3 September 2018

Gamma Communications plc
Unaudited Results for six months ended 30 June 2018

Strong Group performance with continued delivery of robust revenue and margin growth

Gamma Communications plc ("Gamma" or "the Group"), 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 2018.

	Six months ended 30 June		
	2018	**2017 (Restated[2])**	**Change (%)**
Revenue	£137.6m	£116.3m	*+18.3%*
Gross profit	£62.3m	£51.6m	*+20.7%*
Gross margin	*45.3%*	*44.4%*	
EBITDA (also being adj EBITDA[1])	£21.8m	£16.7m	*+30.5%*
PBT (also being adj PBT[1])	£15.5m	£12.1m	*+28.1%*
EPS (Fully Diluted, "FD")	13.4p	11.4p	*+17.5%*
Adjusted EPS[1] (FD)	13.4p	10.4p	*+28.8%*
Total dividend per share	3.1p	2.8p	*+10.7%*
Cash generated by operations	£18.4m	£11.1m	*+65.8%*
Cash generated by operations / EBITDA	*84.4%*	*66.5%*	

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

2) The prior period comparative figures have been restated for the effects of the adoption of IFRS 15, see note 3 for details of the impact of the change in accounting policies.

Key Highlights

Financial Highlights

A strong financial performance in the half year characterised by –

- Revenue increasing by 18.3% to £137.6m
- EBITDA (also being adj EBITDA) increasing by 30.5% to £21.8m
- Adjusted EPS (FD) increasing by 28.8% to 13.4p

Operational Highlights

- Continued strong growth –
  - The number of installed SIP Trunks increased from 680,000 at 31 December 2017 to 766,000 at 30 June 2018 (+13%).
  - The number of Cloud PBX users increased from 331,000 to 384,000 (+16%).
  - As a result of ongoing investment, data products have performed very well. Broadband has increased from 76,000 units to 85,000 (+12%) and Ethernet from 6,900 to 8,000 (+16%).
  - Mobile connections have increased from 35,000 to 42,000 (+20%) and Gamma successfully launched "Connect", a solution which provides business critical end-user features to Gamma Horizon and Business Mobile users.

- Strong growth across Gamma's indirect business– continued focus on both strengthening current channel relationships and identifying new partner relationships.
  - Gross profit from indirect business increased from £39.5m in H1 2017 to £46.6m in H1 2018 (+18%).
  - The number of Channel Partners grew from 1,089 at 31 December 2017 to 1,146 at 30 June 2018 (+5%).
  - The Gamma Academy delivered 8,349 training courses to Channel Partners during H1 2018, representing strong engagement and participation across our partner base.
  - Gamma Accelerate delivered a significant increase in marketing campaigns run by Channel Partners during the period, when compared to H1 2017, and 75% of Gamma's partners are now actively using the platform.
- Strong execution across all aspects of Gamma's direct business, continues to drive very positive growth.
  - Gross profit up from £12.1m in H1 2017 to £15.7m in H1 2018 (+30%).
  - Improved pipeline and several new contract wins has materially improved contracted backlog during the period, which provides a very confident future growth outlook.
  - In addition to an increased focus on cross-selling and up-selling to existing customers, new contract wins in the period included PRA Group, Xoserve, Howarth Timber and Engie.
  - Gamma's strategy to develop a strong Public-Sector line of business is progressing well, with key wins from the Scottish Government, The Met Office and the YMCA, as well as several key wins across Central Government.
- Gamma's new high capacity national optical network project was delivered on schedule and on budget. This enables Gamma to deliver services at 10Gb/s and above.

Andrew Taylor, Chief Executive Officer, commented

"I have been really impressed by what I have observed during my first months at Gamma, from colleagues, customers and other business partners. It is clear that Gamma has a deserved market leading reputation for customer service and reliability, product quality and innovation – as the strong results demonstrate today. These all represent important aspects of Gamma's business model and provide a fantastic platform from which to take the business forward. I am focused on making sure that Gamma continues to deliver what its customers and channel partners want, while also ensuring that we continue to take the business forward and maintain its market leadership."

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Notes to Editors

Gamma is a rapidly growing, technology based, provider of communications services to the business market (sales are in GBP to UK based businesses). 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 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 revenues which repeat monthly.

Chairman's statement

Introduction

I am pleased to present the unaudited results for the half year ended 30 June 2018.

Overview of Results

Group revenue for the half year ended 30 June 2018 increased by £21.3m to £137.6m (H1 2017 (Restated): £116.3m) an increase of 18% on the prior half year. Of this increase, £13.3m came from the indirect channel where revenue increased to £103.1m (H1 2017 (Restated): £89.8m) while £8.0m came from the direct business which saw revenue increase to £34.5m (H1 2017 (Restated): £26.5m). Gross profit for the six months to 30 June 2018 rose to £62.3m, an increase of 21% compared to the £51.6m (as restated) achieved in the same period of 2017, whilst the gross margin increased to 45% (H1 2017 (Restated): 44%) due to improved product mix. Adjusted EBITDA for the group increased by 31% to £21.8m (H1 2017 (Restated): £16.7m).

Adjusted fully diluted earnings per share for the half year increased by 29% to 13.4p (H1 2017 (Restated): 10.4p).

The Cash Generated by Operations for the first half was £18.4m compared to £11.1m in H1 2017 (as restated). This represents a cash to adjusted EBITDA conversion ratio in respect of 2018 of 84% compared to 66% (as restated) for H1 2017; the prior period figure being depressed as a result of paying suppliers early in exchange for better terms. The closing cash balance for the half year was £36.9m compared to £31.6m at the end of December 2017.

Dividend

Gamma remains committed to a progressive dividend policy. The Board is therefore pleased to declare an interim dividend, in respect of the six months ended 30 June 2018, of 3.1 pence per share (2017: 2.8 pence) an increase of 11% which will be payable on Thursday 18 October 2018 to shareholders on the register on Friday 21 September 2018.

Business Development

We continue to launch new products as well as developing our existing product portfolio. The focus of our development programme in the first half has been to provide services that deliver both tangible business benefits to the end user and support our channel partner base to develop their businesses. With those two objectives in mind the first half of 2018 saw the full market launch of Connect, the fixed/mobile converged product that integrates a mobile user with the Gamma Cloud PBX service, Horizon. The service includes an easy to use App that supports advanced voicemail and number presentation services, and feedback from early adopters of the product has been very positive.

Increasingly we are focusing on providing integrated services that support a combination of key business applications (such as CRM) with business communications. Horizon now integrates with a greater number of CRM systems making the service an integral part of the end user's key business systems.

