Gamma

Clear. Creative. Communications.

Innovate

Communicate

Gamma Communications plc
Annual Report and
Accounts 2014

Gamma is an AIM listed communications company.

We are a leading supplier of business communications services to the UK market.

Welcome to our 2014 maiden Annual Report.

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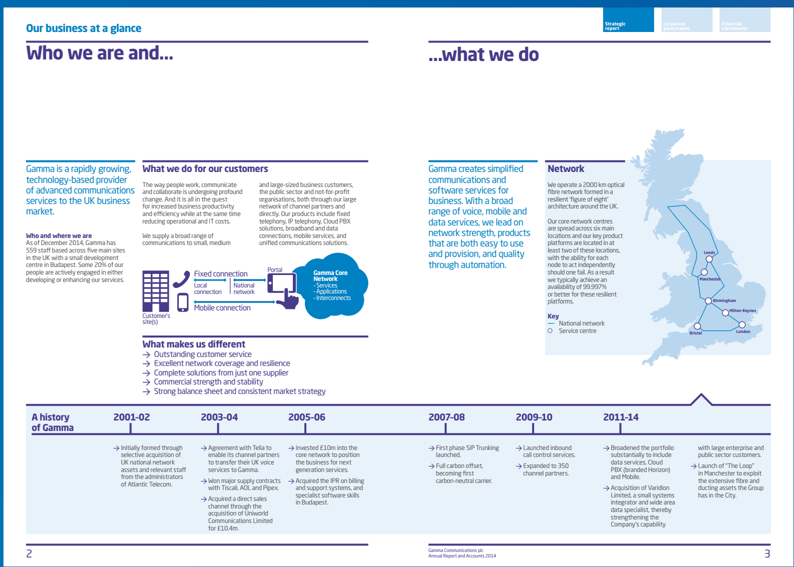
Our business at a glance



Financial highlights

£17.9m
Unadjusted EBITDA grew by 10% from £16.3m to £17.9m

£23.1m
Adjusted EBITDA grew by 34% from £17.2m to £23.1m

£173.2m
Overall revenue grew from £148.7m in 2013 to £173.2m (up 16%)

£67.6m
Gross profit improved from £53.9m to £67.6m (up 25%)

£16.4m
Net cash inflow from operating activities was £16.4m up 17% from £14.0m in 2013

Who we are and...

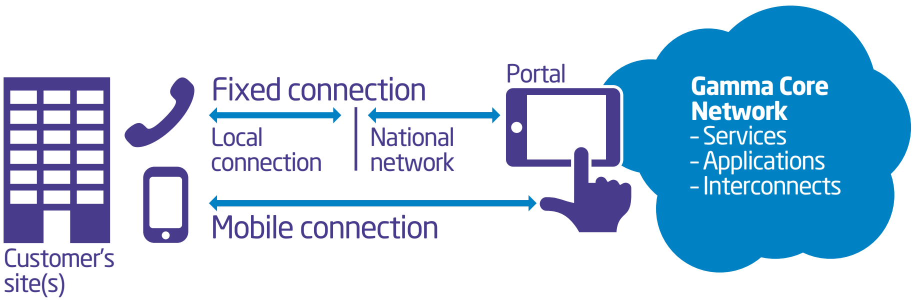
Gamma is a rapidly growing, technology-based provider of advanced communications services to the UK business market.

Who and where we are
As of December 2014, Gamma has 559 staff based across five main sites in the UK with a small development centre in Budapest. Some 20% of our people are actively engaged in either developing or enhancing our services.

What we do for our customers

The way people work, communicate and collaborate is undergoing profound change. And it is all in the quest for increased business productivity and efficiency while at the same time reducing operational and IT costs.

We supply a broad range of communications to small, medium and large-sized business customers, the public sector and not-for-profit organisations, both through our large network of channel partners and directly. Our products include fixed telephony, IP telephony, Cloud PBX solutions, broadband and data connections, mobile services, and unified communications solutions.



What makes us different

- → Outstanding customer service
- → Excellent network coverage and resilience
- → Complete solutions from just one supplier
- → Commercial strength and stability
- → Strong balance sheet and consistent market strategy

A history of Gamma

2001-02

→ Initially formed through selective acquisition of UK national network assets and relevant staff from the administrators of Atlantic Telecom.

2003-04

→ Agreement with Telia to enable its channel partners to transfer their UK voice services to Gamma.

→ Won major supply contracts with Tiscali, AOL and Pipex.

→ Acquired a direct sales channel through the acquisition of Uniworld Communications Limited for £10.4m.

2005-06

→ Invested £10m into the core network to position the business for next generation services.

→ Acquired the IPR on billing and support systems, and specialist software skills in Budapest.

...what we do

Gamma creates simplified communications and software services for business. With a broad range of voice, mobile and data services, we lead on network strength, products that are both easy to use and provision, and quality through automation.

Network

We operate a 2000 km optical fibre network formed in a resilient 'figure of eight' architecture around the UK.

Our core network centres are spread across six main locations and our key product platforms are located in at least two of these locations, with the ability for each node to act independently should one fail. As a result we typically achieve an availability of 99.997% or better for these resilient platforms.

Key
— National network
○ Service centre

2007-08

- First phase SIP Trunking launched.
- Full carbon offset, becoming first carbon-neutral carrier.

2009-10

- Launched inbound call control services.
- Expanded to 350 channel partners.

2011-14

- Broadened the portfolio substantially to include data services, Cloud PBX (branded Horizon) and Mobile.
- Acquisition of Varidion Limited, a small systems integrator and wide area data specialist, thereby strengthening the Company's capability with large enterprise and public sector customers.
- Launch of "The Loop" in Manchester to exploit the extensive fibre and ducting assets the Group has in the City.

Understanding and responding in a vibrant communications market

Our services are designed to meet the needs of the UK business market, from small businesses to national enterprises. We do not compete in either the residential market, or the market for multinational corporations. Our focus is on software based services that we can supply from the core of our network (i.e. cloud-based) and we minimise our involvement with equipment on the customer's premises.

Major trends impacting growth in our market are the shift of hardware to the Cloud, the availability of optical fibre access for businesses, the growth in smartphones, and the growing convergence of communications and IT.

SIP Trunking: Business Grade VoIP
SIP Trunking is increasingly being used by business customers to replace traditional ISDN lines. At the end of 2014 there were estimated to be 1.5m SIP Trunking channels deployed in the UK, of which Gamma has a 16% share and is the market leader. The broader directly relevant market, however, is the 3.2m business ISDN channels for which SIP Trunking offers a modern, more cost-effective alternative. Gamma's growth rate in sales of SIP Trunking services in 2014 was 45%.

Cloud PBX: A phone system in the Cloud
The total UK business PBX market (including on-premise and hosted) is approximately 17.6m seats, of which close to 1.65m are hosted PBX seats. Cloud PBX services are increasingly replacing traditional, on-premise PBX infrastructure with seat volumes growing at circa 22% per annum including private Cloud PBXs. In 2014 Gamma's growth rate in Cloud PBX seats was 86%.

75%

Research predicted that by the start of 2014 more than 75% of UK businesses would be using at least one type of Cloud service

3.2m

There are 3.2m business ISDN channels in the UK, for which SIP Trunking offers a modern, more flexible and lower cost alternative

Efficiency case study: Knight Frank estate agent

The challenge – to meet a growing demand for real time audio, video and imaging on the desktop, Knight Frank wanted to move away from computing in the server room and put processing power back on users' desks.

At the same time the firm wanted to improve its communications infrastructure to better support a mobile and increasingly global workforce, and to deliver a seamless, multimedia and more collaborative experience for all users.

Firstly we brought the Knight Frank branch network up to date by replacing some 600 legacy telephone lines and broadband links with an Ethernet wide area network, delivering a 40 times increase in capacity and generating new opportunities for video and voice.

Building on the new Ethernet infrastructure, we implemented SIP telephony across the organisation, creating an environment for Microsoft® Lync® and leveraging our Lync® 2013 accreditation. We brought Knight Frank's extensive and disparate population of mobile devices under the Gamma umbrella, bringing opportunities for fixed/mobile convergence and BYOD.

"The main benefits we've seen (by working with Gamma) have been a rock solid architecture across the organisation that we've really been able to build on. As it has developed it has allowed us to do additional things that have delivered some pretty incredible cost savings."

Owen Williams
Partner and Group Head of IT, Knight Frank

1,000

Since 2000, available broadband speeds in the UK have risen from 0.5 megabits per second to 1,000

Inbound

The market for Inbound Call Control Services ranges from large enterprises to small organisations for whom professionally managing inbound calls (such as for sales and customer services) is important as it enables them to queue, record and route calls effectively.

Ethernet

Ethernet is becoming the dominant Wide Area Network transmission technology because it can transport large amounts of any type of data in a fast, assured and economic manner. Ethernet connectivity between Local Area Networks enables multiple services and applications to operate seamlessly across different geographical locations. Gamma is a relatively late entrant to this market and views Ethernet as an enabling technology for its more strategic services such as SIP Trunking.

Broadband

Gamma offers a quality business-grade broadband service and does not compete for the residential market. Connections grew by 45% in 2014.

Mobile services

Gamma acts as a virtual operator, either under its own brand or that of its channel partner. In 2014 Gamma's market share of the UK business market stood at just 0.6%, leaving plenty of opportunity for further growth.

Routes to market

Gamma sells all of its products through both the indirect channels (via 725 channel partners) which generates 79% of its revenue, as well as selling to end users through the direct channel.

94%

In 2000, 50% of adults in the UK used a mobile phone. Today this figure is 94%

An exciting year for Gamma

2014 has been an excellent year for Gamma with a successful AIM listing and revenue and profit continuing to increase.

Introduction
I am very pleased to present my first report on the results of Gamma Communications plc for the year ended 31 December 2014 since its successful IPO and listing on the Alternative Investment Market (AIM) on 10 October 2014. To have the opportunity to be Chairman of a growing and dynamic company such as Gamma, operating in the vibrant communications market, and working with a truly professional Board and management team is very exciting and one to which I am greatly looking forward.

Gamma has had exceptional support from its founder Shareholders for many years; they nurtured its growth and provided an environment in which it could develop into the successful business it is today. We are pleased that they remain significant Shareholders as the Company moves to its next phase of growth and development as an AIM listed company. The AIM listing provided Gamma with the opportunity to broaden its Shareholder base, give it access to new sources of capital for future growth and development and provide increased visibility and recognition for the business in its markets.

Overview of results
Overall Group revenue for the year ended 31 December 2014 increased by £24.5m to £173.2m (2013: £148.7m), an increase of 16% compared to the year ended 31 December 2013. Of this increase, £17.9m came from the indirect channels business which grew revenue to £136.9m (2013: £119.0m) and £6.6m from the direct business which saw revenue increase to £36.3m (2013: £29.7m).

Gross profit for the year to 31 December 2014 amounted to £67.6m, an increase of 25% compared to the £53.9m achieved in 2013, whilst the gross profit percentage increased to 39.0% (2013: 36.2%). EBITDA, before exceptional costs and share based payments, for the Group as a whole increased to £23.1m (2013: £17.2m), an increase of 34% compared to the previous year. Adjusted earnings per share for the year ended 31 December 2014 were 15.0p (2013: 10.8p); unadjusted earnings per share were 10.0p (2013: 9.9p).

The net operating cash inflow for the year was £16.4m compared to £14.0m in 2013. This represents a cash to EBITDA ratio in respect of 2014 of 92% compared to 86% for 2013. Despite the increased capital expenditure and other exceptional items, net cash as at 31 December 2014 amounted to £13.4m, which is marginally down from £14.6m as at 31 December 2013.

Dividend
Gamma, as stated at the time of the IPO, is committed to a progressive dividend policy. I am therefore pleased to announce that a dividend, in respect of the year ended 31 December 2014, of 3.95 pence per share will, subject to the necessary Shareholder approval at the forthcoming Annual General Meeting, be payable to Shareholders on the register at 5 June 2015. This dividend represents a yield of 2.1% on the IPO price.

Corporate development
Not surprisingly, Gamma's focus in 2014 was the successful IPO of the business, which in itself will enhance the corporate development opportunities available to the Company. It does, however, remain Gamma's intention to look for opportunities to invest in new business areas and make appropriate earnings-enhancing acquisitions which support

6th

Fixed Line Network Provider of the Year 2014, 6th year in a row

100

Gamma was recognised as one of 'The Sunday Times Best 100 Companies to Work For – 2014'

Corporate governance page 30

its strategic objectives. In 2014 Gamma came to an agreement with the vendors of Varidion Limited (acquired in 2012) to settle the deferred element of the consideration early by paying £2.6m in cash. This was considered appropriate as it has enabled the integration and development of the business and its management to be completed more quickly.

In December 2014 Gamma purchased control equipment that provides the core of a mobile network. When brought into active use, currently anticipated to be 2016, the Group will have much greater control and flexibility over its mobile services and be much better positioned for the widely anticipated market for converged services, with a specific focus on the business market.

Board and employees

As part of the preparation for IPO a number of changes to the Board took place during 2014. Firstly, I should like to thank Owen Jonathan, previously Chairman, who retired from the Board in May 2014, and Ean Kuok and Steve Burton, who resigned from the Board just prior to the IPO, for their tremendous input into the Company and for their support and encouragement to the executive management team. Secondly, I should like to welcome the new members of the Board, Alan Gibbins and Martin Lea, who both joined in June 2014 as Independent Non-Executive Directors; they have taken on the roles of Chairman of the Audit Committee and of the Remuneration Committee respectively. I should also like to welcome Andrew Belshaw who was appointed to the Board as Finance Director in October 2014; I believe the Board as presently constituted has a wealth of experience and the necessary understanding to help take Gamma through its next stage of development and beyond.

The senior executives, managers and employees are the bedrock of Gamma and they have significantly contributed to the creation of the successful company we have today. I should like to thank them for their consistent hard work and continued support, especially during the IPO process when, despite the significant increase in workload of the executive Board members and the senior executive team, the business continued to grow and develop successfully and provide excellent support to our customers and partners.

Gamma is fully supportive of apprenticeship schemes, employee volunteering within the local community and has a policy of matched funding for charitable activities by staff. Employee motivation and development are fundamental principles of Gamma and lead, we believe, to a successful and strong business.

Outlook

The Board looks forward to 2015 with great enthusiasm and believes that Gamma will continue to benefit from the investment it has made and continues to make in its direct and indirect business channels. Gamma's stated vision is to continue to grow both its market share and profitability by developing new innovative communications products for business and the public sector. We believe that Gamma has the experience, resources and capabilities to continue to achieve its objectives.

Richard Last
Chairman and Independent Non-Executive Director

How Gamma creates value

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.

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

Gamma also provides services such as business-grade broadband, Ethernet, mobile and data services. Also, as a consequence of its history, Gamma has a substantial voice service capability, completing its comprehensive range of communication services.

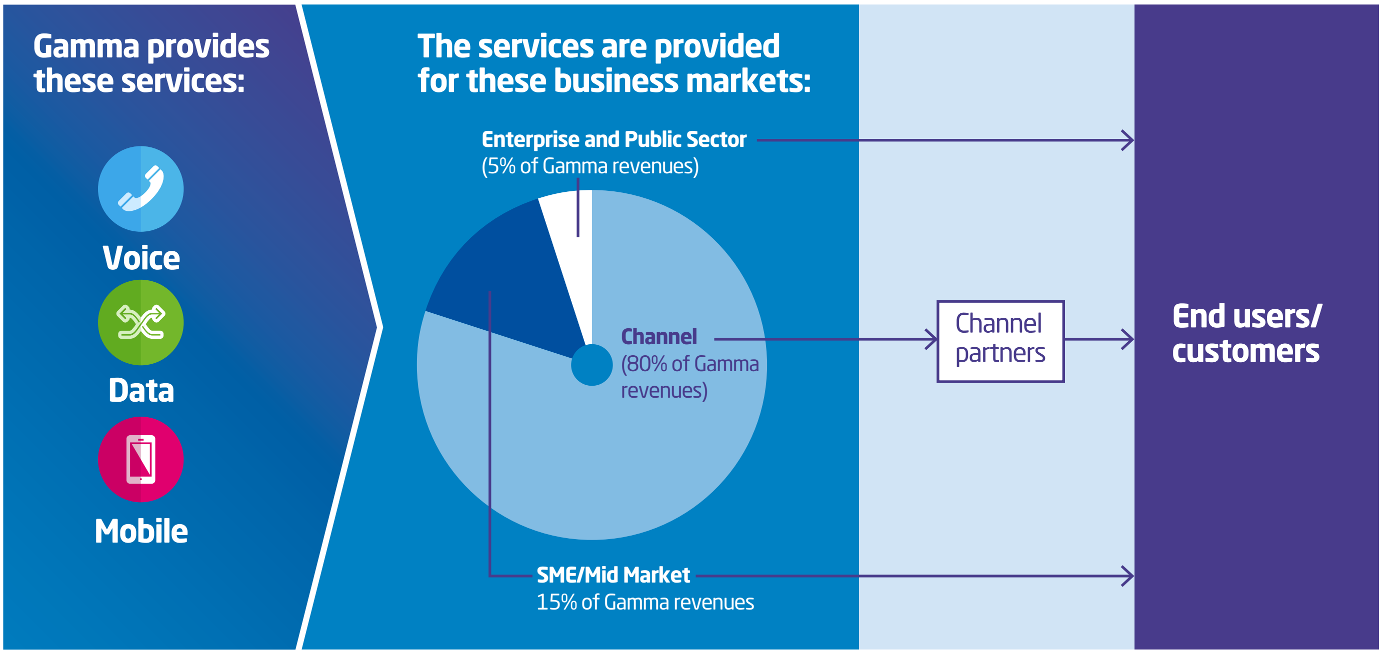
Our services

Our portfolio comprises voice, data and mobile services that are sold indirectly through channel partners and directly to end users. These services are sold in a standard, repeatable way to both partners and customers. What creates value and differentiation in our services is the way we deliver them to our partners via the Gamma portal. The business invests significantly in software resources to automate, simplify and speed up the provisioning and billing of our services. This focus on "ease of use" for all our services across one platform is a key differentiator, and reduces the back office costs of our partners.

