12 March 2019

Gamma Communications plc
Results for year ended 31 December 2018

Strong Group performance with continued delivery of robust revenue growth

Gamma Communications plc ("Gamma" or "the Group"), a leading, technology-based provider of communications services to the business market, is pleased to announce its results for the year ended 31 December 2018.

Financial Highlights

	Year ended 31 December		
	2018	**2017 (Restated[2])**	**Change (%)**
Revenue	£284.9m	£242.0m	*+18%*
Gross profit	£132.2m	£108.7m	*+22%*
Gross margin	*46.4%*	*44.9%*	
EBITDA (also being adj EBITDA[1])	£48.3m	£36.0m	*+34%*
PBT	£34.5m	£26.5m	*+30%*
Adjusted PBT[1]	£34.9m	£26.5m	*+32%*
EPS (Fully Diluted, "FD")	30.0p	24.0p	*+25%*
Adjusted EPS[1] (FD)	30.3p	23.1p	*+31%*
Total dividend per share	9.3p	8.4p	*+11%*
Cash generated by operations	£40.6m	£29.9m	*+36%*
Cash generated by operations / EBITDA	*84%*	*83%*	

1) All adjusted measures set out above and throughout this document which are described as "adjusted" represent Alternative Performance Measures ("APMs") and are separately presented within the statement of comprehensive income or reconciled in the Financial Review section or segment note and are applied consistently. Where reference is made to adjusted EPS this is stated on a fully diluted basis. Definitions and recalculations of APMs are included in the Financial Review. Our Policy on the use of APMs is included in note 2 to the condensed financial statements.

2) The prior period comparative figures have been restated for the effects of the adoption of IFRS 15, see note 3 of the 2018 Annnual Report and Accounts for details of the impact of the change in accounting policies. In the text of this document where figures for 2017 have been quoted, these have been restated.

Operational Highlights

- Continued strong growth –
  - The number of installed SIP Trunks increased from 680,000 at 31 December 2017 to 856,000 at 31 December 2018 (+26%).
  - The number of Cloud PBX users increased from 331,000 to 435,000 (+31%); this is an important base in which to cross and up-sell our Unified Communications as a Service ("UCaaS") product, Collaborate, which will be launched shortly.
  - A key part of our "Gamma 2023" strategy is building on our Fixed and Mobile Telecom strength to differentiate our UcaaS proposition from pure "over the top" ("OTT") providers. As a result of our ongoing investment, data products have performed very well. Broadband has increased from 76,000 units to 94,000 (+24%) and Ethernet from 6,900 to 8,370 (+21%). Mobile connections have increased from 35,000 to approximately 50,000 (+43%).

- Gamma's indirect business continues to grow.
  - Gross profit from indirect business increased from £83.0m in 2017 to £97.5m in 2018 (+13%).
  - The number of Channel Partners grew from 1,089 at 31 December 2017 to 1,150 at 31 December 2018 (+6%). The acquisition of new partners has seen a slow down in the second half and growth is increasingly coming from our existing partners.
  - The Gamma Academy delivered 16,602 training courses to Channel Partners during 2018, representing strong engagement and participation across our partner base.
  - Gamma Accelerate delivered a significant increase in marketing campaigns run by Channel Partners during the period, when compared to 2017, and 732 of Gamma's partners are now actively using the platform.

- Gamma's direct business continues to deliver very positive growth.
    - Gross profit up from £26.5m in 2017 to £32.8m in 2018 (+24%).
    - Improved pipeline and several new contract wins have materially increased contracted revenue and margin backlog during the period, which provides a very confident future growth outlook.
    - The direct business delivered significant new multi-year contract wins, including ALDI, BGL Group (financial services), The John Lewis Partnership, Hidden Hearing and The London Stock Exchange Group.
    - In the Public Sector, Gamma achieved Stage 2 Health and Social Care Network (HSCN) compliance, in addition to being awarded new contracts with both Fife and Thurrock Councils.
- During the period, Gamma made an acquisition in the Netherlands, as a first step in a broader strategy to deliver long term growth and increased scale.
    - The acquisition of DX Groep BV (which trades as Dean One and Schiphol Connect in the Netherlands) on 1 October 2018 marked entry into the European Cloud Communications market.
    - Gamma expanded further in the Netherlands with the acquisition of Nimsys in February 2019. Nimsys is an internet, cloud telephony and associated IT services company serving primarily operators and corporate clients of premium multi-tenant office buildings across the Netherlands.

Andrew Taylor, Chief Executive Officer, commented

"I have been impressed by what I have observed during my first nine months at Gamma, including the high quality of our team and the strength and special market approach of both our direct and indirect channel businesses, which are both delivering strong double-digit revenue and margin growth. The quality and reliability of Gamma's core network, our service and operations, and our products, coupled with the digital capabilities that we have developed, has directly contributed to the strong results we have announced today. Looking forward, we are focused on building on our strong business foundations at Gamma, and ensuring that we continue to deliver what our customers and our channel partners want. As part of our Gamma 2023 strategy, we look forward to taking the business forward and delivering long term top and bottom line growth."

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Notes to Editors

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

Gamma also provides both business and carrier-grade mobile and data services and, as a consequence of its history, has a substantial network capability. These carrier grade network and product capabilities enable Gamma to provide a comprehensive range of communications services. Gamma has enjoyed strong organic revenue and EBITDA growth, which is underpinned by a strong business model, which delivers very high levels of recurring monthly revenue and margin,

Chairman's statement

Introduction

I am pleased to present the results for the year ended 31 December 2018.

Overview of Results

Group revenue for the year ended 31 December 2018 increased by £42.9m to £284.9m (2017: £242.0m) an increase of 18% on the prior year. Of this increase, £3.4m was due to the acquisition of the DX Groep in the Netherlands. The organic growth (pre-acquisition) was 16% and, of this, £25.7m came from the UK indirect channel where revenue increased to £210.6m (2017: £184.9m) while £13.8m came from the UK direct business which saw revenue increase to £70.9m (2017: £57.1m). Gross profit for the year rose to £132.2m, an increase of 22% compared to the £108.7m achieved in 2017, with an improvement in the gross margin to 46.4% (2017: 44.9%) due to improved product mix. EBITDA for the group increased by 34% to £48.3m (2017: £36.0m).

Fully diluted earnings per share for the year increased by 25% to 30.0p (2017: 24.0p). Adjusted fully diluted earnings per share for the year increased by 31% to 30.3p (2017: 23.1p).

The cash generated by operations for the year was £40.6m compared to £29.8m in 2017. This represents a cash to adjusted EBITDA conversion ratio for 2018 of 84% compared to 83% for 2017. The closing cash balance for the year was £35.5m compared to £31.6m at the end of December 2017. This cash balance has been maintained whilst spending £12.7m on capital items, £11.5m on acquisitions and £8.1m on dividends.

Dividend

Gamma remains committed to a progressive dividend policy. The Board is therefore pleased to propose a final dividend, in respect of the year ended 31 December 2018, of 6.2 pence per share (2017: 5.6 pence) an increase of 11% which, subject to shareholder approval at the forthcoming AGM, will be payable on Thursday 20 June 2019 to shareholders on the register on Friday 31 May 2019. When added to the 3.1 pence interim dividend (2017: 2.8 pence) this makes a total dividend declared of 9.3 pence for the year as a whole (2017: 8.4 pence).

Business Development

We continue to launch new products as well as developing and enriching our existing product portfolio with new features and capabilities. As in previous years, the focus of our development programme has been to provide services that deliver both tangible business benefits to the end users, while enabling our channel partners to win market share and develop and grow their businesses.

During the year we launched Connect, the fixed/mobile converged product that integrates a mobile user with the Gamma Cloud PBX service, Horizon. The service includes an easy to use app that supports advanced voicemail and number presentation services, and feedback from early adopters of the product has been very positive. We will continue to develop Horizon into a full UCaaS suite (in line with our strategic aims) with the imminent launch of Collaborate .

Increasingly we are focusing on providing integrated services that support Horizon to integrate with a greater number of CRM systems making the service an integral part of the end user's key business systems.

