3 September 2019

Gamma Communications plc
Unaudited results for the six months ended 30 June 2019

Strong Group performance in all product areas

Gamma Communications plc ("Gamma" or "the Group"), a leading, technology based provider of communications services to the business market, is pleased to announce its unaudited results for the six months ended 30 June 2019.

	Six months ended 30 June		
	2019	**2018**	**Change (%)**
Revenue	£158.2m	£137.6m	*+15%*
Gross profit	£78.1m	£62.3m	*+25%*
Gross margin	*49%*	*45%*	
EBITDA (also being Adjusted EBITDA)	£30.4m	£21.8m	*+39%*
PBT	£21.7m	£15.5m	*+40%*
Adjusted PBT	£22.8m	£15.5m	*+47%*
EPS (Fully Diluted, "FD")	19.4p	13.4p	*+45%*
Adjusted EPS (FD)	19.2p	13.4p	*+43%*
Total dividend per share	3.5p	3.1p	*+13%*
Cash generated by operations	£27.4m	£18.4m	*+49%*
Cash generated by operations / adjusted EBITDA	*90%*	*84%*	

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 of APMs are included in the Financial Review. Our policy on the use of APMs is included in note 2.

Note that figures for 2018 do not include the Overseas businesses as they did not form part of the Group in the first half of 2018. The 2019 figures include revenue of £7.3m and gross profit of £4.3m in respect of the Overseas businesses.

Key Highlights

Continued strong growth across the major product groups.

- The number of installed SIP Trunks increased from 856,000 at 31 December 2018 to 938,000 at 30 June 2019 (+10%).
- The number of Horizon (Cloud PBX) users increased from 435,000 to 478,000 (+10%). The main growth area was in the SME segment which is Gamma's target market segment.
- Collaborate, the fully integrated Unified Communications upgrade to Horizon which was launched in March 2019, already has over 4,000 users.
- Our connectivity products have continued to perform well as part of our overall solution strategy. In the first six months of the year, Broadband has increased from 94,000 units (at 31 December 2018) to 103,000 at 30 June 2019 (+10%) and Ethernet from 8,370 to 11,000 (+31%). Mobile connections have increased from 50,000 to 60,000 (+20%).

The UK Indirect business continues to grow strongly with a focus on the existing partner base.

- Gross profit from UK Indirect business increased from £46.6m in H1 2018 to £55.9m in H1 2019 (+20%).
- The Gamma Academy delivered 11,908 training courses to channel partners during H1 2019 (H1 2018: 8,349).
- Gamma Accelerate delivered a significant increase in marketing campaigns run by channel partners during the period with 796 of Gamma's partners now actively using the platform (2018: 663).

The UK Direct business has had a strong start to the year.

- Gross profit up from £15.7m in H1 2018 to £17.9m in H1 2019 (+14%).
- The direct business achieved significant new multi-year contract wins, including HMRC, Hogg Robinson, Inchcape plc, Bourne Leisure, NHS Lanarkshire and HM Land Registry.
- In the Public Sector, Gamma was successful in achieving accreditation as an approved supplier in seven lots which were applied for and were awarded by the Crown Commercial Service (“CCS”) on its Network Services 2 framework agreement, (RM3808).
- We continue to invest in our digital transformation and we are currently focused on the planning & execution of phase 2 which will significantly improve customer experience and drive efficiency within customer service management/delivery.

In respect of our Overseas business, the integration of our Dutch businesses went well in the first half.

- Gross profit of £4.3m for H1 2019. There are no comparatives as the business wasn’t owned in H1 2018.
- The number of Cloud seats at the end of the half was over 20,000 and growing steadily at around 400 seats per month.
- Dean One has withdrawn a legacy platform which will make the business more efficient and better prepared for future growth.
- The mobile service provider deal signed with T-Mobile has been well received by both the retail and wholesale channels and the mobile base doubled to over 4,500 connections in the first half of the year.
- The Nimsys acquisition made in February continues to perform ahead of our expectations.

Andrew Taylor, Chief Executive Officer, commented,

“We have delivered a strong business performance and an excellent set of financial results during the first six months of 2019, with both our UK Indirect and UK Direct businesses continuing to grow well. Despite an increasingly competitive market, our product performance was positive, and during the period we continued to invest in developing and launching new products and service capabilities. This included our new Collaborate product which has been well received across the market. The development and execution of our Gamma 2023 strategy is progressing well, and looking forward we will continue to focus our efforts on strengthening our competitive position and ensuring that we further enable both our customers and our channel partners to be successful in the marketplace”

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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 Unified Communications as a Service (“UCaaS”) (including Gamma’s Cloud PBX product, Horizon, and Collaborate), 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

I am pleased to present the unaudited results for the six months ended 30 June 2019.

Overview of Results

Group revenue for the six months ended 30 June 2019 increased by £20.6m to £158.2m (H1 2018: £137.6m) an increase of 15% on the prior half year. Of this increase, £7.8m came from the UK Indirect business where revenue increased to £110.9m (H1 2018: £103.1m) while £5.5m came from the UK Direct business which saw revenue increase to £40m (H1 2018: £34.5m) and our overseas businesses contributed £7.3m. The organic revenue growth (i.e. eliminating the effect of acquisitions in the Netherlands) was £13.3m or just over 9% which is pleasing. Gross profit for the six months to 30 June 2019 rose to £78.1m, an increase of 25% compared to the £62.3m achieved in the same period of 2018, whilst the gross margin increased to 49% (H1 2018: 45%) due to improved product mix. EBITDA and adjusted EBITDA for the group increased by 39% to £30.4m (H1 2018: £21.8m).

Adjusted fully diluted earnings per share for the half year increased by 43% to 19.2p (H1 2018: 13.4p). Statutory earnings per share increased by 45% from 13.4p to 19.4p.

The Cash Generated by Operations for the first half was £27.4m compared to £18.4m in H1 2018. This represents a cash to adjusted EBITDA conversion ratio in respect of 2019 of 90% compared to 84% for H1 2018. The closing cash balance for the half year was £44.8m compared to £35.5m at the end of December 2018.

Dividend

Gamma remains committed to a progressive dividend policy. The Board is therefore pleased to declare an interim dividend, in respect of the six months ended 30 June 2019, of 3.5 pence per share (2018: 3.1 pence) an increase of 13% which will be payable on Thursday 24 October 2019 to shareholders on the register on Friday 27 September 2019.

Business Development

We continue to focus on increasing our penetration in the UCaaS market which involves launching new products as well as developing our existing product portfolio. 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 own businesses.

During the first half of 2019 we launched Collaborate, our conferencing and collaboration service that augments our Market leading Cloud PBX service, Horizon. This additional service provides a fully integrated UCaaS solution targeted at larger SMEs. The product offers audio and videoconferencing and instant messaging functionality. This is the first step in Gamma's strategic aim to be a major player in the fast growing UCaaS market. Since the launch of the service in March we have seen a strong initial take-up of the service and a solid pipeline of opportunities for mainly new customers with some upsell to existing Cloud PBX customers looking to augment their existing service.