Growing our business

The business has consistently grown its margins over the last five years and this growth has come from right across our different channels. We do not have a target mix for indirect and direct business – we will let the business market decide. This growth has come despite industry reductions in regulated prices and difficult economic conditions.

A resilient business model



37,000

We have added over 37,000 new seats during 2014 to the Horizon product, our Cloud-based alternative to a traditional phone system (PBX)

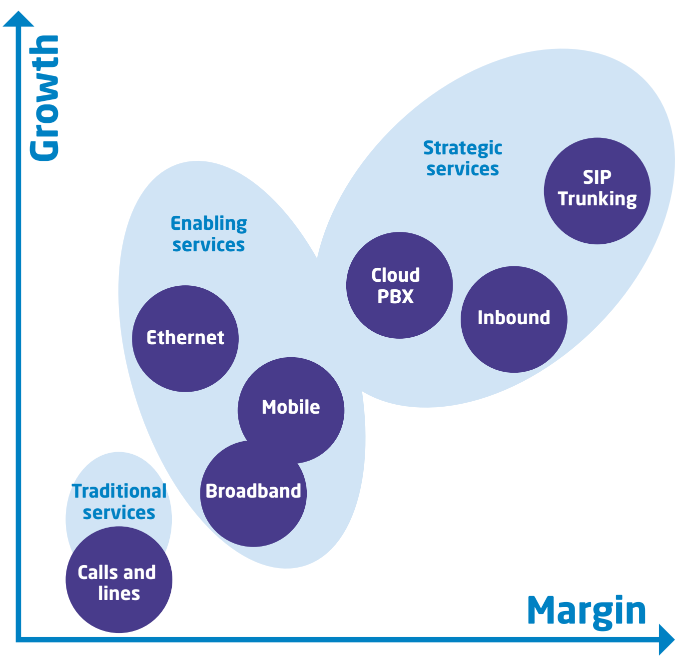
Strategic services

The single biggest factor in the success of the business over the last five years has been the transition from selling traditional services, such as calls and lines, to providing the more strategic services of Cloud PBX, SIP Trunking and Inbound Call Control Services. For the customer, these services have three inherent advantages over the services they replace: they cost less, they are more flexible and feature-rich, and they do not require significant capital expenditure to implement.
For Gamma, the investment in product development is returned with improved margins, longer contracts and lower churn as the products are more integral to a business operation. The enabling services of Ethernet, mobile and broadband (see diagram) are prerequisites for providing the strategic services and for ensuring that Gamma, and its channel partners, maximise the revenue opportunity from each customer.

Public sector

This is becoming an increasingly important market for Gamma, both through a number of key channel partners, who are active and successful in the public sector, and our own direct sales capability. Through framework agreements we now have a significant presence in education, health and local government, and are now looking to establish a presence in central government under the new Public Services Network (PSN) framework.

Service portfolio



Case study: Alternative Networks

"We're all about designing and building solutions that solve business issues. Through the strong and supportive channel partner relationship we enjoy with Gamma, we benefit from innovative and flexible products and focused marketing support.

Gamma's broad portfolio of products and services can uniquely blend together, making it easier for us to present a seamless proposition to clients, while maximising the cross-sell and margin opportunity.

Our clients fully recognise the benefits of moving away from legacy technology over to technology that enables far more flexibility, provides a robust and resilient platform and gives them the ability to change the shape of their business. Our partnership with Gamma means we can help our clients make this change and realise these benefits."

Neil Rampe
Group Commercial and Marketing Director at Alternative Networks

Welcome to Gamma's inaugural Annual Report

May I echo the Chairman's comment in thanking the founding Shareholders for their unstinting support for the business for over ten years.

2014 saw a strong financial and operational performance from Gamma, as well as a successful listing on the Alternative Investment Market (AIM).

Listing on AIM was an important step forward in the development of Gamma. Being a listed business raises the corporate profile of Gamma and PLC status increases access to business and public sector markets, both important growth opportunities.

It was particularly pleasing to guide the business on a smooth transition from private to public ownership while delivering such a strong trading performance. The breadth and depth of the broader Gamma management team ensured that trading remained undisturbed, with the business having a record year.

Overall, revenue grew from £148.7m in 2013 to £173.2m (+16%) whilst gross profit improved from £53.9m to £67.6m (+25%). Adjusted EBITDA grew by 34% from £17.2m to £23.1m, while adjusted profit before tax increased to £16.7m, up 35% from £12.4m in 2013.

The outlook for Gamma remains positive, and we look forward to continuing the strong momentum in the business and delivering sustainable long term value for our stakeholders.

Channel partners

With almost 80% of Gamma's revenues coming indirectly from our channel partners, we were very pleased to see the number of partners that trade with us grow from 627 to 725 during the year. The clear trend amongst channel operators to provide a much broader range of business IT and communications services has given us the opportunity to work with a much wider range of organisations, from IT specialists to Systems Integrators. We have been particularly pleased to help many of our partners, including larger channel partners such as Alternative Networks, Capita IT, HighNet and Focus, to expand their portfolios and grow their capability in the UK business market.

Direct sales

The direct arm of Gamma's business grew rapidly, particularly in the larger enterprise sector. This included some significant wins, such as Hearst Magazines, for whom the business provides all data, voice and mobile services. FCC Environment also selected Gamma to implement and support, for the next three years, a fully managed next generation voice and data network for their extensive estate. We were also awarded major multi-year infrastructure contracts from BDO LLP and Moore Stephens LLP.

In the public sector, where we see considerable scope for growth, the business has been particularly successful in the education sector, adding 25 academic institutions that include Oxford and Bristol Universities. We also became approved suppliers of fixed telephony services to public sector organisations, being awarded one of ten positions in the Crown Commercial

Introducing our strategy for growth, find out more on page 14

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Exploiting existing services

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Infrastructure investment

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Execution

Service's RM1035 framework. Gamma also mirrored this in Scotland, being one of eight approved suppliers of telecommunications services via the Scottish Procurement Framework.

Strategic products

Our strategic products of SIP Trunking (business grade VoIP) and Horizon (our hosted PBX service) have enjoyed exceptional growth. Our SIP product – which is a more flexible alternative to traditional ISDN – grew by 45% from 161,000 to 234,000 channels during 2014. With the consistent investment in automated processes that we have made over several years, the business has readily coped with order volumes at times exceeding 10,000 channels per month. During 2014 we introduced a number of service enhancements, including additional resilient options, and new pricing initiatives that bundle in the call minutes. Gamma is pleased to be recognised as the current UK market leader in SIP Trunking.

As businesses look to put more services in the Cloud, the traditional PBX is being seriously challenged by hosted services. Gamma's Horizon product has achieved growth of 86% over the last year. With over 80,000 connected handsets, Gamma now has over 250 channel partners accredited to sell the product. With both SIP Trunking and Horizon, the business has taken the significant step of bundling both calls and access connectivity into the service package; creating both a one-stop-shop for service and providing greater certainty on costs for the customer. Indeed, for Horizon, this bundling has extended to include the fixed telephone handset.

Enabling products

Gamma's enabling services of ethernet, business-grade broadband, and mobile also grew significantly during the year. For example, the number of business-grade broadband connections grew from 20,000 to 29,000.

Traditional products

Margins on the traditional business, which we define as conventional wholesale calls and lines on TDM technology, increased marginally over the year, ahead of the general reduction in the market. We have significantly reduced our role in carrying traffic for the fixed line calling card market, which is being steadily displaced by targeted mobile offerings.

Corporate development

We were particularly pleased to finalise the consideration paid on our 2012 acquisition of Varidion Limited at £3.6m by paying £2.6m in the year. This business unit, which provides more bespoke services for larger organisations, has performed exceptionally well since becoming a part of the Gamma Group. In 2014 it had revenues of £7.8m and EBITDA of £1.4m. It is now being integrated deeper into the organisation in anticipation of strong growth in 2015 and beyond.

Welcome to Gamma's inaugural Annual Report
continued

Operational performance

With Gamma now providing services to a growing proportion of UK businesses, the quality of the operational services is absolutely paramount, and an area where the business seeks to differentiate itself from its competitors.

Overall, across all Gamma products the 2014 performance was above the service levels offered, although in a technical operation of our scale there were inevitably a small number of service glitches. In all cases the business has been ruthless in identifying and eliminating the root causes. Overall, the service trend has been one of continuous improvement over several years. Strong emphasis continues to be placed on the quality of the operational service, the elimination of risk and improvements in security, and to this end the business has maintained its certification in both ISO 27001 and ISO 22301. Surveys of customer satisfaction have provided very positive results, with a Net Promoter Score (NPS) of +29% for the indirect business and +22% for the direct – both excellent results.

The performance of BT Openreach continues to be of significant concern and the greatest driver of complaints.

We are working with other BT Openreach customers and the OTA (Office of the Telecommunications Adjudicator) to drive service improvement for business customers.

THE SUNDAY TIMES 100 BEST COMPANIES TO WORK FOR 2013

THE SUNDAY TIMES 100 BEST COMPANIES TO WORK FOR 2014

Regulatory

Gamma intervened in support of an appeal brought by BT at the Supreme Court regarding the termination rates for non-geographic numbers; we were pleased that the Supreme Court allowed BT's appeal. Gamma now awaits the outcome of two follow-on cases before the Competition Appeal Tribunal in relation to its termination rates for these calls.

Investments in product development

Over 2014 we continued our investment in the core network. This latest generation infrastructure will enable more converged voice, data and software services, to support the growth of the business and reduce third party costs.

The business also continues to invest heavily in product development, with around 20% of the staff resources allocated to this function. With a broad product portfolio, much of the focus has been on enhancing the current product set. A key focus in the development of the Horizon Cloud PBX was the addition of soft clients for PCs and smartphones, and the ability to interwork the Horizon product with the customer's internal systems – enhancing the service from a replacement telephony service to a more unified communications solution.

We have also launched a voice business continuity product enabling a business to immediately redirect all its incoming calls to a pre-prepared plan in the event of difficulty.

In December 2014 we made an opportunistic, but strategic, acquisition of equipment that comprise the 'core' of a mobile network, i.e. the equipment which controls the voice and data services used by a mobile subscriber. We currently anticipate bringing those assets into active use in 2016. This will give us both a reduced cost of sale and the ability to add more converged fixed and mobile services for the UK business market.

People

The average number of people in the Gamma Group increased over the year from 431 to 519 primarily to support the growth in product volume and future product development. In support of this growth we entered into new leases on properties in London and Glasgow to cater for the continued expansion of the business.

Once again Gamma was recognised as one of "The Sunday Times 100 Best Companies to Work For 2014". As well as aiding recruitment and retention, the survey process has provided us with valuable and detailed feedback from our employees.

We were also pleased to receive the industry awards for 'Network Operator of the Year 2014' and 'Best Fixed Line Network Provider 2014' from Comms Business and Comms Dealer CNA awards respectively.

Outlook

And so to 2015, where our core strategy is to remain a leader in the high growth sectors of the business communications market (such as SIP Trunking and Cloud PBX) underpinned by absolutely the best-in-class in terms of quality of service and with the best and most motivated staff we can hire. We expect the volumes to continue to grow in strategic markets (SIP Trunking, Cloud PBX etc) and to continue to decline in traditional services (phone calls and lines), with our margins continuing to migrate from traditional to strategic.

The industry as a whole continues to undergo major changes, such as the proposed acquisition of EE by BT, much of it driven by larger players looking to take multiple service offerings to the consumer market. Gamma, by contrast, remains wholly focused on the UK business market and the Channel as an effective route to that market.

Bob Falconer
Chief Executive Officer

Growing our profitability and market share

This strategy will be principally pursued organically, but Gamma is also well placed to consider strategically relevant acquisitions as the opportunities arise.

Our objective

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

Our vision is delivered via five strategic pillars:

Exploiting existing services

- Maintaining focus on the high-growth market opportunities for services such as SIP Trunking and Cloud PBX.
- Continuing to minimise the erosion of traditional services in spite of anticipated market size reductions by offering customers extra features and a migration path to strategic services and enabling services.
- Increasing flexibility of approach to increase share of customer spend over time as multiple services increasingly procured from the same supplier and individual incumbent contracts expire.

Infrastructure investment

- Completing the infrastructure investment programme currently underway in order to better position the business to supply more converged services and multi-site data services.
- Reducing cost by expanding the data network deeper into the regulated BT Openreach exchanges.
- Seeking commercial opportunities to expand and deepen its technical capability in mobile services.

Introducing new services

- Launching an MPLS data service in 2015 to address the needs of larger multi-site organisations supported by a single set of IT systems and Gamma's portal.
- Developing more converged services, and commercial bundles of services, to meet the perceived demand for such services in the UK business market.

Developing the market

- Growing the number of channel partners Gamma works with and deepening the relationship with existing channel partners by providing attractive services and support.
- Growing business in the public sector and gaining access to further public sector framework agreements.
- Growing Gamma's brand awareness in the UK business market in support of the above.

Execution

- Maintaining our "Policy of One" in terms of underlying systems.

Key performance indicators page 16

Innovation case study: Pret A Manger

Leading food retailer Pret A Manger has signed a contract with Gamma for the provision of a secure, PCI (Payment Card Industry) compliant, managed communications solution to deliver mission-critical applications, such as credit card, voice and VDI traffic, to global datacentres and over 300 high street locations. The contract will enable Pret to prioritise shop floor applications, allowing for intelligent use of bandwidth and secure passage for important traffic like credit cards. Furthermore, the network will be optimised for compliancy and cross border traffic flow, increasing productivity and customer service across the organisation. With an inclusive 24/7 managed service that removes burden and total cost of ownership, Pret is able to take advantage of a robust, secure and scalable network and focus completely on growing its successful business.

A key factor in choosing Gamma to design, implement and manage the communications service was its service breadth and roadmap philosophy, explained Andy Chalklin, director of IT for Pret A Manger; "Our basic requirement was a secure, reliable data network that could prioritise and deliver critical applications, help meet our progressive compliancy needs, specifically PCI, and provide the best bandwidth for our budget and need."

Andy Chalklin
Director of IT for Pret A Manger

Measuring our success

Strategy page 14

Revenue (£m)

£173.2m

2014	173.2
2013	148.7
2012	137.2

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

Outlook
Ongoing growth driven by increased sales of strategic and enabling products.

2014 Gross Profit (£m)

£67.6m

2014	67.6
2013	53.9
2012	44.9

Definition
Revenues less direct costs of sales (excluding depreciation on specific assets which is shown as depreciation).

Outlook
Ongoing growth driven by increased sales of strategic and enabling products.

Gross Profit (%)

39.0%

2014	39.0
2013	36.2
2012	32.7

Definition
Gross Profit as a percentage of revenue.

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

Adjusted EBITDA (£m)

£23.1m

2014	23.1
2013	17.2
2012	14.4

Definition
Adjusted earnings before interest, taxation, depreciation and amortisation stated before exceptional items and share based payment charges.

Outlook
Continued growth.

Net cash (£m)

£13.4m

2014	13.4
2013	14.6
2012	7.2

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.

Net operating cash flows (£m)

£16.4m

2014	16.4
2013	14.0
2012	9.2

Definition
Net cash flows from operating activities.

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

Adjusted EAT (£m)

£14.0m

2014	14.0
2013	10.1
2012	7.7

Definition
Adjusted earnings after tax is stated after adjustment for exceptional items and share based payments and the tax effect of those items.

Outlook
Continued growth is expected.

Adjusted EPS (£p)

15.0p

2014	15.0
2013	10.8
2012	8.4

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

Unadjusted earnings per share were 10.0p (2013: 9.9p).

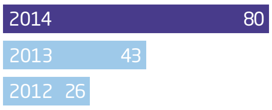
Outlook
Continued growth.

Performance metrics

Principal risks page 18

Number of Hosted Seats ('000s)

80

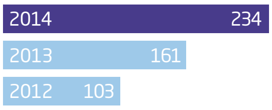


Definition
Number of billed seats at end of year on all of the Cloud PBX products.

Outlook
Continued growth.

Number of SIP Channels ('000s)

234

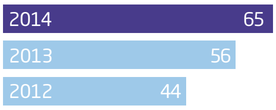


Definition
Number of billed SIP Channels at end of the year.

Outlook
Continued growth.

Strategic and Enabling Services as percentage of Gross Margin (%)

65%

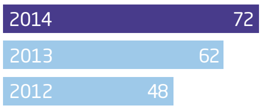


Definition
Margin from strategic products (Inbound, SIP Trunking and Cloud PBX) and enabling products (Ethernet, Broadband and Mobile) as a percentage of the total margin.

Outlook
Continued growth.

Cross sell ratios per channel partner (%)

72%



Definition
The percentage of margin of our wholesale business derived from channel partners who are taking four or more strategic or enabling products.

Outlook
Continued growth.

Network availability (%)

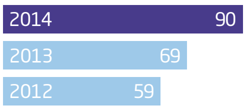
99.997%

Definition
Availability of strategic platforms.

Outlook
Similar or improving.

Direct customer profile

90

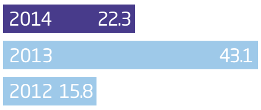


Definition
Number of direct customers generating monthly revenues of above £5,000 at the end of the year.

Outlook
Continued growth.

Customer satisfaction (%)

22.3%

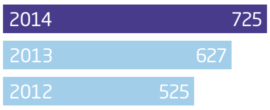


Definition
The Net Promoter Score of a random selection of direct customers measured quarterly and averaged over the year.

Outlook
We expect our NPS score to remain above 20%.

Number of channel partners

725



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

Outlook
Continued growth.

Understanding the risks that affect our Company

As with any business, Gamma is exposed to a number of different risks. Whilst some are clear and straightforward to manage, others are less apparent and may be outside Gamma's direct control. Therefore in all aspects of risk management we seek out new risk areas continually, as well as building contingency options into our plans and processes.

