8 September 2015

Gamma Communications plc
Unaudited Interim Results for six months ended 30 June 2015

Continued strong sales of key products drives organic growth

Gamma Communications plc ("Gamma"), a leading, technology based provider of communications services to the UK business market, is pleased to announce its unaudited interim results for the six months ended 30 June 2015.

Financial highlights

	Six months ended 30 June 2015	**Six months ended 30 June 2014**	**Change (%)**
Revenue	£92.4m	£83.6m	+10.5%
Gross Profit	£39.2m	£32.0m	+22.5%
Gross Profit Margin	*42.4%*	*38.3%*	*+4.1%*
EBITDA	£11.2m	£10.0m	+12.0%
Adjusted EBITDA*	£13.0m	£10.9m	+19.3%
Profit Before Tax	£7.6m	£7.2m	+5.6%
Adjusted Profit Before Tax*	£9.4m	£8.1m	+16.0%
EPS (diluted)	6.7p	6.4p	+4.7%
Adjusted EPS* (diluted)	8.2p	7.1p	+15.5%
Interim Dividend per share	2.2p	N/A	N/A
Net operating cash inflow before tax**	£10.9m	£8.5m	+28.2%

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

Operational highlights in six months to 30 June 2015

- The number of installed SIP Trunks increased from 234,000 to 283,000 (21%)
- The number of Cloud PBX users increased from 80,000 to 107,000 (34%)
- Margin from the direct business increased from £6.5m to £8.9m (37%)
- Gamma has continued to successfully build its customer base (helped by the increased market awareness around the IPO):
  - Strong revenue and margin growth in direct sales, with wins including Taylor Wimpey, The Law Society, Metrobank and Moneysupermarket
  - Increasing focus on larger customers on multi-year contracts with the number of direct customers with monthly billing of over £5,000 at the end of the period increased from 90 to 99 (10%)
  - The multi-site data network service was successfully launched in June as planned
  - Gamma has been awarded a place on eight Lots on the new Crown Commercial Service Network Services agreement (RM1045)
- Channel Partner distribution network grew from 725 to 782 (8%)
- Good progress with development of new mobile service, with launch now targeted for H1 2016

Bob Falconer, Chief Executive, commented:

"We are pleased with the progress we have made in the first half of 2015. Our current strategic products have continued to grow well in both Channel and Direct markets. Good progress has been made with our pipeline of new products, with our multi-site data network launched on time at the end of June. Our new mobile service is now planned for launch into the market in the first half of 2016. A strong position on the new Crown Commercial Services framework (RM1045) positions the business well for opportunities in the public sector, an area where Gamma is currently under-represented."

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Notes to Editors

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

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

Gamma has enjoyed strong organic revenue and EBITDA growth driven by a high percentage of repeat revenues. The business had 614 employees at 30 June 2015. It operates across six main locations – headquartered in Newbury - with offices in Fareham, Manchester, Glasgow, London and Budapest.

Chairman's Statement

I am very pleased to present the unaudited results for the half year ended 30 June 2015.

Overview of Results

Overall Group revenue for the half year ended 30 June 2015 increased organically by £8.8m to £92.4m, an increase of 11% compared to the first half of 2014 (H1 2014: £83.6m). Of this increase, £6.7m came indirectly through Channel Partners which grew revenue to £73.0m (2014: £ 66.3m) and £2.1m came from direct business which saw revenue increase to £19.4m (2014: £17.3m).

Gross profit for the half year ended 30 June 2015 amounted to £39.2m, an increase of 23% compared to the first half of 2014 (H1 2014: £32.0m), whilst the gross margin increased to 42% (H1 2014: 38%). For the Group as a whole EBITDA, before exceptional costs and share based payments, increased to £13.0m (H1 2014: £10.9m), an increase of 19% compared to the previous year. Adjusted earnings per share for the half year to 30 June 2015 were 8.6p (H1 2014: 7.5p).

Net operating cash inflow before tax for the year was £10.9m (H1 2014 £8.5m). This represents 97% cash conversion compared to 85% for H1 2014. The company is ungeared and net cash as at 30 June 2015 amounted to £16.1m (31 December 2014 : £13.4m).

Corporate Development

Gamma's focus in 2015 is to take its strategic products into more markets, displacing more ISDN and traditional PBXs. In this endeavour the company has been very successful, with significant growth in both its SIP and Cloud PBX products. Gaining a strong position on the new Crown Commercial Service framework in July 2015 opens up the public sector market and presents a material and exciting opportunity for Gamma.

Following the acquisition of the core of a mobile network in December 2014, progress to conclude the technical and commercial arrangements in order to launch a live service has been good. The development of a Full MVNO (which has equivalent capability to a Mobile Operator but on a sub-contracted radio network) is a very significant one, and extremely opportune, coinciding as it does with the proposed acquisitions of both EE and O2. We anticipate that the regulatory environment will increasingly support such arrangements, and we welcome the Ofcom strategic review of the competitive market.

