurement of the right of use asset at the date of initial application.
- Hindsight may be used, such as in determining the lease term if the contract contains options to extend or terminate the lease.

As noted above, no comparatives are given for the change in policies brought about by IFRS 16 but the Group has calculated that the right of use asset to be recognised as at 1 January 2018 will be £6.1m (and there will be a corresponding liability of £6.4m). The expected depreciation charge on this right of use asset in the 2018 accounts (assuming no additions or disposals of leases) will be £1.3m, and interest charged of £0.2m which compares to an operating lease charge of £1.6m within the operating expenses for 2017. The effect on EBITDA and adjusted EBITDA is expected to be an increase of £1.6m but there will not be a material effect on either EPS or adjusted EPS.

The opening lease liability of £6.4m is reconciled to the table of lease commitments below:

	Land and buildings £m	Other £m
Lease commitments (note 23)	7.2	0.2
Less recognition exemptions taken	(0.2)	(0.1)
Less interest to be unwound over the lease term	(0.7)	–
Opening lease liability	**6.3**	**0.1**
Less: Onerous lease provision	(0.3)	–
Opening right of use asset	**6.0**	**0.1**

Summary of change in accounting policies (IFRS 9)

The Group has considered the effects of the changes to IFRS 9 and will revise its accounting policies from 1 January 2018 as follows:

Existing accounting policy

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.

Policy to be applied from 1 January 2018

Financial assets

All financial assets are held under the business model of holding the asset to collect the contractual cash flows arising from the assets, which are made up solely of payments of the principal and interest. Therefore, all financial assets are classified as amortised cost.

Except for trade receivables, financial assets 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.

Trade receivables do not contain significant financing components and therefore are initially recognised at their transaction price, and subsequently treated in line with other financial assets.

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

These financial assets comprise trade and other receivables, accrued income, 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 and other short term highly liquid investments with original maturities of three months or less.

Existing accounting policy

Financial liabilities

Financial liabilities include 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.

Forward exchange contracts

Forward exchange contracts are entered into to mitigate foreign exchange risk. These contracts are derivatives and therefore measured at fair value through profit or loss. Hedge accounting has not been applied.

Policy to be applied from 1 January 2018

Financial liabilities

No change to accounting policy.

Forward exchange contracts

No change to accounting policy.

None of the above changes to accounting policies are materially different to the existing policy and therefore the Group does not expect to have to restate the 2017 figures upon adoption of the new policy.

Notes forming part of the financial statements

For the year ended 31 December 2017 continued

4. Revenue

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

5. Segment information

The Group has two main operating segments:

- Indirect – This division sells Gamma's traditional and growth products to channel partners and contributed 76% (2016: 79%) of the Group's external revenue.
- Direct – This division sells Gamma's traditional and growth products to end users in the SME, Enterprise and Public Sectors together with an associated service wrap. They contributed 24% (2016: 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 growth products and services (which consists of IP voice traffic, rental income derived from SIP trunks, 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 year.

	Indirect £m	Direct £m	Total £m
2017			
Traditional products and services	50.5	10.8	61.3
Growth (being strategic and enabling) products and services	130.9	46.2	177.1
Total revenue from external customers	**181.4**	**57.0**	**238.4**
Inter-segment revenue	*45.8*	–	*45.8*
Traditional products and services	12.5	3.7	16.2
Growth (being strategic and enabling) products and services	74.0	22.8	96.8
Total gross profit	**86.5**	**26.5**	**113.0**
Segment operating profit before share based payment expense, depreciation, amortisation and gain on disposal of property, plant and equipment	**29.0**	**12.6**	**41.6**
Share based payment expense	(1.8)	(0.2)	(2.0)
Segment operating profit before depreciation, amortisation and gain on disposal of property, plant and equipment	**27.2**	**12.4**	**39.6**
Depreciation and amortisation	(13.4)	(0.7)	(14.1)
Gain on disposal of property, plant and equipment	0.7	–	0.7
Profit from operations	**14.5**	**11.7**	**26.2**
Finance income	0.2	–	0.2
Tax	(2.0)	(1.8)	(3.8)
Group profit after tax	12.7	9.9	22.6

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	22.2	2.5	24.7
Reportable segment assets	118.4	22.8	141.2
Reportable segment liabilities	34.4	8.0	42.4