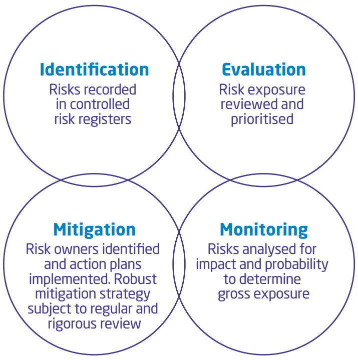
To this end Gamma operates a robust and well established structure for the identification, evaluation, monitoring and mitigation of the potential risks to its performance. There is a comprehensive operational governance structure, with regular and documented meetings to track risks through the four stages on opposite page. Each generic area of risk (e.g. Regulatory) has clearly assigned accountability at Director level within the management team, with reporting lines to the CEO and ultimately the Board.

Gamma's business is heavily reliant on the performance of its network and associated application platforms. It ensures that the network architecture and operational support processes are robust and can cope with the vast majority of failures without impacting customer service. Gamma holds certification to ISO 27001, 22301 and ND 1643 which cover the security and business continuity of its primary products, as well as its core operational functions. Gamma carries out a full set of business continuity rehearsals, covering both technical failure and loss of access to physical locations.

The principal risks to the business are listed with a short description of their potential impact and what we are doing to mitigate them. This is not an exhaustive list and, as described above, the risk profile to the business is constantly evolving:

Risk	Description
Regulatory environment	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 us.
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.
Network and systems performance	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.
Maintaining customer service levels	Communications services are critical to businesses. The ability to order and deliver them easily and get support quickly when something goes wrong are key areas that any service provider is assessed on when a customer is placing business.
Increased competition	New entrants or existing service providers extend their product set to compete directly with our products and services.
Suppliers	The business relies on a number of key suppliers to provide elements of its products and services.
Key personnel	The business has grown rapidly over the last few years, with very low staff turnover. Therefore there are individuals that have been instrumental in its development and are important to its ongoing success.
Evolution of technology and markets	The communications market is constantly evolving both in terms of the available technologies and also in how people look to purchase certain products.

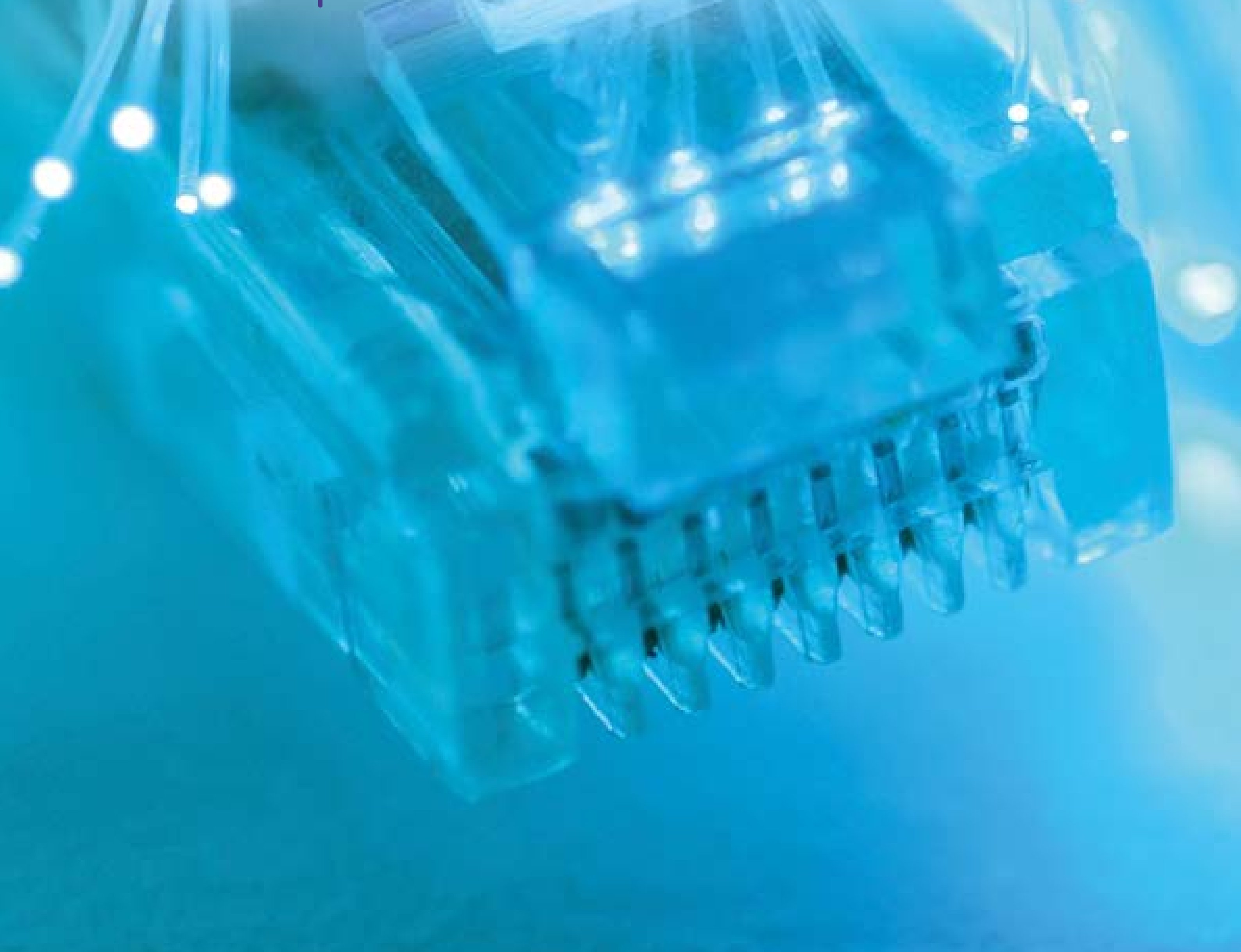
Risk management process



Strategy page 14

Potential impact	Mitigating actions
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 sale 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.	Gamma mitigates this risk by continuing to monitor likely regulatory changes; assessing their risk and potential impact; and engaging with regulators as appropriate.
A breach of security could have a significant impact on the Company's reputation and, in the case of telephony fraud, there could also be the chance of significant commercial impact.	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 also employ external agencies to carry out penetration testing on our systems as well as carrying out our own security incident rehearsals. 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.
If our network and systems perform below the market expectations then this will impact our ability to grow and sustain revenues.	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, 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.
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.	We hold a monthly quality forum chaired by the CEO that reviews performance across all parts of the business. This takes into account direct customer feedback as well as providing a mechanism for internal feedback between the business functions. We also carry out regular customer surveys that focus on assessing how straightforward we are to work with.
This may dilute the addressable market and slow down growth.	Gamma provides services which are more attractive to our customers than those of competitors.
Failure of one of these suppliers to perform may have an impact on our ability to deliver products and services.	Where possible we avoid reliance upon a single supplier for a particular element of our service, and ensure key supplier contracts have appropriate clauses in place to assure their performance.
Loss of key individuals could have an impact on the business' continuing development.	The business has a well-established team and a reputation for being a good employer. In 2014, it came 29th in 'The Sunday Times Best 100 Companies To Work For' ranking. This process involves a comprehensive staff survey, the feedback from which is actively reviewed and addressed by the senior management team.
If the business does not at least keep pace with this evolving market then its plans for growth may be impacted.	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.

We divide our business into our channel and direct business units that serve different markets from a core portfolio of services.



1
Indirect Channel

The largest part of our business, and very much the core of what we do; providing services to the UK business community through 725 channel partners. We work closely with these partners to help them succeed. In turn they are loyal and growing in number. The channel route to market comprises 79% of Group revenues.

More on page 22

2
Direct Channel

The balance of our revenue is derived from direct sales into the business market with a strong focus on opportunities that tend not to be the forte of the channel, such as the public sector and tailored services for enterprises.

More on page 24

1 Indirect Channel Business Unit

The largest part of our business, and very much at the heart of what we do; providing services to over 725 channel partners across the UK. These partners work closely with us, are loyal, and growing in number. The channel business is close to 80% of Group revenues.

The business has grown revenues 15% year on year, and gross profit is up 23% to £52.4m. Main drivers of profit growth have been the increase in number of partners and also the favourable change in product mix whereby more higher margin services (SIP Trunking, Horizon and Inbound) are replacing the lower margin traditional services. Our Cloud PBX, Horizon, has been a star service in 2014 with over 34% of our partners actively selling the service to their customers.

Gamma grew the number of active partners from 627 to 725 during 2014. We continue to be pleasantly surprised by the breadth and capability of new channel partners – both in terms of their scale and their core business activities. We were particularly pleased to sign up significantly more Microsoft Gold Partners and Systems Integrators, as well as IT Specialists and Unified Communications providers. This diversity and breadth of the business models of new channel partners confirms the convergence of IT and telecoms, and our industry's appetite to broaden service portfolios. To support the growth in partners, our sales team grew by 34% over the year. 24% of our new sales staff were internally promoted, and over 40% of our sales team have been with Gamma for more than five years, with 14% over ten years.

As ever, we have worked hard on deepening the relationship with our partners to ensure we are well connected right across their business and supporting all relevant aspects of their operations. Over the year we ran sales training sessions, operational workshops to support our partners' back office staff, and regular webinars on product, market issues, and important regulatory information. Our accreditation schemes on key products continued apace, with over 850 individuals trained during the year. All of these activities combined to help generate a depth of relationship that hopefully puts Gamma at the core of our partners' business; creating long term partnerships as opposed to short term transactional relationships.

Major partners during the year included companies such as Alternative Networks, Azzurri, Daisy, Capita IT, Focus, HighNet

Looking ahead to 2015, we plan to:

- Successfully launch our MPLS data product through the channel
- Continue to grow the number of channel partners in emerging segments
- Increase the level of business from Microsoft partners and Systems Integrators as a % of the whole
- Increase cross sell ratios into the partner base
- Work with our strategic partners to help them grow their businesses

15%

Revenue grew 15% over the year

and Sabio. We continue to benefit from a broad spread of customers and low customer concentration. Our top ten partners accounted for 26% of total revenues at the end of 2014.

We have continued to develop our commercial frameworks with partners to build stronger, longer-term and mutually beneficial relationships, increasing our visibility of forward revenues.

One relationship we're looking to develop positively is our partnership with O2, focusing on helping them take SIP Trunking and Cloud PBX into their business market. We have had a number of significant wins with O2 this year, including the University of Edinburgh, Carillion and Swinton Insurance.

'Simplicity' is Gamma's white label telecoms service, enabling Gamma to provide all, or part, of the service that the partner would normally provide, such as billing and first line support, whilst the partner retains the contractual relationship. In 2014 this has been particularly successful, enabling Gamma to partner with businesses that have strong customer relationships, expertise in related areas, but little appetite or capability for providing these services.

98

Gamma added 98 new actively trading channel partners in 2014

Channel case study: TIC/Rapid Communications

"We've known about Gamma as a SIP provider for a number of years, but decided this year to take them on board as a strategic supplier and really wish we'd made this decision a long time ago. They're easy to do business with, their portal is fantastic to order and manage services from, and they seem to be a really enthusiastic bunch of people who enjoy working for Gamma."

Julie Purdie
Director, TIC/Rapid Communications, a new Gamma partner in 2014 selling SIP Trunking and hosted services in the Midlands

2 Direct Channel Business Unit

Just over 20% of our revenue is derived from direct sales into the business market.

We find that some customers, particularly larger enterprises, prefer, indeed insist on, working directly with the network bearing operator, or have very specific requirements that require a more tailored response, such as the public sector. This is where our direct capability is most focused.

It was a strong year for this side of our business with a number of big wins, including BDO, the London Stock Exchange, Hearst Magazines and Moore Stephens all signing, with an average contract length of three years. The managed service offering across voice, data and mobile has proven very successful in the enterprise space.

Our penetration of the public sector market, and in particular the education sector, continues apace. In 2014, a further 19 universities and colleges became direct Gamma customers including Oxford, LSE, Bristol and Ulster Universities, taking the total number of universities to which Gamma directly supplies services to 33.

Gamma became one of ten service providers selected by the Crown Commercial Services to supply telecommunication services to any public sector organisations under the RM1035 framework. We were also awarded one of eight positions on the Scottish Government's Fixed Telephony Services Framework, allowing Gamma to provide services to any public sector organisation in Scotland.

We also won managed service contracts with two of the largest London housing trusts, Catalyst and East Thames Group.

Over 65% of our new enterprise and public sector contracts were for converged services (data and voice).

SME/Mid-Market case study: Thrifty Car & Van Rental UK

"With Gamma we have been able to achieve a complete communications solution. We now have all our services under one roof and have managed to make continued cost savings across our telephony estate. We've been impressed with the continued professionalism Gamma have shown throughout the transfer and wouldn't hesitate to recommend them to anyone looking for a truly unified solution."

Rob Parsons
Finance Director, Thrifty Car & Van Rental UK

At the same time in this segment of the business, we had zero churn.

In the mid-market and SME sector, growth has been strong with a greater emphasis on Cloud PBX and SIP Trunking, in line with the rest of the business. This has been key to increasing revenue and profitability, as usage on traditional services from existing customers continues to fall, due primarily to fixed to mobile substitution. The underlying service mix is changing significantly from traditional services to strategic services, with additional benefits of longer contract lengths and higher margins.

This is borne out by both revenue and margin per customer increasing by 10% over the year.

A major area of success in the market has been winning voice and data business in the multi-sited business sector. From a small business with three sites, to a national business with 80+ sites throughout the UK, our strategic services really lend themselves to giving businesses an operational flexibility in how they manage their customers' calls without significant capital outlay. This is why businesses such as West Bromwich Building Society, Haymarket Media, Home Energy, and Concur Technologies have become Gamma customers in 2014.

Customer service continues to be at the heart of our proposition and we track our performance quarterly with CSAT surveys, using the Net Promoter Score methodology as a method of quantifying and tracking our customers' perceptions on service. Our average score for the year across four quarters of measurement was 22.3.

Churn has reduced over the year in terms of gross profit, and, on average, new customers are double the size of those leaving. Many of our larger customers have re-signed contracts in 2014, including American Golf who have a signed a five year agreement for a data network and Cloud PBX solution, and Hinduja Global Systems.

Contract lengths have increased by approximately 12% on average in all product classes over 2014.

Looking ahead to 2015, we plan to:

- → Increase the average size of direct customers and new contracts
- → Build market share in the public sector by maximising opportunities from our framework contracts
- → Continue to have a CSAT Net Promoter Score above 20%
- → Push Cloud PBX and SIP Trunking harder into the mid market

Enterprise and Public Sector case study

"It's refreshing to have a service where we can scale our lines up and down when we want at key times of the year without the hassle of having to plan ahead. Gamma has given us the freedom to control how we want to manage our numbers."

IT Manager, a major local authority

Excellent financial performance in 2014

Andrew Belshaw describes a positive set of results for 2014 as Gamma reports for the first time as a listed group.

Highlights

£173.2m
+16%

Overall revenue grew from £148.7m in 2013 to £173.2m

£23.1m
+34%

Overall EBITDA before exceptional items and share based payments grew from £17.2m in 2013 to £23.1m

£16.4m
+£2.4m

Cashflow from operating activities grew from £14.0m to £16.4m

£15.0p
+4.2p

Adjusted EPS grew from 10.8p to 15.0p

Revenue

Indirect Business

Revenue from the indirect business grew from £119.0m to £136.9m and gross profit grew from £42.6m to £52.4m – an increase of just under £10m of gross profit year on year, which is the highest annual increase in gross profit in the history of the Group.

Unlike many of Gamma's peers, the performance of the traditional business (which includes calls and lines and trade with other carriers) bucked the industry trend of decline and showed a small increase in gross profit, despite revenue declining, as a consequence of reductions in the cost base which were reflected in lower pricing. Gamma continues to attract traditional business as a by-product from channel partners who want access to our new products such as Cloud PBX and SIP Trunking. The number of channel partners actively trading with Gamma increased from 627 at the start of the year to 725 by the end of the year. These customers come to Gamma for our newer products but often bring their traditional business with them.

The percentage of gross profit coming from channel partners who buy four or more products (excluding traditional calls and lines) from Gamma grew from 62% to 72%. Both the increase in channel partners and the fact that channel partners are selling more products meant that the revenue from new product sales increased from £51.2m to £72.4m and gross profit grew from £24.7m to £33.6m. The main contributor to this growth was SIP Trunking. The percentage profit on sales of new product to channel partners fell slightly due to a changing mix from strategic products to enabling products as well as more competitive pricing on Cloud PBX as Gamma seeks to establish a significant market share in this important area for future growth.

Direct Business

The direct business has also had a year of unprecedented growth. Revenue increased from £29.7m in 2013 to £36.3m and gross profit from £11.3m to £15.2m. As for the indirect business, the growth was attributable to sales of new product and profit on these products grew from £5.7m to £10.6m. This includes multi-product solution sales to larger enterprises made by Gamma Network Solutions Limited. This is particularly pleasing because much of the new business is won on multi-year contracts.

Operating expenses

Operating expenses before exceptional items and share based payments grew from £41.5m to £50.9m. This was due to increased headcount required to support the growth in the number of customers switching to new products for the first time. We also continue to increase our investment in product development and, whilst internal spend of £0.9m was capitalised in the year, we spent more on the research and initial development of new product offerings and variants on our existing product set as we continue to build for the future. The Group continues to invest in its systems to ensure that as sales increase, the number of customer service personnel required does not increase at the same rate.

Adjusted EBITDA

The combination of increasing sales of new products and operational improvements means that adjusted EBITDA grew from £17.2m to £23.1m or 34% – an impressive performance.

Exceptional items and share based payments

There were a number of exceptional items which included the cost of the flotation (£1.2m) and a small charge for re-structuring (£0.2m). In addition there was an exceptional charge (£0.6m) relating to the variation in the fair value of the deferred consideration in respect of the acquisition of Varidion Limited in 2012. The original deferred payment plan extended as far as 2017 but the Board took the opportunity to settle this early. This enables management to focus on maximising the growth opportunities. The Group has ultimately paid £3.6m for a business which had an EBITDA of £1.4m in 2014, which the Board believes represents excellent value.

Share based payment charges for the year were £3.2m and are expected to continue at approximately this level for the next two years as options issued to the senior management team pre-flotation vest over a three year period.

Cash flows

The cash balance at the end of the year was £13.4m, which is down from £14.6m at the end of the previous year. Notwithstanding this, trading cash flows were good and the cash conversion of EBITDA into net cash flow from operating activities was 92%.