Alongside product development, we invested in programmes to support channel partners to develop and optimise their own business. Specifically, we increased our focus on our channel partner marketing platform (Accelerate) which is now actively used by over 700 of our Partners to assist them in generating and converting customer leads into new sales. Channel partners have significantly increased their use of our online training platform (Gamma Academy), which enables them to keep up to date with new products and services. The platform can also be used to train their staff and is therefore a cost effective tool for both them and Gamma.

In the indirect channel, our channel partners continue to drive growth in our key products:

- BTT successfully secured the contract to supply SCS with a 117 site MPLS network.
- Fidelity Group has extended their long-term commitment to Gamma and will add 5,500 Horizon seats in what is a long-term multi-year commitment.
- South West Communications has committed to 3,000 net new Horizon seats per year in a strategic multi-year agreement.
- Focus Group has pledged a minimum of 5,700 Horizon seats per year for the next two years as part of a contract which could see them add over 10,000 seats per year. In addition, we will see a net growth of 750 broadband circuits a year, together with the selection of Gamma for all its new and existing inbound business over the same two year period.

The direct business continues to perform well across all market segments, but our focus on Enterprise and Public Sector organisations has been particularly successful, with significant multi-year contract awards including The London Stock Exchange for Global UCaaS and retailer ALDI (UK & Ireland) for an enterprise-wide data network. In Public Sector the Scottish Government deployed a large SIP solution, and The Guinness Partnership is deploying a managed solution for Unified Communications, Connectivity and Mobility. A highlight for the Public Sector team during the period, was achieving Stage 2 Health and Social Care Network (HSCN) compliance, in addition to being awarded new contracts with Fife and Thurrock Councils.

Expansion into the Netherlands

The year also saw Gamma's expansion into the Netherlands as part of our strategic decision to expand into Europe to gain scale. This was achieved through the acquisition of DX Groep which has two trading arms - Dean One and Schiphol Connect. Dean One sells a similar portfolio of services to Gamma through Channel Partners to SME customers. Schiphol Connect, is a provider of communications and connectivity products to businesses in and around Amsterdam's main airport.

On 4th February 2019 we expanded our presence in the Netherlands with the acquisition of the Nimsys group of companies for an initial consideration of EUR 4.0m (net of acquired cash and debt) with up to another EUR 3.6m payable contingent on performance in 2019 and 2020. In 2018, Nimsys had revenues of EUR 3.5m and EBITDA of EUR 1.5m. Nimsys provides internet, cloud telephony and associated IT services primarily to the operators and corporate clients of premium multi-tenant office buildings across the Netherlands and derives its revenue primarily from recurring service contracts with those operators and their tenants.

Board and Employees

In May 2018, Bob Falconer, Gamma's former CEO, retired and stood down from the Board. Bob has been instrumental in the development and growth of Gamma for which we thank him and wish him a happy retirement. I am pleased to report that the Company has continued to benefit from Bob's significant company knowledge and industry expertise on a part-time consultancy basis. Andrew Taylor joined the Board on 4th April and took over as CEO at the AGM on 23rd May. Andrew has made an immediate and positive impact in the business. During the second half of this year, Andrew has worked with the management team to define Gamma's strategy to ensure that we continue to develop and grow the business into the medium and long term.

As of the 31st December 2018, Gamma had 1,044 employees, an increase from 901 from 31 December 2017. This growth is driven by the general expansion of the business (both organically and by acquisition) and the continued investment in new service development and changing mix of products.

The company offered a sharesave scheme for the third year. Once again, it was particularly pleasing to see the exceptionally high take up, with 257 staff choosing to participate in the scheme (2017: 231).

The Board recognises the high levels of support and commitment from its staff and would like to express its thanks for their dedication, hard work and enthusiasm.

We continue to assist apprentices to gain valuable work experience, to continue their education and to obtain nationally recognised qualifications. At present, we have thirteen apprentices currently employed in IT, HR, Infrastructure Support, Software Development, Sales and Customer Service. We have a good track record of offering permanent employment at the end of these apprenticeships and expanding opportunities for apprentices across the business remains a priority for Gamma. We consider diversity to be an important part of our culture at Gamma and run a number of programmes across our business to support and promote this. We are aware of the lack of diversity of the Board and will consider this with future appointments.

Outlook

The Board is positive about the outlook for the business in 2019 and beyond. We have considered the effect of Brexit on the future performance of our business and have identified no material issues which are specific to Gamma. In the event of adverse macro-economic factors, such as a slowdown in the UK economy, Gamma has a business model that delivers a very high percentage of recurring revenues that gives greater certainty over performance in the short to medium term.

As a predominantly channel-focused business, Gamma will continue to concentrate efforts and investment on strengthening our relationship and capabilities to support the channel to be successful. We will also ensure that in the direct business, we continue to focus on growth with larger enterprises and the public sector, and on building on an already strong reputation for operational excellence and service quality.

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Richard Last
Chairman

Chief Executive Review

Introduction

The welcome and support that I have received from our staff, customers and channel partners since joining Gamma in April has been heart-warming, and I am pleased to report an excellent set of financial results for 2018.

My initial focus after joining Gamma was to ensure that we continued to execute against our commitments, and that we provided both our staff, customers and channel partners with a clear sense of continuity in leadership, and I am happy that the handover with Bob Falconer was received positively and that we have continued to deliver against our promises in a consistent and very professional manner. This shorter-term objective has been balanced with a renewed focus on developing a longer-term growth strategy for Gamma, and during the second half of the year, we made significant progress in delivering a clear vision and set of strategic priorities for the future.

Both our direct and indirect channel businesses have continued to perform strongly, and throughout 2018 we were awarded several new multi-year customer and partner contracts across the Mid Market, Enterprise and Public Sector markets. In November, we were appointed as an accredited supplier to the Health and Social Care Network (HSCN), and as one of only a small number of accredited suppliers, via both our direct and indirect channels, Gamma can now provide HSCN with an extensive set of data network and voice services.

We have continued to invest and strengthen our sales, service and delivery capabilities across Gamma, and our continued focus and investment on product development will deliver several new and exciting product launches during 2019. Supporting the success of our indirect channel partners is a priority, and throughout 2018 we have continued to develop and strengthen our self-serve partner portal, while ensuring that our digital platforms (Gamma Academy and Gamma Accelerate) enable our partners to create new opportunities, win market share and drive increased levels of revenue and margin. In our direct business, and as part of a digital transformation program, we are implementing a new digital platform which will deliver improved levels of automation and customer service, while providing a more scalable and efficient platform for growth,

During 2018, we received several industry accolades and awards, however everyone across Gamma was especially proud that we were awarded Company of the Year at the AIM Awards. The award is a testament to the hard work and dedication shown by Gamma's employees and the support we have received from both our direct customers and our channel partners, for which we are enormously grateful.

Strategy

During 2018 I initiated and led an important project to define Gamma's longer-term vision and growth strategy. This project was supported by an external consultancy and with input and leadership from Gamma's senior leadership team. In addition to this, there was significant input from Gamma's staff and other key stakeholders, including our partners and customers. I also announced earlier in the year that Andy Morris had been promoted to the newly created role of Chief Strategy and Operating Officer, which reinforces our commitment to both planning and executing a long-term growth strategy and vision for Gamma. I am pleased to report that the first phase of this work has been completed and we presented our key conclusions to investors and analysts at Capital Market Days in London and Edinburgh in early 2019.

Our strategy builds on Gamma's strong foundations and focuses on delivering long-term sustainable growth from a position of expertise and strength across our core products and markets. We have identified four key areas which we will focus on to ensure growth over the next five years –

- Evolve our cloud telephony position into the UCaaS market
- Build on our fixed and mobile telecom strength to differentiate our proposition from pure OTTs
- Expand our geographic footprint into Europe
- Continue to build on our digital capabilities to assure agility and sustain competitiveness

Expansion to Europe

Related directly to our growth strategy, in October 2018 we acquired the DX Groep , a small but growing telecoms group based in The Netherlands comprising of two entities – Dean One and Schiphol Connect. Dean One has similar attributes to Gamma, and is a successful channel-led business, focused on products that Gamma has strong knowledge and experience of. The Cloud PBX market in the Netherlands is like the UK, where Gamma has a track record in driving sustainable long-term growth and this is our plan with Dean One.