	Indirect £m	Direct £m	Total £m
2016			
Traditional products and services	55.8	10.2	66.0
Growth (being strategic and enabling) products and services	113.2	34.3	147.5
Total revenue from external customers	169.0	44.5	213.5
Inter-segment revenue	*38.8*	–	*38.8*
Traditional products and services	16.5	3.8	20.3
Growth (being strategic and enabling) products and services	61.7	16.8	78.5
Total gross profit	78.2	20.6	98.8
Segment operating profit before share based payment expense, depreciation and amortisation	24.8	9.4	34.2
Share based payment expense	(2.9)	–	(2.9)
Segment operating profit before depreciation and amortisation	21.9	9.4	31.3
Depreciation and amortisation	(9.0)	(0.9)	(9.9)
Profit from operations	12.9	8.5	21.4
Finance income	0.2	–	0.2
Tax	(2.3)	(1.6)	(3.9)
Group profit after tax	10.8	6.9	17.7

External revenue of customers has been derived principally from the United Kingdom and no single customer is over 10% of revenue.

	Indirect £m	Direct £m	Total £m
Additions to non-current assets	19.0	0.6	19.6
Reportable segment assets	100.8	15.6	116.4
Reportable segment liabilities	31.5	4.7	36.2

6. Profit on ordinary activities

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

	2017 £m	2016 £m
Net foreign exchange	**0.2**	0.4
Research costs	**8.3**	6.3
Staff costs (see note 7)	**48.1**	42.3
Depreciation of property, plant and equipment	**13.0**	8.6
Amortisation of intangible assets	**1.1**	1.3
Gain on disposal of property, plant and equipment	**(0.7)**	–
Cost of inventories recognised as an expense	**4.2**	2.9
Fees payable to the Company's auditors:	**0.2**	0.2
Operating lease expense:		
– Other	**0.1**	0.1
– Property	**1.6**	1.9

Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements totalled £55k (2016: £55k) for the year, and £95k (2016: £65k) for the audit of subsidiaries and other audit services. Fees payable for other assurance services comprised £30k (2016: £30k).

Notes forming part of the financial statements
For the year ended 31 December 2017 continued

7. Staff costs

	2017 £m	2016 £m
Staff costs (including Directors) comprise:		
Wages and salaries	**39.8**	34.1
Defined contribution pension cost (note 24)	**2.1**	1.8
Social security contributions and similar taxes	**4.2**	3.5
	46.1	39.4
Share based payment expense (note 25)	**2.0**	2.9
	48.1	42.3

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

	2017 Number	2016 Number
Operational	**491**	419
Selling, administration and distribution	**354**	313
	845	732

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 44 and 45, and the Management Committee in place during 2017.

	2017 £m	2016 £m
Salary	**3.0**	3.2
Defined contribution pension costs	**0.1**	0.1
Social security contributions and similar taxes	**0.4**	0.6
	3.5	3.9
Share based payment expense (note 25)	**1.0**	2.0
	4.5	5.9

Emoluments in respect of Directors are summarised below:

	2017 £m	2016 £m
Salary	**1.4**	1.6
Social security contributions and similar taxes	**0.2**	0.2
	1.6	1.8
Share based payment expense	**0.4**	1.1
	2.0	2.9

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

	2017 £m	2016 £m
Salary	**0.6**	0.6
Share based payment expense	**0.3**	0.6
	0.9	1.2

During the year, two Directors (2016: two Directors) participated in a private money purchase defined contribution pension scheme.

8. Finance income

	2017 £m	2016 £m
Finance income		
Interest received on bank deposits	**0.2**	0.2
Total finance income	**0.2**	0.2

9. Tax expense

	2017 £m	2016 £m
Current tax expense		
Current tax on profits for the year	**5.1**	3.9
Adjustment in respect of prior year	**(0.9)**	0.1
Total current tax	**4.2**	4.0
Deferred tax expense		
Origination and reversal of temporary differences (note 20)	**(0.4)**	(0.1)
Total deferred tax	**(0.4)**	(0.1)
Total tax expense	**3.8**	3.9

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:

	2017 £m	2016 £m
Profit before income taxes	**26.4**	21.6
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 19.25% (2016: 20.00%)	**5.1**	4.3
Expenses not deductible for tax purposes	**–**	0.1
Additional deduction for R&D expenditure	**(0.4)**	(0.4)
Adjustment in respect of prior year	**(0.9)**	(0.1)
Total tax expense	**3.8**	3.9

The Finance Act 2016 includes provision for the main rate of corporation tax to reduce to 17% for the year beginning 1 April 2020.