We continue to enhance the enabling connectivity services that underpin customers' requirements for high quality, cost effective connectivity to cloud based applications. For example, we have introduced Cityfibre into our Ethernet build out programme to provide higher speed access and carrier diversity.

Alongside product development, we invest in programmes to support Channel Partners to develop and optimize their own business. Specifically we have increased our focus on our Channel Partner Marketing Platform (Accelerate) and this is now actively used by over 75% of our Partners to assist them to generate and convert customer leads. Channel partners are also using our online training platform (The Academy) significantly more. This not only enables Partners to keep up to date with new products and train new staff but it is also cost effective for them and Gamma.

In the indirect channel, our Channel Partners continue to drive growth in our key products -

- Daisy consolidated significant Inbound services with Gamma and committed to growth in SIP.
- Natilik signed a contract with Coventry Building Society to deliver 3,000 SIP trunks.
- Maintel have delivered Gamma's Horizon Cloud PBX solution into GAP Clothing.
- GCX has taken our mobile offering into SpecSavers using our SIMs for data in 800 stores.
- A mobile application provider has selected Gamma to terminate their high-volume SMS traffic.
- As part of a strong channel partnership with Sabio, they are deploying 4,000 SIP trunks into several large enterprise customers including Saga, Admiral, Aegon and Investec.

The Direct business continues to perform very well. This is attributable to several reasons, including a continued focus on:

- Pipeline Development & Sales Execution: As part of building a mature funnel and pipeline of new business opportunities, Gamma has identified and won several new customer contracts across both the enterprise and public sector.
- Contracts in central Government: During the period Gamma achieved Stage One compliance to the Health and Social Care Network (HSCN) framework and was also approved on the NHS Digital RM3825 Dynamic Purchasing System, which provides Gamma with the opportunity to address the procurement teams at 1,200 organisations
- Excellent pre-sales and post-sales delivery and customer service execution: Gamma continues to build a very strong reputation for quality, flexibility and for delivering against our commitments, while ensuring that our SLA and customer service both delivers and exceeds customer expectations.
- Continued investment in developing and strengthening the quality of the Gamma team, while transforming our way of working through the implementation of an end-to-end digital strategy. In the future, through digitisation and automation, this will materially improve Gamma's operational agility and enhance our overall customer service proposition and experience.

Board and Employees

In May, Bob Falconer, CEO, retired and stood down from the Board. I am pleased to say that the Company will continue to benefit from Bob's significant company knowledge and industry expertise on a part-time consultancy basis. On behalf of everyone at Gamma, I would like to thank him for his excellent and loyal service.

As a result of Bob's retirement, Andrew Taylor joined the Board on 4 April and took over as CEO at the AGM on 23 May. Andrew has made an immediate and positive impact on the business. During the second half of this year, Andrew will refine the group's strategy to ensure that we continue to grow into the medium and long term.

As of the 30 June 2018, Gamma had 925 employees, an increase from 901 from 31 December 2017. This growth is driven by the general expansion of the business and the continued investment in new service development and changing mix of products. Meanwhile operational gearing efficiencies have helped adjusted EBITDA margin grow from 14.4% of revenue in the first half of 2017 (as restated) to 15.8% of revenue in the first half of 2018.

The company introduced a sharesave scheme for the third year in a row. This follows on from those introduced successfully in previous years. Once again, it was particularly pleasing to see the exceptionally high take up, with 257 staff choosing to participate in the scheme (2017: 231).

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

We continue to assist apprentices to gain valuable work experience, to continue their education and to gain nationally recognised qualifications. At present, we have 11 apprentices currently employed in IT, HR, Infrastructure Support, Software Development, Sales and Customer Service. We have a good track record of offering permanent employment at the end of these apprenticeships, and expanding opportunities for apprentices across the business remains a priority for Gamma. We consider diversity to be an important part of our culture at Gamma, and run a number of programmes across our business to support and promote this.

Outlook

The Board looks forward enthusiastically to the remainder of 2018 and beyond. Gamma has a business model which delivers a very high percentage of recurring revenues. As a predominantly channel focused business, Gamma will continue to concentrate efforts and investment on strengthening our relationship and capabilities to support the channel to be successful, while ensuring that in the direct business, we continue to focus on growth and on building on an already strong reputation for operational excellence and service quality.

Richard Last
Chairman

Chief Executive Review

Introduction

I have enjoyed getting to know Gamma since I joined and I have been impressed by the quality of our people and our very positive corporate culture, coupled with the strength of our technology and the relationships with our channel partners and customers.

I would like to thank Bob for his hard work in getting the company to the place it is today. I have also been grateful for his support during our handover period, and I am very happy to report that feedback from our partners, customers and staff has been very positive. Our stated objective and focus on "business continuity" during this period was important, and I believe our results during the period are testament to this.

I am delighted to be able to say that the first half of 2018 has been Gamma's strongest ever, both in absolute terms and in terms of growth from the prior period. We have continued to deliver strong revenue and margin growth representing a very positive performance and a strong set of financial results.

Products & Marketing

Gamma continues to focus on Product Developments that both add value to our existing offerings and open up new opportunities to create margin for our Indirect Channel Partners and our Direct business.

The key focus of our Product Developments for the near term is to add features and value to our existing core products. The developments are targeted to support the growing demand for integrated communications that support the core line of business and enable end users to support their customers efficiently. As part of this plan we are looking to introduce a focused set of propositions that support the business communications requirements of some targeted key verticals.

The key highlights of what we will develop and take to market in the second half of 2018 include an expansion to our Cloud PBX service (Horizon) to include additional Unified Communications services (UCaaS) such as enhanced audioconferencing, web meetings, application sharing and video conferencing. The introduction of these advanced collaboration services will enable the Horizon service to support the growing demand for businesses to communicate in a more integrated way with their customers, suppliers and staff. The development will also support the trend for larger SME businesses to consume unified communications services from a cloud based solution which in turn will expand Gamma's addressable market. We will also enhance and strengthen our call recording and PCI compliance services to differentiate our product set amongst end users that require specific compliance solutions. These solutions are a growing requirement across multiple industries and we will couple these platforms with the Gamma Cloud PBX, SIP Trunking and Mobile services.

As business continues to demand greater bandwidth from any location so that it can access cloud based applications, we continue to enhance our enabling services of Data Access and Mobility.

On the back of the core network upgrade that we undertook in the first half of 2018, we will launch 10Gbps Ethernet services to meet the growing demand of customers for large bandwidth consumption to access critical cloud based applications.

We will launch an optional enhancement to our Ethernet and multiple site data networks, by introducing a 4G data option to provide a "fast start" connection to businesses providing connectivity before the main data connection is installed. The solution also provides resilience to the site in the event that the main connection is disrupted.