Increasingly we are focusing on providing services that support the integration of business communication tools. We have therefore focused on integrating the core Horizon product with a greater number of CRM and wider business systems such as Microdec (a CRM system for recruitment) and updating for the latest version of Microsoft Dynamics in their Office 365 solution. This helps Gamma's service become an integral part of the end user's key business systems which promotes customer loyalty.

Alongside product development, we continue to invest in programmes that support channel partners to develop and optimise their own businesses. Specifically, we increased our focus on our channel partner marketing platform (Accelerate), and created new partner programmes to assist them in generating and converting customer leads into new sales, and transitioning legacy services to more margin rich solutions.

In addition, 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, and assists them in providing high quality service for their customers.

In the UK Indirect channel, our channel partners continue to drive growth in our key products.

Our UK Direct business continues to perform well across all market segments. However, we are particularly pleased with new contract wins in Enterprise with larger, more complex communications solutions being designed, deployed and managed by our UK Direct organisation.

Our continued investment in the Public Sector continues to provide good returns, and our recent award of the Crown Commercial Network Service 2 Framework, will ensure this market segment will continue to grow. I am also delighted with two recent Central Government contract awards with HMRC for SIP and HM Land Registry for data and inbound voice services and as this is a new focus for Gamma, these early successes are promising.

Gamma is now represented on all major Public Sector procurement frameworks covering Government, Health and Education.

As a key strategic priority, we are continuing our investment in an end-to-end digital strategy with the objective of improving customer service and driving improved levels of operational scalability and efficiency across our UK Direct organisation.

As a key part of our Gamma 2023 growth strategy, we plan to exploit the opportunity for Cloud PBX growth across Europe where markets are generally less developed and are several years behind the UK in their adoption curve. Our strategy is to acquire businesses in Western Europe and through our expertise in Cloud PBX, enable those businesses to accelerate growth and develop strong channel go to market capabilities.

In 2018 we bought the DX Groep and added Nimsys to that in early 2019. The Dutch business as a whole has performed well and we have rationalised the Cloud PBX business and consolidated users onto one platform which will provide a better and more efficient way to support their future growth. This will enable us to realise synergies in the purchase of both software and hardware. The Cloud PBX business has grown in line with expectations whilst, revenue from legacy products (such as ISDN) had been expected to decline but the rate of decline was greater than had been forecast. This has reduced the level of contribution to the group for this half year and also reduced the level of deferred consideration due (the accounting treatment for this is discussed in the Financial Review below).

The Board is supportive of the European expansion strategy and we continue to evaluate targets in the Netherlands and across Western Europe.

Board and Employees

As of the 30 June 2019, Gamma had 1,079 employees, an increase from 1,044 at 31 December 2018. This growth is driven by the general expansion of the business (both organic and by acquisition) and the continued investment in new service development and changing mix of products. Meanwhile operational gearing efficiencies have helped adjusted EBITDA margin grow from 16% of revenue in the first half of 2018 to 19% of revenue in the first half of 2019.

The Board is keen to encourage share ownership amongst employees and was pleased to be able to award each employee with £500 of free shares in June 2019 as part of the Share Incentive Plan ("SIP") scheme. The company runs an annual Sharesave scheme which has been very popular in the past. Once again, it was particularly pleasing to see the exceptionally high uptake, with 459 staff choosing to participate in the scheme (2018: 257).

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 in their professional development by providing valuable work experience and supporting their continued education towards nationally recognised qualifications. We currently employ 13 apprentices across 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. Expanding opportunities for apprentices across the business remains a priority for Gamma. We consider diversity an important part of our culture at Gamma, and we run a number of programmes across our business to support and promote this.

I was also very pleased to welcome Henrietta Marsh onto the Board as a Non-Executive Director in April. She brings a wealth of experience to the Group gained in both private equity and similar roles in listed companies. She is also a member of the London Stock Exchange's AIM advisory group.

Outlook

The Board is positive about the remainder of 2019 and beyond. Gamma has a business model which delivers a high percentage of recurring revenues. In the UK, Gamma will continue to concentrate efforts and investment on strengthening our relationship and capabilities to support the channel to be successful, while ensuring that in the UK Direct business, we continue to focus on growth and building on an already strong reputation for operational excellence and service quality. We will also continue to identify businesses in Western Europe where we believe their growth can be enhanced by Gamma's know-how and product set.

Richard Last
Chairman

Chief Executive Review

I am delighted to be able to report another strong half of continued growth. We have delivered strong revenue and margin growth representing a positive performance and a good set of financial results.

Strategy

At our Capital Markets Day in January 2019, we outlined the work we completed in 2018 to assess how relevant markets might evolve and how our growth strategy would focus on the following four key areas:

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

During the first half of 2019 we made good progress in developing these areas of strategic focus into more detailed plans for execution. Key highlights include:

- We launched our first complete UCaaS product 'Collaborate' and also assessed the options available to us in evolving our UCaaS proposition for different market sectors.
- In support of our objective to move to a 'lighter' Mobile Virtual Network Operator ("MVNO") model, we are working with our Mobile Network Operator ("MNO") partner to ensure we can provide our customers with the latest and most advanced services including 5G.
- In Western Europe, we have carried out a full market assessment and short list of potential M&A targets in France, Germany and Spain. Discussions are ongoing with a small number of potential targets. We take a cautious approach to acquisitions and have decided not to proceed with certain opportunities following initial due diligence.
- We acquired Nimsys (total consideration will be between £3.7m and £6.9m) as an extension to the Dean One business in the Netherlands. We continue to evaluate additional opportunities in the Netherlands which would give us additional scale in that territory.
- We have further developed our digital strategy. This has given us a clear and realistic plan for how to build on our existing digital capabilities, as user behaviours and expectations evolve.

Our strategic priorities will be carried out in such a way so as to ensure they are sustainable for the mid to long term benefit of our business.

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 UK Indirect channel partners and our UK Direct business.

The key focus of our product developments for the near term is the enhancement of our Cloud PBX and SIP services to add UCaaS features. We also support the changing traditional hardware PBX market with added value SIP Trunking services.

In addition to the launch of Collaborate, we have a programme of enhancements to our Horizon service that is focused on matching the requirements of larger SMEs, a key focus of our growth plan. These features include an enhanced call recording solution, an integrated cloud contact centre service and an extension of our support for the service outside the UK.