Capital spend for the year was £12.1m, which is an increase from £5.9m in the previous year and this is discussed below.

In addition to a higher than anticipated capital spend, there were a number of exceptional cash flows:

- → £2.6m was paid as deferred consideration for the acquisition of Varidion Limited in 2012;
- → As a result of the IPO process a loan was made to the Chief Executive which resulted in net cash outflows of £1.0m;
- → The former Chief Financial Officer settled some share options for a cash payment of £1.3m;
- → On IPO, staff awards under a Shadow Share Option scheme crystallised which totalled £1.0m.

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 or an acquisition.

Capital expenditure

Capital spend was higher than expected. The Board is constantly seeking opportunities which meet the Group's strategic goals and one such opportunity was realised at short notice in the final quarter of 2014 when the Group was able to acquire the assets for a mobile platform.

The Group spent £12.1m on capital which was split as follows:

- → £8.8m was on network assets which is higher than the historical run rate due to investment in the network and the mobile platform referred to above;
- → £0.9m was the capitalisation of development costs incurred during the year;
- → £1.0m was on customer premises equipment ("CPE"); this is "success based" expenditure and is expected to increase in line with sales growth; and
- → £1.4m of other assets.

Taxation

The effective tax rate for the year was 18.3% (2013: 19.1%). The low tax rate is attributable to the fact that the Group enjoys significant research and development tax credits. However, for 2015 and onwards the Group will have moved into the large company regime which will result in a reduced level of benefit and therefore a higher effective rate.

Dividends

Gamma's share capital was admitted to AIM in October 2014 and was therefore publicly traded for the final quarter only. The Board has proposed a final dividend of 3.95p representing a pro-forma, post admission full year dividend of 5.93p per share. The final dividend is payable in late June to shareholders registered on 5 June 2015 and will have an ex-dividend date of 4 June 2015.

Andrew Belshaw
Finance Director

Peerless efficiency and a top 100 employer

The Gamma culture is a hard thing to put into words, but it has been instrumental in the growth and success of the business to date. It is best summarised as having trust in staff, delegating as far as possible, and creating an informal, constructive environment where the organisation chart has little value. We put a lot of time and effort into trying to be different from the larger companies we compete against, and protecting our culture as we expand is a key part of that.

Communicating with staff is obviously paramount in maintaining an involved and informed group of employees. We have quarterly conference calls across the whole Company where the management team individually brief the staff, supported by regular staff newsletters, CEO briefings (by location) and an annual survey (see Best Companies to Work For).

Our staff churn across the business is low relative 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 own staff from graduates or apprentices. In sales, for example, our strategy is to recruit graduates as desk-based support staff, developing them into 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. This includes gym membership, dental and health plans, childcare vouchers, cycle to work schemes and shopping discounts.

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.

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. Fortunately, as a fast growing business we are well placed to do just that. A wide range of learning and development opportunities are available to all and many employees are funded by Gamma to undertake Masters level courses and other professional development courses.

The Environment and CarbonNeutral®

We made a commitment to reducing 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.

Chosen charity

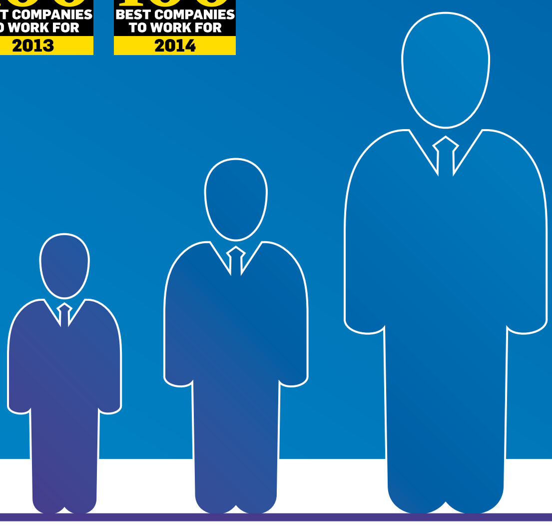
We are proud to support the Woodland Trust, an organisation dedicated to the protection and promotion of natural woodlands across the UK.

Apprenticeships

Gamma continues to welcome and assist apprentices to gain invaluable work experience, continue their education and gain nationally recognised qualifications. With apprentices currently employed in IT, Infrastructure Support, Software Development and Customer Service, we have a good track record of offering permanent employment at the end of the apprenticeships.

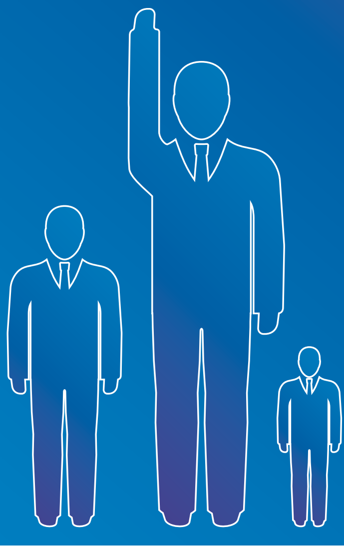
Best Companies to Work For, sponsored by the Sunday Times

The Sunday Times Best Companies to Work For 2014 recognises the opinion of Britain's motivated workforces and it is widely acknowledged as the most searching and extensive research into employee engagement carried out in this country. All the scores and ratings that are assessed to compile the lists are based on employee opinions and companies are scored in the following categories: The Sunday Times 100 Best Small Companies to Work For (SMEs of up to 250 employees), 100 Best Companies to Work For in the 250–4,999 employee range, the 25 Best Big Companies to Work For with 5,000-plus in the workforce and the 100 Best Not-for-Profit Organisations to Work For. In 2014 Gamma was voted the '29th Best Company to Work For'.



Volunteering Policy

Gamma actively encourages and supports employees who wish to volunteer within the community or for charities. Supporting volunteers helps the Company 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.



Policy on staff support for good causes

Gamma operates a policy of "matched funding" for all qualifying staff charity activities in addition to supporting the Woodland Trust. In 2014 we also ran two charity events with our customers – car rallying and cycling. The Charity Mountain Bike event raised £5,000 for the Samaritans and Rays of Sunshine whilst the Gammaball Rally raised a staggering £100,000 for HoneyPot and ATE (Action Through Enterprise).

The Strategic Report was approved by the Board of Directors on 19 March 2015.

Andrew Belshaw
Finance Director

Chairman's introduction to corporate governance

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 do not comply with the UK Corporate Governance Code in all respects. We have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the Company and best practice.

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 UK Corporate Governance Code 2014.

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 Company has established Audit, Nomination and Remuneration Committees of the Board with formally delegated duties and responsibilities. The Company's commitment to strong corporate governance and risk management will remain central to the business during 2015 and beyond.

Board of Directors page 32

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

Richard Last
Chairman and Independent Non-Executive Director

Bob Falconer
Chief Executive Officer

Andrew Belshaw
Finance Director

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

Audit Committee
Chaired by Alan Gibbins.
Members: Richard Last and Martin Lea.

Nomination Committee
Chaired by Richard Last.
Members: Martin Lea, Alan Gibbins, Wu Long Peng and Andrew Stone.

Remuneration Committee
Chaired by Martin Lea.
Members: Richard Last and Alan Gibbins.

An experienced Board

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

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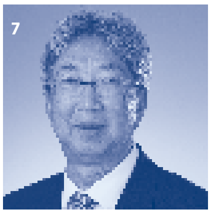

1 Richard Last
Chairman and Independent Non-Executive Director

Richard is currently Chairman and Non-Executive Director of Servelec Group plc, a UK-based technology group and of British Smaller Companies VCT 2 plc, a venture capital trust, both listed on the London Stock Exchange. Richard is also Chairman and Non-Executive Director of AIM listed Arcontech Group plc, a financial services software company and of Lighthouse Group plc, an AIM quoted financial services group. He is also a Non-Executive Director of Corero Network Security plc, an AIM quoted IT security solutions provider and a number of private companies.

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

2 Bob Falconer
Chief Executive Officer

Bob began his career at BT's Research Laboratories before joining ICI in 1987, rising to become the global telecoms manager for the group. In 1994 Bob took a directorship at Racal Network Services (later Racal Telecom and Global Crossing UK) where he stayed until 2002, during which time he was responsible for group operations. Bob joined Gamma in 2003 as COO before being appointed CEO in 2004.

Bob has a BSc in Electrical and Electronic Engineering from Heriot-Watt University, Edinburgh and is a Fellow of the Institution of Engineering and Technology.

3 Andrew Belshaw
Finance Director

Andrew has been Finance Director of Gamma since 2007 and was appointed to the Board in October 2014. A Chartered Accountant by background, he has worked in both audit and corporate finance at Deloitte 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.

4 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 has been a Non-Executive Director and Audit Committee Chairman for BlueBay Asset Management plc as well as being a Non-Executive Director for a number of private 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 member of the Institute of Chartered Accountants in England and Wales.

5 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, Sweden's leading provider of monitored alarm transmission services, and was President and CEO of Invitel from 2004 to 2011, during which time it grew to become Hungary's second largest fixed line operator. Prior to Invitel, Martin was Executive Vice President of Intertek Group plc and Managing Director of Racal Telecom, a national UK alternative telecom operator and managed service provider. Martin joined Gamma in June 2014 and is Chairman of the Remuneration Committee.

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

6 Andrew Stone
Non-Independent Non-Executive Director

Andrew is a founding Director of Greenstone+ Ltd (formerly Greenstone Carbon Management Ltd) and was previously a Non-Executive Director of Armajaro Trading Ltd, a global soft commodity trading house, from 2011 until 2012 when he was appointed Global Head of Commodities and one of the CEOs from January 2013 to July 2013. Andrew has also acted as Non-Executive Director at Openfield plc, one of the UK's largest grain marketing organisations. From 1993 to 2006, Andrew was employed at ED&F Man in a variety of senior positions including Managing Director of ED&F Man Asia, and a director of both SIS 88 Pte Ltd and Asian Blending Pte Ltd. He is also a Director of Epsilon Global Communications Pte Ltd.

7 Wu Long Peng
Non-Independent Non-Executive Director

Long Peng has more than 30 years' experience in finance and corporate affairs. He is an Executive Director of Kuok (Singapore) Limited, Pacific Carriers Limited and Malaysian Bulk Carriers Berhad (a company listed on Bursa Malaysia). He is also a Non-Executive Director of Pacc Offshore Services Holdings Limited (a company listed on the Singapore Exchange) and a Director of 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.

Robust leadership

The Gamma management team has many years' experience in both Gamma and the communications industry. The average tenure at Gamma is over eight years. Commitment, knowledge and a passion for Gamma are what drives this team.

1 Richard Bligh
Group Marketing Director
Richard joined Gamma in 2004 and has nearly 20 years' telecoms experience in a variety of marketing and business development Vice President roles. These include UK and international experience in ECI Conferencing, Intertek plc, Global Crossing and Racal Telecom. Richard has extensive experience of business markets from serving multinational corporates to selling via the channel.

Richard is a graduate of Cardiff University and a member of the Chartered Institute of Marketing.

2 Andy Morris
Group Operations Director
Andy joined Gamma in 2006 with a proven track record of establishing and running high quality, customer orientated operations. Previously at Cable & Wireless he successfully ran a business unit responsible for 12 of Cable and Wireless' largest corporate customers including Marks and Spencer and Alliance & Leicester. Prior to that he was involved with a number of telecoms 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.

3 John Haw
Sales Director

John was promoted to Sales Director after successfully developing the system integrator and VAR channel for Gamma. A university graduate with a degree in Business Studies, John has had a successful career in telecoms sales, including positions with MCI and Vodafone.

He has nearly 20 years' experience in channel sales and development.

4 Paul Peel
Development Programme Director

Paul joined the leadership team as its Programme Director having spent over 20 years managing programmes and projects in technology intensive industries. A graduate of the RMA Sandhurst, he spent his early years in telecoms with the Royal Signals, completing a degree in Electronic Systems Engineering en route. He joined Gamma from General Dynamics in 2003 since when he has been involved in delivering many of Gamma's significant business transformation projects.

He has an MBA and Masters degrees from King's College London and Cranfield University. He is also a Member of the British Computer Society, reflecting his wider role at the head of Gamma's software development teams.

5 Malcolm Goddard
Group Commercial Director and Company Secretary

Malcolm joined Gamma in 2005 bringing over 15 years' experience in mergers and acquisitions, multinational 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.

6 David Macfarlane
Managing Director – Gamma Network Solutions

David joined Gamma in 2012 following Gamma's acquisition of his managed services business Varidion Limited and now heads up our enterprise solutions division.

Prior to this, David was the CTO at Sirocom and laterally the Group CTO at Azzurri Communications and has over 25 years' experience in creating and delivering managed services.

7 Alan Mackie
Product Director

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.

Corporate governance report

The Directors support high standards of corporate governance. We do not comply with the UK Corporate Governance Code in all respects. We have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the Company and best practice.

Notwithstanding this, as an AIM quoted company, the Company is not required to comply with the Code.

The Board is responsible for establishing and maintaining the system of internal controls which has been in place throughout 2014. The effectiveness of the Group's system of internal control is reviewed annually by the Audit Committee on behalf of the Board, as referred to in the Audit Committee Report.

The workings of the Board and its Committees

At 31 December 2014 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 reserved for the Board are communicated in advance of formal meetings. All of the Directors are subject to election by shareholders at the first AGM after their appointment to the Board and to re-election by shareholders at least once every three years. 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 as disclosed in the Directors' biographies. The Company is satisfied that these associated commitments have no measurable impact on their ability to discharge their responsibilities effectively. The Executive Directors have no third party commitments.

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.

Since the impact Board meeting on 2 October 2014, there have been three further Board meetings during the year. The following is a table of attendance:

	Board Meeting	Audit Committee	Remuneration Committee
Executive Directors			
Bob Falconer	3/3	N/A	N/A
Andrew Belshaw	3/3	N/A	N/A
Non-Executive Directors			
Richard Last (Independent)	3/3	3/3	3/3
Alan Gibbins (Independent)	3/3	3/3	3/3
Martin Lea (Independent)	3/3	3/3	3/3
Wu Long Peng	3/3	N/A	N/A
Andrew Stone	3/3	N/A	N/A

Details of Directors who ceased to hold office prior to flotation have been omitted.

During 2014, 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.

The Nomination Committee did not meet in 2014.

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 performance of the Executive Directors is reviewed by the Remuneration Committee and the bonuses payable to the Executive Directors are linked directly to the results of these reviews.

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

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 38.

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 will assist the Board in discharging its responsibilities relating to the composition and make-up of the Board and any committees of the Board. It will also be 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 will be 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.

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 Annual General Meeting to communicate with private and institutional investors and welcomes their participation.

Signed on behalf of the Board by:

Richard Last
Chairman and Independent
Non-Executive Director

Audit Committee report

Alan Gibbins
Audit Committee Chairman

This first report of the Audit Committee covers the period from July 2014 to the review of Gamma's first set of results following the October 2014 IPO.

Membership
The members of the Audit Committee and meetings attended are:

Name	Meetings attended
Alan Gibbins, Chairman	3/3
Richard Last	3/3
Martin Lea	3/3

The Audit Committee is responsible for ensuring that the financial performance of Gamma is properly monitored, controlled and reported. 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 background.

The Board established the Audit Committee and agreed its terms of reference in July 2014 prior to the IPO, and the Committee has met three times since with all members present. The CEO and Finance Director, and other Non-Executive Directors (all by invitation), and the external auditors, have also all attended each meeting. The chairman of the Committee maintains a regular dialogue with the Finance Director.

Role of the Committee
The Audit Committee:

→ Monitors the integrity of Gamma's financial statements, the appropriateness of accounting policies, and significant reporting judgements.

→ Reviews the effectiveness of financial controls and systems. In this context it keeps under review the need for an internal audit function.

→ Oversees the relationship with external auditors, including meeting with the auditors at the planning and completion stages of their work, the scope of any non-audit services and fees, and assessing their independence and effectiveness.

Areas of focus since establishment, including areas of judgement

The Committee reviewed the integrity of the 2013 financial statements included in Gamma's Listing Particulars on 16 September 2014 and was satisfied with this. Due diligence reporting for the IPO was carried out by Grant Thornton but using a separate team from a different office from that which carries out the external audit. This arrangement facilitated the IPO process and the Committee was satisfied that appropriate independence between the teams was maintained. Gamma's tax affairs are handled by a different firm.

The Committee noted the extensive due diligence on financial controls as part of the IPO process, and also the findings of the external auditors, and is satisfied at present that no internal audit establishment is required. We also reviewed the audit plan for the 2014 audit provided by the auditors and were satisfied that this focused on key risk and judgemental areas. Subsequently, the audit findings report prepared by the auditors was reviewed in detail and the Committee was satisfied with those findings and the conclusions.

Areas of risk and judgement reviewed by the Committee included the following. In each case the Committee endorsed management's judgement as to the accounting treatment:

- Carrying value of intangible assets. Gamma carries out a significant level of in house development which is capitalised and amortised where appropriate – that is, where projects are technically feasible, can be completed and that the asset can or will be capable of use or sale. The Committee considers management's capitalisation process and assessment of the carrying value.

- Goodwill relating to past acquisitions is not amortised but is tested every year for impairment using estimates of the present value of future cash flows. The Committee was satisfied with the impairment testing process. The amount recognised as an intangible asset for customer contracts when a business is acquired requires consideration, inter alia, of the rate of future renewals. The Committee reviewed management's judgements in this area.

- Revenue recognition. Gamma has a number of revenue streams arising from its various products and services which should be recognised in line with relevant contractual terms. The Committee's consideration of this area took into account the extensive work carried out by Gamma's Revenue Assurance function on the integrity of amounts billed and charges received.

- The charge in the financial statements for share based payments can be complex and has been an area of focus for management and the external auditors.

- Leasehold Dilapidations. Provisions for leasehold dilapidations are estimates of the cost of returning leasehold properties to a defined condition at the end of the lease. The Committee has satisfied itself as to the basis of the estimates made.

- Taxation. The Committee considered the estimates involved in arriving at the provision for taxation and was satisfied with management's approach.

- Contingent assets and liabilities. The Committee considered and agreed with management's judgements in relation to contingent assets and liabilities and the need for any reference to these in the notes to the financial statements.

