6 September 2016

Gamma Communications plc
Unaudited Interim Results for six months ended 30 June 2016

Continued growth in key products and results ahead of expectations

Gamma Communications plc ("Gamma"), a leading, technology based provider of communications services to the UK business market, is pleased to announce its unaudited results for the six months ended 30 June 2016.

Financial highlights

	Six months ended 30 June		
	2016	**2015**	**Change (%)**
Revenue	£104.7m	£92.4m	+13.3%
Gross profit	£47.7m	£39.2m	+21.7%
Gross margin	45.6%	42.4%	
EBITDA	£14.9m	£11.2m	+33.0%
Adjusted EBITDA*	£16.3m	£13.0m	+25.4%
PBT	£10.6m	£7.6m	+39.5%
Adjusted PBT *	£12.0m	£9.4m	+27.7%
EPS (fully diluted)	9.1p	6.7p	+35.8%
Adjusted EPS* (fully diluted)	10.1p	8.2p	+23.2%
Interim dividend per share	2.5p	2.2p	+13.6%
Net operating cash inflow before tax**	£13.8m	£10.9m	+26.6%
Net operating cash inflow before tax** / Adjusted EBITDA*	84.7%	83.8%	

* "Adjusted" is defined as being before share based payments of £1.4m (2015:£1.8m) and exceptional items of nil (2015:nil) (see note 4) (and associated tax effects in the case of adjusted EPS)
** Net operating cash inflow before tax is defined as "Net Cash flows from operating activities" plus "Taxes paid" before exceptional cashflows

Operational highlights

- Installed SIP Trunks increased from 360,000 at 31 December 2015 to 413,000 (+14.7%)
- Cloud PBX users increased from 142,000 to 188,000 (+32.4%)
- Gross profit from indirect business increased from £30.3m in the first half of 2015 to £37.6m (24.1%)
- The number of active Channel Partners grew from 834 at 31 December 2015 to 906 (+8.6%)
- Strong growth in direct business, gross profit up from £8.9m to £10.1m (13.5%)
- Key new contracts include Strutt & Parker, Menzies LLP, Berendsen plc, Morrisons Utility Services and a large financial institution.
- Good progress in the public sector, new contracts include Symphony Housing Group, AQA, Betsi Cawaladr Health Board, East and North Herts NHS Trust.
- Full Mobile (MVNO) service developed on time
- Product pipeline remains strong and service quality remains high

Bob Falconer, Chief Executive Officer, commented:

"We are very pleased with the progress we have made across several fronts in the first half of 2016. Our strategic products have continued to add volume and we are seeing an acceleration in the take-up of our data services. Getting our new full MVNO mobile capability ready for service by June as planned has been a major achievement and positions the business extremely well for the future."

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

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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 its own intellectual property.

Gamma also provides business-grade 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 717 employees at 30 June 2016. It operates across six main locations – headquartered in Newbury - with offices in London, Manchester, Glasgow, Portsmouth and Budapest.

Chairman's Statement

Introduction

I am very pleased to present the unaudited results for the half year ended 30 June 2016.

Overview of Results

Group revenue for the half year ended 30 June 2016 increased by £12.3m to £104.7m (H1 2015: £92.4m) an increase of 13.3% on the prior year and it is particularly pleasing that all of this growth is organic. Of this increase, £10.0m came from the indirect channels business where revenue increased to £83.0m (H1 2015: £73.0m) while £2.3m came from the direct business which saw revenue increase to £21.7m (H1 2015: £19.4m). Gross profit for the six months to 30 June 2016 rose to £47.7m, an increase of 21.7% compared to the £39.2m achieved in the same period of 2015, whilst the gross margin increased to 45.6% (H1 2015: 42.4%). Adjusted EBITDA for the group increased by 25.4% to £16.3m (H1 2015: £13.0m).

Adjusted fully diluted earnings per share for the half year increased by 23.2% to 10.1p (H1 2015: 8.2p).