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 £22.6m (2016: £17.7m) and 92,750,844 (2016: 91,235,007) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

The 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. The following reflects the share data used in the calculation of diluted earnings per share:

	2017 No.	2016 No.
Weighted average number of Ordinary Shares for basic earnings per share	**92,750,844**	91,235,007
Effect of dilution resulting from share options	**1,651,182**	2,552,241
Weighted average number of Ordinary Shares adjusted for the effect of dilution	**94,402,026**	93,787,248

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 2017 £m	Total 2016 £m
Profit for the year	**22.6**	17.7
Share based payment expense	**2.0**	2.9
Less tax adjustment in respect of prior years	**(0.9)**	–
Less tax benefit associated with share based payment costs	**(0.5)**	(0.6)
Adjusted profit after tax for the year	**23.2**	20.0

Notes forming part of the financial statements

For the year ended 31 December 2017 continued

10. Earnings per share and dividends continued

	2017	2016
Adjusted earnings per Ordinary Share – basic (pence)	**25.0**	21.9
Adjusted earnings per Ordinary Share – diluted (pence)	**24.6**	21.1

The number of shares used to calculate diluted adjusted earnings per share in 2016 was 94,732,610.

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 2.8p was paid on 19 October 2017 (2016: 2.5p).

A final dividend of 5.6p will be proposed at the Annual General Meeting but has not been recognised as it requires approval (2016: 5.0p). The total amount of dividends proposed is 8.4p (2016: 7.5p). The payments of these dividends do not have any tax consequences for the Group.

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 2017	54.5	13.3	6.2	0.7	74.7
Additions	11.0	11.5	0.8	0.3	23.6
Disposals	–	(1.4)	–	–	(1.4)
At 31 December 2017	**65.5**	**23.4**	**7.0**	**1.0**	**96.9**
Depreciation					
At 1 January 2017	33.6	4.0	3.4	0.2	41.2
Charge for the year	5.8	5.7	1.1	0.4	13.0
Disposals	–	(1.4)	–	–	(1.4)
At 31 December 2017	**39.4**	**8.3**	**4.5**	**0.6**	**52.8**
Net book value					
At 1 January 2017	20.9	9.3	2.8	0.5	33.5
At 31 December 2017	**26.1**	**15.1**	**2.5**	**0.4**	**44.1**

Cost					
At 1 January 2016	45.9	5.8	4.6	0.5	56.8
Additions	8.6	8.3	1.6	0.2	18.7
Disposals	–	(0.8)	–	–	(0.8)
At 31 December 2016	54.5	13.3	6.2	0.7	74.7
Depreciation					
At 1 January 2016	29.4	1.7	2.2	0.1	33.4
Charge for the year	4.2	3.1	1.2	0.1	8.6
Disposals	–	(0.8)	–	–	(0.8)
At 31 December 2016	33.6	4.0	3.4	0.2	41.2
Net book value					
At 1 January 2016	16.5	4.1	2.4	0.4	23.4
At 31 December 2016	20.9	9.3	2.8	0.5	33.5

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.

12. Intangible assets

	Goodwill on consolidation £m	Development costs £m	Customer contracts £m	Total £m
Cost				
At 1 January 2017	12.5	6.1	2.1	20.7
Additions	–	1.1	–	1.1
At 31 December 2017	**12.5**	**7.2**	**2.1**	**21.8**
Amortisation				
At 1 January 2017	4.5	4.2	2.0	10.7
Charge for the year	–	1.0	0.1	1.1
At 31 December 2017	**4.5**	**5.2**	**2.1**	**11.8**
Carrying value				
At 1 January 2017	8.0	1.9	0.1	10.0
At 31 December 2017	**8.0**	**2.0**	**–**	**10.0**
Cost				
At 1 January 2016	12.5	5.2	2.1	19.8
Additions	–	0.9	–	0.9
At 31 December 2016	12.5	6.1	2.1	20.7
Amortisation				
At 1 January 2016	4.5	3.3	1.6	9.4
Charge for the year	–	0.9	0.4	1.3
At 31 December 2016	4.5	4.2	2.0	10.7
Carrying value				
At 1 January 2016	8.0	1.9	0.5	10.4
At 31 December 2016	8.0	1.9	0.1	10.0

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

- Customer contracts – five years.
- Development costs – over the anticipated useful economic life of the asset developed but no more than four years.
- Goodwill on consolidation – indefinite (subject to impairment).

