20 March 2015

Gamma Communications plc
Audited Results for year ended 31 December 2014

Strong maiden full year results

Gamma Communications plc ("Gamma"), a leading, technology based provider of communications services to the UK business market, is pleased to announce its audited results for the year ended 31 December 2014 following its successful IPO on the Alternative Investment Market of the London Stock Exchange completed on 10 October 2014.

Financial highlights

Year ended 31 December			
	2014	**2013**	**Change (%)**
Revenue	£173.2m	£148.7m	16.5%
Gross profit	£67.6m	£53.9m	25.4%
Gross Profit Margin	*39.0%*	*36.2%*	*+2.8%*
EBITDA	£17.9m	£16.3m	10%
Adj EBITDA*	£23.1m	£17.2m	34.3%
PBT	£11.5m	£11.5m	0%
Adj PBT *	£16.7m	£12.4m	34.7%
EPS	10.0p	9.9p	1%
Adj EPS*	15.0p	10.8p	38.9%
Dividend per share	3.95p (final)	N/A	N/A
Net operating cash inflow before tax**	£19.4m	£16.4m	18.3%

* before share based payments and exceptional items (and associated tax effects)
** being "Net Cash flows from operating activities" plus "Taxes paid"

Operational highlights

- Good growth in our Channel Partner network, which grew from 627 to 725 Channel Partners
- Positive trend of Channel Partners taking more services continues – 72% of indirect gross profit now comes from Channel Partners taking four or more key services (up from 62% in 2013)
- The number of SIP Trunks increased by 45% from 161,000 to 234,000
- The number of users of Cloud PBX increased by 86% from 43,000 to 80,000
- Good growth on other services; Traditional calls and lines held steady contributing gross margin of £18.8m (£17.9m in 2013)
- Strong revenue and margin growth in direct sales, with wins including BDO, London Stock Exchange, Hearst Magazines, Moore Stephens, Oxford, Bristol, and Ulster Universities. Margin from the direct business has increased by 34% from £11.3m in 2013 to £15.2m
- Strong product pipeline with multi-site data network service due to be launched in June
- Opportunistic but strategic capital investment in fixed/mobile convergence

Bob Falconer, Chief Executive Officer, commented

2014 has been an excellent year for Gamma with a successful AIM listing in October, strong organic growth and a leading position in expanding markets. We have a wide shareholder base, a highly experienced Board and a strength in depth in management. I'd like to welcome our new shareholders and thank the founding shareholders of the business who remain significant investors for their continued support for over ten years.

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Notes to Editors

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

Gamma also provides services such as business-grade broadband, ethernet and mobile services and, as a consequence of its history, has a substantial voice service capability. These services enable Gamma to provide a comprehensive range of communications services.

Gamma has enjoyed strong organic revenue and EBITDA growth driven by high percentage of repeat revenues. The business had 559 employees at the end of 2014, of which 20% are employed in product development. It operates across six main locations – headquartered in Newbury - with offices in Fareham, Manchester, Glasgow, London & Budapest.

A full set of the audited statutory accounts will be available at www.gamma.co.uk/investors/company-reports

Chairman's Statement

I am very pleased to present the audited results for the year ended 31 December 2014, my first report for Gamma since its successful IPO and listing on the Alternative Investment Market (AIM) on 10th October 2014. To have the opportunity to be Chairman of a growing and dynamic company such as Gamma, operating in the vibrant communications market, and working with a truly professional Board and management team is very exciting and one to which I am greatly looking forward.

Gamma has had exceptional support from its founder shareholders for many years; they nurtured its growth and provided an environment in which it could develop into the successful business it is today. We are pleased that they remain significant shareholders as the Company moves to its next phase of growth and development as an AIM listed company. The AIM listing provided Gamma with the opportunity to enhance its corporate visibility, the recognition of the business in its markets, broaden its shareholder base and give it access to new sources of capital for future growth and development.

Overview of Results

Overall Group revenue for the year ended 31 December 2014 increased by £24.5m to £173.2m (2013: £148.7m) an increase of 16% compared to the previous year. Of this increase £17.9m came through channel partners which grew revenue to £136.9m (2013: £ 119.0m) and £6.6m came from direct business which saw revenue increase to £36.3m (2013: £29.7m).