Our SIP Trunking product continues to be an important part of our portfolio because (1) a significant number of businesses in the UK still purchase a hardware PBX which will require a SIP Trunk; and (2) many Hosted PBX solutions provided by software vendors (for example, Microsoft Teams) also require a SIP Trunk service. Hence even as businesses move to cloud solutions there will continue to be a significant market for Gamma's SIP offering. We therefore continue to add features to our market leading SIP Trunk service, focusing on adding value to solutions such as Microsoft Teams for businesses that require high quality integration with voice 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, and to augment our UCaaS focused strategy. In the latter half of 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.

Looking forward, mobile will form a fundamental part of our UCaaS product strategy, where Gamma aims to provide a differentiated "quality assured" service to business customers as part of an overall business communications portfolio to SMEs.

Another key part of our strategy is continued investment in our digital platforms. These support the sales processes of the UK Indirect and UK 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 decreasing 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.

UK Indirect Business

Revenue growth was pleasing in H1 2019 as revenues increased by £7.8m to £110.9m (2018: £103.1m). The UK Indirect business currently accounts for 70% of our group revenue. We saw continued growth across all key product areas increasing our market share despite rising competition where existing and new entrants are vying for channel business. We have met this challenge in different ways drawing on our cross sales capabilities and our UCaaS product, Collaborate, which was launched successfully to the channel in March 2019.

Our broad product portfolio and increased connectivity capabilities (e.g. WiFi, Converged FTTC) bring operational and technical benefits to differentiate Gamma from the competition.

The launch of Collaborate has been well received by the channel. The product is seen as being easy to deploy and manage. Initial feedback has been excellent, and the channel team are now engaged with channel partner sales teams to increase the numbers of provisioned seats.

In SIP we continue to exploit our strong position in the channel by offering a variety of different pricing and technical formats alongside our consistent quality of service and sales support. This has resulted in continued strong sales in a market which is slowing as SIP becomes more penetrated. Additionally, we have seen rapid up-sell of our call manager feature enhancement reinforcing our reputation as market leader.

UK Direct Business

Revenue growth was strong and grew by £5.5m to £40.0m in H1 2019 (2018: £34.5m). Our Mid-Market and Enterprise businesses secured a good combination of new logo wins and existing customer contract extensions and expansions. Some of the notable successes in the period were:

- InHealth, the UK's largest specialist provider of diagnostic and healthcare solutions, has deployed Gamma's Horizon to 400 staff at their HQ. This has involved Gamma integrating a third party cloud contact centre solution with Horizon.
- Corporate services provider Hogg Robinson Group contracted with Gamma for a high capacity, highly resilient SIP solution to replace their legacy ISDN estate and improve customer service.
- Bourne Leisure, one of the largest providers of holidays and holiday home ownership in the UK, selected Gamma's managed mobile service for its 2,500 UK employees.
- Global automotive distributor and retailer, Inchcape plc, awarded Gamma a multi-year Wide Area Networking contract to connect all their UK locations with a high availability converged network.

In addition, the successful roll out of the ALDI contract (which was announced and awarded in 2018) continued throughout the first half.

In the Public Sector, Gamma was successful in achieving accreditation as an approved supplier in seven lots which were applied for and were awarded by the Crown Commercial Service ("CCS") on its Network Services 2 framework agreement, (RM3808). The CCS expects to award three remaining lots in due course. The award recognises Gamma's continued commitment to providing high quality communication solutions to the sector and expands the opportunity to work with even more organisations across the UK. This will ensure that all Gamma products and services continue to be available to this key market segment.

We have been successful in central Government with a notable win with HMRC for a large SIP deployment to support their office consolidation program and The HM Land Registry contracted with Gamma for advanced inbound voice services.

Our digital transformation program continues, with the consolidation of multiple systems onto a single customer-centric platform well underway with phase 1 live and phase 2 planned for completion by the end of 2019.

UK Network

Gamma's high capacity national optical network, commissioned in 2018, now delivers an additional 300Gb/s of connectivity into the business. Utilisation on this optical network now stands at just one tenth of the available wavelength capacity, providing Gamma with an unrivalled capability to deliver growth in connectivity as our customers continue to realise the benefits of high speed access to digital products and services. We are able to service the increasing demand for 1Gb/s and 10Gb/s customer premises access circuits with ease whilst also delivering point to point 10Gb/s services between major central business districts. Whilst delivering this growth our operational team have progressed the decommissioning of our legacy optical network and the associated real estate which will deliverifurther cost optimisation.

Overseas Business

The Group operates through three brands in the Netherlands and each is discussed below.

Growth in Cloud PBX at Dean One has been satisfactory and in line with the market and the T-Mobile deal (signed at the end of 2018) has seen good growth in revenue from mobile and has also been used as a "way in" to new channel partners with whom the business had no previous relationship. The reduction in ISDN revenues and the accounting implications are discussed in the Finance Review below.

Schiphol Connect has successfully migrated the vast majority of its customer base from legacy products onto its own next generation products which has resulted in a performance ahead of plan with a significant increase in profitability. In addition, it has won 70 new customers. The business unit is now focused on upselling.

Nimsys exceeded expectations in the first five months of ownership. Since the acquisition in February, Nimsys has added three business centres to its network and connected more than 60 new customers including Avanade, Whitepages, Scott Brownrigg, ING and Rosewood Hotel. Nimsys is now focusing on replacing some of its legacy product offerings with equivalent offerings from Dean One.

Outlook

Looking forward, we will focus on executing against our short-term business and financial commitments while ensuring that we continue to develop and execute against our 2023 strategic plan. As a business, we will continue to be focused on our customers and ensuring that we provide our channel partners with high quality products and services, and when coupled with an exciting commercial framework will enable them to win market share and successfully grow their business.

As part of our 2023 Strategy, we will continue to develop our UCaaS products to address the UK business market, with a primary focus on the larger end of the SME segment where we see significant opportunities. In addition we recognised the importance of a robust network which underpins our UcaaS service and we continue to work with providers of access services across both fixed and mobile to ensure we have a market leading product portfolio.

In addition, we will continue to evaluate opportunities in Western Europe and we would hope to announce additional acquisitions during the next 12 months.

As a final point, I would like to personally thank our staff, partners and customers for their contribution and ongoing support. Our performance during the first half of the year has been strong, and despite potential “bumps in the road” due to the economy, we remain optimistic about the future growth prospects for Gamma. We have a market leading position, a strong product offering and high levels of revenue which are both contracted and recurring, which puts us in a strong position. As such, we do not anticipate any material impact from Brexit on the outcome for the current year.

Andrew Taylor
Chief Executive Officer

Financial review

Revenue and gross profit

UK Indirect
Revenue from the UK Indirect business grew from £103.1m to £110.9m (+8%) and gross profit grew from £46.6m to £55.9m – an increase of £9.3m (+20%).