Dean One has a very similar product set to Gamma, selling Cloud PBX, SIP trunks, data products and mobile to primarily SME businesses via a network of over 500 channel partners. Dean One has approximately 60 employees, and for the full year ended 31st December 2018, revenues were c. €15.8 million (unaudited) and EBITDA (adjusted for costs incurred in the acquisition by Gamma) was c. €0.8million (unaudited).

Since completion of the acquisition, we have received positive feedback from our staff and our customers and partners in both the UK and the Netherlands. It is our plan to use Dean One as a focal point as we look to broaden our geographic footprint in Europe over the next five years. In February 2019, we completed the acquisition of Nimsys, another business based in the Netherlands.

We believe our expansion into Europe will complement the organic growth within the UK.

Products & Marketing

Gamma continues to focus on product developments that both add value to our existing offerings and open new opportunities to create margin for our indirect channel partners and our direct business.

The key focus of our product developments for the near term is to add features and value to our existing core products, and to converge existing services to meet the demands of businesses. The developments are targeted to support the growing demand for integrated communications that support the core line of business and enable channel partners to support their end users efficiently.

In line with our strategy to focus on UCaaS, our key developments during 2019 includes an expansion to our Cloud PBX service (Horizon) to include additional UCaaS products such as enhanced audioconferencing, web meetings, presence, application sharing and video conferencing. The introduction of these advanced collaboration services will enable the Horizon service to support the growing demand for businesses to communicate in a more integrated way with their customers, suppliers and staff. The development will also support the trend for larger SME businesses to consume unified communications services from a cloud-based solution which in turn will expand Gamma's addressable market.

We also continue to add features to our market leading SIP Trunking service, focusing on adding value to solutions such as Microsoft Teams for businesses that require high quality integration to voice services.

As businesses continue to demand greater bandwidth from any location in order to access cloud-based applications, we are focused on continuing to enhance our enabling services of Data Access and Mobility, to provide secure and high-quality services.

We will continue our focus on the development of value-added services for Data and Mobile access to support key business needs and growth opportunities that we have identified. In 2019 this will include utilisation of 4G as a means of connecting customers who are waiting for fixed line Ethernet service installation. This 4G service will also provide backup services to increase service availability for retail customers. In addition, we will launch a Managed WiFi service to enable businesses to provide segmented WiFi access for staff and guests.

Our mobile connections during 2018 increased from 35,000 to approximately 50,000, representing year on year growth of +43%. During the period, we also delivered several customer support and service related enhancements to our mobile service, including the launch of our Connect service and our WiFi calling application, which materially improves inbuilding wireless coverage, which is particularly important for Gamma's Enterprise and Public Service customers.

Looking forward, mobile will form a key part of Gamma's long-term growth plan, and a fundamental part of our UCaaS product strategy, where Gamma aims to provide a differentiated "quality assured" service to business customers. In addition to this, in 2019 Gamma is also focused on establishing a more strategic relationship with our chosen MNO partner in the UK, which we believe will enable us to optimise and improve both how we operate and manage our MVNO business in the future. As part of this, our objective is to differentiate our mobile proposition in the UK business market, selling through our indirect and direct channel, and ensuring that we continue to increase our base over the next five years.

During 2018, Gamma launched a set of Cloud applications including Cloud Compute and Cloud Backup. After reviewing the market readiness for these products and the focus of Gamma going forward, we made the decision to cease those services so that we could concentrate on the core product area of UCaaS.

Another key part of our strategy is to continue to invest in our market leading digital platforms. These support the sales processes of the indirect and direct businesses from lead generation to execution of the order and the ongoing support of the services. Ongoing investment in these platforms is a key element of the Gamma strategy to ensure that we are offering the buying experience that the customer requires as well as minimising the cost of customer acquisition and support. This continued focus on ensuring that “Gamma is easy to do business with” forms a key part of our long-term strategy.

Indirect business

The number of channel partners actively trading with Gamma has expanded again from 1,089 to 1,150 and revenues have grown by £25.7m to £210.6m in 2018 (2017: £184.9m). The channel continues to account for 74% of our group revenues.

During 2018 we have delivered solid growth across the indirect business, with a continued focus on both strengthening current channel relationships and identifying new partners. The channel team has focused on several key areas, with the objective of continuing to develop and strengthen Gamma’s overall channel proposition. These areas include cross-selling and upselling more of our existing products, selling new products and services into our current channel base and developing new partners and programs to support the growth of their businesses. These areas are designed to further enable our channel partners to be more competitive and successful in growing market share in their respective market areas.

This focus has led to several success stories for our channel partners as they continue to drive growth across our key products, including major solutions delivered to Coventry Building Society, GAP Clothing, Specsavers, Saga, Admiral, Aegon and Investec.

Our business supporting other carriers with number hosting and number porting is growing well and is supported by several “non-traditional” carriers entering the UK market, and who are leveraging Gamma’s expertise in IP telephony and number porting to support their own business offerings.

We have continued to deliver strong growth in SIP, Cloud PBX and Data, and as our overall customer base grows, we are focusing on reducing end user churn with new offers across our products which are designed to assist our partners to retain their customers. These bundles combine extra features with commercial benefits such as our Horizon re-sign offer, rewarding our partners with a re-sign bonus per subscription coupled with inclusive soft clients, enabling them to re-sign their customers on three or five year contracts. Rewarding partner loyalty is a key theme across all services and products, helping them grow and protect their customer base.

Gamma’s ‘easy to do business with’ programs have delivered continued success for our channel partners. The Gamma Academy delivered over 16,000 training courses to channel partners during 2018, representing strong engagement and participation across our partner base.

Our digital marketing programme, Gamma Accelerate, continues to prove itself as a valuable tool for our Channel Partners. Designed with simplicity in mind, Accelerate is aimed at making it easy for 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. We now have over 700 partners using Accelerate and our aim is to give our partners every opportunity for growth and success. We have made substantial investments into Accelerate, continually developing new features, content and services around the platform.

During 2018, we were pleased to win a special award, Best Wholesale Provider at the Comms Business Awards, which recognises wholesalers who have been active in creating new and innovative opportunities for the Channel. The award was due to the outstanding operational support and customer service that we provide our channel partners – reflected in our recent Net Promoter Score of +45.

Direct Business

During 2018, our direct business delivered a very strong year with all business segments performing well. Overall, our direct business revenues rose to £70.9m (2017: £57.1m) assisted by the excellent momentum of contracts awarded in 2017, and combined with several new customer contracts won and delivered in this financial year.

In the Mid Market, we secured more than 1,200 customer orders, up from 900 in 2017. More crucially our average order size order is increasing, assisted by larger key wins as we focus on larger organisations. To this end, we secured large SIP contracts with the BGL Group, Shawbrook Bank and The PRA Group.

Our Enterprise team has continued to perform exceptionally well in 2018, delivering key wins with Rank Group, Nandos and The London Stock Exchange. Notwithstanding this, the highlight of 2018 was winning a five year managed service contract with leading supermarket ALDI, where we will deliver one of the market's largest Ethernet WANs covering their 900+ estate in the UK and Ireland; the solution will also have resilience over our 4G mobile network.

Gamma's Public Sector team has also delivered good growth throughout 2018, including a key central government SIP contract with the Scottish Government. Amongst other key deals both Mid Essex NHS Trust and Scottish Courts and Tribunal have undertaken large SIP deployments and the YMCA has contracted for multiple Horizon Cloud PBX deployments with underlying data connectivity. Importantly, Gamma also achieved Stage 2 compliance with NHS Digital for Health and Social Care Network and are now bidding for a number of significant opportunities.

During 2018, our direct business successfully achieved a monthly NPS over 40, which is a testament to our customer focus and contributing to a very high customer resign rate during the year.

Network

As reported at the half year, Gamma's new high capacity national optical network project was delivered on schedule and on budget. This enables Gamma to deliver services at 10Gb/s and above which increases IP capacity into multiple Terabits/s whilst providing reach into major business districts for access circuit provision.

