

Our strategy for the future



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Gamma is an AIM-listed communications company.

We are a leading supplier of business communications services to the UK and Dutch markets.

Highlights

Revenue

£284.9m +18%

Revenue grew from £242.0m in 2017 to £284.9m

EPS

30.0p +25%

EPS (fully diluted) increased by 25% from 24.0p in 2017 to 30.0p

Adjusted EPS

30.3p +31%

Adjusted EPS (fully diluted) grew by 31% from 23.1p to 30.3p

Dividend

9.3p +11%

Dividend grew by 11% from 8.4p to 9.3p

All 2017 figures, except cash and dividends, have been restated for the effects of the adoption of IFRS 15.

All alternative performance measures set out throughout this document are described as 'adjusted' and are defined and reconciled in the Financial Review section and these definitions are applied consistently. Where reference is made to adjusted EPS this is stated on a fully diluted basis ('FD').

AIM Company of the Year 2018

// Our growth journey

is continuing through the ongoing implementation of our successful long term strategy. Our recent expansion into Europe is a clear milestone on our way to managed business growth."

Andrew Taylor
Chief Executive Officer

Chairman's statement

Working together to deliver our long term strategy

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

Overview of results

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

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

The cash generated by operations for the year was £40.6m compared to £29.9m in 2017. This represents a cash to adjusted EBITDA conversion ratio for 2018 of 84% compared to 83% for 2017. The closing cash balance for the year was £35.5m compared to £31.6m at the end of December 2017. This cash balance has been maintained whilst spending £12.7m on capital items, £11.1m on acquisitions and £8.1m on dividends.

Dividend

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

Business development

We continue to launch new products as well as developing our existing product portfolio. As in previous years, the focus of our development programme has been to provide services that deliver both tangible business benefits to the end user and support our channel partner base to develop their businesses.

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

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

Alongside product development, we invest in programmes to support channel partners to develop and optimise their own business.

Specifically we have increased our focus on our channel partner marketing platform (Accelerate) and this is now actively used by over 700 of our partners to assist them to generate and convert customer leads. Channel partners have significantly increased their use of our online training platform (The Gamma Academy), which enables partners to keep up to date with new products and services. The platform can also be used to train their staff and is therefore cost effective for both them and Gamma.

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

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

The direct business continues to perform well across all market segments, but in particular our focus on Enterprise and Public Sector organisations is reaping the rewards, with significant multi-year contract awards including The London Stock Exchange for Global UCaaS and retailer ALDI (UK and Ireland) for an enterprise-wide data network.

Revenue

£284.9m

+18%

Dividend per share

9.3p

+11%

In the public sector the Scottish Government deployed a large SIP solution, and The Guinness Partnership is deploying a managed solution for Unified Communications, Connectivity and Mobility. Gamma achieved Stage 2 Health and Social Care Network (HSCN) compliance, in addition to being awarded new contracts with Fife and Thurrock Councils.

Expansion into the Netherlands

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

In December 2018, Dean One announced a strategic partnership with T-Mobile in the Netherlands and launched a 'Mobile Wholesale' proposition across the Dutch market. This will allow the channel in the Netherlands to compete effectively with KPN and provide a viable mobile alternative to the SMR market.

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

Board and employees

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

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

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

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

We continue to assist apprentices to obtain valuable work experience, to continue their education and to gain nationally recognised qualifications. At present, we have thirteen apprentices currently employed in IT, HR, Infrastructure Support, Software Development, Sales and Customer Service. We have a good track record of offering permanent employment

at the end of these apprenticeships, and expanding opportunities for apprentices across the business remains a priority for Gamma.

We consider diversity to be an important part of our culture at Gamma, and run a number of programmes across our business to support and promote this. We are aware of the lack of diversity of the Board and will consider this with future appointments.

Outlook

The Board looks forward enthusiastically to 2019 and beyond. We have considered the effect of Brexit on the future performance of our businesses and have identified no material issues which are specific to Gamma. In the event of adverse macro-economic factor such as a slow-down in the UK economy, Gamma has a business model that delivers a very high percentage of recurring revenues that also gives greater certainty in the short to medium term.

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

Richard Last

Chairman and Independent
Non-Executive Director

Q&A with the Chief Executive Officer

Introducing the new Chief Executive Officer Andrew Taylor

Q. What are your thoughts on Gamma after your first year?

A. Gamma is a really excellent business with great people, a high quality network and set of products which have really tapped into the growth areas in the UK telecommunications market. Gamma has been really smart, and used next generation technology and innovative business models to disrupt the UK market and from day one we have focused on automation to ensure that as a company our channel partners and customers find it really easy to do business with us. Simplification is at the heart of what we do! We have a very dynamic and agile commercial relationship with our customers and partners, and when you combine this with the investments that we have made in digital technology e.g. the Gamma Portal platform, as a company we are very focused on working out how we can enable our partners and end-customers to be successful in the market and both develop and strengthen the profitability of their businesses.

Q. What were your highlights from the year?

A. There are really too many to mention, but I suppose if I were to choose one it would be having the privilege of collecting the AIM Company of the Year award on behalf of all of our staff, customers and channel partners. It is such a fantastic accolade and great recognition for the entire Gamma team.

Q. Can you talk a little about your new strategy?

A. Our new 'Gamma 2023' strategy is very focused on building on our strong foundations and ensuring that we deliver long term sustainable growth for Gamma and our shareholders. During the last six months, we have conducted a thorough market assessment and have identified four key strategic priorities for our business moving forward. These priorities are centred around developing a leading network-enabled UCaaS proposition in both the UK and Europe, where we believe there is a significant long-term growth opportunity. We will concentrate our efforts on providing a very high Quality of Service for unified voice to the business segment, and it is our belief that Gamma's service will be highly differentiated in the markets where we choose to operate. In addition to this, through an increased adoption of digital technology across our Company, we will ensure that we improve the way we operate and deliver service to our customers and channel partners alike, while creating a scalable and highly automated platform which will allow our business to grow efficiently.

Q. How is Dean One integrating and what lessons have you learned from the Dean One acquisition?

A. The DX Groep integration has gone to plan and the business is performing well, although it has only been a few months since we completed the acquisition. We have implemented an appropriate level of governance and are working with both the DX Groep and Gamma teams to identify specific areas of synergy where we can drive growth. Culturally, both teams are aligned and are working well together, and for the foreseeable future we aim to manage DX Groep as a separate entity, while supporting the team to grow in the Dutch market.

Q. What are the biggest opportunities over the next 12 months?

A. Developing and growing our core business lines (SIP, Data, Cloud PBX) in the UK will be our priority during the next 12 months, as I believe that we have significant growth opportunities across each of our core product areas. I also think that continued disruption across the sector (regulatory, fibre roll-out, structural changes within the incumbents and general consolidation) will create an environment where both Gamma and our partners will never have a better opportunity to develop and grow our businesses. Ensuring that we deliver unbelievably good service (win the hearts and minds of our channel partners and end customers) is a prerequisite, and will present an opportunity to further strengthen our brand and market position. In addition to this, given the competition for talent within the sector (a drop in the attractiveness of our industry is causing a talent shortage), we have an opportunity to position ourselves and our new strategy in an extremely positive way, which I believe will help us attract and retain great talent into the businesses.

Chief Executive Officer's statement

"It seems hard to believe that I joined Gamma only last summer. The welcome and support that I have received from our staff, customers and channel partners during this period has been heart-warming."

Introduction

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

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

Both our direct and indirect channel businesses have continued to perform strongly, and throughout 2018 we were awarded several new multi-year customer and partner contracts across the Mid Market, enterprise and public sector markets.

In November, we were appointed as an accredited supplier to the Health and Social Care Network (HSCN), and as one of only a small number of accredited suppliers, via both our direct and indirect channels, Gamma can now provide HSCN with an extensive set of data network and voice services.

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

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

Strategy

During 2018 I initiated and led an important project to define Gamma's longer term vision and growth strategy.

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

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

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

Expansion to Europe

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

Dean One has a very similar product set to Gamma, selling Cloud PBX, SIP trunks, data products and mobile to primarily SME businesses via a network of over 500 channel partners. Dean One has approximately 60 employees, and for the full year ended 31 December 2018, revenues were c. €15.8 million

(unaudited) and EBITDA (adjusted for costs incurred in the acquisition by Gamma) was c. €0.8million (unaudited).

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

staff. The development will also support the trend for larger SME businesses to consume unified communications services from a cloud-based solution which in turn will expand Gamma's addressable market.

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

As businesses continue to demand greater bandwidth from any location in order to access cloud-based

"By continuing to grow within Europe Gamma is able to take advantage of the low cloud penetration and digitisation within the continent and therefore the long term growth opportunity is significant."

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 and to converge existing services to meet the demands of businesses. The developments are targeted to support the growing demand for integrated communications that support the core line of business and enable channel partners to support their end users efficiently.

In line with our strategy to focus on UCaaS, the key developments for 2019 include an expansion to our Cloud PBX service (Horizon) to include additional UCaaS products such as enhanced audioconferencing, web meetings, presence application sharing and video conferencing. The introduction of these advanced collaboration services will enable the Horizon service to support the growing demand for businesses to communicate in a more integrated way with their customers, suppliers and

applications, we continue to enhance our enabling services of data access and mobility, to provide secure and high quality services.

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

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

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

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

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

Indirect business

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

During 2018 we have delivered solid growth across the indirect business, with a continued focus on both strengthening current channel relationships and identifying new

partners. The channel team has focused on several key areas, with the objective of continuing to develop and strengthen Gamma's overall channel proposition. These areas include cross-selling and upselling more of our existing products, selling new products and services into our current channel base and developing new partners and programmes to support the growth of their business. These areas are designed to further enable our channel partners to be more competitive and successful in growing market share in their respective market areas.

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

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

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

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

Our digital marketing programme, Gamma Accelerate, continues to prove itself as a valuable tool for our channel partners. Designed with simplicity in mind, Accelerate is aimed at making it easy for partners to rebrand white label marketing material, run integrated campaigns to generate new leads, and more effectively engage with prospects and customers to boost sales. We now have over 700 partners using Accelerate and our aim is to give our partners every opportunity for growth and success. We have made substantial investments into Accelerate, continually developing new features, content and services around the platform.

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

Direct business

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

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

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

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

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

For example, the Open University and Taylor Wimpey extended their Cloud Voice and Mobile contracts for a further 36 months.

Network

As reported at the half year, Gamma's new high capacity national optical network project was delivered on schedule and on budget. This enables Gamma to deliver services at 10Gb/s and above which increases IP capacity into multiple terabits/s whilst providing reach into major business districts for access into 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 and 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 center and support). This programme is now complete and has delivered annualised savings of c£3m p.a. in ongoing network costs (against 2016 levels). These savings are included within these results.

Outlook

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

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

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

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

Andrew Taylor
Chief Executive Officer

A strategy driven by an engaging culture

Our objective

Gamma's objective is to continue to grow both its market share and profitability by developing new, innovative communications products for organisations.

Engaging culture

- Insight
- Experience
- Flexibility
- Innovation

Corporate social responsibility
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Strategic pillars

Exploiting existing services

Introducing new services

Developing the market

Infrastructure development

Execution

The four strategic pillars are all underpinned by our 'Straightforward to do business with' culture which seeks to make it as easy as possible for our customers to interact with us.

Key strategic decisions

Evolve our strong cloud telephony position into the UCaaS market

Build on our fixed and mobile telecom strength to differentiate our proposition from pure OTTs

Expand to Europe to gain continued growth and scale

Continue to build on our digital capabilities to assure agility and sustain competitiveness

Our engaging culture feeds directly into our strategy.

What we've achieved in 2018

- Continued the development of Accelerate, our online marketing and campaign management tool that enables channel partners to increase the number of products they sell to customers.
- Developed further channel routes to market in the IT Reseller and System Integrator space.
- Achieved the Certification required to provide network services to the Health and Social Care sectors.
- Continued the development of vertical market integration of the Cloud PBX with markets specific CRM solutions.
- Enhanced the Connect, Cloud PBX and Mobile integration service, by adding an easy to use app and WiFi calling capability.
- Increased bandwidth on ethernet and MPLS services to 10GB.
- Online Pricing Tools to make the quoting and ordering of ethernet easier.
- Fully launched the Connect Solution providing all the features of the Horizon Cloud PBX on an easy-to-use, integrated business mobile service.
- Acquired DX Groep in the Netherlands. This has provided us with both a secure non-UK business and the management structure to expand into other European countries.
- Completed the build out of a new national fibre network and migrated all services.
- Increased our capacity at a number of BT Openreach exchanges, thereby continuing to reduce the cost of ethernet data services.
- Delivered the first phase of a programme to provide online tools for our direct business units to serve their customers.

Priorities for 2019

- Expansion of the Cloud PBX service to include enhanced web/video conferencing and desktop collaboration, to address the changing needs of business communications.
- Further enhance our integration with Office suite environments and alternative collaboration tools.
- Develop our market-leading SIP Trunking services to enhance services such as Microsoft Teams.
- Complement our Data Access services with additional value-added products e.g. security.
- Commence the next phase of the development of our Mobile capabilities to ensure we can offer full mobility for our UCaaS solutions.
- Evaluate the German and French markets and identify potential partners.
- Support the DX Groep business in the Dutch market.
- Develop our mid to long term plan to ensure our digital capabilities support the anticipated changes in user expectations and buying behaviour.
- Deliver the second phase of the programme to enhance the online presence of our direct channel.

Our strategy and culture in action

Developing the market

Expanding into Europe

The UK has been leading other European markets in the adoption of IP Telephony, with SIP as a replacement for ISDN lines and cloud-based telephony services replacing 'on premise' PBXs. Gamma has been enabling this transformation since 2006 and has significant experience in how to transition channel partners and their customers from legacy to next generation services. Therefore the Company sees a significant opportunity to leverage this experience as the European adoption of cloud IP services is facilitated by the closure of legacy ISDN networks and the broader market demand for integrated UCaaS services.

Expanding outside of the UK also allows Gamma to serve better its international customers and de-risk its UK centricity. By having direct access to a much larger market, Gamma can maximise any investment it makes in developing both its product and service management capabilities.

During 2018 Gamma made its first acquisition against this strategy, when it completed the purchase of the DX Groep based in the Netherlands. The DX Groep has a very similar business model to Gamma but is much earlier in its growth. It operates its own hosted telephony platform with full fixed and mobile access services.

The DX Groep primarily operates via channel partners and has developed its own online sales enablement tools for partners to use.

Whilst the Dutch market is relatively mature in its adoption of IP based voice services, making its first acquisition here was a low risk 'first step' for Gamma and provides the Company with a platform from which to continue to build a European presence. Members of the senior teams from both Gamma and the DX Groep have formed a European Management Board, that is overseeing the ongoing assessment of the primary markets and potential partners in each.

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Gamma is the right home for Dean One as we look to accelerate the success we have seen in the Netherlands. We know Gamma very well and believe this is a positive development for all involved."

— Klaas Bottema, co-Chief Executive, Dean One

Introducing new services

Connect and Horizon Collaborate **Business communications supporting** **the needs of today's business users**

Businesses today need to communicate with their customers, partners and staff in a more flexible and targeted way than ever before. Gone are the days when a fixed phone service was the only way to communicate.

Gamma appreciates the complexity of the business communications needs of today's businesses, and this input feeds directly into our new product and services roadmap.

The Gamma market-leading Cloud PBX Horizon is constantly being developed to provide solutions to support customers' ways of working and to provide Gamma channel partners the ability to differentiate their service offerings in a very competitive market.

At the core of our product development principles is providing easy to use and intuitive products that work and support the business goals of the customer.

In supporting this change in business communications, Gamma has focused on two main areas, providing a mobility solution that connects users to the Cloud PBX platform and enhances the communications options to include instant messaging and has integrated collaboration and conferencing.

We fully launched our mobility solution, linked to our Cloud PBX service Horizon, in 2018. This service, called Connect, enables users to combine their Horizon fixed line service with their Gamma mobile so it appears as a single service. Users can choose which number (fixed or mobile) to present to the called party and all the features of Horizon – including a single voicemail service and call recording – are available to the mobile.

The user can make or receive calls on either device using the same services and numbers.

The Connect service is establishing a platform for customers to have a simplified fixed/mobile experience,

and in supporting the changing ways of working towards a more mobile organisation.

The next phase of the Horizon development is the introduction of the Collaborate enhanced functionality. This service integrates to the Horizon Cloud PBX solution providing the business with a platform to support instant messaging, advanced audio and video conferencing and document sharing. The service is simple to use, for both the end users within the Company and for external users, customers and partners.

This service will be launched in the first half of 2019, with initial customer trials already successfully undertaken.

These developments are highlights of a continual development process that is focused on adding value to end customers, making it easier and more effective for them to communicate, and adding value to our partners, to differentiate themselves in a very competitive market.

Direct business transformation programme

Like many businesses Gamma is reviewing how it operates and engages with its customers in a digital world across the whole Group as part of its overall business strategy.

Gamma is proud that it has always been a digitally-enabled company and has been at the forefront of Customer Portal interaction in the wholesale business.

To enable the UK direct business to continue to grow and scale efficiently, and deliver the customer experience expected, we needed to review and change the processes, practices and systems from 'Bid to Cash' across the business unit.

Change of this nature, led from the top of the management team, can be complex and involves all staff in this business unit. Mapping, transforming and checking the quality of data currently in multiple sources can be time consuming and complex, but is essential to ensure the continuity and high service quality Gamma is known for.

To support this business change in approach, and provide significantly better digital engagement for customers across all the markets served, it was decided that the main functions would be built upon a single platform, replacing several legacy systems and ad-hoc tools and portals.

The programme of work was split into a number of phases, with the foundational process design, new working practices and core system configurations carried out in phase 1 during 2018. Expert deployment partners and data migration specialists were hired to help and segment the internal Business Change and Systems teams. This will allow the deployment of the initial changes and new functionality to be carried out in 2019, speeding up a number of key processes allowing greater visibility to customers and supporting greater volumes of orders and customers.

The scope and benefits in particular are:

- Faster and more efficient prospect to order.

- Faster and more efficient support and provisioning.

- A new Customer Portal providing access to existing functionality such as billing, and new functionality such as Order Tracking, Trouble Ticketing and Service Performance all in one place.

- Migration of data from the existing CRM tool and Trouble Ticketing system (which will be retired).

This platform and the services that will be integrated will form the basis of Gamma's business delivery and customer interaction. We are already looking at future phases to deliver more functionality internally and externally to improve the customer experience.

Infrastructure development

Exploiting existing services

Vertical markets and propositions

Businesses don't just buy communications services for the sake of communications; rather communications services are used to solve real business issues and present solutions to their problems.

Communications services need to be contextualised to support business needs and these are usually aligned to strategic initiatives such as cost optimisation, moving into new markets for competitive agility, reducing or managing risk or the cost of complexity, giving a better customer experience by empowering decision making and monitoring productivity or addressing concerns over security or compliance and regulation.

At Gamma we're developing propositions that meet business needs and direction; more often than not this is not just about selling a single product but bringing a number of products together, with an integration that may be technical or commercial or both.

With our Horizon Cloud PBX service, we are providing integrations with 30 third party applications that meet the needs of specific vertical markets. For example, we integrate with applications such as Bullhorn for recruitment, Emis for healthcare and Sage for accounting as well as a range of CRMs including Salesforce.

Another way we're addressing customers' needs is by bundling our products. This not only gives customers a single bill for all their communications services, but also provides a single point of contact when services are implemented and supported, taking away the headache and costs of managing multiple suppliers.

In addition, we work closely with our channel partners on their marketing activities, providing tailored marketing advice and activities to help them reach new customers that goes beyond a straight product sell. Many partners are verticalised in their go-to-market approach and we develop multi-channel campaigns that have verticalised messaging to help with this tactic.

Our products and services

Gamma is a rapidly growing, technology-based provider of advanced communications services to the UK and Dutch business markets. We create simplified communications and software services for business.



DATA

VOICE

MOBILE

DATA

Our Data access products are designed to assure quality of service for our voice services and provide access to key applications for businesses

The Data service architecture is fully integrated with our national voice network, allowing a fully converged service offering, and a single support structure

Fully resilient solution delivered into more than one network node

High capacity MPLS core network

Direct peering with key content providers as well as geographically diverse internet transit

POP sites around UK

VOICE

Our voice product platforms (SIP Trunking, Cloud PBX and Inbound) are an integral part of our national voice and data network

Our underlying voice switching fabric is a carrier class

Highly resilient, distributed, next generation, national softswitch network

We are part of the UK's national switching infrastructure

Interconnects with all major UK, international, fixed and mobile carriers

We process over three million calls per hour during the peak business hours

MOBILE

Gamma owns its mobile core network giving us the same control as we have over fixed voice services (routing of all calls, text and data traffic onto the Gamma network)

Gamma Mobile has independent control of its core network

Primary mobile network is with Three UK

Premium MultiNet provides access to multiple networks in one single SIM

4G data service

Who we are

1,044 staff

Our expert staff are a key part of our success and product development

Presence

We operate from five towns and cities in the UK, Budapest and Amsterdam

Awards

1st place

Best channel support service

1st place

Best channel supplier – wholesale provider

► Corporate social responsibility page 46

How we sell

We supply a broad range of simplified communications and software services to small, medium and large sized business customers, both through our large network of channel partners and direct.

UK Indirect

Sold via:

System integrators

Resellers

Unified Communications providers

Value added resellers

Cloud infrastructure providers

Users:

Harrods

National Express

Countrywide

Park Dean Resorts

SCS

UK Direct

Sold into:

Public Sector

Mid-Market

Enterprise

Users:

London Stock Exchange Group

Scottish Government

BGL Group

John Lewis Partnership

National Audit Office

Overseas

Sold via:

Resellers

System integrators

Value added resellers

Sold into:

Public Sector

Mid-Market

Enterprise

Users:

De Haagse Hogeschool

Driscoll's

Amsterdamse Hogeschool voor de Kunsten

New York Pizza

74%

of sales

£210.6m

2018 sales

25% £70.9m

of sales

2018 sales

1% £3.4m

of sales

2018 sales

since acquisition

► Business review page 38

Market trends

The shift to integrated and contextualised communications

We have identified key trends in our markets showing how the face of business communications is changing and how Gamma is addressing these trends.

Supporting effective business communications in an ever changing world

The challenge for businesses to be competitive in today's increasingly fast moving world has never been greater. Customers and employees are demanding that businesses offer services and means of communication to meet their requirements. To support these requirements, businesses need communication services that are flexible, scalable and secure to meet today's and tomorrow's challenges.

Underpinning these business and user trends are a number of technology and industry directions that support the overall changes in how business operates.

Gamma is addressing these technology trends in a number of ways.

The rise of converged and unified communication services

- Communication is no longer isolated, customers can contact businesses from anywhere/anyhow.
- Businesses are looking for business communications solutions that can support them as their way of working changes, and for the communications to be relevant to their customers, whether that be a phone call, a video chat or a collaborative desktop session.

The key is matching the communications method to the customer and task requirement.

- Businesses are looking for service simplicity and cost savings in their business comms solutions.
- Business efficiency driven by single phone numbers, single voice mail service whether the user is utilising a mobile or fixed device.

The Gamma opportunity

- Gamma launched the Connect service, a solution that provides the features of our Cloud PBX service, Horizon, on a mobile in May 2018. This service combines the Gamma core voice and mobile, service as a simple to use solution that provides real business efficiency for users, ensuring that customer interactions are dealt with effectively, regardless of location. This service has been undertaken by a number of businesses and the interest from end customers and channel partners has continued to build since the launch.
- In the first half of 2019, Gamma will launch Horizon Collaborate, providing a fully-integrated messaging, collaboration and audio/video conferencing service to our industry-leading Cloud PBX service.

Superfast connectivity explosion to support the rise of cloud services

- Cloud based applications are now the norm for many businesses and vertical markets. To ensure that these services work effectively businesses need fast, highly available and secure connectivity from the user to the application.
- The flexibility that on demand software solutions provide to all businesses (large or small) enables them to deploy new solutions faster and more efficiently.

The Gamma opportunity

- Gamma is an infrastructure-light provider, with a core network that can support the key routing of voice/data and mobile traffic in an integrated core.
- This core integration allows us to develop differentiated services, such as the Connect service.
- We provide simple, easy-to-consume services, underpinned by automated provisioning and support models.

Network flexibility

- The increase in customer demand to support changes to their business communications in a faster and more flexible way means that service providers need to be flexible.
- New OTT providers can offer applications that are easy to use, but the customer connectivity may not have the capacity or security to support it.
- Large network-based operators may have the core capacity, but not the flexibility to deliver the applications that customers need.
- Businesses need a balance – fast to deploy applications over a scalable and secure infrastructure that supports all users.

- Businesses cannot survive without access to key data/software/customers over the internet.
- Simple connectivity is not enough as more and more data is accessed remotely.
- Customer contact is moving from a phone call/email to interactive video, online chat, screen sharing.
- All this communication needs fast/secure/scalable connectivity for businesses that supports their key applications, not the priorities of online gamers/YouTubers!

Digital disruption – from buying to support

All businesses are looking to streamline their operations to provide a better experience for their customers, whether they are buying, using or feeding back on the services that a company provides. At the heart of this change is how new technology can help.

The Gamma opportunity

- To provide products and services to our customers that streamlines their business communication processes.
- To support our direct customers in how they engage with Gamma to make their interactions with us more effective and appropriate.
- To support our partners in taking cost out of their processes so that they can make their businesses more effective.

The Gamma opportunity

- Gamma has seen a significant rise in demand for high bandwidth broadband and ethernet services over the past 12 months.
- We have met this demand and connectivity services are now a significant part of the Gamma portfolio, underpinning customer access to the businesses' key cloud applications.
- We have utilised our network reach to build out ethernet nodes in a number of population centres, reducing our cost of supply and allowing us to drive volume in a competitively priced market.
- Moving into 2019 we will continue to implement more access services that support the requirements for increased bandwidth.

Outlook

In 2019 Gamma will roll out a new digital model to support our direct customers in the following areas to provide customer benefit:

- Faster and more efficient prospect to order process.
- Faster and more efficient support and provisioning.
- A new Customer Portal providing access to existing functionality such as billing, and new functionality such as Order Tracking, Trouble Ticketing and Service Performance all in one place.

This platform and the services that will be integrated will form the basis of Gamma's business delivery and customer interaction. We are already looking at future phases to deliver more functionality internally and externally to improve the customer experience.

Business model

Creating value and growth

Highly cash generative with a resilient business model, a broad customer base and low customer concentration, Gamma has seen strong growth driven by repeating revenues.

Our strengths

Core Gamma foundations What makes us different

Product and network quality

Driving innovation on the back of strong network and product foundations (carrier grade, high availability, and rock solid end-user performance).

Channel automations

Portal capabilities (built around the channel with overlay support geared to make Gamma easy to do business with).

Digital platforms

Training (Academy) and marketing enablement (Accelerate) to drive channel engagement and growth (providing the channel with the edge to be successful and grow their businesses).

Commercial agility

Providing our partners leverage and flexibility (driving incentives and not causing price erosion) and selling on value and not price.

People

Human aspect of channel and direct customer engagement (long standing, consistency, built on trust and a balance of strong business ethics) – culture, skills, and delivering against our mutual promises.

Our products and services

VOICE

Our voice product portfolio (SIP Trunking, Cloud PBX and Inbound) is designed to meet the needs of a modern business. Supporting businesses collaborating with their customers.

DATA

Our Data Access products are designed to assure quality of service to businesses accessing their critical business applications in the cloud, including Gamma voice products, with all services supported via a single support structure.

