22 March 2016

Gamma Communications plc
Audited Results for year ended 31 December 2015

Strong 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 2015.

Financial highlights

	Years ended 31 December		
	2015	**2014**	**Change (%)**
Revenue	£191.8m	£173.2m	10.7%
Gross profit	£82.3m	£67.6m	21.7%
Gross margin	*42.9%*	*39.0%*	*+3.9%*
EBITDA	£29.9m	£17.9m	67.0%
Adj EBITDA*	£28.3m	£23.1m	22.5%
PBT	£22.6m	£11.5m	96.5%
Adj PBT *	£21.0m	£16.7m	25.7%
EPS	19.6p	10.0p	96.0%
Adj EPS*	17.9p	15.0p	19.3%
Dividend per share	6.60p	3.95p (final); 5.93p (pro-forma)	11.3%
Net operating cash inflow before tax**	£25.3m	£19.4m	30.4%
Net operating cash inflow before tax** / Adj EBITDA*	89.4%	84.0%	*+5.4%*

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

Operational highlights

- The number of installed SIP Trunks increased from 234,000 to 360,000 (54%)
- The number of Cloud PBX users increased from 80,000 to 142,000 (78%)
- Gross profit from indirect business increased from £52.4m to £64.1m (22.3%) driven by growth in SIP Trunking and Cloud PBX
  - Modest gross profit decline of 1% in traditional calls and lines; ahead of the market trend
  - The number of Channel Partners grew from 725 to 834 (15%)
- Strong growth in direct business, gross profit up from £15.2m to £18.2m (19.7%)
  - Key wins include Taylor Wimpey, Moneysupermarket, Metrobank and The Law Society
- Good progress in the public sector, key wins include Peabody Housing Trust and a number of NHS Trusts
- Continue to invest in product development
- New mobile service remains on target for launch in June 2016

Bob Falconer, Chief Executive Officer, commented

"We are pleased with the progress we have made in 2015. Our current strategic products of SIP and Cloud PBX have continued to drive growth. A growing reputation in the enterprise and public sector markets has helped us win sizeable orders, such as HMRC, via a channel partner and Taylor Wimpey and Peabody Housing through our own direct sales teams. Excellent progress has also been made with our pipeline of new products; our multi-site data network was launched on time at the end of June 2015, our new mobile service is scheduled for full launch in June 2016, whilst at the same time significant value adding enhancements have been made to our strategic products. We are also investing in reducing the cost of our access network by extending our own network capability deeper into local areas, with the first, reduced cost, access sites in London coming on line in May 2016."

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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 and data 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 a high percentage of repeat revenues. The business had 670 employees at 31 December 2015. It operates across six main locations – headquartered in Newbury - with offices in Port Solent, Manchester, Glasgow, London and Budapest.

A full set of the audited statutory accounts will be available at www.gamma.co.uk/investors/financial-results-and-shareholder-communications

Chairman's Statement

Introduction

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

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

Overview of Results

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

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

The net operating cash inflow (pre-tax and non-recurring income from the ladder pricing settlement) for the year was £25.3m compared to £19.4m in 2014. This represents a cash to adjusted EBITDA conversion ratio in respect of 2015 of 89.4% compared to 84.0% for 2014. Net cash as at 31 December 2015 amounted to £24.8m, significantly up from £13.4m as at 31 December 2014.

Dividend

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

Exceptional Gain

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

Business Development

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

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

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

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

Board and Employees

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

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

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

Outlook

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

Richard Last
Chairman and Independent Non-Executive Director

Chief Executive Review

Introduction

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

Overall, revenue grew from £173.2m in 2014 to £191.8m (+11.1%) whilst gross profit improved from £67.6m to £82.3m (+21.7%). Adjusted EBITDA grew by 22.5% from £23.1m to £28.3m, while adjusted profit before tax increased to £21.0m, up 25.7% from £16.7m in 2014.

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

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

Indirect sales

With our channel route to market showing growth in revenues of £15.1m to £152.0m in 2015 (2014 - £136.9m) and profit after tax of £13.8m in 2015 (2014: £6.1 m), we have successfully met our three key objectives in this market of:

- successfully growing our business with existing partners;
- shifting the balance of revenues in favour of more strategic products; and
- expanding the number of partners that actively trade with us (from 725 to 834 during 2015).