We are further adding end to end connectivity services for our customers with the introduction of a managed Wi-FI service and Direct Connections to Amazon Web Services (AWS) and Microsoft Azure/Office365 from our Core Network.

Our business focused Mobile service continues to grow the number of connections, and to support this increase we are planning to introduce the ability to make calls over WiFi to increase the coverage of the service. This simple application will allow users to get connectivity to the mobile network via any WiFi solution increasing the ability to connect to the network.

Everything that we provide to Partners and End Users is underpinned by the Gamma Digital platforms that support the Sales process of the Indirect and Direct businesses from lead generation to execution of the order and the ongoing support of the services. Ongoing investment in these platforms is a key element of the Gamma strategy to ensure that we are offering the buying experience that the customer requires as well as minimizing the cost of customer acquisition and support.

Indirect Business Channel

The indirect business channel has had a particularly strong start to the financial year, with the channel's team focused on several key areas, with the objective of continuing to develop and strengthen Gamma's overall channel proposition. This includes a focus on three core areas which are designed to further enable our channel partners to be more competitive and successful in growing market share in their respective market areas:

- Cross-selling and Up-selling more of our existing products to our current channel base;
- Selling new products & services into our current channel base; and
- Development of new partners and programs to support the growth of their businesses

Due to relatively low penetration rates in the UK for Cloud PBX, and building on both Gamma and the indirect channels leadership in this product category, Gamma's primary focus will be on maximizing the growth opportunity that this presents. This will include both a product, solution and commercial focus on both discrete sales with partners, coupled with providing an anchor to up-sell and cross-sell Data and Mobile services.

In addition to this, and as described above, Gamma's launch of a set of Unified Communication (UCaaS) tools and applications will enhance the Horizon Cloud PBX proposition for our channel partners, and present an opportunity for them to up-sell this to their existing customers. The enhanced features and functionality which UCaaS provides, coupled with a number of additional features currently on Gamma's roadmap (e.g. Hosted Contact Centre, MIFID Call Recording and PCI compliance), will enable our channel partners to service the UK mid-market with Gamma's products, where they will currently sell products from other vendors. This presents Gamma and our partners with an opportunity to extend our current addressable market for Cloud PBX.

Direct Business Channel

Our SME and Enterprise business units had a good start to the year and secured several new contracts. Some notable wins in the period were:

- Engie, a leading energy and services company awarded Gamma an advance data network services contract across more than 300 locations.
- The PRA Group (a debt collections company) awarded Gamma a multiyear contract to deliver next generation SIP into their contact center to support their core business.
- Xoserve, Britain's Central Services Provider to the gas market awarded Gamma a contract to connect over 200 members to their IX Network.
- Howarth Timber, the Builders Merchant chose Gamma to provide a managed data network to its 30 UK locations to support its retail operations.

In the Public Sector, Gamma was pleased to achieve HSCN Stage One accreditation and is on track to achieve Stage Two compliance shortly. During the period, we also secured key supply contracts with:

- The Scottish Government awarded Gamma a contract and will migrate their legacy PSTN voice service to Gamma's next generation SIP services – this will be delivered over the Scottish Wide Area Network (SWAN).
- The Met Office, awarded Gamma a contract to connect their 50 UK facilities with Gamma's advanced data services. In addition, The Met Office will also be utilising Gamma Mobile's 4G service for remote connectivity.

In addition to these important new business wins, we are pleased with the level of contract extensions and renewals across all market sectors, and continue as a business to focus on up-selling and cross-selling across our current customer base.

To support our growth in Direct, we are continuing to review the structure of our direct business to provide organisational efficiencies. We are concurrently undertaking a digital transformation program to enhance self-service (which will improve efficiency and reduce cost) and drive customer support excellence; this program is progressing well.

Network

The new high capacity national optical network project was delivered on schedule and on budget. This will enable Gamma to deliver services at 10Gb/s and above from the second half of 2018 which increases IP capacity in to multiple Terrabits/s whilst providing reach into major business districts for access circuit provision.

In practice this means that:

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

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

Outlook

I have thoroughly enjoyed my first months in Gamma, and look forward to working with everyone in the company, including our channel partners and customers, as we collectively focus our efforts on developing and growing our business in the coming years.

In the short-term, Gamma will focus on executing against our commitments and promises, and we will continue to strengthen capabilities across our core products, channels and markets. A continued focus on quality and operational excellence will be a key feature, coupled with ensuring that we harness the skills and talent across Gamma to support and fully enable our channel partners and end-customer to be more successful. These have proven to be successful ingredients in the past and we will continue to build on these strong foundations.

From the market perspective, although we have witnessed some increased competition, in the short-term, we expect sales of SIP and Cloud PBX to continue to grow, and we will continue to work on innovations on our key product portfolio to ensure they stay competitive.

During the next six months we are developing a plan for our longer-term vision and growth strategy, with the objective of building on Gamma’s already strong foundations, and ensuring that we put in place a well-structured plan that delivers long-term sustainable growth for many years to come.

As a final point, I would like to personally thank our staff, partners and customers for their contribution and ongoing support. Our performance during the first-half of the year has been strong, and we remain very optimistic about the future growth prospects for Gamma.

Andrew Taylor
Chief Executive Officer

Financial review

As the Chairman and CEO have outlined, the first half of 2018 was characterised by one of Gamma's strongest trading performances. This is discussed below.

Changes in presentation and accounting policy

These are the first results which are presented by Gamma following the adoption of IFRS 9 and 15 and adoption of the latter means the prior period has been restated. IFRS 9 has not resulted in a restatement but merely additional disclosure.

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

Therefore a number of prior period figures herein are shown as "restated". The impact of the restatement is an increase in revenue of £1.3m and a decrease in profit before tax of £0.4m for the period ended 30 June 2017. Reconciliations are given below in this financial review section and in note 3 to the unaudited interim financial information.

Revenue and gross profit

Indirect business

Revenue from the indirect business grew from £89.8m (as restated) to £103.1m (+15%) and gross profit grew from £39.5m (as restated) to £46.6m – an increase of £7.1m.

The traditional business (which includes calls and lines and trade with other carriers) declined significantly in 2017 but that decline was somewhat muted in the first half of 2018. The gross profit from this part of the business decreased slightly by £0.9m to £5.9m (2017(restated): £6.8m). Whilst the calls and lines business (CPS and WLR) continues to decline as businesses move from legacy technology to new IP based products, our Carrier business is growing slightly after several years of decline. This is driven by a number of "non-traditional" carriers entering the UK market who are leveraging Gamma's expertise in IP telephony and number porting to support their own business offerings.