Alan Gibbins
Audit Committee Chairman
19 March 2015

Remuneration Committee report

This report is on the activities of the Remuneration Committee for the period to 31 December 2014. It sets out the remuneration policy and the remuneration details for the Executive and Non-Executive Directors of the Company.

The report is split into three main areas:

Membership

The members of the Remuneration Committee and meetings attended are:

Name	Meetings attended
Martin Lea, Chairman	3/3
Richard Last	3/3
Alan Gibbins	3/3

Dear Shareholders

I am pleased to introduce the Director's Remuneration Report for the 2014 financial year. The Chairman's statement (on pages 6 to 7) 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 to continue building on this strong performance, 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 total individual 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.

Short term performance for senior executives is incentivised using an annual bonus scheme based on the achievement of profitability targets, and long term performance is 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.

In addition to the LTIP, in order to further facilitate the alignment of employee and shareholder interests, prior to its admission to AIM, the Group also adopted a Group-wide general Share Incentive Plan (SIP) and a Company Share Option Plan (CSOP). Under the SIP, awards of 256,320 free shares were made to all employees in October 2014. The CSOP will enable the Group to selectively incentivise key high performing employees.

All employees in the Group participate in a bonus scheme that enables them to earn up to 10% of basic salary based half on personal performance and half on Company performance. Furthermore, based on the Company's performance in 2014, and the contribution and hard work of all the employees, the Board was pleased to approve a 3% increase in like for like salary cost for 2015 to cover the annual salary review and increases to reflect additional individual responsibilities. This increase does not apply to Directors.

This Remuneration Report includes a summary of the Company's Remuneration Policy, details of Directors' Service Agreements as well as the Annual Report on Remuneration. As an AIM listed company, this report is not mandatory, but is included as a matter of best practice, and the Remuneration Report will be put to a vote at the forthcoming Annual General Meeting.

Martin Lea
Remuneration Committee Chairman
19 March 2015

Directors' Remuneration Policy

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

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 levels 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.

The main components of the remuneration policy for the year ending 31 December 2015 and how they are linked to and support the Company's business strategy are summarised below:

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; → average workforce salary adjustments within the Company. Salaries are benchmarked from time to time against comparable roles at companies of a similar size and complexity in the Telecoms and IT services sectors.	The Executive Directors base salaries were last reviewed in October 2014 at the time of the Company's admission to the AIM market. The CEO's salary is currently £294,000, and is not due for further review until January 2016. The Finance Director's (who was newly appointed at the time of the IPO) salary is currently £140,000, and this is scheduled to be reviewed at the end of June 2015, following his initial nine months in post.	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 permanent health insurance schemes.	The cost of providing these benefits vary year on year depending on the schemes' premiums.	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 5.1% per annum of salary is paid into the scheme, by the Company, on behalf of the Finance Director. The Finance Director is able to request that the Company, at the discretion of the Remuneration Committee, makes additional contributions where salary or bonus has been waived. The CEO does not participate in the scheme.	Not applicable.

Remuneration Committee report
continued

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Annual bonus			
To incentivise the achievement of the Company's annual financial targets.	The Executive Directors (as well as the other senior executive managers) participate in a discretionary, annual, performance related bonus scheme. Targets are set at the beginning of each year based on the recommendations of the Remuneration Committee. Bonuses are paid in cash based on audited financial results.	For the CEO and Finance Director the on target bonus potential is 50% of salary, with the maximum bonus (achievable in the event of overachievement of target) capped at 100% of salary.	For the year ending 2014, the targets were based on growth in Earnings After Tax. For 2015, targets will be based on growth in Adjusted Profit Before Tax (PBT).
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 (as well as other senior executive managemers) 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 (and other senior executive managers) at a value of 100% of base salary. Special pre IPO awards were granted to the CEO and Finance Director (and other senior executive managers) in 2014 at a value of 200% of base salary. These awards will vest in April 2017, subject to service conditions and Total Shareholder Return (TSR) and Earnings per Share (EPS) performance conditions. It is anticipated that further awards will be made in April 2015 following announcement of the Group's annual results.	Vesting of the 2014 LTIP awards in April 2017 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 earnings per share (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.
Previous share awards			
	Prior to the adoption of the LTIP, the Executive Directors had been made awards under other historic schemes. Following flotation, no further awards will be made under such schemes. As such they no longer form part of the Company's remuneration policy.	Details of unvested awards under the historic schemes are in the Annual Report on Remuneration.	Not applicable.

Policy on Non-Executive Director Remuneration

The Chairman and the other Non-Executive Directors' remuneration comprises 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 Executive Directors. 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 and Remuneration 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 currently payable are set out in the Annual Report on Remuneration. The fees were set at the time the Chairman and other Independent Non-Executive Directors joined the Board during the second quarter of 2014, and will not be reviewed until January 2016.

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 Bob Falconer	Finance Director Andrew Belshaw
Effective date of Service Agreement	AIM admission date	AIM admission date
Notice period	6 months notice given by either party	6 months notice given by either party
Basic salary	£294,000 per annum	£140,000 per annum
Annual bonus	Discretionary performance related	Discretionary performance related
Pension	None	Company contributes 5.1% of basic salary into defined contribution money purchase scheme
Benefits	Participation in Company life assurance and permanent health insurance schemes	Participation in Company life assurance and permanent health insurance 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.

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

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

Remuneration Committee report

continued

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 2014. Please note that this only includes those individuals that have acted as Directors since the admission to AIM.

Remuneration Committee

Membership

The Remuneration Committee consisted of the following Directors in the period from the date of AIM admission to 31 December 2014.

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

Activities in 2014

In the run up to the IPO and after the Listing, the Committee met three times in 2014 in order to conduct the following main items of business: Terms of reference of the Remuneration Committee; the CEO loan to facilitate him converting his B shares into A shares and the related post IPO lock-in period; the terms of the new LTIP scheme and the pre IPO awards and related targets; the terms of the new Company SIP and the initial award of free shares; the terms of the new Company CSOP scheme; the revisions to Executive Directors remuneration and Service Agreements to be effective from date of admission to AIM; the Company annual salary review; senior executive managers' annual salary review; executive annual bonus scheme structure and targets for 2015.

Advisors

Prior to Listing, the Company received independent advice from h2glenfern Remuneration Advisory on a number of issues including Executive Director remuneration benchmarking and the structuring of the Long Term Incentive Plan (LTIP). H2glenfern Remuneration Advisory operates in accordance with the principles of the Code of Conduct of the Remuneration Consultants Group in relation to remuneration consulting in the UK. The fees for this advice excluding VAT were £28,000.

Remuneration of the Executive Directors

Director	Salary and fees	Benefits	Annual bonus	Pension	**Total for 2014**
Bob Falconer	£250,793	–	£294,000	–	**£544,793**
Andrew Belshaw	£113,797	–	£40,000	£114,189	**£267,986**

Bonuses are shown on an accrued basis.
In addition to the above, prior to flotation, Malcolm Goddard served as a Director from 17 March 2014 (incorporation) to 30 August 2014 and Gerard Sreeves from 23 May 2014 to 1 October 2014 as detailed in note 7 of the financial statements.

Bob Falconer became a Director on 27 June 2014 but was also a director of the former group holding company (Gamma Telecom Holdings Limited) which was acquired by Gamma Communications plc by way of a share for share exchange on 12 May 2014. His remuneration is shown assuming that Gamma Communications plc had been the holding company for this year and the prior year and that he had been paid by that company.

Andrew Belshaw became a Director of the Company on 1 October 2014 and his salary from then until the end of the period was £38,505. He waived £100,000 of his bonus relating to 2014 and received a pension contribution of the same amount.

Director	Salary and fees	Benefits	Annual bonus	Pension	Total for 2013
Bob Falconer	227,986	–	184,500	85,600	498,086

Remuneration of the Non-Executive Directors

Director	Directors' Fee	Committee Chair Fee	**Total for 2014**
Richard Last	£43,750	-	**£43,750**
Alan Gibbins	£20,416	£2,917	**£23,333**
Martin Lea	£20,416	£2,917	**£23,333**
Wu Long Peng	£20,417	-	**£20,417**
Andrew Stone	£20,417	-	**£20,417**

Share scheme interests awarded during the year ended 31 December 2014

Deferred Share Scheme (DSS)

The following awards were made under the DSS in respect of the financial performance for the 18 months ended 30 June 2014. There are no performance conditions attached.

Director	Type of scheme interest	Basis of award	Number of awards	Vesting date	Exercise price
Bob Falconer	Nil-Cost Option	Discretionary	219,496	1 Feb 2015	£0.0025
	Nil-Cost Option	Discretionary	329,244	10 Oct 2016	£0.0025
Andrew Belshaw	Nil-Cost Option	Discretionary	71,765	1 Feb 2015	£0.0025
	Nil-Cost Option	Discretionary	71,765	1 Feb 2016	£0.0025
	Nil-Cost Option	Discretionary	35,882	1 Feb 2017	£0.0025

Unapproved share option plan

The following award was made under an unapproved share option plan. There are no vesting conditions.

Director	Type of scheme interest	Basis of award	Number of awards	Vesting date	Exercise price
Andrew Belshaw	Option	Discretionary	31,204	Immediate	£1.87

This award was made pre-IPO to compensate Andrew Belshaw for the fact that he was unable to exercise existing options on IPO.

Long Term Incentive Plan (LTIP)

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

Director	Type of scheme interest	Basis of award	Number of awards	Vesting date	Exercise price
Bob Falconer	Nil-Cost Option	200% of Salary	288,220	1 April 2017	£0.0025
Andrew Belshaw	Nil-Cost Option	200% of Salary	170,732	1 April 2017	£0.0025

At the time of making an award the Remuneration Committee set 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.

The awards granted in 2014 have a performance period of three years starting from the vesting commencement date, being 1 April 2014. 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.

Statement of Directors' shareholding and share interests

Directors' share interests at 31 December 2014 are set out below:

		Options			
	Number of beneficially owned shares	With performance measures	Without performance measures	Vested but unexercised	Exercised during the year
Executive Director					
Bob Falconer	4,566,528	288,280	329,234	219,496	Nil
Andrew Belshaw	276,337	170,732	179,412	107,541	Nil
Non-Executive Director					
Richard Last	53,475	–	–	–	Nil
Alan Gibbins	13,368	–	–	–	Nil
Martin Lea	13,368	–	–	–	Nil
Wu Long Peng	–	–	–	–	Nil
Andrew Stone	3,700,000	–	–	–	Nil

As the Company was incorporated during the year there were no opening shareholding and share interests.
This report was approved by the Board of Directors on 19 March 2015 and signed on its behalf by:

Martin Lea
Remuneration Committee Chairman

Directors' report

The Directors present their Annual Report on the affairs of the Group, together with the financial statements for the year ended 31 December 2014.

Details of significant events since the balance sheet date are contained in note 30 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 18 to the financial statements.

Dividends
The Directors recommend a final dividend of 3.95 pence per Ordinary Share to be paid in late June to ordinary Shareholders on the register on 5 June 2015. No interim dividend has been proposed or paid.

Directors
The names and biographies of the Directors during the year are disclosed on pages 32 to 35. In addition, prior to flotation, Malcolm Goddard served as a Director from 17 March 2014 to 30 August 2014 and Gerard Sreeves from 23 May 2014 to 1 October 2014.

Share capital and share options
Details of the share capital of the Company and options over shares of the Company are set out in notes 21 and 25 to the Group financial statements. Over the period, the Company had three share incentive schemes by which Directors and employees may: (i) be granted options under a long term incentive scheme to subscribe for nil cost shares in the Company, (ii) be issued shares under the Company Share Option Plan, and (iii) be issued shares under a Share Incentive 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 Group
Details concerning subsidiary undertakings are given in Note 13 to the Group financial statements.

Directors' interests 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 benefits of its Directors which were made during the course of 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 and liquidity position and borrowing facilities are described in the Finance Review section in the Strategic Report and in note 18. Further information on the Group's exposure to financial risks and the management thereof is provided in note 18.

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 18 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 donations
No political donations were made in the year.

Employee consultation
Gamma 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 both the year and the prior year Gamma undertook the Best Companies Limited employee engagement survey and achieved a 2-star accreditation. The results from this survey attracted a listing in the Sunday Times Best 100 Companies to Work For and Gamma was placed in the top 50 companies in the UK.

Disabled employees
Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. It is the policy of the Company that training and promotion opportunities should be available to all employees.

Auditors and their independence
A resolution to appoint auditors for the year to 31 December 2015 will be proposed at the Annual General Meeting. 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
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself 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.

By order of the Board:

Andrew Belshaw
Finance Director
19 March 2015

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 have to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also chosen to prepare the parent company financial statements under United Kingdom Generally Accepted Accounting Practice. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

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

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.

Andrew Belshaw
Finance Director
19 March 2015

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

We have audited the financial statements of Gamma Communications plc for the period ended 31 December 2014 which comprise the consolidated statement of financial position, the parent company balance sheet, the consolidated statement of comprehensive income, the consolidated statement of cash flow, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in preparation of the Group financial statements is applicable law and International Financial Reporting Standards (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 (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of Directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Nicholas Watson
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Reading
19 March 2015

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	Notes	2014 £m	2013 £m
Revenue	4	**173.2**	148.7
Cost of sales		**(105.6)**	(94.8)
Gross profit		**67.6**	53.9
Operating expenses	5	**(56.1)**	(42.4)
Operating profit before share based payment, depreciation, amortisation and exceptional items	5	**23.1**	17.2
Share based payment expense	25	**(3.2)**	(0.9)
Exceptional items	6	**(2.0)**	–
Operating profit before depreciation and amortisation		**17.9**	16.3
Depreciation and amortisation	5	**(6.4)**	(4.8)
Profit from operations	5	**11.5**	11.5
Finance income	8	**-**	–
Profit before tax		**11.5**	11.5
Tax expense	9	**(2.1)**	(2.2)
Profit after tax		**9.4**	9.3
Total comprehensive income attributable to the owner of the parent		**9.4**	9.3
Earnings per share	10		
Basic per ordinary share (pence)		**10.6**	10.5
Diluted per ordinary share (pence)		**10.0**	9.9

Adjusted earnings per share is shown in note 10.

The notes on pages 54 to 80 form part of these financial statements.

Consolidated statement of financial position
At 31 December 2014

	Notes	2014 £m	2013 £m
Assets			
Non-current assets			
Property, plant and equipment	11	**18.9**	12.8
Intangible assets	12	**10.8**	11.2
Deferred tax asset	20	**2.3**	0.6
		32.0	24.6
Current assets			
Inventories	14	**1.1**	0.5
Trade and other receivables	15	**32.5**	26.4
Cash and cash equivalents	16	**13.4**	14.6
		47.0	41.5
Total assets		**79.0**	66.1
Liabilities			
Non-current liabilities			
Other payables	17	**-**	1.4
Provisions	19	**0.9**	1.0
Deferred tax liability	20	**0.2**	1.0
		1.1	3.4
Current liabilities			
Trade and other payables	17	**25.9**	24.7
Current tax liability		**0.8**	1.1
		26.7	25.8
Total liabilities		**27.8**	29.2
Issued capital and reserves attributable to owners of the parent			
Share capital	21	**0.2**	0.2
Share premium reserve		**3.2**	–
Merger reserve		**2.3**	2.3
Share option reserve		**2.4**	1.1
Retained earnings		**43.1**	33.3
Total equity		**51.2**	36.9
Total equity and liabilities		**79.0**	66.1

The financial statements on pages 50 to 83 were approved and authorised for issue by the Board of Directors on 19 March 2015 and were signed on its behalf by:

Andrew Belshaw
Finance Director

The notes on pages 54 to 80 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2014

	Notes	2014 £m	2013 £m
Cash flows from operating activities			
Profit for the year before tax		**11.5**	11.5
Adjustments for:			
Depreciation of property, plant and equipment	11	**5.1**	3.7
Amortisation of intangible assets	12	**1.3**	1.1
Change in fair value of contingent consideration	6	**0.6**	–
Share based payment expense	25	**3.0**	0.4
		21.5	16.7
(Increase) in trade and other receivables		**(3.3)**	(3.9)
(Increase) in inventories		**(0.6)**	(0.2)
Increase in trade and other payables		**1.9**	3.7
(Decrease)/Increase in provisions and employee benefits		**(0.1)**	0.1
Taxes paid		**(3.0)**	(2.4)
Net cash flows from operating activities		**16.4**	14.0
Investing activities			
Purchases of property, plant and equipment	11	**(11.2)**	(5.1)
Expenditure on development costs	12	**(0.9)**	(0.8)
Payment of deferred consideration		**(2.6)**	–
Loans made to individuals to subscribe for shares		**(2.8)**	–
Net cash used in investing activities		**(17.5)**	(5.9)
Financing activities			
Share buybacks and cancellations		**(3.1)**	(0.7)
Share issues		**3.0**	–
Net cash used in financing activities		**(0.1)**	(0.7)
Net (decrease)/increase in cash and cash equivalents		**(1.2)**	7.4
Cash and cash equivalents at beginning of year		**14.6**	7.2
Cash and cash equivalents at end of year	16	**13.4**	14.6

The notes on pages 54 to 80 form part of these financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2014

	Share capital £m	Share premium £m	Merger reserve £m	Share option reserve £m	Retained earnings £m	Total equity £m
1 January 2013	0.2	–	2.3	0.7	24.6	27.8
Share buybacks and cancellations	–	–	–	–	(0.6)	(0.6)
Issue of shares	–	–	–	0.4	–	0.4
Transaction with owners	–	–	–	0.4	(0.6)	(0.2)
Profit for the year	–	–	–	–	9.3	9.3
Total comprehensive income	–	–	–	–	9.3	9.3
31 December 2013	0.2	–	2.3	1.1	33.3	36.9
1 January 2014	0.2	–	2.3	1.1	33.3	36.9
Share option cancellations	–	–	–	(0.6)	(2.4)	(3.0)
Issue of shares	–	3.2	–	(1.1)	0.9	3.0
Deferred tax on share based payments	–	–	–	–	1.9	1.9
Recognition of share based payments	–	–	–	3.0	–	3.0
Transaction with owners	–	3.2	-	1.3	0.4	4.9
Profit for the year	–	–	–	–	9.4	9.4
Total comprehensive income	–	–	–	–	9.4	9.4
31 December 2014	**0.2**	**3.2**	**2.3**	**2.4**	**43.1**	**51.2**

Notes forming part of the financial statements
For the year ended 31 December 2014

1. Accounting policies
Basis of preparation
Gamma Communications plc (the "Company") is a company domiciled in England. The Company was incorporated on 17 March 2014 as Gamma Communications Limited and this is the first set of financial information prepared by the Company. The Company changed its name to Gamma Communications plc on 3 October 2014 when it became a public company.