MOBILE

Gamma owns its mobile core network, giving us the same control as we have over fixed voice product and services (routing of all calls, texts and data traffic onto the Gamma network). This infrastructure allows us to provide differentiated services such as Connect, our fixed/mobile service.

The markets we serve

UK Indirect

Our primary route to market, the channel, is at the heart of what we do. Providing services to 1,150 channel partners, with the partner owning the end customer contract and the relationship.

74%

Indirect business revenue
income percentage

Channel partners

UK Direct

Gamma supports a number of direct customer relationships, focusing on customers where they are looking for a contract with the network operator. The direct business supports the requirements of Enterprises, Mid Markets and Public Sector organisations.

25%

Direct business revenue
income percentage

End users/customers

Overseas

Dean One supports 364 partners where Dean One owns the end customer contract and 158 partners who own the end customer contract. In addition Schiphol Connect has 380 customers.

1%

Overseas business revenue
income percentage

Channel partners



Delivering innovative
multi-platform solutions

A Gamma partner for eight years, TSI provides a range of communications for businesses of all sizes. The company offers a portfolio of services and products across cloud telephony, unified communications and connectivity – citing ethernet as their most successful product from Gamma.

The challenge

TSI is focused on consistency of service and trust. Noting that many of its customers do not want multiple suppliers, TSI wanted to be able to provide all of their voice and data needs under one roof, a key challenge in keeping with its goal of offering 'complete business communications from one trusted supplier'.

Priding itself on not being a 'faceless' entity meant that TSI's suppliers are key to retaining this essential, personable relationship with its existing customer base.

Gamma drives
key growth and
helps boost profit
margins for TSI

The solution

TSI takes pride in being a reliable and trusted port of call for its customers, making the buying and support processes as easy and comprehensible as possible in order to retain trust and to achieve core business growth within its existing customer base.

Over the past decade, TSI has regularly taken the time to understand the full range of Gamma products available. Having knowledge of the full portfolio allowed it to give value-add to its customers, making services more sticky, and a trust in Gamma's support services meant that it had confidence in its processes and delivery.

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Our ongoing relationship with Gamma is professional, friendly and trusting. We never feel we are getting the 'hard sell' and are never pressured or squeezed on price."

– Martin Coleman,
Operations Director, TSI

The results

Working with one of the UK's largest retailers in 2017, TSI won a deal to supply a 20/100Mbps ethernet circuit with ADSL back-up into around 300 stores across the UK, with the support of Gamma's Ethernet team.

Gamma's services were successfully delivered on time and the customer is extremely happy with the quality of the services and support received throughout the rollout.

Commenting on the win, TSI's Operations Director, Martin Coleman says:

"The Gamma Ethernet team were integral to winning the 300-store tender, both from a technical point of view in helping to fulfil customer requirements and assisting with answering a multi-page tender document, through to negotiating the commercials.

Having different Gamma products in our portfolio has allowed us to win deals such as this that we might not otherwise have won. Gamma products now make up almost 50% of our annual turnover and have driven our growth considerably over the past decade."

Dean One case study

In the competitive telecoms market in the Netherlands, service providers have lots of choice when it comes to who they partner with.

Most service providers offer a very similar product set, so when Jan Rietveld, owner of Telecom Raadgevers, was looking to work with a supplier in 2011, he was looking for a partner that would understand his business, and be there for the long term to support his growth plans.

With this ongoing relationship Telecom Raadgevers now sells the full range of Dean One products, cloud telephony, SIP Trunking, mobile and connectivity. Telecom Raadgevers provides the first line support to the customer, utilising the Dean One portals and support teams for additional assistance.

Q: What do you like about the cooperation within Dean One?

A. Dean One, just like us, highly values personal contact and really enters into the relationship with the dealer. The products that Dean One offers are also offered by other providers, but thanks to the fun activities that are organised, such as get-togethers and outings, you really get a personal bond with the brand. You may see executives at other parties in the distance on a stage once a year. When I go to a drink with Dean One, Frank Caris (CCO) comes over and asks: 'Hey Jan, how are you? How is your business?' What I also really appreciate is that you know the people you get on the phone at Dean One, and they also know who you are. If you call a customer service provider from a major provider, you may be lucky to have the same person on the phone twice in one month. That will never happen with Dean One for sure.

– Jan Rietveld
Telecom Raadgevers, Owner

Dean One working
alongside Telecom
Raadgevers to help
drive growth

Strategic report

Corporate governance

Financial statements

Supplementary information

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“...You really get a personal
bond with the brand.”

— Jan Rietveld
Telecom Raadgevers, Owner

Gamma answers the call for Care UK

When lives can quite literally depend on a phone call, you'd better hope that the phone service being used is the most reliable there is. But for Care UK, the largest private sector supplier of NHS 111 urgent cover across a big part of the UK including London, the choice of SIP and hosted telephony provider was a simple one.

With demand for care rising and budgets under increasing pressure, the UK government relies more and more on the private sector to supplement and in some cases take over the job of care provision.

The move to hosted services

Care UK has chosen Gamma as its telecoms partner in a major consolidation, modernisation and future-proofing programme of its large and diverse telephony estate, something which had built up over time as the company has grown both organically and by acquisition.

- The overarching strategy of the whole rationalisation exercise is to move from an on-premise model to a hosted one, built entirely around Gamma's Horizon platform.
- The benefits of the move include more flexibility, a much-reduced technical support overhead, better resilience, and lower costs.
- The exception to the 100% hosted rule is Care UK's NHS 111 provision which remains rooted in on-premise switches and Gamma SIP connectivity.

Progressing

Fourteen months on and the move to Horizon is progressing well. The roll out is complete to 20 large healthcare centres and is in progress to deliver Horizon to more than 120 care homes all the way from Dorset to Aberdeenshire.

The company also operates three contact centres based on the Horizon platform's call centre functionality. All use the Akixi cloud-based reporting system which is deployed to provide both real-time and historical information.

Jason Wells, Head of IT Infrastructure and Operations, has no regrets about the decision to go the hosted route with Horizon, either from a business perspective or an IT perspective.

With a legacy telephony estate of multiple different systems anything from 30 years old to six months old, and from a large number of different suppliers, it presented something of a nightmare to manage, support, service and locate spares for.

Now Horizon is rolling out and a complex matrix of costly hardware and software support contracts is unwinding, that particular headache is coming to an end:

There were a lot of old legacy phone systems and they came with a lot of costs, both financial and in support time.

In the case of one PBX platform the vendor wanted a seven-figure amount just to keep it running, which made our decision very easy.

£600,000

at least, saved over three years by moving to Gamma's Horizon

The ongoing support across a whole mix of different handsets and systems was proving very expensive, and keeping them all up to date was substantially challenging.

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Switching to Gamma has been the best move we've ever made! We're getting a better service that's more resilient, more reliable, simple to expand upon and we're saving money."

— Jason Wells
Head of IT Infrastructure
and Operations, Care UK

Midshire Business Systems improves and increases marketing activity with less effort and resource

The Midshire Group of Companies was established 28 years ago, and is one of the largest office technology resellers in the UK. Midshire focuses on market-leading services including business telephone systems, broadband and IT solutions and products. Today, Midshire is now a £32 million turnover group, with over 250 employees in three regional offices and over 14,000 installations.

The challenge

Midshire prides itself on continually offering the latest technology to its customers and, as part of this, proactively informs customers and prospects about the latest news and product launches. As the customer base grew, it became more and more of a challenge to manage and schedule multiple communication programmes with the combination of legacy systems it had accumulated since 2002. It became apparent that syncing up marketing activities such as nurture campaigns, emailers and social media posts was problematic.

The Midshire marketing team needed to improve the quality and quantity of all campaign activity, whilst reducing the daily workload of the team so they could focus on other marketing avenues. Step one would be to segment the customer base which would allow for improved message consistency of the material distributed. It was also recognised that the customer journey was not as seamless as it would have liked and that this could be improved with greater synchronisation between social media posts and email campaigns.

The solution

One of the first things that appealed to Midshire about the Gamma Accelerate portal was that all the marketing campaigns could be centralised in one easy to use platform. This would instantly remove the issue of combining several different tools and fundamentally streamline the process, saving considerable time. Furthermore, the library of high quality collateral enabled Midshire to quickly and easily customise campaign material to make it its own. With the addition of a full end-to-end Campaign-in-a-Box, including emailers and social media, Midshire now has all the tools needed to run full lead nurture campaigns.

Midshire has also enjoyed training from Gamma on Accelerate. From implementation on day one to today Gamma has supported and guided Midshire and provided lots of useful hints and tips to new marketing members as their team grew on how to get the most from Accelerate.

The results

Midshire's original goal was to improve the quantity and quality of its campaigns while also reducing the workload on the team, both of which it has achieved with Accelerate.

Jamie Callaghan, Marketing Manager at Midshire said:

"The ease of social media scheduling means we can focus more time on other aspects of our marketing plan. As a result, our marketing activity has increased overall and thus sales have increased."

He continued, "We have a great relationship with Gamma, any queries or issues have been dealt with promptly and without fuss. We have become a key partner for Gamma and regularly test new products prior to launch. This enables us to always be at the cutting edge of our industry and offer our customers the best value and support moving forward."



With Gamma's Accelerate all of our marketing campaigns could be automated in one easy-to-use platform. The high quality customer-facing collateral which could be easily branded as well as social media scheduling was a great appeal for us at Midshire. It has made the whole process seamless."

— Jamie Callaghan, Marketing Manager, Midshire

Key performance indicators

Measuring our success*

Revenue (£m)

£284.9m

2018	£284.9m
2017	£242.0m
2016	£213.5m

Definition
Revenue from sales made to all customers (excluding intra-group sales which eliminate on consolidation).

Outlook
Growth.

Gross profit (£m)

£132.2m

2018	£132.2m
2017	£108.7m
2016	£98.8m

Definition
Revenues less direct costs of sales.

Outlook
Growth.

Gross margin (%)

46.4%

2018	46.4%
2017	44.9%
2016	46.3%

Definition
Gross profit as a percentage of revenue.

Outlook
Continued growth but expected to slow as the product mix of strategic and enabling versus traditional tends to an equilibrium.

EBITDA (£m)

£48.3m

2018	£48.3m
2017	£36.0m
2016	£34.2m

Definition
Earnings before interest, taxation, depreciation, gains and losses on disposal of fixed assets and amortisation.

Outlook
Continued growth.

Cash (£m)

£35.5m

2018	£35.5m
2017	£31.6m
2016	£28.2m

Definition
Cash and cash equivalents held at the end of the year.

Outlook
The Group intends to maintain a cash balance at this level subject to any acquisition opportunities that may arise.

Cash generated by operations (£m)

£40.6m

2018	£40.6m
2017	£29.9m
2016	£31.3m

Definition
Net cash flows from operating activities before tax.

Outlook
Expected to grow in line with EBITDA – cash conversion is expected to remain strong.

EPS (p)

30.0p

2018	30.0p
2017	24.0p
2016	18.8p

Definition
Earnings after tax divided by the fully diluted number of shares.

Outlook
Expected to grow in the absence of any unforeseen events.

Adjusted EPS (p)

30.3p

2018	30.3p
2017	23.1p
2016	21.1p

Definition
Adjusted earnings after tax divided by the fully diluted number of shares.

Outlook
Continued growth.

Relevance
By removing amortisation on acquisition from this metric, a better understanding of the performance of the business is gained. This adjustment is normally made by analysts so allows a user of the accounts to compare the actual results with the expectations of the analyst community.

*2016 figures are not restated for the effects of the adoption of IFRS 15.

Strategic pillars:

Execution
Exploiting existing services
Infrastructure investment
Introducing new services
Developing the market

Performance metrics*

UK business supplementary information

Number of hosted seats ('000s)

435

2018	435
2017	331
2016	230

Definition
Number of billed seats at end of year on all of the Cloud PBX products.

Outlook
Continued growth.

Relevant strategic pillars

Number of SIP channels ('000s)

856

2018	856
2017	680
2016	511

Definition
Number of billed SIP channels at end of the year.

Outlook
Continued growth.

Relevant strategic pillars

Strategic and enabling services as percentage of gross margin

78%

2018	78%
2017	75%
2016	79%

Definition
Margin from strategic products (Inbound, SIP Trunking and Cloud PBX) and enabling products (Ethernet, Broadband and Mobile) as a percentage of the total margin.

Outlook
Growth.

Relevant strategic pillars

Direct customer profile

176

2018	176
2017	159
2016	131

Definition
Number of direct customers generating monthly revenues of above £5,000 at the end of the year.

Outlook
Continued growth.

Relevant strategic pillars

Network availability

99.997%

2018	99.997%
2017	99.997%
2016	99.996%

Definition
Availability of strategic platforms.

Outlook
Similar.

Relevant strategic pillars

Number of channel partners

1,150

2018	1,150
2017	1,089
2016	970

Definition
Number of wholesale channel partners with monthly billing over £500 at the end of the year.

Outlook
Expected to slow growth channel as focus is on cross selling to existing channel partners.

Relevant strategic pillars

Net Promoter Score - direct

41%

2018	41%
2017	40%
2016	45%

Definition
The Net Promoter Score of a random selection of direct customers measured quarterly and averaged over the year.

Outlook
Similar.

Relevant strategic pillars

Net Promoter Score - indirect

43%

2018	43%
2017	45%
2016	26%

Definition
The Net Promoter Score of a random selection of indirect customers measured quarterly and averaged over the year.

Outlook
Similar.

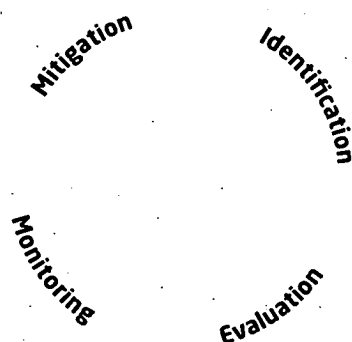
Relevant strategic pillars

*Non UK performance metrics not included as non material in 2018.

Principal risks and uncertainties

Understanding the risks that affect the Group

This section describes the principal risks that could have a material adverse impact on the Group and how those risks are identified, evaluated and managed.



Risk management process

Identification

Risks recorded in controlled risk registers.

Evaluation

Risk exposure reviewed and prioritised.

Monitoring

Risks analysed for impact and probability.

Mitigation

Risk owners identified and action plans implemented. Robust mitigation strategy subject to regular and rigorous review.

How we manage risk

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework, for ensuring that an appropriate risk management culture exists within the organisation, and for ensuring the effective identification, assessment and management of individual risks.

In order to assist in this process, with respect to non-financial risk, the Board has established a Group Risk Committee under the Chairmanship of Martin Lea, Independent Non-Executive Director. In addition to its Chairman, the Risk Committee comprises two independent Non-Executive Directors, the CEO and the Group Chief Strategy and Operating Officer. It generally meets quarterly or as otherwise required. The main tasks of the Risk Committee are to:

- ensure the Company has an appropriate and effective risk management and control system;
- ensure that there is a system in place for scanning the environment for new risks; and
- determine the nature and extent of the principal risks and agree with management how they will be managed or mitigated.

Gamma operates a robust and well-established structure for the management of risk in each area of its business. This process includes the identification of risks and an evaluation and scoring of risks based on the likelihood of occurrence, the potential impact, and the adequacy of the mitigation or control actions in place. Each generic area of risk has clearly assigned accountability at Director-level within the management team, with reporting lines to the CEO, the Risk Committee and ultimately the Board.

A risk register is maintained which includes all identified risks, their scores, prioritisation and the status of existing controls and mitigations and further actions in progress.

The Risk Committee undertakes a quarterly review of the risk register and in particular the number and status of the principal risks and progress with the implementation of any mitigation plans. In addition the Committee receives reports on any material incidents, their root causes and mitigating actions; also the results of regular cyber security related testing as well as updates from the Chief Information Security Officer and other senior operational management:

Gamma has a series of policies regarding anti-corruption/anti-bribery, human rights, the environment and social matters; but the Board does not consider there to be significant risks in this area. There is also a whistle blowing policy in place enabling employees to confidentially report matters of concern to the Chief Strategy and Operating Officer.

The principal risks to the business are listed here with a short description of their potential impact and what is being done to mitigate them. This is not necessarily an exhaustive list, and there may be other risks that could be identified in the future. However our ongoing commitment to risk management will seek to identify and mitigate such future risks.

Information and cyber security

By its very nature, our network infrastructure provides customers with open access to the internet and global voice networks. As such there is a risk from cyber threat and telephony fraud; as well as to the physical infrastructure. Over the last few years the profile around cyber security has changed significantly, including the advent of GDPR regulation and its associated controls. As a result, the Company has adapted its governance structure under the direction of the Company's Chief Information Security Officer (CISO).

Potential impact

A breach of security could have a significant impact on the Group's reputation and in some cases commercial impact.

Mitigating actions

We continue to adapt our governance structure to ensure that we follow best practice in the identification and management of information and cyber security risk, including: increased frequency and broadened scope of both routine and bespoke penetration testing, mandated cyber security training for all our employees, dedicated security roles to track how cyber threats are evolving and are best detected, and Board visibility of the 'health' of the governance structure.

Gamma's core infrastructure and operating capability is certified under ISO 27001 for security. We have a proactive approach to identifying any threat or attack and well proven procedures for neutralising such events. We employ external agencies to carry out penetration testing on our systems as well as carrying out our own security incident rehearsals. We have also undergone assessment and certification to meet the 'Cyber Essentials' standard.

The Company has representation on various Industry forums to ensure we are fully aware of new areas of risk, methods employed by malicious actions and best practice in the identification and mitigation of risk.

Our fraud management applications aim to identify unusual traffic patterns within a short space of time and we have a 24/7 operational capability to then assess and mitigate the risk.

Operational – unplanned service disruption

Reliable, high quality voice and data services are critical to any business and are the core components of Gamma's products. Therefore, maintaining very high levels of service availability is central to any service provider's credibility in this market.

Potential impact

If our network and systems perform below the market expectations then this will impact our ability to grow and sustain revenues.

Mitigating actions

We operate a comprehensive operational governance framework to manage the availability and performance of our services. This includes the design and architecture of our platforms, capacity planning, change management, security, and business continuity planning and rehearsals, incident management and monitoring. This structure is subject to external audit via our ISO 27001, ISO 22301 and ND 1643 certifications.

We have a mature Incident Management process that is rehearsed on a regular basis. This capability is available 24x7x365 and ensures that we can immediately respond to events that may impact the performance of the services we provide to our customers.

Impact
High

Change ↑

Impact
High

Change ↔

Principal risks and uncertainties continued

Reputational

Communications services are critical to businesses. The ability to order and deliver them easily, and reach support quickly when something goes wrong, are key areas that any service provider is assessed on when a customer is placing business.

Potential impact

Delivering poor customer service has two potential impacts: firstly on our ability to sustain and grow revenues and, secondly, dealing with failure increases the costs of the support operation.

Mitigating actions

We have a comprehensive service development plan that captures customer feedback and seeks to best align the support interfaces (system and human) with the needs of our customers. This programme delivers additional self-serve tools, online training material and specific customer service training for our support teams. Our objective is to eliminate any cause of frustration and ensure any interaction is as straightforward as possible.

In terms of governance, we hold a monthly Operational Review chaired by the Chief Strategy and Operating Officer that reviews performance across all parts of the business. This forum has its own action register to track through any improvements highlighted.

The Company has established a Crisis Management process to ensure it can respond to events that may draw media and regulatory interest – this is supported by external specialist agencies. This process is rehearsed at least once a year.

Impact
High

Change ↔

Supplier

The business relies on a number of key suppliers to provide elements of its products and services.

Potential impact

Failure of one of these suppliers to perform may have an impact on our ability to deliver products and services.

Mitigating actions

Where possible, we avoid reliance upon a single supplier for a particular element of our service and we ensure key supplier contracts have appropriate clauses in place to assure their performance. Suppliers of important services are monitored carefully and are subject to regular operational reviews. The Risk Committee reviews the most significant risks and the status of related mitigation projects quarterly.

Impact
Moderate

Change ↔

Market landscape

New entrants or existing service providers extend their product set to compete directly with our products and services. The communications market is constantly evolving both in terms of the available technologies and also in how people look to purchase certain products.

Potential impact

This may dilute the addressable market and slow down growth. If the business does not at least keep pace with this evolving market then its plans for growth may be impacted.

Mitigating actions

Gamma aims to provide services which are more attractive to our customers than those of competitors. Gamma plans, develops and markets products which match the evolution of market demand and of relevant technologies, and develops its core platforms to support these products.

In addition, Gamma, from time to time, undertakes a major strategy review, the overarching objective of which is to ensure it remains competitive in its key markets and to identify new opportunities for further growth.

Impact
Moderate

Change ↔

Legal and regulatory

The UK's telecommunications sector does not have a 'licence' requirement; it operates under a General Authorisation regime whereby, in combination with relevant UK and European statute, the sector's regulator outlines the required compliance which is presumed from telecommunications companies such as Gamma.

Potential impact

Our activities within the UK can also be impacted by the decisions of relevant legislative, regulatory and judicial bodies both domestically and in the European Union, with the primary potential impact of new decisions being changes to buy and sell prices for products and the way in which we are required to engage with our customers. Should our activities be found to be in breach of the requirements of our General Authorisation, the primary impact would be the cost of negative publicity and any financial penalty levied.

Mitigating actions

Gamma mitigates this risk by continuing to monitor likely regulatory changes; assessing their risk and potential impact; and regularly engaging with regulators as appropriate.

Key personnel

The business has grown rapidly over the last few years, with very low staff turnover. Therefore, there are individuals who have been instrumental in its development and are important to its ongoing success.

Potential impact

Loss of key individuals could have an impact on the continuing development of the business.

Mitigating actions

The business has a well-established team and a reputation for being a good employer. For example, in 2017, it came 49th in 'The Sunday Times Top 100 Best Companies To Work For' ranking. This process involved a comprehensive staff survey, the feedback from which is actively reviewed and addressed by the senior management team. The Company is also committed to an ongoing programme of people development programmes and active succession planning across the business.

Impact
Low

Change ↔

Impact
Low

Change ↔

Business review

A broadened portfolio

We supply a broad range of simplified communications and software services to small, medium and large sized business customers, both through our large network of channel partners and direct.

UK Indirect

The channel is right in the DNA of Gamma, contributing 74% of our revenue. Our clear objective is to provide the channel with something that is both different and of quality, and really drive sales in the hard to reach SMB market.

74%

● Indirect sales

17%

Gross profit increase in 2018 to £97.5m for indirect business

Current channel partner examples

Fidelity

South West Communications

Focus Group

BTT

Welcomm

UK Direct

The UK direct business has had an encouraging year, delivering revenues of £70.9m and gross profit of £32.8m, up 24% and 28% respectively. The Gamma brand has continued to gain recognition as a quality provider of Cloud ICT solutions.

25%

● Direct sales

28%

Gross profit increase in 2018 to £32.8m for direct business

Current direct customer examples

Reed

Teleperformance

Epsom & St Helier University Hospital's NHS Trust

YMCA

Levi's

Overseas

In October 2018 Gamma acquired DX Groep, a growing telecoms group based in the Netherlands.

1%

● Overseas sales

£1.9m

Gross profit since acquisition

Current partner examples

Nederlandse Publieke

Interxion

UK Indirect

2018 saw strong growth across Gamma's indirect business, with a continued focus on strengthening current channel relationships. We are now actively working with 1,150 partners at the end of 2018 (1,089 at the end of 2017). Gross profits rose from £83.0m in 2017 to £97.5m, and revenues grew from £184.9m to £210.6m.

Daryl Pile

Managing Director - UK Indirect

As more and more organisations begin to adopt a customer-first approach to all aspects of their business, Gamma sees this as a key opportunity for the channel to implement the technology that will enable a customer's business to improve and operate more efficiently. Partners who can add new solutions to their portfolio that offer real value to their customer, whilst placing themselves in a powerful position to cross-sell and upsell, will see success.

Gamma's focus is, and will continue to be, on developing innovative ways to help the channel succeed. Our approach is to provide compelling, high quality and disruptive solutions for our channel partners to take to market, underpinned by first-class support. Our 'easy to do business with' mantra reinforces everything we do at Gamma and, to keep in line with this, we have expanded our marketing and e-learning platforms that we make available to our partners. These areas are designed to further enable our channel partners to be more competitive and successful in growing market share in their respective market areas.

Gamma Accelerate is an online partner-marketing portal, designed to make it easy for channel partners to access and

customise marketing material, generate new leads and engage with prospects and customers. With more than 700 channel partners using the system in some capacity, 2018 has seen a significant increase in marketing campaigns run, with the number doubling when compared to 2017. We have also added more than 10 integrated, end-to-end marketing campaigns for partners to use for lead generation. As we look to 2019, Gamma is extending its marketing managed service to include copywriting, social media profile analysis, website analysis and digital advertising to ensure partners are adopting best practice strategies and tactics for the marketing activity.

The Gamma Academy is an online training platform, developed by us to provide partners with comprehensive support tools, training and product data, ensuring they have the information they need to confidently win new business, support existing customers and compete effectively with larger asset-owning competitors. In 2018, individuals working in our channel partner community undertook over 16,000 courses. These courses are designed to cover all aspects of our service including provisioning and technical support, in a clear and concise format.

The Gamma Portal continues to be a key differentiator, allowing partners to take full control and ownership of their customers and provision and manage services online.

Gamma's partner accreditation programmes have gone from strength to strength with the Platinum programme at capacity, whilst we continue to bring on new Gold partners. We will further expand the accreditation into 2019 to provide additional value to our partners.

The adoption of SIP Trunking for PBX connectivity and ISDN replacement has seen signs of slowing down, particularly in the SME sector as the 2025 ISDN turn off date seems too far in the distance to make a real impact now. However, Gamma continues to outperform the market growth rate for SIP. Our SIP Trunk Call Manager service, which adds a number of call management features taking it beyond basic connectivity, is gaining momentum.

Our Cloud PBX product, Horizon, continues its popularity with our partner base with more than 813 partners actively selling the product. The Cloud PBX market is saturated with competitors ranging from 'big-tech' to local niche operators. For our partners differentiation is key and Gamma aims to help with this in a number of ways including offering Horizon white-label marketing and sales campaigns specific to ripe verticals and integration with mobile added through the Connect converged fixed and mobile service. For 2019, we will be launching a set of UCaaS tools and applications that will enhance the Horizon Cloud PBX proposition for our channel partners and present an opportunity for them to upsell this to their existing customers and attack the mid-market.

Our Connect solution has given our mobile proposition real differentiation for partners to take to market. Our specialists are working closely with partners to harness this proposition and target specific sectors who would benefit greatly from this solution, for example estate agents, recruitment companies and healthcare organisations.

We have seen a strong year for our data services portfolio, with orders continuing to grow for both ethernet and broadband, whilst partner uptake of our private multi-site CPN service is solid. We have also launched Gamma's new Ethernet Layer 2 option for network and infrastructure partners to differentiate their offering with a better service wrap.

2018 has seen a major restructure for our Channel Sales team. As a UK business with staff living right across the country, we have restructured the teams and accounts geographically, allowing account managers to get closer to and work better with their partners. The teams now better reflect how the channel has evolved, whilst allowing us to improve support to partners and successfully onboard new business. Gamma has introduced a 'New Business' team to ensure that partners new to Gamma are receiving the best onboarding experience possible so they can begin to sell and grow their business quickly.

UK Direct

It has been another year of strong performance across the direct business, delivering revenues of £70.9m (2017: £57.1m) and gross profit of £32.8m (2017: £25.7m), up 24% and 28% respectively. I was pleased to see continued success across the board with some notable wins and key accreditation awards.