We group our data, mobile, SIP and Cloud PBX products as our "growth" products and revenue from growth product sales increased from £63.7m (restated) to £78.7m (+24%) and gross profit grew from £32.7m (restated) to £40.7m (+24%). The gross margin grew from 51% to 52%, which reflects the fact that the main contributor to this growth was SIP Trunking, which has a higher margin than other products. SIP Trunking and our Cloud PBX product (Horizon) grew in line with previous years and our data products have shown increased levels of growth. Our mobile product had subscriber numbers increasing throughout H1 2018 and hence the product contributed favourably to gross profit when comparing 2018 to 2017.

Direct business

The direct business continues to grow strongly. Revenue increased from £26.5m in 2017 (restated) to £34.5m (+30%) and gross profit from £12.1m (restated) to £15.7m (+30%). The gross margins for the first half were 46% which is the same as the (restated) prior year.

The growth was attributable to sales of growth products and gross profit on these products grew from £10.2m to £13.9m. This business continues to move from selling to smaller customers to larger enterprise businesses and public sector customers on multi-year deals. The order book remains strong with significant customer wins anticipated in the second half.

Operating expenses

Operating expenses grew from £39.6m (2017, restated) to £46.8m.

We break these down as follows –

	H1 2018 £m	H1 2017 £m
Expenses included within cash generated from operations – not related to leases	39.5	33.1
Expenses included within cash generated from operations – related to leases	-	0.6
Depreciation and amortisation – tangible and intangible assets	5.6	4.7
Depreciation and amortisation – right of use assets	0.7	-
Share based payments	1.0	1.2
Operating expenses	**46.8**	**39.6**

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

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

We also present the effect of share-based payments. Historically we showed EBITDA and EPS adjusted for Share Based Payments because the historical charges were inflated by significant levels of awards made at the point of IPO and have reduced significantly period on period and hence the decreasing charges were not reflective of the business performance but were merely reflective of the fact that lower levels of options have been awarded post float. Given that Share Based Payments have now stabilised these are no longer excluded. However we show the impact of expenses so that a user can compare previous published data with the current period data. In addition most analysts who comment on Gamma still forecast an EBITDA and EPS adjusted for share based payments and by disclosing the amounts a user of the accounts is able to compare Gamma’s performance with the forecasts of the analyst community.

Movements in cash based expenses were driven by:

- Ongoing growth in the number of customers buying new products for the first time continues to be a driver of overhead, especially in the area of provisioning product to our new enterprise customers;
- increased investment in product research that doesn’t meet capitalisation criteria; and
- continued investment in our sales teams.

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

Depreciation and amortisation have increased from £4.7m in the first half of 2017 (as restated) to £5.6m in the present half. This is driven by increased capex over the past few years and the annual depreciation charge is now in line with the annual capex spend.

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

Alternative performance measures

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

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

2018

Measure	**Statutory basis**	**Tax items**	**Adjusted basis**
PAT (£m)	12.7	-	12.7
EPS (FD) (p)	13.4	-	13.4

2017 (as restated)

Measure	**Statutory basis**	**Tax items**	**Adjusted basis**
PAT (£m)	10.7	(0.9)	9.8
EPS (FD) (p)	11.4	(1.0)	10.4

Adjusted EBITDA and EBITDA

The combination of increasing sales of new products and operational improvements means that EBITDA grew from £16.7m in 2017 (restated) to £21.8m or 31%.

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

	Adjusted EBITDA		
	H1 2018 £m	**H1 2017 £m**	**Growth**
Consistent with 2017 presentation and accounting policy	25.2	19.7	*28%*
Changes due to presentation			
- Share Based Payments	(1.0)	(1.2)	
Changes due to accounting policy			
- IFRS 15	(3.0)	(1.8)	
- IFRS 16	0.6	-	
Consistent with 2018 presentation and accounting policy	**21.8**	**16.7**	***31%***

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

Under the current accounting policy there are no adjusting items for the period ended 30 June 2018.

Taxation

The effective tax rate for the first half of 2018 was 18.1% (2017 – 11.6%). Note that the rate in the previous period was depressed significantly by a non-recurring tax credit of £0.9m which related to a tax overpayment from 2014 and earlier years where the underlying position has only recently been resolved. The effective rate for 2018 is more indicative of the ongoing position. The tax rate is lower than the statutory rate for the year of 19.00% (2017: 19.25%) because the Group benefits from research and development tax credits. Due to the on-going research that the Group does, we would expect the effective tax rate for the Group to remain slightly below the statutory rate.

Cash flows

The cash balance at the end of the half was £36.9m, up from £31.6m at the end of the previous year.

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

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

Cash generated by operations figure is reconciled below: –

	Cash generated by operations		
	H1 2018 £m	**H1 2017 £m**	**Growth**
Consistent with 2017 presentation and accounting policy	22.5	15.3	*47%*
Changes due to accounting policy			
- IFRS 15 – Customer Premises Equipment ("CPE") Spend	(5.2)	(5.1)	
- IFRS 15 – Software spend	0.5	0.9	
- IFRS 16	0.6	-	
Consistent with 2018 presentation and accounting policy	**18.4**	**11.1**	***66%***

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

	Cash generated by operations / adj. EBITDA	
	H1 2018 £m	**H1 2017 £m**
Consistent with 2017 presentation and accounting policy	22.5/25.2 = 89%	15.3/19.7 = 78%
Consistent with 2018 presentation and accounting policy	**18.4/21.8 = 84%**	**11.1/16.7 = 66%**

Using either the old basis or the new basis the cash flow from operations has improved in the first half of 2018 compared to the previous period. This is due to payments made in advance to suppliers in 2017 in return for better terms.

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

Capital spend for the half was £6.3m, which is an increase from £4.9m in the comparative period. This is discussed in detail below.

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

Capital expenditure

The Group spent £6.3m (2017, as restated: £4.9m) on capital which was split as follows.

- Regular spend on maintaining and increasing capacity on the core network was £5.2m (2017:£4.9m) -
    - £4.2m was the cost of increasing capacity and development of the core network as well as other minor items such as IT and fixtures and fittings (2017: £3.5m). This includes spend of £1.0m on our mobile infrastructure.
    - £0.5m was the capitalisation of development costs incurred during the period (2017: £0.5m).
    - £0.5m was spent with third party software vendors for the software which underpins our Cloud PBX product (2017: £0.9m).
- Project spend was as follows –
    - £1.1m was spent on the new national network. (2017: nil in the first half).

Note that following adoption of IFRS 15, CPE is no longer capitalised.