Gross profit for the year ended 31 December 2014 amounted to £67.6m, an increase of 25% compared to the previous year (2013: £53.9m), whilst the gross profit percentage increased to 39.0% (2013: 36.2%). EBITDA, before exceptional costs and share based payments, for the Group as a whole increased to £23.1m (2013: £17.2m), an increase of 34% compared to the previous year. Adjusted earnings per share for the year ended 31 December 2014 were 15.0p (2013: 10.8p); unadjusted earnings per share were 10.0p (2013: 9.9p).

Net operating cash inflow for the year was £16.4m compared to £14.0m in 2013. This represents a cash to EBITDA ratio of 92% compared to 86% for 2013. Despite the increased capital expenditure and other exceptional items, net cash as at 31 December 2014 amounted to £13.4m, which is only marginally down from £14.6m as at 31 December 2013.

Dividend

As stated at the time of the IPO, Gamma is committed to a progressive dividend policy. I am therefore pleased that the Board is proposing a final dividend, in respect of the year ended 31 December 2014, of 3.95 pence per share which will, subject to the necessary shareholder approval at the forthcoming Annual General Meeting, be payable to shareholders on the register at 5 June 2015.

Corporate Development

Gamma's focus in 2014 was the successful IPO of the business, which in itself will enhance the corporate development opportunities available to the Company. It does, however, remain Gamma's intention to look for opportunities to invest in new business areas and make appropriate earnings enhancing acquisitions which support its strategic objectives. In 2014 Gamma came to an agreement with the vendors of Varidion Limited (acquired in 2012) to settle the deferred element of the consideration early by paying £2.6m in cash. This was considered appropriate as it has enabled the integration and development of the business and its management to be completed more quickly.

In December 2014 Gamma purchased control equipment that provides the core of a mobile network. When brought into active use, currently anticipated to be 2016, the Group will have much greater control and flexibility over its mobile services and be much better positioned for the widely anticipated market for converged services, with a specific focus on the business market.

Board and Employees

As part of the preparation for IPO, a number of changes to the Board took place during 2014. Firstly I should like to thank Owen Jonathan, our previous Chairman, who retired from the Board in May 2014, and Ean Kuok and Steve Burton, who resigned from the Board just prior to the IPO, for their tremendous input and for their support and encouragement to the executive management team. Secondly, I should like to welcome the new members of the Board; Alan Gibbins and Martin Lea, who both joined in June 2014 as independent Non-Executive Directors. They have taken on the roles of Chairman of the Audit Committee and of the Remuneration Committee respectively.

I should also like to welcome Andrew Belshaw who joined the Board in October 2014. I believe the Board as presently constituted has a wealth of experience and the necessary understanding to help take Gamma through its next stage of development and beyond.

The senior executives, managers and employees are the bedrock of Gamma and they have significantly contributed to the creation of the successful company we have today. I should like to thank them for their consistent hard work and continued support, especially during the IPO process when, despite the significant increase in workload of the executive Board members and the senior executive team, the business continued to grow and develop successfully, providing excellent support to our customers and partners.

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, we believe, to a successful and strong business.

Outlook

The Board looks forward to 2015 with great enthusiasm and believes that Gamma will continue to benefit from the investment it has made and continues to make in its direct and indirect business channels. Gamma's stated vision is to continue to grow both its market share and profitability by developing new innovative communications products for business and the public sector. We firmly believe that Gamma has the experience, resources and capabilities to continue to achieve its objectives.

Richard Last
Chairman and Independent Non-Executive Director

Chief Executive Review

Introduction

2014 saw a strong financial and operational performance from Gamma, as well as a successful listing on the Alternative Investment Market (AIM).

Listing on AIM was an important step forward in the development of Gamma. Being a listed business raises the corporate profile of Gamma and PLC status helps increase access to larger enterprise and public sector markets, both important growth opportunities for us.

It was particularly pleasing to guide the business on a smooth transition from private to public ownership while delivering such a strong trading performance. The breadth and depth of the broader Gamma management team ensured that trading remained undisturbed, with the business having a record year.

The outlook for Gamma remains positive, and the Board is looking forward to continuing the strong momentum in the business, delivering sustainable long term value for its stakeholders.

Services and market overview

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

Major trends impacting growth in our market are the shift of hardware to the Cloud, the increasing availability of optical fibre access for businesses, the growth in smartphones, and the growing convergence of communications and IT.

SIP Trunking: Business Grade VoIP

SIP Trunking is increasingly being used by business customers to replace traditional ISDN lines. At the end of 2014 there were estimated to be approximately 1.5 million SIP Trunking channels deployed in the UK, of which Gamma has a 16% share and is the market leader. The broader directly relevant market, however, is the 3.2 million business ISDN channels for which SIP Trunking offers a modern, more cost-effective replacement.