The Group was formed on 12 May 2014 when Gamma Communications Limited acquired the entire share capital of Gamma Telecom Holdings Limited and its wholly owned subsidiaries through the issue of 20,590,196 Ordinary Shares and 1,699,983 B1 Shares (further detail on the share capital is set out in note 21).

The acquisitions of the subsidiaries are deemed to be 'combinations under common control' as ultimate control before and after the acquisition was the same. As a result, the transaction is outside the scope of IFRS 3 "Business combinations" and has been included under the principles of merger accounting by reference to UK GAAP.

Accordingly, although the units which comprise the Group did not form a legal group for the entire period, the current period and comparative results comprise the results of the subsidiary companies as if the Group had been in existence throughout the entire period.

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 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 former group, Gamma Telecom Holdings Limited, adopted IFRS for the first time in its Historical Financial Information for the three years ended 31 December 2013 as presented in the Placing and Admission to AIM document dated 7 October 2014 which can be found on **www.gamma.co.uk**. Gamma Communications plc is a continuation of Gamma Telecom Holdings Limited as reflected in the merger accounting principle that has been adopted. Therefore the Group is not deemed to be a first time adopter of IFRS in these financial statements.

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 periods presented.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group
At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. New accounting standards expected to be relevant to the Group are listed below.

→ IFRS 15 Revenue and Contracts with Customers (effective 1 January 2017);

→ Amendments to IAS 16 and IAS 38 clarifying Acceptable Methods of Depreciation and Amortisation (effective date 1 January 2016); and

→ Annual improvements to IFRSs 2012-2014 Cycle (effective 1 January 2016).

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Group's financial statements.

Going concern
The Directors prepare a detailed annual budget and constantly reforecast for the next 12 month period. The Group has a significant cash balance 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. Thus they continue 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 following entities:

Entity	Summary description
Gamma Communications plc	Holding company
Gamma Telecom Holdings Limited	Intermediate holding company
Gamma Telecom Limited	Trading company
Gamma Business Communications Limited	Holdings and trading company
Gamma Network Solutions Limited	Trading company
Peach Amber Kft	Trading company
Gamma Metronet Limited	Dormant
NP4UK Limited	Dormant
Uniworld Bureau Services Limited	Dormant
Go Worldwide Solutions Limited	Dormant
Blue Spot Technologies Limited	Dormant
Gamma Telecom Employee Benefit Trust	EBT

As set out in the basis of preparation note, the units which comprise the Group have all been under common management and control throughout the period presented in the consolidated financial information but they did not form a legal group throughout that period, the Group coming into existence on 12 May 2014. As a result, the Group Reconstruction is outside the scope of IFRS 3 "Business combinations". In accordance with IAS 8, the Directors have determined that the most appropriate method of accounting for the Group Reconstruction is to follow the principles of merger accounting by reference to UK GAAP.

The aim of merger accounting is to show the results and financial position of the Group as if the Group had always been in existence, as follows:

- The results of the subsidiaries have been included in the consolidated results for the entire period during which the Group Reconstruction took place, as well as prior periods; and
- The consolidated results include the assets and liabilities of the subsidiaries at the book values at which they were recorded prior to the Group Reconstruction: there is no requirement to fair value, and no goodwill arises as a result.

The share capital issued to effect the merger has been shown as if it had always been issued.

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.

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 it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue and associated costs can be measured reliably.

The Group sells a number of communications products (both traditional and new) each of which typically consists of all or some of four main types of revenue – voice and data traffic, a subscription or rental, equipment 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 underlying service has been performed or goods have transferred to the customer.

Voice and data traffic

Revenue from traffic is recognised at the time the call is made.

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 broadband, hosted IP services and other internet access or voice services, are recognised as revenue as the service is provided.

Equipment sales

Revenue from the sale of peripheral and other equipment is recognised when all the significant risks and rewards of ownership are transferred to the buyer, which is normally the date the equipment is delivered and accepted by the customer. Where the buyer has a right of return, the Group defers recognition of revenue until the right to return has lapsed. However, where the Group retains only insignificant risks of ownership due to the right of return, revenue is not deferred, but the Group recognises a provision based on previous experience and other relevant factors. The same policy applies to warranties.

Installations

Revenue arising from separable installation and connection services is recognised when it is earned, upon activation.

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.

Notes forming part of the financial statements

For the year ended 31 December 2014 continued

1. Accounting policies continued

Advances made to channel partners

Advances paid upfront to channel partners are only capitalised where the Group can demonstrate recovery of the asset through contractual claw back provisions and past evidence of recovery. Where they are capitalised they are written off rateably over the period of the contract to cost of sales. Where this is not possible they are charged directly to the consolidated statement of comprehensive income.

Goodwill

Goodwill represents the excess of the cost of a business combination over, in the case of business combinations completed prior to 1 January 2011, the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired and, in the case of business combinations completed on or after 1 January 2011, the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

For business combinations completed prior to 1 January 2011, cost comprised 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.

For business combinations completed on or after 1 January 2011, cost comprises the fair value of assets acquired, liabilities assumed and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree.

Contingent consideration

Contingent consideration is included in cost at its acquisition date fair value and is classified as a financial liability, re-measured at fair value subsequently through profit or loss. Contingent consideration classified as equity is not re-measured.

Direct costs

For business combinations completed on or after 1 January 2011, direct costs of acquisition are recognised immediately as an expense.

Impairment

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 profit or loss. The rates applicable, which represent the Directors' best estimate of the useful economic life, are:

- Customer contracts – five years

Impairment of non-financial assets (excluding inventories 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 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 by the Directors 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 by the Directors.

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-maker. The chief operating decision-makers have been identified as the Chief Executive Officer, Finance Director and the Management Committee. For further details please see note 4.

Financial assets

The Group does not have any financial assets which it would classify as 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 Group 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. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables 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, other short term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

Financial liabilities

Apart from contingent consideration the Group does not have any financial liabilities that would be classified as fair value through profit or loss. Therefore, these financial liabilities are classified as financial liabilities at amortised cost, as defined below.

Other financial liabilities include the following items:

→ 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.

Share capital

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

Notes forming part of the financial statements

For the year ended 31 December 2014 continued

1. Accounting policies continued

Retirement benefits: defined contribution schemes

Contributions to defined contribution pension schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

Share based payments

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.

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 being used where there are market conditions attached to the share awards.

Prior to flotation, the Group also operated a shadow share option scheme (a cash settled share based payment). An option pricing model is used to measure the Group's liability at each reporting date, taking into account the terms and conditions on which the bonus is awarded and the extent to which employees have rendered service. Movements in the liability are recognised in the consolidated statement of comprehensive income. All such awards crystallised on flotation and were settled in 2014.

Exceptional items

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

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

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.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the Directors. 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 income statement because it excludes items of income or expense that are taxable or deductible in other years 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 or 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 balance sheet 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.

Assets which are supplied to customers as part of a service (for example, a broadband router), known as Customer Premises Equipment, are capitalised and depreciated over the length of the contract for the relevant service.

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	10%–33% per annum straight line
Customer Premises Equipment	20%–50% per annum straight line
Computer equipment	25%–50% per annum straight line
Fixtures and fittings	20%–25% per annum straight line

Inventories

Inventories are 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.

Work in progress is valued at the lower of cost, comprising direct materials and labour plus attributable overheads less provision for foreseeable losses and progress payments, and net realisable value.

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 obligation as a result of a prior event. The Group has recognised provisions for liabilities of uncertain timing or amount relating to leasehold dilapidations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability.

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.

(a) Valuation of intangibles

Acquisitions may result in customer contracts being recognised. These are valued using discounted cash flow methods which require the application of certain key judgements and estimates. In particular, management has had to estimate the likely future rate of contract renewals which involves a level of judgement due to the short trading history of the acquisition. If the contract renewals are lower than estimated this may result in an impairment to the asset valuation. The level of renewal experienced to date supports management's estimates.

(b) Impairment of goodwill

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary. Impairment testing has not indicated any impairment in goodwill over the period end dates.

(c) Taxation

Significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the Group's belief that its tax return positions are supportable, the Group believes that certain positions could be challenged and upon review by tax authorities. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgements about future events. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

(d) Control assessment

IFRS 10 has introduced a new definition of control. Management considers that this does not affect its assessment that the Group continues to consolidate all entities within these consolidated financial statements as the Company has control over the following:

- → 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.

Notes forming part of the financial statements

For the year ended 31 December 2014 continued

2. Critical accounting estimates and judgements continued

In particular, management believes that the Group exercises this level of control over the Employee Benefit Trust.

(e) Leasehold dilapidations

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. The main uncertainty relates to estimating the cost that will be incurred at the end of the lease.

(f) Contingent assets and liabilities

The Group exercises judgement in measuring and recognising contingent assets and the exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent assets or liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or an asset/liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual gains or losses may be different from the originally estimated provision.

(g) Capitalisation of internal development costs

The Group carries out a number of research and development projects. Some of these projects consist of speculative research whilst others are considered to be closer to the maintenance of existing systems. However, where a piece of development is producing an asset which will be used within the business or sold directly (and it is probable that it will generate future economic benefits) then the development cost is capitalised and amortised. Each year the Directors consider the work which has been performed by the development team and where it is assessed that the appropriate criteria are met the costs are capitalised; this involves inherent judgement as to the likely future economic benefit to be derived from the asset.

(h) Acquisition of assets

During the year the business acquired various assets. In one instance assets were acquired along with various support contracts for those assets and also some staff contracts. The Directors considered whether this acquisition was, in fact, the acquisition of a business. The Directors considered guidance in IFRS 3 B7 which states that a business will consist of inputs, processes and outputs. Whilst this involves some judgement, the Directors felt that in the case of this acquisition, all criteria were not met and hence the acquisition has been accounted for as a purchase of assets.

(i) Share Based Payment Charges

The Company runs a number of share option schemes which give rise to share based payment charges. The calculation of the charges involves a significant level of estimate particularly around market volatility and yield. In instances where there are performance conditions (i.e. the LTIP scheme) the Directors must also consider the likelihood of the performance conditions being met. The Directors use the services of a firm of Chartered Accountants (who are not the auditor) to assist with these valuations.

3. Revenue

Revenue in all periods principally arises from the provision of services. There is an immaterial level of sales of goods.

4. Segment information

The Group has two main operating segments:

- Indirect – This division consists of the Gamma Business Unit. It sells the products developed by Gamma to channel partners and contributed 79% (2013: 80%) of the Group's external revenue.
- Direct – This division consists of Gamma Business Communications Limited and Gamma Network Solutions Limited. These companies sell Gamma's traditional and new products to end users in the private and public sectors together with an associated service wrap. They contributed 21% (2013: 20%) of the Group's external revenues.

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

Both operating segments sell a combination of traditional products (which is mainly voice traffic from which revenues are derived from channel partners and other carriers as well as rentals for wholesale lines) and new products (which consists of IP voice traffic, rental income derived from SIP trunks, hosted IP voice systems and Gamma's hosted inbound product and data products).

Factors that management used to identify the Group's reportable segments

The Group's reportable segments are strategic business units that offer products and services into different markets. They are managed separately because each business requires different marketing strategies.

Measurement of operating segment profit or loss, assets and liabilities

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The Group evaluates performance on the basis of profit or loss from operations but excluding non-recurring losses, such as goodwill impairment, and the effects of share based payments.

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

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

	Indirect £m	Direct £m	Total £m
2014			
Traditional products	64.5	13.7	78.2
New products	72.4	22.6	95.0
Total revenue from external customers	**136.9**	**36.3**	**173.2**
Inter-segment revenue	*8.2*	–	*8.2*
Traditional products	18.8	4.6	23.4
New products	33.6	10.6	44.2
Total gross profit	**52.4**	**15.2**	**67.6**
Segment operating profit before share based payment, depreciation, amortisation and exceptional items	**17.4**	**5.7**	**23.1**
Share based payment expense	(3.2)	–	(3.2)
Exceptional Items	(1.4)	(0.6)	(2.0)
Segment EBITDA	**12.8**	**5.1**	**17.9**
Depreciation and amortisation	(5.8)	(0.6)	(6.4)
Segment profit	**7.0**	**4.5**	**11.5**
Tax	(0.9)	(1.2)	(2.1)
Group profit after tax	**6.1**	**3.3**	**9.4**

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

	Indirect £m	Direct £m	Total £m
Additions to non-current assets	11.6	0.5	12.1
Reportable segment assets	54.2	24.8	79.0
Reportable segment liabilities	12.2	15.6	27.8

	Indirect £m	Direct £m	Total £m
2013			
Traditional products	67.8	17.1	84.9
New products	51.2	12.6	63.8
Total revenue from external customers	**119.0**	**29.7**	**148.7**
Inter-segment revenue	*6.5*	–	*6.5*
Traditional products	17.9	5.6	23.5
New products	24.7	5.7	30.4
Total gross profit	**42.6**	**11.3**	**53.9**
Segment operating profit before share based payment, depreciation, amortisation and exceptional items	**13.6**	**3.6**	**17.2**
Share based payment expense	(0.9)	–	(0.9)
Segment EBITDA	**12.7**	**3.6**	**16.3**
Depreciation and amortisation	(4.2)	(0.6)	(4.8)
Segment profit	**8.5**	**3.0**	**11.5**
Interest income	–	–	–
Tax	(1.7)	(0.5)	(2.2)
Group profit after tax	**6.8**	**2.5**	**9.3**

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

Notes forming part of the financial statements

For the year ended 31 December 2014 continued

4. Segment information continued

	Indirect £m	Direct £m	Total £m
Additions to non-current assets	5.5	0.4	5.9
Reportable segment assets	45.4	20.7	66.1
Reportable segment liabilities	16.3	12.9	29.2

5. Profit on ordinary activities

Profit on ordinary activities is stated after charges/credits of the following amounts

	2014 £m	2013 £m
Changes in inventories	**0.6**	0.2
Staff costs (see note 7)	**30.1**	21.9
Depreciation of property, plant and equipment (incl. impairment)	**5.1**	3.7
Amortisation of intangible assets	**1.3**	1.1
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	**–**	–
Fees payable to the Company's auditor for other services:		
– Audit of the Company's subsidiaries pursuant to legislation	**0.1**	0.1
– Other services	**0.3**	–
Operating lease expense:		
– Property	**1.2**	1.1

Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements totalled £16k for the year.

6. Exceptional items

	2014 £m	2013 £m
IPO costs	**1.2**	–
Change in the fair value of contingent consideration relating to the purchase of Varidion Limited (note 26)	**0.6**	–
Restructuring	**0.2**	–
	2.0	–

IPO costs relate to the professional fees incurred on the admission of the Group to AIM.

The change in the fair value of contingent consideration is because during the course of the year the Directors took an opportunity to settle the consideration relating to the purchase of Varidion Limited.

7. Staff costs

	2014 £m	2013 £m
Staff costs (including Directors) comprise:		
Wages and salaries	**23.2**	17.7
Defined contribution pension cost (note 24)	**1.2**	1.2
Social security contributions and similar taxes	**2.5**	2.1
	26.9	21.0
Share based payment expense (note 25)	**3.2**	0.9
	30.1	21.9

Employee numbers

The average number of staff employed by the Group during the financial year amounted to:

	2014 Number	2013 Number
Operational	**272**	214
Selling, administration and distribution	**247**	217
	519	431

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 page 32, and the Management Committee listed on page 34.

	2014 £m	2013 £m
Salary	**2.3**	1.9
Defined contribution pension costs	**0.2**	0.4
Social security contributions and similar taxes	**0.3**	0.3
	2.8	2.6
Share based payment expense (note 25)	**2.9**	0.5
	5.7	3.1

Emoluments in respect of Directors are summarised below

	2014 £m	2013 £m
Salary	**0.9**	0.7
Compensation for loss of office	**0.2**	–
Defined contribution pension costs	**0.1**	0.2
Social security contributions and similar taxes	**0.1**	0.1
	1.3	1.0
Share based payment expense (note 25)	**1.0**	0.2
	2.3	1.2

Emoluments disclosed above include the following amounts in respect of the highest paid Director.

	2014 £m	2013 £m
Salary	**0.6**	0.4
Total pension and other post-employment benefit costs	**0.0**	0.1
Share based payment expense	**0.6**	0.1
	1.2	0.6

During the year, one Director (2013: two Directors) participated in a private money purchase defined contribution pension scheme.

The remuneration for the Directors who have served as such since flotation is shown within the Remuneration Report. Between incorporation and flotation, there were two additional Directors who received remuneration from the Group. Malcolm Goddard served as Director from incorporation on 17 March 2014 to 30 August 2014 and Gerard Sreeves from 23 May 2014 to 1 October 2014. During those periods their remuneration was as follows:

Director	Salary and fees	Bonus	Compensation for loss of office	Pension	Total for period served as Director
Gerard Sreeves	56,968	-	181,424	9,055	247,447
Malcolm Goddard	49,639	39,994	-	-	89,633

Bonuses are shown on an accrued basis.

Gerard Sreeves also exercised 118,381 options over £0.0025 Ordinary Shares shortly after he ceased to be a Director. A payment of £1,104,000 was also paid for cancellation options over 400,000 A1 ordinary shares.