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

	2017 £m	2016 £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 was tested for impairment at 31 December 2017 and 2016. The recoverable amount has been determined on a value-in-use basis on each CGU using the Board approved budget for each CGU. The base projection is amended for years two to five as follows: (a) by increasing revenue by 14% (2016: 16%) for Gamma Business Communications Limited and by 28% (2016: 27%) for Gamma Network Solutions Limited (being based on forecasted growth rates); (b) gross margin percentage is assumed to be held constant (based on forecasted margin data); and (c) overheads are assumed to grow by 10% (2016: 6%) for Gamma Business Communications Limited and 13% (2016: 19%) for Gamma Network Solutions Limited. These cash flows are then discounted at 12% (2016: 12%) – both CGUs form the direct business 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 year (giving a recoverable amount of £27.4m (2016: £44.5m) in respect of Gamma Business Communications Limited and £24.1m (2016: £20.4m) 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.

Notes forming part of the financial statements
For the year ended 31 December 2017 continued

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	Ownership by the Company	Notes
Gamma Telecom Holdings Limited	United Kingdom	Intermediate holding company	Direct ownership	(a)
Gamma Telecom Limited	United Kingdom	Telephony services	Indirect ownership	(a)
Gamma Business Communications Limited	United Kingdom	Telephony services	Indirect ownership	(a)
Gamma Network Solutions Limited	United Kingdom	Telephony services	Indirect ownership	(a)
Gamma Development KfT (formerly Peach Amber KfT)	Hungary	Software services	Indirect ownership	(b)
Uniworld Bureau Services Limited	United Kingdom	Dormant	Indirect ownership	(a)

Notes:
(a) Registered Office: 5 Fleet Place, London, EC4M 7RD, England.
(b) Registered Office: 1054 Budapest, Széchenyi Rakpart 8, Hungary.

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

The Group also consolidates the Gamma Communications plc SIP Trust.

The Group held no interests in unconsolidated structured entities.

Having been dormant for over 6 years and having obtained HMRC clearance, the following subsidiaries were struck off in the year:

- Go Worldwide Communications Limited
- Gamma Metronet Limited
- Blue Spot Technologies Limited

14. Inventories

	2017 £m	2016 £m
Raw materials and consumables	3.4	3.1
Provision	(0.2)	(0.1)
Total inventories	3.2	3.0

The replacement cost of stocks equals the balance sheet amount.

15. Trade and other receivables

	2017 £m	2016 £m
Trade receivables	25.9	22.4
Less: provision for impairment of trade receivables	(2.7)	(2.0)
Trade receivables – net	23.2	20.4
Accrued income	10.5	10.0
Prepayments	10.9	8.1
Other receivables	6.0	1.4
Total trade and other receivables	50.6	39.9

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 2017 and 2016 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:

	2017 £m	2016 £m
Up to 3 months	1.5	1.7
3 to 6 months	–	0.6
6 to 12 months	–	–
Older than 1 year	–	–
	1.5	2.3

As at 31 December 2017 trade receivables of £2.3m (2016: £1.7m) were past due and impaired. The amount of the provision as at 31 December was £2.7m (2016: £2.0m). The main factors considered by the finance function 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:

	2017 £m	2016 £m
Not due	0.4	0.3
Up to 3 months	1.3	1.0
3 to 6 months	0.5	0.4
6 to 12 months	0.2	0.1
Older than 1 year	0.3	0.2
	2.7	2.0

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:

	2017 £m	2016 £m
At beginning of the year	2.0	1.2
Provided during the year	1.2	1.0
Receivable written off during the year as uncollectible	(0.5)	(0.2)
	2.7	2.0

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

	2017 £m	2016 £m
Cash at bank	31.6	28.2

17. Trade and other payables

	2017 £m	2016 £m
Current		
Trade payables	7.9	8.3
Other payables	1.9	1.3
Accruals – Cost of sales	15.0	10.6
Accruals – Operating expenses (excluding payroll)	3.2	2.5
Accruals – Payroll (excluding tax and social security)	6.7	6.7
Tax and social security	2.4	1.2
Deferred income	2.7	1.9
Total trade and other payables	39.8	32.5

Book values approximate to fair value at 31 December 2017 and 31 December 2016.

Notes forming part of the financial statements
For the year ended 31 December 2017 continued

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.
- 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.
- Trade and other payables.

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

Financial assets – loans and receivables – amortised cost

	2017 £m	2016 £m
Cash and cash equivalents	31.6	28.2
Trade receivables – net	23.2	20.4
Accrued income	10.5	10.0
Other receivables	6.0	1.4
Total financial assets	71.3	60.0

Financial liabilities – amortised cost

	2017 £m	2016 £m
Trade payables	7.9	8.3
Other payables	1.9	1.3
Accruals – Cost of sales	15.0	10.6
Accruals – Operating expenses (excluding payroll)	3.2	2.5
Accruals – Payroll (excluding tax and social security)	6.7	6.7
Total financial liabilities	34.7	29.4

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 monthly 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 in the below:

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

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

The Credit Committee determines concentrations of credit risk by monitoring the creditworthiness rating of existing customers and through regular reviews of the trade receivables' ageing analysis.