Board and Employees

As of the 30 June 2015, Gamma had 614 employees, an increase of 55 from 31 December 2014. This growth has been driven by both the general expansion of the business, and the operational support and training required to support the growth in customers. Notwithstanding, investment in our underlying systems has seen our adjusted EBITDA increase from 13% of revenue in first half of 2014 to 14% of revenue in the first half of 2015.

The Board would like to express its thanks to all of Gamma's staff for their hard work and contribution throughout the period and I was particularly encouraged by the level of participation in our Share Incentive Plan, with 264 of our employees choosing to contribute in the 2015/16 tax year.

Dividend

The Company has declared an interim dividend for the year ended 31 December 2015 of 2.2p payable on Friday 23 October 2015 to shareholders on the register at Friday 25 September 2015.

Outlook

The Board looks forward to the remainder of 2015 with great enthusiasm, and believes that Gamma will continue to benefit from the investments it continues to make in both its direct and indirect business channels. The growth in Channel Partners is encouraging and the new Crown Commercial Services framework opens up further opportunities that were not previously available.

Looking beyond 2015, the launch of the new multi-site data network, the new Full MVNO, and the early work on converged fixed and mobile services means the Board is encouraged by the outlook for Gamma both through 2015 and beyond.

Richard Last
Chairman and Independent Non-Executive Director

Chief Executive Review

Introduction

We are very pleased with the progress the business has made in the six months to 30 June. Growth has been solid across our strategic products of SIP, Cloud PBX and Inbound services, adding 49,000 SIP channels and 27,000 Cloud PBX seats. The underlying enabling products of Ethernet and broadband have continued to grow strongly whilst Mobile sales have slowed pending the launch of our own MVNO capability in H1 2016. Traditional volumes have declined modestly, but nevertheless performed better than expected and the market generally.

Both our channel and direct activities have performed well. We were particularly pleased to win a £3.5m three year agreement with Taylor Wimpey plc for a managed communications infrastructure service. Gamma will take over the existing traditional fixed and mobile voice services to all Taylor Wimpey UK locations, and will migrate these services to Gamma's Cloud-based unified communications service. Other new direct contracts include The Law Society, Metrobank and Moneysupermarket.

Indirect Business Channel

In the channel, the number of channel partners trading actively with us has increased from 725 to 782, with a greater preponderance of the new partners operating in the ICT market and looking to bring a total ICT solution to their customers. These include companies such as Dimension Data, Exactive, Specialist Computer Centres and Telent as well as many niche and local organisations.

Direct Business Channel

After a much delayed process, in July we were delighted to be awarded a new public sector framework agreement. We are on eight out of the ten possible Lots on the new Crown Commercial Service Network Service Agreement (RM1045). The Lots cover all communications services including data, voice, mobile and integrated communications (Gamma is not on the Lots for paging and LANs, which are not its core market). The new framework replaces various existing legacy agreements, and opens the door for Gamma, and others on the appropriate Lot, to provide services to national and local government, substantially broadening the available market. We anticipate that this will increasingly be the framework of choice for most public sector bodies. We were particularly pleased also to be a subcontractor for a number of our larger channel partners who were also successful. We now look forward with enthusiasm to competing successfully in this market.

Development

At the end of June, we successfully launched a data network product for multi-site businesses as planned – branded CPN (Converged Private Network). This has the advantage of being designed specifically for the channel to sell and support, and to reliably carry voice traffic in addition to data services.

In Manchester, under the brand of "The Loop – Manchester's fibre network", we completed a fibre connection into Media City in support of growing demand for connectivity to the location. The Loop now includes 115km of ducting, linking large customers with most of Manchester's leading datacentres.

As we outlined in our 2014 results, in December 2014 we made an opportunistic, but strategic, acquisition of the equipment that comprises the core of a mobile network, i.e. the equipment that controls the voice and data services used by a mobile subscriber. This will give the business both a better cost base and the freedom to develop its own services as a Full MVNO. We have made excellent progress with the plan to bring this valuable asset into active use, and currently now anticipate having the first services live in the first half of 2016. Early work has also begun on the development of innovative new services for later release.

In our fixed network a new core infrastructure is now being brought into service. This is a core enabler for growth, the introduction of new services and enables the phasing out of older equipment. The benefit of this will flow through in later years.

Regulatory Environment

In the regulatory sphere, the last six months have seen the industry move further towards another period of considerable consolidation and change. Notably, the proposed acquisition of EE Limited by British Telecommunications plc triggered a formal investigation by the Competition and Markets Authority whilst Ofcom launched a “once in a decade” Strategic Review of Digital Communications. We are substantively engaged with both bodies to encourage at a minimum, substantial changes in the way BT’s Openreach division is regulated and operated, and the establishment of an open regulated environment for access to certain radio access networks of the major mobile operators.