With the consistent investment in automated processes that we have made over several years, the business has readily coped with order volumes at times exceeding 10,000 channels per month. During 2014 we introduced a number of service enhancements, including additional resilient options, and new pricing initiatives that bundle in the call minutes.

Our SIP Trunking product grew by 45% from 161,000 to 234,000 channels during 2014.

Cloud PBX: A phone system in the cloud

The total UK business PBX market (including on-premise and so-called cloud-based, or hosted, services) is approximately 17.6 million connected users, of which approximately 1.65 million are connected to hosted systems. As businesses look to put more services in the cloud, the traditional site based PBX is being seriously challenged, with hosted volumes growing at approximately 22% per annum. Within this market, Gamma's Horizon product grew by 86% in 2014 and now has over 80,000 connected users with over 250 channel partners accredited to sell the product.

With Horizon, the business has taken the significant step of bundling calls, access connectivity and, where used, a telephone handset into the service package thereby creating both a one-stop-shop for service and certainty on costs for the customer.

Inbound

The market for Inbound Call Control Services ranges from large enterprises and call centres to small organisations for whom professionally managing inbound calls (such as for sales and customer services) is important as it enables them to queue, record and route calls effectively. Gamma’s Inbound product is a cloud-based service, accessed by customers from a portal, with services provided and charged for depending on the functions used. We continue to see steady growth in this product.

Ethernet

Ethernet is increasingly the dominant data service for connecting to, or between, the sites of larger customers. Gamma is a relatively late entrant to this market and views ethernet as both a stand-alone service and the underpinning connectivity for its more strategic services, such as SIP Trunking.

Broadband

Gamma only offers a high quality, business grade broadband service with variants suitable for carrying voice services. Gamma’s volumes over 2014 grew above the market rate from 20,000 to 29,000 connections.

Mobile Services

Gamma acts as a virtual operator, either under its own brand or that of its channel partner. In 2014 Gamma’s market share of the UK business market stood at just 0.6% leaving plenty of opportunity for further growth.

Traditional services (Wholesale calls and lines)

Margins on the Traditional business increased slightly over the year, ahead of the general reduction in the market.

Group corporate growth strategy

Gamma’s objective is to continue to grow both its market share and profitability by developing new innovative communications products for organisations. This strategy will be principally pursued organically, but Gamma is also well placed to consider strategically relevant acquisitions as the opportunities arise. It is the intention to deliver this strategy through five pillars.

1. Exploiting existing services
    - Maintaining focus on the high-growth market opportunities for services such as SIP Trunking and Cloud PBX
    - Continuing to minimise the erosion of Traditional services in spite of anticipated market size reductions by offering customers extra features and a migration path to more strategic services
    - Increasing the flexibility of approach to increase share of customer spend over time as multiple services are increasingly procured from the same supplier as individual incumbent contracts expire
2. Infrastructure investment
    - Completing the infrastructure investment programme currently underway in order to position better the business to supply more converged services and multi-site data services
    - Reducing cost by expanding the data network deeper into the regulated BT Openreach exchanges.
    - Seeking commercial opportunities to expand and deepen technical capability in mobile services
3. Introducing new services
    - Launching an MPLS data service in June 2015 to address the needs of larger multi-site organisations supported by a single set of IT systems and Gamma’s Portal
    - Developing more converged services, and commercial bundles of services, to meet the perceived demand for such services in the UK business market

4. Developing the market

    - Growing the number of channel partners Gamma works with and deepening the relationship with existing channel partners by providing attractive services and support
    - Growing business in the public sector and gaining access to further public sector framework agreements
    - Growing Gamma's brand awareness in the UK business market in support of the above

5. Execution

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

Channel Partners

With almost 80% of Gamma's revenues coming indirectly from our channel partners, we were very pleased to see the number of partners that actively trade with us grow from 627 to 725 during the year. The clear trend amongst Channel Partners is to provide a much broader range of business IT and communications services to their end business customers. This has given us the opportunity to work with a much wider range of organisations, from IT specialists to Systems Integrators. We have been very pleased to help many of our partners including larger organisations such as Alternative Networks, Capita IT, HighNet and Focus to expand their portfolios and grow their capability in the UK business market.