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

	2017 £m	2016 £m
Cash and cash equivalents	**31.6**	28.2
Trade receivables – net	**23.2**	20.4
Accrued income	**10.5**	10.0
Other receivables	**6.0**	1.4
Total financial assets	**71.3**	60.0

The Credit Committee monitors the utilisation of the credit limits regularly and at the reporting date does not expect any losses from non-performance by the counterparties in addition to those already provided against.

Cash in bank

The Group is continually reviewing the credit risk associated with holding money on deposit in banks and seeks to mitigate this risk by only holding deposits with banks with a credit rating of A or above, unless Board approval is obtained.

Market risk

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.

During the year, the Group entered into three forward foreign exchange contracts to mitigate against the foreign exchange risk on foreign contracts. These are in USD and relate to one supplier. There was one open foreign exchange contract at year end to cover a payment of USD$0.5m.

As of 31 December 2016 and 31 December 2017 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 36-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**
2017					
Total financial liabilities	**32.9**	**1.8**	**–**	**–**	**–**

	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
2016					
Total financial liabilities	28.3	1.1	–	–	–

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

- 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).

Notes forming part of the financial statements
For the year ended 31 December 2017 continued

18. Financial instruments – risk management continued
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.

	2017 £m	2016 £m
Total equity	**98.8**	80.2
Cash and cash equivalents	**31.6**	28.2
Capital	**130.4**	108.4
Total equity	**98.8**	80.2
Overall financing	**98.8**	80.2
Capital-to-overall-financing ratio	**1.32**	1.35

19. Provisions

	2017 £m	2016 £m
Leasehold dilapidation provision	**1.3**	1.3
Onerous lease provision	**0.5**	0.6
Total provisions	**1.8**	1.9
Of which:		
Due within one year or less	**0.3**	0.1
Due after more than one year	**1.5**	1.8

	Leasehold dilapidation provision £m	Onerous lease provision £m	Total £m
At 1 January 2017	1.3	0.6	1.9
Additional provision in the year	0.1	0.1	0.2
Utilisation of provision	(0.1)	(0.2)	(0.3)
At 31 December 2017	**1.3**	**0.5**	**1.8**

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.

The onerous lease provision relates to lease payments on property which became onerous during the year. The amount provided is based on the future rental obligations together with other fixed outgoings and the possibility of either sub-letting or buying-out from the lease commitment. Significant assumptions are used in making these calculations and changes in assumptions and future events could cause the value of these provisions to change.

20. Deferred tax
Deferred tax is calculated in full on temporary differences under the liability method using the tax rate at which it is expected to unwind, being 19% until 1 April 2020 and then 17% from 1 April 2020.

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

	2017 £m	2016 £m
Asset at 1 January	**1.6**	1.6
Tax credit recognised in profit and loss	**0.4**	0.1
Recognised directly in equity	**(0.3)**	(0.1)
Asset at 31 December	**1.7**	1.6

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

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
2017					
Difference in capital allowances and depreciation/amortisation	**0.4**	**–**	**0.4**	**0.5**	**–**
Other temporary and deductible differences	**0.2**	**–**	**0.2**	**0.1**	**–**
Deferred tax on share options	**1.1**	**–**	**1.1**	**(0.2)**	**(0.3)**
Deferred tax asset/(liability)	**1.7**	**–**	**1.7**	**0.4**	**(0.3)**

	Asset £m	Liability £m	Net £m	(Charged)/ Credited to profit or loss £m	Credited to equity £m
2016					
Difference in capital allowances and depreciation/amortisation	0.1	(0.2)	(0.1)	0.1	–
Other temporary and deductible differences	0.1	–	0.1	–	–
Deferred tax on share options	1.6	–	1.6	(0.1)	(0.1)
Business combinations	–	–	–	0.1	–
Deferred tax asset/(liability)	1.8	(0.2)	1.6	0.1	(0.1)

21. Share capital

At 31 December the share capital was as follows:

	2017 Number	2017 £m	2016 Number	2016 £m
Allotted and fully paid				
Ordinary Shares of £0.0025 each	**93,289,973**	**0.2**	91,751,499	0.2
		0.2		0.2

Ordinary Share movement in the year is as follows:

	Number	Notes
1 January 2017	91,751,499	
27 March 2017	272,992	(a)
10 May 2017	1,224,949	(a)
20 December 2017	40,533	(a)
31 December 2017	**93,289,973**	