8. Finance income

Recognised in profit or loss

	2014 £m	2013 £m
Finance income		
Interest received on bank deposits	**-**	–
Total finance income	**-**	–

Notes forming part of the financial statements

For the year ended 31 December 2014 continued

9. Tax expense

	2014 £m	2013 £m
Current tax expense		
Current tax on profits for the year	**2.9**	2.9
Adjustment in respect of prior year	**(0.2)**	(0.5)
Total current tax	**2.7**	2.4
Deferred tax expense		
Origination and reversal of temporary differences (note 20)	**(0.6)**	(0.2)
Total tax expense	**2.1**	2.2

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:

	2014 £m	2013 £m
Profit before income taxes	**11.5**	11.5
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 21.5% (2013: 22.25%)	**2.5**	2.6
Expenses not deductible for tax purposes	**0.5**	0.4
Additional deduction for R&D expenditure	**(0.7)**	(0.3)
Adjustment in respect of prior year	**(0.2)**	(0.5)
Total tax expense	**2.1**	2.2

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

10. Earnings per share and dividends

Earnings per share

The calculation of basic earnings per Ordinary Share is based on a profit after tax of £9.4 million (2013: profit of £9.3 million) and 88,349,480 (2013: 88,326,746) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the period (adjusted for the fact that there was a share split during the period). Because the Group was formed by a share for share exchange, for the purposes of calculating earnings per share, it has been assumed that the number of shares at incorporation was the number of shares between 1 January 2013 and incorporation for the purposes of calculating a weighted average.

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 as described in note 25. For 2014 the diluted Ordinary Shares were based on 93,601,600 Ordinary Shares that included 5,252,120 potential Ordinary Shares.

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

	Total 2014 £m	Total 2013 £m
Profit for the year	**9.4**	9.3
Exceptional costs	**2.0**	–
Share based payment costs	**3.2**	0.9
Less tax benefit associated with share based payment costs and one-off costs	**(0.6)**	(0.1)
Adjusted profit after tax for the year	**14.0**	10.1

	Total 2014 No.	Total 2013 No.
Weighted average number of Ordinary Shares for basic earnings per share	**88,349,480**	88,326,746
Effect of dilution resulting from share options	**5,252,120**	5,274,854
Weighted average number of Ordinary Shares adjusted for the effect of dilution	**93,601,600**	93,601,600

	2014	2013
Adjusted earnings per Ordinary Share – basic (pence)	**15.9**	11.4
Adjusted earnings per Ordinary Share – diluted (pence)	**15.0**	10.8

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

Dividends

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

A final dividend of 3.95p will be proposed at the Annual General Meeting but has not been recognised as it requires approval.

11. Property, plant and equipment

	Network assets £m	Customer-Premises equipment £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost					
At 1 January 2013	30.3	0.2	9.9	1.1	41.5
Additions	2.7	0.7	1.6	–	5.0
At 31 December 2013	33.0	0.9	11.5	1.1	46.5
Depreciation					
At 1 January 2013	21.6	–	7.5	0.9	30.0
Charge for the year	2.2	0.2	1.2	0.1	3.7
At 31 December 2013	23.8	0.2	8.7	1.0	33.7
Net book value					
At 1 January 2013	8.7	0.2	2.4	0.2	11.5
At 31 December 2013	9.2	0.7	2.8	0.1	12.8
Cost					
At 1 January 2014	33.0	0.9	11.5	1.1	46.5
Additions	8.8	1.0	1.0	0.4	11.2
At 31 December 2014	**41.8**	**1.9**	**12.5**	**1.5**	**57.7**
Depreciation					
At 1 January 2014	23.8	0.2	8.7	1.0	33.7
Charge for the year	3.2	0.6	1.3	–	5.1
At 31 December 2014	**27.0**	**0.8**	**10.0**	**1.0**	**38.8**
Net book value					
At 1 January 2014	9.2	0.7	2.8	0.1	12.8
At 31 December 2014	**14.8**	**1.1**	**2.5**	**0.5**	**18.9**

Included within network assets are assets in the course of construction with a value of £4.0m (2013: £Nil) for which no depreciation has been charged. Depreciation will commence when the asset enters operational use.

There was no property, plant or equipment held under finance leases at the end of the period (2013: £Nil).

There was no property, plant or equipment held as security at the end of the period (2013: £Nil).

Notes forming part of the financial statements

For the year ended 31 December 2014 continued

12. Intangible assets

	Goodwill on Consolidation £m	Development costs £m	Customer Contracts £m	Total £m
Cost				
At 1 January 2013	12.5	2.6	2.1	17.2
Additions	–	0.8	–	0.8
At 31 December 2013	12.5	3.4	2.1	18.0
Amortisation				
At 1 January 2013	4.5	0.8	0.4	5.7
Charge for the year	–	0.7	0.4	1.1
At 31 December 2013	4.5	1.5	0.8	6.8
Carrying value				
At 1 January 2013	8.0	1.8	1.7	11.5
At 31 December 2013	8.0	1.9	1.3	11.2
Cost				
At 1 January 2014	12.5	3.4	2.1	18.0
Additions	–	0.9	–	0.9
At 31 December 2014	**12.5**	**4.3**	**2.1**	**18.9**
Amortisation				
At 1 January 2014	4.5	1.5	0.8	6.8
Charge for the year	–	0.9	0.4	1.3
At 31 December 2014	**4.5**	**2.4**	**1.2**	**8.1**
Carrying value				
At 1 January 2014	8.0	1.9	1.3	11.2
At 31 December 2014	**8.0**	**1.9**	**0.9**	**10.8**

Research and development costs expensed in the year totalled £4.4m (2013: £3.8m).

The estimates of the useful economic lives of the intangible assets are as follows:

- Customer contracts – five years
- Development costs – various but no more than four years
- Goodwill on consolidation – indefinite (subject to impairment)

The carrying amount of goodwill is allocated to the cash generating units (CGUs) as follows:

	2014 £m	2013 £m
Gamma Business Communications Limited	**6.8**	6.8
Gamma Network Solutions Limited	**1.2**	1.2
	8.0	8.0

The carrying value of the Group's goodwill is not subject to annual amortisation and was tested for impairment at 31 December 2014 and 2013. The recoverable amount has been determined on a value-in-use basis on each CGU using the management approved 12-month budget for each CGU. The base 12-month projection is amended for years two to five as follows: (a) by increasing revenue by 6% for Gamma Business Communications Limited and by 25% for Gamma Network Solutions Limited; (b) gross margin percentage is assumed to be held constant; and (c) overheads are assumed to grow in line with inflation. These cash flows are then discounted at 15% which management believes reflects the Group's cost of capital and any risk factors associated with the direct business – both CGUs form the direct part of the Group and therefore it is appropriate to use a single discount rate across both CGUs.

Based on the results of the impairment reviews carried out for each period (giving a recoverable amount of £22.0m in respect of Gamma Business Communications Limited and £9.3m in respect of Gamma Network Solutions Limited), no impairment charges have been recognised by the Group in either of the years. Management has considered various sensitivity analyses in order to appropriately evaluate the carrying value of goodwill. 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.

13. 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	Notes
Gamma Telecom Holdings Limited	United Kingdom	Intermediate holding company	
Gamma Telecom Limited	United Kingdom	Telephony services	
Gamma Metronet Limited	United Kingdom	Dormant	
Gamma Business Communications Limited	United Kingdom	Retail telephony services	
Gamma Network Solutions Limited	United Kingdom	Data and communications networks	(a)
Peach Amber Kft	Hungary	Software services	

Notes:
(a) Gamma Network Solutions Limited is owned by Gamma Business Communications Limited

Gamma Business Communications Limited held 100% of the share capital of the following dormant subsidiaries, all incorporated in the United Kingdom, at 1 January 2013, 31 December 2013 and 31 December 2014:

→ Blue Spot Technologies Limited

→ Go Worldwide Communications Limited

→ Uniworld Bureau Services Limited

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 Telecom Employee Benefit Trust.

The Group held no interests in unconsolidated structured entities.

14. Inventories

	2014 £m	2013 £m
Raw materials and consumables	**1.2**	0.6
Provision	**(0.1)**	(0.1)
Total inventories	**1.1**	0.5

15. Trade and other receivables

	2014 £m	2013 £m
Trade receivables	**17.9**	15.9
Less: provision for impairment of trade receivables	**(1.2)**	(0.9)
Trade receivables – net	**16.7**	15.0
Accrued income	**7.6**	7.3
Prepayments	**4.6**	3.2
Other receivables	**3.6**	0.9
Total trade and other receivables	**32.5**	26.4

Due to the short term nature of trade and other receivables and as the credit risk has been adjusted for, the book value approximates to fair value.

As at 31 December 2014 and 2013 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:

	2014 £m	2013 £m
Up to 3 months	**1.7**	1.6
3 to 6 months	**0.3**	1.5
6 to 12 months	**0.2**	0.4
Older than 1 year	**0.2**	–
	2.4	3.5

Notes forming part of the financial statements

For the year ended 31 December 2014 continued

15. Trade and other receivables continued

As at 31 December 2014 trade receivables of £0.8m (2013: £0.4m) were past due and impaired. The amount of the provision as at 31 December was £1.2m (2013: £0.9m). The main factors considered by the Credit Committee 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:

	2014 £m	2013 £m
Not due	**0.3**	0.5
Up to 3 months	**0.1**	–
3 to 6 months	**0.3**	0.1
6 to 12 months	**0.2**	0.1
Older than 1 year	**0.3**	0.2
	1.2	0.9

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:

	2014 £m	2013 £m
At beginning of the year	**0.9**	1.5
Provided during the year	**0.3**	–
Receivable written off during the year as uncollectible	**-**	(0.5)
Unused amounts reversed	**-**	(0.1)
	1.2	0.9

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.

16. Cash and cash equivalents notes

	2014 £m	2013 £m
Cash at bank available on demand	**13.4**	14.6

17. Trade and other payables

	2014 £m	2013 £m
Current		
Trade payables	**3.3**	6.3
Other payables	**0.9**	0.8
Accruals	**17.3**	13.7
Contingent consideration (note 26)	**0.1**	0.7
	21.6	21.5
Tax and social security	**2.6**	1.4
Deferred income	**1.7**	1.8
Total trade and other payables	**25.9**	24.7

	2014 £m	2013 £m
Non-current		
Contingent consideration (note 26)	**-**	1.4
Total other payables	**-**	1.4

Book values approximate to fair value at 31 December 2014 and 31 December 2013.

All current trade and other payables are payable within three months of the period end date shown above with the exception of the contingent consideration which is payable between three and 12 months and as such they are all considered current.

18. 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 - loans and receivables - amortised cost

	2014 £m	2013 £m
Cash and cash equivalents	13.4	14.6
Trade receivables - net	16.7	15.0
Accrued income	7.6	7.3
Other receivables	3.6	0.9
Total financial assets	**41.3**	37.8

Financial liabilities - amortised cost

	2014 £m	2013 £m
Trade and other payables	21.5	20.8
Total financial liabilities - amortised cost	**21.5**	20.8

Financial liabilities - fair value through profit or loss (FVTPL)

	2014 £m	2013 £m
Contingent consideration	0.1	2.1
Total financial liabilities - FVTPL	**0.1**	2.1

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 quarterly 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 on the next page:

Notes forming part of the financial statements

For the year ended 31 December 2014 continued

18. Financial instruments – Risk Management continued

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. Such credit ratings are taken into account by local business practices.

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 when available. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the Credit Committee.

The Credit Committee determines concentrations of credit risk by quarterly monitoring the creditworthiness rating of existing customers and through a monthly review of the trade receivables' ageing analysis.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with high credit status are accepted.

The Group does not enter into derivatives to manage credit risk, although in certain isolated cases it may take steps to mitigate such risks if they are sufficiently concentrated.

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 15.

Financial assets – maximum exposure

	2014 £m	2013 £m
Cash and cash equivalents	**13.4**	14.6
Trade receivables – net	**16.7**	15.0
Accrued income	**7.6**	7.3
Other receivables	**3.6**	0.9
Total financial assets	**41.3**	37.8

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.

Cash in bank

The Group is continually reviewing the credit risk associated with holding money on deposit in banks and seek to mitigate this risk by holding deposits with banks with high credit status.

Fair value and cash flow interest rate risk

As of 31 December 2013 and 31 December 2014 the Group's exposure to fair value and cash flow interest rate risk was not material. It is Group policy that all borrowings are approved by the Finance Director to ensure that it is not taking on significant risk related to possible movements in interest rates. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

Market risk

The market risk relates to foreign exchange. Foreign exchange risk arises because the Group has a small operation located in Hungary whose functional currency is 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.

Foreign exchange risk also arises when individual Group entities enter into transactions denominated in a currency other than their functional currency; the Group has very few customers who are invoiced in currency other than sterling and no regular suppliers invoice in currency other than sterling. Again, these transactions are not hedged because the cost of doing so is disproportionate to the risk.

As of 31 December 2013 and 31 December 2014 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.

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 24-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 year £m**	**Between 2 and 5 years £m**	**Over 5 years £m**
2014					
Trade and other payables	**21.5**	–	–	–	–
Contingent consideration	–	**0.1**	–	–	–
Total	**21.5**	**0.1**	–	–	–

	Up to 3 months £m	Between 3 and 12 months £m	Between 1 and 2 year £m	Between 2 and 5 years £m	Over 5 years £m
2013					
Trade and other payables	20.8	–	–	–	–
Contingent consideration	0.7	–	0.6	0.8	–
Total	21.5	–	0.6	0.8	–

More details in regard to the line items are included in the respective notes:

→ Trade and payables – note 17

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.

	2014 £m	2013 £m
Total equity	**51.2**	36.9
Cash and cash equivalents	**13.4**	14.6
Capital	**64.6**	51.5
Total equity	**51.2**	36.9
Overall financing	**51.2**	36.9
Capital-to-overall financing ratio	**1.26**	1.40

Notes forming part of the financial statements
For the year ended 31 December 2014 continued

19. Provisions

	Leasehold dilapidation provision £m
At 31 December 2012 and 2013	1.0
Released in year	(0.1)
At 31 December 2014	**0.9**
Due within one year or less	**0.1**
Due after more than one year	**0.8**
	0.9

At each year end date, the leasehold provision is payable in greater than one year.

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. 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.

20. Deferred tax
Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 20% (2013: 23%).

The movement on the deferred tax account is as shown below:

	2014 £m	2013 £m
Liability at 1 January	**(0.4)**	(0.6)
Tax credit recognised in profit and loss	**0.6**	0.2
Recognised directly in equity	**1.9**	–
Asset/(liability) at 31 December	**2.1**	(0.4)

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. All deferred tax has been recognised.

The deferred taxation asset/(liability) consists of the tax effect of temporary differences as follows:

	Asset £m	Liability £m	Net £m	(Charged)/ Credited to Profit or loss £m	Credited to equity £m
2014					
Difference in capital allowances and depreciation/amortisation	**(0.1)**	**-**	**(0.1)**	**0.5**	**-**
Other temporary and deductible differences	**0.1**	**-**	**0.1**	**(0.4)**	**-**
Deferred tax on share options	**2.3**	**-**	**2.3**	**0.4**	**1.9**
Business combinations	**-**	**(0.2)**	**(0.2)**	**0.1**	**-**
Deferred tax asset/liability	**2.3**	**(0.2)**	**2.1**	**0.6**	**1.9**

	Asset £m	Liability £m	Net £m	Credited to Profit or loss £m
2013				
Difference in capital allowances and depreciation/amortisation	0.1	(0.7)	(0.6)	–
Other temporary and deductible differences	0.5	–	0.5	0.2
Business combinations	–	(0.3)	(0.3)	–
Deferred tax asset/liability	0.6	(1.0)	(0.4)	0.2

21. Share capital

On incorporation, the issued share capital of the Company was 1 Ordinary Share of £1.00. The share capital from 17 March 2014 (incorporation) to 12 May 2014 was as follows:

	2014 Number	2014 £m
Allotted and fully paid		
Ordinary Shares of £1 each	**1**	**0.0**
		0.0

On 12 May 2014, the Company acquired the group headed by Gamma Telecom Holdings Limited by virtue of a share for share exchange. 1,699,983 B1 Ordinary Shares of £0.01 each and 20,590,196 Ordinary Shares of £0.01 were issued on that date. The share capital from 12 May 2014 to 2 October 2014 was as follows:

	2014 Number	2014 £m
Allotted and fully paid		
B1 Ordinary Shares of £0.01 each	**1,699,983**	**-**
Ordinary Shares of £0.01 each	**20,590,196**	**0.2**
		0.2

In addition to the above shares, the Company also had another class of share being an A1 Ordinary Share of £0.001 each with none in issue.

The Ordinary Shares and B1 Shares together (the "Equity Shares") confer on their holders the right to receive notice of and to attend, speak, and vote at all general meetings of the Company and to sign written resolutions of the Company. The holders of A1 Shares are not entitled to receive notice of or to attend general meetings of the Company and are not entitled to vote thereat nor are they entitled to receive or participate in written resolutions of the Company.

Every dividend to be paid by the Company, other than a dividend payable on or following the occurrence of certain changes of control, will be distributed to the holders of the Equity Shares pro rata to their holdings of Equity Shares. The holders of any shares not being Equity Shares are not entitled to participate in or receive any dividend other than a dividend payable on or following the occurrence of an Event.

Notes forming part of the financial statements

For the year ended 31 December 2014 continued

21. Share capital continued

On or following the occurrence of a change of control, the receipts from the acquirer shall be applied as follows:

(a) firstly, to the holders of the Ordinary Shares and A1 Shares, an amount equal to £3.75 for each Ordinary Share or A1 Share held by them on the date of the acquisition or, if the receipts from the acquirer divided by the aggregate number of Ordinary Shares and A1 Shares in issue at the date of the acquisition (on a fully diluted basis) is less than £3.75, the whole of the receipts at such date shall be paid to the holders of the Ordinary Shares and A1 Shares pro rata to the number of Ordinary Shares and A1 Shares held by them;

(b) the balance thereof (if any) shall be paid to the holders of the Equity Shares pro rata to their respective holdings of Equity Shares.

On 2 October 2014, in preparation for the flotation, the share capital of the Company underwent a four for one split. The share capital on 2 October 2014 was as follows:

	2014 Number	2014 £m
Allotted and fully paid		
B1 Ordinary Shares of £0.0025 each	6,799,932	-
Ordinary Shares of £0.0025 each	82,360,784	0.2
		0.2

Following the share split on 2 October 2014, 3,356,528 B1 Ordinary Shares of £0.0025 each in the Company were redesignated as 3,356,528 Ordinary Shares, subject to a payment from the shareholder of the sum of £3.1m to the Company (being £0.9375 per B1 Ordinary Share registered in his name).