David Macfarlane
Managing Director – UK Direct

While I am pleased with record-breaking contracts signings of £99.0m in 2018 (2017: £81.7m), I am particularly delighted that £17.2m (2017: £13.6m) were customers either extending or expanding their existing agreement with us, demonstrating a high level of customer satisfaction. Customer service is key to Gamma, especially in our direct business. During 2018 we successfully achieved a monthly Net Promoter Score of over 40, a testament to our customer focus which contributed to the reason that all segments of direct secured key contract re-signs with customers including Taylor Wimpey, which extended its Cloud Voice and Mobile contract for a further 36 months.

To support our growth and further empower customers, investment in Digital Transformation will continue into 2019 and beyond with the launch of the GammaHub in early 2019. This platform will provide a simplified end to end system, reduce touch points, and create a leading digital customer experience for our customers.

Enterprise

The most notable win for the direct business in 2018 has been a £31m managed service contract with leading supermarket ALDI, awarded in the summer. During the second half of 2018, our project and provisioning teams have been working hard to start the delivery

of one of the market's largest ethernet WANs, covering an initial 900 plus stores across the UK and Ireland to provide a quality network to underpin the retailer's digital strategy. Gamma was successful in a highly competitive process, beating all market competitors to this marquee customer and I am looking forward to seeing how our continued partnership can support ALDI's ambitious growth plans.

The year started strong with the team winning a contract for more than £2.2m to deliver a fully managed WAN for Engie Supply. Other significant wins in 2018 included a £1.9m Global SIP contract with London Stock Exchange Group and a three-year contract with Bourne Leisure to provide Horizon Cloud PABX, SIP and SIP Trunk Call Manager. John Lewis Partnership also awarded Gamma a contract to consolidate their legacy public telephony into a highly available SIP solution.

In addition we were delighted to re-sign several managed services contracts for further business, including building and construction firm Taylor Wimpey for its fixed voice and mobile services.

This year has also seen investment in our support and delivery teams with the introduction of service advocates to help manage the complex requirements of our Enterprise customer accounts.

Public Sector

2018 has seen some very positive growth in the Public Sector unit, including contracting 1200 SIP Trunks to the Scottish Government, a strategic central government deal and a focus for us in 2018.

Amongst other notable deals, we won a long term contract to deliver a WAN across UK Met office locations and sites, following an extensive and very competitive bidding process.

A lot of rigorous work has gone into our successful application process to achieve Stage 1 and 2 compliance for Health & Social Care Network Accreditation (HSCN), which now allows us to provide our service into the NHS and Healthcare market sector.

University Clearing was again a massive success with over 21,000 peak time concurrent calls carried across the Gamma network

and 51 Universities registered for support, with a 31% increase in chargeable services.

Mid Market

In our Mid Market teams, focus this year has been on improving processes in both internal and field sales to enable sustainable growth and improved conversion across the board. This effort has already borne fruit with a very successful year for both upsell and new business. The move from traditional to next generation voice services is still driving continued growth in this sector, with the majority of new wins being for our market-leading SIP Trunks and Cloud PBX, Horizon.

We have seen notable success in the finance sector this year with a standout win for £1.5m with debt management company, the PRA Group, to deliver 3,000 channels of PCI compliant SIP Trunks. In addition, we're supplying 300 channels of resilient SIP Trunking to specialist savings and lending provider Shawbrook Bank, together with connectivity and Inbound services for its key customer-facing contact numbers.

In addition we made a number of key contract re-signs, including high street retailer Hidden Hearing, global omnichannel customer experience provider Teleperformance and a managed UK WAN for clothing retailer Levi's.

The Loop

Our Manchester fibre network, The Loop, has further extended its reach with the addition of Point to Point connectivity from Manchester to new datacentres in London and Slough. This allowed us to win a high capacity connection for the international TV production company 'The Farm' – best known for TV series 'X Factor' and 'Britain's Got Talent'. This high capacity connection will link its new Manchester production facility to their London HQ and will facilitate editing of these flagship shows. We also obtained orders from 'Booking.com' who are now using The Loop Network and have expanded the network reach to the Greater Manchester area of Tameside using a creative method of laying fibre through the TfGM tram duct network.

Overseas

DX Groep

Gamma acquired the DX Groep in October 2018, a growing telecoms group based in the Netherlands. The group consists of Dean One and Schiphol Connect. Revenue was £3.4m and gross profit was £1.9m since acquisition.

Willem van Ingen

Managing Director – Dean One

Dean One

Dean One provides, via business partners, a wide range of telecom and internet products specifically for the SME market. The core products that Dean One takes to market are Cloud PBX services including fixed/mobile integration, SIP Trunking, mobile services, data connectivity and traditional landlines.

Dean One focuses on differentiating from other operators by having a more personal service and easy-to-use intuitive portals. It is the philosophy of Dean One to offer all telephony and internet products in an exceptional, clear and easy to understand manner. The products are easy to implement and easy in use, both for the end customer organisation and the channel partner. This service focused ethos enables Dean One to get long term commitment from both partners and end customers.

Dean One has a number of partner programmes, offering a support model that is lined up to the needs of the partner. We support 364 business partners where Dean One owns the end customer contract (78% of total revenue), and 158 wholesale partners who invoice their customers directly, and the partner owns the contract (22% of total revenue). Besides

traditional telecom partners there is a strong and growing number of ICT service providers and integrators active in this wholesale segment. In the retail segment Dean One works with two different types of partner models: Commercial Partners, who mainly focus on selling products and services and Service Partners, who also do the implementation and first line support of the customer.

Dean One launched the GO! Portal for Wholesale partners in 2017. The portal has been established to address the growing demand of ICT partners to sell Cloud PBX services. The portal is unique in the market because of its simplicity and ease of use. Partners are able to make all necessary changes themselves during the complete customer lifecycle, without requiring to engage with Dean One. The plan is to add more products and services to the Go Portal and to offer the platform to all channel partners.

At the end of 2019, KPN, the Netherlands Telecoms incumbent, has planned to cease the delivery of traditional ISDN telephony lines. Currently, approximately 60% of the SME market still makes use of this type of telephony. This offers Dean One, which also still has a lot of customers with traditional ISDN products, the opportunity to offer these customers Cloud PBX and SIP Trunking products. This transition has started in 2018 and will be accelerated in 2019, where Dean One will be migrating new current customers through special propositions and tailor-made campaigns.

Besides the migration of ISDN telephony to VoIP products, Dean One will further develop its Cloud PBX offering with unified communications services. New services will be added so that the product can keep up with competition in the market and service the growing need of SMEs to have more than voice services.

In addition to the product development programme, Dean One is focused on both processes and systems to optimise the efficiency of the business. In 2019 Dean One will continue to phase out old propositions and systems and will finalise the migration to one billing platform.

Regarding mobile telephony, Dean One has signed a new agreement with T-Mobile. Dean One can make use of the network, products and services of T-Mobile. This network has been tested as the best network over the past three years in the Netherlands. The agreement with T-Mobile is unique in the Netherlands and guarantees that Dean One can make the difference with a strong competitive mobile only offer. This offering will provide a strong base to cross sell additional services.

Schiphol Connect

In 2018 Schiphol Connect has focused on migration of customers to its own network. In 2017, 398 customers were acquired from Schiphol Telematics, a 100% daughter company of Royal Schiphol Group. By the end of 2018, 380 customers were operational on the Schiphol Connect network.

Customers were migrated from traditional (TDM) telephony systems to a Cloud PBX and from mainly DSL technology to high bandwidth internet. Customers were offered to migrate to these new technologies.

The vast majority of customers have agreed to migrate as they were also given new IP phones with new features and higher bandwidths, thus enabling them to operate more efficiently.

In 2019 Schiphol Connect will focus on cross- and upselling with existing customers and acquiring new customers on the airport.

Positive financial performance

As the Chairman and CEO have outlined, 2018 was characterised by one of Gamma's strongest trading performances.

Andrew Belshaw
Chief Financial Officer

Highlights

£284.9m +18%

Revenue grew from £242.0m in 2017 to £284.9m

£132.2m +22%

Gross profit grew from £108.7m in 2017 to £132.2m

£48.3m +34%

EBITDA grew from £36.0m in 2017 to £48.3m

£40.6m +36%

Cash generated by operations grew from £29.9m in 2017 to £40.6m

30.0p +25%

EPS (fully diluted) increased by 25% from 24.0p in 2017 to 30.0p

30.3p +31%

Adjusted EPS (fully diluted) grew by 31% from 23.1p to 30.3p

Changes in presentation and accounting policy

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

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

We have completed our first acquisition since our flotation in 2014 and for this year and in the future we will show PBT, PAT and EPS figures adjusted for the amortisation of the intangible assets which were recognised on acquisition

of the subsidiary. This adjustment is made to improve the comparability between acquired and organically grown operations, as the latter cannot recognise internally generated intangible assets. Adjusting for amortisation provides a more consistent basis for comparison between the two.

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

Revenue and gross profit Indirect business

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

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

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

Direct business

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

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

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

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

There is some uncertainty over the growth rate in the Public Sector throughout 2019 due to budget

uncertainty caused by the length of time which has been taken to conclude a 'Brexit deal'.

International

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

Operating expenses

Operating expenses grew from £82.4m (2017) to £97.8m. We break these down in Table 1 below.

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

We also present the effect of share based payments. Historically we showed EBITDA and EPS adjusted for share based payments because the historical charges were inflated by significant levels of awards made at the point of IPO but these 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.

Table 1 – Operating expenses

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

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

Movements in cash based expenses were driven by:

- ongoing growth in the number of customers buying new products for the first time continues to be a driver of overhead, especially in the area of provisioning product to our new Enterprise customers;
- increased investment in product research that doesn't meet capitalisation criteria;
- continued investment in our sales teams;
- investment in our 'digital strategy' programme which will allow customers to provision and change services online and thereby will ultimately reduce overhead; and
- central costs for consulting relating to our strategy programme and the due diligence costs of our European expansion.

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

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

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

Alternative performance measures
Our policy for alternative performance measures is set out in note 1.

Table 2 reconciles the alternative performance measures used in this document.

Adjusted EBITDA and EBITDA

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

Table 2 - Alternative performance measures

2018 measure	Statutory basis	Amortisation of intangibles	Tax items	Adjusted basis
EBITDA (£m)	48.3	–	–	48.3
PBT (£m)	34.5	0.4	–	34.9
PAT (£m)	28.4	0.4	(0.1)	28.7
EPS (FD) (p)	30.0	0.4	(0.1)	30.3

2017 measure	Statutory basis	Amortisation of intangibles	Tax items	Adjusted basis
EBITDA	36.0	–	–	36.0
PBT (£m)	26.5	–	–	26.5
PAT (£m)	22.7	–	(0.9)	21.8
EPS (FD) (p)	24.0	–	(0.9)	23.1

Table 3 - Adjusted EBITDA and EBITDA

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

Table 4 - Cash flows

	Cash generated by operations		Growth
	2018 £m	2017 £m	
Consistent with 2017 presentation and accounting policy	48.0	38.8	24%
Changes due to accounting policy			
• IFRS 15 – customer premises equipment (CPE) spend	(10.2)	(11.5)	
• IFRS 15	1.2	2.6	
• IFRS 16	1.6	–	
Consistent with 2018 presentation and accounting policy	40.6	29.9	36%

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

In order to allow users of the accounts to see how these changes have affected the key metrics, we present a reconciliation (Table 3).

The changes to accounting policy and presentation have slightly flattered the percentage growth of EBITDA but this is driven mainly by the effect of IFRS 16 which has adjusted the current period

(favourably) and not the comparator as this is not restated; if the effect of IFRS 16 were to be removed the percentage growth is slightly lower under the new basis.

Cash flows

The cash balance at the end of the year was £35.5m, up from £31.6m at the end of the previous year. The cash generated

by operations in the year was £40.6m (2017: £29.9m) and the main uses of this were:

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

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

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

The cash generated by operations figure is reconciled (Table 4).

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 (Table 4).

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

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

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

Table 5 – Adjusted EPS (FD)

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

Taxation

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

Capital expenditure

The Group spent £12.7m (2017: £15.8m) on capital which was split as follows:

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

Note that following adoption of IFRS 15, customer premises equipment (CPE) is no longer capitalised.

Creation of right of use asset

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

Adjusted EPS (FD) and Statutory EPS (FD)

Adjusted EPS (FD) increased from 23.1p to 30.3p (31%). As for EBITDA, the revision to accounting policies and changes in presentation impact the results. We have therefore provided a reconciliation to previous presentation and policies to aid users of these accounts (Table 5).

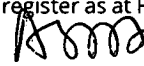
Under both the new and old regimes, the growth in adjusted EPS (FD) has been significant due to the very strong trading described earlier however the implementation of IFRS 15 has had a negative effect on 2018 compared to 2017. This is because less CPE was shipped in 2018 than 2017 and this is now treated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

Statutory EPS (FD) grew from 24.0p to 30.0p (25%). The growth is lower than the adjusted metric because, in the previous period, the figure was flattered by a tax rebate from previous years which was adjusted out as it was non-recurring and non-trading.

Dividends

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

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


Andrew Belshaw
 Chief Financial Officer

Celebrating the power of people

Our culture has been instrumental in the growth and success of the business to date. This is aided by trusting our staff, delegating as far as possible, and creating an informal, constructive environment.

Communicating with staff is obviously paramount in maintaining an involved and informed group of employees. We have quarterly conference calls where the management team individually brief the whole staff, supported by regular staff newsletters and CEO briefings (by location). Our staff churn across the business is low compared to industry norms, and particularly so in our customer service teams where knowledgeable, experienced staff are so vital to offering good customer service. Wherever we can, our preference is to grow our existing staff and ensure we provide learning opportunities for everyone. We have also recruited and developed both graduates and apprentices. In sales, for example, our strategy is to recruit graduates as desk-based support staff, developing them into field-based sales and ultimately sales management.

The average tenure of our sales staff is well over five years, with many of our sales management having been with us for over ten years.

The business also offers staff a choice in terms of flexible benefits. We believe this flexibility gives our employees freedom and choice in selecting a customised basket of benefits to suit their specific needs and individual lifestyle. We also aim to provide a degree of peace of mind for our people through the provision of income protection and life assurance policies. For those employees juggling work, family or carer commitments, or trying to enhance their work/life balance, we provide the option for them to purchase additional holidays. We also offer employees the opportunity to improve their own health and wellbeing through discounted gym memberships and we also provide free fruit.

Staff learning and development remains a key priority for Gamma. It helps us to maximise the potential of our people, retain skills and grow the business. As a technically based business in a fast-changing market we need to keep our people's skills up to date and give them the opportunity to grow and develop as best they can. A wide range of learning and development opportunities are available, including funding by Gamma to undertake Master's level courses and other professional development courses.

Gamma team events

As well as Christmas events at each office, in 2018 we saw the return of Gammafest, a Company-wide festival. Gammafest rewards employees for their fantastic achievements and contribution to Gamma, and allows them to celebrate their success. Gammafest is free to all employees. This allows for all employees to come together at one venue to meet colleagues from across the business, which is especially important as we have increased head count by over 10% in the last year. Gammafest offers employees from all our offices the opportunity to meet face-to-face, and gives homeworkers the chance to engage with their colleagues in a social setting to forge stronger working relationships. Employees can participate in fun team-building activities, such as human table football and volleyball. Many employees are skilled musicians and semi-professional singers, so the evening music festival provided them with the stage to team up with other staff and showcase their talent.

In addition to improving employee engagement, it is satisfying for people to receive recognition for their wider talents and skills outside of the workplace. All employees are welcomed to Gammafest, regardless of their length of service, to show that Gamma recognises and values all employees' contributions regardless of their time here, which will drive their contribution to Gamma's success going forward.

Apprenticeships

Gamma has continued to build and develop its apprentice offering with new programmes introduced in both Customer Support and IT and Infrastructure. Gamma has hired 10 new apprentices during 2018 as well as dedicated specialists to support the learning and development of the newest apprentices. Gamma has been proud to support a number of the existing apprentices who have chosen to continue their studies via the apprenticeship model up to and including degree level.

Flexible benefits

Gamma offers all UK-based staff access to a Salary Sacrifice pension scheme, life assurance cover and income protection. In response to staff feedback, Gamma offers a flexible benefits package, which allows staff to trade salary for benefits such as a bike to work, gym membership, childcare vouchers and additional holiday. Gamma has also partnered with Reward Gateway to offer staff a variety of discounts from various retail outlets.

Share schemes

In addition to the long term incentive schemes which offer options to key employees, Gamma is keen to ensure that all employees who would like to be shareholders can do so in the most efficient way. In 2018 Gamma offered a Save As You Earn ('SAYE') scheme which allows all eligible employees to acquire shares.

Gammafest

Gammafest is a Company-wide festival. Gammafest rewards employees for their fantastic achievements and contribution to Gamma, and allows them to celebrate their success.

Gender Pay Gap

Gamma welcomes the new legislation set out in the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 which requires organisations with over 250 employees to report their gender pay gap against six key measures. We have published our first Gender Pay Gap report for UK employees and accompanying narrative in April 2018.

Gamma has long been committed to building a diverse and inclusive workforce as well as nurturing our reputation of being a great employer to work for. We believe in creating opportunities for all to grow and to flourish at work.

Gamma operates in a sector in which it is well documented that there is a shortage of technically skilled females who choose to pursue a career in telecommunications and technology. We have been keen to address this by ensuring that we recruit in an equal and fair way while maintaining standards of best practice. Working with a number of universities and other partners, we have been successful in attracting qualified women into teams where knowledge of science, technology, engineering or maths (STEM) is essential.

Where we have recruited staff into our Billing, Software Development, Programme Development and Technical Support departments, we have a gender pay gap in single digits. This gives us comfort that our general recruitment policies are working. However, because of the historic difficulty in recruiting females into technical roles, including leadership and management, we do have imbalances in other areas of the business.

We are, however, working hard to encourage, support, develop and retain women throughout their careers at Gamma and to prepare them for senior roles within the organisation. In 2018 we improved our maternity policy to further support women.

On International Women's Day 2018, we launched a Women in Technology Steering Group which focuses on issues which may hold women back in their careers, to innovate career progression, formalising an outreach programme to encourage young females to study STEM subjects. These outreach events have included employees visiting primary and secondary schools to promote STEM subjects, such as coding, to young women.

Our figures

On the statutory snapshot date of 5 April 2017, out of the total number of employees...

71.14%

were males

28.86%

were females

Statutory	Mean*	Median*
Gender pay gap	34.60%	25.62%
Gender bonus pay gap	86.56%	33.85%

*The mean is the average of a list of numbers.

The median is the middle value in all of the numbers listed in numerical order.

Bonus proportions	Males	Females
Proportion of males and females receiving a bonus	91.74%	89.38%

Gamma's Pay Quartiles	% of males in each pay quartile	% of females in each pay quartile
Upper pay quartile	85.49%	14.51%
Upper middle pay quartile	77.84%	22.16%
Lower middle pay quartile	64.77%	35.23%
Lower pay quartile	58.55%	41.45%

Environment and CarbonNeutral®

Gamma is one of the few UK communications providers to be fully CarbonNeutral® certified with a net zero carbon footprint, and we are proud to support the Woodland Trust, an organisation dedicated to the protection and promotion of natural woodlands across the UK. We made a commitment to reducing our carbon footprint across our network back in 2006, through investment in the efficiency of our IP based network and other assets as well as an active offset management programme. This means Gamma is a fully certified CarbonNeutral® Company, making us one of the few communications providers in the UK to have a net zero carbon footprint. We've invested in various projects since becoming CarbonNeutral® – most recently:

- Acre Amazonian Rainforest Conservation Project (Brazil) which protects 105,000 hectares of rainforest from deforestation by providing alternative economic development opportunities.
- Meru and Nanyuki Community Reforestation Programme (Kenya) offers hundreds of individual tree planting activities which improve access to food and create additional sources of income.

- Sub-Saharan Africa Improved Water Infrastructure Project which creates and repairs wells for clean drinking water in rural communities, meaning they no longer have to use firewood to boil and purify water, alleviating pressure on the local forests and reducing CO₂ emissions.

Policy on staff support for good causes

Gamma operates a policy of 'matched funding' for all qualifying staff charity activities, which led to over £5,000 of donations for employee chosen charities in 2018.

Our annual fundraising event, Gamma Ball Rally, raised £100,000 in 2018 (£500,000 over five years) for our chosen charities, Action Through Enterprise (ATE) and SpecialEffect. ATE supports communities in Ghana, including 82 businesses, providing 1,032 school meals and supporting 150 disabled children. ATE have said that Gamma has "been instrumental in establishing ATE as the charity it is today. From humble beginnings, Gamma has supported ATE to grow and access increasingly impoverished and marginalised communities in Ghana: from 460 students in 2013, ATE now supports 1,032 students across six schools; from 18 small business owners equipped with

training and grants, ATE has now supported 82 businesses to grow and thrive; and from 60 disabled children and their families ATE has more than doubled its support to reach over 150 disabled children and their families across three different locations in Upper West Ghana."

SpecialEffect puts fun and inclusion back into the lives of those with disabilities by providing special equipment so they can play videogames. In 2018 we also held football tournaments and bike rides for these charities, and these events collectively raised over £8,000 for these fantastic causes.

Gamma also regularly holds charity events across our sites, and in 2018 we held our annual Macmillan coffee morning which raised over £1,100. We also raised money across our offices for other causes such as Sport Relief. 2018 also saw the introduction of reverse festive calendars across all our Gamma offices, where employees were encouraged to bring in items which could then be donated to a foodbank local to each office. The generosity and support which Gamma employees showed towards these foodbanks was overwhelming.

Volunteering policy

Gamma actively encourages and supports employees who wish to volunteer within the community or for charities. Supporting volunteers helps the Group to build relationships with the local community and improves its perception within it. Employees who do volunteering work can use the skills that they have developed at work to help in the community, or learn new skills, such as leadership, helping to improve their morale, physical health and overall work/life balance. Our employees have also used their volunteering days to work with organisations such as mountain rescue teams, food banks and basketball clubs for children from disadvantaged backgrounds.

The strategic report was approved by the Board of Directors on 11 March 2019.

Andrew Belshaw
Chief Financial Officer

Chairman's introduction to corporate governance

"The Company's commitment to strong corporate governance and risk management will remain central to the business during 2019 and beyond."

Richard Last
Chairman and Independent
Non-Executive Director

The Board recognises that sound corporate governance is an essential underpinning for a growing, publicly quoted business, and is committed to ensuring the integrity of both its processes and of those of the Company as a whole:

The Directors support high standards of corporate governance. On 23 May 2018, the Board of Gamma formally decided to apply The QCA Corporate Governance Code (2018 edition) (the 'QCA Code'). Gamma has adopted this code as it feels it takes key elements of good governance and applies them in a manner which is workable for the different needs of growing companies. The Group's Corporate Governance Compliance Code document which was approved on 25 September 2018 is available on the website www.Gamma.co.uk

The Board is responsible for establishing and maintaining the system of internal controls which has been in place throughout 2018. The effectiveness of the Group's system of internal controls is reviewed annually by the Audit Committee on behalf of the Board, as referred to in the Audit Committee report.

The Board comprises seven Directors, two of whom are Executive Directors and five of whom are Non-Executive Directors, reflecting a blend of different experience and backgrounds.

Of the Non-Executive Directors, the Group regards Richard Last, Alan Gibbins and Martin Lea as Independent Non-Executive Directors within the meaning of the Corporate Governance Code (2018 edition).

The Board meets regularly to consider strategy, performance and the framework of internal controls. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings.

The Group has established Audit, Nomination, Remuneration and Risk Committees of the Board with formally delegated duties and responsibilities. The Group's commitment to strong corporate governance and risk management will remain central to the business during 2019 and beyond.

Richard Last
Chairman and Independent
Non-Executive Director

Corporate governance framework

The Board has a coherent corporate governance framework, as illustrated below, with clearly defined responsibilities and accountabilities designed to safeguard and enhance long term shareholder value and provide a robust platform to realise the Company's strategy.

Board of Directors

Chairman	Richard Last Chairman and Independent Non-Executive Director			
Executive Directors	Andrew Taylor Chief Executive Officer	Andrew Belshaw Chief Financial Officer		
Non-Executive Directors	Alan Gibbins Independent Non-Executive Director	Martin Lea Independent Non-Executive Director	Andrew Stone Non-Independent Non-Executive Director	Wu Long Peng Non-Independent Non-Executive Director

Board Committees

Audit Committee

The Audit Committee's role is to provide effective governance over Gamma's financial reporting, including the adequacy of disclosures made in the financial statements; to review the performance of the external auditors; to provide oversight of the Group's systems of internal financial control; and to report to the Board on these matters.

2018 Membership

Alan Gibbins (Chair)
Richard Last
Martin Lea

► Audit Committee Report
page 58

Nomination Committee

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition and make-up of the Board and any Committees of the Board.

2018 Membership

Richard Last (Chair)
Martin Lea
Alan Gibbins
Wu Long Peng
Andrew Stone

► Nomination Committee
Report page 57

Remuneration Committee

The Committee is primarily responsible for determining and agreeing with the Board the broad policy for the remuneration and employment terms of the Executive Directors, Chairman and other senior executives and, in consultation with the CEO, for determining the remuneration packages of senior executive managers.

2018 Membership

Martin Lea (Chair)
Richard Last
Alan Gibbins

► Remuneration Committee
Report page 60

Risk Committee

The Risk Committee assists the Board in its duty to carry out a robust assessment of the principal non-financial risks facing the Company (financial risk is considered by the Audit Committee).

2018 Membership

Martin Lea (Chair)
Richard Last
Alan Gibbins
Andrew Taylor

► Risk Committee Report
page 57

Board roles

The Board is composed of a number of key roles, each responsible for a particular area of governance and to bring balance to decision making.

Chairman

The Chairman is responsible for the leadership of the Board.

Executive Directors

They have responsibility for running the Company's business.

Non-Executive Directors

They bring an independent perspective to decision-making; they hold senior management to account; they also support and mentor the CEO and senior management.

Board of Directors

We have an experienced Board which blends industry expertise with public company experience and the knowledge and skills of our long standing shareholders.

Richard Last

Chairman and Independent Non-Executive Director

Richard is Chairman and Non-Executive Director of ITE Group plc, a leading international exhibition and conference organisation listed on the London Stock Exchange, of AIM-listed Tribal Group plc, an education software, systems and services group, and Arcontech Group plc, a financial services software company. He is also a Non-Executive Director of Corero Network Security plc, an AIM-quoted IT security solutions provider. Richard is also Chairman and Non-Executive Director of British smaller companies VCT 2 plc and Lighthouse Group plc; he is standing down from both Boards at their respective forthcoming AGMs in May this year.

Richard is a Fellow of the Institute of Chartered Accountants in England and Wales.

Year joined
2014

Committee membership

- Chairman of the Nomination Committee
- Member of the Audit Committee
- Member of the Remuneration Committee
- Member of the Risk Committee

Andrew Taylor

Chief Executive Officer

Andrew has over 22 years' experience in the telecommunications industry, and has a demonstrable track record of achievement in previous roles, both in the UK and internationally. Until recently, Andrew was Chief Executive Officer of Nomad Digital, a provider of IP connectivity and digital solutions to the global transportation sector. In this role (2013-2017), Andrew was responsible for establishing Nomad as a leader in the sector, and when acquired by Alstom in 2017, was serving over 50 global customers from 20 offices.

Before joining Nomad, Andrew was Digicel's Regional Chief Executive Officer (2012-2013), with responsibility for all fixed and mobile operations across the Northern Caribbean. In this role, Andrew had responsibility for all fixed network services and business/ ICT solutions across 26 international markets, and was responsible for driving significant growth in both revenues and profitability.