In practice this means that:

- Gamma now provides connectivity between the key Central Business Districts ("CBD") on the M4, M5, M6, M62 and M1 corridors. This allows Gamma to connect end customers to its network with high capacity ethernet pipes in these CBD and deliver our SIP or hosted services.
- Gamma now has greater control of the connectivity from the CBD across our network and out to the other carriers or internet providing a better end user experience.
- The network is more resilient due to its ring architecture and provision of dual paths (clockwise & anticlockwise) for customers' traffic - if there is a fibre break then traffic is re-routed in the other direction.
- Overall, due to improved efficiencies and the nature of a modern network architecture, we are able to reduce costs.

In addition, we previously reported a three-year programme to remove legacy voice equipment to reduce costs (data centre and support). This programme is now complete and has delivered annualised savings of c£3m p.a in ongoing network costs (against 2016 levels). These savings are included within these results.

Outlook

As I highlighted at our half-year results and at the recent Capital Markets Days, Gamma is in good shape and I consider our short-medium term outlook to be positive. We have a robust business model with a high level of recurring revenue and margin, and although there is increasing competition in the marketplace, the quality and competitiveness of our products, combined with the strength of our direct and indirect channel businesses, provides confidence in our ability to execute against our short-term commitments.

Building on and executing against our strategic priorities will be a key focus during 2019 and beyond, and in addition, we will continue to strengthen our capabilities across our core products, channels and markets, with a view to identifying opportunities to develop and grow our business further. Aligned with this will be a continued focus on quality and operational excellence, coupled with ensuring that we harness the skills and talent across Gamma to support and fully enable our channel partners and end-customer to be more successful.

At the time of writing there is increasing uncertainty over Brexit and there is speculation that this may have a negative effect on the UK economy as a whole. We do not envisage any specific material risk to Gamma and we note that in times of economic downturn, telecommunications has proven to be resilient. We are therefore confident that there will be continued demand for Gamma's products and services.

As a final point, I would like to personally thank our staff, partners and customers for their contribution and ongoing support. Our performance during 2018 has been strong, and we remain optimistic about Gamma's future growth prospects.

Andrew Taylor
Chief Executive Officer

Financial review

As the Chairman and CEO have outlined, 2018 was characterised by one of Gamma's strongest trading performances. This is discussed below after a brief explanation of changes to the presentation of figures and the Group's accounting policies.

Changes in presentation and accounting policy

These are the first full year results which are presented by Gamma following the adoption of IFRS 9 and 15. The adoption of IFRS15 means that all comparative figures in this report have been restated (except for cash balances and dividends). IFRS 9 has not resulted in a restatement but merely additional disclosure. IFRS 15 has not only affected revenue but has also required certain operating costs to be re-stated as items which were previously classified as assets (Customer Premises Equipment) are now treated as costs of sale.

In addition, Gamma has chosen to adopt IFRS 16 early and it has also chosen to use the modified retrospective approach to adoption which means there are no restatements to the prior year figures. The impact of IFRS 16 on EBITDA and cashflow (cash generated by operations) is shown below. Gamma is also presenting its results differently in that Share Based Payments are no longer considered to be an adjusting item. That is, in our prior year results "adjusted EBITDA" and "adjusted EPS" were adjusted for Share Based Payments whereas this is no longer the case, and comparative adjusted measures no longer include Share Based Payments.

We have completed our first acquisition since our flotation in 2014 and for this year and in future we will show PBT, PAT and EPS figures adjusted for the amortisation of the intangible assets which were recognised on acquisition of the subsidiary. This adjustment is made to improve the comparability between acquired and organically grown operations, as the latter cannot recognise internally generated intangible assets. Adjusting for amortisation provides a more consistent basis for comparison between the two.

Reconciliations are given below in this financial review section and in note 1 to the Annual Report and Accounts.

Revenue and gross profit
Indirect business

Revenue from the indirect business grew from £184.9m to £210.6m (+14%) and gross profit grew from £83.0m to £97.5m – an increase of £14.5m.

The traditional business (which includes calls and lines and trade with other carriers) declined significantly in 2017 but that decline slowed in 2018 and revenue fell from £50.5m in 2017 to £47.9m. The gross profit from this part of the business decreased slightly by £0.6m to £11.9m (2017: £12.5m). Whilst the calls and lines business (CPS and WLR) continues to decline as businesses move from legacy technology to new IP based products, our Carrier business is growing slightly after several years of decline. This is driven by a number of "non-traditional" carriers entering the UK market who are leveraging Gamma's expertise in IP telephony and number porting to support their own business offerings.

We group our data, mobile, SIP and Cloud PBX products as our "growth" products. Revenue from growth product sales increased from £134.4m to £162.7m (+21%) and gross profit grew from £70.5m to £85.6m (+21%). The gross margin grew from 52% to 53%, which reflects the fact that the main contributor to this growth was SIP Trunking, which has a higher margin than other products. SIP Trunking and our Cloud PBX product (Horizon) grew in line with previous years and our data products have shown increased levels of growth. Our mobile product had subscriber numbers increasing throughout 2018 and hence the product contributed favourably to gross profit when comparing 2018 to 2017.

Direct business

The direct business continues to grow strongly. Revenue increased from £57.1m in 2017 to £70.9m (+24%) and gross profit from £25.7m to £32.8m (+28%). The gross margin grew from 45% in 2017 to 46% in 2018.

Historically, we have shown our Direct business revenues split between Traditional and Growth (which is how we disclose the split for the Indirect business revenues). However we note that (a) our Traditional revenues are essentially static in the Direct Channel and therefore all growth has come from the “Growth” products; (b) we may on occasion win a contract where a customer is taking “Traditional” products but intends to migrate to “Growth” products; and (c) we increasingly describe the business by segment so, for example, we may reference Enterprise, Mid-Market and Public Sector. We will therefore show the revenues for the Direct business split by segment rather than product as we believe this will enable a user of the accounts to better understand the revenue drivers of the business unit. For this year we have shown the split both ways but, in future, we will discontinue the product split.

To illustrate this point, under the former disclosure, the growth in the Direct business was driven by our Growth product set where revenues increased from £46.3m to £59.9m and Gross Profit increased from £22.0m to £29.3m whereas the revenue growth in Traditional was only £0.2m (from £10.8m to £11.0m).

Reviewing the new disclosure split, it can be seen that of the revenue increase of £13.8m, £6.4m (46%) comes from Enterprise customers and £3.6m (26%) comes from the Public Sector. These two market segments grew by 30% and 28% respectively and are the growth drivers for the Direct business.

There is some uncertainty over the growth rate in the Public Sector throughout 2019 due to budget uncertainty caused by the length of time which has been taken to conclude a “Brexit deal”.

International

During the year the Group purchased DX Groep in the Netherlands. In the three months that the business formed a part of the group it contributed £3.4m of revenue and £1.9m of gross profit (a margin of 56%).

Operating expenses

Operating expenses grew from £82.4m (2017) to £97.8m.

We break these down as follows –

	2018 £m	2017 £m
Expenses included within cash generated from operations – not related to leases	82.0	69.5
Expenses included within cash generated from operations – related to leases*	-	1.2
Depreciation and amortisation – tangible and intangible assets	12.1	10.4
Depreciation and amortisation – right of use assets*	1.4	-
Amortisation – intangible assets created on acquisition of subsidiary	0.4	-
Gains on disposal of fixed assets	-	(0.7)
Share based payments	1.9	2.0
Operating expenses	**97.8**	**82.4**

*We have separated the elements relating to leases and right of use assets to illustrate the effect of the adoption of IFRS 16.

We also separately present expenses included within cash generated from operations which have a more immediate effect on the cash flows of the business. Items such as depreciation and share-based payments are “non-cash” in the year in which they are incurred. We believe that it is helpful to a user of the accounts to understand how the expenses interact with the cash demands of the business.

We also present the effect of share-based payments. Historically we showed EBITDA and EPS adjusted for Share Based Payments because the historical charges were inflated by significant levels of awards made at the point of IPO but these have reduced significantly period on period and hence the decreasing charges were not reflective of the business performance but were merely reflective of the fact that lower levels of options have been awarded post float. Given that, Share Based Payments have now stabilised these are no longer excluded. However we show the impact of expenses so that a user can compare previous published data with the current period data.