The net operating cash inflow (pre-tax) for the first half was £13.8m compared to £10.9m in H1 2015. This represents a cash to adjusted EBITDA conversion ratio in respect of 2016 of 84.7% compared to 83.8% for H1 2015. Net cash as at 30 June 2016 amounted to £27.8m, up from £24.8m as at 31 December 2015. The business has invested in its network, particularly the new mobile platform, using some of its cash reserves.

Dividend

Gamma is 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 2016, of 2.5pence per share (2015: 2.2 pence) which, will be payable on Thursday 20 October 2016 to shareholders on the register on Friday 23 September 2016.

Business Development

Gamma's strategic intent in 2016 is to retain its market leadership in core strategic products, reduce its cost of delivery on data, and bring to market the fruits of some innovative development work. I am delighted to report that the business is already ahead of plan on all of these fronts. The development on time of the mobile service has been a major achievement overcoming significant technical and commercial challenges. We look forward to a very constructive relationship with Hutchison 3G UK Ltd, our primary partner for radio access.

We have added 72 new channel partners and had significant contract wins in the direct enterprise and public sector markets, including Strutt & Parker, Menzies LLP, Berendsen plc and Morrisons Utility Services. Of particular note the company has entered contracts to provide UK SIP Trunking services for a large financial institution. The three year contract will replace the legacy voice connectivity services currently in use, with final roll-out dependent on meeting strict acceptance criteria over the coming months.

Good progress has also been made in the public sector. Key new contracts include Symphony Housing Group, AQA, Betsi Cawaladr Health Board, East and North Herts NHS Trust.

Board and Employees

As of the 30 June 2016, Gamma had 717 employees, an increase of 47 from 31 December 2015. This growth has been driven by the general expansion of the business and the development and operation of new services, in particular the new mobile capability. Ongoing operational gearing efficiencies have helped adjusted EBITDA grow from 14.1% of revenue in the first half of 2015 to 15.6% of revenue in the first half of 2016. The Board will continue to invest to improve efficiency.

The Board would like to express its thanks to all of Gamma staff for their dedication, hard work and enthusiasm. The company introduced a 3 year sharesave scheme and it was particularly pleasing to see the exceptionally high take up with 307 staff choosing to participate.

Outlook

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

Richard Last
Chairman and Independent Non-Executive Director

Chief Executive Review

Introduction

We are very pleased with the continued momentum of the business in the half year ended 30 June 2016. In particular our strategic products of SIP Trunking and Cloud PBX have shown excellent growth adding 53,000 SIP channels and 46,000 Cloud PBX seats respectively. Our data products have also grown well in a mature market as we continue to invest in the underlying infrastructure and take advantage of a competitive final mile access market.

Mobile

As planned, in June we brought our new business-focussed Full MVNO into active service and began the process of transferring customers from our current Thin MVNO with Vodafone. Our new service is designed for businesses, and features full 4G capability. The primary radio access network in the UK is provided by Hutchison 3G UK Ltd, whilst separate roaming agreements are now in place.

During the fourth quarter of 2016, the service will be marketed more widely to new channel partners and direct business customers, with Gamma positioning itself as the fourth mobile operator in the UK business market.

Having direct ownership of the systems controlling fixed voice, data and mobile services positions the business well for the future provision of more converged communications.

Indirect Business Channel

The channel remains our primary route to market and we continue to develop our services and processes to make it straightforward and rewarding for channel operators to work with us. The number of partners actively trading with us has increased from 834 to 906 The trend for the channel to move from providing niche services such as IT support, or PBX installation, to a full ICT bundle continues, and this opens up further opportunities with new channel partners that previously may not have engaged. Whilst the channel is traditionally focussed on the SME market a notable trend has been for channel partners to win larger mid-market deals such as the success of Olive Business Solutions Limited in securing a contract with Scania (Great Britain) Limited to transform their communications estate.