From 2008 to 2010, Andrew was Chief Executive of Intec Telecom PLC, a provider of software solutions. After a period of significant growth and business improvement, Intec was acquired by CSG in 2010.

Year joined
2018

Committee membership

- Member of the Risk Committee

Andrew Belshaw

Chief Financial Officer

A Chartered Accountant by background, Andrew has worked in both audit and corporate finance at Deloitte LLP and Ernst & Young, specialising in providing advice to a wide range of clients in the technology sector. After leaving private practice, Andrew worked alongside the Commercial Director in a new business development role at Xansa plc before joining Gamma.

Andrew has a degree in Maths from St John's College, Cambridge and gained an MBA from Warwick University Business School. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Year joined
2007

Committee membership

-

Alan Gibbins

Independent Non-Executive Director

Alan has extensive experience of public company reporting and financial services spanning 30 years with Price Waterhouse and PricewaterhouseCoopers LLP, having been a Partner from 1985 until 2006.

His responsibilities included one of the main London audit groups and he was an Audit and Business Assurance Partner. Alan is presently Chairman of Jefferies International Ltd and stood down from the Board of BlueBay Asset Management at the end of 2018. He is a Non-Executive Director and Trustee for a number of private not for profit companies. Alan joined Gamma in June 2014 and is Chairman of the Audit Committee.

Alan has an MA in Modern History from Lincoln College, Oxford and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Year joined
2014

Committee membership

- Chairman of the Audit Committee
- Member of the Nomination Committee
- Member of the Remuneration Committee
- Member of the Risk Committee

Martin Lea

Independent

Non-Executive Director

Martin has over 20 years' experience leading businesses within the support services, telecommunications and network, integration and service sectors. Most recently, he served as interim CEO at Multicom Security Group and was President and CEO of Invitel from 2004 to 2011. Prior to Invitel, Martin was Executive Vice President of Intertek Group plc and Managing Director of Racal Telecom. Martin joined Gamma in June 2014 and is Chairman of the Remuneration and Risk Committees. Martin is also an Independent Non-Executive Director of Epsilon Global Communications PTE Ltd, a privately owned provider of global communications and infrastructure services.

Martin has a BA 1st class (Hons) degree in Business Studies, and is a Fellow of the Institute of Directors.

Year joined
2014

Committee membership

- Chairman of the Remuneration Committee
- Chairman of the Risk Committee
- Member of the Nomination Committee
- Member of the Audit Committee

Andrew Stone

Non-Independent

Non-Executive Director

Andrew is Managing Partner of St Albans Capital LLP, a family investment management vehicle. Andrew is also a Founder and Director of Greenstone+, a market leader in non-financial reporting software. Andrew recently joined the Board of Frugalpac, a recycling packaging business.

Andrew also sits on the Boards of Epsilon Global Communications Pte Ltd and Calcot Hotels Limited. From 1993-2006 Andrew held various positions at ED&F Man including Managing Director of ED&F Man Asia.

Year joined
2011

Committee membership

- Member of the Nomination Committee

Wu Long Peng

Non-Independent

Non-Executive Director

Long Peng has more than 30 years' experience in finance and corporate affairs. He is a Non-Executive Director of Malaysian Bulk Carriers Berhad (a company listed on Bursa Malaysia), Pacc Offshore Services Holdings Limited (a company listed on the Singapore Exchange), Mapletree Commercial Trust Management Ltd and Epsilon Global Communications Pte Ltd. Long Peng joined the Board of Gamma in 2011.

Long Peng is a Fellow Member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Institute of Singapore Chartered Accountants.

Year joined
2011

Committee membership

- Member of the Nomination Committee

Composition

The Board comprises seven directors, two of whom are Executive Directors and five of whom are Non-Executive Directors.

Leadership team

Andrew Taylor

Chief Executive Officer

Biography available on page 52
Board of Directors.

Andrew Belshaw

Chief Financial Officer

Biography available on page 52
Board of Directors.

Daryl Pile

Managing Director - UK Indirect

Daryl joined Gamma in 2003 and has a proven track record in overseeing revenue and margin growth in the telecoms industry. With over 17 years' of experience, he has taken a number of business development roles including Head of Channel and Sales Director at companies such as Telia, Uniworld and Gamma. Prior to his current position, Daryl was Head of Sales for the PBX / UC channel overseeing the development of around half our channel partners.

Daryl is a graduate of the University of Surrey with a degree in Economics.

Steve Lowe

Product Director, Mobile

Steve has over 23 years' experience in the mobile telecommunications industry. Having held senior operational and product development roles at BT Cellnet and One 2 One, Steve established and led the Mobile Virtual Network Operator businesses of Kingston Communications and BT. For the past 14 years, he has provided hands-on consultancy services to a variety of mobile network operators and mobile virtual network operators across Europe, including Deutsche Telekom and Vodafone. Steve joined Gamma in July 2018 to lead the development of its mobile business.

Phil Stubbs

Chief Technical Officer

Phil joined Gamma at the beginning of 2018 to lead the Company's technical strategy and manage the end-to-end design and development of the Gamma network and products. He has over 20 years experience in delivering high value solutions within communications companies, both within network operators and solution vendors. Phil spent the early part of his career in software development at Vodafone and has degrees in Electronic Engineering and Mathematics.

Andy Morris

Chief Strategy and
Operating Officer

Andy joined Gamma in 2006 with a proven track record of establishing and running high quality, customer orientated, operations. Previously Cable & Wireless he successfully ran a business unit responsible for 12 of Cable and Wireless's largest corporate customers including Marks and Spencer and Alliance and Leicester. Prior to that he was involved with a number of Telecom's start ups both in the UK and across a number of European countries. He spent the early part of his career with GEC Marconi Aerospace and is an Engineering graduate of Nottingham Trent University.

David Macfarlane**Managing Director - UK Direct**

David joined Gamma in 2012 following Gamma's acquisition of his managed services business Varidion Limited and now heads up Gamma Network Solutions, our enterprise solutions division. Prior to this, David was the CTO at Sirocom and latterly the Group CTO at Azzurri Communications and has over 25 years experience in creating and delivering managed services.

Alan Mackie**Products Director,
Application Services**

Alan has over 20 years' experience in the telecoms and data managed services industry, in senior product management, marketing and project management roles. Immediately prior to his current role, Alan was Head of Voice Services at Gamma, having undertaken product/project management roles at application hosting companies, Aspective and Global Crossing earlier in his career.

Alan is a graduate of Napier University, with a degree in Communications Engineering.

David Doherty**Product Director,
Access and Digital Strategy**

David has been with Gamma since 2016 and leads the networking and access product portfolio. He is also responsible for Gamma's overall digital strategy. David has held a number of senior positions responsible for product development, large change programmes and ICT leadership in managed service providers such as Racal, NTL Business (now Virgin Media Business), Vanco and Easynet. Previous to joining Gamma, David was ICT Director for Ofcom the UK communications regulator. Outside work David enjoys cooking, photography and has recently taken up running.

Malcolm Goddard**Group Commercial Director**

Malcolm joined Gamma in 2005 bringing over 15 years experience in M&A, multi-national procurement, business management and IT outsourcing.

Malcolm's early career was with ICI and Astrazeneca, and he has a degree in Engineering from Cambridge University.

Pam Williams**Human Resources Director**

As a senior Human Resources Leader with international experience, Pam has over 20 years' operational and strategic experience gained in a diverse range of sectors including information products, technology, creative digital media and the public sector. She has a demonstrable track record in building organisational capability through transformational change; growing leadership and workforce capability and contributing to business effectiveness. Pam has worked in start-up, entrepreneurial and established organisations ranging from SMEs through to a Fortune 200 organisation leading HR teams and in stand-alone roles. Pam has an MA in Coaching & Mentoring Practice (Oxford Brookes) and an MBA (OU). She is a Chartered Fellow of the CIPD and a Fellow of the CMI.

John Murphy**Group Operations Director,
Operations Management**

John joined Gamma in 2011 bringing over 15 years of experience delivering successful customer service projects and large financial programmes within telecoms, financial services and utilities industries. Having previously spent eight years as a change management consultant, he then took an operational role for Gamma in 2013 and since that time has worked in various senior operational roles before being appointed to Group Operations Director in 2018.

Corporate governance report

The workings of the Board and its Committees

At 31 December 2018, the Board was comprised of five Non-Executive Directors, one of whom is the Chairman, and two Executive Directors. Of the Non-Executive Directors, three are considered to be independent. The Board is responsible to the shareholders for the proper management of the Group. It meets regularly, as set down in the table below, to review trading performance, set and monitor strategy, examine acquisition and divestment possibilities, approve major capital expenditure projects and other significant financing matters and report to shareholders. The Board delegates authority to the management for the day-to-day business under a set of delegated authorities which cover: routine operational matters, purchasing procedures, financial authority limits, contract approval procedures and the hiring of full time and temporary staff and consultants.

Matters for review by the Board are communicated in advance of formal meetings. All of our Directors are subject to election by shareholders at the first AGM after their appointment to the Board. Thereafter, all Directors are subject to re-election by shareholders at each AGM. In addition, any Non-Executive Director who has served on the Board for more than nine years will be subject to annual re-election.

The Chairman and Non-Executive Directors have other third party commitments including directorships of other companies. The Company is satisfied that these associated commitments have no measurable impact on their ability to discharge their responsibilities effectively.

New Directors receive induction on their appointment to the Board which covers the activities of the Group and its key business and financial risks, the terms of reference of the Board, and its Committees, and the latest financial information about the Group.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. In addition, the Company Secretary will ensure that the Directors receive appropriate training as necessary. The appointment and removal of the Company Secretary is a matter for the Board as a whole. All Directors are supplied with information in a timely manner in a form, and of a quality, appropriate to enable them to discharge their duties.

Below is a table of attendance.

During 2018, certain Directors who were not Committee members attended meetings of the Audit Committee and Remuneration Committee by invitation. These details have not been included in the table. Where a Director is unable to attend meetings of the Board or of Board Committees, such Director is invited to review the relevant papers for the meetings and provide his comments to the Board or the Board Committees in advance of such meetings.

Board performance

The Company has a formal process of annual performance evaluation for the Board, its Committees and individual Directors. The Board and its Committees are satisfied that they are operating effectively.

A performance evaluation of the Board, the Board Committees and individual Directors will continue to be conducted annually and the method for such review will continue to be reviewed by the Board in order to optimise the process.

The review is based on a template covering key areas:

- Board composition;
- Board information;
- Board process, internal control and risk management;
- Board accountability;
- CEO and top management; and
- Standards of Conduct

The areas are scored by all members and reviewed by the Chairman and Company Secretary and compared against the previous evaluation. Lower scores are discussed.

The Company has Directors' and officers' liability insurance in place.

Board meeting attendance

	Board meeting	Audit Committee	Remuneration Committee	Nomination Committee	Risk Committee
Executive Directors					
Andrew Taylor	8/8	n/a	n/a	n/a	2/2
Bob Falconer	4/4	n/a	n/a	n/a	1/1
Andrew Belshaw	10/10	n/a	n/a	n/a	n/a
Non-Executive Directors					
Richard Last (Independent)	10/10	4/4	5/6	3/3	2/3
Alan Gibbins (Independent)	10/10	4/4	6/6	3/3	3/3
Martin Lea (Independent)	10/10	4/4	6/6	3/3	3/3
Wu Long Peng	10/10	n/a	n/a	3/3	n/a
Andrew Stone	10/10	n/a	n/a	3/3	n/a

Time commitment

The Executive Directors are expected to devote substantially the whole of their time, attention and ability to their duties, whereas, as one would expect, the Non-Executives have a lesser time commitment. The Non-Executive Directors are required to spend sufficient time in the business to discharge their responsibilities. Typically this is 50-60 days per year for the Chairman, 25-30 days per year for Independent Non-Executives with chair of committee responsibilities and 16-20 days for Non-Independent Non-Executives. The Chairman and Non-Executive Directors have other third party commitments including directorships of other companies. The Company is satisfied that these associated commitments have no measurable impact on their ability to discharge their responsibilities effectively. The Executive Directors are permitted to have third party commitments with the permission of the Chairman. At present the CEO has one non-executive role and the CFO has no external commitments.

Committees

The following Committees deal with specified aspects of the Group's affairs.

Audit Committee

The make-up and workings of the Audit Committee are set out in the Audit Committee report on page 58.

Remuneration Committee

The make-up and workings of the Remuneration Committee, together with details of the Directors' remuneration, interest in options, together with information on service contracts, are set out in the Report on Directors' Remuneration. No Director is involved in the decision about their own remuneration.

Nomination Committee

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition and make-up of the Board and any Committees of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors or Committee members as the need may arise. The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience and the size, structure and composition of the Board and Committees of the Board, retirements and appointments of additional and replacement Directors and Committee members and will make appropriate recommendations to the Board on such matters.

The Nomination Committee is chaired by Richard Last and its other members are Martin Lea, Alan Gibbins, Wu Long Peng and Andrew Stone.

The Company's policy is to attract and develop a highly qualified and diverse workforce, to ensure that all selection decisions are based on merit and that all recruitment activities are fair and non-discriminatory. We continue to focus on encouraging diversity of business skills and experience, recognising that Directors and managers with diverse skills sets, capabilities and experience gained from different backgrounds enhance the Group.

Risk Committee

The Risk Committee was formed in December 2017 to assist the Board in its duty to carry out a robust assessment of the principal non-financial risks facing the Company (financial risk is considered by the Audit Committee). Its main function is to review the risk register prepared and maintained by management and to re-confirm that the principal risks have been identified and (where appropriate) mitigated. The Committee has identified six principal risk areas – Operational, Suppliers, Market Landscape, Legal and Regulatory, Key Personnel and Reputational.

The purpose of the Committee is to manage rather than eliminate risk and therefore it cannot provide absolute assurance against any one risk. The role of the Committee will be to review reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied. It will also indicate a need for more extensive monitoring.

The Risk Committee is chaired by Martin Lea and its other members are Richard Last, Andrew Taylor, Alan Gibbins and Andy Morris (Chief Strategy and Operating Officer).

Relations with shareholders

Communication with shareholders is given high priority by the Board and is undertaken through press releases, general presentations at the time of the release of the annual and interim results and face-to-face meetings. The Group issues its results promptly to individual shareholders and also publishes the same on the Company's website. Regular updates to record news in relation to the Company are also included on the website.

In order to ensure that the members of the Board develop an understanding of the views and concerns of major shareholders there is regular dialogue with institutional shareholders, including meetings after the announcement of the Company's annual and interim results. The Board uses the AGM to communicate with private and institutional investors and welcomes their participation. The Chairman also visits major shareholders.

Signed on behalf of the Board by:

Richard Last

Chairman and Independent
Non-Executive Director
11 March 2019

Audit Committee report

Audit Committee role

The Audit Committee's role is to provide effective governance over Gamma's financial reporting, including the adequacy of disclosures made in the financial statements; to review the performance of the external auditors; to provide oversight of the Group's systems of internal financial control; and to report to the Board on these matters.

Membership

The members of the Audit Committee and meetings attended are:

Name	Meetings attended
Alan Gibbins, Chairman	• • • •
Richard Last	• • • •
Martin Lea	• • • •

The Committee consists of the three Independent Non-Executive Directors, including the Chairman of the Board, who between them have a balance of recent and relevant financial experience and accounting training, and general business knowledge. There were no changes to the membership of the Committee during the year.

The Committee meets at least three times a year generally just prior to Board meetings to facilitate immediate and efficient reporting to the Board, with additional meetings where necessary. The external auditors are invited to each meeting. The CEO and Chief Financial Officer (together with members of the finance team as appropriate), and the other Non-Executive Directors also attend by invitation.

The pattern of meetings follows the public reporting and audit cycle, with meetings to consider the external audit

plan; the half year announcement together with the external auditors' review of those results; and the full year Report and Accounts, again with the external auditors' observations and opinions.

The Committee also meets separately at least once a year with the external auditors without others being present. The Chairman of the Committee maintains a regular dialogue with the Chief Financial Officer and his team and with the external auditors.

Role and responsibilities

The Committee's role is summarised at the beginning of this report. The Committee works within a framework of approved terms of reference which are reviewed annually.

In fulfilment of its role and responsibilities, the Committee:

- reviews Gamma's financial statements and finance-related announcements, including compliance with statutory and listing requirements;
- considers whether these statements and announcements provide a balanced and understandable view of Gamma's strategy and performance, and of the associated risks. Further consideration of these matters is also provided by the Risk Committee and by the Board as a whole;
- considers the appropriateness of accounting policies and significant accounting judgements and the disclosure of these in the financial statements;
- reviews the effectiveness of financial controls and systems. Gamma does not have an internal audit function and the Committee continues to be of the view that Gamma is not yet of a size and complexity to warrant the establishment of such a function. The Committee's consideration of internal audit matters and engagement of third parties to review particular areas is described below; and
- oversees the relationship with and performance of the external auditors.

The Board have authorised the committee to seek any information it requires from any employee of the company in order to perform its duties, obtain independent legal, accounting or other professional advice on any matter it believes necessary to do so and also

have the right to publish in the company's annual report detail of any issues that cannot be resolved between the committee and the Board.

Activities of the Committee during the year

In fulfilment of the responsibilities set out previously, the Committee's activities have focused on financial reporting and the related statutory audit; and on the assessment of internal financial controls.

Financial reporting and statutory audit
The Committee has reviewed with both management and the external auditors the half year and annual financial statements, focusing on:

- the overall truth and fairness of the results and financial position, including the clarity of disclosures shown in the statements and their compliance with statutory, listing and good practice requirements. This includes accounting disclosures and whether at least equal prominence is given to GAAP results where non-GAAP amounts are disclosed. The Audit Committee is satisfied that Gamma is transparent on these matters and follows good practice;
- the appropriateness of the accounting policies and practices used in arriving at those results. The Group's preparation for the implementation of IFRS 15 (Revenue from Contracts with Customers), IFRS 16 (Leases) and IFRS 9 (Financial Instruments) were reviewed by the Committee last year and we can report that there have been no issues with implementation in the current year;
- the resolution of significant accounting judgements or of matters raised by the external auditors during the course of their half year review and annual statutory audit. Key issues are described in more detail below; and
- the quality of the Annual Report taken as a whole, including disclosures on Governance, Strategy, Risks and Remuneration, and whether it gives a fair, balanced and understandable picture of the Group.

This year the Company has adopted the QCA Governance Code issued by the Quoted Companies Alliance in April 2018. This is a practical, outcome-oriented approach to corporate governance which is considered to be a valuable reference for growing

companies. Its implementation has not required any major adjustments to the Company's governance, including disclosures in these accounts, and the Committee has satisfied itself that Gamma complies with the QCA Code.

External audit-accounting matters
The Committee discussed, challenged and agreed with Deloitte LLP their detailed audit plans prepared in advance of the audit, which set out their assessment of key audit risks and materiality. Key risks were assessed to be:

- the accuracy of traffic and pricing data;
- the risk inherent to all companies of management override of internal controls; and
- purchase price accounting related to the DX Groep acquisition.

Further details of Deloitte's audit and their conclusions thereon are contained in the audit opinion on pages 74 to 77.

Consideration of the audit appointment is given at the end of this Audit Committee report.

Accounting policies, practices and judgements

The selection of appropriate accounting policies and practices is the responsibility of management, and the Committee discussed these with both management and the external auditors.

Revenue recognition

As last year, there were particular discussions on the complexity of auditing the area of revenues (to ensure the accuracy of billings to clients). This continues to be an important area of audit focus where the external auditors use specialist audit techniques. We are pleased to note that further progress has been made this year and are satisfied that the audit of this key area is as incisive as possible. The Audit Committee continues to be satisfied as to the robustness of the reporting of revenues and associated costs.

Purchase price accounting for DX Groep
Following this first acquisition by Gamma since listing on AIM, the Audit Committee had a particular focus on the purchase price accounting and associated judgements and estimates applied by management in identifying the value of intangible assets and goodwill. These were discussed with

management and the Committee has received reports provided by third parties as part of this process.

More broadly, DX Groep in the Netherlands has been a part of the Gamma Group since October 2018. At present its results are not material to the Group and the incumbent local auditors have been left in place for the 2018 audit. A desktop review of the results and balance sheet has been carried out by Deloitte who have also audited the purchase price adjustments relating to goodwill and other intangible assets.

Brexit

The Committee considers that the disclosures made in relation to Brexit in this Annual Report and Accounts adequately describe the potential impact to the Group.

Other areas of judgement

The Group's preparation for the implementation of IFRS 9 (Financial Instruments), IFRS 15 (Revenue from Contracts with Customers) and IFRS 16 (Leases) was reviewed by the Committee last year and we are pleased to report that there have been no issues with implementation in the current year.

Since flotation, we have reported on the Committee's review of a number of other areas including the capitalisation of internal development costs; the carrying value of fixed assets; the calculation of the charge for share based payments; the adequacy of provisions for leasehold dilapidations; and provisions for taxation. The Committee is satisfied that all of these areas of Gamma's processes and procedures are well developed and appropriate for each of the areas concerned, and that each is properly accounted. Although these are no longer considered material areas of accounting judgement, they are important matters which are kept under review by the Audit Committee.

Assessment of internal financial control
Management is responsible for putting in place internal financial controls over financial reporting to protect the business from identified material risks.

Deloitte place reliance on controls in their audit of the revenue balance. Controls are not relied on other areas of audit.

The Audit Committee is of the view that the size of the Group is now such that having some degree of internal audit work carried out is a priority. The Chairman of the Audit Committee and the CFO maintain a dialogue with external providers of internal audit services as to what areas might usefully be reviewed.

Over the last two years Gamma has commissioned internal audit work from KPMG on Gamma's billing system and from PwC on controls over physical stock.

In 2018 Gamma engaged KPMG to carry out a high level review of controls in four areas: purchase to pay; order to cash; HR/payroll; and financial controls/tax/treasury. A number of helpful observations have been made and are being addressed to further strengthen the internal control environment.

External audit

Effectiveness

The Committee is pleased to report that Gamma and Deloitte are working and communicating well and that the external audit has run smoothly and constructively.

Fees

No fees were paid to the external auditors for non-audit work.

Appointment

Deloitte LLP were appointed as Gamma's external auditors for the year ended 31 December 2015. There are no current retendering plans.

However, the Deloitte partner responsible for the Gamma audit, Andrew Bond, will rotate off the audit having served for five years. After the 2019 year-end audit, the Audit Committee will take that opportunity once again to review the audit appointment.

For the financial year ending 31 December 2019, the Committee has recommended to the Board that Deloitte LLP be reappointed and the Board will be proposing their reappointment.

Alan Gibbins

Audit Committee Chairman
11 March 2019

Remuneration Committee report

This report is for the period to 31 December 2018. It sets out the remuneration policy and the remuneration details for the Executive and Non-Executive Directors of the Company.

Remuneration Committee role

The Committee is primarily responsible for determining and agreeing with the Board the broad policy for the remuneration and employment terms of the Executive Directors, Chairman and other senior executives and, in consultation with the CEO, for determining the remuneration packages of senior executive managers.

The report is split into three main areas:

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The statement by the Chairman of the Remuneration Committee	60
The Directors' remuneration policy	62
The Annual Report on Remuneration	67

Membership

The members of the Remuneration Committee and meetings attended are:

Name	Meetings attended
Martin Lea, Chairman	• • • • •
Richard Last	• • • • •
Alan Gibbins	• • • • •

The information provided in this part of the Annual Report on Remuneration is unaudited.

Dear shareholder

I am pleased to introduce the Directors' Remuneration Report for the 2018 financial year. This year has been one of significant change and continued positive progress at Gamma. The Chairman's statement (on pages 2 to 3) provides a summary of the progress the Group has made over the year. The Remuneration Committee is committed to structuring senior executive remuneration that is competitive, incentivises and rewards good performance, and that will help the Company continue to grow profitably, thereby creating value for shareholders. The Remuneration Committee is appointed by the Board, and comprises the three Independent Non-Executive Directors.

The Committee is primarily responsible for determining and agreeing with the Board the broad policy for the remuneration and employment terms of the Executive Directors, Chairman and other senior executives and, in consultation with the CEO, for determining the remuneration packages of senior executive managers. The Committee is also responsible for the review of, and making recommendations to the Board in connection with, share incentive plans and performance related pay schemes and their associated targets, and for the oversight of employee benefit structures across the Group. The Committee's full terms of reference are reviewed regularly and approved by the Board. No Director or manager is involved in any decisions as to their own remuneration.

New CEO and changes to the remuneration package for the Executive Directors and Chairman

In May, Bob Falconer, our long serving CEO, retired and stood down from the Board. In line with the bonus scheme rules, and having considered the performance of the Company at that time, the Remuneration Committee exercised its discretion and approved the payment of a time pro-rated bonus in respect of his period of service in 2018 up to his retirement date. Similarly, in line with the LTIP (Long Term Incentive performance share Plan) scheme rules and having taken into account the achievement against the performance objectives, the Committee approved the time pro-rated vesting of his 2016, and 2017, LTIP awards.

Following an extensive search by the Nomination Committee to ensure we recruited a person with the right skills, experience, and track record to continue the Company's success, Andrew Taylor was appointed as CEO at the AGM on 23 May. The appointment of a new externally recruited CEO necessitated a change to the CEO remuneration package. As part of the search process the Remuneration Committee used appropriate benchmark data to ensure that we could attract and retain the best candidate. In considering the CEO remuneration the Committee also recognised that the incoming CEO would not have the substantial shareholding of Bob, and also that the Company has grown very significantly in size since the time of the IPO. Andrew was appointed CEO in May 2018, with a salary of £394,125, and a maximum potential annual bonus of 125% of salary, with up to 25% of the bonus being deferred into a share option award governed by a Deferred Bonus Plan. Andrew also received an initial LTIP award of 190% of salary in order to provide a performance linked equity incentive and align his interests with that of the shareholders.

In line with the general Company-wide salary increase, and considering the performance of the business, it was decided to increase the base pay of the CEO by 2% with effect from 1 January 2019.

Based on the significant increase in the size and value of the business over the past few years, towards the end of 2018, the Committee also undertook a benchmarking exercise related to the CFO's remuneration and also the Chairman's fees. The Committee was assisted in this exercise by remuneration advisors h2glenfern, as well as making reference to published AIM Director remuneration data. As a result of this exercise, with effect from 1 January 2019 the CFO's salary was increased from £191,017 to £250,000. The CFO's maximum annual bonus remained at 100% of salary with up to 25% of the bonus being deferred into a share option award governed by a Deferred Bonus Plan.

The Chairman's fees were increased from £78,030 to £100,000 with effect from 1 January 2019.

The Committee believes that these changes were necessary in order for the Company to remain competitive in terms of Director remuneration, and appropriate relative to the market, given the Company's size and value and position around the upper quartile of the AIM 100.

Changes to Directors' remuneration policy

Short-term performance for Executive Directors and other senior executives continues to be incentivised using a discretionary annual bonus scheme. Whereas this has historically been based on the achievement of Company profitability goals, the policy has been amended to enable the Committee to set personal performance objectives in relation to up to 20% of the maximum bonus potential. Furthermore, under the revised policy, the maximum bonus payable to the CEO has been increased to 125% of salary. In addition, the Committee may determine that payment of a proportion of any bonus that it awards to an Executive Director may be deferred into an award governed by the terms of the Deferred Bonus Plan.

Long term performance continues to be incentivised by way of a long term incentive plan (LTIP) based on the achievement of Total Shareholder Return (TSR) and Earnings Per Share (EPS) growth goals over a three-year measurement period. Given the Company's growth profile, its stage of development and the challenges of identifying a relevant peer group, the Committee believes that absolute performance goals remain more relevant than comparative performance measures. There have been no changes made to the LTIP scheme structure, however the expected maximum value of annual awards for the Executive Directors has been increased from 100% to 125% of base salary.