Direct sales

The direct arm of Gamma's business grew rapidly, particularly in the larger enterprise sector. This included some significant wins, such as Hearst Magazines, for whom the business provided all the data, voice and mobile services. We were also awarded major multiyear infrastructure contracts from BDO LLP and Moore Stephens LLP.

In the public sector, where we see considerable scope for growth, the business has been particularly successful in the education sector adding twenty-five academic institutions that include Oxford and Bristol Universities. We also became approved suppliers of fixed telephony services to public sector organisations, being awarded one of ten positions in the Crown Commercial Service's RM1035 framework. Gamma also mirrored this in Scotland, being one of eight approved suppliers of telecommunications services via the Scottish Procurement Framework.

Investments in product development

Over 2014 we continued our investment in the core network. This latest generation infrastructure will enable more converged voice, data and software services, to support the growth of the business and reduce third party costs.

The business also continues to invest heavily in product development, with around 20% of the staff resources allocated to this function. With a broad product portfolio, much of the focus has been on enhancing the current product set. A key focus in the development of the Horizon Cloud PBX was the addition of soft clients for PCs and smartphones, and the ability to interwork the Horizon product with the customer's internal systems – enhancing the service from a replacement telephony service to a more unified communications solution.

We have also launched a voice business continuity product enabling a business to immediately redirect all its incoming calls to a pre-prepared plan in the event of difficulty.

In December 2014 we made an opportunistic, but strategic, acquisition of control equipment that comprise the 'core' of a mobile network, ie the equipment that controls the voice and data services used by a mobile subscriber. We currently anticipate bringing those assets into active service in 2016. This will give Gamma both a reduced cost of sale and the ability to develop more converged fixed and mobile services for the business market.

Corporate development

We were particularly pleased to finalise the consideration paid on our 2012 acquisition of Varidion Limited at £3.6m by paying £2.6m in the year. This business unit, which provides more bespoke services to larger organisations, has performed exceptionally well since becoming a part of the Gamma Group. In 2014 it had revenues of £7.8m and EBITDA of £1.4m. It is now being integrated deeper into the organisation in anticipation of strong growth in 2015 and beyond.

Outlook

Looking forward, we are focused on continuing to successfully execute our core strategy which is to remain a leader in the high growth sectors of the business communications market with the channel as our primary route to market. This will be delivered by maintaining our product and services leadership, continuing to deliver industry leading customer service and having the best and most motivated staff we can. We expect the volumes to continue to grow in strategic products, more than off-setting the managed decline in traditional services. We will continue to improve the revenue mix, with our profits continuing to migrate from traditional to strategic services. The Board are very confident about the outlook for Gamma both through 2015 and beyond.

Bob Falconer
Chief Executive Officer

Financial review

Revenue

Indirect business

Revenue from channel partners grew from £119.0m to £136.9m and gross profit grew from £42.6m to £52.4m – an increase of just under £10m of gross profit year on year which is the highest annual increase in gross profit in the history of the Group.

Unlike many of Gamma's peers, the performance of the traditional business bucked the industry trend of decline and showed a small increase in gross profit despite revenue declining as a consequence of reductions in the cost base which were reflected in lower pricing. Gamma continues to attract traditional business from channel partners who want access to our new products such as Cloud PBX and SIP Trunking. The number of channel partners placing business with Gamma increased from 627 at the start of the year to 725 by the end of the year. These customers come to Gamma for our newer products but bring their traditional business with them.

The percentage of gross profit coming from channel partners who buy four or more new products from Gamma grew from 62% to 72%. Both the increase in channel partners and the fact that channel partners sell more products meant that the revenue from new product sales increased from £51.2m to £72.4m and profit grew from £24.7m to £33.6m. The main contributor to this growth was SIP Trunking. The percentage margin on sales of new product to channel partners fell slightly due to a changing mix from strategic products to enabling products as well as aggressive pricing on Cloud PBX as Gamma seeks to establish a significant market share in this important area for future growth.

Direct Business

The direct business has also had a year of unprecedented growth. Revenue increased from £29.7m in 2013 to £36.3m and gross profit from £11.3m to £15.2m. As for the indirect business the growth was attributable to sales of new product and gross profit on these products grew from £5.7m to £10.6m. This includes multi-product solution sales to larger enterprises. This is particularly pleasing because much of the new business is won on multi-year contracts.