Direct Business Channel

In the Enterprise market, the business has had considerable success:

- Strutt & Parker, the UK's largest independent property partnership, contracted with Gamma for a complete data, voice and mobile infrastructure. This three year agreement, will see Gamma take over the existing fixed and mobile voice services for all Strutt & Parker UK branches and migrate them onto Gamma's next generation cloud-based platforms.
- Menzies LLP, a top 20 UK accountancy firm, also selected Gamma to deliver a high capacity managed network across its UK sites.
- Berendsen plc selected Gamma to implement and manage a new data and voice infrastructure across its UK business. This 100 plus site network will deliver Berendsen a consolidated voice architecture using Gamma leading SIP services as well as providing increased bandwidth for applications delivery.
- Morrison Utilities have entered a managed service agreement for the delivery of cloud telephony to a number of its sites.
- UHY Hacker Young entered a five year agreement for Gamma to install and support a Cloud PABX solution across its London and Nottingham locations.
- Pret a Manger chose to extend its existing agreement with Gamma to supply the retailer with managed data and voice services until early 2019.

Meanwhile work continues to prepare to provide UK SIP Trunking services for a large financial institution. The three year contract will replace the legacy voice connectivity services currently in use, and final roll-out remains dependent on meeting strict acceptance criteria.

In the public sector traction is building with strong bid success rates. Recent wins include the provision of Cloud PBX for Symphony Housing Group; Cloud contact centre services for Assessment and Qualification Alliance (AQA); SIP and Ethernet services for Betsi Cawaladr Health Board; a national network for Cabot Learning: and a multi-site data network and SIP Trunking for East and North Herts NHS Trust.

The average contract length in the direct business continues to improve and churn levels among enterprise customers remain low.

Development

Whilst the final stages of development on the ‘full MVNO’ platform have been the primary focus (and have required capital investment), the business has nevertheless continued to develop and enhance its existing portfolio.

In May we launched SIP Trunk Call Manager. This product adds value to SIP Trunks by providing the option to readily add software based call control features such as time of day routing and call queuing to a SIP Trunk either at the point of provisioning or later, further differentiating the product from competitor offerings and adding value and margin opportunities for our channel partners.

In the first stage of a programme to reduce the underlying cost of our ethernet product, we completed the build out of infrastructure to 19 BT exchanges in the London area. This has significantly reduced the last mile costs in these highly competitive locations and improves the competitiveness of SIP/ethernet bundles. The Converged Private Network service, which provides data connectivity to multi-sited businesses, has been enhanced with the addition of both Virgin Media and TalkTalk Business to the access options.

Plans are also well advanced to test the demand in the channel for a “Cloud Compute service“ and to broaden further the range of Gamma products our channel partners can take to their business customers.

Behind the scenes, significant progress has been made in realising the benefits of earlier investments in core network infrastructure. The completion of this so-called New Voice Architecture later in 2016 will bring considerable benefit in terms of simplifying our core capability, reducing our costs, increasing capacity and providing higher levels of resilience and availability.

The Loop

Driven by customer demand ‘The Loop’, Gamma’s unique metropolitan area fibre network in the Greater Manchester area, has now been extended by 23km to 150km, and now includes Media City in Salford Quays. As a result, the number of customers directly connected to The Loop has grown to 32 with the recent additions of the BBC, NHS Salford Royal Hospital, and Manchester Metropolitan University.

Employees

We were once again pleased to be recognised as one of The Sunday Times “Best 100 Companies to Work For 2016”. Whist a welcome and encouraging vote of confidence from Gamma’s employees, the strong academic research behind the criteria for Best Companies confirms a strong correlation between the high levels of employee engagement looked for and business success generally.

Regulatory Environment and the Impact of the EU Referendum

We remain very actively engaged in regulatory matters. In particular we welcome the recent Ofcom proposals for a more independent Openreach.

The Board has considered the likely impact of the Brexit referendum result on the business and does not believe that it would have a material effect on Gamma over the next year. Notwithstanding, it has identified the following risk areas:

- Exchange rate movements adversely impacting capital costs of equipment
- Any general economic slowdown, although it is noted that the telecommunications industry has been resilient to such slowdowns in the past
- Business pessimism reducing demand for new services, conversely increasing demand for services that improve efficiency
- Any impact from a slowdown in investment in infrastructure by Gamma's suppliers (e.g. fibre investments)
- Any adverse impact from interest rate changes
- The consequence any restrictions of free movement of labour may have on Gamma's ability to hire highly skilled technical staff from the EU.