Employees

We were once again pleased to be recognised as one of the Sunday Times “Best 100 Companies to Work For 2015”. The confidence that Gamma’s employees have in the Company is exemplified by the fact that 264 employees have now bought, or committed to buy, shares via the Company’s Share Incentive Plan.

Outlook

Looking forward, we are focused on continuing to successfully execute our core strategy which is to remain a leader in the high growth sectors of business communications, with the channel as our primary route to market. This will be delivered by maintaining our product and services leadership, continuing to deliver industry leading customer service and having the best and most motivated staff we can. We expect the volumes to continue to grow in strategic products, more than off-setting the managed decline in traditional services. We plan to continue to improve the revenue mix, with profits continuing to migrate from traditional to strategic services. The launch of our initial Full MVNO service in H1 2016, followed by increasingly converged fixed and mobile services will make Gamma one of only a very small number of companies with the underlying infrastructure and technical capability to compete in this emerging market.

Bob Falconer
Chief Executive Officer

Financial review

Revenue and gross profit

Indirect Channel Business

Revenue from the indirect business grew from £66.3m in the first half of 2014 to £73.0m, an increase of 10% - this continues to buck the trend seen within the industry as a whole where organic revenues tend to fall.

Notwithstanding, Gamma has nevertheless seen a decline in the traditional business (which is sales of traditional calls and lines business as well as sales to other carriers) where revenue has declined from £33.4m to £29.3m (a 12% decline) and gross profit from £9.9m to £9.5m (a 4% decline). The reduction in turnover in this area is indicative of both falling prices and declining volumes within the traditional voice market.

The continued growth in new products has been pleasing. Revenue has increased from £32.9m to £43.7m (+33%) and gross profit from £15.6m to £20.8m (+33%). There has been an improvement in margin from 47% to 48% which reflects an improved mix in the first half of the year between the higher margin strategic products (SIP, Cloud PBX and Inbound) compared to the enabling products (Data and Mobile).

The positive trend of Channel Partners taking more services continues – in the first half of 2015 74% of indirect gross profit came from Channel Partners taking four or more key services (up from 72% in FY 2014).

The strong growth reflects the fact that we have added 49,000 SIP Channels in the first half of the year and 27,000 Hosted Seats; our best ever results.

Direct Channel Business

The direct business has also grown from £17.3m in the first half of 2014 to £19.4m (+12%). It is showing the same trend as the indirect business namely that the growth is driven by the new products where revenues have increased from £9.8m to £14.0m (+43%) and the gross profit has increased from £4.4m to £6.9m (+57%).

This growth is particularly pleasing because new customers tend to be larger than current customers (we now have 99 customers billing over £5,000 per month – up from 90 at 31 Dec 2014), reflecting our strategic intent to move more into enterprise and mid-market. Furthermore these customers tend to be on longer term contracts and the focus is on the sale of New (rather than Traditional) product. This shift in the emphasis contributed to the decline in the revenue from Traditional products from £7.5m in the first half of 2014 to £5.4m.

Operating Expenses

Operating expenses (before depreciation, amortisation, exceptional items and share based payments) increased from £21.1m to £26.2m. The “like for like” increase was £4.1m (which includes a significant amount of investment in new products and systems which will both reduce costs in the future and make Gamma easier to do business with) as well as investment in our new mobile platform (which has added £0.8m to our operating expenses in the first half of the year). We also now carry the costs of being a listed entity (which has added £0.5m to our annual cost base).

During the first half of the year development spend totalling £0.4m was capitalised (2014: £0.5m).

Adjusted EBITDA

The combination of increased sales of our new products and our efforts to automate as many systems as possible to improve operational gearing has meant that our adjusted EBITDA has increased from £10.9m to £13.0m (+19.3%) which is an increase from 13% of revenue to 14% of revenue despite the increased costs of building our mobile platform and other cost referred to above.

Exceptional items and share based payments

There were no exceptional items in the first half of the year. In the first half of 2014 there were £0.4m of costs relating to the IPO.

Share based payment charges totalled £1.8m compared to £0.5m in the comparative period. The increase is due to a number of options which were granted to the senior management team as part of their long term incentive plan at flotation.

Cash Flows

The cash balance at the end of June 2015 was £16.1m which is an increase from the £13.4m at the end of 2014. This is slightly higher than expected as the capex spend for the first six months was only £3.6m (of which £1.6m was Customer Premises Equipment) due to a number of projects being deferred. We would expect the capex to be higher in the second half of 2015.

Cash flow from trading was good. The cash inflow from trading before tax was £10.9m compared to £8.5m in the first six months of 2014 – an increase of 28%. The conversion ratio compared to (unadjusted) EBITDA was 97% (H1 2014:85%).