Operating Expenses

Operating expenses (before exceptional items and share based payments) grew from £41.5m to £50.9m. This was due to increased headcount required to support the growth in the number of customers switching to new products for the first time. We also continue to increase our investment in product development and whilst internal spend of £0.9m was capitalised in the year, we spent more on the research and initial development of new product offerings and variants on our existing product set as we continue to build for the future. The Group continues to invest in its systems to ensure that as sales increase, the number of customer service personnel required does not increase at the same rate.

Adjusted EBITDA

The combination of increasing sales of new products and operational improvements made means that adjusted EBITDA grew from £17.2m to £23.1m or by 34%.

Exceptional items and share based payments

There were a number of exceptional items which included the cost of the IPO (£1.2m) and a small charge for re-structuring (£0.2m). In addition there was an exceptional charge (£0.6m) relating to the variation in the fair value of the deferred consideration in respect of the acquisition of Varidion Limited in 2012. The original deferred payment plan extended as far as 2017 but the Board took the opportunity to settle this early. The Group has ultimately paid £3.6m for a business which had an EBITDA of £1.4m in 2014 which the Board believes represents excellent value.

Share based payment charges for the year were £3.2m and are expected to continue at this level for the next two years as options issued to the senior management team pre-IPO vest over a three year period.

Cash Flows

The cash balance at the end of the year was £13.4m which is down from £14.6m at the end of the previous year. Notwithstanding, trading cashflows were good and the cash conversion of EBITDA into net cash flow from operating activities was 92%.

Capital spend for the year was £12.1m which is an increase from £5.9m in the previous year and this is discussed below.

In addition to a higher than anticipated capital spend, there were a number of exceptional cashflows:

- £2.6m was paid as deferred consideration in relation to the acquisition of Varidion Limited in 2012
- As a result of the IPO process a loan was made to the Chief Executive which resulted in net cash outflows of £1.0m
- The former Chief Financial Officer settled some share options for a cash payment of £1.3m
- On IPO staff awards under a Shadow Share Option scheme crystallised which totalled £1.0m

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

Capital Expenditure

Capital spend was higher than expected. The Board is constantly seeking opportunities which meet the Group's strategic goals and one such opportunity was realised at short notice in the final quarter of 2014 when the Group was able to acquire the assets for a mobile platform.

The Group spent £12.1m on capital which was split as follows:

- £8.8m was on network assets which is higher than the historical run rate due to investment in the network and the mobile platform referred to above
- £0.9m was the capitalisation of development costs incurred during the year
- £1.0m was on customer premises equipment ("CPE"); this is "success based" expenditure and is expected to increase in line with sales growth
- £1.4m of other assets

Taxation

The effective tax rate for the year was 18.3% (2013: 19.1%). The low tax rate is attributable to the fact that the Group enjoys significant research and development tax credits. However, for 2015 and onwards the Group will have moved into the large company regime which will result in a reduced level of benefit and therefore a higher effective rate.

Dividends

Gamma's share capital was admitted to AIM in October 2014 and was therefore publicly traded for the final quarter only. The Board has proposed a final dividend of 3.95p representing a pro-forma, post admission full year dividend of 5.93p per share. The final dividend is payable in late June to shareholders registered on 5 June 2015 and will have an ex-dividend date of 4 June 2015.

Andrew Belshaw
Finance Director

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	Notes	2014 £m	2013 £m
Revenue	1	**173.2**	148.7
Cost of sales		**(105.6)**	(94.8)
Gross profit		**67.6**	53.9
Operating expenses		**(56.1)**	(42.4)
Operating profit before share based payment, depreciation, amortisation and exceptional items		**23.1**	17.2
Share based payment expense		**(3.2)**	(0.9)
Exceptional items	2	**(2.0)**	–
Operating profit before depreciation and amortisation		**17.9**	16.3
Depreciation and amortisation		**(6.4)**	(4.8)
Profit from operations		**11.5**	11.5
Finance income		**–**	–
Profit before tax		**11.5**	11.5
Tax expense	3	**(2.1)**	(2.2)
Profit after tax		**9.4**	9.3
Total comprehensive income attributable to the owner of the parent		**9.4**	9.3
Earnings per share	4		
Basic per ordinary share (pence)		**10.6**	10.5
Diluted per ordinary share (pence)		**10.0**	9.9