Outlook

The business strategy remains unchanged and resolutely focussed on bringing high quality new and disruptive services to the business market with the indirect channel as the primary route to growth. We expect the volumes to continue to grow in Cloud PBX and SIP, with data making a growing contribution to the business as our investment in reducing access costs continues. It is anticipated that this growth will more than offset the continued decline in Traditional calls and lines services. The new mobile service, in particular, presents a unique and exciting opportunity and Gamma is one of only a very small number of companies with the underlying capability to build true fixed and mobile converged services.

Bob Falconer
Chief Executive Officer

Financial review

Revenue

Indirect Business

Revenue from the indirect business grew from £73.0m to £83.0m and gross profit grew from £30.3m to £37.6m – an increase of £7.3m of gross profit from the first half of last year.

Gamma's "Growth" products comprise our Enabling products (data and mobile) and our Strategic product set (SIP, Cloud PBX and Inbound). Sales from our Growth products through the indirect channel grew from £43.7m in the first half of 2015 to £54.9m. This is driven by both the increase in the number of active channel partners and that they are selling more productsGross margin grew from 47.6% to 53.0% which reflects the fact that the main contributor to this growth was SIP Trunking which carries a higher margin than Traditional products.

In line with the general trends seen in the industry, the performance of the Traditional business (primarily traditional calls, lines and trade with other carriers) has continued its steady decline as gross profit has gone down to £8.5m (H1 2015: £9.5m). The number of channel partners actively trading with Gamma increased from 834 at the start of the year to 906 by 30 June. An increasing number of these new channel partners are IT focussed companies who only purchase the Growth products.

Direct Business

The direct business also continues to grow. Revenue increased from £19.4m in H1 2015 to £21.7m and gross profit from £8.9m to £10.1m. Gross margin increased from 45.9% to 46.5%.

The growth was attributable to sales of Growth products and gross profit on these products grew from £6.9m to £8.1m. This includes multi-product solution sales to larger enterprises. This is particularly pleasing because much of the new business is won on multi-year contracts.

Operating expenses

Operating expenses before exceptional items and share based payments grew from £26.2m to £31.4m. This was due to a number of factors:

- The growth in the number of customers switching to Growth products for the first time continues to be a driver of overhead.
- The new mobile platform cost £2.7m to support in the first half of 2016 which was overhead cost incurred without any corresponding improvement in margins from the reduced cost of sales. The comparable spend in the first six months of 2015 was £0.8m.
- We also continue to increase our investment in product development and, whilst internal spend of £0.5m was capitalised in the first half, we spent more on the research and initial development of new product offerings and variants on our existing product set as we continue to build for the future.
- The Group continues to invest in its systems to ensure that as sales increase, the number of customer service personnel required does not need to scale proportionately.

Adjusted EBITDA

The combination of increasing sales of new products and operational improvements means that adjusted EBITDA grew from £13.0m to £16.3m or 25%. This is in spite of the increased support costs of a mobile platform that has yet to generate any margin improvement benefits.

Share based payments

Share based payment charges for the first half were £1.4m (2015: £1.8m). We previously noted that we expected Share based payments to decrease this year and this is due to the unwinding of Long Term Incentives which were put in place just prior to the float in October 2014.

Exceptional items

There were no exceptional items in either period.

Cash flows

The cash balance at the end of the year was £27.8m, up from £24.8m at 31 December 2015.

The cash inflow before taxation was £13.8m which represents 84.7% of adjusted EBITDA for the year; in line with our historical rates of cash conversion. Cash conversion tends to be slightly lower in the first half of the year due to seasonal outflows such as bonus payments to staff.

Capital expenditure for the first half was £7.6m, which was an increase from £4.0m compared to the first half of 2015 but it was noted that a number of projects from H1 2015 were deferred to the second half which had artificially lowered the reported spend.

The Group continues to be debt free.

Capital expenditure

The Group spent £7.6m on capital which was split as follows.