Taxation

The tax charge for the period was £1.4m which is an effective rate of 18.4% (in 2014 the charge was £1.4m at an effective rate of 19.4%). Gamma has moved from the small company regime for Research and Development Tax Credits into the large company regime (which increases the effective rate) but this has been offset by other deductions.

Dividends

Gamma paid its first dividend in the period, being a final dividend for 2014 of 3.95 pence per share.

The Board proposes to pay an interim dividend in respect of 2015 of 2.2 pence per share on Friday 23 October 2015.

Auditors

Following the AGM, Grant Thornton LLP resigned as auditors of the Company and Group. The Board has appointed Deloitte LLP to replace them following a tender process. We would like to extend our thanks to Grant Thornton for their support over the last thirteen years.

Andrew Belshaw
Chief Financial Officer

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 2015 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 12. 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 Auditing Practices Board. 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 Auditing Practices Board 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 Ireland) 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 2015 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
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
8 September 2015

Condensed consolidated unaudited statement of comprehensive income

For the six month period ended 30 June 2015

	Notes	**Six months ended 30 June 2015 £m unaudited**	Six months ended 30 June 2014 £m unaudited	Year ended 31 December 2014 £m audited
Revenue	4	**92.4**	83.6	173.2
Cost of sales		**(53.2)**	(51.6)	(105.6)
Gross profit		**39.2**	32.0	67.6
Operating expenses		**(31.6)**	(24.8)	(56.1)
Operating profit before share based payment, depreciation, amortisation and exceptional items		**13.0**	10.9	23.1
Share based payment expense		**(1.8)**	(0.5)	(3.2)
Exceptional items		**-**	(0.4)	(2.0)
Operating profit before depreciation and amortisation		**11.2**	10.0	17.9
Depreciation and amortisation		**(3.6)**	(2.8)	(6.4)
Profit from operations		**7.6**	7.2	11.5
Finance income		**-**	-	-
Profit before tax		**7.6**	7.2	11.5
Tax expense	3	**(1.4)**	(1.4)	(2.1)
Profit after tax		**6.2**	5.8	9.4
Total comprehensive income attributable to the owner of the parent		**6.2**	5.8	9.4
Earnings per share	5			
Basic per ordinary share (pence)		**7.0**	6.6	10.6
Diluted per ordinary share (pence)		**6.7**	6.4	10.0

Adjusted earnings per share is shown in note 5.

Condensed consolidated unaudited statement of financial position

At 30 June 2015

	Notes	**Six months ended 30 June 2015 £m unaudited**	Six months ended 30 June 2014 £m unaudited	Year ended 31 December 2014 £m audited
Assets				
Non-current assets				
Property, plant and equipment	6	**19.6**	13.8	18.9
Intangible assets		**10.5**	11.1	10.8
Deferred tax asset		**1.5**	0.8	2.3
		31.6	25.7	32.0
Current assets				
Inventories		**1.1**	0.2	1.1
Trade and other receivables		**33.9**	29.1	32.5
Cash and cash equivalents		**16.1**	17.5	13.4
		51.1	46.8	47.0
Total assets		**82.7**	72.5	79.0
Liabilities				
Non-current liabilities				
Other payables		**-**	0.9	–
Provisions		**1.2**	1.0	0.9
Deferred tax liability		**0.1**	0.9	0.2
		1.3	2.8	1.1
Current liabilities				
Trade and other payables		**25.2**	25.0	25.9
Current tax liability		**1.7**	1.5	0.8
		26.9	26.5	26.7
Total liabilities		**28.2**	29.3	27.8
Issued capital and reserves attributable to owners of the parent				
Share capital	7	**0.2**	0.2	0.2
Share premium reserve		**3.4**	-	3.2
Merger reserve		**2.3**	2.3	2.3
Share option reserve		**2.9**	1.5	2.4
Investment in own shares		**(0.3)**	-	-
Retained earnings		**46.0**	39.2	43.1
Total equity		**54.5**	43.2	51.2
Total equity and liabilities		**82.7**	72.5	79.0