Employee share schemes

In order to continue to strengthen the alignment of employee and shareholder interests the Group operates a general Save As You Earn scheme ('SAYE'), a Share Incentive Plan (SIP) and a Company Share Option Plan (CSOP).

The CSOP is designed to enable the Group to selectively incentivise key high performing employees. In 2018 awards of 185,424 options were made to high performing employees under the CSOP.

Under the SAYE scheme, employees who choose to participate are granted options, at a 20% discount to market price, and then save a pre-determined sum over a period of three years. The money saved can then be used by the employee to exercise their options. In 2018 28% (2017: 30%) of all employees chose to participate, with options being granted over 241,298 (2017: 274,664) shares. The take-up was lower than previously as there is a statutory maximum limit for savings which a number of employees had reached in the previous year.

There were no shares issued under the SIP in 2018 (2017: nil).

Employee remuneration

Employees in the Group generally participate in a bonus scheme that enables them to earn up to – and in exceptional circumstances over – 10% of basic salary based on a combination of personal and Company performance. Based on the Company's performance in 2018, and the contribution and hard work of all the employees, the Board was pleased to approve a 2% general salary increase at the 2018 year end.

As an AIM-listed company, this report is included as required following the Company's adoption of the QCA Corporate Governance Code and as a matter of best practice. It is our intention to continue to increase the scope and content of the report. Gamma's Remuneration Committee report was approved on an advisory basis at the 2018 AGM with 99.53% of votes cast in favour. This Remuneration Committee report will again be put to an advisory vote at the forthcoming 2019 AGM.

Martin Lea

Remuneration Committee Chairman
11 March 2019

Directors' remuneration policy

This part of the Directors' Remuneration Report sets out the remuneration policy of the Company with regard to its Directors.

Consideration of shareholders' views on remuneration

The Company welcomes dialogue with its shareholders over matters of remuneration, and will seek the views of its significant shareholders if and when any major policy changes are being planned. The Chairman of the Remuneration Committee is available for contact with institutional investors concerning the Company's approach to remuneration.

Policy on Executive Director remuneration

The Company's remuneration policy is designed to ensure that the Company is able to attract, retain and motivate executives and senior management of the right quality

to enable the Company to fulfil its objectives and longer term potential. The retention of key management and the alignment of management incentives with the creation of shareholder value are a key objective of this policy.

Setting base salary for Executive Directors at an appropriate level is key to management retention. Therefore, the Remuneration Committee seeks to ensure that salaries are market competitive for comparable companies. The aim is to set total compensation within a range around the median level for the Company's peer group.

The Remuneration Committee is directly responsible for setting the remuneration of Executive Directors and for giving guidance on and approving recommendations for the remuneration of other members of the senior management team.

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Base salary To be set at a level which is sufficiently competitive to recruit and retain individuals of the appropriate calibre to deliver the Company's strategy, and which takes into account the Director's experience and personal contribution to the Company's strategy.	Salaries are typically reviewed annually, with any changes effective from 1 January. The review takes into account: • Company performance; • the role, experience and performance of the individual Director; and • average workforce salary adjustments within the Company. In addition to the above, salaries are independently benchmarked from time to time against comparable roles at companies of a similar size and complexity in the Telecoms and IT services sectors.	The CEO's base salary was set at the time of his appointment in May 2018 and was reviewed on 1 January 2019 and was increased by 2% to £402,008. The CFO's base salary, following a benchmarking exercise, was increased from £191,017 to £250,000 with effect from 1 January 2019.	Not applicable.
Benefits To complement basic salary by providing market competitive benefits to attract and retain executives.	Reviewed from time to time to ensure that benefits when taken together with other elements of remuneration remain market competitive. Benefits for the Executive Directors currently comprise participation in the Company's life assurance and income protection schemes.	The costs of providing these benefits vary year on year depending on the schemes' premiums. The Remuneration Committee monitors the overall cost of the benefits package.	Not applicable.
Pension To provide retirement benefits which, when taken together with other elements of the remuneration package, will enable the Company to attract and retain executives.	The Executive Directors (together with all other eligible staff) are able to participate in the Company's defined contribution (money purchase) pension scheme. The Company contributes a maximum of 5.1% of salary.	A contribution of up to 5.1% per annum of salary is paid into the scheme, by the Company, on behalf of the CFO. The CEO does not participate in the scheme.	Not applicable.

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Annual bonus To incentivise the achievement of the Company's annual financial targets, or other near term strategic objectives.	The Executive Directors and other senior executives participate in a discretionary, annual, performance related bonus scheme. Targets are set at the beginning of each year and are generally based on Company financial performance, however the Remuneration Committee can set personal objectives in relation to up to 20% of the maximum bonus potential. The Remuneration Committee at its discretion may determine that a proportion of any bonus that it awards may be deferred into an allocation of shares or grant of options each with a three year vesting period and governed by the terms of the Deferred Bonus Plan. Other than to the extent deferred, under the terms of the Deferred Bonus Plan, bonuses are paid in cash based on audited financial results. The bonus scheme rules include a claw-back provision.	For the CEO the maximum annual bonus potential is 125% of base salary. For the CFO the maximum annual bonus potential is 100% of base salary.	For the year ending December 2018, the targets were based on growth in Adjusted Profit Before Tax (PBT). To achieve maximum bonus the performance target was set at 16.6% annual growth in Adjusted Profit Before Tax (PBT). At or below 3.0% growth in PBT no bonus would be payable, with a linear relationship between 3.0% and 16.6% growth. For the year ending December 2018, 25% of the CEO's bonus was deferred into an award governed by the terms of the Deferred Bonus Plan. For 2019 the performance targets are based on growth in Adjusted Profit Before Tax (PBT), in relation to 80% of the maximum potential bonus and on personal objectives in relation to 20%.
Long term incentive plan ('LTIP') To motivate executives and incentivise the achievement of longer term financial performance. To align the interests of executives and shareholders.	The Executive Directors and other senior executives participate in a discretionary LTIP. The plan entitles participants to an allocation of, or options over, free (or nominal value) shares after a performance period of three years, subject to certain performance and service conditions being met. Participation is at the discretion of the Remuneration Committee. Awards will typically be made annually based on a multiple of annual salary. Performance conditions are set by the Remuneration Committee at the time of the award. The plan rules amongst other things include claw-back provisions and a limitation to ensure that new shares issued, when aggregated with all other employee share awards, must not exceed 10% of issued share capital over any ten-year period.	The Remuneration Committee would in normal circumstances expect to make annual LTIP awards to the Executive Directors at a value of up to 125% of base salary. The scheme rules however do allow the Remuneration Committee discretion to make higher value awards. Following the announcement of the Group's results for 2017, an award was granted to the CFO under this scheme at a value of 125% of base salary. Upon his appointment as CEO Andrew Taylor was granted an initial joining award under this scheme at a value of 190% of base salary. These awards will vest in April 2021, subject to service and performance conditions. It is anticipated that further awards will be made in April 2019 following announcement of the Group's annual results.	Vesting of the 2018 LTIP awards is conditional upon the following performance conditions: 15% of the shares if annual compound total shareholder return (TSR) over the performance period equals 8%, and 50% of the shares if annual compound TSR over the performance period equals 15% or higher, with straight line vesting in between. 15% of the shares if annual compound growth of adjusted EPS (adjusted for exceptional costs and share based payment costs) over the performance period equals 8%, and 50% of the shares if annual compound growth of adjusted EPS over the performance period equals 20% or higher, with straight line vesting in between. In both cases (TSR and EPS) the Committee determined that at this stage of Gamma's development and its market position, absolute performance measures are more appropriate than relative measures.

Illustrations of application of the policy

The graph below seeks to demonstrate how pay varies with performance for the Executive Directors based on the Directors' remuneration policy described previously. This is based on pay for the year ending 31 December 2019.

Element	Description
Fixed	Fixed remuneration is made up of total salary, pension and benefits.
Annual variable bonus	The annual variable bonus is an incentive scheme where remuneration in the form of money and deferred shares is received or receivable as a result of the performance conditions that relate to that period.
LTIP	The long term incentive plan is an incentive scheme where remuneration in the form of shares is received or receivable as a result of the performance conditions that relate to that period.

Assumptions used in determining the level of pay out under given scenarios are as follows:

Element	Description
Minimum	Under the minimum remuneration it is assumed that only fixed pay i.e. salary, pension and benefits are received. It is assumed that performance conditions for the annual variable bonus and the LTIP are not achieved.
Maximum	Under the maximum salary remuneration, it is assumed that the Directors receive not only their fixed remuneration but achieve their performance targets for the annual bonus and LTIP.

The Company does not present an 'on target' figure because the incentive scheme is structured with stretching targets which if achieved result in the executives receiving their maximum remuneration as depicted in the graphs below.

The expected future LTIP remuneration is calculated as the value at the time of the award, i.e. 125% of salary.

The graph above shows an LTIP award of 125% of base salary for Andrew Taylor. In 2018 he received an LTIP award of 190% as a one-off joining award. Future awards are anticipated to be at 125%.

Alignment of Executive remuneration and the market

At the time of appointing our new CEO in 2018, the Remuneration Committee undertook a detailed benchmarking exercise among peer group organisations in order to determine a competitive and appropriate remuneration package. Towards the end of 2018 the Committee undertook a further benchmarking exercise to consider the remuneration of the CFO. The previous benchmarking exercise with respect to Executive Directors was undertaken in September 2016. In undertaking such benchmarking exercises the Company takes into account Gamma's size, market position, profile and outlook, and reviews the remuneration data for a number of comparable UK quoted companies.

In addition to such formal benchmarking exercises, the Committee takes advantage of various annual AIM Directors' Remuneration reports as well as available data about similar and competing companies. The Company aims to position Gamma Directors' salary and annual bonus at the median level, based on appropriate comparator organisations, but to also ensure there is significant incentive and reward for better than average longer term results through the performance based long term incentive plan.

Consideration of employment conditions elsewhere in the Group

The Committee considers the pay and conditions of employees throughout the Company when determining the remuneration arrangements for Executive Directors although no direct comparison metrics are applied. In particular, the Committee considers the relationship between general changes to UK employees' remuneration and Executive Director reward. Whilst the Committee does not directly consult with our employees as part of the process of determining executive pay, the Board does receive feedback from employee surveys that takes into account remuneration in general. The Committee also receives updates from the HR Director.

Policy on recruitment

When hiring a new Executive Director, the Committee will consider the overall remuneration package by reference to the remuneration policy set out in this report. The Committee would not usually expect to pay sign-on payments or compensate new Directors for any variable remuneration forfeited from any employment prior to joining the Board other than in exceptional circumstances, and in such circumstances would aim to compensate the new Executive through the Company's long term incentive plan. Long term incentive plan (LTIP) awards will be made on an ongoing basis in line with our policy for other Directors. In the year of recruitment, a higher award may be made within the limits of the plan (maximum of 200% of salary other than in exceptional circumstances). Salary and annual bonus levels will be set so as to be competitive at the median level with comparable roles in companies in similar sectors, and also taking into account the experience, seniority and the scope of responsibility of the appointee coming into the role. New Executive Directors will be able to participate in the annual bonus scheme on a pro-rated basis for the portion of the financial year for which they are in post. New Executive Directors will receive benefits and pension contributions in line with the Company's existing policy. How this policy was applied in the case of appointing Andrew Taylor as CEO is explained in the Remuneration Committee Chairman's statement and the policy table (above).

Policy on loss of office

The following sets out the Company's policy with regard to exit payments in relation to each remuneration element for Executive Directors. These apply other than in circumstances where the Executive is dismissed for breach of contract, including serious dishonesty, gross misconduct or incompetence, or wilful neglect of duty, in which cases no amount will be payable.

Basic salary: This will be paid over the contractual notice period (CEO: 12 months, CFO: six months) however the Company has the discretion to make a lump sum payment for termination in lieu of notice.

Benefits and pension contributions: These will normally continue to be provided over the notice period, however the Company has the discretion to make a lump sum payment on termination equal to the value of the benefits payable during the notice period.

Annual bonus: The payment of any annual bonus would be entirely at the discretion of the Remuneration Committee and if made would be pro-rated to the time of active service in the year that employment ceased. The decision of the Committee, in such circumstances, would take into consideration the financial performance of the Company, the performance of the individual, and the circumstances of the termination of employment.

Long term incentive plan (LTIP): This is governed by the rules of the LTIP scheme. If the Executive Director's employment ceases for reasons of death, ill health, injury, disability or redundancy during the performance period of the LTIP award, then normally in these circumstances, the participant's award will vest on a time pro rata basis subject to the Remuneration Committee assessment of the satisfaction of the performance conditions applying to the award for the period prior to cessation of employment. The Committee retains discretion to decide to waive in full or in part the performance conditions if it feels that is appropriate in particular circumstances. In all other circumstances if an Executive Director's employment ceases then the award will lapse on the date of cessation, unless the Remuneration Committee determines in its discretion prior to the date of cessation that the award should vest on a pro rata basis.

Bob Falconer retired from his position as CEO on 23 May 2018. How this policy was applied to his retirement is explained in the Remuneration Committee Chairman's statement previously. Bob received no compensation for loss of office or payment in lieu of notice, but did receive a 2018 bonus payment on a time pro-rated basis with respect to his service up to the date of retirement. He also benefited from the time pro-rated vesting of his 2016 and 2017 LTIP awards, after taking into consideration the performance of the Company.

Policy on Non-Executive Director remuneration

The Chairman and the other Non-Executive Directors' remuneration comprise only fees. The Chairman's fee is approved by the Board on the recommendation of the Remuneration Committee. The other Non-Executives' fees are approved by the Board on the recommendation of the Chairman and CEO. The Non-Executive Directors are not involved in any decisions about their own remuneration.

Additional fees over and above the base fee are payable to the chairmen of the Audit, Remuneration and Risk Committees. They are reviewed annually with changes effective from 1 January each year. The Chairman and the other Independent Non-Executive Directors are entitled to be reimbursed for reasonable expenses.

Details of the fees paid for 2018 are set out in the Annual Report on Remuneration.

Towards the end of 2018 the Remuneration Committee undertook a benchmarking exercise assisted by remuneration advisers h2glenfern in considering the remuneration of the Chairman, and also in understanding the current market with respect to non-executive director remuneration. This considered a relevant sample of AIM 100 companies and the Committee also made reference to other published AIM 50 listed companies' non-executive director remuneration data. Following this review, the Committee recommended to the Board, and the Board approved the increase of the Chairman's fees from £78,030 to £100,000 with effect from 1 January 2019.

The other Non-Executive Directors' base fees were increased by 2% with effect from 1 January 2019.

The current fees are as follows:

Director	Directors' fee	Committee Chair fee	2019
Richard Last	£100,000	–	£100,000
Alan Gibbins	£37,142	£6,000	£43,142
Martin Lea	£37,142	£12,000	£49,142
Wu Long Peng	£37,142	–	£37,142
Andrew Stone	£37,142	–	£37,142

Directors' Service Agreements

Executive Directors' Service Agreements

The key elements of the Executive Directors' Service Agreements are summarised in the table below:

Key element	CEO Andrew Taylor	CFO Andrew Belshaw
Effective date of Service Agreement	CEO Designate – 4 April 2018 CEO – 23 May 2018	10 October 2014
Notice period	12 months' notice given by either party	6 months' notice given by either party
Basic salary	£402,008 per annum	£250,000 per annum
Annual bonus	Discretionary performance related	Discretionary performance related
Pension	Nil	Company contributes up to 5.1% of basic salary into defined contribution money purchase scheme
Benefits	Participation in Company life assurance and income protection schemes	Participation in Company life assurance and income protection schemes
Share schemes	Eligible to participate in Company share schemes	Eligible to participate in Company share schemes
Termination payments	The Company has the discretion to make a payment of basic salary in lieu of notice to terminate the employment forthwith in the event of notice being given	The Company has the discretion to make a payment of basic salary in lieu of notice to terminate the employment forthwith in the event of notice being given

Non-Executive Director Letters of Appointment

The Non-Executive Directors have Letters of Appointment stating that their appointment is for an initial term of three years from the date of the appointment letter. The Letters of Appointment provide for termination of the appointment with three months' notice by either party. Reappointment of Non-Executive Directors is voted for at each AGM, with the most recent reappointment date being 23 May 2018.

The current Non-Executive Directors' initial appointments commenced on the following dates:

Director	Date of appointment
Richard Last	17 June 2014
Alan Gibbins	17 June 2014
Martin Lea	17 June 2014
Wu Long Peng	6 June 2014
Andrew Stone	6 June 2014

Annual Report on Remuneration

Introduction

This Annual Report on Remuneration sets out information about the remuneration of the Directors of the Company, for the period ended 31 December 2018.

Remuneration Committee

Membership

The Remuneration Committee consisted of the following Directors during the year to 31 December 2018:

- Martin Lea (Chairman), Independent Non-Executive Director.
- Alan Gibbins, Independent Non-Executive Director.
- Richard Last, Independent Non-Executive Director and Chairman of the Board.

Role of the Remuneration Committee

The role of the Remuneration Committee is to determine and recommend to the Board the remuneration policy for the Executive Directors. This includes base salary, annual and long term incentive awards and pension arrangements. In determining the remuneration policy, the Remuneration Committee takes into account many factors including the need for a significant proportion of the Executive Directors' remuneration to be structured so as to link rewards to business performance.

Activities of the Remuneration Committee in 2018

The Committee met six times in 2018 in order to conduct the following main items of business: agree the annual Remuneration Committee report; set senior executive bonus targets for 2018; receive results of Company-wide benefits and gender pay gap reviews; review and approve proposals for the 2019 all employee SAYE share scheme; approve senior executive bonus payments relating to 2017; approve the 2018 LTIP and CSOP awards and set LTIP targets; review the projected dilution impact and cost of various share schemes; consider retiring CEO remuneration arrangements; conduct the annual review of Remuneration Committee terms of reference; consider the Company annual salary review and any changes to overall Company remuneration structure and review the Chairman's, Executive Directors' and other senior executive salaries and bonus structures.

Advisers

The Company typically engages external advisers to undertake a benchmarking exercise relating to Directors' remuneration from time to time. In 2018 benchmarking services have been provided by H2glenfern in respect of benchmarking remuneration for the CFO, Chairman and Non-Executive Directors. The cost of this work was £7,500 net of VAT.

Remuneration of the Executive Directors

Bonuses are shown on an accrued basis.

The share option remuneration has been calculated at the share price on the vesting date.

Director	Salary and fees	Benefits	Annual bonus	Share options	Pension	Total for 2018
Andrew Taylor	£291,551	-	£364,439	-	-	£655,990
Bob Falconer	£133,998	-	£122,234	£1,210,456	-	£1,466,688
Andrew Belshaw	£191,017	-	£191,017	£340,726	£9,742	£732,502

Following his retirement Bob Falconer will continue to act as a consultant for the Company on a periodic basis. From the date of resignation to 31 December 2018 he was paid no consultancy income from the Company.

The bonus payment was the maximum based on exceeding a target of 16.6% annual growth in adjusted PBT. 25% of Andrew Taylor's bonus was deferred into an award governed by the terms of the Company's Deferred Bonus Plan. No amount of the other Director's bonus was deferred.

The share options vesting during the year relate to the 2015 LTIP which achieved a vesting percentage of 93.875%, based on achieving 40.10% annual compound growth for TSR and 17.9% annual compound growth for EPS against targets of 15% and 20% respectively, over the three year vesting period.

The Directors have no rights under any Company pension schemes that are designated as defined benefit schemes.

In addition to the above, the Company provides life assurance and group income protection for the Executive Directors.

Director	Salary and fees	Benefits	Annual bonus	Share options	Pension	Total for 2017
Bob Falconer	£305,885	-	£305,878	£1,631,665	-	£2,243,428
Andrew Belshaw	£187,277	-	£187,277	£1,138,038	£9,620	£1,522,212
Richard Bligh	£135,416	-	-	£1,337,720	£6,069	£1,479,205

Richard Bligh received £6,069 salary in 2017 in lieu of a contribution by the Company to his pension of £6,906. Richard Bligh ceased to be a Director on 30 June 2017 but was employed between 1 July and 30 September 2017 during which time he earned £43,750; he also occasionally acts as a consultant to the Company and earned £6,000 in fees from 1 October to 31 December 2017.

Corporate governance continued

Remuneration of the Non-Executive Directors

Director	Directors' fee	Committee Chair fee	Total for 2018
Richard Last	£78,030	–	£78,030
Alan Gibbins	£36,414	£6,000	£42,414
Martin Lea	£36,414	£12,000	£48,414
Wu Long Peng	£36,414	–	£36,414
Andrew Stone	£36,414	–	£36,414

Director	Directors' fee	Committee Chair fee	Total for 2017
Richard Last	£76,500	–	£76,500
Alan Gibbins	£35,700	£6,000	£41,700
Martin Lea	£35,700	£6,000	£41,700
Wu Long Peng	£35,700	–	£35,700
Andrew Stone	£35,700	–	£35,700

Share scheme interests awarded during the year ended 31 December 2018

Long term incentive plan (LTIP)

The following awards were made under the 2018 LTIP. The performance conditions are set out below the table.

2018 Director	Type of scheme interest	Basis of award	Number of awards	Vesting date	Exercise price	Exercise date
Andrew Taylor	Nil-cost option	£750,000	108,381	31 Mar 2021	£0.0025	–
Andrew Belshaw	Nil-cost option	125% of salary	34,504	31 Mar 2021	£0.0025	–

Upon his appointment as CEO Andrew Taylor received an initial award of share options which are subject to performance conditions at a value of £750,000.

2017 Director	Type of scheme interest	Basis of award	Number of awards	Vesting date	Exercise price	Exercise date
Bob Falconer	Nil-cost option	100% of salary	62,296	31 Mar 2020	£0.0025	–
Andrew Belshaw	Nil-cost option	100% of salary	38,140	31 Mar 2020	£0.0025	–
Richard Bligh	Nil-cost option	100% of salary	37,238	31 Mar 2020	£0.0025	–

At the time of making an award the Remuneration Committee sets challenging long term performance targets in order to align the interests of the Directors with shareholders and which, together with continuous employment conditions, must be satisfied before an award vests. Upon his resignation from the Company, all of Richard Bligh's share options have lapsed.

The 2017 and 2018 LTIP awards have a performance period of three years starting from the vesting commencement date. The awards will vest as follows:

- 15% of the shares if annual compound total shareholder return ('TSR') over the performance period equals 8%, and 50% of the shares if annual compound TSR over the performance period equals 15% or higher with pro rata straight line vesting in between; and
- 15% of the shares if the annual compound growth of the Company's adjusted earnings per share between the financial years at the beginning and the end of the performance period is equal to 8%, and 50% of the shares if the annual compound growth of the Company's adjusted earnings per share over the same period is equal to or in excess of 20% with pro rata straight line vesting in between.

Save As You Earn (SAYE) share scheme

There were no awards made to Directors under the SAYE during the years ended 31 December 2018 or 2017.

Statement of Directors' shareholding and share interests

Directors' share interests at 31 December 2018 are set out below:

2018	Number of beneficially owned shares	Options			Exercised during the year
		With performance measures	Without performance measures	Vested but unexercised	
Executive Director					
Andrew Taylor	-	108,381	-	-	-
Andrew Belshaw	228,853	116,646	-	-	48,675
Non-Executive Director					
Richard Last	53,475	-	-	-	-
Alan Gibbins	13,368	-	-	-	-
Martin Lea	13,368	-	-	-	-
Wu Long Peng	-	-	-	-	-
Andrew Stone	200,000	-	-	-	-

2017	Number of beneficially owned shares	Options			Exercised during the year
		With performance measures	Without performance measures	Vested but unexercised	
Executive Director					
Bob Falconer	3,490,609	243,054	–	–	288,280
Andrew Belshaw	278,188	133,993	–	–	206,618
Non-Executive Director					
Richard Last	53,475	–	–	–	–
Alan Gibbins	13,368	–	–	–	–
Martin Lea	13,368	–	–	–	–
Wu Long Peng	–	–	–	–	–
Andrew Stone	473,500	–	–	–	–

Performance graph and table

The Remuneration Committee has chosen to compare the TSR of the Company's Ordinary Shares against the AIM 100 Index because this index consists of the most comparable companies to the Group. The values indicated in the graph show the share price growth plus re-invested dividends from a £100 hypothetical holding of ordinary shares in Gamma Communications Plc from the date of IPO.

Chief Executive's historical remuneration

The table below sets out the total remuneration delivered to the Chief Executive over the last year valued using the methodology applied to the single total figure remuneration.

	Chief Executive	2018	2017	2016	2015	2014
Total Single Figure	Bob Falconer	£1,466,688	£2,243,428	£599,760	£2,230,287	£544,793
	Andrew Taylor	£655,990	-	-	-	-
Annual bonus payment level achieved (% of maximum opportunity)	Bob Falconer	100%	100%	100%	100%	100%
	Andrew Taylor	100%	-	-	-	-
LTIP Vesting level achieved (% of maximum opportunity)		92.827% ¹	100%	n/a ¹	n/a ²	n/a ²

1 92.827% represents the blended rate for the vesting of Bob Falconer's 2015, 2016 and 2017 LTIP scheme. These schemes achieved performance vesting percentages of 93.875%, 91.847% and 90.046% respectively.

2 Share option schemes prior to the 2015 LTD scheme (which rested in 2017) did not have performance obligations attached to them.

Percentage change in remuneration of the Director undertaking the role of CEO

Bob Falconer retired as CEO on 23 May 2018 and was replaced by new CEO Andrew Taylor. The attraction and successful appointment of a new CEO necessitated the benchmarking of the CEO remuneration package to bring it in line with current market norms. That is why there was a significant increase in the remuneration of the Director undertaking the role of CEO in 2018 reflecting the impact of Andrew's appointment from May 2018:

	% increase in CEO remuneration in 2018 compared with 2017	% increase in employee remuneration in 2018 compared with 2017
Salary, other pay and benefits	39.1%	3.1%
Annual bonus	59.1%	5.9%

Relative importance of spend on pay

The following table shows the Company's actual spend on pay for all Group employees relative to dividends and underlying pre-tax profit.

	2018 £m	2017 £m	Change %
Overall spend on pay, including Executive Directors	55.8	48.1	+16%
Capital expenditure ¹	12.7	15.8	-20%
Dividends	8.1	7.3	+11%

1 Capital expenditure has been included in the above table as it represents a key expenditure, being the Group's investment in infrastructure to drive future growth.

Statement of voting

During the 2018 AGM, a motion was set for the shareholders to approve on an advisory only basis the Directors' Remuneration Report. 99.53% of votes were cast in favour of the motion.

This Remuneration Committee report will be put to an advisory vote at the forthcoming 2019 AGM. This report was approved by the Board of Directors on 11 March 2019 and signed on its behalf by:

Martin Lea

Remuneration Committee Chairman

11 March 2019

Directors' report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2018.

The Corporate Governance Statement set out on pages 50 to 51 forms part of this report.

Details of any significant events since the balance sheet date are contained in note 31 to the financial statements. An indication of likely future developments in the business of the Company and details of research and development activities are included in the strategic report.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 21 to the financial statements.

Dividends

The Directors recommend a final dividend of 6.2p per ordinary share to be paid on Thursday 20 June 2019 to ordinary shareholders on the register on Friday 31 May 2019 which, together with the interim dividend of 3.1p, makes a total of 9.3p for the year (2017: 8.4p).

Capital structure

Details of the authorised and issued share capital of the Company and options over shares of the Company are set out in notes 24 and 27 to the Group financial statements. Over the period, the Company had four share incentive schemes by which Directors and employees may:

- (i) be granted options under a long term incentive plan to subscribe for nil cost shares in the Company;
- (ii) be granted options under the Company Share Option Plan;
- (iii) be issued shares under a Share Incentive Plan; and
- (iv) be granted options under a Save As You Earn plan.