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

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

	Number	Notes
1 January 2016	90,250,607	
16 March 2016	32,500	(a)
31 March 2016	1,022,536	(a)
18 April 2016	50,000	(a)
30 June 2016	207,856	(a)
22 September 2016	188,000	(a)
31 December 2016	91,751,499	

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

Notes forming part of the financial statements
For the year ended 31 December 2017 continued

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

Reserve	Description and purpose
Share premium reserve	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Represents the share capital and share related movements of the previous holding company Gamma Telecom Holdings Limited following the common control transaction in 2014. These financial statements incorporate the results of business combinations using the acquisition method with the exception of the common control transaction on the forming of the Group. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.
Share option reserve	Represents credit to equity relating to share based payment expense on share options.
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 outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings £m	Other £m
2017		
In one year or less	**1.6**	**0.1**
Between one and five years	**4.3**	**0.1**
In five years or more	**1.3**	**–**
	7.2	**0.2**

	Land and buildings £m	Other £m
2016		
In one year or less	1.6	0.1
Between one and five years	4.6	0.1
In five years or more	2.3	–
	8.5	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:

	2017 £m	2016 £m
Defined contribution pension scheme	**2.1**	1.8

25. Share based payment expense

Share options granted
On 5 April 2017 the Board approved an issue of options under the Company Share Option Plan which granted 184,032 options over £0.0025 Ordinary Shares at an exercise price of £4.9325. These will vest in April 2020.

On 22 May 2017 the Board approved an award under the long term incentive plan for the senior management team. 321,720 options were granted over £0.0025 Ordinary Shares at an exercise price of £0.0025 per share which will vest on 31 March 2020 subject to performance conditions. The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2017.

The awards issued under the long term incentive plan will vest as follows:

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

On 9 May 2017 the Board approved an issue of options under a Save As You Earn scheme which granted 274,664 options over £0.0025 Ordinary Shares at an exercise price of £4.1600. These options will vest in July 2020.

The weighted average fair value of awards granted during the year was £2.30 (2016: £1.54).

Share options movements

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

The options below were exercised at a weighted average share price of £5.35, and weighted average exercise price of £0.013.

2017 **Date of grant**	Start of year	Granted	Forfeited/ Cancelled/ Lapsed	Exercised	End of year	Exercise price	Class of share	Notes
6 June 2014	60,000	–	–	(40,000)	20,000	£0.2500	Ordinary	(a)
2 September 2014	1,155,912	–	–	(1,155,912)	–	£0.0025	Ordinary	(a) (j)
6 October 2014	284	–	–	(284)	–	£0.0025	Ordinary	(a)
6 October 2014	272,707	–	–	(272,707)	–	£0.0025	Ordinary	(a)
6 October 2014	67,892	–	–	(67,892)	–	£0.0025	Ordinary	(a)
8 May 2015	370,349	–	–	–	370,349	£2.7000	Ordinary	(b)
8 June 2015	455,218	–	(96,520)	–	358,698	£0.0025	Ordinary	(c) (j)
15 April 2016	65,382	–	–	–	65,382	£4.3575	Ordinary	(d)
17 May 2016	352,769	–	(74,783)	–	277,986	£0.0025	Ordinary	(e)
19 May 2016	641,053	–	(33,678)	(1,694)	605,681	£3.4440	Ordinary	(f)
5 April 2017	–	184,032	–	–	184,032	£4.9325	Ordinary	(g)
9 May 2017	–	274,664	(1,081)	–	273,583	£4.1600	Ordinary	(i)
22 May 2017	–	321,720	(60,512)	–	261,208	£0.0025	Ordinary	(h) (j)

Notes:
(a) Options have vested and are exercisable.
(b) The awards granted will have a performance period of three years starting from the grant date, being 8 May 2015.
(c) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2015.
(d) The awards granted will have a performance period of three years starting from the grant date, being 15 April 2016.
(e) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2016.
(f) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2016.
(g) The awards granted will have a performance period of three years starting from the grant date, being 5 April 2016.
(h) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2017.
(i) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2017.
(j) The awards 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.

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

Notes forming part of the financial statements
For the year ended 31 December 2017 continued

25. Share based payment expense continued

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 £4.21, and weighted average exercise price of £0.027.