Consolidated statement of financial position

At 31 December 2014

	Notes	2014 £m	2013 £m
Assets			
Non-current assets			
Property, plant and equipment	5	**18.9**	12.8
Intangible assets	6	**10.8**	11.2
Deferred tax asset		**2.3**	0.6
		32.0	24.6
Current assets			
Inventories		**1.1**	0.5
Trade and other receivables	7	**32.5**	26.4
Cash and cash equivalents		**13.4**	14.6
		47.0	41.5
Total assets		**79.0**	66.1
Liabilities			
Non-current liabilities			
Other payables		**–**	1.4
Provisions		**0.9**	1.0
Deferred tax liability		**0.2**	1.0
		1.1	3.4
Current liabilities			
Trade and other payables	8	**25.9**	24.7
Current tax liability		**0.8**	1.1
		26.7	25.8
Total liabilities		**27.8**	29.2
Issued capital and reserves attributable to owners of the parent			
Share capital		**0.2**	0.2
Share premium reserve		**3.2**	–
Merger reserve		**2.3**	2.3
Share option reserve		**2.4**	1.1
Retained earnings		**43.1**	33.3
Total equity		**51.2**	36.9
TOTAL EQUITY AND LIABILITIES		**79.0**	66.1

Consolidated statement of cash flows

For the year ended 31 December 2014

	Notes	2014 £m	2013 £m
Cash flows from operating activities			
Profit for the year before tax		**11.5**	11.5
Adjustments for:			
Depreciation of property, plant and equipment	5	**5.1**	3.7
Amortisation of intangible assets	6	**1.3**	1.1
Change in fair value of contingent consideration		**0.6**	–
Share based payment expense		**3.0**	0.4
		21.5	16.7
(Increase) in trade and other receivables		**(3.3)**	(3.9)
(Increase) in inventories		**(0.6)**	(0.2)
Increase in trade and other payables		**1.9**	3.7
(Decrease)/Increase in provisions and employee benefits		**(0.1)**	0.1
Taxes paid		**(3.0)**	(2.4)
Net cash flows from operating activities		**16.4**	14.0
Investing activities			
Purchases of property, plant and equipment	5	**(11.2)**	(5.1)
Expenditure on development costs	6	**(0.9)**	(0.8)
Payment of deferred consideration		**(2.6)**	–
Loans made to individuals to subscribe for shares		**(2.8)**	–
Net cash used in investing activities		**(17.5)**	(5.9)
Financing activities			
Share buybacks and cancellations		**(3.1)**	(0.7)
Share issues		**3.0**	–
Net cash used in financing activities		**(0.1)**	(0.7)
Net (decrease)/increase in cash and cash equivalents		**(1.2)**	7.4
Cash and cash equivalents at beginning of year		**14.6**	7.2
Cash and cash equivalents at end of year		**13.4**	14.6

Consolidated statement of changes in equity

For the year ended 31 December 2014

	Share capital £m	Share premium £m	Merger reserve £m	Share option reserve £m	Retained earnings £m	Total equity £m
1 January 2013	0.2	–	2.3	0.7	24.6	27.8
Share buy backs and cancellation	–	–	–	–	(0.6)	(0.6)
Issue of shares	–	–	–	0.4	–	0.4
Transaction with owners	–	–	–	0.4	(0.6)	(0.2)
Profit for the year	–	–	–	–	9.3	9.3
Total comprehensive income	–	–	–	–	9.3	9.3
31 December 2013	0.2	–	2.3	1.1	33.3	36.9
1 January 2014	0.2	–	2.3	1.1	33.3	36.9
Share option cancellations	–	–	–	(0.6)	(2.4)	(3.0)
Issue of shares	–	3.2	–	(1.1)	0.9	3.0
Deferred tax on share based payments	–	–	–	–	1.9	1.9
Recognition of share based payments	–	–	–	3.0	–	3.0
Transaction with owners	–	3.2	–	1.3	0.4	4.9
Profit for the year	–	–	–	–	9.4	9.4
Total comprehensive income	–	–	–	–	9.4	9.4
31 December 2014	**0.2**	**3.2**	**2.3**	**2.4**	**43.1**	**51.2**

Basis of preparation

Gamma Communications plc (the “Company”) is a company domiciled in England. The Company was incorporated on 17 March 2014 as Gamma Communications Limited and this is the first set of financial information prepared by the Company. The Company changed its name to Gamma Communications plc on 3 October 2014 when it became a public company.

The Group was formed on 12 May 2014 when Gamma Communications Limited acquired the entire share capital of Gamma Telecom Holdings Limited and its wholly owned subsidiaries through the issue of 20,590,196 ordinary shares and 1,699,983 B1 Shares.