The maximum aggregate number of shares which may be issued in respect of these schemes is limited to 10% of the issued share capital.

Composition of the Group

Details concerning subsidiary undertakings are given in note 15 to the Group financial statements.

Directors

The names and biographies of the Directors during the year are disclosed on pages 52 to 53.

Directors' interest in share capital

The Directors' interest in share capital is shown within the Remuneration Report.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Going concern

The Group's business activities, together with the factors likely to affect the future development, performance and position, are set out in the strategic report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial review section in the strategic report and in note 21. Further information on the Group's exposure to financial risks and the management thereof is provided in note 21.

The Board's review of the accounts, budgets and financial plan leads the Directors to believe that the Group has sufficient resources to continue in operation for the foreseeable future. The financial accounts are therefore prepared on a going concern basis.

Treasury policy

The objective of the Group's treasury policy is to manage the Group's financial risk and to minimise the adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on the cash flows of the Group. Note 21 sets out the particular risks to which the Group is exposed, and how these are managed.

Interests in contracts

There have been no contracts or arrangements during the financial year in which a Director of the Company was materially interested and which were significant in relation to the Group's business.

Health, safety, the environment and the community

The Group has a formal Health, Safety and Environmental Policy which requires all operations within the Group to pursue economic development whilst protecting the environment. The Directors aim not to damage the environment of the areas in which the Group operates, to meet all relevant regulatory and legislative requirements and to apply responsible standards of its own where relevant laws and regulations do not exist.

It is the policy of the Group to consider the health and welfare of employees by maintaining a safe place and system of work as required by legislation in each of the countries where the Group operates.

Political contributions

No political contributions were made in the year.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The Group recognises the essential importance of employees to the success of the business and ensures that they are fully informed of events that directly affect them and their working conditions. Information on matters of concern to employees is given in briefings that seek to provide a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance.

During 2018 the Group undertook the Best Companies Limited employee engagement survey and achieved a 1-star accreditation. The results from this survey attracted a listing in The Sunday Times Top 100 Best Companies To Work For.

Auditors and their independence

A resolution to appoint auditors for the year to 31 December 2019 will be proposed at the AGM. The Company has a policy for approval by the Audit Committee of non-audit services by the auditor, to preserve independence.

Disclosure of information to auditors

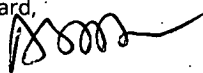
Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board,



Andrew Belshaw

Chief Financial Officer
11 March 2019

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

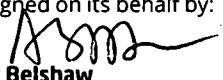
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:


Andrew Belshaw
Chief Financial Officer
11 March 2019

Financial statements

Independent auditor's report to the members of Gamma Communications plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Gamma Communications plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the Group's related notes 1 to 32;
- the Company only balance sheet; and
- the parent Company's related notes 1 to 10.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: - revenue: accuracy of volume and pricing; and - acquisition accounting: purchase price allocation.
Materiality	The materiality that we used for the Group financial statements was £1.7m which was determined on the basis of 5% of profit before tax.
Scoping	We audited the entire Group to full scope with the exception of one location and the newly acquired subsidiary DX Groep B.V in the year, which are subject to desktop analytical review procedures. Our approach results in approximately 98% coverage of profit before tax, revenue and net assets.
Significant changes in our approach	Following the acquisition of DX Groep B.V in the year, we have identified a new key audit matter in relation to the associated purchase price allocation in acquisition accounting, specifically the judgement relating to retail customer contracts and the most sensitive assumptions in the valuation, being the attrition rate and discount rate. In the prior year, we identified two key audit matters relating to revenue. There were no new material contracts in the year of a complex nature or material manual adjustments. We have reassessed our revenue risk and identified a key audit matter relating to the indirect usage revenue stream, specifically to the accuracy of the volume of traffic and pricing data which are used to determine the value of revenue recognised.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue: accuracy of volume and pricing

Key audit matter description	Usage revenue is calculated based on the volume of traffic and associated pricing. The accurate measurement of the volume of traffic as well as the accuracy of the pricing, which is applied against these volumes to determine the value of revenues has been identified as the key audit matter. In 2018 the Groups revenues were £284.9m (2017: £242.0m) of which usage revenue represents £65.3m (2017: £65.4m). The Group's revenue recognition principles are disclosed in note 1.
How the scope of our audit responded to the key audit matter	We have assessed the adequacy of the design and implementation of controls as well as tested the operating effectiveness of these controls, specifically the rate change reviews, the revenue reconciliations performed (including the reviews there-of), and the analysis of monthly revenue trends. Specialist IT auditors have supported our assessment of the relevant automated controls, the most critical of which being the matching of the rates input and call data records (CDR) automatically within the system to calculate the billing per transaction. We have tested the volumes and prices involved in usage revenues by tracing a sample of invoice information to CDR. In addition, we performed a recalculation of the revenue to be recognised in relation to the call by multiplying the appropriate rate against the minutes. We compared this expectation to actual revenues, ensuring the difference fell within a reasonable threshold. We also performed credit note testing on a sample of credit notes.
Key observations	Based on our procedures, we conclude that no material misstatements were identified in respect of the accuracy of the volume of traffic and pricing data used in the indirect usage revenue stream.

Acquisition accounting: purchase price allocation

Key audit matter description	During the year, the Group acquired DX Groep B.V. This has resulted in the Group recognising intangible assets, along with goodwill of £16.6m and £7.2m, respectively as disclosed in note 16. There is a significant level of judgement required in fair valuing the assets, in particular the customer relationships which represents 65% of the total intangibles recognised. Therefore, this key audit matter relates specifically to the Retail Customer contracts of £10.3m, and the most sensitive assumptions in the valuation being the attrition rate and discount rate. This is consistent with Notes 1 and 2.
How the scope of our audit responded to the key audit matter	We have assessed the adequacy of the design and implementation of controls over the review of acquisition accounting. We have performed substantive audit procedures on the acquisition accounting, supported by our valuation specialists. Our substantive tests involved: - evaluating the appropriateness of the valuation techniques employed by both Management and Management's experts; - assessing the reasonableness of the valuation assumptions used in the fair value analysis and considering whether in our judgement these are consistent with a market participant's view; - evaluating whether the fair value model being used is appropriate considering the entity's circumstances identified; and - performing sensitivity analysis for comparison to the entity's fair value estimate. We have also: - assessed the reasonableness of management's business and accounting assumptions used in the forecast data by considering previous forecasting accuracy; - comparing the projections used to board approved management budgets; and - testing the mathematical accuracy of the overall models.
Key observations	Based on our procedures, no material misstatements have been identified in respect of the attrition rate and discount rate used in valuation of the retail customer relationship intangible asset which was recognised following the acquisition of DX Groep B.V.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£1.7m (2017: £1.4m)	£1.2m (2017: £0.8m)
Basis for determining materiality	5% (2017: 5.3%) of statutory profit before tax	2% (2017: 2%) of net assets
Rationale for the benchmark applied	We chose this measure as it is the primary statutory measurement used by the users of the accounts and key stakeholders to measure the performance of the Group.	Net assets has been chosen as the benchmark as it is considered the most relevant benchmark for an investment holding company.

We agreed with the Audit Committee that we would report to them all audit differences in excess of £86k (2017: £70k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Financial statements continued

An overview of the scope of our audit

We audited the entire Group to full scope with the exception of one location and the newly acquired company, DX Groep B.V., which are subject to desktop analytical review procedures. Our approach results in approximately 98% coverage of profit before tax, 98% of revenue and 98% of net assets.

At the parent entity level we also tested the consolidation process. Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team. Our audit work of the components was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.3m to £1.2m (2017: £0.3m to £1m).

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

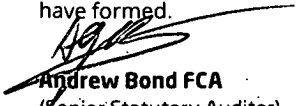
Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.


Andrew Bond FCA

(Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

Reading, United Kingdom

11 March 2019

Financial statements continued

Consolidated statement of comprehensive income For the year ended 31 December 2018

	Notes	2018 £m	2017 £m*
Revenue	4	284.9	242.0
Cost of sales		(152.7)	(133.3)
Gross profit		132.2	108.7
Operating expenses		(97.8)	(82.4)
Operating profit before depreciation, amortisation and gain on disposal		48.3	36.0
Depreciation and amortisation (excluding business combinations)	7	(13.5)	(10.4)
Amortisation arising due to business combination	7	(0.4)	-
Gain on disposal of property, plant and equipment	7	-	0.7
Profit from operations		34.4	26.3
Finance income	9	0.3	0.2
Finance expense	9	(0.2)	-
Profit before tax		34.5	26.5
Tax expense	10	(6.1)	(3.8)
Profit after tax		28.4	22.7
Other comprehensive loss		(0.2)	-
Total comprehensive income attributable to the owners of the parent		28.2	22.7
Earnings per share			
Basic per Ordinary Share (pence)	11	30.3	24.5
Diluted per Ordinary Share (pence)	11	30.0	24.0

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

Adjusted earnings per share is shown in note 11.

All income recognised during the year was generated from continuing operations.

The notes on pages 82 to 113 form part of these financial statements.

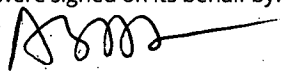
Consolidated statement of financial position

As at 31 December 2018

	Notes	2018 £m	2017 £m*
Assets			
Non-current assets			
Property, plant and equipment	12	31.8	29.2
Right of use assets	13	4.2	-
Intangible assets	14	38.0	15.5
Deferred tax asset	23	4.4	1.7
Trade and other receivables	18	11.9	10.9
		90.3	57.3
Current assets			
Inventories	17	6.2	3.2
Trade and other receivables	18	62.8	61.6
Cash and cash equivalents	19	35.5	31.6
		104.5	96.4
Total assets		194.8	153.7
Liabilities			
Non-current liabilities			
Other payables	20	0.3	-
Provisions	22	1.2	1.5
Lease liability	13	2.9	-
Contract liabilities	4	8.5	7.8
Contingent consideration	28	8.1	-
Deferred tax	23	3.9	-
		24.9	9.3
Current liabilities			
Trade and other payables	20	37.2	39.8
Provisions	22	1.0	0.3
Lease liability	13	1.5	-
Contract liabilities	4	7.9	8.2
Current tax		0.6	0.8
		48.2	49.1
Total liabilities		73.1	58.4
Issued capital and reserves attributable to owners of the parent			
Share capital	24	0.2	0.2
Share premium reserve	25	4.6	3.8
Merger reserve	25	2.3	2.3
Share option reserve	25	3.2	2.8
Foreign exchange reserve	25	(0.2)	-
Own shares	25	(0.8)	(0.8)
Retained earnings	25	112.4	87.0
Total equity		121.7	95.3
Total equity and liabilities		194.8	153.7

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

The financial statements on pages 78 to 81 were approved and authorised for issue by the Board of Directors on 11 March 2019 and were signed on its behalf by:


Andrew Belshaw
 Chief Financial Officer

The notes on pages 82 to 113 form part of these financial statements.

Financial statements continued

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

	Notes	2018 £m	2017 £m*
Cash flows from operating activities			
Profit for the year before tax		34.5	26.5
Adjustments for:			
Depreciation of property, plant and equipment	12	8.7	7.5
Depreciation of right of use asset	13	1.4	-
Amortisation of intangible assets	14	3.8	2.9
Share based payment expense		1.9	2.0
Interest income		(0.3)	(0.2)
Finance cost		0.2	-
		50.2	38.7
Increase in trade and other receivables		(1.7)	(18.3)
Increase in inventories		(3.0)	(0.2)
(Decrease)/Increase in trade and other payables		(5.7)	6.8
Increase in contract liabilities		0.4	3.0
Increase/(decrease) in provisions and employee benefits		0.4	(0.1)
Cash generated by operations		40.6	29.9
Taxes paid		(4.3)	(3.6)
Net cash flows from operating activities		36.3	26.3
Investing activities			
Purchases of property, plant and equipment	12	(10.2)	(12.1)
Purchase of intangible assets	14	(2.5)	(3.7)
Interest received		0.3	0.2
Acquisition of subsidiary net of cash acquired	16	(11.1)	-
Net cash used in investing activities		(23.5)	(15.6)
Financing activities			
IFRS 16 liability repayments		(1.6)	-
Share issues		0.8	-
Dividends		(8.1)	(7.3)
Net cash used in financing activities		(8.9)	(7.3)
Net increase in cash and cash equivalents		3.9	3.4
Cash and cash equivalents at beginning of year		31.6	28.2
Cash and cash equivalents at end of year		35.5	31.6

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

The notes on pages 82 to 113 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Share capital £m	Share premium reserve £m	Merger reserve £m	Share option reserve £m	Foreign exchange reserve £m	Own shares £m	Retained earnings £m	Total equity £m
1 January 2017	0.2	3.8	2.3	3.5	–	(0.8)	71.2	80.2
Change in accounting policy	–	–	–	–	–	–	(3.6)	(3.6)
Restated equity at 1 January 2017*	0.2	3.8	2.3	3.5	–	(0.8)	67.6	76.6
Issue of shares	–	–	–	(2.2)	–	–	2.2	–
Recognition of share based payment expense	–	–	–	1.5	–	–	–	1.5
Current tax on share based payment expense	–	–	–	–	–	–	2.1	2.1
Deferred tax on share based payment expense	–	–	–	–	–	–	(0.3)	(0.3)
Dividend paid (note 11)	–	–	–	–	–	–	(7.3)	(7.3)
Transaction with owners	–	–	–	(0.7)	–	–	(3.3)	(4.0)
Profit for the year (restated)*	–	–	–	–	–	–	22.7	22.7
Total comprehensive income (restated)*	–	–	–	–	–	–	22.7	22.7
31 December 2017 (restated)*	0.2	3.8	2.3	2.8	–	(0.8)	87.0	95.3
1 January 2018 (restated)*	0.2	3.8	2.3	2.8	–	(0.8)	87.0	95.3
Change in accounting policy	–	–	–	–	–	–	3.8	3.8
Issue of shares	–	0.8	–	(1.0)	–	–	1.0	0.8
Recognition of share based payment expense	–	–	–	1.4	–	–	–	1.4
Current tax on share based payment expense	–	–	–	–	–	–	0.7	0.7
Deferred tax on share based payment expense	–	–	–	–	–	–	(0.4)	(0.4)
Dividend paid (note 11)	–	–	–	–	–	–	(8.1)	(8.1)
Transaction with owners	–	0.8	–	0.4	–	–	(3.0)	(1.8)
Profit for the year	–	–	–	–	–	–	28.4	28.4
Other comprehensive loss	–	–	–	–	(0.2)	–	–	(0.2)
Total comprehensive (loss)/income	–	–	–	–	(0.2)	–	28.4	28.2
31 December 2018	0.2	4.6	2.3	3.2	(0.2)	(0.8)	112.4	121.7

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

Notes forming part of the financial statements For the year ended 31 December 2018

1. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board ('IASB') as adopted by the European Union ('adopted IFRSs'), and are in accordance with IFRS as issued by the IASB, and are presented in sterling and, unless otherwise stated, have been rounded to the nearest 0.1 million (£m).

The financial statements have been prepared on a historical cost basis.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, with the exception of IFRS 16 which has been applied through the modified retrospective approach, meaning that IFRS 16 has been applied from 1 January 2018 with no restatement to comparative figures.

Going concern

The Directors prepare a detailed annual budget and reforecast for the next 12 month period on a quarterly basis. The Group continues to be profitable and cash generative and has a significant cash balance of £35.5m (2017: £31.6m) and is not reliant on any debt facilities. Therefore, at the time of approving the financial statements, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Directors have considered the impact of Brexit and believe the impact on the Group will be low. The Group has minimal cross border trading and deals predominantly in sterling. The European acquisition will continue to run independently though there could be an impact of foreign exchange translation though this is not anticipated to be material given the size of the overseas operation. The Group is highly profitable and has cash reserves which will protect the Group if there is a wider economic impact. Thus it continues to adopt the going concern basis of accounting in preparing the financial statements.

Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries. The parent controls a subsidiary if it has power over the investee to significantly direct the activities, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies.

Where unrealised losses on intra-Group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

The consolidated financial statements consist of the results of the entities shown in note 15.

Exemption from audit

For the year ending 31 December 2018 the following subsidiaries of the Company were entitled to exemption from audit under s479A of the Companies Act 2006 relating to subsidiary companies.

Subsidiary name	Company registration number
Gamma Telecom Holdings Limited	04287779
Gamma Telecom Limited	04340834
Gamma Business Communications Limited	02998021
Gamma Network Solutions Limited	06783485
Uniworld Bureau Services Limited	07136383

Revenue

Revenue represents the fair value of the consideration received or receivable for communication services and equipment sales, net of discounts and sales taxes.

Revenue is recognised when the Group has fulfilled its performance obligations under the relevant customer contract.

The Group sells a number of communications products (both traditional and growth) each of which typically consists of all or some of four main types of revenue – voice and data traffic, a subscription or rental, equipment sales and installation fees. Revenue for each element of the sale of the product is recognised as described below.

To the extent that invoices are raised to a different pattern than the revenue recognition described below, appropriate adjustments are made through deferred and accrued income to account for revenue when the performance obligations have been met.

The Group receives payment for products and services from channel partners who onwardly sell to end users. These channel partners are treated as the principal in that transaction because the channel partner has the primary responsibility for providing the products or services to the end user; the channel partner carries the inventory risk; the channel partner is free to establish its own prices either with or without bundling in other goods or services which are not supplied by the Group; and the channel partner bears the credit risk for the amount receivable from the end user. The Group therefore recognises revenue based on the transactions with the channel partner and not the end user.

Voice and data traffic

Revenue from traffic is recognised at the time the call is made or data is transferred.

Revenue arising from the interconnection of voice and data traffic between other telecommunications operators is recognised at the time of transit across the Group's network.

Subscriptions and rentals

Revenue from the rental of analogue and digital lines is recognised evenly over the period to which the charges relate. Subscription fees, consisting primarily of monthly charges for access to ethernet, broadband, hosted IP services and other internet access or voice services, are recognised as revenue as the service is provided.

A small minority of sales of the Cloud PBX product are made under an 'up front' model whereby a channel partner buys a right to use a service for an unspecified period of time into the future. This is treated as an option to obtain future services at a discount and the revenue is taken equally over the estimated future period of usage of that service.

Equipment sales

Revenue from the sale of peripheral and other equipment is recognised when the control of the asset has transferred to the buyer, which is normally the date the equipment is delivered and accepted by the customer.

Assets which are supplied to customers as part of a service (for example, a broadband router or a telephone handset), known as Customer Premises Equipment, and which are capable of use independently of that service are treated as having been sold to the customer.

At the inception of the service when the CPE is shipped the cost of the asset is taken to cost of sales and revenue is accrued to recognise the sale at a margin typical of sales of that product. A contract asset balance is created in respect of the accrued revenue and this is released over the length of the contract which results in lower ongoing service revenues.

Installation fees

Where an installation is not capable of being separated out from an ongoing service contract (i.e. the installation has no standalone value to the customer), revenue will be allocated to the initial equipment sale (if any) and the ongoing service revenues. The latter element will result in a contract liability which will be released over the length of the contract with the effect that ongoing service charges are increased.

Costs related to installations are similarly capitalised and released in line with the release of the corresponding revenues.

Arrangements with multiple deliverables

Where goods and/or services are sold in one bundled transaction, the Group allocates the total arrangement's consideration to the different individual elements based on their relative fair values. Management determines the fair values of individual components based on actual amounts charged by the Group on a stand-alone basis, or alternatively based on comparable pricing arrangements observable in the market.

Advances made to channel partners

Advances are sometimes made to channel partners as part of an incentive deal. Where the Group can demonstrate recovery of the asset (being the advances made) through contractual claw back provisions and past evidence of recovery, they are deferred and recognised over the period of the contract. Where this is not possible they are charged directly to the consolidated statement of comprehensive income.

Business combinations

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

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

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

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

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

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

Notes forming part of the financial statements For the year ended 31 December 2018 continued

1. Accounting policies continued

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

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

In the case of business combinations completed prior to 1 January 2011 goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired.

For business combinations completed prior to 1 January 2011, cost comprises the fair value of assets acquired, liabilities assumed and equity instruments issued, plus any direct costs of acquisition. Changes in the estimated value of contingent consideration arising on business combinations completed by this date were treated as an adjustment to cost and, in consequence, resulted in a change in the carrying value of goodwill.

Contingent consideration

Contingent consideration arises when settlement of all or part of the cost of a business combination falls due after the date the acquisition was completed.

It is stated at fair value and all contingent consideration has been treated as part of the cost of the settlement. At each balance sheet date, contingent consideration comprises the fair value of the remaining contingent consideration valued at acquisition.

Goodwill

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

Intangible assets

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Intangible assets acquired as part of a business combination are shown at fair value at the date of the acquisition less accumulated amortisation. Amortisation is charged on a straight line basis through the statement of comprehensive income. The rates applicable, which represent the Directors' best estimate of the useful economic life, are:

- Customer contracts – ten to thirteen years; and
- Brand – five years.

Impairment of non-financial assets

(excluding inventory and deferred tax assets)

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows: its cash generating units ('CGUs'). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

Development costs

Expenditure on the research phase of an internal project is recognised as an expense in the period in which it is incurred. Development costs incurred on specific projects (whether in respect of new products or enhancement of existing products) are capitalised when all the following conditions are satisfied:

- completion of the asset is technically feasible so that it will be available for use or sale;
- the Group intends to complete the asset and use or sell it;
- the Group has the ability to use or sell the asset and the asset will generate probable future economic benefits (over and above cost);
- there are adequate technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred. The cost of an internally generated asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee (other than Directors) costs incurred along with third party costs.

Judgement is applied when deciding whether the recognition requirements for development costs have been met. Judgements are based on the information available at each statement of financial position date. In addition, all internal activities related to the research and development of new projects are continuously monitored. Amortisation is charged to the statement of comprehensive income on a straight line basis over the estimated useful life from the date the asset is available for use.

Foreign currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

Exchange differences recognised in the profit or loss of Group entities on the translation of long term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers have been identified as the Chief Executive Officer and Chief Financial Officer. For further details please see note 6.

Financial assets

All financial assets are held under the business model of holding the asset to collect the contractual cash flows arising from the assets, which are made up solely of payments of the principal and interest. Therefore, all financial assets are classified at amortised cost.

Except for trade receivables, financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Trade receivables do not contain significant financing components and therefore are initially recognised at their transaction price, and subsequently treated in line with other financial assets.

Except for trade receivables, impairment provisions are recognised as an expected credit loss provision under the general approach, being the expected credit loss over the next 12 months. Where there is a credit risk on a financial asset that has increased significantly, the impairment provision is measured at the lifetime expected credit loss. Impairment for trade receivables will be measured under the simplified approach with an expected credit loss percentage applied to each ageing category. All financial assets will be reported net of impairment; when the Group has no reasonable expectation of recovering a financial asset, the portion that is not recoverable is derecognised.

These financial assets comprise trade and other receivables, accrued income, and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

Financial liabilities

Financial liabilities include trade payables and other short term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Financial liabilities - Derivatives

Forward exchange contracts are entered into to mitigate foreign exchange risk. These contracts are derivatives and therefore measured at fair value through profit or loss. Hedge accounting has not been applied.

Share capital

The Group's Ordinary Shares are classified as equity instruments.

Share based payment expense

Where equity settled shares or share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Notes forming part of the financial statements For the year ended 31 December 2018 continued

1. Accounting policies continued

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

The fair value of the options is measured by use of either the Black-Scholes method or the Monte Carlo method. The latter methodology is used where there are market conditions attached to the share awards.

Leased assets

IFRS 16 has been applied through the modified retrospective approach, meaning that IFRS 16 has been applied from 1 January 2018 with no restatement to comparative figures.

This policy will typically apply to properties, cars and fibre networks where the Group has substantially all of the capacity of the asset.

On entering into a lease, a right of use asset and lease liability will be created.

The right of use asset will be depreciated over the lease-term and if necessary impaired in accordance with applicable standards. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (application of the effective interest method, using the Group's incremental borrowing rate) and by reducing the carrying amount to reflect the lease payments made.

Variable rents are not part of the lease liability and the right of use asset. The payments are recognised as an expense in the period in which they are incurred. Variable payments are presented within note 13.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Where leases are 12 months or less or of low value then payments made are expensed evenly over the period of usage of that asset in line with the practical expedients set out in IFRS 16.

Where the Group has a contract to use part of a fibre or copper pathway and it does not have substantially all of the capacity of the asset then that is not a lease and payments are expensed evenly over the period of usage of that asset. In some instances a pathway may have a small incidental linkage where the Group is using substantially all of the capacity of a very minor part of the pathway but in this instance the whole contract is not treated as a lease.

The discount rate applied of 4% is the Group's incremental borrowing rate.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is upon payment. In the case of final dividends, this is when approved by the shareholders at the AGM. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, it includes items that are tax deductible but which do not affect net profit and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions. Assets in the course of construction for use in the supply of communication products, or for administration purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following rates:

Network assets	4%–33% per annum straight line
Computer equipment	25%–50% per annum straight line
Fixtures and fittings	20%–25% per annum straight line

Inventory

Inventory (which is all finished goods) is initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Weighted average cost is used to determine the cost of ordinarily interchangeable items.

Employee Benefit Trust ('EBT')

As the Company is deemed to have control of its EBT, it is treated as a subsidiary and consolidated for the purposes of the consolidated financial statements. The EBT's assets (other than investments in the Company's shares), liabilities, income and expenses are included on a line-by-line basis in the consolidated financial statements.

Provisions

The Group recognises provisions where there is a present or constructive obligation as a result of a prior event. The Group has recognised provisions for liabilities of uncertain timing or amount relating to leasehold dilapidations or onerous lease provisions. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date, and where material discounted at a pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability.

Alternative performance measures

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

The measures are adjusted for the following items:

(a) Amortisation on intangibles arising on acquisition

We have completed our first acquisition since our flotation in 2014 and we will show EPS figures adjusted for the amortisation of the intangible assets which were recognised on acquisition of the subsidiary. This adjustment is made because most analysts adjust for these items and by providing figures adjusted in this way, a user of the accounts is able to compare the actual results with the expectations of the analyst community.

(b) Depreciation and amortisation

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

(c) Gain on disposal of PPE

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

(d) Non-recurring tax credit

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

(e) 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.

Notes forming part of the financial statements For the year ended 31 December 2018 continued

2. Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Critical accounting judgements

(a) Principal vs agent classification of channel partners

The Group receives payment for products and services from channel partners who onwardly sell to end users. The Group has considered whether channel partners are acting as a principal or an agent under the criteria set out in paragraphs B34 to B38 of IFRS 15.

Where a channel partner has the primary responsibility for providing the products or services to the end user and carries the inventory risk and is free to establish its own prices and bears the credit risk for the amount receivable from the end user then the channel partner is treated as the principal in that transaction. The Group therefore recognises revenue earned in this way based on the transactions with the channel partner and not the end user.

(b) Revenue recognition

Revenue recognition on contracts may involve providing services over multiple years and involving a number of products. In such instances, judgement is required to identify the date of transaction of separable elements of the contract and the fair values which are assigned to each element. The Group also regularly assesses customer credit risk inherent in the carrying amounts of receivables and contract costs and estimated earnings.