Condensed consolidated unaudited statement of cash flows

For the six month period ended 30 June 2015

	Notes	**Six months ended 30 June 2015 £m unaudited**	Six months ended 30 June 2014 £m unaudited	Year ended 31 December 2014 £m audited
Cash flows from operating activities				
Profit for the year before tax		**7.6**	7.2	11.5
Adjustments for:				
Depreciation of property, plant and equipment	6	**2.9**	2.1	5.1
Amortisation of intangible assets		**0.7**	0.7	1.3
Change in fair value of contingent consideration		**-**	0.4	0.6
Share based payment expense		**1.8**	-	3.0
		13.0	10.4	21.5
(Increase) in trade and other receivables		**(1.6)**	(2.7)	(3.3)
Decrease/(increase) in inventories		**-**	0.3	(0.6)
(Decrease)/increase in trade and other payables		**(0.7)**	0.5	1.9
Increase/(decrease) in provisions and employee benefits		**0.2**	-	(0.1)
Taxes paid		**(0.8)**	(1.3)	(3.0)
Net cash flows from operating activities		**10.1**	7.2	16.4
Investing activities				
Purchases of property, plant and equipment		**(3.6)**	(3.1)	(11.2)
Expenditure on development costs		**(0.4)**	(0.5)	(0.9)
Payment of deferred consideration		**(0.1)**	(0.7)	(2.6)
Loans made to individuals to subscribe for shares		**0.3**	-	(2.8)
Net cash used in investing activities		**(3.8)**	(4.3)	(17.5)
Financing activities				
Share buybacks and cancellations		**-**	-	(3.1)
Share issues		**0.2**	-	3.0
Investment in own shares		**(0.3)**	-	-
Dividends paid		**(3.5)**	-	-
Net cash used in financing activities		**(3.6)**	-	(0.1)
Net increase/(decrease) in cash and cash		**2.7**	2.9	(1.2)
Cash and cash equivalents at beginning of period		**13.4**	14.6	14.6
Cash and cash equivalents at end of period		**16.1**	17.5	13.4

Condensed consolidated unaudited statement of changes in equity

For the six month period ended 30 June 2015

	Share capital £m	Share premium £m	Merger reserve £m	Share option reserve £m	Investment in own shares £m	Retained earnings £m	Total equity £m
1 January 2015	0.2	3.2	2.3	2.4	-	43.1	51.2
Issue of shares	-	0.2	-	(1.2)	-	1.1	0.1
Deferred tax on share based payments	-	-	-	-	-	(0.9)	(0.9)
Recognition of share based payments	-	-	-	1.7	-	-	1.7
Investment in own shares	-	-	-	-	(0.3)	-	(0.3)
Dividends paid	-	-	-	-	-	(3.5)	(3.5)
Transaction with owners	-	0.2	-	0.5	(0.3)	(3.3)	(2.9)
Profit for the year	-	-	-	-	-	6.2	6.2
Total comprehensive income	-	-	-	-	-	6.2	6.2
30 June 2015	**0.2**	**3.4**	**2.3**	**2.9**	**(0.3)**	**46.0**	**54.5**
1 January 2014	0.2	–	2.3	1.1	-	33.4	37.0
Issue of shares	–	–	–	0.4	-	–	0.4
Transaction with owners	–	–	–	0.4	-	–	0.4
Profit for the year	–	–	–	–	-	5.8	5.8
Total comprehensive income	–	–	–	–	-	5.8	5.8
30 June 2014	0.2	–	2.3	1.5	-	39.2	43.2

Notes forming part of the condensed consolidated unaudited interim financial information

For the six month period ended 30 June 2015

1. Basis of preparation

The unaudited interim consolidated financial information for the six months ended 30 June 2015 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 ('IAS34'). The interim consolidated 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 2014.

The condensed 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 interim financial information has not been audited. The financial information for the year ended 31 December 2014 is derived from the audited statutory financial statements for the year ended 31 December 2014, which was unqualified and did not contain any statement under section 498(2) or 498(3) of the Companies Act 2006.The comparative financial information for the period ended 30 June 2014 does not constitute statutory accounts for that period.

There are no additional standards or interpretations applicable to the Group for the accounting period commencing 1 January 2015 for adoption.

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 7 September 2015

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 2014 with the addition of the following policy arising in the six months to June 2015:

Shares held in trust

The Group holds its own equity instruments in trusts either on behalf of its employees who have taken part in the Group's Share Incentive Plan within the Yorkshire Building Society Trust or where the Employee Benefit Trust (EBT) has acquired or disposed of shares from employees. The investments in the Group's own shares held by the trusts are shown as deductions from shareholders' equity at cost within 'Investment in own shares'. The company has control of both its EBT and the Trust Fund administered by Yorkshire Building Society; consequently they are treated as subsidiaries and consolidated for the purposes of the consolidated financial statements.

None of the newly applicable IFRS standards adopted by the EU and amendments had an impact on the Group's interim consolidated financial information.

Some of the significant accounting policies require management to make difficult, subjective or complex judgments or estimates. The policies which management consider critical because of the level of complexity, judgment or estimation involved in their application and their impact on the financial Information are:

- Valuation of intangibles
- Impairment of goodwill
- Taxation
- Control assessment (with respect to Shares held in trust)
- Leasehold dilapidations
- Contingent assets and liabilities
- Capitalisation of internal development costs
- Acquisition of assets
- Share based payment charges.