Movements in cash based expenses were driven by:

- 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;
- investment in our "digital strategy" programme which will allow customers to provision and change services online and thereby will ultimately reduce overhead; and
- central costs for consulting related to our strategy programme and the due diligence costs of our European expansion.

The above increases were offset to some degree by our ongoing programme to reduce the running costs of our network through selective additional investment. We have eliminated £3m of costs per annum between 2016 and 2018 and this has been a contributor to the strong business performance in 2017 and 2018. This programme is now concluded and those cost savings have been included within these results. We continue to look for areas where efficiencies can be made.

Depreciation and amortisation have increased from £10.4m in 2017 to £13.9m in the current year. This is driven by increased capex over the past few years and the annual depreciation charge is now in line with the annual capex spend.

Share based payments are now at a consistent level year on year; they had been higher in previous years due to share awards made at the time of float in 2014.

Alternative performance measures

Our policy for alternative performance measures is set out in note 2.

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

2018

Measure	Statutory basis	Amortisation of intangibles	Tax items	Adjusted basis
EBITDA (£m)	48.3	-	-	48.3
PBT (£m)	34.5	0.4	-	34.9
PAT (£m)	28.4	0.4	(0.1)	28.7
EPS (FD) (p)	30.0	0.4	(0.1)	30.3

2017

Measure	Statutory basis	Amortisation of intangibles	Tax items	Adjusted basis
EBITDA	36.0	-	-	36.0
PBT (£m)	26.5	-	-	26.5
PAT (£m)	22.7	-	(0.9)	21.8
EPS (FD) (p)	24.0	-	(0.9)	23.1

Adjusted EBITDA and EBITDA

The combination of increasing sales of new products and operational improvements means that EBITDA grew from £36.0m in 2017 to £48.3m or 34%.

In order to allow users of the accounts to see how these changes have affected the key metrics, we present a reconciliation below.

	Adjusted EBITDA		
	2018 £m	**2017 £m**	**Growth**
Consistent with 2017 presentation and accounting policy	54.6	41.6	*31%*
Changes due to presentation			
- Share Based Payments	(1.9)	(2.0)	
Changes due to accounting policy			
- IFRS 15	(5.8)	(3.6)	
- IFRS 16	1.4	-	
Consistent with 2018 presentation and accounting policy	**48.3**	**36.0**	***34%***

The changes to accounting policy and presentation have slightly flattered the percentage growth of EBITDA but this is driven mainly by the effect of IFRS 16 which has adjusted the current period (favourably) and not the comparator as this is not restated; if the effect of IFRS 16 were to be removed the percentage growth is slightly lower under the new basis.

Taxation

The effective tax rate for 2018 was 17.6% (2017 – 14.3%). Note that the rate in the previous period was depressed significantly by a non-recurring tax credit of £0.9m which related to a tax overpayment from 2014 and earlier years. The effective rate for 2018 is also lower than expected due to one-off effects associated with IFRS 15 implementation.

Cash flows

The cash balance at the end of the year was £35.5m, up from £31.6m at the end of the previous year. The cash generated by operations in the year was £40.6m (2017 : £29.9m) and the main uses of this were –

- capital expenditure £12.7m (2017: £15.8m)
- acquisition of DX Groep £11.5m (2017 : nil)
- dividend paid of £8.1m (2017 : £7.3m)
- taxation paid of £4.3m (2017 : £3.6m)

We had previously published a ratio of the adjusted EBITDA compared to Cash generated by operations and commented that we would expect this ratio to average 90% giving a guide to the level of cash conversion from the underlying trading before our capex programme.

The accounting standard changes mentioned above have also affected the presentation of items within the statement of cash flows between cash generated by operations and Investing activities.

Cash generated by operations figure is reconciled below: –

	Cash generated by operations		
	2018 £m	**2017 £m**	**Growth**
Consistent with 2017 presentation and accounting policy	48.0	38.8	*24%*
Changes due to accounting policy			
- IFRS 15 – Customer Premises Equipment ("CPE") Spend	(10.2)	(11.5)	
- IFRS 15 – Software spend	1.2	2.6	
- IFRS 16	1.6	-	
Consistent with 2018 presentation and accounting policy	**40.6**	**29.9**	***36%***

As a result of the changes to adjusted EBITDA and the Cash generated by operations we also set out below a comparison of the ratio under the old and new basis -

	Cash generated by operations / adj. EBITDA	
	2018 £m	**2017 £m**
Consistent with 2017 presentation and accounting policy	48.0/54.6 = 88%	38.8/41.6 = 93%
Consistent with 2018 presentation and accounting policy	**40.6/48.3 = 84%**	**29.9/36.0 = 83%**

Using either the old basis or the new basis the cash conversion from operations is broadly the same in both years. Whereas we used to comment that cash conversion would be around 90%, we now believe it will be between 80-85%.

The overall cash conversion looks less favourable under the new accounting policy because provision of CPE to customers is now treated as a sale with deferred payment terms and therefore cash flows which had appeared as capex are now, in effect, working capital movements.

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 £12.7m (2017: £15.8m) on capital which was split as follows.

- Regular spend on maintaining and increasing capacity on the core network was £11.6m (2017: £11.4m) -
    - £9.1m 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 (2017: £7.7m).
    - £1.3m was the capitalisation of development costs incurred during the period (2017: £1.1m).
    - £1.2m was spent with third party software vendors for the software which underpins our Cloud PBX product (2017: £2.6m).
- Project spend was as follows –
    - £1.1m was spent on the new national network. (2017: £4.4m).

Note that following adoption of IFRS 15, Customer Premises Equipment ("CPE") is no longer capitalised.

Creation of Right of use asset

Upon the adoption of IFRS 16, an additional fixed asset of £6.2m was created. A corresponding liability was also created. This is a "non-cash item".

Adjusted EPS (FD) and Statutory EPS (FD)

Adjusted EPS (FD) increased from 23.1p to 30.3p (31%). As for EBITDA, the revision to accounting policies and changes in presentation impact the results. We have therefore provided a reconciliation to previous presentation and policies to aid users of these accounts:

	Adjusted EPS (FD)		
	2018 p	**2017 p**	**Growth**
Consistent with 2017 presentation and accounting policy	34.0	24.6	*+38%*
Changes due to presentation			
- Share Based Payments	(1.5)	(1.5)	
Changes due to accounting policy			
- IFRS 15	(2.5)	-	
- IFRS 16	0.3	-	
Consistent with 2018 presentation and accounting policy	**30.3**	**23.1**	***+31%***

Under both the new and old regimes, the growth in adjusted EPS (FD) has been significant due to the very strong trading described earlier however the implementation of IFRS 15 has had a larger negative effect on 2018 than 2017. This is because less CPE was shipped in 2018 than 2017 and this is now treated as a sale (at a profit) under IFRS 15 so, in effect, the gross profit on "imputed sales" of CPE was lower.

Statutory EPS (FD) grew from 24.0p to 30.0p (18%). The growth is lower than the adjusted metric because, in the previous period, the figure was flattered by a tax rebate from previous years which was adjusted out as it was non-recurring and non-trading.

Dividends

The Board has proposed a final dividend of 6.2p (2017: 5.6p) representing a full year dividend of 9.3p. This is an increase of 11% against our dividend for 2017 of 8.4p and is in line with our progressive dividend policy.

Subject to shareholder approval, the final dividend is payable on Thursday 20 June 2019 to shareholders on the register as at Friday 31 May 2019.

Andrew Belshaw
Chief Financial Officer

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Notes	**2018** **£m**	2017 £m *
Revenue	3	**284.9**	242.0
Cost of sales		**(152.7)**	(133.3)
Gross profit		**132.2**	108.7
Operating expenses		**(97.8)**	(82.4)
Earnings before depreciation, amortization and gain on disposal		**48.3**	36.0
Depreciation and amortisation (excluding business combinations)		**(13.5)**	(10.4)
Amortisation arising due to business combinations		**(0.4)**	-
Gain on disposal of property, plant and equipment		**-**	0.7
Profit from operations		**34.4**	26.3
Finance income		**0.3**	0.2
Finance expense		**(0.2)**	-
Profit before tax		**34.5**	26.5
Tax expense	4	**(6.1)**	(3.8)
Profit after tax		**28.4**	22.7
Other comprehensive loss		**(0.2)**	-
Total comprehensive income attributable to the owner of the parent		**28.2**	22.7
Earnings per share			
Basic per ordinary share (pence)	5	**30.3**	24.5
Diluted per ordinary share (pence)	5	**30.0**	24.0

Adjusted earnings per share is shown in note 6.