Creation of Right to Use asset

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

Adjusted EPS (FD) and Statutory EPS (FD)

Adjusted EPS (FD) increased from 10.4p (as restated) to 13.4p (29%). As for EBITDA, the revision to accounting policies and changes in presentation impact the results. We have therefore provided a reconciliation to previous presentation and policies to aid users of these accounts:

	Adjusted EPS (FD)		
	H1 2018 p	**H1 2017 p**	**Growth**
Consistent with 2017 presentation and accounting policy	14.4	11.6	*+24%*
Changes due to presentation			
- Share Based Payments	(0.8)	(0.9)	
Changes due to accounting policy			
- IFRS 15	(0.1)	(0.3)	
- IFRS 16	(0.1)	-	
Consistent with 2018 presentation and accounting policy	**13.4**	**10.4**	***+29%***

Under both the new and old regimes, the growth in adjusted EPS (FD) has been significant due to the very strong trading in the half described earlier.

Statutory EPS (FD) grew from 11.4p to 13.4p (18%). The growth is lower than the adjusted metric because, in the previous period, the figure was flattered by a tax rebate from previous years which was adjusted out as it was non-recurring and non-trading.

Dividends

The Board has proposed an interim dividend of 3.1p (2017: 2.8p). This is an increase of 11% and is in line with our progressive dividend policy.

The interim dividend is payable on Thursday 18 October 2018 to shareholders on the register as at Friday 21 September 2018.

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
3 September 2018

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 2018 which comprises the statement of comprehensive income, the statement of financial position, the statement of changes in equity and the statement of cash flows and related notes 1 to 13. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

Deloitte LLP
Statutory Auditor
Reading, United Kingdom
3 September 2018

Condensed consolidated unaudited statement of comprehensive income

For the six month period ended 30 June 2018

	Note	**Six months ended 30 June 2018 £m Unaudited**	Six months ended 30 June 2017 £m Restated Unaudited *	Year ended 31 December 2017 £m Restated Audited *
Revenue	4	**137.6**	116.3	242.0
Cost of sales		**(75.3)**	(64.7)	(133.3)
Gross profit		**62.3**	51.6	108.7
Operating expenses		**(46.8)**	(39.6)	(82.4)
Earnings before depreciation and amortisation (EBITDA)		**21.8**	16.7	36.0
Depreciation and amortisation		**(6.3)**	(4.7)	(10.4)
Gain on disposal of assets		**-**	-	0.7
Profit from operations		**15.5**	12.0	26.3
Finance income		**0.1**	0.1	0.2
Finance expense		**(0.1)**	-	-
Profit before tax		**15.5**	12.1	26.5
Tax expense	5	**(2.8)**	(1.4)	(3.8)
Profit after tax		**12.7**	10.7	22.7
Total comprehensive income attributable to the owner of the parent		**12.7**	10.7	22.7
Earnings per share	6			
Basic per ordinary share (pence)		**13.6**	11.6	24.5
Diluted per ordinary share (pence)		**13.4**	11.4	24.0

Adjusted earnings per share is shown in note 6.

*Restated results following the adoption of IFRS 15 as explained in note 3

Condensed consolidated unaudited statement of financial position
At 30 June 2018

	Note	**Six months ended 30 June 2018 £m Unaudited**	Six months ended 30 June 2017 £m Restated* Unaudited	Year ended 31 December 2017 £m Restated* Audited
Assets				
Non-current assets				
Property, plant and equipment	7	**30.5**	25.0	29.2
Right of use assets	8	**5.5**	-	-
Intangible assets	9	**14.9**	14.6	15.5
Deferred tax asset		**1.7**	1.8	1.7
Trade and other receivables		**10.5**	9.1	10.9
		63.1	50.5	57.3
Current assets				
Inventories		**4.1**	4.0	3.2
Trade and other receivables		**71.0**	60.4	61.6
Cash and cash equivalents		**36.9**	28.7	31.6
		112.0	93.1	96.4
Total assets		**175.1**	143.6	153.7
Liabilities				
Non-current liabilities				
Provisions		**1.7**	2.0	1.8
Lease liability		**4.2**	-	-
Contract liabilities		**8.7**	6.9	7.8
Deferred tax		**-**	0.2	-
		14.6	9.1	9.6
Current liabilities				
Trade and other payables		**45.5**	40.8	39.8
Lease liability		**1.4**	-	-
Contract liabilities		**7.6**	7.8	8.2
Current tax		**1.8**	2.5	0.8
		56.3	51.1	48.8
Total liabilities		**70.9**	60.2	58.4
Issued capital and reserves attributable to owners of the parent				
Share capital	10	**0.2**	0.2	0.2
Share premium reserve		**4.4**	3.8	3.8
Merger reserve		**2.3**	2.3	2.3
Share option reserve		**2.8**	2.3	2.8
Own shares		**(0.8)**	(0.8)	(0.8)
Retained earnings		**95.3**	75.6	87.0
Total equity		**104.2**	83.4	95.3
Total equity and liabilities		**175.1**	143.6	153.7

*Restated results following the adoption of IFRS 15 as explained in note 3

Condensed consolidated unaudited statement of cash flows

For the six month period ended 30 June 2018

	Notes	**Six months ended 30 June 2018 £m**	Six months Ended 30 June 2017 £m Restated*	Year ended 31 December 2017 £m Restated*
		Unaudited	Unaudited	Audited
Cash flows from operating activities				
Profit for the period before tax		**15.5**	12.1	26.5
Adjustments for:				
Depreciation of property, plant and equipment	7	**4.0**	3.2	7.4
Depreciation of Right of use asset	8	**0.7**	-	-
Amortisation of intangible assets	9	**1.6**	1.5	3.0
Share based payment expense		**1.0**	1.2	2.0
Interest income		**(0.1)**	(0.1)	(0.2)
Finance cost		**0.1**	-	-
		22.8	17.9	38.7
(Increase) in trade and other receivables		**(9.0)**	(15.6)	(18.4)
(Increase) in inventories		**(0.9)**	(1.0)	(0.2)
Increase in trade and other payables		**5.3**	8.1	6.8
Increase in contract liabilities		**0.3**	1.7	3.0
(Decrease) in provisions and employee benefits		**(0.1)**	-	(0.1)
Cash generated by operations		**18.4**	11.1	29.8
Taxes paid		**(1.8)**	(1.1)	(3.6)
Net cash flows from operating activities		**16.6**	10.0	26.2
Investing activities				
Purchase of property, plant and equipment	7	**(5.3)**	(3.5)	(12.1)
Purchase of intangible assets	9	**(1.0)**	(1.4)	(3.6)
Interest received		**0.1**	0.1	0.2
Net cash used in investing activities		**(6.2)**	(4.8)	(15.5)
Financing activities				
IFRS16 liability repayments		**(0.6)**	-	-
Share issues		**0.7**	-	-
Dividends		**(5.2)**	(4.7)	(7.3)
Net cash used in financing activities		**(5.1)**	(4.7)	(7.3)
Net increase in cash and cash equivalents		**5.3**	0.5	3.4
Cash and cash equivalents at beginning of period		**31.6**	28.2	28.2
Cash and cash equivalents at end of period		**36.9**	28.7	31.6