The traditional business (which includes calls and lines and trade with other carriers) continues in line with the previous period. The gross profit from this part of the business remained constant at £5.9m (2018: £5.9m). 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 and revenue from growth product sales increased from £78.7m to £89.3m (+13%) and gross profit grew from £40.7m to £49.8m (+22%). The gross margin grew from 52% to 56%, which reflects the fact that the main contributors to this growth were SIP Trunking and our Cloud PBX product (Horizon) which have higher margins than other products.

UK Direct
The UK Direct business continues to grow strongly. Revenue increased from £34.5m in 2018 to £40.0m (+16%) and gross profit from £15.7m to £17.9m (+14%). The gross margin for the first half was 45% (2018: 46%); the slight reduction reflecting lower margins earned on some very large new business.

The growth was mainly attributable to sales to Enterprise customers increasing by £3.3m. Mid-Market showed growth of £1.6m and Public Sector grew by £0.6m. This business continues to move from selling to smaller customers to larger enterprise businesses and public sector customers on multi-year deals. The order book remains strong with significant customer wins anticipated in the second half.

Overseas
The Dutch business contributed £7.3m of revenue in the first half of 2019, £4.3m of gross profit – a margin of 59%. There are no comparatives as the business was not owned in H1 2018.

Gamma acquired DX Groep in October 2018 and Nimsys in February 2019. The initial acquisition price for DX Groep was £11.5m and it is unlikely any further consideration will be paid due to a greater than expected drop off of ISDN revenue in 2019. As a result, the level of contingent consideration has reduced to nil with an equivalent reduction in carrying value of associated assets – this is discussed under “Exceptional Items” below. The initial acquisition price for Nimsys was £3.7m with up to another £3.2m payable dependent on performance in 2019 and 2020. Therefore the overall consideration for the two Dutch businesses will be between £15.2m and £18.4m.

The Overseas Businesses generated revenue of £7.3m and trading EBITDA of £1.2m in the first half.

In the first half, the Group also incurred costs of £0.9m related to the sourcing and evaluation of acquisition opportunities in Europe. When combined with the trading EBITDA of £1.2m, the overall EBITDA contribution of the overseas part of the Group was £0.3m in the first half.

Operating expenses

Operating expenses grew from £46.8m to £56.3m.

We break these down as follows:

	H1 2019 £m	H1 2018 £m
Expenses included within cash generated from operations	46.6	39.5
Depreciation and amortisation – tangible and intangible assets	6.7	5.6
Depreciation and amortisation – right of use assets	0.8	0.7
Amortisation – acquisition	1.1	-
Share based payments	1.1	1.0
Operating expenses	**56.3**	**46.8**

We separately present expenses included within cash generated from operations which have a more immediate effect on the cashflows 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.

Movements in cash based expenses were driven by:

- underlying overhead growth (half on half) of £3.1m with an additional £4.0m of overhead coming from the overseas businesses (i.e. the spend was not incurred in H1 2018);
- “organic” overhead growth, the drivers continue to be continued investment in products and systems (and particularly our digital strategy) and also the sales team; and
- we are continuing to invest in our support teams to ensure that we provide sector leading support to channel partners and end users.

Depreciation and amortisation on tangible and intangible assets have increased from £5.6m in the first half of 2018 to £6.7m in the present half. This is driven by increased capex over the past few years.

Exceptional Items

The exceptional items relate to the contingent consideration which is due for the acquisition of the DX Groep. In preparing the statutory accounts for 2018 we made our best estimate of the contingent consideration. During 2019 a higher than expected attrition rate of legacy customers taking ISDN caused the revenues to be lower than expected. It should be noted that the margins made on ISDN in the Netherlands (c.40%) are much higher than in the UK and therefore this acceleration of churn from legacy products has had a disproportionate effect on profit. This means that we have both revised our estimate of the contingent consideration due and have also considered whether the intangible assets and goodwill which were acquired with the business require reduction.

As a result of the above there are four exceptional items:

- A credit of £8.1m arising from the release of the contingent consideration.
- A debit of £3.9m arising from the reduction in carrying value of the intangible assets.
- A debit of £4.2m arising from the reduction in carrying value of goodwill.
- A credit of £1.0m relating to deferred tax movements in connection with the reduction in carrying value of intangible assets.

None of these items is a cash item. The alternative performance measures referred to herein are adjusted for these items.

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:

2019

Measure	Statutory basis	Amortisation of intangibles on business combination	Tax on amortisation of intangibles on business combination	Exceptional items	Adjusted basis
EBITDA (£m)	30.4	-	-	-	30.4
PBT (£m)	21.7	1.1	-	-	22.8
PAT (£m)	18.5	1.1	(0.3)	(1.0)	18.3
EPS (FD) (p)	19.4	1.1	(0.3)	(1.0)	19.2

2018

Measure	Statutory basis	Amortisation of intangibles on business combination	Tax on amortisation of intangibles on business combination	Exceptional items	Adjusted basis
EBITDA (£m)	21.8	-	-	-	21.8
PBT (£m)	15.5	-	-	-	15.5
PAT (£m)	12.7	-	-	-	12.7
EPS (FD) (p)	13.4	-	-	-	13.4

Adjusted EBITDA and EBITDA

The combination of increasing sales of new products and operational improvements means that both EBITDA and adjusted EBITDA grew from £21.8m in H1 2018 to £30.4m or 39%.

Taxation

The effective tax rate for the first half of 2019 was 15% (2018: 18%). This rate is artificially depressed by the exceptional tax credit of £1.0m which relates to the reduction of the intangible assets acquired with the DX Groep. The underlying tax rate (ignoring this credit) would have been slightly above the statutory UK rate of 19% due to disallowable expenditure.

Cash flows

The cash balance at the end of the half was £44.8m, up from £35.5m at the end of the previous year.

The ratio of adjusted EBITDA to cash generated from operations was 90% in the first half (2018: 84%).

Significant non-operational spend items were –

- Capital spend for the half was £5.2m, which is a decrease from £6.3m in the comparative period. This is discussed in detail below.
- £3.4m was paid for the acquisition of Nimsys net of cash acquired (2018: nil)
- £5.8m was paid as dividends (2018: £5.2m)

Capital spend in the first half was as follows -

- Regular spend on maintaining and increasing capacity on the core network was £5.2m (2018: £5.2m):
    - £4.0m 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 (2018: £4.2m).
    - £0.8m was the capitalisation of development costs incurred during the period (2018: £0.5m).
    - £0.4m was spent with third party software vendors for the software which underpins our Cloud PBX product (2018: £0.5m).

- Project spend in the current period was nil (2018: £1.1m was spent on the national network).

The Group continues to have no external debt 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.

Adjusted EPS (FD) and Statutory EPS (FD)

Adjusted EPS (FD) increased from 13.4p to 19.2p (43%). The growth in adjusted EPS (FD) has been significant due to the very strong trading in the half described earlier.

Statutory EPS (FD) grew from 13.4p to 19.4p (45%). The growth is higher than the adjusted metric because, in the current period, there is amortization relating to business combinations which was not present in the prior year and which is an adjusting item.