Regular capex of £6.8m (being the normal levels of capex that Gamma spends to run the business) -

- £2.6m was on increasing capacity and development of the core network as well as other minor items such as IT and fixtures and fittings (H1 2015: £2.0m).
- £0.5m was the capitalisation of development costs incurred during the year, this is in line with previous years (H1 2015: £0.4m).
- £3.7m was on customer premises equipment; this is “success based” expenditure and is expected to increase in line with sales in our data and Cloud PBX products (H1 2015: £1.6m).

Development capex of £0.8m (being additional capex which is required to develop new products and services or to drive efficiency) -

- An additional £0.8m was spent on augmenting the mobile platform purchased in late 2014 in preparation for a live service in 2016 (H1 2015: £0.4m).
- We had expected to see spend on our programme to build out our data network but it was negligible in the first half as spend has been deferred into 2017. At the time of IPO we noted that Gamma’s national fibre agreement expired in 2020.. The business is now considering its options well in advance because it may become economically beneficial to do so. Any investment (capital or lease) could be funded from cash reserves.

Taxation

The effective tax rate for the first half of the year was 18.9% (2015: 18.4%). The tax rate is lower than the statutory rate for the year (20%) because the Group benefits from research and development tax credits.

Dividends

The Board has declared an interim dividend in respect of 2016 of 2.5pence per share payable on Thursday 20 October 2016 to shareholders on the register as at Friday 23 September 2016. This compares to 2.2p paid in 2015 and represents an increase of 13.6%.

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
5 September 2016

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 2016 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 11. 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 2016 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
5 September 2016

Condensed consolidated unaudited statement of comprehensive income

For the six month period ended 30 June 2016

	Notes	**Six months ended 30 June 2016 £m unaudited**	Six months ended 30 June 2015 £m unaudited	Year ended 31 December 2015 £m Audited
Revenue	3	**104.7**	92.4	191.8
Cost of sales		**(57.0)**	(53.2)	(109.5)
Gross profit		**47.7**	39.2	82.3
Other operating income		**-**	-	5.7
Operating expenses		**(37.2)**	(31.6)	(65.5)
Operating profit before share based payment, depreciation, amortisation and exceptional items (adjusted EBITDA)		**16.3**	13.0	28.3
Share based payment expense		**(1.4)**	(1.8)	(4.1)
Exceptional items	4	**-**	-	5.7
Operating profit before depreciation and amortisation		**14.9**	11.2	29.9
Depreciation and amortisation		**(4.4)**	(3.6)	(7.4)
Profit from operations		**10.5**	7.6	22.5
Interest income		**0.1**	-	0.1
Profit before tax		**10.6**	7.6	22.6
Tax expense	5	**(2.0)**	(1.4)	(4.3)
Profit after tax		**8.6**	6.2	18.3
Total comprehensive income attributable to the owner of the parent		**8.6**	6.2	18.3
Earnings per share	6			
Basic per ordinary share (pence)		**9.5**	7.0	20.4
Diluted per ordinary share (pence)		**9.1**	6.7	19.6

Adjusted earnings per share is shown in note 6.

Condensed consolidated unaudited statement of financial position
At 30 June 2016

	Notes	**Six months ended 30 June 2016 £m unaudited**	Six months ended 30 June 2015 £m unaudited	Year ended 31 December 2015 £m Audited
Assets				
Non-current assets				
Property, plant and equipment	7	**26.7**	19.6	23.4
Intangible assets		**10.3**	10.5	10.4
Deferred tax asset		**2.0**	1.5	2.0
		39.0	31.6	35.8
Current assets				
Inventories		**2.6**	1.1	2.3
Trade and other receivables		**39.8**	33.9	35.2
Cash and cash equivalents		**27.8**	16.1	24.8
		70.2	51.1	62.3
Total assets		**109.2**	82.7	98.1
Liabilities				
Non-current liabilities				
Provisions		**1.4**	1.2	1.4
Deferred tax liability		**0.4**	0.1	0.4
		1.8	1.3	1.8
Current liabilities				
Trade and other payables		**32.6**	25.2	27.3
Current tax liability		**2.4**	1.7	2.3
		35.0	26.9	29.6
Total liabilities		**36.8**	28.2	31.4
Issued capital and reserves attributable to owners of the parent				
Share capital	8	**0.2**	0.2	0.2
Share premium reserve		**3.7**	3.4	3.7
Merger reserve		**2.3**	2.3	2.3
Share option reserve		**2.7**	2.9	3.8
Investment in own shares		**(0.8)**	(0.3)	(0.8)
Retained earnings		**64.3**	46.0	57.5
Total equity		**72.4**	54.5	66.7
Total equity and liabilities		**109.2**	82.7	98.1