*Restated results following the adoption of IFRS 15 as explained in note 3

Condensed consolidated unaudited statement of changes in equity

For the six month period ended 30 June 2018

	Share capital	Share premium	Merger reserve	Share option reserve	Own shares	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
1 January 2017	0.2	3.8	2.3	3.5	(0.8)	71.2	80.2
Change in Accounting Policy	-	-	-	-	-	(3.7)	(3.7)
Restated total equity at 1 January 2017 *	0.2	3.8	2.3	3.5	(0.8)	67.5	76.5
Issue of shares	-	-	-	(2.1)	-	2.1	-
Recognition of share based payments	-	-	-	0.9	-	-	0.9
Dividends paid	-	-	-	-	-	(4.7)	(4.7)
Transaction with owners	-	-	-	(1.2)	-	(2.6)	(3.8)
Profit for the half year (restated) *	-	-	-	-	-	10.7	10.7
Total comprehensive income (restated) *	-	-	-	-	-	10.7	10.7
30 June 2017 (restated)	0.2	3.8	2.3	2.3	(0.8)	75.6	83.4
1 January 2018	0.2	3.8	2.3	2.8	(0.8)	90.5	98.8
Change in Accounting Policy	-	-	-	-	-	(3.5)	(3.5)
Restated total equity at 1 January 2018 *	0.2	3.8	2.3	2.8	(0.8)	87.0	95.3
Issue of shares	-	0.6	-	(0.8)	-	0.8	0.6
Recognition of share based payment expense	-	-	-	0.8	-	-	0.8
Dividends paid	-	-	-	-	-	(5.2)	(5.2)
Transaction with owners	-	0.6	-	-	-	(4.4)	(3.8)
Profit for the half year	-	-	-	-	-	12.7	12.7
Total comprehensive income	-	-	-	-	-	12.7	12.7
30 June 2018	0.2	4.4	2.3	2.8	(0.8)	95.3	104.2

*Restated results following the adoption of IFRS 15 as explained in note 3

Notes forming part of the condensed consolidated unaudited interim financial information

For the six month period ended 30 June 2018

1. Basis of preparation

The unaudited interim consolidated financial information for the six months ended 30 June 2018 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 2017.

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 2017 is derived from the audited statutory financial statements for the year ended 31 December 2017, which was unqualified and did not contain any statement under section 498(2) or 498(3) of the Companies Act 2006. The financial statements for the year ended 31 December 2017 have been delivered to the Registrar of Companies. The comparative financial information for the period ended 30 June 2017 does not constitute statutory accounts for that period.

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

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

Details of the impact of these accounting standards are shown in Note 3.

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 3 September 2018.

There have been no changes in the principle risks and uncertainties during the period and therefore these remain consistent with the year ended 31 December 2017 and are available in the Annual report for that year.

2. Accounting policies

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

Alternative Performance Measures

Adjustments to EBITDA, PBT, EPS (fully diluted) and net operating cash inflow before tax have been presented because the Group believes that adjusted measures provide valuable additional information for users of the financial statements in assessing the Group's performance. Moreover, they provide information on the performance of the business that management is more directly able to influence in the short term and on a basis comparable from year to year.

The measures are adjusted for the following items:

(a) Depreciation and amortisation

Depreciation and amortisation relate to assets which were acquired by the Group. They are omitted from adjusted operating expenses to allow a user to see how costs which management can control in the short term have varied from period to period.

(b) Gain on disposal of PPE

The Group may sometimes make a gain or loss on disposal of an asset. These gains or losses occur infrequently and are not trading items (the Group does not trade in fixed assets and neither expects to have gains or losses on disposal, nor does it budget for them). These gains or losses will therefore affect EBITDA, PBT and EPS but are not reflective of the ongoing trading profitability of the Group. Therefore management excludes these items from the adjusted figures to ensure that the trading performance of the business is properly understood.

(c) Non-recurring tax credit

During the prior period there was a non-recurring tax credit of £0.9m arising due to overpayment from 2014 and earlier years where the underlying position has only recently been resolved. This is not expected to recur and distorts the true effective tax rate for the Group. This item impacts EPS. Adjusted EPS is stated before non-recurring tax items to give a better understanding of the true tax position of the Group.

(d) Other non-recurring items

Non-recurring items are those which are considered significant by virtue of their nature, size or incidence, and are presented separately in the Statement of Comprehensive Income to enable a full understanding of the Group's financial performance.

There were none in the period or comparative period which affected EBITDA or PBT.

Critical accounting estimates and judgements

Some of the critical accounting judgements and estimates 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 consistent with the year ended 31 December 2017 and are available in the Annual report for that year.

3. Change in accounting policies

New accounting standards and amendments effective for the period and adopted by the Group in 2018 are IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers.

IFRS 16 – Leases has also been adopted in the period, a year earlier than the mandatory effective date of 1 January 2019. The adoption of this standard has not resulted in a restatement of the prior year figures.

IFRS 9 (Financial Instruments)

The adoption of IFRS 9 has not impacted the classification of financial instruments. Derivatives (in the form of foreign exchange forward contracts) continue to be measured at fair value through profit or loss, and all other instruments continue to be measured at amortised cost.

With the exception of trade receivables, due to the simplicity of financial instruments, impairment of financial instruments is expected to be negligible and hence have no material impact on the financial statements. To measure the expected credit loss provision of trade receivables, they have been grouped by days past due.

	Current £'000	**More than 30 days past due £'000**	**More than 60 days past due £'000**	**More than 120 days past due £'000**	**Total £'000**
Expected loss rate	1.8%	1.5%	1.8%	19.1%	3.2%
Gross carrying amount	23.1	3.4	2.0	2.6	31.1
Loss allowance	0.4	0.1	-	0.5	1.0

IFRS 15 (Revenue from Contracts with Customers)

The company have voluntarily changed the presentation of certain amounts in the statement of financial position to reflect the terminology of IFRS 15. These amounts are Contract liabilities relating to contracts where the company has received payment as part of a contract but has not yet satisfied the relevant performance obligation. These amounts are as follows:

- Contract liabilities totalling £4.8m as at H1 2018 in relation to installations, with £2.6m current and £2.2m non-current.
- Contract liabilities totalling £11.5m as at H1 2018 in relation to Cloud PBX, with £5.0m current and £6.5m non-current.