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

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

Direct sales

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

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

In the public sector, we were very pleased to be awarded a Government framework agreement, on eight out of the ten possible 'Lots' on the new Crown Commercial Service Network Services agreement (RM1045). This framework will replace a number of legacy agreements, and the 'Lots' cover all communications services including data, voice, mobile and integrated communications. This gives Gamma the ability to compete in a sector where we have been materially restricted in the past – particularly in competing for national government business. Our Public Sector team were successful in winning a number of new contracts including Peabody Housing Trust, and NHS Trusts such as North & East London, and Maidstone & Tunbridge Wells.

Strategic products

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

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

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

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

Enabling products

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

Gamma's enabling services of Ethernet, business-grade broadband, and mobile also grew significantly during the year. For example, the number of business-grade broadband connections grew from 29,000 to 40,000 and Gamma's Ethernet base expanded to 2,400 live connections. These services enable Gamma to provide converged Voice and Data services to businesses and extend its practice of providing more functionally bundled services.

Traditional products

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

Operational performance

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

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

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

Cyber -security

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

Regulatory

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

Mobile Services

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

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

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

People and Property

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

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

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

Outlook

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

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

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

Bob Falconer
Chief Executive Officer

Financial review

Revenue

Indirect Business

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

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

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

Direct Business

The direct business has also had a solid year although growth in the second half was lower than hoped for due to the length of the order to cash cycle. Revenue increased from £36.3m in 2014 to £39.8m and gross profit from £15.2m to £18.2m. Gross margin increased from 41.9% to 45.7%.

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

Operating expenses

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

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

Adjusted EBITDA

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

Exceptional items and share based payments

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

Cash flows

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

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

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

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

Capital expenditure

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

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

Taxation

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

Dividends

The Board has proposed a final dividend of 4.4p representing a full year dividend of 6.6p per share. This is an increase of 11% against our pro-forma dividend for 2014 of 5.93p and is in line with our progressive dividend policy.
Subject to shareholder approval, the final dividend will be paid on 23 June 2016 to shareholders on the register as at 3 June 2016.

Andrew Belshaw
Chief Financial Officer

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Revenue	1	**191.8**	173.2
Cost of sales		**(109.5)**	(105.6)
Gross profit		**82.3**	67.6
Other operating income		**5.7**	–
Operating expenses		**(65.5)**	(56.1)
Operating profit before share based payment, exceptional items, depreciation and amortisation		**28.3**	23.1
Share based payment expense		**(4.1)**	(3.2)
Exceptional items	2	**5.7**	(2.0)
Operating profit before depreciation and amortisation		**29.9**	17.9
Depreciation and amortisation		**(7.4)**	(6.4)
Profit from operations		**22.5**	11.5
Finance income		**0.1**	–
Profit before tax		**22.6**	11.5
Tax expense	3	**(4.3)**	(2.1)
Profit after tax		**18.3**	9.4
Total comprehensive income attributable to the owner of the parent		**18.3**	9.4
Earnings per share	4		
Basic per ordinary share (pence)		**20.4**	10.6
Diluted per ordinary share (pence)		**19.6**	10.0

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

Consolidated statement of financial position

At 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Non-current assets			
Property, plant and equipment	5	**23.4**	18.9
Intangible assets	6	**10.4**	10.8
Deferred tax asset		**2.0**	2.3
		35.8	32.0
Current assets			
Inventories		**2.3**	1.1
Trade and other receivables	7	**35.2**	32.5
Cash and cash equivalents		**24.8**	13.4
		62.3	47.0
Total assets		**98.1**	79.0
Liabilities			
Non-current liabilities			
Provisions		**1.4**	0.9
Deferred tax liability		**0.4**	0.2
		1.8	1.1
Current liabilities			
Trade and other payables	8	**27.3**	25.9
Current tax liability		**2.3**	0.8
		29.6	26.7
Total liabilities		**31.4**	27.8
Issued capital and reserves attributable to owners of the parent			
Share capital		**0.2**	0.2
Share premium reserve		**3.7**	3.2
Merger reserve		**2.3**	2.3
Share option reserve		**3.8**	2.4
Investment in own shares		**(0.8)**	–
Retained earnings		**57.5**	43.1
Total equity		**66.7**	51.2
TOTAL EQUITY AND LIABILITIES		**98.1**	79.0