2016 Date of grant	Start of year	Granted	Forfeited	Modified	Exercised	End of year	Exercise price	Class of share	Notes
6 June 2014	259,168	–	–	–	(199,168)	60,000	£0.2500	Ordinary	(a)
2 September 2014	1,155,912	–	–	–	–	1,155,912	£0.0025	Ordinary	(b) (j)
6 October 2014	219,497	–	–	–	(219,497)	–	£0.0025	Ordinary	(a)
6 October 2014	329,244	–	–	–	(329,244)	–	£0.0025	Ordinary	(a)
6 October 2014	545,413	–	–	–	(545,129)	284	£0.0025	Ordinary	(a)
6 October 2014	272,707	–	–	–	–	272,707	£0.0025	Ordinary	(c)
6 October 2014	67,892	–	–	–	–	67,892	£0.0025	Ordinary	(b) (j)
8 May 2015	370,349	–	–	–	–	370,349	£2.7000	Ordinary	(d)
8 June 2015	455,218	–	–	–	–	455,218	£0.0025	Ordinary	(e) (j)
31 October 2015	207,856	–	–	–	(207,856)	–	£0.0025	Ordinary	(f)
15 April 2016	–	65,382	–	–	–	65,382	£4.3575	Ordinary	(g)
17 May 2016	–	352,769	–	–	–	352,769	£0.0025	Ordinary	(h) (j)
19 May 2016	–	641,053	–	–	–	641,053	£3.4440	Ordinary	(i)

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.
(c) Awards vest on 1 February 2017; there are no vesting conditions.
(d) The awards granted will have a performance period of three years starting from the grant date, being 8 May 2015.
(e) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2015.
(f) 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.
(g) The awards granted will have a performance period of three years starting from the grant date, being 15 April 2016.
(h) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2016.
(i) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2016.
(j) 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.

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

The share options outstanding at 31 December 2017 represented 3% of the issued share capital as at that date (2016: 4%) and would generate additional funds of £5.4m (2016: £3.5m) if fully exercised. The weighted average remaining life of the share options was 17 months (2016: 15 months), with a weighted average remaining exercise price of £2.26 (2016: £1.03).

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:

	2017 £m	2016 £m
Share options issued to key management	1.0	2.0
Share options issued to other employees	1.0	0.9
Total share based payment expense	**2.0**	**2.9**

Included within the total share based payment expense of £2.0m (2016: £2.9m) is national insurance of £0.5m (2016: £0.7m).

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

	2017	2016
Share price at grant date (pence)	500 – 575	436 – 450
Exercise price (pence)	0.25 – 493	0.25 – 436
Expected volatility	27%	27%
Risk free rate	0.182 – 0.263%	0.54 – 0.58%
Expected dividend yield	1.4%	2.2%

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 2016 and 2017.

26. Capital commitments

As at 31 December 2017, amounts contracted for but not provided in the financial statements amounted to £0.1m for the Group (2016: £1.7m). This amount is for the purchase of property, plant and equipment.

27. Related party transactions

Details of key management's remuneration are given in note 7.

All loans issued to key management were settled in the year ended 31 December 2016.

Dividends of £0.3m (2016: £0.4m) 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 year.

28. Subsequent events

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

29. Ultimate controlling party

There is no ultimate controlling party.

Company balance sheet
As at 31 December 2017

	Note	**2017 £m**	2016* £m
Fixed assets			
Investments	3	**9.3**	7.8
		9.3	7.8
Current assets			
Debtors	4	**45.1**	31.0
Cash at bank and in hand		**6.1**	6.0
		51.2	37.0
Creditors: amounts falling due within one year	5	**(13.1)**	(4.8)
Net current assets		**38.1**	32.2
Total assets less current liabilities		**47.4**	40.0
Capital and reserves			
Called-up equity share capital	6	**0.2**	0.2
Share premium account		**3.8**	3.7
Share option reserve		**9.1**	7.6
Profit and loss account		**34.3**	28.5
Shareholders' funds		**47.4**	40.0

*Restated share option accounting. See note 1.

As a consolidated statement of comprehensive income 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 £13.1m (2016: £10.6m).

The financial statements of Gamma Communications plc (registered number 08943488) on pages 100 to 101 were approved and authorised for issue by the Board of Directors on 21 March 2018 and were signed on its behalf by:

Andrew Belshaw
Chief Financial Officer

The notes on pages 102 to 103 form part of these financial statements.