Dividends

The Board has proposed an interim dividend of 3.5p (2018: 3.1p). This is an increase of 13% and is in line with our progressive dividend policy.

The interim dividend is payable on Thursday 24 October 2019 to shareholders on the register as at Friday 27 September 2019.

Andrew Belshaw
Chief Financial Officer

MANAGEMENT STATEMENT

This Interim Management Report (IMR) has been prepared solely to provide additional information to shareholders to assess the Group’s strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose.

The IMR contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of interim financial statements has been prepared in accordance with IAS34 “Interim Financial Reporting”;
- the Interim Management Report includes a fair review of the information required by DTR 4.27R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the Interim Management Report includes a fair review of the information required by DTR 4.28R (disclosure of related party transactions and changes therein).

By the order of the board
2 September 2019

INDEPENDENT REVIEW REPORT TO GAMMA COMMUNICATIONS PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting,” as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

Deloitte LLP
Statutory Auditor
Reading, United Kingdom
2 September 2019

Condensed consolidated unaudited statement of comprehensive income

For the six months ended 30 June 2019

	Note	**Six months ended 30 June 2019 £m Unaudited**	Six months ended 30 June 2018 £m Unaudited	Year ended 31 December 2018 £m Audited
Revenue	3	**158.2**	137.6	284.9
Cost of sales		**(80.1)**	(75.3)	(152.7)
Gross profit		**78.1**	62.3	132.2
Operating expenses		**(56.3)**	(46.8)	(97.8)
Earnings before depreciation, amortisation and exceptional items		**30.4**	21.8	48.3
Exceptional items	7	**-**	-	-
Earnings before depreciation and amortisation		**30.4**	21.8	48.3
Depreciation and amortisation (excluding business combinations)		**(7.5)**	(6.3)	(13.5)
Amortisation arising due to business combination		**(1.1)**	-	(0.4)
Profit from operations		**21.8**	15.5	34.4
Finance income		**-**	0.1	0.3
Finance expense		**(0.1)**	(0.1)	(0.2)
Profit before tax		**21.7**	15.5	34.5
Tax expense	4	**(3.2)**	(2.8)	(6.1)
Profit after tax		**18.5**	12.7	28.4
Other comprehensive loss		**(0.1)**	-	(0.2)
Total comprehensive income attributable to the owners of the parent		**18.4**	12.7	28.2
Earnings per share				
Basic per Ordinary Share (pence)	5	**19.7**	13.6	30.3
Diluted per Ordinary Share (pence)	5	**19.4**	13.4	30.0

Adjusted earnings per share is shown in note 5

Condensed consolidated unaudited statement of financial position
As at 30 June 2019

	Note	**30 June 2019 £m Unaudited**	30 June 2018 £m Unaudited	31 December 2018 £m Audited
Assets				
Non-current assets				
Property, plant and equipment	8	**31.0**	30.5	31.8
Right of use assets		**9.0**	5.5	4.2
Intangible assets	9	**34.5**	14.9	38.0
Deferred tax asset		**4.4**	1.7	4.4
Trade and other receivables		**11.4**	10.5	11.9
		90.3	63.1	90.3
Current assets				
Inventories		**7.5**	4.1	6.2
Trade and other receivables		**78.3**	71.0	62.8
Cash and cash equivalents		**44.8**	36.9	35.5
		130.6	112.0	104.5
Total assets		**220.9**	175.1	194.8
Liabilities				
Non-current liabilities				
Other payables		**0.2**	-	0.3
Provisions		**1.7**	1.7	1.2
Lease liability		**8.3**	4.2	2.9
Contract liabilities		**9.1**	8.7	8.5
Contingent consideration		**0.6**	-	8.1
Deferred tax		**3.6**	-	3.9
		23.5	14.6	24.9
Current liabilities				
Trade and other payables		**51.0**	45.5	37.2
Provisions		**-**	-	1.0
Lease liability		**0.8**	1.4	1.5
Contract liabilities		**8.2**	7.6	7.9
Current tax		**2.2**	1.8	0.6
		62.2	56.3	48.2
Total liabilities		**85.7**	70.9	73.1
Issued capital and reserves attributable to owners of the parent				
Share capital	11	**0.2**	0.2	0.2
Share premium reserve		**4.7**	4.4	4.6
Merger reserve		**2.3**	2.3	2.3
Share option reserve		**3.3**	2.8	3.2
Foreign exchange reserve		**(0.3)**	-	(0.2)
Own shares		**(0.8)**	(0.8)	(0.8)
Retained earnings		**125.8**	95.3	112.4
Total equity		**135.2**	104.2	121.7
Total equity and liabilities		**220.9**	175.1	194.8

Condensed consolidated unaudited statement of cash flows

For the six months ended 30 June 2019

	Note	**Six months ended 30 June 2019 £m Unaudited**	Six months ended 30 June 2018 £m Unaudited	Year ended 31 December 2018 £m Audited
Cash flows from operating activities				
Profit for the period before tax		**21.7**	15.5	34.5
Adjustments for:				
Depreciation of property, plant and equipment	8	**4.9**	4.0	8.7
Depreciation of right of use asset		**0.8**	0.7	1.4
Amortisation of intangible assets	9	**2.9**	1.6	3.8
Share based payment expense		**1.1**	1.0	1.9
Interest income		**-**	(0.1)	(0.3)
Finance cost		**0.1**	0.1	0.2
		31.5	22.8	50.2
(Increase) in trade and other receivables		**(14.5)**	(9.0)	(1.7)
(Increase) in inventories		**(1.3)**	(0.9)	(3.0)
Increase in trade and other payables		**11.3**	5.3	(5.7)
Increase in contract liabilities		**0.9**	0.3	0.4
(Decrease)/Increase in provisions and employee benefits		**(0.5)**	(0.1)	0.4
Cash generated by operations		**27.4**	18.4	40.6
Taxes paid		**(2.7)**	(1.8)	(4.3)
Net cash flows from operating activities		**24.7**	16.6	36.3
Investing activities				
Purchase of property, plant and equipment	8	**(4.0)**	(5.3)	(10.2)
Purchase of intangible assets	9	**(1.2)**	(1.0)	(2.5)
Interest received		**-**	0.1	0.3
Acquisition of subsidiary net of cash acquired		**(3.4)**	-	(11.1)
Net cash used in investing activities		**(8.6)**	(6.2)	(23.5)
Financing activities				
IFRS16 liability repayments		**(0.9)**	(0.6)	(1.6)
Share issues		**(0.1)**	0.7	0.8
Dividends		**(5.8)**	(5.2)	(8.1)
Net cash used in financing activities		**(6.8)**	(5.1)	(8.9)
Net increase in cash and cash equivalents		**9.3**	5.3	3.9
Cash and cash equivalents at beginning of period		**35.5**	31.6	31.6
Cash and cash equivalents at end of period		**44.8**	36.9	35.5