Key accounting estimates

(a) Purchase price allocation in business combinations

A number of estimates have been made when calculating the value of finite and indefinite lived intangibles acquired in business combinations. This includes those around the customer contract intangible assets. These are valued using discounted cash flow methods which require the application of certain key estimates. In particular, management has had to estimate customer attrition rates. If the customer attrition rates are higher than estimated this may result in an impairment to the asset valuation. The estimates around both the value of the intangible asset and the period over which it is amortised impact the amortisation charge and therefore the Group's profit. On 1 October 2018, the Group acquired DX. An element of the purchase price was contingent upon the 2019 results. The Group has a liability for contingent consideration of £8.1m at 31 December 2018. This assumes that DX will achieve an EBITDA of EUR 3.0m (£2.7m) for the year ended 31 December 2019. If DX achieves an EBITDA of EUR 3.7m (£3.3m) or higher then the liability would be understated by £3.8m. When calculating the contingent consideration amount management has made an estimate of the 2019 EBITDA which is the basis of the calculation. A 10% change in this value would create a €2m impact on the contingent consideration value.

3. Changes in accounting policies

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and, in some cases, had not yet been adopted by the EU:

- IFRS 17 – *Insurance contracts*
- IFRS 2 (amendments) – *Classification and Measurement of Share-based Payment Transactions*
- IFRS 4 (amendments) – *Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts*
- IAS 40 and IAS 28 (amendments) – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Annual improvements to IFRSs 2014-2016 Cycle – *Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IFRS 28 Investments in Associates and Joint Ventures*
- IFRIC 22 – *Foreign Currency Transactions and Advanced Consideration*
- IFRIC 23 – *Uncertainty over Income Tax Treatments*

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018. The new and amended accounting standards adopted during the year are:

- IFRS 15 Revenue and Contracts with Customers (effective 1 January 2018).
- IFRS 16 Leases (effective 1 January 2019, early adopted 1 January 2018).
- Amendments to IFRS 9 which replaces IAS 39 (effective date 1 January 2018).

IFRS 9 (Financial Instruments)

The Group has considered the effects of the changes to IFRS 9 and has revised its accounting policies from 1 January 2018. None of the changes to accounting policies are materially different to the previous policies and therefore the Group has not restated the 2017 figures upon adoption of the new policies.

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 to 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. Details of the expected credit loss provision for trade receivables is shown in note 18.

IFRS 15 (Revenue from Contracts with Customers)

Based on the new accounting policy which was adopted on 1 January 2018, the Group has restated its 2017 results for the changes in policies required by IFRS 15. These are shown below and will form the comparative figures to the 2018 results.

There are four adjustments derived from the change in accounting policies:

- Removing 'up-front' Cloud PBX subscriptions which were previously recognised on purchase. These are now capitalised and amortised over the period for which a customer is expected to use the service.
- Removing assets which were supplied as part of a service from the fixed asset register and instead recognising these as a sale at the point of delivery to the customer. There is a corresponding reduction in ongoing service revenues.
- Spreading installation revenue over the length of the contract. Previously installation costs were recognised up-front.
- Spreading the cost of commissions in the direct business over the length of the contract to which they relate. Previously commissions were recognised as they were paid.

The Company has 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 the 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 £4.6m as at 31 December 2018 in relation to installations, with £2.6m current and £2.0m non-current.
- Contract liabilities totalling £11.8m as at 31 December 2018 in relation to Cloud PBX, with £5.3m current and £6.5m non-current.

IFRS 15 (Impact on the consolidated statement of comprehensive income for the year ended 31 December 2017)

	2017 Under previous accounting policies £m	IFRS 15 adjustment £m	Restated amount IFRS 15 £m
Revenue	238.4	3.6	242.0
Cost of sales	(125.4)	(7.9)	(133.3)
Gross profit	113.0	(4.3)	108.7
Operating expenses	(86.8)	4.4	(82.4)
Operating profit before depreciation, amortisation and gain on disposal	39.6	(3.6)	36.0
Depreciation and amortisation	(14.1)	3.7	(10.4)
Gain on disposal of property, plant and equipment	0.7	-	0.7
Profit from operations	26.2	0.1	26.3
Finance income	0.2	-	0.2
Finance expense	-	-	-
Profit before tax	26.4	0.1	26.5
Tax expense	(3.8)	-	(3.8)
Profit after tax	22.6	0.1	22.7
Total comprehensive income attributable to the owners of the parent	22.6	0.1	22.7
Earnings per share			
Basic per Ordinary Share (pence)	24.4	0.1	24.5
Diluted per Ordinary Share (pence)	23.9	0.1	24.0

Financial statements continued

Notes forming part of the financial statements For the year ended 31 December 2018 continued

3. Changes in accounting policies continued

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

	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
Right of use assets	–	–	–
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	1.5	–	1.5
Lease liability	–	–	–
Contract liabilities	–	7.8	7.8
Deferred tax	–	–	–
	1.5	7.8	9.3
Current liabilities			
Trade and other payables	39.8	–	39.8
Provisions	0.3	–	0.3
Lease liability	–	–	–
Contract liabilities	–	8.2	8.2
Current tax	0.8	–	0.8
	40.9	8.2	49.1
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

The IFRS 15 adjustment shows a reclassification versus the numbers shown in the 2017 Annual Report, for current assets and non-current assets of £12.5m and a decrease in current liabilities of £7.5m. Total assets and total liabilities have not changed.

IFRS 16 (Leases)

IFRS 16 has been applied through the modified retrospective approach, meaning that IFRS 16 has been applied from 1 January 2018 with no restatement to comparative figures. For this reason, both old and new accounting policies are shown below to reflect the policies applied to current year and comparative accounting policies. Disclosure of the financial impact of IFRS 16 is shown in note 13.

Previous accounting policy**Leased assets**

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease'), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight line basis.

Policy applied from 1 January 2018**Leased assets**

IFRS 16 has been applied through the modified retrospective approach, meaning that IFRS 16 has been applied from 1 January 2018 with no restatement to comparative figures. This policy will typically apply to properties, cars and fibre networks where the Group has substantially all of the capacity of the asset.

On entering into a lease, a right of use asset and lease liability will be created.

The right of use asset will be depreciated over the lease-term and if necessary impaired in accordance with applicable standards. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (application of the effective interest method, using the Group's incremental borrowing rate) and by reducing the carrying amount to reflect the lease payments made.

Variable rents are not part of the lease liability and the right of use asset. The payments are recognised as an expense in the period in which they are incurred. Variable payments are presented within the note right of use assets.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Where leases are 12 months or less or of low value then payments made are expensed evenly over the period of usage of that asset in line with the practical expedients set out in IFRS 16.

Where the Group has a contract to use part of a fibre or copper pathway and it does not have substantially all of the capacity of the asset then that is not a lease and payments are expensed evenly over the period of usage of that asset. In some instances a pathway may have a small incidental linkage where the Group is using substantially all of the capacity of a very minor part of the pathway but in this instance the whole contract is not treated as a lease. The discount rate applied of 4% is the Group's incremental borrowing rate.

The impact of IFRS 16 is to increase EBITDA by £1.3m through the removal of operating lease expenses, and a net impact of £nil on profit from operations due to an offsetting £1.3m increase in depreciation.

4. Revenue

Revenue in all periods principally arises from the provision of products and services.

Disaggregation of revenue

Revenue is disaggregated into product type (traditional and growth products), the timing of revenue recognition (at a point in time and over time) and operational segment. This disaggregation is shown by note 6.

Contract balances

The following table provides information about receivables, accrued income and contract liabilities from contracts with customers:

	31 December 2018 £m	31 December 2017 £m	1 January 2017 £m
Receivables, which are included in 'Trade and other receivables'	31.0	25.9	22.4
Accrued income, which is included in 'Trade and other receivables'	27.7	27.0	20.4
Contract liabilities	16.4	16.0	13.0

The amount of revenue recognised in 2018 from performance obligations satisfied (or partially satisfied) in previous periods is £nil (2017: £nil).

The contract liabilities are deferred income arising from installations and Horizon upfront subscriptions, which are released to the income statement over the life of the contract.

Financial statements continued

Notes forming part of the financial statements For the year ended 31 December 2018 continued

4. Revenue continued

Significant changes in the contract liabilities balances during the period are as follows:

	Contract Liabilities 31 December 2018 £m	Contract Liabilities 31 December 2017 £m
Revenue recognised that was included in the contract liability balance at the beginning of the period	(7.1)	(5.2)
Increases due to cash received, excluding amounts recognised as revenue during the period	7.8	7.9

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

	2019 £m	2020 £m	2021 onwards £m	Total £m
Revenue expected to be recognised	11.4	5.4	3.6	20.4

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less. No consideration from contracts with customers is excluded from the amounts presented above.

5. Contract costs

Capitalised contract costs consist of commissions from the Direct UK business unit which are directly associated with specific customer contracts, and installation costs. Capitalised commissions amounted to £2.5m at 31 December 2018 (31 December 2017: £2.3m). The amount of amortisation was £1.5m in 2018 (2017: £1.1m) and there was no impairment loss in relation to the costs capitalised. Capitalised installation costs amounted to £3.2m at 31 December 2018 (31 December 2017: £3.1m). The amount of amortisation was £2.0m in 2018 (2017: £1.4m) and there was no impairment loss in relation to the costs capitalised.

Applying the practical expedient in paragraph 94 of IFRS 15, the Group recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

6. Segment information

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

- UK Indirect – This division sells Gamma's traditional and growth products to channel partners and contributed 74% (2017: 75%) of the Group's external revenue.
- UK Direct – This division sells Gamma's traditional and growth products to end users in the SME, enterprise and public sectors together with an associated service wrap. It contributed 25% (2017: 25%) of the Group's external revenues.
- Overseas – This is a new division arising from the acquisition of DX Groep B.V. This division currently consists of sales made by DX Groep B.V. and its subsidiary companies, which in 2018 consisted of sales in the Netherlands. It contributed 1% (2017: 0%) of the Group's external revenues.
- Central functions – This is a new division arising as a result of the overseas expansion. This division consists of costs that were previously included in the UK business but are not specifically attributable to the UK. This is not a revenue generating segment but is made up of the central management team and wider Group costs.

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

All operating segments sell a combination of traditional products and services (which is mainly voice traffic from which revenues are derived from channel partners and other carriers as well as rentals for wholesale lines) and growth products and services (which consists of IP voice traffic, rental income derived from SIP trunks, hosted IP voice systems and Gamma's hosted inbound product and data products).

Factors that management used to identify the Group's reportable segments

The Group's reportable segments are strategic business units that offer products and services into different markets. They are managed separately because each business requires different marketing strategies and are reported separately to the Board and management team.

Measurement of operating segment profit or loss, assets and liabilities

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The Group evaluates performance on the basis of profit or loss from operations but excluding non-recurring losses, such as goodwill impairment, the effects of share based payments and exceptional income.

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

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

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

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

From 2019 onwards, the Group will no longer differentiate the UK direct business by traditional and growth, but instead by Market, as shown overleaf. The Group will continue to differentiate the indirect business by traditional and growth products. In addition, the Overseas revenue has not been split by traditional and growth products as the Group doesn't measure this business unit by these criteria.

Financial statements continued

Notes forming part of the financial statements For the year ended 31 December 2018 continued

6. Segment information continued

Direct revenue by Market

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

	Indirect £m	Direct £m	Total £m
2017*			
Traditional products and services*	50.5	10.8	61.3
Growth (being strategic and enabling) products and services*	134.4	46.3	180.7
Total revenue from external customers*	184.9	57.1	242.0
Inter-segment revenue*	45.8	-	45.8
Timing of revenue recognition			
At a point in time*	18.2	3.8	22.0
Over time*	166.7	53.3	220.0
	184.9	57.1	242.0
Traditional products and services*	12.5	3.7	16.2
Growth (being strategic and enabling) products and services*	70.5	22.0	92.5
Total gross profit*	83.0	25.7	108.7

Operating profit before depreciation, amortisation and gain on disposal of property, plant and equipment*	23.6	12.4	36.0
Depreciation and amortisation*	(10.0)	(0.4)	(10.4)
Gain on disposal of property, plant and equipment*	0.7	-	0.7
Profit from operations*	14.3	12.0	26.3
Finance income*	0.2	-	0.2
Finance expense*	-	-	-
Tax*	(2.0)	(1.8)	(3.8)
Group profit after tax*	12.5	10.2	22.7

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

	Indirect £m	Direct £m	Total £m
Additions to non-current assets*	15.4	0.4	15.8
Reportable segment assets*	125.2	28.5	153.7
Reportable segment liabilities*	45.7	12.7	58.4

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

7. Profit on ordinary activities

Profit on ordinary activities is stated after charging/(crediting) the following amounts:

	2018 £m	2017 £m
Net foreign exchange	-	0.2
Research costs	8.7	8.3
Staff costs (see note 8)	55.8	48.1
Depreciation of property, plant and equipment	8.7	7.5
Depreciation on right of use assets	1.4	-
Amortisation of intangible assets (excluding business combinations)	3.4	2.9
Amortisation arising due to business combinations	0.4	-
Gain on disposal of property, plant and equipment	-	(0.7)
Cost of inventories recognised as an expense	15.5	15.7
Fees payable to the Company's auditors:	0.2	0.2
Operating lease expense:		
• Other	-	0.1
• Property	-	1.6

Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements totalled £70k (2017: £55k) for the year, and £127k (2017: £95k) for the audit of subsidiaries and other audit services. Fees payable for other assurance services comprised £10k (2017: £30k).

8. Staff costs

	2018 £m	2017 £m
Staff costs (including Directors) comprise:		
Wages and salaries	46.1	39.8
Defined contribution pension cost (note 26)	2.8	2.1
Social security contributions and similar taxes	5.0	4.2
	53.9	46.1
Share based payment expense (note 27)	1.9	2.0
	55.8	48.1

Employee numbers

The average monthly number of staff employed by the Group during the financial year amounted to:

	2018 Number	2017 Number
Operational	552	491
Selling, administration and distribution	424	354
	976	845

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the Directors of the Company listed on pages 52 and 53, and the Management Committee in place during 2018.

	2018 £m	2017 £m
Salary	3.3	3.0
Post-employment benefits	0.1	0.1
Short term employee benefits	0.8	0.4
	4.2	3.5
Share based payment expense (note 27)	1.0	1.0
	5.2	4.5

Financial statements continued

Notes forming part of the financial statements For the year ended 31 December 2018 continued

8. Staff costs continued

Emoluments in respect of Directors are summarised below:

	2018 £m	2017 £m
Salary	1.3	1.4
Social security contributions and similar taxes	0.4	0.2
	1.7	1.6
Share based payment expense	0.4	0.4
	2.1	2.0

Emoluments disclosed above include the following amounts in respect of the highest paid Director.

	2018 £m	2017 £m
Salary	0.7	0.6
Share based payment expense	0.1	0.3
	0.8	0.9

During the year, one Director (2017: two Directors) participated in a private money purchase defined contribution pension scheme.

9. Finance income and expense

	2018 £m	2017 £m
Finance income		
Interest received on bank deposits	0.3	0.2
Total finance income	0.3	0.2
Finance expense		
Interest expense on leases	(0.2)	-
Total finance expense	(0.2)	-
Net finance income	0.1	0.2

10. Tax expense

	2018 £m	2017 £m
Current tax expense		
Current tax on profits for the year	4.9	5.1
Adjustment in respect of prior year	0.1	(0.9)
Overseas tax	0.2	-
Total current tax	5.2	4.2
Deferred tax expense		
Origination and reversal of temporary differences (note 23)	0.9	(0.4)
Total deferred tax	0.9	(0.4)
Total tax expense	6.1	3.8

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

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

The Finance Act 2016 includes provision for the main rate of corporation tax to reduce to 17% for the year beginning 1 April 2020, being 19% until 1 April 2020.

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

11. Earnings per share and dividends

Earnings per share

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

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

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

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

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

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

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

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

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

An interim dividend of 3.1p was paid on 18 October 2018 (2017: 2.8p).

A final dividend of 6.2p will be proposed at the Annual General Meeting but has not been recognised as it requires approval (2017: 5.6p). The total amount of dividends proposed is 9.3p (2016: 8.4p). The payments of these dividends do not have any tax consequences for the Group.

Financial statements continued

Notes forming part of the financial statements For the year ended 31 December 2018 continued

12. Property, plant and equipment

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

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

There was no property, plant or equipment held as security at the end of either year.

Prior to the application of IFRS 15, all customer premises equipment (CPE) was held under a single asset class. Following the application of IFRS 15 CPE now falls into two categories, being CPE that is treated in line with IFRS 15 and CPE that does not meet the criteria of IFRS 15. The Group has reclassified CPE that does not meet the requirements of IFRS 15 from CPE to network assets.

13. Leases under IFRS 16

The Group's lease commitments are predominantly made up of office premises, other leases for land and buildings, and cars.

Right of use assets

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

Disposals of right of use assets relate to the decision to exercise break clauses for office premises in August 2019. No replacement leases have been committed to in the year ended 31 December 2018.

Lease liabilities

	2018 £m	2017 £m
Maturity analysis – contractual undiscounted cash flows		
In one year or less	1.6	1.7
Between one and five years	2.1	4.4
In five years or more	1.1	1.3
Total undiscounted lease liabilities at 31 December 2018	4.8	7.4
Lease liabilities included in the statement of financial position at 31 December 2018	4.4	–
Current	1.5	–
Non-current	2.9	–
Amounts recognised in the comprehensive income statement		
Interest expense on lease liabilities	0.2	–
Expenses relating to short term leases	–	–
Expenses relating to leases of low value assets, excluding short term leases of low value assets	–	–
Amounts recognised in the statement of cash flows		
Total cash outflow	1.6	1.7

During the years ended 31 December 2017 and 31 December 2018 there were no variable lease payments not included in the measurement of lease liabilities, no sale and leaseback transactions and no income from sub-leasing right of use assets.

The Group holds leases for office equipment such as photocopiers for which the Group has taken the small value exemption in paragraph 6 of the IFRS 16 standard. In addition to this the Group has applied the short term exemption to a number of other leases for land and buildings that have lease terms of less than 12 months.

Financial statements continued

Notes forming part of the financial statements For the year ended 31 December 2018 continued

14. Intangible assets

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

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

The estimates of the useful economic lives of the intangible assets are as follows:

- Goodwill on consolidation – indefinite (subject to impairment).
- Development costs – over the anticipated useful economic life of the asset developed but no more than four years.
- Customer contracts – nine to ten years.
- Brand – five years.
- Software – four years.

All amortisation on intangible assets charged to the consolidated statement of comprehensive income is included within operating expenses.

The carrying amount of goodwill is allocated to the cash generating units ('CGUs') as follows:

	2018 £m	2017 £m
Gamma Business Communications Limited	6.8	6.8
Gamma Network Solutions Limited	1.2	1.2
DX Groep B.V.	4.6	-
	12.6	8.0

The CGUs are determined based on how the business units are reported internally.

The carrying value of the Group's goodwill was tested for impairment at 31 December 2018 and 2017 for Gamma Business Communications limited and Gamma Network Solutions Limited. DX Groep B.V. has been tested for impairment on 31 December 2018.

The recoverable amount has been determined on a value-in-use basis on each CGU using the Board approved budgets where gross margin percentage is assumed to be held constant and budgeted revenue and overheads are forecasted to grow. These cash flows are discounted at the pre-tax cost of capital for the Group.

Based on the results of the impairment reviews carried out for each year (giving a recoverable amount of £38.2m (2017: £27.4m) in respect of Gamma Business Communications Limited, £41.9m (2017: £24.1m) in respect of Gamma Network Solutions Limited and £11.7m for DX Groep B.V., no impairment charges have been recognised by the Group in either of the years. Having assessed the anticipated future cash flows, the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to such an impairment charge in any of the years.

15. Subsidiaries

The principal subsidiaries of Gamma Communications plc, all of which are 100% owned and have been included in these financial statements in accordance with the merger accounting as set out in the basis of preparation and basis of consolidation note 1, are as follows:

Name	Country of incorporation	Nature of business	Ownership by the Company	Notes
Gamma Telecom Holdings Limited	United Kingdom	Intermediate holding company	Direct ownership	(a)
Gamma Telecom Limited	United Kingdom	Telephony services	Indirect ownership	(a)
Gamma Business Communications Limited	United Kingdom	Telephony services	Indirect ownership	(a)
Gamma Network Solutions Limited	United Kingdom	Telephony services	Indirect ownership	(a)
Gamma Development KFT (formerly Peach Amber KFT)	Hungary	Software services	Indirect ownership	(b)
Gamma Communications Netherlands B.V.	Netherlands	Intermediate holding company	Indirect ownership	(c)
DX Groep B.V.	Netherlands	Intermediate holding company	Indirect ownership	(d)
Dean One B.V.	Netherlands	Telephony services	Indirect ownership	(d)
Schiphol Connect B.V.	Netherlands	Telephony services	Indirect ownership	(d)
Gamma Communications Ireland Ltd	Ireland	Telephony services	Indirect ownership	(e)
Gamma Communications US Inc	United States	Dormant	Indirect ownership	(f)
Uniworld Bureau Services Limited	United Kingdom	Dormant	Indirect ownership	(a)

Notes:

- (a) Registered Office: 5 Fleet Place, London, EC4M 7RD, England.
 (b) Registered Office: 1054 Budapest, Széchenyi Rakpart 8, Hungary.
 (c) Office address: 5 Fleet Place, London, EC4M 7RD, England.
 (d) Office address: Krijgsman 75, 1186 DR Amstelveen, the Netherlands.
 (e) Registered Office: 6th floor, 2 Grand Canal Square, Dublin 2.
 (f) Registered Office: 1313 N. Market Street, Suite 5100, Wilmington, Delaware, 19801, USA.

Gamma Telecom Limited is also a member of NP4UK Limited which is a dormant company (limited by guarantee) incorporated in the United Kingdom.

The Group also consolidates the Gamma Communications plc SIP Trust.

The Group held no interests in unconsolidated structured entities.

16. Business combinations

Summary of acquisition

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

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

	At acquisition £m	Fair value adjustment £m	31 December 2018 £m
Cash paid	11.5	–	11.5
Contingent consideration	8.1	–	8.1
Total purchase consideration	19.6	–	19.6

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

The potential undiscounted amount payable under the agreement is between £nil (£nil) for EBITDA in the year ended 31 December 2019 of less than £1.6m (£1.8m) and £12.6m (£14.0m) for EBITDA of £3.3m (£3.7m) or more. Sterling values have been translated at the closing exchange rate of 1.1128.

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

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

Financial statements continued

Notes forming part of the financial statements For the year ended 31 December 2018 continued

16. Business combinations continued

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

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

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

Acquired receivables

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

Revenue and profit contribution (unaudited)

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

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

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

Goodwill

The goodwill of £7.2m is attributable to the acquired Group acting as a focal point through which Gamma can broaden its geographical footprint in the medium term. The goodwill is not deductible for tax purposes.

Purchase consideration – cash outflow

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

Valuations of intangible assets

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

17. Inventories

	2018 £m	2017 £m
Raw materials and consumables	6.6	3.4
Provision	(0.4)	(0.2)
Total inventories	6.2	3.2

The replacement cost of stocks equals the balance sheet amount. Inventory levels are high in comparison to 2017 as the Group has purchased stock in advance due to Brexit.

18. Trade and other receivables

	2018 £m	2017 £m
Trade receivables	31.0	25.9
Less: provision for impairment of trade receivables	(4.6)	(2.7)
Trade receivables – net	26.4	23.2
Accrued income	27.7	27.0
Prepayments	17.9	16.3
Other receivables	2.7	6.0
Total trade and other receivables	74.7	72.5
Of which:		
Due within one year or less	62.8	61.6
Due after more than one year	11.9	10.9

The Directors consider that the carrying value of the trade and other receivables is approximately equal to their fair value.

As at 31 December 2018 and 2017 trade receivables as shown below were past due but not impaired. They relate to customers with no default history or where we have an offset arrangement. The ageing analysis of these receivables is as follows:

	2018 £m	2017 £m
Up to 3 months	1.8	1.5
3 to 6 months	0.3	-
6 to 12 months	-	-
Older than 1 year	-	-
	2.1	1.5

As at 31 December 2018 trade receivables of £4.3m (2017: £2.3m) were past due and impaired. The amount of the provision as at 31 December 2018 was £4.6m (2017: £2.7m). The main factors considered by the finance function in determining that the amounts due are impaired are that the customers are unlikely to be trading or the debts are three months and more past due. The ageing of these receivables is as follows:

	2018 £m	2017 £m
Not due	0.3	0.4
Up to 3 months	2.1	1.3
3 to 6 months	0.6	0.5
6 to 12 months	0.9	0.2
Older than 1 year	0.7	0.3
	4.6	2.7

The Group does not have any concentration of credit risk. None of the customers represents more than 10% of trade receivables.

Movements on the Group provision for impairment of trade receivables are as follows:

	2018 £m	2017 £m
At beginning of the year	2.7	2.0
Provided during the year	2.1	1.2
Receivable written off during the year as uncollectible	(0.2)	(0.5)
	4.6	2.7

The movement on the provision for impaired receivables has been included in the selling and administrative expenses line in the consolidated statement of comprehensive income.

Financial statements continued

Notes forming part of the financial statements For the year ended 31 December 2018 continued

19. Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank	35.5	31.6

20. Trade and other payables

	2018 £m	2017 £m
Current and non-current		
Trade payables	4.4	7.9
Other payables	2.1	1.9
Accruals – Cost of sales	13.4	15.0
Accruals – Operating expenses (excluding payroll)	4.7	3.2
Accruals – Payroll (excluding tax and social security)	6.8	6.7
Tax and social security	2.1	2.4
Deferred income	4.0	2.7
Total trade and other payables	37.5	39.8

Book values approximate to fair value at 31 December 2018 and 31 December 2017.

Of which:

Due within one year or less	37.2	39.8
Due after more than one year	0.3	–

Within 'Accruals – Cost of sales' is an amount which represents an estimate of amounts which have yet to be billed by other carriers. This accrual is required because in the telecoms industry, calls and data are passed from one carrier to another and there is a significant level of billing between carriers, and reconciliations are carried out between the data records of each carrier. In some cases, these reconciliations may take some time to perform. Even when a bill has been received, most carriers reserve the right to issue additional bills if they discover that the units thereon were incomplete or the calls were not correctly rated.

21. Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:

- Credit risk.
- Fair value or cash flow interest rate risk.
- Market risk.
- Liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade receivables.
- Cash and cash equivalents.
- Trade and other payables.

A summary of the financial instruments held by category is provided below:

Financial assets – amortised cost

	2018 £m	2017 £m
Cash and cash equivalents	35.5	31.6
Trade receivables – net	26.4	23.2
Accrued income	27.7	27.0
Prepayments	17.9	16.3
Other receivables	2.7	6.0
Total financial assets	110.2	104.1

Financial liabilities – amortised cost

	2018 £m	2017 £m
Trade payables	4.4	7.9
Other payables	1.8	1.9
Accruals – Cost of sales	12.8	15.0
Accruals – Operating expenses (excluding payroll)	5.4	3.2
Accruals – Payroll (excluding tax and social security)	7.0	6.7
Contract liabilities	16.4	16.0
Lease liabilities	4.4	–
Total financial liabilities	52.2	50.7

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's Management Committee. The Board receives monthly reports from the Management Committee through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts.

The Credit Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings where available. Purchase limits are established for each customer, which represent the maximum open amount without requiring further approval from the Credit Committee.

The Credit Committee determines concentrations of credit risk by monitoring the creditworthiness rating of existing customers and through regular reviews of the trade receivables' ageing analysis.

The Group does not enter into derivatives to manage credit risk.

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 18.

Due to the Group's procedures for managing credit risk, expected credit losses on all non-trade receivable financial assets are expected to be negligible. Expected impairment for trade receivables are calculated based on historical default rates. Details of this provision are shown in note 18.