3. 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 2015 is 18.4% (the estimated tax rate for the first half to 30 June 2014 was 19.4%).

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

	Six months ended 30 June 2015 £m	Six months ended 30 June 2014 £m
Current tax expense		
Current tax on profits for the year	**1.7**	1.8
Adjustment in respect of prior year	**(0.2)**	(0.2)
Total current tax	**1.5**	1.6
Deferred tax expense		
Origination and reversal of temporary differences	**(0.1)**	(0.2)
Total tax expense	**1.4**	1.4

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

	Six months ended 30 June 2015 £m	Six months ended 30 June 2014 £m
Profit before income taxes	**7.6**	7.2
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 20.25% (2013: 21.5%)	**1.5**	1.5
Expenses not deductible for tax purposes	**0.2**	0.2
Additional deduction for R&D expenditure	**(0.1)**	(0.1)
Adjustment in respect of prior year	**(0.2)**	(0.2)
Total tax expense	**1.4**	1.4

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

4. Segment information

The Group has two main operating segments:

- → Indirect – This division consists of the Gamma Indirect Business Unit. It sells the products developed by Gamma to channel partners and contributed 79% (2014: 79%) of the Group's external revenue.
- → Direct – This division consists of Gamma Business Communications Limited and Gamma Network Solutions Limited. These companies sell Gamma's traditional and new products to end users in the private and public sectors together with an associated service wrap. They contributed 21% (2014: 21%) of the Group's external revenues.

There are no material non UK segments and no material non-current assets outside the UK.

Both operating segments sell a combination of traditional products (which is mainly voice traffic from which revenues are derived from channel partners and other carriers as well as rentals for wholesale lines) and new products (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

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 the effects of share based payments.

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.

Loans and borrowings are allocated to the segments based on relevant factors (e.g. funding requirements). Details are provided in the reconciliation from segment assets and liabilities to the Group position.

	Indirect £m	Direct £m	Total £m
Period to 30 June 2015			
Traditional products	29.3	5.4	34.7
New products	43.7	14.0	57.7
Total revenue from external customers	**73.0**	**19.4**	**92.4**
Inter-segment revenue	*4.6*	-	*4.6*
Traditional products	9.5	2.0	11.5
New products	20.8	6.9	27.7
Total gross profit	**30.3**	**8.9**	**39.2**
Segment operating profit before share based payment, depreciation, amortisation and exceptional items	**9.4**	**3.6**	**13.0**
Share based payment expense	(1.8)	-	(1.8)
Segment EBITDA	**7.6**	**3.6**	**11.2**
Depreciation and amortisation	(3.2)	(0.4)	(3.6)
Segment profit	**4.4**	**3.2**	**7.6**
Interest income	-	-	-
Tax	(0.8)	(0.6)	(1.4)
Group profit after tax	**3.6**	**2.6**	**6.2**

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

	Indirect £m	Direct £m	Total £m
Additions to non-current assets	3.7	0.3	4.0
Reportable segment assets	57.6	25.1	82.7
Reportable segment liabilities	13.8	14.4	28.2

	Indirect £m	Direct £m	Total £m
Period to 30 June 2014			
Traditional products	33.4	7.5	40.9
New products	32.9	9.8	42.7
Total revenue from external customers	66.3	17.3	83.6
Inter-segment revenue	*3.8*	-	*3.8*
Traditional products	9.9	2.1	12.0
New products	15.6	4.4	20.0
Total gross profit	25.5	6.5	32.0
Segment operating profit before share based payment, depreciation, amortisation and exceptional items	8.3	2.6	10.9
Share based payment expense	(0.5)	-	(0.5)
Exceptional items	(0.4)	-	(0.4)
Segment EBITDA	7.4	2.6	10.0
Depreciation and amortisation	(2.5)	(0.3)	(2.8)
Segment profit	4.9	2.3	7.2
Interest income	-	-	-
Tax	(1.0)	(0.4)	(1.4)
Group profit after tax	3.9	1.9	5.8

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

The split of turnover between traditional and new products in the indirect business differs from that in the Admission Document due to a reclassification.

	Indirect £m	Direct £m	Total £m
Additions to non-current assets	3.3	0.3	3.6
Reportable segment assets	50.3	22.2	72.5
Reportable segment liabilities	17.5	11.8	29.3

5. Earnings per share and dividends

Earnings per share

The calculation of basic earnings per Ordinary Share is based on a profit after tax of £6.2 m for the six months ended 30 June 2015 (Six months ended 30 June 2014: £5.8 m) and 89,132,949, Ordinary Shares for the six months ended 30 June 2015 (Six months ended 30 June 2014: 88,326,746 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. For the six months ended 30 June 2015 the diluted Ordinary Shares were based on 92,300,037 Ordinary Shares (Six months ended 30 June 2014: 91,060,193) that included 3,167,088 potential Ordinary Shares (Six months ended 30 June 2014: 2,733,447).