Condensed consolidated unaudited statement of cash flows

For the six month period ended 30 June 2016

	Notes	**Six months ended 30 June 2016 £m unaudited**	Six months ended 30 June 2015 £m unaudited	Year ended 31 December 2015 £m audited
Cash flows from operating activities				
Profit for the period before tax		**10.6**	7.6	22.6
Adjustments for:				
Depreciation of property, plant and equipment	7	**3.8**	2.9	6.1
Amortisation of intangible assets		**0.6**	0.7	1.3
Share based payment expense		**1.4**	1.8	4.1
Interest income		**(0.1)**	-	(0.1)
		16.3	13.0	34.0
(Increase) in trade and other receivables		**(7.4)**	(1.6)	(3.3)
(Increase) in inventories		**(0.3)**	-	(1.2)
Increase/(decrease) in trade and other payables		**5.2**	(0.7)	0.4
Increase in provisions and employee benefits		**-**	0.2	0.5
Taxes paid		**(1.9)**	(0.8)	(2.2)
Net cash flows from operating activities		**11.9**	10.1	28.2
Investing activities				
Purchases of property, plant and equipment		**(7.1)**	(3.6)	(10.6)
Expenditure on development costs		**(0.5)**	(0.4)	(0.9)
Payment of deferred consideration		**-**	(0.1)	(0.1)
Repayment of loans made to individuals to subscribe for shares (Note 9)		**2.6**	0.3	0.5
Interest received		**0.1**	-	0.1
Net cash used in investing activities		**(4.9)**	(3.8)	(11.0)
Financing activities				
Share issues		**-**	0.2	0.5
Investment in own shares		**-**	(0.3)	(0.8)
Dividends paid		**(4.0)**	(3.5)	(5.5)
Net cash used in financing activities		**(4.0)**	(3.6)	(5.8)
Net increase in cash and cash equivalents		**3.0**	2.7	11.4
Cash and cash equivalents at beginning of period		**24.8**	13.4	13.4
Cash and cash equivalents at end of period		**27.8**	16.1	24.8

Condensed consolidated unaudited statement of changes in equity

For the six month period ended 30 June 2016

	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 2016	0.2	3.7	2.3	3.8	(0.8)	57.5	66.7
Issue of shares	-	-	-	(2.2)	-	2.2	-
Recognition of share based payments	-	-	-	1.1	-	-	1.1
Dividends paid	-	-	-	-	-	(4.0)	(4.0)
Transaction with owners	-	-	-	(1.1)	-	(1.8)	(2.9)
Profit for the year	-	-	-	-	-	8.6	8.6
Total comprehensive income	-	-	-	-	-	8.6	8.6
30 June 2016	**0.2**	**3.7**	**2.3**	**2.7**	**(0.8)**	**64.3**	**72.4**
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

Notes forming part of the condensed consolidated unaudited interim financial information

For the six month period ended 30 June 2016

1. Basis of preparation

The unaudited interim consolidated financial information for the six months ended 30 June 2016 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 2015.

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 2015 is derived from the audited statutory financial statements for the year ended 31 December 2015, 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 2015 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 2016 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 5 September 2016.

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 2015.

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
- Leasehold dilapidations
- Capitalisation of internal development costs
- Share based payment charges.