Company statement of changes in equity
For the year ended 31 December 2017

	Share capital £m	Share premium reserve £m	Share option reserve £m	Profit and loss account £m	Total equity £m
1 January 2016	0.2	3.7	3.6	24.2	31.7
Effect of correction to treatment of exercised share options*	–	–	1.8	–	1.8
Restated	0.2	3.7	5.4	24.2	33.5
Dividends paid	–	–	–	(6.3)	(6.3)
Share based payments	–	–	2.2	–	2.2
Transaction with owners	–	–	2.2	(6.3)	(4.1)
Total comprehensive income	–	–	–	10.6	10.6
31 December 2016	0.2	3.7	7.6	28.5	40.0
1 January 2017	0.2	3.7	7.6	28.5	40.0
Dividends paid	–	–	–	(7.3)	(7.3)
Share based payments	–	–	1.5	–	1.5
Exercise of share options	–	0.1	–	–	0.1
Transaction with owners	–	0.1	1.5	(7.3)	(5.7)
Total comprehensive income	–	–	–	13.1	13.1
31 December 2017	**0.2**	**3.8**	**9.1**	**34.3**	**47.4**

*Restated share option accounting. See note 1.

Notes forming part of the Company financial statements

For the year ended 31 December 2017

1. Accounting policies

Basis of preparation

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 financial statements are prepared on the going concern basis. In assessing whether the going concern assumption is appropriate, the Directors have taken into account all relevant available information about the future trading including profit and cash forecasts and available facilities and funding. 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 £13.1m (2016: £10.6m).

Restatement

The financial statements include a restatement to correct the accounting treatment of exercised share options. The correction resulted in an increase to the 2016 opening and closing share option reserve of £1.8m and £4.0m respectively. There was a corresponding increase to the value of the investment in subsidiaries. The restatement only affects the Company financial statements. There is no effect on the consolidated financial statements.

Disclosure exemptions adopted

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

(a) certain disclosures regarding the Company's capital;
(b) a statement of cash flows;
(c) the effect of future accounting standards not yet adopted;
(d) the disclosure of the remuneration of key management personnel;
(e) disclosure of related party transactions with other wholly owned members of the Group headed by Gamma Communications plc; and
(f) disclosures in respect of financial instruments.

Investments

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

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

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

Financial assets

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

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They 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 Company 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.

The Company's loans and receivables comprise amounts due from Group undertakings, other receivables and cash and cash equivalents in the statement of financial position. Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within loans and borrowings in current liabilities on the statement of financial position.

Financial liabilities and equity

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

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

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

2. Critical accounting judgements and estimates

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

3. Investments

	2017 £m	2016* £m
At 1 January 2017	7.8	5.6
Capital contributions arising from share based payments	1.5	2.2
At 31 December 2017	**9.3**	7.8

*Restated share option accounting. See Note 1.

At 31 December 2017 the Company held share capital of the following subsidiaries, all of which are registered in England and Wales with the exception of Gamma Development KfT which is registered in Hungary.

Entity	Nature of business	Proportion held	Note
Gamma Telecom Holdings Limited	Intermediate holding company	100%	(c)
Gamma Telecom Limited	Telephony services	100%	(a) (c)
Gamma Business Communications Limited	Telephony services	100%	(a) (c)
Gamma Network Solutions Limited	Telephony services	100%	(b) (c)
Gamma Development KfT (previously Peach Amber KfT)	Software services	100%	(a) (d)
Uniworld Bureau Services Limited	Dormant	100%	(b) (c)

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.
(c) Registered Office: 5 Fleet Place, London, EC4M 7RD, England.
(d) Registered Office: 1054 Budapest, Széchenyi Rakpart 8, Hungary.

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

Having been dormant for over 6 years and having obtained HMRC clearance, the following subsidiaries were struck off in the year:

- Go Worldwide Communications Limited
- Gamma Metronet Limited
- Blue Spot Technologies Limited

4. Debtors

	2017 £m	2016 £m
Amounts due from Group undertakings	45.0	30.9
Other debtors	0.1	0.1
	45.1	31.0

Amounts due from Group undertakings are payable on demand.

5. Creditors

	2017 £m	2016 £m
Amounts due to Group undertakings	13.0	4.6
Accruals	0.1	–
Other creditors	–	0.2
	13.1	4.8

6. Share capital
Details of the share capital and movement during the year are given in note 21 to the consolidated financial statements.

7. Dividends paid
Details of the dividends paid during the year are given in note 10 to the consolidated financial statements.

8. Contingent liabilities
The Company had no contingent liabilities at 31 December 2016 or 31 December 2017.

9. Capital commitments
The Company had no capital commitments at 31 December 2016 or 31 December 2017.

10. Related party transactions
The Company has taken advantage of the exemption available within FRS 101 Reduced Disclosure Framework not to disclose transactions with other members of the Group headed by the Company. See note 27 for details of the disclosed related party transactions.

Supplementary information

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