Impact on the financial statements

This note shows the impact of the new accounting standards on the financial statements. IFRS 9 is not shown in this note because there is no material impact between the previously reported accounting treatment and the accounting treatment applied from 1 January 2018.

Impact of IFRS 15 on the consolidated statement of financial position as at 31 December 2017.

The key differences impacting the Group on adoption can be seen in the published Annual Report and Accounts 2017.

	Under previous accounting policies £m	IFRS 15 adjustment £m	Restated amount IFRS 15 £m
Assets			
Non-current assets			
Property, plant and equipment	44.1	(14.9)	29.2
Intangible assets	10.0	5.5	15.5
Deferred tax asset	1.7	-	1.7
Trade and other receivables	-	10.9	10.9
	55.8	1.5	57.3
Current assets			
Inventories	3.2	-	3.2
Trade and other receivables	50.6	11.0	61.6
Cash and cash equivalents	31.6	-	31.6
	85.4	11.0	96.4
Total assets	141.2	12.5	153.7
Liabilities			
Non-current liabilities			
Provisions	1.8	-	1.8
Contract liabilities	-	7.8	7.8
Deferred tax	-	-	-
	1.8	7.8	9.6
Current liabilities			
Trade and other payables	39.8	-	39.8
Contract liabilities	-	8.2	8.2
Current tax	0.8	-	0.8
	40.6	8.2	48.8
Total liabilities	42.4	16.0	58.4
Issued capital and reserves attributable to owners of the parent			
Share capital	0.2	-	0.2
Share premium reserve	3.8	-	3.8
Merger reserve	2.3	-	2.3
Share option reserve	2.8	-	2.8
Own shares	(0.8)	-	(0.8)
Retained earnings	90.5	(3.5)	87.0
Total equity	98.8	(3.5)	95.3
Total equity and liabilities	141.2	12.5	153.7

Impact of new accounting standards on the Consolidated statement of Comprehensive Income for the six months ended 30 June 2017

	Under previous accounting policies £m	IFRS 15 adjustment £m	Restated amount under IFRS 15 £m
Revenue	115.0	1.3	116.3
Cost of sales	(60.9)	(3.8)	(64.7)
Gross profit	54.1	(2.5)	51.6
Operating expenses	(41.7)	2.1	(39.6)
Operating profit before depreciation and amortisation (EBITDA)	18.5	(1.8)	16.7
Depreciation and amortisation	(6.1)	1.4	(4.7)
Gains on disposal of assets	-	-	-
Profit from operations	12.4	(0.4)	12.0
Finance income	0.1	-	0.1
Profit before tax	12.5	(0.4)	12.1
Tax expense	(1.4)	-	(1.4)
Profit after tax	11.1	(0.4)	10.7
Total comprehensive income attributable to the owner of the parent	11.1	(0.4)	10.7
Earnings per share			
Basic per ordinary share (pence)	12.0	(0.4)	11.6
Diluted per ordinary share (pence)	11.8	(0.4)	11.4

4. 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 74.9% (2017: 77.2%) 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 25.1% (2017: 22.8%) 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.

4. Segment information (continued)

	Indirect £m	Direct £m	Total £m
Period to 30 June 2018			
Traditional products and services	24.4	5.8	30.2
Growth (being strategic and enabling) products and services	*78.7*	*28.7*	*107.4*
Total revenue from external customers	*103.1*	*34.5*	*137.6*
Inter-segment revenue	*9.9*	-	*9.9*
Timing of revenue recognition			
At a point in time	*10.5*	*2.2*	*12.7*
Over time	*92.6*	*32.3*	*124.9*
	103.1	*34.5*	*137.6*
Traditional products and services	5.9	1.8	7.7
Growth (being strategic and enabling) products and services	40.7	13.9	54.6
Total gross profit	**46.6**	**15.7**	**62.3**
Operating profit before depreciation and amortisation (EBITDA)	**14.1**	**7.7**	**21.8**
Depreciation and amortisation	(6.1)	(0.2)	(6.3)
Profit from operations	**8.0**	**7.5**	**15.5**
Interest income	0.1	-	0.1
Interest expense	(0.1)	-	(0.1)
Tax	(1.5)	(1.3)	(2.8)
Group profit after tax	**6.5**	**6.2**	**12.7**

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

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

	Indirect £m	Direct £m	Total £m
Period to 30 June 2017*			
Traditional products and services*	26.1	5.8	31.9
Growth (being strategic and enabling) products and services*	63.7	20.7	84.4
Total revenue from external customers*	**89.8**	**26.5**	**116.3**
*Inter-segment revenue**	*6.7*	-	*6.7*
Timing of revenue recognition			
*At a point in time**	*8.4*	*1.2*	*9.6*
*Over time**	*81.4*	*25.3*	*106.7*
	89.8	*26.5*	*116.3*
Traditional products and services*	6.8	1.9	8.7
Growth (being strategic and enabling) products and services*	32.7	10.2	42.9
Total gross profit*	**39.5**	**12.1**	**51.6**
Operating profit before depreciation and amortisation (EBITDA)*	**10.5**	**6.2**	**16.7**
Depreciation and amortisation*	(4.3)	(0.4)	(4.7)
Profit from operations*	**6.2**	**5.8**	**12.0**
Interest income*	0.1	-	0.1
Tax*	(0.6)	(0.8)	(1.4)
Group profit after tax*	**5.7**	**5.0**	**10.7**

*Restated results following the adoption of IFRS 15 as explained in note 3

4. Segment information (continued)

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

Period to June 2017	Indirect £m	Direct £m	Total £m
Additions to non-current assets*	4.5	0.4	4.9
Reportable segment assets*	122.4	21.2	143.6
Reportable segment liabilities*	48.2	12.0	60.2

*Restated results following the adoption of IFRS 15 as explained in note 3

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 2018 is 18.1% (the estimated tax rate for the first half to 30 June 2017 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 2018 £m	Six months ended 30 June 2017 £m Restated
Current tax expense		
Current tax on profits for the period	**3.1**	2.4
Adjustment in respect of prior period	**(0.1)**	(0.9)
Total current tax	**3.0**	1.5
Deferred tax expense		
Origination and reversal of temporary differences	**(0.2)**	(0.1)
Total tax expense	**2.8**	1.4

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

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m Restated
Profit before income taxes	**15.5**	12.1
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 19.00% (2017: 19.25%)	**3.0**	**2.3**
Expenses not deductible for tax purposes	**0.1**	**-**
Additional deduction for R&D expenditure	**(0.2)**	**(0.1)**
Adjustment in respect of prior year	**(0.1)**	(0.8)
Total tax expense	**2.8**	**1.4**

*Restated results following the adoption of IFRS 15 as explained in note

The Finance Act 2016 includes provision for the main rate of corporation tax to reduce to 17% 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 £12.7 m for the six months ended 30 June 2018 (Six months ended 30 June 2017: £10.7m as restated) and 93,386,043 Ordinary Shares for the six months ended 30 June 2018 (Six months ended 30 June 2017: 92,239,933 Ordinary Shares), being the weighted average number of Ordinary Shares in issue during the period.