*Restated results following the adoption of IFRS 15 as explained in note 3 of the 2018 Annual Report and Accounts

Consolidated statement of financial position
At 31 December 2018

	Notes	2018 £m	2017 £m*
Assets			
Non-current assets			
Property, plant and equipment	7	**31.8**	29.2
Right of use assets	8	**4.2**	-
Intangible assets	9	**38.0**	15.5
Deferred tax asset		**4.4**	1.7
Trade and other receivables		**11.9**	10.9
		90.3	57.3
Current assets			
Inventories		**6.2**	3.2
Trade and other receivables		**62.8**	61.6
Cash and cash equivalents		**35.5**	31.6
		104.5	96.4
Total assets		**194.8**	153.7
Liabilities			
Non-current liabilities			
Other payables		**0.3**	-
Provisions		**1.2**	1.5
Lease liability		**2.9**	-
Contract liabilities		**8.5**	7.8
Contingent consideration		**8.1**	-
Deferred tax		**3.9**	-
		24.9	9.3
Current liabilities			
Trade and other payables		**37.2**	39.8
Provisions		**1.0**	0.3
Lease liability		**1.5**	-
Contract liabilities		**7.9**	8.2
Current tax		**0.6**	0.8
		48.2	49.1
Total liabilities		**73.1**	58.4
Issued capital and reserves attributable to owners of the parent			
Share capital		**0.2**	0.2
Share premium reserve		**4.6**	3.8
Merger reserve		**2.3**	2.3
Share option reserve		**3.2**	2.8
Foreign exchange reserve		**(0.2)**	-
Own shares		**(0.8)**	(0.8)
Retained earnings		**112.4**	87.0
Total equity		**121.7**	95.3
Total equity and liabilities		**194.8**	153.7

*Restated results following the adoption of IFRS 15 as explained in note 3 of the Annual Report and Accounts

Consolidated statement of cash flows
For the year ended 31 December 2018

	Notes	2018 £m	2017 £m*
Cash flows from operating activities			
Profit for the year before tax		**34.5**	26.5
Adjustments for:			
Depreciation of property, plant and equipment	7	**8.7**	7.5
Depreciation of Right of use asset	8	**1.4**	-
Amortisation of intangible assets	9	**3.8**	2.9
Share based payment expense		**1.9**	2.0
Interest income		**(0.3)**	(0.2)
Finance cost		**0.2**	-
		50.2	38.7
Increase in trade and other receivables		**(1.7)**	(18.3)
Increase in inventories		**(3.0)**	(0.2)
(Decrease)/increase in trade and other payables		**(5.7)**	6.8
Increase in contract liabilities		**0.4**	3.0
Increase/(decrease) in provisions and employee benefits		**0.4**	(0.1)
Cash generated by operations		**40.6**	29.9
Taxes paid		**(4.3)**	(3.6)
Net cash flows from operating activities		**36.3**	26.3
Investing activities			
Purchase of property, plant and equipment	7	**(10.2)**	(12.1)
Purchase of intangible assets	9	**(2.5)**	(3.7)
Interest received		**0.3**	0.2
Acquisition of subsidiary net of cash acquired		**(11.1)**	-
Net cash used in investing activities		**23.5**	15.6
Financing activities			
IFRS16 liability repayments		**(1.6)**	-
Share issues		**0.8**	-
Dividends		**(8.1)**	(7.3)
Net cash used in financing activities		**(8.9)**	(7.3)
Net increase in cash and cash equivalents		**3.9**	3.4
Cash and cash equivalents at beginning of year		**31.6**	28.2
Cash and cash equivalents at end of year		**35.5**	31.6

*Restated results following the adoption of IFRS 15 as explained in note 3 of the 2018 Annual Report and Accounts

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Share capital	Share premium £m	Merger reserve	Share option reserve	Foreign exchange reserve	Own shares	Retained earnings £m	Total equity £m
1 January 2017	0.2	3.8	2.3	3.5	-	(0.8)	71.2	80.2
Change in Accounting Policy	-	-	-	-	-	-	(3.6)	(3.6)
Restated equity at 1 January	0.2	3.8	2.3	3.5	-	(0.8)	67.6	76.6
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	-	-	-	-	-	-	(7.3)	(7.3)
Transaction with owners	-	-	-	(0.7)	-	-	(3.3)	(4.0)
Profit for the year (restated) *	-	-	-	-	-	-	22.7	22.7
Total comprehensive income (restated) *	-	-	-	-	-	-	22.7	22.7
31 December 2017 (restated)	0.2	3.8	2.3	2.8	-	(0.8)	87.0	95.3
1 January 2018 (restated)*	0.2	3.8	2.3	2.8	-	(0.8)	87.0	95.3
Change in Accounting Policy							3.8	3.8
Issue of shares	-	0.8	-	(1.0)	-	-	1.0	0.8
Recognition of share based payment expense	-	-	-	1.4	-	-	-	1.4
Current tax on share based payment expense	-	-	-	-	-	-	0.7	0.7
Deferred tax on share based payment expense	-	-	-	-	-	-	(0.4)	(0.4)
Dividends paid	-	-	-	-	-	-	(8.1)	(8.1)
Transaction with owners	-	0.8	-	0.4	-	-	(3.0)	(1.8)
Profit for the year	-	-	-	-	-	-	28.4	28.4
Other comprehensive loss	-	-	-	-	(0.2)	-	-	(0.2)
Total comprehensive (loss)/income	-	-	-	-	(0.2)	-	28.4	28.2
31 December 2018	0.2	4.6	2.3	3.2	(0.2)	(0.8)	112.4	121.7

*Restated results following the adoption of IFRS 15 as explained in note 3 of the 2018 Annual Report and Accounts

1. 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.

These condensed financial statements do not constitute statutory accounts within the meaning of the Companies Act 2006. They are an extract from the full accounts for the year ended 31 December 2017 on which the auditor has expressed an unqualified opinion and do not include any statement under section 498 of the Companies Act 2006. The full accounts contain a detailed statement of the accounting policies which have been used to prepare this summary. With the exception of those new policies adopted in the year as noted below, the policies have been consistently applied to both of the years presented. The accounts will be posted to shareholders on or before 27 April 2019 and subsequently filed at Companies House.

For the accounting period commencing 1 January 2018 the following new accounting standards are relevant to the Group:

- IFRS 15 Revenue and Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (early adopted at 1 January 2018)
- Amendments to IFRS 9 which replaces IAS 39 (effective date 1 January 2018)

Details of the impact of these accounting standards are shown in Note 3 to the 2018 Annual Report and Accounts.

A full set of the audited statutory accounts will be available at

www.gamma.co.uk/about-us/company/investors/financial-results-and-shareholder-communications

2. Accounting policies

With the exception of Alternative Performance measures and those referenced in note 3 to the 2018 Annual Report and Accounts, the accounting policies adopted are consistent with those followed in the preparation of the audited statutory financial statements for the year ended 31 December 2017.

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) We have completed our first acquisition since our flotation in 2014 and for this year and in future we will show PBT, PAT and EPS figures adjusted for the amortisation of the intangible assets which were recognised on acquisition of the subsidiary. This adjustment is made to improve the comparability between acquired and organically grown operations, as the latter cannot recognise internally generated intangible assets. Adjusting for amortisation provides a more consistent basis for comparison between the two.

(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 influence 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.

(c) Non-recurring tax credit

During the prior 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.

(d) 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.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively*;* and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

When a business combination is achieved in stages, the Group’s previously-held interest in the acquired entity is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

In the case of business combinations completed prior to 1 January 2011 goodwill represents the excess of the cost of a business combination over the Group’s interest in the fair value of 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.