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

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

The former group, Gamma Telecom Holding Limited, adopted IFRS for the first time in its Historical Financial Information for the 3 years ended 31 December 2013 as presented in the Placing and Admission to AIM document dated 7 October 2014. Gamma Communications plc is a continuation of Gamma Telecom Holding Limited as reflected in the merger accounting principle that has been adopted. Therefore the group is not deemed to be a first time adopter of IFRS in these financial statements.

1. Segment information

The Group has two main operating segments:

- Indirect – This division consists of the Gamma Business Unit. It sells the products developed by Gamma to channel partners and contributed 79% (2013: 80%) of the Group's external revenue.
- Direct – This division consists of Gamma Business Communications Limited and Gamma Network Solutions Limited. These companies sell Gamma's traditional and new products to end users in the private and public sectors together with an associated service wrap. They contributed 21% (2013: 20%) of the Group's external revenues.

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

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

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

2013	Indirect £m	Direct £m	Total £m
Traditional products	67.8	17.1	84.9
New products	51.2	12.6	63.8
Total revenue from external customers	**119.0**	**29.7**	**148.7**
Inter-segment revenue	*6.5*	–	*6.5*
Traditional products	17.9	5.6	23.5
New products	24.7	5.7	30.4
Total gross profit	**42.6**	**11.3**	**53.9**
Segment operating profit before share based payment, depreciation, amortisation and exceptional items	**13.6**	**3.6**	**17.2**
Share based payment expense	(0.9)	–	(0.9)
Segment EBITDA	**12.7**	**3.6**	**16.3**
Depreciation and amortisation	(4.2)	(0.6)	(4.8)
Segment profit	**8.5**	**3.0**	**11.5**
Interest income	–	–	–
Tax	(1.7)	(0.5)	(2.2)
Group profit after tax	**6.8**	**2.5**	**9.3**

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	5.5	0.4	5.9
Reportable segment assets	45.4	20.7	66.1
Reportable segment liabilities	16.3	12.9	29.2

2 .Exceptional items

	2014 £m	2013 £m
IPO Costs	**1.2**	-
Change in the fair value of contingent consideration relating to the purchase of Varidion Limited	**0.6**	-
Restructuring	**0.2**	-
	2.0	-

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

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

3 .Tax expense

	2014 £m	2013 £m
Current tax expense		
Current tax on profits for the year	**2.9**	2.9
Adjustment in respect of prior year	**(0.2)**	(0.5)
Total current tax	**2.7**	2.4
Deferred tax expense		
Origination and reversal of temporary differences	**(0.6)**	(0.2)
Total tax expense	**2.1**	2.2

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

	2014 £m	2013 £m
Profit before income taxes	**11.5**	11.5
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 21.5% (2013: 22.25%)	**2.5**	2.6
Expenses not deductible for tax purposes	**0.5**	0.4
Additional deduction for R&D expenditure	**(0.7)**	(0.3)
Adjustment in respect of prior year	**(0.2)**	(0.5)
Total tax expense	**2.1**	2.2

The Finance Act 2013 includes provision for the main rate of corporation tax to reduce to 20% from 1 April 2015.

4. Earnings per share

The calculation of basic earnings per Ordinary Share is based on a profit after tax of £9.4 million (2013: profit of £9.3 million) and 88,349,480 (2013: 88,326,746) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the period (adjusted for the fact that there was a share split during the period). Because the Group was formed by a share for share exchange, for the purposes of calculating earnings per share, it has been assumed that the number of shares at incorporation was the number of shares between 1 January 2013 and incorporation for the purposes of calculating a weighted average.

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. For 2014 the diluted Ordinary Shares were based on 93,601,600 Ordinary Shares that included 5,252,120 potential Ordinary Shares.

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

	Total 2014 £m	**Total 2013 £m**
Profit for the year	**9.4**	9.3
Exceptional costs	**2.0**	–
Share based payment costs	**3.2**	0.9
Less tax benefit associated with share based payment costs and one-off costs	**(0.6)**	(0.1)
Adjusted profit after tax for the year	**14.0**	10.1

	Total 2014 No.	**Total 2013 No.**
Weighted average number of Ordinary Shares for basic earnings per share	**88,349,480**	88,326,746
Effect of dilution resulting from share options	**5,252,120**	5,274,854
Weighted average number of Ordinary Shares adjusted for the effect of dilution	**93,601,600**	93,601,600

	2014	**2013**
Adjusted earnings per Ordinary Share – basic (pence)	**15.9**	11.4
Adjusted earnings per Ordinary Share – diluted (pence)	**15.0**	10.8

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.