Financial statements continued

Notes forming part of the financial statements For the year ended 31 December 2018 continued

21. Financial instruments – risk management continued

Financial assets – maximum exposure

	2018 £m	2017 £m
Cash and cash equivalents	35.5	31.6
Trade receivables – net	26.4	23.2
Accrued income	27.7	27.0
Prepayments	17.9	16.3
Other receivables	2.7	6.0
Total financial assets	110.2	104.1

The Credit Committee monitors the utilisation of the credit limits regularly and at the reporting date does not expect any losses from non-performance by the counterparties in addition to those already provided against.

Cash in bank

The Group is continually reviewing the credit risk associated with holding money on deposit in banks and seeks to mitigate this risk by only holding deposits with banks with a credit rating of A or above, unless Board approval is obtained.

Market risk

The market risk relates to foreign exchange. Foreign exchange risk arises because the Group has a small operation located in Hungary and the acquired companies under DX Groep B.V. which are not the same as the functional currency in which the Group companies are operating. Although the fact that its overseas operations are small compared to those in the UK reduces the Group's operational risk, the Group's net assets arising from such overseas operations are exposed to currency risk resulting in gains or losses on retranslation into sterling. Given the levels of materiality, the Group does not hedge its net investments in overseas operations as the cost of doing so is disproportionate to the exposure.

During the year, the Group entered into three forward foreign exchange contracts to mitigate against the foreign exchange risk on foreign contracts. These are in USD and relate to one supplier. There were two open foreign exchange contracts at year end to cover payments totalling USD\$3.8m.

As of 31 December 2017 and 31 December 2018 the Group's exposure to foreign exchange risk was not material. A sensitivity analysis for market risk has not been prepared as the risk is immaterial.

Interest rate risk

The Group's only exposure to interest rate risk arises from the interest rate on fixed term, fixed rate bank deposits. Analysis of this has not been prepared as this risk is immaterial.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

It is the Group's aim to settle balances as they become due.

The Board receives annual 36-month cash flow projections. At the end of the financial year, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	Up to 3 months £m	Between 3 and 12 months £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
2018					
Total financial liabilities (excluding lease and contract liabilities)	30.9	-	0.5	-	-
	Up to 3 months £m	Between 3 and 12 months £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
2017					
Total financial liabilities (excluding lease liabilities and contract liabilities)	32.9	1.8	-	-	-

Lease and contract liabilities have been excluded.

The Group presents a maturity analysis of lease liabilities within note 13.

More details in regard to the line items are included in the respective note:

- Trade and other payables – note 20.

Capital disclosures

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising its return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year. The Group monitors 'adjusted capital' which comprises all components of equity (i.e. share capital, share premium reserve, merger reserve, share option reserve and retained earnings).

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group has historically maintained very low levels of gearing and is not exposed to externally imposed capital requirements. The Group will continue to manage the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

	2018 £m	2017 £m
Total equity	117.9	95.3
Cash and cash equivalents	35.5	31.6
Capital	153.4	126.9
Total equity	117.9	95.3
Overall financing	117.9	95.3
Capital-to-overall-financing ratio	1.30	1.33

22. Provisions

	2018 £m	2017 £m
Leasehold dilapidation provision	1.4	1.3
Onerous lease provision	0.3	0.5
Onerous contracts	0.5	-
Total provisions	2.2	1.8
Of which:		
Due within one year or less	1.0	0.3
Due after more than one year	1.2	1.5

	Onerous contracts £m	Leasehold dilapidation provision £m	Onerous lease provision £m	Total £m
At 1 January 2018	-	1.3	0.5	1.8
Additional provision in the year	0.5	0.1	0.1	0.7
Utilisation of provision	-	-	(0.3)	(0.3)
At 31 December 2018	0.5	1.4	0.3	2.2

Leasehold dilapidations relate to the estimated cost of returning a leasehold property to a defined condition at the end of the lease in accordance with the lease terms. Once the stage of the lease has been reached at which a reliable estimate of the costs can be made, a provision is recognised in the profit and loss account. The main uncertainties relate to estimating the cost that will be incurred at the end of the lease and also whether the option to break from the lease will be exercised. Leasehold dilapidation provisions relate to property rentals and vary from less than 12 months to in excess of five years.

The onerous lease provision relates to lease payments on property which became onerous during the prior year. The amount provided is based on the future rental obligations together with other fixed outgoings and the possibility of either sub-letting or buying-out from the lease commitment. Significant assumptions are used in making these calculations and changes in assumptions and future events could cause the value of these provisions to change. The onerous lease provision relates to POP sites, with remaining terms of under 12 months.

From time to time the Group engages in contracts with suppliers where there is a minimum commitment. This is done in instances where the minimum purchase commitment is considered to be comfortably achievable and there is a material commercial advantage to making that commitment. Rarely there may be an unforeseen change in circumstances which means that the commitment becomes onerous and a provision is made at the point it appears that the minimum commitments will not be achieved. Provisions for onerous leases relate to contracts less than two years in length.

Financial statements continued

Notes forming part of the financial statements For the year ended 31 December 2018 continued

23. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using the tax rate at which it is expected to unwind, being 19% until 1 April 2020 and then 17% from 1 April 2020.

The movement on the deferred tax account is as shown below:

	2018 £m	2017 £m
Asset at 1 January	1.7	1.6
Change in accounting policy	3.8	-
Restated asset at 1 January	5.5	1.6
Tax credit recognised in profit and loss	(0.9)	0.4
Recognised directly in equity	(0.4)	(0.3)
Tax arising on acquisition	(3.7)	-
Net/asset at 31 December	0.5	1.7

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. All deferred tax has been recognised as the Group is consistently profitable, will therefore be tax-paying and so expects to recover all deferred tax assets.

The deferred taxation asset/(liability) consists of the tax effect of temporary differences as follows:

	Asset £m	Liability £m	Net £m	Credited to profit or loss £m	Charged to equity £m
2018					
Difference in capital allowances and depreciation/ amortisation	1.9	-	1.9	-	(0.2)
Other temporary and deductible differences	1.5	(0.2)	1.3	(1.0)	-
Deferred tax on share options	1.0	-	1.0	0.1	(0.2)
Deferred tax on acquisition of subsidiary	-	(3.7)	(3.7)	-	-
Deferred tax asset/(liability)	4.4	(3.9)	0.5	(0.9)	(0.4)
	Asset £m	Liability £m	Net £m	Credited/ (charged) profit or loss £m	Charged to equity £m
2017					
Difference in capital allowances and depreciation/ amortisation	0.4	-	0.4	0.5	-
Other temporary and deductible differences	0.2	-	0.2	0.1	-
Deferred tax on share options	1.1	-	1.1	(0.2)	(0.3)
Deferred tax asset/(liability)	1.7	-	1.7	0.4	(0.3)

24. Share capital

At 31 December the share capital was as follows:

	2018 Number	2018 £m	2017 Number	2017 £m
Authorised, allotted and fully paid				
Ordinary Shares of £0.0025 each	93,984,626	0.2	93,289,973	0.2
		0.2		0.2

Ordinary Share movement in the year is as follows:

	Number	Notes
As at 1 January 2018	93,289,973	
May 2018	199,829	(a)
June 2018	381,171	(a)
August 2018	4,457	(a)
September 2018	4,703	(a)
October 2018	14,814	(a)
November 2018	82,059	(a)
December 2018	7,620	(a)
As at 31 December 2018	93,984,626	

(a) Ordinary Shares were issued to satisfy options which had been exercised.

In the prior year, the share capital movements were as follows:

	Number	Notes
As at 1 January 2017	91,751,499	
March 2017	272,992	(a)
May 2017	1,224,949	(a)
December 2017	40,533	(a)
As at 31 December 2017	93,289,973	

(a) Ordinary Shares were issued to satisfy options which had been exercised.

25. Reserves

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium reserve	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Represents the share capital and share related movements of the previous holding company Gamma Telecom Holdings Limited following the common control transaction in 2014. These financial statements incorporate the results of business combinations using the acquisition method with the exception of the common control transaction on the forming of the Group. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.
Share option reserve	Represents credit to equity relating to share based payment expense on share options.
Foreign exchange reserve	Exchange differences relating to the translation of the net assets of the Group's foreign subsidiaries from their functional currency into the parent's functional currency.
Own shares	Purchase of own shares under a SIP scheme.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

26. Retirement benefits

The Group operates a defined contribution pension scheme for the benefit of its employees. The assets of the scheme are administered by trustees in a fund independent from those of the Group. The pension costs charged for each year are listed below:

	2018 £m	2017 £m
Defined contribution pension scheme	2.8	2.1

27. Share based payment expense

Share options granted

On 23 May 2018 the Board approved an issue of options under the Company Share Option Plan which granted 185,424 options over £0.0025 Ordinary Shares at an exercise price of £7.3400. These will vest in May 2021.

On 3 April 2018 the Board approved an award under the long term incentive plan for the senior management team. 315,353 options were granted over £0.0025 Ordinary Shares at an exercise price of £0.0025 per share which will vest on 3 April 2021 subject to performance conditions. The awards granted will have a performance period of three years starting from the vesting commencement date, being 3 April 2018.

The awards issued under the long term incentive plan will vest as follows:

- 15% of the shares are subject to an award if annual compound total shareholder return over the performance period equals 8% and 50% of the shares are subject to an award if the annual compound total shareholder return over the period exceeds or equals 15% with pro rata straight line vesting in between; and
- 15% of the shares are subject to an award if annual compound growth of the Group's adjusted earnings per share over the performance period equals 8% between the financial years at the beginning and the end of the performance period and 50% of the shares are subject to an award if the annual compound growth of the Group's adjusted earnings per share exceeds or equals 20% with pro rata in between.

On 8 May 2018 the Board approved an issue of options under a Save As You Earn scheme which granted 241,298 options over £0.0025 Ordinary Shares at an exercise price of £5.5520. These options will vest in July 2021.

The weighted average fair value of awards granted during the year was £2.91 (2017: £2.30).

Financial statements continued

Notes forming part of the financial statements For the year ended 31 December 2018 continued

27. Share based payment expense continued

Share options movements

Movements in the number of options during the year were as follows:

The options below were exercised at a weighted average share price of £7.51, and weighted average exercise price of £1.15, and the weighted average exercise price of share options exercisable at 31 December 2018 was £2.34.

2018 Date of grant	Start of year	Granted	Forfeited/ Cancelled	Exercised	End of year	Exercise price	Class of share	Notes
6 June 2014	20,000	-	-	-	20,000	£0.2500	Ordinary	(a)
8 May 2015	370,349	-	-	(281,119)	89,230	£2.7000	Ordinary	(a)
8 June 2015	358,698	-	(21,970)	(336,728)	-	£0.0025	Ordinary	(a)
15 April 2016	65,382	-	(2,294)	-	63,088	£4.3575	Ordinary	(b)
17 May 2016	277,986	-	(25,598)	(46,272)	206,116	£0.0025	Ordinary	(c) (l)
19 May 2016	605,681	-	(33,353)	(6,354)	565,974	£3.4440	Ordinary	(d)
5 April 2017	184,032	-	(13,684)	-	170,348	£4.9325	Ordinary	(e)
9 May 2017	273,583	-	(15,089)	(3,099)	255,395	£4.1600	Ordinary	(f)
22 May 2017	261,208	-	(41,323)	(20,973)	198,912	£0.0025	Ordinary	(f) (k) (l)
3 April 2018	-	315,353	-	-	315,353	£0.0025	Ordinary	(h)
8 May 2018	-	241,298	(20,171)	(108)	221,019	£5.5520	Ordinary	(i)
23 May 2018	-	185,424	(5,450)	-	179,974	£7.3400	Ordinary	(j)

Notes:

- (a) Options have vested and are exercisable.
- (b) The awards granted will have a performance period of three years starting from the grant date, being 15 April 2016.
- (c) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2016.
- (d) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2016.
- (e) The awards granted will have a performance period of three years starting from the grant date, being 5 April 2017.
- (f) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2017.
- (g) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2017.
- (h) The awards granted will have a performance period of three years starting from the vesting commencement date, being 3 April 2018.
- (i) The awards granted will have a performance period of three years starting from the grant date, being 23 May 2018.
- (j) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2018.
- (k) The awards vest as follows:
 - i. 15% of the shares are subject to an award if annual compound total shareholder return over the performance period equals 8% and 50% of the shares are subject to an award if the annual compound total shareholder return over the period exceeds or equals 15% with pro rata straight line vesting in between; and
 - ii. 15% of the shares are subject to an award if annual compound growth of the Company's adjusted earnings per share over the performance period equals 8% between the financial years at the beginning and the end of the performance period and 50% of the shares are subject to an award if the annual compound growth of the Company's adjusted earnings per share exceeds or equals 20% with pro rata in between.
- (l) Options for Bob Falconer were vested early in line with the amount of the vesting period up to his leaving date and hence exercised before the rest of the scheme becomes exercisable. The unvested shares were cancelled.

There were no lapsed share options during the year.

Apart from the options noted as exercisable, all other options above are outstanding.

Movements in the number of options during the previous year were as follows:

The options below were exercised at a weighted average share price of £5.35, and weighted average exercise price of £0.013, and the weighted average exercise price of share options exercisable at 31 December 2018 was £0.25.

2017 Date of grant	Start of year	Granted	Forfeited/ Cancelled	Exercised	End of year	Exercise price	Class of share	Notes
6 June 2014	60,000	-	-	(40,000)	20,000	£0.2500	Ordinary	(a)
2 September 2014	1,155,912	-	-	(1,155,912)	-	£0.0025	Ordinary	(a) (j)
6 October 2014	284	-	-	(284)	-	£0.0025	Ordinary	(a)
6 October 2014	272,707	-	-	(272,707)	-	£0.0025	Ordinary	(a)
6 October 2014	67,892	-	-	(67,892)	-	£0.0025	Ordinary	(a)
8 May 2015	370,349	-	-	-	370,349	£2.7000	Ordinary	(b)
8 June 2015	455,218	-	(96,520)	-	358,698	£0.0025	Ordinary	(c) (j)
15 April 2016	65,382	-	-	-	65,382	£4.3575	Ordinary	(d)
17 May 2016	352,769	-	(74,783)	-	277,986	£0.0025	Ordinary	(e)
19 May 2016	641,053	-	(33,678)	(1,694)	605,681	£3.4440	Ordinary	(f)
5 April 2017	-	184,032	-	-	184,032	£4.9325	Ordinary	(g)
9 May 2017	-	274,664	(1,081)	-	273,583	£4.1600	Ordinary	(i)
22 May 2017	-	321,720	(60,512)	-	261,208	£0.0025	Ordinary	(h) (j)

Notes:

- (a) Options have vested and are exercisable.
- (b) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 April 2014.
- (c) Awards vest on 1 February 2017; there are no vesting conditions.
- (d) The awards granted will have a performance period of three years starting from the grant date, being 8 May 2015.
- (e) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2015.
- (f) On 31 October 2015 49,885 options with a vesting date of 1 February 2017 and 157,971 with a vesting date of 1 February 2016 were modified to have a new vesting date of 1 June 2016.
- (g) The awards granted will have a performance period of three years starting from the grant date, being 15 April 2016.
- (h) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2016.
- (i) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2016.
- (j) The awards will vest as follows:
 - i. 15% of the shares are subject to an award if annual compound total shareholder return over the performance period equals 8% and 50% of the shares are subject to an award if the annual compound total shareholder return over the period exceeds or equals 15% with pro rata straight line vesting in between; and
 - ii. 15% of the shares are subject to an award if annual compound growth of the Company's adjusted earnings per share over the performance period equals 8% between the financial years at the beginning and the end of the performance period and 50% of the shares are subject to an award if the annual compound growth of the Company's adjusted earnings per share exceeds or equals 20% with pro rata in between.

There were no lapsed share options during the year.

The share options are subject to equity-settled share based payments.

The share options outstanding at 31 December 2018 represented 2% of the issued share capital as at that date (2017: 3%) and would generate additional funds of £6.9m (2017: £5.4m) if fully exercised. The weighted average remaining life of the share options was 15 months (2017: 17 months), with a weighted average remaining exercise price of £3.03 (2017: £2.26).

Share based payment expense

Equity-settled share based payments are measured at fair value (excluding the effect of market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Application of the fair value measurement results in a charge to operating expenses within the subsidiary company Gamma Telecom Limited. The charge has been made to the profit and loss account of the subsidiary as the employees' services are provided to the subsidiary company. The charge for each year is as listed below:

	2018 £m	2017 £m
Share options issued to key management	1.0	1.0
Share options issued to other employees	0.9	1.0
Total share based payment expense	1.9	2.0

Included within the total share based payment expense of £1.9m (2017: £2.0m) is national insurance of £0.6m (2017: £0.5m).

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Notes forming part of the financial statements For the year ended 31 December 2018 continued

27. Share based payment expense continued

Fair value is measured using the Black-Scholes model and the Monte Carlo model (where market performance conditions are imposed). The information set out in the table below is used in the calculations. The expected life used in the model assumes that vesting conditions will be met and all options will be exercised at the earliest opportunity.

	2018	2017
Share price at grant date (pence)	686 – 762	500 – 575
Exercise price (pence)	0.25 – 734	0.25 – 493
Expected volatility	25%	27%
Risk free rate	0.817 – 0.878%	0.182 – 0.263%
Expected dividend yield	1.4%	1.4%

The assumptions relating to volatility and the risk free rate are calculated with reference to other comparable companies within the telecommunications sector.

The Group did not enter into any share based payment transactions with parties other than employees during 2017 and 2018.

28. Fair value measurements of financial instruments

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

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

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

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

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

The fair value of contingent consideration related to the acquisition of DX Group (see note 16) was based on the expected 2019 EBITDA of the business.

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

The two most significant sensitivities are a change in future EBITDA and change in the value of sterling. An increase/(decrease) by 10% of either of these variables will result in an increase/(decrease) of fair value of £2.25m. As per the agreement the sum of the Earnout Amount and the Base Consideration shall never exceed €27.5m and the Earnout Amount shall never exceed €14.0m and shall never be negative.

Management has recalculated the fair value of the contingent consideration at the end of each accounting period and there has been no material difference in the fair value.

Level 3 fair value measurements

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

	£m
1 October 2018	8.1
Adjustment to contingent consideration	-
31 December 2018	8.1

29. Capital commitments

As at 31 December 2018, amounts contracted for but not provided in the financial statements amounted to £14.4m for the Group (2017: £0.1m). This amount is for the purchase of software licences in 2018 and property, plant and equipment in 2017.

The capital commitments in 2018 are payable in USD, with the payable amount being \$18.3m. Changes in the exchange rate as a result of Brexit could cause variances in the value of the commitment.

30. Related party transactions

Details of key management's remuneration are given in note 8.

Dividends of £0.4m (2017: £0.3m) were paid to Directors during the year and no dividends were payable to Directors at the year end.

There were no other transactions with related parties during the year.

31. Subsequent events

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

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

32. Ultimate controlling party

There is no ultimate controlling party.

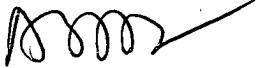
Financial statements continued

Company balance sheet As at 31 December 2018

	Note	2018 £m	2017 £m
Fixed assets			
Investments	3	11.0	9.3
		11.0	9.3
Current assets			
Debtors	4	64.5	45.1
Cash at bank and in hand		6.5	6.1
		71.0	51.2
Creditors: amounts falling due within one year	5	(21.1)	(13.1)
Net current assets		49.9	38.1
Total assets less current liabilities		60.9	47.4
Capital and reserves			
Called-up equity share capital	6	0.2	0.2
Share premium account		4.6	3.8
Share option reserve		10.8	9.1
Profit and loss account		45.3	34.3
Shareholders' funds		60.9	47.4

As a consolidated statement of comprehensive income is published, a separate profit and loss account for the parent company is omitted from the Group financial statements by virtue of section 408 of the Companies Act 2006. The profit in respect of the Company for the year was £19.1m (2017: £13.1m).

The financial statements of Gamma Communications plc (registered number 08943488) on pages 114 to 115 were approved and authorised for issue by the Board of Directors on 11 March 2019 and were signed on its behalf by:


Andrew Belshaw
Chief Financial Officer

The notes on pages 116 to 118 form part of these financial statements.

Company statement of changes in equity

For the year ended 31 December 2018

	Share capital £m	Share premium reserve £m	Share option reserve £m	Profit and loss account £m	Total equity £m
1 January 2017	0.2	3.7	7.6	28.5	40.0
Dividends paid	-	-	-	(7.3)	(7.3)
Share based payments	-	-	1.5	-	1.5
Issue of shares	-	0.1	-	-	0.1
Transaction with owners	-	0.1	1.5	(7.3)	(5.7)
Total comprehensive income	-	-	-	13.1	13.1
31 December 2017	0.2	3.8	9.1	34.3	47.4
1 January 2018	0.2	3.8	9.1	34.3	47.4
Dividends paid	-	-	-	(8.1)	(8.1)
Share based payments	-	-	1.7	-	1.7
Issue of shares	-	0.8	-	-	0.8
Transaction with owners	-	0.8	1.7	(8.1)	(5.6)
Total comprehensive income	-	-	-	19.1	19.1
31 December 2018	0.2	4.6	10.8	45.3	60.9

Notes forming part of the Company financial statements For the year ended 31 December 2018

1. Accounting policies

General information

The Company's principal activity is to act as a holding company that does not trade with third parties. The Group, of which this Company is part, is principally engaged in the provision of communications and software services for business.

The Company is a public company and is incorporated and domiciled in the UK. The address of its registered office is 5 Fleet Place, London, EC4M 7RD.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements and Financial Reporting Standard 101 Reduced Disclosure Framework.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain properties and financial instruments. The presentation currency used is sterling and amounts have been presented in round millions ('£m').

The financial statements are prepared on the going concern basis. In assessing whether the going concern assumption is appropriate, the Directors have taken into account all relevant available information about the future trading including profit and cash forecasts and available facilities and funding. It is therefore considered appropriate to adopt the going concern basis of accounting in the preparation of the annual financial statements.

As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the Group financial statements by virtue of section 408 of the Companies Act 2006. The profit in respect of the Company for the year was £19.1m (2017: £13.1m).

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- (a) certain disclosures regarding the Company's capital;
- (b) a statement of cash flows;
- (c) the effect of future accounting standards not yet adopted;
- (d) the disclosure of the remuneration of key management personnel;
- (e) disclosure of related party transactions with other wholly owned members of the Group headed by Gamma Communications plc; and
- (f) disclosures in respect of financial instruments.

Investments

Shares in Group undertakings are initially recorded at cost and subsequently adjusted for capital contributions related to share based payments and any provisions for impairment.

The cost of acquisition is the amount of cash or cash equivalents paid and the fair value of other purchase consideration given by the acquirer, together with the expenses of the acquisition. Where the payment of consideration for an acquisition is to be made after the date of acquisition, reasonable estimates of the amounts expected to be paid are included in the cost of acquisition at their present values.

The cost of acquisition is adjusted when revised estimates are made, with consequential corresponding adjustments continuing to be made to the cost of the investment, and therefore goodwill, until the ultimate amount is known.

Financial assets

The Company does not have any financial assets which it would classify at fair value through profit or loss, available for sale or held to maturity. Therefore, all financial assets are classed as loans and receivables as defined below.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset.

They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

The Company's loans and receivables comprise amounts due from Group undertakings, other receivables and cash and cash equivalents in the statement of financial position. Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within loans and borrowings in current liabilities on the statement of financial position.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Dividends and distributions relating to equity instruments are debited direct to equity.

2. Critical accounting judgements and estimates

Gamma Communications plc is a non-complex entity primarily holding intercompany debtors and creditors. As such there are no critical judgements or accounting estimates that represent a risk of material misstatement over the next 12 months.

3. Investments

	2018 £m	2017 £m
At 1 January 2018	9.3	7.8
Capital contributions arising from share based payments	1.7	1.5
At 31 December 2018	11.0	9.3

At 31 December 2018 the Company held share capital of the following subsidiaries.

Name	Country of incorporation	Nature of business	Ownership by the Company	Notes
Gamma Telecom Holdings Limited	United Kingdom	Intermediate holding company	Direct ownership	(a)
Gamma Telecom Limited	United Kingdom	Telephony services	Indirect ownership	(a)
Gamma Business Communications Limited	United Kingdom	Telephony services	Indirect ownership	(a)
Gamma Network Solutions Limited	United Kingdom	Telephony services	Indirect ownership	(a)
Gamma Development KFT (formerly Peach Amber KFT)	Hungary	Software services	Indirect ownership	(b)
Gamma Communications Netherlands B.V.	Netherlands	Intermediate holding company	Indirect ownership	(c)
DX Groep B.V.	Netherlands	Intermediate holding company	Indirect ownership	(d)
Dean One B.V.	Netherlands	Telephony services	Indirect ownership	(d)
Schiphol Connect B.V.	Netherlands	Telephony services	Indirect ownership	(d)
Gamma Communications Ireland Ltd	Ireland	Telephony services	Indirect ownership	(e)
Gamma Communications US Inc	United States	Dormant	Indirect ownership	(f)
Uniworld Bureau Services Limited	United Kingdom	Dormant	Indirect ownership	(a)

Notes:

(a) Registered Office: 5 Fleet Place, London, EC4M 7RD, England.

(b) Registered Office: 1054 Budapest, Széchenyi Rakpart 8, Hungary.

(c) Office address: 5 Fleet Place, London; EC4M 7RD, England.

(d) Office address: Krijgsman 75, 1186 DR Amstelveen, the Netherlands.

(e) Registered Office: 6th floor, 2 Grand Canal Square, Dublin 2.

(f) Registered Office: 1313 N. Market Street, Suite 5100, Wilmington, Delaware, 19801, USA.

Gamma Telecom Limited is also a member of NP4UK Limited which is a dormant company (limited by guarantee) incorporated in the United Kingdom.

4. Debtors

	2018 £m	2017 £m
Amounts due from Group undertakings	64.5	45.0
Other debtors	-	0.1
	64.5	45.1

Amounts due from Group undertakings are payable on demand.

The Group has considered the expected credit loss arising on amounts due from Group undertakings. All subsidiaries are profitable and pay annual dividends. Therefore the value of the expected credit loss is negligible.

5. Creditors

	2018 £m	2017 £m
Amounts due to Group undertakings	21.1	13.0
Accruals	-	0.1
	21.1	13.1

Financial statements continued

Notes forming part of the Company financial statements For the year ended 31 December 2018 continued

6. Share capital

Details of the share capital and movement during the year are given in note 24 to the consolidated financial statements.

7. Dividends paid

Details of the dividends paid during the year are given in note 11 to the consolidated financial statements.

8. Contingent liabilities

The Company had no contingent liabilities at 31 December 2017 or 31 December 2018.

9. Capital commitments

The Company had no capital commitments at 31 December 2017 or 31 December 2018.

10. Related party transactions

The Company has taken advantage of the exemption available within FRS 101 Reduced Disclosure Framework not to disclose transactions with other members of the Group headed by the Company. See note 30 to the consolidated financial statements for details of the disclosed related party transactions.

Supplementary information

Company information

Registered Office

5 Fleet Place
London
EC4M 7RD

Head Office

Kings House
Kings Road West
Newbury
Berkshire
RG14 5BY

Nominated Adviser and Broker

Investec Bank plc
30 Gresham Street
London
EC2V 7QP

Auditors to the Company

Deloitte LLP
Abbots House
Abbey Street
Reading
RG1 3BD
United Kingdom

Legal Advisers to the Company

Bird & Bird LLP
15 Fetter Lane
London
EC4A 1JP

Registrar

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Company website

www.gamma.co.uk

Company number

08943488

Supplementary information continued

Notes

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There is no text or other markings on the paper.

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