3. Segment information

As a result of the acquisition of DX Groep B.V. the Group has expanded its operating segments to reflect that it now operates in the UK and Overseas. Previously the group presented two operating segments; Indirect and Direct. Operational segments are based on where the sales are generated. The group now presents four operating segments:

- UK Indirect – This division sells Gamma's traditional and growth products to channel partners and contributed 74% (2017: 75%) of the Group's external revenue.

- UK 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. It contributed 25% (2017: 25%) of the Group's external revenues.

- Overseas – This is a new division arising from the acquisition of DX Groep B.V. This division currently consists of sales made by DX Groep B.V. and its subsidiary companies, which in 2018 consisted of sales in the Netherlands. They contributed 1% (2017: 0%) of the Group's external revenues.

- Central functions – This is a new division arising as a result of the overseas expansion. This division consists of costs that were previously included in the UK business but are not specifically attributable to the UK. This is not a revenue generating segment but is made up of the central management team and wider group costs.

As this change in business structure has arisen during the year due to the expansion overseas it is not relevant to the 2017 operating results.

All 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.

	UK Indirect £m	UK Direct £m	Overseas £m	Central Functions £m	Total £m
2018					
Traditional products and services	47.9	11.0	-	-	
Growth (being strategic and enabling) products and services	162.7	59.9	-	-	
Total revenue from external customers	210.6	70.9	**3.4**	**-**	**284.9**
Inter-segment revenue	*52.5*	-	-	-	*52.5*
Timing of revenue recognition					
At a point in time	19.9	3.7	-	-	23.6
Over time	190.7	67.2	3.4	-	261.3
	210.6	*70.9*	*3.4*	-	*284.9*
Traditional products and services	11.9	3.5		-	
Growth (being strategic and enabling) products and services	85.6	29.3		-	
Total gross profit	**97.5**	**32.8**	**1.9**	**-**	**132.2**
Operating profit before depreciation, amortisation and gain on disposal of property, plant and equipment	**35.0**	**16.4**	**(0.4)**	**(2.7)**	**48.3**
Depreciation and amortisation (excluding business combination)	(12.9)	(0.4)	(0.2)	-	(13.5)
Amortisation arising due to business combination	-	-	(0.4)	-	(0.4)
Profit from operations	**22.1**	**16.0**	**(1.0)**	**(2.7)**	**34.4**
Finance income	0.3	-	-	-	0.3
Finance expense	(0.2)	-	-	-	(0.2)
Tax	(4.0)	(2.8)	0.2	0.5	(6.1)
Group profit after tax	**18.2**	**13.2**	**(0.8)**	**(2.2)**	**28.4**
Other comprehensive loss	**-**	**-**	**(0.2)**	**-**	**(0.2)**
Total comprehensive income attributable to the owners of the parent	**18.2**	**13.2**	**(1.0)**	**(2.2)**	**28.2**

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

	UK Indirect £m	**UK Direct £m**	**Overseas £m**	**Central Functions £m**	**Total £m**
Additions to non-current assets	**12.5**	**0.2**	**24.9**	**-**	**37.6**
Recognition on transition to IFRS 16	**6.0**	**0.2**	**-**	**-**	**6.2**
Reportable segment assets	**146.1**	**22.0**	**26.7**	**-**	**194.8**
Reportable segment liabilities	**46.0**	**12.4**	**14.7**	**-**	**73.1**

Direct revenue by Market

	2018 £m	**2017 £m**
Mid-markets	25.1	21.6
Enterprise	27.8	21.4
Public Sector	16.5	12.9
The Loop	1.5	1.2
	70.9	57.1

	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*	134.4	46.3	180.7
Total revenue from external customers*	184.9	**57.1**	**242.0**
*Inter-segment revenue**	*45.8*	-	*45.8*
Timing of revenue recognition			
At a point in time*	18.2	3.8	22.0
Over time*	166.7	53.3	220.0
	184.9	57.1	242.0
Traditional products and services*	12.5	3.7	16.2
Growth (being strategic and enabling) products and services*	70.5	22.0	92.5
Total gross profit*	**83.0**	**25.7**	**108.7**
Operating profit before depreciation, amortisation and gain on disposal of property, plant and equipment	**23.6**	**12.4**	**36.0**
Depreciation and amortisation*	(10.0)	(0.4)	(10.4)
Gain on disposal of property, plant and equipment	0.7	-	0.7
Profit from operations*	**14.3**	**12.0**	**26.3**
Finance income*	0.2	-	0.2
Finance expense	-	-	-
Tax*	(2.0)	(1.8)	(3.8)
Group profit after tax*	**12.5**	**10.2**	**22.7**

*Restated results following the adoption of IFRS 15 as explained in note 3 of the 2018 Annual Report and Accounts

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*	15.4	0.4	15.8
Reportable segment assets*	125.2	28.5	153.7
Reportable segment liabilities*	45.7	12.7	58.4

*Restated results following the adoption of IFRS 15 as explained in note 3 of the 2018 Annual Report and Accounts

4. Tax expense

	2018 £m	2017 £m*
Current tax expense		
Current tax on profits for the year	**4.9**	5.1
Adjustment in respect of prior year	**0.1**	(0.9)
Overseas tax	**0.2**	-
Total current tax	**5.2**	4.2
Deferred tax expense		
Origination and reversal of temporary differences	**0.9**	(0.4)
Total deferred tax	**0.9**	(0.4)
Total tax expense	**6.1**	3.8

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

	2018 £m	2017 £m*
Profit before income taxes	**34.5**	26.5
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 19.00% (2017: 19.25%)	**6.6**	5.1
Additional deduction for R&D expenditure	**-**	(0.4)
Adjustment in respect of prior year	**(0.5)**	(0.9)
Total tax expense	**6.1**	3.8

*Restated results following the adoption of IFRS 15 as explained in note 3 of the 2018 Annual Report and Accounts

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

In 2018 there is no deduction for R&D expenditure shown within the tax expense as it is now shown within EBITDA inline with the R&D Expenditure Credit Scheme.

5. Earnings per share

Earnings per share

The calculation of basic earnings per Ordinary Share is based on a profit after tax of £28.4m (2017: £22.7m) and 93,646,411 Ordinary Shares (2017: 92,750,844 Ordinary Shares), being the weighted average number of Ordinary Shares in issue during the period.

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:

	2018 No.	2017 No.
Weighted average number of Ordinary Shares for basic earnings per share	**93,646,411**	92,750,844
Effect of dilution resulting from share options	**1,108,034**	1,651,182
Weighted average number of Ordinary Shares adjusted for the effect of dilution	**94,754,445**	94,402,026

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

	Total 2018 £m	Total 2017 £m*
Profit for the year	**28.4**	22.7
Less tax adjustment in respect of prior years	**-**	(0.9)
Add amortisation arising on business combination	**0.4**	-
Less tax benefit associated with one-off costs	**(0.1)**	-
Adjusted profit after tax for the year	**28.7**	21.8

*Restated results following the adoption of IFRS 15 as explained in note 3 of the 2018 Annual Report and Accounts

	2018	2017*
Adjusted earnings per Ordinary Share – basic (pence)	**30.6**	23.5
Adjusted earnings per Ordinary Share – diluted (pence)	**30.3**	23.1

*Restated results following the adoption of IFRS 15 as explained in note 3 of the 2018 Annual Report and Accounts

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.

6. Dividends

A final dividend of 3.1p was paid on the 18 October 2018 (2017: 2.8p).

A final dividend of 6.2p will be proposed at the Annual General Meeting but has not been recognised as it requires approval (2017: 5.6p). The total amount of dividends proposed is 9.3p (2017: 8.4p). The payments of these dividends do not have any tax consequences for the Group.