Consolidated statement of cash flows

For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Profit for the year before tax		**22.6**	11.5
Adjustments for:			
Depreciation of property, plant and equipment	5	**6.1**	5.1
Amortisation of intangible assets	6	**1.3**	1.3
Change in fair value of contingent consideration		**–**	0.6
Share based payment expense		**4.1**	3.0
Net interest income		**(0.1)**	–
		34.0	21.5
Increase in trade and other receivables		**(3.3)**	(3.3)
Increase in inventories		**(1.2)**	(0.6)
Increase in trade and other payables		**0.4**	1.9
Increase/(decrease) in provisions and employee benefits		**0.5**	(0.1)
Taxes paid		**(2.2)**	(3.0)
Net cash flows from operating activities		**28.2**	16.4
Investing activities			
Purchases of property, plant and equipment	5	**(10.6)**	(11.2)
Expenditure on development costs	6	**(0.9)**	(0.9)
Payment of deferred consideration		**(0.1)**	(2.6)
Loans made to individuals to subscribe for shares		**0.5**	(2.8)
Interest received		**0.1**	–
Net cash used in investing activities		**(11.0)**	(17.5)
Financing activities			
Share buybacks and cancellations		**–**	(3.1)
Share issues		**0.5**	3.0
Investment in own shares		**(0.8)**	–
Dividends		**(5.5)**	–
Net cash used in financing activities		**(5.8)**	(0.1)
Net increase/(decrease) in cash and cash equivalents		**11.4**	(1.2)
Cash and cash equivalents at beginning of year		**13.4**	14.6
Cash and cash equivalents at end of year		**24.8**	13.4

Included within operating cash flow is £5.1m of cash received relating to the laddering settlement which management considers to be non-recurring in nature.

Consolidated statement of changes in equity

For the year ended 31 December 2015

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

Basis of preparation

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

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

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

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

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by 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 0.1m (£m).

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

1. Segment information

The Group has two main operating segments:

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

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

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

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

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

External revenue of customers has been derived principally from the United Kingdom and no single customer 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

2. Exceptional items

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

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

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

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

3. Tax expense

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

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

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

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

4. Earnings per share and dividends

Earnings per share

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

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 2015 the diluted Ordinary Shares were based on 93,226,438 Ordinary Shares (2014: 93,601,600) that included 3,738,275 potential Ordinary Shares (2014: 5,252,120).

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

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

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

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

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

Dividends

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

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

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 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

	Network assets £m	Customer Premises equipment £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost					
At 1 January 2015	41.8	1.9	12.5	1.5	57.7
Additions	4.8	4.4	1.4	-	10.6
Disposals	(1.6)	(0.5)	(8.4)	(1.0)	(11.5)
Reclassification	0.9	-	(0.9)	-	-
At 31 December 2015	**45.9**	**5.8**	**4.6**	**0.5**	**56.8**
Depreciation					
At 1 January 2015	27.0	0.8	10.0	1.0	38.8
Charge for the year	3.7	1.4	0.9	0.1	6.1
Disposals	(1.6)	(0.5)	(8.4)	(1.0)	(11.5)
Reclassification	0.3	-	(0.3)	-	-
At 31 December 2015	**29.4**	**1.7**	**2.2**	**0.1**	**33.4**
Net book value					
At 1 January 2015	14.8	1.1	2.5	0.5	18.9
At 31 December 2015	**16.5**	**4.1**	**2.4**	**0.4**	**23.4**

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

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

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

6. Intangible assets

	Goodwill on Consolidation £m	Development costs £m	Customer Contracts £m	Total £m
Cost				
At 1 January 2014	12.5	3.4	2.1	18.0
Additions	–	0.9	–	0.9
At 31 December 2014	12.5	4.3	2.1	18.9
Amortisation				
At 1 January 2014	4.5	1.5	0.8	6.8
Charge for the year	–	0.9	0.4	1.3
At 31 December 2014	4.5	2.4	1.2	8.1
Carrying value				
At 1 January 2014	8.0	1.9	1.3	11.2
At 31 December 2014	8.0	1.9	0.9	10.8

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

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

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

7. Trade and other receivables

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

8. Trade and other payables

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

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 2015 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 2016 and subsequently filed at Companies House.

A full set of the audited statutory accounts will be available at www.gamma.co.uk/investors/financial-results-and-shareholder-communications