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

	Six months ended 30 June 2015 £m Unaudited	Six months ended 30 June 2014 £m Unaudited
Profit for the year	**6.2**	5.8
Exceptional costs	**-**	0.4
Share based payment costs	**1.8**	0.5
Less tax benefit associated with share based payment costs and one-off costs	**(0.3)**	(0.1)
Adjusted profit after tax for the year	**7.7**	6.6

The adjusted diluted earnings per Ordinary Share is calculated by including in the weighted average number of shares the dilutive effect of all potential Ordinary Shares as management believe they will all be exercised. For the six months ended 30 June 2015 the diluted Ordinary Shares were based on 93,774,584 Ordinary Shares (Six months ended 30 June 2014: 93,601,599) that included 4,641,635 potential Ordinary Shares (Six months ended 30 June 2014: 5,274,853).

	Six months ended 30 June 2015 No. Unaudited	Six months ended 30 June 2014 No. Unaudited
Unadjusted EPS		
Weighted average number of Ordinary Shares for basic earnings per share	**89,132,949**	88,326,746
Effect of dilution resulting from share options	**3,167,088**	2,733,447
Weighted average number of Ordinary Shares adjusted for the effect of dilution	**92,300,037**	91,060,193
Adjusted EPS		
Weighted average number of Ordinary Shares for basic earnings per share	**89,132,949**	88,326,746
Effect of dilution resulting from share options	**4,641,635**	5,274,853
Weighted average number of Ordinary Shares adjusted for the effect of dilution	**93,774,584**	93,601,599
Adjusted earnings per Ordinary Share – basic (pence)	**8.6**	7.5
Adjusted earnings per Ordinary Share – diluted (pence)	**8.2**	7.1

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

Dividends

During 2014, Gamma Communications plc did not pay an interim dividend.

A final dividend of 3.95 pence was paid on the 25 June 2015.

The Board has declared an interim dividend of 2.2p per share payable on Friday 23 October to shareholders on the register as at Friday 25 September.

6. Property, plant and equipment

	Network assets £m	Customer Premises equipment £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost					
At 1 January 2014	33.0	0.9	11.5	1.1	46.5
Additions	1.8	0.5	0.5	0.3	3.1
At 30 June 2014	34.8	1.4	12.0	1.4	49.6
Depreciation					
At 1 January 2014	23.8	0.2	8.7	1.0	33.7
Charge for the year	1.3	0.2	0.6	–	2.1
At 30 June 2014	25.1	0.4	9.3	1.0	35.8
Net book value					
At 1 January 2014	9.2	0.7	2.8	0.1	12.8
At 30 June 2014	9.7	1.0	2.7	0.4	13.8
Cost					
At 1 January 2015	41.8	1.9	12.5	1.5	57.7
Additions	1.5	1.6	0.5	-	3.6
Disposals	-	(0.1)	-	-	(0.1)
Reclassification	0.9	-	(0.9)	-	-
At 30 June 2015	44.2	3.4	12.1	1.5	61.2
Depreciation					
At 1 January 2015	27.0	0.8	10.0	1.0	38.8
Charge for the year	1.9	0.4	0.5	0.1	2.9
Disposals	-	(0.1)	-	-	(0.1)
Reclassification	0.3	-	(0.3)	-	-
At 30 June 2015	29.2	1.1	10.2	1.1	41.6
Net book value					
At 1 January 2015	14.8	1.1	2.5	0.5	18.9
At 30 June 2015	**15.0**	**2.3**	**1.9**	**0.4**	**19.6**

The estimated cost of the property, plant and equipment which the Group is contractually committed to purchase at 30 June 2015 is £nil (30 June 2014: £nil).

7. Share capital

	2015 Number	**2015 £m**
1 January 2015		
Ordinary Shares of £0.0025 each	88,529,127	0.2
Deferred Shares of £0.0025 each	1,717,323	-
		0.2

On 20 February 2015 Gamma Communications plc bought-back 1,717,323 Deferred Shares at a price of £0.0025 per share from distributable profits.

On 23 March 2015 1,099,111 Ordinary Shares were issued and allotted to satisfy an exercise of options.

On 8 June 2015 12,000 Ordinary Shares were issued and allotted to satisfy an exercise of options.

	2015 Number	**2015 £m**
30 June 2015		
Ordinary Shares of £0.0025 each	**89,640,238**	**0.2**
Deferred Shares of £0.0025 each	**-**	**-**
		0.2

8. Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- → Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- → Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- → Level 3: unobservable inputs for the asset or liability.

The Group only has one Level 3 financial liability being the contingent consideration.

The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. The finance team reports directly to the Chief Financial Officer.

The valuation techniques used for instruments categorised in Level 3 are described below.