5. Property, plant and equipment

	Network assets £m	Customer Premises equipment £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost					
At 1 January 2013	30.3	0.2	9.9	1.1	41.5
Additions	2.7	0.7	1.6	–	5.0
At 31 December 2013	33.0	0.9	11.5	1.1	46.5
Depreciation					
At 1 January 2013	21.6	–	7.5	0.9	30.0
Charge for the year	2.2	0.2	1.2	0.1	3.7
At 31 December 2013	23.8	0.2	8.7	1.0	33.7
Net book value					
At 1 January 2013	8.7	0.2	2.4	0.2	11.5
At 31 December 2013	9.2	0.7	2.8	0.1	12.8
Cost					
At 1 January 2014	33.0	0.9	11.5	1.1	46.5
Additions	8.8	1.0	1.0	0.4	11.2
At 31 December 2014	**41.8**	**1.9**	**12.5**	**1.5**	**57.7**
Depreciation					
At 1 January 2014	23.8	0.2	8.7	1.0	33.7
Charge for the year	3.2	0.6	1.3	–	5.1
At 31 December 2014	**27.0**	**0.8**	**10.0**	**1.0**	**38.8**
Net book value					
At 1 January 2014	9.2	0.7	2.8	0.1	12.8
At 31 December 2014	**14.8**	**1.1**	**2.5**	**0.5**	**18.9**

Included within network assets are assets in the course of construction with a value of £4.0m (2013: £Nil) for which no depreciation has been charged. Depreciation will commence when the asset enters operational use.

There was no property, plant or equipment held under finance leases at the end of the period (2013: £Nil). There was no property, plant or equipment held as security at the end of the period (2013: £Nil).

6. Intangible assets

	Goodwill on Consolidation £m	Development costs £m	Customer Contracts £m	Total £m
Cost				
At 1 January 2013	12.5	2.6	2.1	17.2
Additions	–	0.8	–	0.8
At 31 December 2013	12.5	3.4	2.1	18.0
Amortisation				
At 1 January 2013	4.5	0.8	0.4	5.7
Charge for the year	–	0.7	0.4	1.1
At 31 December 2013	4.5	1.5	0.8	6.8
Carrying value				
At 1 January 2013	8.0	1.8	1.7	11.5
At 31 December 2013	8.0	1.9	1.3	11.2

Cost				
At 1 January 2014	12.5	3.4	2.1	18.0
Additions	–	0.9	–	0.9
At 31 December 2014	**12.5**	**4.3**	**2.1**	**18.9**
Amortisation				
At 1 January 2014	4.5	1.5	0.8	6.8
Charge for the year	–	0.9	0.4	1.3
At 31 December 2014	**4.5**	**2.4**	**1.2**	**8.1**
Carrying value				
At 1 January 2014	8.0	1.9	1.3	11.2
At 31 December 2014	**8.0**	**1.9**	**0.9**	**10.8**

Research and development costs expensed in the year totalled £4.4m (2013: £3.8m).

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

- Customer contracts – five years
- Development costs – various but no more than four years
- Goodwill on consolidation – indefinite (subject to impairment)

7.Trade and other receivables

	2014 £m	2013 £m
Trade receivables	**17.9**	15.9
Less: provision for impairment of trade receivables	**(1.2)**	(0.9)
Trade receivables – net	**16.7**	15.0
Accrued income	**7.6**	7.3
Prepayments	**4.6**	3.2
Other receivables	**3.6**	0.9
Total trade and other receivables	**32.5**	**26.4**

8.Trade and other payables

	2014 £m	2013 £m
Current		
Trade payables	**3.3**	6.3
Other payables	**0.9**	0.8
Accruals	**17.3**	13.7
Contingent consideration	**0.1**	0.7
	21.6	21.5
Tax and social security	**2.6**	1.4
Deferred income	**1.7**	1.8
Total trade and other payables	**25.9**	**24.7**

Publication of non-statutory accounts

The above does not constitute statutory accounts within the meaning of the Companies Act 2006. It is an extract from the full accounts for the year ended 31 December 2014 on which the auditor has expressed an unqualified opinion and does not include any statement under section 498 of the Companies Act 2006. The accounts will be posted to shareholders on or before 4 June 2015 and subsequently filed at Companies House.

A full set of the audited statutory accounts will be available at www.gamma.co.uk/investors/company-reports