3. Segment information

The Group has two main operating segments:

- → Indirect – This division sells Gamma's traditional and growth products and services to channel partners and contributed 79% (2015: 79%) of the Group's external revenue; and
- → Direct – This division sells Gamma's traditional and growth products and services to end users in the SME, Enterprise and public sectors. They contributed 21% (2015: 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 growth products (which consist of IP voice traffic, rental income derived from SIP Trunking, hosted IP voice systems and Gamma's hosted inbound product and data products). Growth products were formerly known as New products but management believes that Growth is a better description of the product set. There is no change in underlying classification.

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 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 2016			
Traditional products and services	28.1	5.3	33.4
Growth (being strategic and enabling) products and services	54.9	16.4	71.3
Total revenue from external customers	**83.0**	**21.7**	**104.7**
Inter-segment revenue	*7.3*	-	*7.3*
Traditional products and services	8.5	2.0	10.5
Growth (being strategic and enabling) products and services	29.1	8.1	37.2
Total gross profit	**37.6**	**10.1**	**47.7**
Segment operating profit before share based payment, depreciation, amortisation and exceptional items	**11.8**	**4.5**	**16.3**
Share based payment expense	(1.4)	-	(1.4)
Segment EBITDA	**10.4**	**4.5**	**14.9**
Depreciation and amortisation	(4.0)	(0.4)	(4.4)
Segment profit	**6.4**	**4.1**	**10.5**
Interest income	0.1	-	0.1
Tax	(1.2)	(0.8)	(2.0)
Group profit after tax	**5.3**	**3.3**	**8.6**

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

	Indirect £m	Direct £m	Total £m
Additions to non-current assets	7.3	0.3	7.6
Reportable segment assets	77.1	32.1	109.2
Reportable segment liabilities	14.9	21.9	36.8

	Indirect £m	Direct £m	Total £m
Period to 30 June 2015			
Traditional products and services	29.3	5.4	34.7
Growth (being strategic and enabling) products and services	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 and services	9.5	2.0	11.5
Growth (being strategic and enabling) products and services	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 contributes more than 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

4. Exceptional items

There were no exceptional items in either period.

5. 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 2016 is 18.9% (the estimated tax rate for the first half to 30 June 2015 was 18.4%).

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 2016 £m	Six months ended 30 June 2015 £m
Current tax expense		
Current tax on profits for the year	**2.1**	1.7
Adjustment in respect of prior year	**-**	(0.2)
Total current tax	**2.1**	1.5
Deferred tax expense		
Origination and reversal of temporary differences	**(0.1)**	(0.1)
Total tax expense	**2.0**	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 2016 £m	Six months ended 30 June 2015 £m
Profit before income taxes	**10.6**	7.6
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 20% (2015: 20.25%)	**2.1**	1.5
Expenses not deductible for tax purposes	**-**	0.2
Additional deduction for R&D expenditure	**(0.1)**	(0.1)
Adjustment in respect of prior year	**-**	(0.2)
Total tax expense	**2.0**	1.4

The Finance Act 2013 included provision for the main rate of corporation tax to reduce to 20% from 1 April 2015. The Finance Act 2015 includes provision for the main rate of corporation tax to reduce to 19% for the year beginning 1 April 2017, with a further reduction from 19% to 18% for the year beginning 1 April 2020.

6. Earnings per share and dividends

Earnings per share

The calculation of basic earnings per Ordinary Share is based on a profit after tax of £8.6 m for the six months ended 30 June 2016 (Six months ended 30 June 2015: £6.2m) and 90,799,608 Ordinary Shares for the six months ended 30 June 2016 (Six months ended 30 June 2015: 89,132,949 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 2016 the diluted Ordinary Shares were based on 94,286,518 Ordinary Shares (Six months ended 30 June 2015: 92,300,037) that included 3,486,910 potential Ordinary Shares (Six months ended 30 June 2015: 3,167,088).

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 2016 £m Unaudited	Six months ended 30 June 2015 £m Unaudited
Profit for the year	**8.6**	6.2
Exceptional items	**-**	-
Share based payment costs	**1.4**	1.8
Less tax benefit associated with share based payment costs	**(0.5)**	(0.3)
Adjusted profit after tax for the year	**9.5**	7.7

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 94,395,910 Ordinary Shares (Six months ended 30 June 2015: 93,774,584) that included 3,596,302 potential Ordinary Shares (Six months ended 30 June 2015: 4,641,635).