Condensed consolidated unaudited statement of changes in equity
For the six months ended 30 June 2019

	Share capital	Share premium reserve	Merger reserve	Share option reserve	Foreign exchange reserve	Own shares	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
1 January 2018	0.2	3.8	2.3	2.8	-	(0.8)	87.0	95.3
Issue of shares	-	0.6	-	(0.8)	-	-	0.8	0.6
Recognition of share based payment expense	-	-	-	0.8	-	-	-	0.8
Dividends paid	-	-	-	-	-	-	(5.2)	(5.2)
Transaction with owners	-	0.6	-	-	-	-	(4.4)	(3.8)
Profit for the half year	-	-	-	-	-	-	12.7	12.7
Total comprehensive income	-	-	-	-	-	-	12.7	12.7
30 June 2018	**0.2**	**4.4**	**2.3**	**2.8**	**-**	**(0.8)**	**95.3**	**104.2**
1 January 2019	0.2	4.6	2.3	3.2	(0.2)	(0.8)	112.4	121.7
Issue of shares	-	0.1	-	(0.7)	-	-	0.7	0.1
Recognition of share based payment expense	-	-	-	0.8	-	-	-	0.8
Dividends paid	-	-	-	-	-	-	(5.8)	(5.8)
Transaction with owners	-	0.1	-	0.1	-	-	(5.1)	(4.9)
Profit for the half year	-	-	-	-	-	-	18.5	18.5
Other comprehensive profit	-	-	-	-	(0.1)	-	-	(0.1)
Total comprehensive income	-	-	-	-	(0.1)	-	18.5	18.4
30 June 2019	**0.2**	**4.7**	**2.3**	**3.3**	**(0.3)**	**(0.8)**	**125.8**	**135.2**

Notes to the condensed consolidated unaudited interim financial information
For the six months ended 30 June 2019

1. Basis of preparation

The condensed consolidated unaudited interim financial information for the six months ended 30 June 2019 has been prepared following the recognition and measurement principles of IFRS as adopted by the European Union and in accordance with International Accounting Standard 34 Interim Financial Reporting ('IAS 34'). The condensed consolidated unaudited interim financial information does not include all the information and disclosures required in the annual financial information, and should be read in conjunction with the audited statutory financial statements for the year ended 31 December 2018.

The condensed consolidated unaudited interim financial information contained in this interim statement does not constitute financial statements as defined by section 434(3) of the Companies Act 2006. The condensed consolidated unaudited interim financial information has not been audited. The financial information for the year ended 31 December 2018 is derived from the audited statutory financial statements for the year ended 31 December 2018, which was unqualified and did not contain any statement under section 498(2) or 498(3) of the Companies Act 2006. The financial statements for the year ended 31 December 2018 have been delivered to the Registrar of Companies. The comparative financial information for the period ended 30 June 2018 does not constitute statutory accounts for that period.

There are no additional standards or interpretations requiring adoption that are applicable to the Group for the accounting period commencing 1 January 2019.

In preparing the condensed interim financial information the Directors have considered the Group's financial projections, borrowing facilities and other relevant financial matters, and the Board is satisfied that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial information, the condensed financial information for the six month period were approved by the board on 2 September 2019.

There have been no changes in the principle risks and uncertainties during the period and therefore these remain consistent with the year ended 31 December 2018 and are available in the Annual Report for that year.

2. Accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the audited statutory financial statements for the year ended 31 December 2018.

Critical accounting estimates and judgements

Some of the critical accounting judgements and estimates require management to make difficult, subjective or complex judgements or estimates. The policies which management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the financial information are consistent with the year ended 31 December 2018 and are available in the Annual Report for that year.

Alternative Performance Measures

Adjustments to EBITDA, PBT, PAT 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) Amortisation on intangibles arising on acquisition

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) Exceptional items

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

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

Changes in deferred consideration, reduction of intangible assets (and associated tax) and goodwill are considered to be exceptional as they are not representative of the underlying trade of the Group as the nature of the Group's business is as a technology-based provider of communications services not an investment company.

3. Segment information

The Group's main operating segments are outlined below:

- → UK Indirect – This division sells Gamma's products and services to channel partners and contributed 70% (2018: 75%) of the Group's external revenue;
- → UK Direct – This division sells Gamma's products and services to end users in the Mid-Market, Enterprise and Public Sectors. They contributed 25% (2018: 25%) of the Group's external revenues.
- → Overseas – This division consists of sales made in the Netherlands, by DX Groep B.V and its subsidiary companies, contributing 5% (2018: nil) of the Group's external revenues; and
- → Central functions – This is not a revenue generating segment but is made up of the central management team and wider Group costs.

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, and exceptional income.

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

	UK Indirect £m	UK Direct £m	Overseas £m	Central functions £m	Total £m
Period to 30 June 2019					
Total revenue from external customers	110.9	40.0	7.3	-	158.2
Inter-segment revenue	12.4				12.4
Timing of revenue recognition					
At a point in time	9.2	2.8	-	-	12.0
Over time	101.7	37.2	7.3	-	146.2
	110.9	40.0	7.3	-	158.2
Total gross profit	**55.9**	**17.9**	**4.3**	**-**	**78.1**
Operating profit before depreciation, amortisation and exceptional items	23.9	8.5	0.3	(2.3)	30.4
Exceptional items	-	-	-	-	-
Operating profit before depreciation and amortisation	23.9	8.5	0.3	(2.3)	30.4
Depreciation and amortisation	(6.9)	(0.1)	(0.5)	-	(7.5)
Amortisation arising due to business combinations	-	-	(1.1)	-	(1.1)
Profit from operations	**17.0**	**8.4**	**(1.3)**	**(2.3)**	**21.8**
Interest income	-	-	-	-	-
Interest expense	(0.1)	-	-	-	(0.1)
Tax	(3.2)	(1.6)	1.2	0.4	(3.2)
Group profit after tax	**13.7**	**6.8**	**(0.1)**	**(1.9)**	**18.5**
Other comprehensive loss	-	-	(0.1)	-	(0.1)
Total comprehensive income attributable to the owners of the parent	**13.7**	**6.8**	**(0.2)**	**(1.9)**	**18.4**

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

30 June 2019	UK Indirect £m	UK Direct £m	Overseas £m	Central functions £m	Total £m
Additions to non-current assets	10.7	-	0.7	-	11.4
Reportable segment assets	161.5	35.2	24.2	-	220.9
Reportable segment liabilities	66.0	11.4	8.3	-	85.7