The fair value of contingent consideration related to the acquisition of Gamma Network Solutions Limited on 3 March 2012 was based on the expected gross margins earned by the business in the five years following acquisition.

The discount rate used is based on the Group's estimated cost of debt. The effects on the fair value of risk and uncertainty in the future cash flows are dealt with by adjusting the estimated cash flows rather than adjusting the discount rate.

The most significant sensitivity is a change in future gross margin. An increase/(decrease) by 10% of the future gross margin made by the business will result in an increase/(decrease) of fair value of £0.3m. Theoretically the contingent consideration could range from zero through to an unlimited amount however in practice the amount due is bounded by the level of sales made by a finite sales force. The acquisition was constructed in such a way that the gross margin from future sales is at least as large as the contingent consideration.

Management has recalculated the fair value of the contingent consideration at the end of each accounting period and there has been no material difference in the fair value. During 2015 a final payment in relation to the deferred consideration was made

Level 3 fair value measurements

The reconciliation of the carrying amounts of financial instruments classified within Level 3 is as follows:

	£m
Contingent consideration at 1 January 2014	2.1
Realised during period	(0.7)
Contingent consideration at 30 June 2014	1.4

Contingent consideration at 1 January 2015	0.1
Realised during period	(0.1)
Contingent consideration at 30 June 2015	**-**

9. Related party transactions

As at 30 June 2015 an amount of £2.7m (30 June 2014: £0.6m) was owed to the Group by key management personnel; this sum includes £50,000 (30 June 2014: £50,000) owed by Andrew Belshaw and £2,591,460 (30 June 2014: £300,000) owed by Bob Falconer.

On 6 May 2014, a subsidary (Gamma Telecom Holdings Limited) made an interest free loan of £50,000 to Andrew Belshaw to enable him to repay a loan of £50,000 from the Employee Benefit Trust. This loan is repayable on the earlier of the date on which Andrew Belshaw sells the 200,000 £0.0025 Ordinary Shares which are held in the Employee Benefit Trust (and it is part payable if there is a partial disposal) or within 30 days of Andrew Belshaw ceasing to be employed by the Group or 4 April 2021.

On 2 October 2014, the Company agreed certain arrangements with Bob Falconer to enable him to maintain his holding of 5% of the issued Ordinary Share capital of the Company for the purposes of enabling him to benefit from "entrepreneur's relief" from UK capital gains tax. In order to achieve this, Bob Falconer agreed to pay to the Company the sum of £3.1m, being £0.9375 in respect of each of the 3,356,528 B1 shares held by him, such that each of his B1 shares converted into one Ordinary Share (each, a "Converted Share"). To part fund that payment, the Company's subsidiary, Gamma Telecom Holdings Limited, made an interest free loan to Bob Falconer of £2.6m ("Loan"). If Bob Falconer ceases to be a Director of the Company the Loan is repayable on expiry of his notice period or three months after termination if no notice period applies. The Loan is also repayable if Bob Falconer disposes of the Converted Shares or upon certain events of default, including his bankruptcy or within six months of his death. There is also a part repayment obligation if Bob Falconer sells only part of the Converted Shares. The Loan is secured by an unregistered charge over 1,580,159 Ordinary Shares registered in Bob Falconer's name. As part of these arrangements, the Company cancelled Bob Falconer's options over 549,132 A shares in return for a cancellation payment to Bob Falconer of £1.6m, being equal to the capped value of the A shares pursuant to the terms of the Company's articles of association in force at that time less the option exercise price for those A shares. Bob Falconer used part of the cancellation payment to repay a loan of £0.3m which had previously been made by Gamma Telecom Holdings Limited to him in April 2014.

Dividends totaling £0.3m (being the final dividend for 2014) were paid in the first half of the year in respect of ordinary shares held by the Company's directors.

10. Contingent assets and liabilities

In July 2014 the Supreme Court overturned a Court of Appeal judgment, made in July 2012, which had disallowed a ladder pricing policy in use by the Group. The Group received the Supreme Court Order in December 2014 and it will start the process to recover the money from the mobile operators. Any ongoing benefit for the period after the Supreme Court's judgment was dependent on whether the mobile operators altered their pricing, which would have impacted the termination rates they were charged.

Neither the Group nor the Company has recognised any benefit from ladder pricing to date. All ladder pricing ceased from the end of June 2015 when new pricing arrangements for Non-Geographic Call Services in the UK came into effect.

The Group had no contingent liabilities at 30 June 2015 or 30 June 2014 other than the contingent consideration in relation to the business acquisition discussed in note 8.

11. Events after the reporting date

There were no reportable events after the balance sheet date.

12. Ultimate controlling party

There is no ultimate controlling party. Gamma Communications plc is the ultimate controlling party of the Gamma Communications Group.