	Six months ended 30 June 2016 No. Unaudited	Six months ended 30 June 2015 No. Unaudited
EPS		
Weighted average number of Ordinary Shares for basic earnings per share	**90,799,608**	89,132,949
Effect of dilution resulting from share options	**3,486,910**	3,167,088
Weighted average number of Ordinary Shares adjusted for the effect of dilution	**94,286,518**	92,300,037
Adjusted EPS		
Weighted average number of Ordinary Shares for basic earnings per share	**90,799,608**	89,132,949
Effect of dilution resulting from share options	**3,596,302**	4,641,635
Weighted average number of Ordinary Shares adjusted for the effect of dilution	**94,395,910**	93,774,584
Adjusted earnings per Ordinary Share – basic (pence)	**10.5**	8.6
Adjusted earnings per Ordinary Share – diluted (pence)	**10.1**	8.2

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

A final dividend of 4.4p was paid on the 23 June 2016 (2015: 3.95p).

The Board have declared an interim dividend of 2.5p per share payable on Thursday 20 October 2016 to shareholders on the register as at Friday 23 September 2016. In the prior year an interim dividend of 2.2p was paid.

7. Property, plant and equipment

	Network assets £m	Customer Premises equipment £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost					
At 1 January 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 period	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
Cost					
At 1 January 2016	45.9	5.8	4.6	0.5	56.8
Additions	2.5	3.7	0.8	0.1	7.1
Disposals	-	(0.4)	-	(0.1)	(0.5)
At 30 June 2016	48.4	9.1	5.4	0.5	63.4
Depreciation					
At 1 January 2016	29.4	1.7	2.2	0.1	33.4
Charge for the period	1.9	1.3	0.5	0.1	3.8
Disposals	-	(0.4)	-	(0.1)	(0.5)
At 30 June 2016	31.3	2.6	2.7	0.1	36.7
Net book value					
At 1 January 2016	16.5	4.1	2.4	0.4	23.4
At 30 June 2016	**17.1**	**6.5**	**2.7**	**0.4**	**26.7**

The estimated cost of the property, plant and equipment which the Group is contractually committed to purchase at 30 June 2016 is £nil (30 June 2015: £nil).

8. Share capital

	2016 Number	2016 £m
1 January 2016		
Ordinary Shares of £0.0025 each	90,250,607	0.2

	Number	Notes
1 January 2016	90,250,607	
23 March 2016	32,500	(a)
31 March 2016	1,022,536	(a)
18 April 2016	50,000	(a)
30 June 2016	207,856	(a)
30 June 2016	**91,563,499**	

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

	2016 Number	**2016 £m**
30 June 2016		
Ordinary Shares of £0.0025 each	**91,563,499**	**0.2**

9. Related party transactions

As at 30 June 2016 an amount of £nil (30 June 2015: £2.7m) was owed to the Group by key management personnel; this sum includes £nil (30 June 2015: £50,000) owed by Andrew Belshaw and £nil (30 June 2015: £2,591,460) owed by Bob Falconer.

On 6 May 2014, a subsidiary (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 was repaid in full on the 2 December 2015.

The loan previously held by Bob Falconer was repaid in full on the 31 March 2016. 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"). Had Bob Falconer ceased to be a Director of the Company the Loan was repayable on expiry of his notice period or three months after termination if no notice period applied. The Loan was also repayable if Bob Falconer disposed of the Converted Shares or upon certain events of default, including his bankruptcy or within six months of his death. There was also a part repayment obligation if Bob Falconer sold only part of the Converted Shares. The Loan was 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 totalling £0.3m (being the final dividend for 2016) were paid in the first half of the year in respect of ordinary shares held by the Company's directors (2015: £0.3m).

10. Events after the reporting date

There were no reportable events after the balance sheet date.

11. Ultimate controlling party

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