	UK Indirect	UK Direct	Overseas	Central functions	Total
	£m	£m	£m	£m	£m
Period to 30 June 2018					
Total revenue from external customers	103.1	34.5	-	-	137.6
Inter-segment revenue	9.9	-	-	-	9.9
Timing of revenue recognition					
At a point in time	10.5	2.2	-	-	12.7
Over time	92.6	32.3	-	-	124.9
	103.1	34.5	-	-	137.6
Total gross profit	**46.6**	**15.7**	**-**	**-**	**62.3**
Operating profit before depreciation and amortisation	14.1	7.7	-	-	21.8
Depreciation and amortisation	(6.1)	(0.2)	-	-	(6.3)
Profit from operations	**8.0**	**7.5**	**-**	**-**	**15.5**
Interest income	0.1	-	-	-	0.1
Interest expense	(0.1)	-	-	-	(0.1)
Tax	(1.5)	(1.3)	-	-	(2.8)
Group profit after tax	**6.5**	**6.2**	**-**	**-**	**12.7**

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

30 June 2018	UK Indirect	UK Direct	Overseas	Central functions	Total
	£m	£m	£m	£m	£m
Additions to non-current assets	6.3	-	-	-	6.3
Recognition on transition to IFRS 16	6.0	0.2	-	-	6.2
Reportable segment assets	145.7	29.4	-	-	175.1
Reportable segment liabilities	58.6	12.3	-	-	70.9

The UK Indirect revenue and gross profit is further split between traditional and growth products below:

	Six months ended 30 June 19	Six months ended 30 June 18
	£m	£m
Period to 30 June		
Traditional products and services	**21.6**	24.4
Growth (being strategic and enabling) products and services	**89.3**	78.7
Total revenue from external customers	**110.9**	103.1
Inter-segment revenue	**12.4**	9.9
Traditional products and services	**6.0**	5.9
Growth (being strategic and enabling) products and services	**49.9**	40.7
Total gross profit	**55.9**	46.6

The UK Direct revenue is detailed below:

	Six months ended 30 June 19	Six months ended 30 June 18
	£m	£m
Mid-Market	**13.7**	12.1
Enterprise	**16.3**	13.0
Public Sector	**9.3**	8.7
The Loop	**0.7**	0.7
	40.0	34.5

4. Taxation on profit on ordinary activities

Tax expense is recognised based on management's best estimate of the weighted average annual tax rate expected for the full year. The estimated average annual tax rate used for the year to 31 December 2018 is 18.1% (the estimated tax rate for the first half to 30 June 2018 was 18.1%).

Taxes on profit in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings as adjusted for exceptional items.

	Six months ended 30 June 19	Six months ended 30 June 18
	£m	£m
Current tax expense		
Current tax on profits for the period	**4.2**	3.1
Adjustment in respect of prior period	**0.1**	(0.1)
Total current tax	**4.3**	3.0
Deferred tax expense		
Origination and reversal of temporary differences	**(0.1)**	(0.2)
Exceptional (tax credit on reduction of intangibles)	**(1.0)**	-
Total tax expense	**3.2**	2.8

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:

	Six months ended 30 June 19	Six months ended 30 June 18
	£m	£m
Profit before income taxes	**21.7**	15.5
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 19% (2018: 19%)	**4.1**	3.0
Permanent differences	**0.1**	-
Effect of change in tax rates	**(0.1)**	-
Expenses not deductible for tax purposes	**-**	0.1
Additional deduction for R&D expenditure	**-**	(0.2)
Exceptional (tax credit on reduction of intangibles)	**(1.0)**	
Adjustment in respect of prior year	**0.1**	(0.1)
Total tax expense	**3.2**	2.8

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

5. Earnings per share

	Six months ended 30 June 19 Unaudited	Six months ended 30 June 18 Unaudited
Earnings per Ordinary Share – basic (pence)	**19.7**	13.6
Earnings per Ordinary Share – diluted (pence)	**19.4**	13.4

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30 June 19 Unaudited	Six months ended 30 June 18 Unaudited
Earnings	**£m**	£m
Profit after tax	**18.5**	12.7
Shares	**Number**	Number
Basic weighted average number of Ordinary Shares	**94,062,836**	93,386,043
Effect of dilution resulting from share options	**1,304,874**	1,311,274
Diluted weighted average number of Ordinary Shares	**95,367,710**	94,697,317

Adjusted earnings per share is detailed below:

	Six months ended 30 June 19 Unaudited	Six months ended 30 June 18 Unaudited
Adjusted earnings per Ordinary Share – basic (pence)	**19.5**	13.6
Adjusted earnings per Ordinary Share – diluted (pence)	**19.2**	13.4

Adjusted profit used in the calculation of adjusted earnings per share is detailed below:

	Six months ended 30 June 19 Unaudited	Six months ended 30 June 18 Unaudited
Earnings	**£m**	£m
Profit for the period	**18.5**	12.7
Amortisation arising on business combinations	**1.1**	-
Less tax benefit associated with business combinations	**(0.3)**	-
Less tax benefit associated with exceptional (reduction of intangibles)	**(1.0)**	-
Adjusted profit after tax for the period	**18.3**	12.7

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 6.2p was paid on the 20 June 2019 (2018: 5.6p).

The Board have declared an interim dividend of 3.5p per share payable on 24 October 2019 to shareholders on the register as at 27 September 2019. In the prior year an interim dividend of 3.1p was paid.

7. Exceptional items

	Six months ended 30 June 19 Unaudited	Six months ended 30 June 18 Unaudited
Contingent consideration adjustment	**8.1**	-
Reduction of goodwill	**(4.2)**	-
Reduction of intangible assets	**(3.9)**	-
	-	-

The exceptional items relate to the contingent consideration which is due for the acquisition of the DX Groep. In preparing the statutory accounts for 2018, the best estimate of the contingent consideration was made. During 2019 a higher than expected attrition rate of legacy customers taking ISDN caused the revenues to be lower than expected. Therefore the estimated contingent consideration due has been revised and the associated intangible assets including goodwill have been reduced.

In addition there was an exceptional tax credit of £1.0m in respect of deferred tax related to the intangible assets which were reduced.