7. Property, plant and equipment

	Network assets £m	Customer Premises equipment £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost					
At 1 January 2018	65.5	0.8	7.0	1.0	74.3
Additions	10.0	-	0.2	-	10.2
Acquisition of subsidiary	0.7	-	0.3	0.1	1.1
Disposals	-	(0.2)	-	-	(0.2)
Reclassification	0.6	(0.6)			-
At 31 December 2018	**76.8**	**-**	**7.5**	**1.1**	**85.4**
Depreciation					
At 1 January 2018	39.3	0.7	4.5	0.6	45.1
Charge for the year	7.3	-	1.2	0.2	8.7
Disposals	-	(0.2)	-	-	(0.2)
Reclassification	0.5	(0.5)	-	-	-
At 31 December 2018	**47.1**	**-**	**5.7**	**0.8**	**53.6**
Net book value					
At 1 January 2018	26.2	0.1	2.5	0.4	29.2
At 31 December 2018	**29.7**	**-**	**1.8**	**0.3**	**31.8**
Cost					
At 1 January 2017*	54.5	1.1	6.2	0.7	62.5
Additions*	11.0	-	0.8	0.3	12.1
Disposals*	-	(0.3)	-	-	(0.3)
At 31 December 2017*	65.5	0.8	7.0	1.0	74.3
Depreciation					
At 1 January 2017*	33.6	0.7	3.4	0.2	37.9
Charge for the year*	5.7	0.3	1.1	0.4	7.5
Disposals*	-	(0.3)	-	-	(0.3)
At 31 December 2017*	**39.3**	**0.7**	**4.5**	**0.6**	**45.1**
Net book value					
At 1 January 2017*	20.9	0.4	2.8	0.5	24.6
At 31 December 2017*	**26.2**	**0.1**	**2.5**	**0.4**	**29.2**

*Restated results following the adoption of IFRS 15 as explained under note 3 of the 2018 Annual Report and Accounts

8. Right of use assets

	Land and buildings £m	Other £m	Total £m
Cost			
At 1 January 2018 – recognition on transition to IFRS 16	6.0	0.2	6.2
Acquisition of subsidiary	0.2	-	0.2
Additions	0.1	-	0.1
Disposals	(1.1)	-	(1.1)
At 31 December 2018	**5.2**	**0.2**	**5.4**
Depreciation			
At 1 January 2018	-	-	-
Charge for the year	1.3	0.1	1.4
Disposals	(0.2)	-	(0.2)
At 31 December 2018	**1.1**	**0.1**	**1.2**
Net book value			
At 1 January 2018	-	-	-
At 31 December 2018	**4.1**	**0.1**	**4.2**

9. Intangible assets

	Goodwill on consolidation £m	Development costs £m	Customer contracts £m	Brand £m	Software £m *	Total £m *
Cost						
At 1 January 2018	12.5	7.2	2.1	-	10.0	31.8
Additions	-	1.3	-	-	1.2	2.5
Acquisitions of subsidiary	7.2	0.4	15.1	0.9	0.2	23.8
At 31 December 2018	**19.7**	**8.9**	**17.2**	**0.9**	**11.4**	**58.1**
Amortisation						
At 1 January 2018	4.5	5.2	2.1	-	4.5	16.3
Charge for the year	-	1.2	0.4	-	2.2	3.8
At 31 December 2018	**4.5**	**6.4**	**2.5**	**-**	**6.7**	**20.1**
Carrying value						
At 1 January 2018	8.0	2.0	-	-	5.5	15.5
At 31 December 2018	**15.2**	**2.5**	**14.7**	**0.9**	**4.7**	**38.0**
Cost						
At 1 January 2017	12.5	6.1	2.1	-	7.4	28.1
Additions	-	1.1	-	-	2.6	3.7
At 31 December 2017	**12.5**	**7.2**	**2.1**	**-**	**10.0**	**31.8**
Amortisation						
At 1 January 2017	4.5	4.2	2.0	-	2.7	13.4
Charge for the year	-	1.0	0.1	-	1.8	2.9
At 31 December 2017	**4.5**	**5.2**	**2.1**	**-**	**4.5**	**16.3**
Carrying value						
At 1 January 2017	8.0	1.9	0.1	-	4.7	14.7
At 31 December 2017	**8.0**	**2.0**	**-**	**-**	**5.5**	**15.5**

*Restated results following the adoption of IFRS 15 as explained under note 3 of the 2018 Annual Report and Accounts

10. Business combinations

Summary of acquisition

On 1 October 2018 the group acquired 100% of the issued share capital of DX Groep B.V., a provider of telephony services. The acquisition has provided Gamma Communications Plc initial access to the European telecommunications market.

Details of the purchase consideration, the net assets acquired, and goodwill are as follows:

	At Acquisition £m	Fair Value adjustment £m	31 December 2018 £m
Cash paid	**11.5**	**-**	**11.5**
Contingent consideration	**8.1**	**-**	**8.1**
Total purchase consideration	**19.6**	**-**	**19.6**

In the event that pre-determined EBITDA is achieved by the subsidiary by the year ended 31 December 2019, additional consideration of up to €14m may be payable in cash on 10 May 2020.

The potential undiscounted amount payable under the agreement is between €nil (£nil) for EBITDA in the year ended 31 December 2019 of less than £1.6m (€1.8m) and £12.6m (€14m) for EBITDA of £3.3m (€3.7m) or more. Sterling values have been translated at the closing exchange rate of 1.1128.

The fair value of contingent consideration of £8.1m was estimated by calculating the present value of future expected cash flows. The estimates are based on a discount rate of 4% and 2019 EBITDA €3m with an earnings multiplier of 7.5 times less the cash already paid.

To date DX Groep B.V. is performing in line with expectations.

Th provisional fair value of the assets and liabilities recognised as a result of the acquisition are as follows:

	At Acquisition £m	Fair Value adjustment £m	31 December 2018 £m
Cash	**0.4**	**-**	**0.4**
Trade receivables	**0.5**	**-**	**0.5**
Inventories	**0.1**	**-**	**0.1**
Tangible fixed assets	**1.1**	**-**	**1.1**
Intangible fixed assets – pre existing	**1.1**	**(0.5)**	**0.6**
Intangible – customer contracts	**-**	**15.1**	**15.1**
Intangible - brand	**-**	**0.9**	**0.9**
Financial assets	**-**	**-**	**-**
Trade payables	**(1.0)**	**-**	**(1.0)**
Other receivables	**0.6**	**-**	**0.6**
Other payables	**(2.0)**	**-**	**(2.0)**
Current tax	**(0.2)**	**-**	**(0.2)**
Deferred tax liability/asset	**-**	**(3.7)**	**(3.7)**
Net identifiable assets acquired	**0.6**	**11.8**	**12.4**
Add: Goodwill			**7.2**
Net assets acquired			**19.6**

There were no acquisitions in the year ended 31 December 2017.

Acquired receivables

The fair value of acquired trade receivables is £0.5m. The gross contractual amount for trade receivables due is £0.5m, of which £nil is expected to be uncollectible.

Revenue and profit contribution (unaudited)

The acquired business contributed revenues of £3.4m and net profit of £0.1m to the group for the period from 1 October 2018 to 31 December 2018.

If the acquisition had occurred on 1 January 2018, consolidated pro-forma revenue and profit for the year ended 31 December 2018 would have been £14.4m and £0.8m respectively. These amounts have been calculated as follows:

	Revenue £m	Profit £m
For the year ended 31 December 2018	**14.4**	**0.1**
Add: Transaction costs	**-**	**0.7**
For the year ended 31 December 2018 if the acquisition occurred on 1 Jan 2018	**14.4**	**0.8**

Goodwill

The goodwill of £4.6m is attributable to the acquired Group acting as a focal point through which Gamma can broaden its geographical footprint in the medium-term. The goodwill is not deductible for tax purposes.

Purchase consideration – cash outflow

	2018 £m
Cash consideration	**11.5**
Less: Cash acquired	**(0.4)**
Net outflow of cash – Investing activities	**11.1**

Valuations of intangible assets

Customer relations were valued under the Income Method and the Brand under The Relief from Royalty Method.

11. Events after the reporting date

On 4 February 2019 acquired the Nimsys group of companies for an initial consideration of £3.5m (€4.0m) (net of acquired cash and debt) with up to another £3.2m (€3.6m) payable contingent on performance in 2019 and 2020, converted using the acquisition date exchange rate of 1.1414. Nimsys is based in the Netherlands and provides internet, cloud telephony and associated IT services primarily to the operators and tenants of premium multi-tenant office buildings across the Netherlands and derives its revenue primarily from recurring service contracts with those operators and their tenants.

Due to the proximity of the acquisition to the publication of these accounts and given the materiality of the transaction, the Group has not yet completed the purchase price allocation and it is impracticable to give further information.