The diluted earnings per Ordinary Share is calculated by including in the weighted average number of shares the dilutive effect of potential Ordinary Shares related to committed share options. The following reflects the share data used in the calculation of diluted earnings per share:

	Six months ended 30 June 2018 Unaudited	Six months ended 30 June 2017 Unaudited
Weighted average number of Ordinary Shares for basic earnings per share	**93,386,043**	92,239,933
Effect of dilution resulting from share options	**1,311,274**	1,953,077
Weighted average number of Ordinary Shares adjusted for the effect of dilution	**94,697,317**	94,193,010

	Six months ended 30 June 2018 Unaudited	Six months ended 30 June 2017 Restated Unaudited
Earnings per Ordinary Share – basic (pence)	**13.6**	11.6
Earnings per Ordinary Share – diluted (pence)	**13.4**	11.4

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

	Six months ended 30 June 2018 £m Unaudited	Six months ended 30 June 2017 £m Restated Unaudited
Profit for the period	**12.7**	10.7
Tax in respect of prior periods	**-**	(0.9)
Adjusted profit after tax for the period	**12.7**	9.8

	Six months ended 30 June 2018 Unaudited	Six months ended 30 June 2017 Restated Unaudited
Adjusted earnings per Ordinary Share – basic (pence)	**13.6**	10.6
Adjusted earnings per Ordinary Share – diluted (pence)	**13.4**	10.4

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 5.6p was paid on the 21 June 2018 (2017: 5.0p).

The Board have declared an interim dividend of 3.1p per share payable on 18 October 2018 to shareholders on the register as at 21 September 2018. In the prior year an interim dividend of 2.8p 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 2018	65.5	0.8	7.0	1.0	74.3
Additions	5.2	-	0.1	-	5.3
Disposals	-	(0.2)	-	-	(0.2)
Reclassification	0.6	(0.6)			-
At 30 June 2018	**71.3**	**-**	**7.1**	**1.0**	**79.4**
Depreciation					
At 1 January 2018	39.3	0.7	4.5	0.6	45.1
Charge for the period	3.4	-	0.5	0.1	4.0
Disposals	-	(0.2)	-	-	(0.2)
Reclassification	0.5	(0.5)			-
At 30 June 2018	**43.2**	**-**	**5.0**	**0.7**	**48.9**
Net book value					
At 1 January 2018	26.2	0.1	2.5	0.4	29.2
At 30 June 2018	**28.1**	**-**	**2.1**	**0.3**	**30.5**
Cost					
At 1 January 2017*	54.5	1.1	6.2	0.7	62.5
Additions*	3.1	-	0.3	0.1	3.5
Disposals*	-	(0.1)	-	-	(0.1)
At 30 June 2017*	57.6	1.0	6.5	0.8	65.9
Depreciation					
At 1 January 2017*	33.6	0.7	3.4	0.2	37.9
Charge for the period*	2.4	0.2	0.5	0.1	3.2
Disposals*	-	(0.1)	-	(0.1)	(0.2)
At 30 June 2017*	36.0	0.8	3.9	0.2	40.9
Net book value					
At 1 January 2017*	20.9	0.4	2.8	0.5	24.6
At 30 June 2017*	21.6	0.2	2.6	0.6	25.0

The estimated cost of the property, plant and equipment which the Group is contractually committed to purchase at 30 June 2018 is £0.1m (30 June 2017: £1.6m).

*Restated results following the adoption of IFRS 15 as explained under note 3.

8. Right of use assets

	Land and buildings £m	Other £m	Total £m
Cost			
At 1 January 2018 – recognition on transition to IFRS 16	6.0	0.2	6.2
At 30 June 2018	**6.0**	**0.2**	**6.2**
Depreciation			
At 1 January 2018	-	-	-
Charge for the period	0.6	0.1	0.7
At 30 June 2018	**0.6**	**0.1**	**0.7**
Net book value			
At 1 January 2018	-	-	-
At 30 June 2018	**5.4**	**0.1**	**5.5**

9. Intangible assets

	Goodwill on consolidation £m	Development costs £m	Customer contracts £m	Software £m *	Total £m *
Cost					
At 1 January 2018	12.5	7.2	2.1	10.0	31.8
Additions	-	0.5	-	0.5	1.0
Disposals	-	-	-	-	-
At 30 June 2018	**12.5**	**7.7**	**2.1**	**10.5**	**32.8**
Amortisation					
At 1 January 2018	4.5	5.2	2.1	4.5	16.3
Charge for the period	-	0.5	-	1.1	1.6
Disposals	-	-	-	-	-
At 30 June 2018	**4.5**	**5.7**	**2.1**	**5.6**	**17.9**
Carrying value					
At 1 January 2018	8.0	2.0	-	5.5	15.5
At 30 June 2018	**8.0**	**2.0**	**-**	**4.9**	**14.9**
Cost					
At 1 January 2017	12.5	6.1	2.1	7.4	28.1
Additions	-	0.5	-	0.9	1.4
Disposals	-	-	-	-	-
At 30 June 2017	12.5	6.6	2.1	8.3	29.5
Amortisation					
At 1 January 2017	4.5	4.2	2.0	2.7	13.4
Charge for the period	-	0.4	0.1	1.0	1.5
Disposals	-	-	-	-	-
At 30 June 2017	4.5	4.6	2.1	3.7	14.9
Carrying value					
At 1 January 2017	8.0	1.9	0.1	4.7	14.7
At 30 June 2017	8.0	2.0	-	4.6	14.6

*Restated results following the adoption of IFRS 15 as explained under note 3

10. Share capital

	2018 Number	2018 £m
1 January 2018		
Ordinary Shares of £0.0025 each	93,289,973	0.2

	Number	Notes
1 January 2018	93,289,973	
May 2018	199,829	(a)
June 2018	381,171	(a)
30 June 2018	**93,870,973**	

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

	2018 Number	**2018 £m**
30 June 2018		
Ordinary Shares of £0.0025 each	**93,870,973**	**0.2**

11. Related party transactions

Dividends totalling £0.2m (being the final dividend for 2017) were paid in the first half of the year in respect of ordinary shares held by the Company's directors (2017: £0.4m).

12. Events after the reporting date

There were no reportable events after the balance sheet date.

13. Ultimate controlling party

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