8. Property, plant and equipment

	Network assets £m	Customer premises equipment £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost					
At 1 January 2019	76.8	-	7.5	1.1	85.4
Additions	2.8	-	0.9	0.3	4.0
Acquisition of subsidiary	-	-	-	-	-
Disposals	-	-	-	(0.1)	(0.1)
Exchange differences	0.2	-	-	-	0.2
At 30 June 2019	**79.8**	**-**	**8.4**	**1.3**	**89.5**
Depreciation					
At 1 January 2019	47.1	-	5.7	0.8	53.6
Charge for the period	4.2	-	0.6	0.1	4.9
Disposals	-	-	-	-	-
Exchange differences	-	-	-	-	-
At 30 June 2019	**51.3**	**-**	**6.3**	**0.9**	**58.5**
Net book value					
At 1 January 2019	29.7	-	1.8	0.3	31.8
At 30 June 2019	**28.5**	**-**	**2.1**	**0.4**	**31.0**
Cost					
At 1 January 2018	65.5	0.8	7.0	1.0	74.3
Additions	5.2	-	0.1	-	5.3
Disposals	-	(0.2)	-	-	(0.2)
Reclassification	0.6	(0.6)	-	-	-
At 30 June 2018	**71.3**	**-**	**7.1**	**1.0**	**79.4**
Depreciation					
At 1 January 2018	39.3	0.7	4.5	0.6	45.1
Charge for the period	3.4	-	0.5	0.1	4.0
Disposals	-	(0.2)	-	-	(0.2)
Reclassification	0.5	(0.5)	-	-	-
At 30 June 2018	**43.2**	**-**	**5.0**	**0.7**	**48.9**
Net book value					
At 1 January 2018	26.2	0.1	2.5	0.4	29.2
At 30 June 2018	**28.1**	**-**	**2.1**	**0.3**	**30.5**

The estimated cost of the property, plant and equipment which the Group is contractually committed to purchase at 30 June 2019 is £6.2m (30 June 2018: £0.1m). This amount is for the purchase of software licenses.

The capital commitments in 2019 are payable in USD, with the payable amount being $7.9m. Changes in the exchange rate could cause variances in the value of the commitment.

9. Intangible assets

	Goodwill on consolidation £m	Development costs £m	Customer contracts £m	Brand £m	Software £m	Total £m
Cost						
At 1 January 2019	19.7	8.9	17.2	0.9	11.4	58.1
Acquisition of subsidiary	2.2	-	3.5	0.2	-	5.9
Impairment	(4.2)	-	(3.8)	(0.1)	-	(8.1)
Additions	-	0.8	-	-	0.4	1.2
Exchange differences	-	-	0.4	-	-	0.4
At 30 June 2019	17.7	9.7	17.3	1.0	11.8	57.5
Amortisation						
At 1 January 2019	4.5	6.4	2.5	-	6.7	20.1
Charge for the period	-	0.6	1.0	0.1	1.2	2.9
Exchange differences	-	-	-	-	-	-
At 30 June 2019	4.5	7.0	3.5	0.1	7.9	23.0
Net book value						
At 1 January 2019	15.2	2.5	14.7	0.9	4.7	38.0
At 30 June 2019	13.2	2.7	13.8	0.9	3.9	34.5
Cost						
At 1 January 2018	12.5	7.2	2.1	-	10.0	31.8
Additions	-	0.5	-	-	0.5	1.0
At 30 June 2018	12.5	7.7	2.1	-	10.5	32.8
Amortisation						
At 1 January 2018	4.5	5.2	2.1	-	4.5	16.3
Charge for the period	-	0.5	-	-	1.1	1.6
At 30 June 2018	4.5	5.7	2.1	-	5.6	17.9
Net book value						
At 1 January 2018	8.0	2.0	-	-	5.5	15.5
At 30 June 2018	8.0	2.0	-	-	4.9	14.9

Due to a fall in ISDN revenues from the Dutch business (which trades as Dean One) the values of goodwill and customer contracts have been reduced by £4.2m and £3.8m respectively. These amounts have been charged to the statement of comprehensive income through the “exceptional items” line and have been included within the “Overseas Business” in the segmental analysis in Note 3. The recoverable values of these assets are now £13.2m and £13.6m respectively based on the Level 3 Fair Value measurement of the assets.

10. Business combinations

Summary of acquisition

On 4 February 2019, the Group acquired 100% of the issued share capital of Nimsys Groep B.V., a provider of internet, cloud telephony and associated IT services primarily to the operators and tenants of premium multi-tenant office buildings across the Netherlands.

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

	At acquisition £m	Fair value adjustment £m	30 June 2019 £m
Cash paid	3.7	-	3.7
Contingent consideration	1.8	-	1.8
Total purchase consideration	5.5	-	5.5

The earn out agreement is based on Nimsys' EBITDA for fiscal years 2019 and 2020. In the event that predetermined EBITDA targets are achieved by Nimsys each year, additional consideration of up to €1.8m may be payable in cash in the first quarters of both 2020 and 2021.

The provisional fair value adjustment on acquisition is shown below:

	At acquisition £m	Fair value adjustment £m	30 June 2019 £m
Cash	0.3	-	0.3
Trade receivables	0.3	-	0.3
Inventories	-	-	-
Tangible fixed assets	0.1	-	0.1
Intangible - customer contracts	-	3.5	3.5
Intangible - brand	-	0.2	0.2
Trade payables	(0.1)	-	(0.1)
Other receivables	0.1	-	0.1
Other payables	(0.1)	-	(0.1)
Current tax	(0.1)	-	(0.1)
Deferred tax liability/asset	-	(0.9)	(0.9)
Net identified assets acquired	0.5	2.8	3.3
Add: Goodwill			2.2
Net assets acquired			5.5

Acquired receivables
The fair value of acquired trade receivables is £0.3m. The gross contractual amount for trade receivables due is £0.3m, of which nil is expected to be uncollectible.

Revenue and profit (unaudited)
The acquired business contributed revenues of £1.2m and net profit of £0.2m to the group for the period from 4 February 2019 to 30 June 2019.

If the acquisition had occurred on 1 January 2019, consolidated pro-forma revenue and profit for the six months to 30 June 2019 would have been £1.5m and £0.5m respectively. These amounts have been calculated as follows:

	Revenue £m	Profit £m
For the six months to 30 Jun 2019	1.5	0.4
Add: transaction costs	-	0.1
For the six months to 30 Jun 2019 if the acquisition occurred on 1 Jan 2019	1.5	0.5

Goodwill
The goodwill of £2.2m is attributable to the acquired Group. The goodwill is not deductible for tax purposes.

Purchase consideration – cash outflow

	2019 £m
Cash consideration	3.7
Less: cash acquired	(0.3)
Net outflow of cash - Investing activities	**3.4**

Valuations of intangible assets
Customer relations were valued under the Income Method and the Brand under the Relief from Royalty Method.

11. Share capital

	Number	£m
1 January 2019		
Ordinary Shares of £0.0025 each	93,984,626	0.2

	Number	Note
At 1 January 2019	93,984,626	
Movement:		
March	12,909	(a)
April	32,459	(a)
May	212,998	(a)
At 30 June 2019	94,242,992	

(a) Ordinary shares were issued to satisfy options which have been exercised.

	Number	£m
30 June 2019		
Ordinary Shares of £0.0025 each	**94,242,992**	**0.2**

12. Related party transactions

Dividends totalling £0.02m (being the final dividend for 2018) were paid in the first half of the year in respect of ordinary shares held by the Company's Directors (2018: £0.2m).

13. Events after the reporting date

There were no reportable events after the balance sheet date.

14. Ultimate controlling party

There is no ultimate controlling party.