On 6 October 2014 the holders of all the remaining issued B1 ordinary shares of £0.0025 in the Company voluntarily converted their B1 Ordinary Shares into 1,726,481 Ordinary Shares and 1,717,323 Deferred Shares pursuant to the articles of association of the Company. The conversion rate was calculated by applying a formula based on the Placing Price to reflect the equity value of the B1 Ordinary Shares.

Also on 6 October 2014 12,000 Ordinary Shares were issued and allotted to satisfy an exercise of options which had taken place earlier at an exercise price of 62.5p; 608,481 Ordinary Shares were issued following the exercise of options held by certain employees pursuant to the 2013 Unapproved Share Option Scheme and the Unapproved Share Option Scheme. A further 256,320 Ordinary Shares were allotted to the SIP Trust.

On 9 October 2014 an additional 6,152 Ordinary Shares were issued at a price of £1.87.

As a result of the above share transactions, on 10 October 2014 (at flotation) the share capital was as follows:

	2014 Number	2014 £m
Allotted and fully paid		
Ordinary Shares of £0.0025 each	88,326,746	0.2
Deferred Shares of £0.0025 each	1,717,323	-
		0.2

The Deferred Shares have no voting rights and do not carry any entitlement to attend general meetings of the Company, nor will they be admitted to trading on AIM or any other market. They will not carry any dividend rights and will only be entitled to a payment on a return of capital or winding-up of the Company after each Ordinary Share has received a payment of £0.1m. They are not transferable without the prior written consent of the Company.

On 20 November 2014, 202,381 Ordinary Shares were issued to satisfy options which had been exercised.

At 31 December 2014 the share capital was as follows:

	2014 Number	2014 £m
Allotted and fully paid		
Ordinary Shares of £0.0025 each	**88,529,127**	**0.2**
Deferred Shares of £0.0025 each	**1,717,323**	**-**
		0.2

Subsequent to the end of the period, the Company bought back the issued Deferred Shares on 20 February 2015 from distributable profits.

22. Reserves

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium	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 as set out in note 1.
Share option reserve	Represents credit to equity relating to share based payment expense on share options.
Foreign exchange reserve	Gains/losses arising on retranslating the net assets of overseas operations into sterling.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

23. Leases

The Group had commitments under non-cancellable operating leases as set out below:

	Land and Buildings £m	Other £m
2014		
In one year or less	**1.0**	**-**
Between one and five years	**3.2**	**0.2**
In five years or more	**2.1**	**-**
	6.3	**0.2**

	Land and Buildings £m	Other £m
2013		
In one year or less	1.1	0.1
Between one and five years	2.9	0.1
In five years or more	2.3	–
	6.3	0.2

24. 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:

	2014 £m	2013 £m
Defined contribution pension scheme	**1.2**	1.2

Notes forming part of the financial statements
For the year ended 31 December 2014 continued

25. Share based payment
Share Options
Following the share for share exchange which took place on 12 May 2014, the Company and Gamma Telecom Holdings Ltd granted that holders of Gamma Telecom Holdings Ltd share options could exchange their options for equivalent options over shares in the Company. There is no incremental fair value as a result of the modification.

On 2 September 2014 the Board approved a Long Term Incentive Plan for the senior management team which granted 349,833 options over £0.01 Ordinary Shares at an exercise price of £0.01 per share which will vest on 1 April 2017 subject to performance conditions. The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 April 2014.

The awards will vest as follows:

- 50% of the shares are subject to an award if annual compound total shareholder return over the performance period exceeds or equals 15% and 15% of the shares are subject to an award if the annual compound total shareholder return over the period equals 8% with pro rata straight line vesting in between; and
- 50% of the shares are subject to an award if annual compound growth of the Company's adjusted earnings per share over the performance period exceeds or equals 20% between the financial years at the beginning and the end of the performance period and 15% of the shares are subject to an award if the annual compound growth of the Company's adjusted earnings per share exceeds or equals 8% with pro rata in between.

As at 2 September 2014 the following options were therefore in existence:

Date of grant	Exchanged/ Granted in year	Exercise Price	Class of Share	Notes
6 June 2014	226,667	£1.000	Ordinary	(a)
6 June 2014	18,000	£2.500	Ordinary	(a)
6 June 2014	25,000	£3.000	Ordinary	(a)
6 June 2014	910,000	£0.990	A1 Ordinary	(a)
6 June 2014	495,658	£0.001	A1 Ordinary	(a)
2 September 2014	349,833	£0.010	Ordinary	(b)

Notes:
(a) Vesting period was immediate.
(b) Vesting period starts on the earlier of a flotation or 24 June 2015.

On 1 October 2014, 949,132 options over £0.001 A1 shares were cancelled and a cash settlement was made at £3.75 per share less the exercise price. The following options were in existence immediately prior to the subdivision of shares which occurred on 2 October 2014:

Date of grant	Exchanged/ Granted in year	Cancelled/ lapsed	Pre Conversion	Exercise Price	Class of Share
6 June 2014	226,667	–	226,667	£1.000	Ordinary
6 June 2014	18,000	–	18,000	£2.500	Ordinary
6 June 2014	25,000	–	25,000	£3.000	Ordinary
6 June 2014	910,000	(850,000)	60,000	£0.990	A1 Ordinary
6 June 2014	495,658	(99,132)	396,526	£0.001	A1 Ordinary
2 September 2014	349,833	–	349,833	£0.010	Ordinary

On 2 October 2014, at the time of the share sub-division, the options were redesignated as follows:

Date of grant	Pre conversion	Ratio	Post conversion	Price	Share
6 June 2014	226,667	4.0000	906,668	£0.2500	Ordinary
6 June 2014	18,000	4.0000	72,000	£0.6250	Ordinary
6 June 2014	25,000	4.0000	100,000	£0.7500	Ordinary
6 June 2014	60,000	2.0053	120,320	£0.4940	Ordinary
6 June 2014	396,526	2.0053	795,169	£0.0025	Ordinary
2 September 2014	349,833	4.0000	1,399,332	£0.0025	Ordinary

There is no incremental fair value as a result of the modification.

Movements in the number of options from 2 October 2014 (post conversion) to the end of the year were as follows:

The options below were exercised at a weighted average share price of £1.96.

2014 Date of grant	Post conversion	Granted	Exercised	End of year	Exercise Price	Class of Share	Notes
6 June 2014	906,668	–	(190,000)	716,668	£0.2500	Ordinary	(a)
6 June 2014	72,000	–	(36,000)	36,000	£0.6250	Ordinary	(a)
6 June 2014	100,000	–	–	100,000	£0.7500	Ordinary	(a)
6 June 2014	120,320	–	–	120,320	£0.4940	Ordinary	(a)
6 June 2014	795,169	–	(614,091)	181,078	£0.0025	Ordinary	(a)
2 September 2014	1,399,332	–	–	1,399,332	£0.0025	Ordinary	(b)
6 October 2014	–	922,880	–	922,880	£0.0025	Ordinary	(c)
6 October 2014	–	329,244	–	329,244	£0.0025	Ordinary	(d)
6 October 2014	–	703,384	–	703,384	£0.0025	Ordinary	(e)
6 October 2014	–	372,477	–	372,477	£0.0025	Ordinary	(f)
6 October 2014	–	123,200	–	123,200	£1.8700	Ordinary	(g)
6 October 2014	–	67,892	–	67,892	£0.0025	Ordinary	(b)

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. The awards will vest as follows:
 i. 50% of the shares are subject to an award if annual compound total shareholder return over the performance period exceeds or equals 15% and 15% of the shares are subject to an award if the annual compound total shareholder return over the period equals 8% with pro rata straight line vesting in between; and
 ii. 50% of the shares are subject to an award if annual compound growth of the Company's adjusted earnings per share over the performance period exceeds or equals 20% between the financial years at the beginning and the end of the performance period and 15% of the shares are subject to an award if the annual compound growth of the Company's adjusted earnings per share exceeds or equals 8% with pro rata in between.
(c) Awards vest on 1 February 2015; there are no vesting conditions.
(d) Awards vest on 10 October 2015; there are no vesting conditions.
(e) Awards vest on 1 February 2016; there are no vesting conditions.
(f) Awards vest on 1 February 2017; there are no vesting conditions.
(g) 123,200 options over Ordinary Shares at an exercise price of £1.87 to compensate holders of options over A Ordinary Shares which were granted in conjunction with the issue of B shares for the loss of capital gains tax treatment in relation to the reorganisation of the share capital. These options are fully vested and exercisable.

Apart from the options noted as exercisable, all other options above are outstanding.

The Company was incorporated in March 2014 and therefore options in the prior period were held in the former group holding company, Gamma Telecom Holdings Limited (and these are shown below):

2013 Date of grant	Start of year/ Granted in year	Cancelled/ lapsed	End of year	Exercise Price	Notes
29 August 2003	5,122	(5,122)	–	£2.50	(a)
6 September 2005	12,000	–	12,000	£2.50	(a)
8 July 2009	1,076,027	(972,500)	103,527	£1.00	(a)
2 September 2009	37,500	–	37,500	£1.00	(a)
10 March 2010	131,351	(23,000)	108,351	£1.00	(a)
7 July 2010	25,000	(8,333)	16,667	£1.00	(a)
24 June 2013	910,000	–	910,000	£0.99	(b)
24 June 2013	4,425	–	4,425	£0.001	(b)
24 June 2013	495,658	–	495,658	£0.001	(c)

All options lapse ten years after the date on which they were issued.

Notes:
(a) Options over £0.01 Ordinary Shares; vesting period starts on date of issue.
(b) Options over £0.001 A1 Shares; vesting period starts on date of issue.
(c) Options over £0.001 A1 Shares; vesting period of two years.

The share options are subject to equity-settled share based payments.

The share options outstanding at 31 December 2014 represented 6% of the issued share capital as at that date (2013: 1%) and would generate additional funds of £0.6m (2013: £1.2m) if fully exercised. The weighted average remaining life of the share options was 20 months (2013: 106 months), with a weighted average remaining exercise price of 11 pence (2013: 18 pence; after adjustment for the share split).

Notes forming part of the financial statements
For the year ended 31 December 2014 continued

25. Share based payment continued

Shadow Share Option Scheme (cash settled)

Under this scheme, the Group used to award employees with a shadow share option which will only vest on a change of control in the Company or a listing. Within 30 days of vesting, the employee will receive a payment equal to the number of units multiplied by the difference in market value at the date of vesting and market value of the date of grant.

On 31 October 2013, 10,000 options were issued at a notional market value of £3.39 and 5,000 options were issued at a notional market value of £2.43. On 12 November 2013, a further 5,000 options were issued at £2.43 and on 14 January 2014, 25,000 options were issued at £3.39.

Employee Shareholder Status Shares

On 27 November 2013, Gamma Telecom Holdings Limited issued 112,000 B1 shares for nil consideration as "Employee Shareholder Status Shares".

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:

	2014 £m	2013 £m
Share options issued to key management	**2.9**	0.4
Share options issued to other employees	**0.1**	–
Shadow Share Options	**0.2**	0.5
Total share based payment expense	**3.2**	0.9

Fair value is measured using the binomial pricing model and includes the information set out in the table below. The expected life used in the model assumes that vesting conditions will be met and all options will be exercised at the earliest opportunity.

	2014	2013
Share price at grant date (pence)	**187**	61–85
Exercise price (pence)	**0-62.5**	0–25
Expected volatility	**30%**	25%
Risk free rate	**0.7-1.06%**	0.823%
Expected dividend yield	**3%**	0%

The share price at grant date and the exercise price have been adjusted for the share split.

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 any of the periods.

26. Fair value measurement of financial instruments

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

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

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

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

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

The fair value of contingent consideration related to the acquisition of Gamma Network Solutions Limited (see note 16) was based on the expected gross margins earned by the business in the five years following acquisition.

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

The most significant sensitivity is a change in future gross margin. An increase/(decrease) by 10% of the future gross margin made by the business will result in an increase/(decrease) of fair value of £297,000. Theoretically the contingent consideration could range from zero through to an unlimited amount however in practice the amount due is bounded by the level of sales made by a finite sales force. The acquisition was constructed in such a way that the gross margin from future sales is at least as large as the contingent consideration.

Management has recalculated the fair value of the contingent consideration at the end of each accounting period and there has been no material difference in the fair value.

Level 3 fair value measurements

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

	2014 £m	2013 £m
Contingent consideration at 1 January	**2.1**	2.1
Adjustment to contingent consideration	**0.6**	–
Realised during period	**(2.6)**	–
Contingent consideration at 31 December	**0.1**	2.1

27. Capital commitments

The Group had no capital commitments at 31 December 2014 and 31 December 2013.

Notes forming part of the financial statements
For the year ended 31 December 2014 continued

28. Related party transactions
Details of key management's remuneration are given in note 7. As at 31 December 2014 an amount of £0.5m (2013: £0.6m) was owed to the Group by key management personnel; this sum includes £50,000 owed by Andrew Belshaw. On 6 May 2014, a subsidary (Gamma Telecom Holdings Limited) made an interest free loan of £50,000 to Andrew Belshaw to enable him to repay a loan of £50,000 from the Employee Benefit Trust. This loan is repayable on the earlier of the date on which Andrew Belshaw sells the 200,000 £0.0025 Ordinary Shares which are held in the Employee Benefit Trust (and it is part payable if there is a partial disposal) or within 30 days of Andrew Belshaw ceasing to be employed by the Group or 4 April 2021.

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

No dividends 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 period.

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

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

The Group had no contingent liabilities at 31 December 2014 or 31 December 2013 other than the contingent consideration in relation to the business acquisition discussed in note 26.

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

31. Ultimate controlling party
There is no ultimate controlling party.

Company balance sheet
At 31 December 2014

	Note	2014 £m
Fixed assets		
Investments	2	**2.3**
		2.3
Current assets		
Debtors	3	**11.4**
Cash at bank and in hand		**6.7**
		18.1
Net current assets		**18.1**
Total assets less current liabilities		**20.4**
Capital and reserves		
Called-up equity share capital	4	**0.2**
Share premium account	5	**3.2**
Share option reserve	5	**2.1**
Profit and loss account	5	**14.9**
Shareholders' funds	6	**20.4**

The financial statements on pages 81 to 83 were approved and authorised for issue by the Board of Directors on 19 March 2015 and were signed on its behalf by:

Andrew Belshaw
Finance Director

The notes on pages 82 to 83 form part of these financial statements.

Notes forming part of the Company financial statements

From the date of incorporation to 31 December 2014

1. Accounting policies

Basis of accounting

The financial statements for the Company have been prepared in accordance with applicable accounting standards (being those accepted within the UK, "UK GAAP") and under the historical cost convention. In future periods the Company will report under FRS101.

The principal accounting policies are set out below.

The accounts 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. The business has a track record of profitable growth and is cash generative and this is expected to continue. 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 the virtue of section 408 of the Companies Act 2006. The loss in respect of the Company for the year was £0.1m.

Cash flow statement

The Directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including cash flow statements in the financial statements on the grounds that the Company is wholly owned and its parent publishes a consolidated cash flow statement.

Investments

Investments are recorded at cost less amounts written off.

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 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. Investments

	2014 £m
Additions	**2.3**
Total investments	**2.3**

On 12 May 2014, the Company acquired Gamma Telecom Holdings Limited by way of a share for share exchange.

At 31 December 2014 the Company held share capital of the following subsidiaries, all of which are registered in England and Wales with the exception of Peach Amber Kft which is registered in Hungary:

Entity	Nature of business	Proportion held	Note
Gamma Telecom Holdings Limited	Intermediate holding company	100%	
Gamma Telecom Limited	Telephony services	100%	(a)
Gamma Business Communications Limited	Retail telephony services	100%	(a)
Gamma Network Solutions Limited	Data and communications networks	100%	(b)
Peach Amber Kft	Software services	100%	(a)
Gamma Metronet Limited	Dormant	100%	(a)
NP4UK Limited	Dormant	100%	(a)
Uniworld Bureau Services Limited	Dormant	100%	(b)
Go Worldwide Solutions Limited	Dormant	100%	(b)
Blue Spot Technologies Limited	Dormant	100%	(b)

Notes:
(a) All 100% owned via intermediate holding company Gamma Telecom Holdings Limited.
(b) All 100% owned via intermediate trading entity Gamma Business Communications Limited.

3. Debtors

	2014 £m
Amounts owed from Group undertakings	**11.4**

4. Share capital

Details of the share capital and movement during the period are given in note 21 to the consolidated accounts.

5. Reserves

	Share capital £m	Share premium account £m	Share option reserve £m	Profit and loss account £m
On incorporation	–	–	–	–
Profit for the financial period	–	–	–	14.9
Share buybacks and cancellations	–	–	2.1	-
Share issues	0.2	3.2	–	–
At 31 December 2014	**0.2**	**3.2**	**2.1**	**14.9**

6. Reconciliation of shareholders' funds and movements on reserves

	2014 £m
Profit for the financial year	**14.9**
New shares issued	**3.4**
Share buybacks and cancellations	**2.1**
Net increase in shareholders' equity funds	**20.4**
Opening shareholders' funds	**-**
Closing shareholders' funds	**20.4**

7. Contingent liabilities

The Company had no contingent liabilities at 31 December 2014.

8. Capital commitments

The Company had no capital commitments at 31 December 2014.

9. Post balance sheet events

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

10. Related party transactions

The Group has taken advantage of the FRS 8 'Related Party Transaction' exemption from disclosure of intra group transactions between the parent and a wholly owned subsidiary.

Glossary of terms

BYOD
"Bring your own device", a relatively recent trend where employees use their own personal mobile devices as work mobiles during the working day.

"Cloud PBX"
A "multi company" phone system that is located in Gamma data centres and provides advanced phone system functionality, and is regularly updated with new features and functionality. It also enables businesses to pay for phone services out of Opex rather than Capex.

This service is part of a wider trend in ICT, whereby businesses are replacing hardware with services from the Cloud. It is impacting significantly on IT, Software and Telecoms.

Inbound
A software based service that enables businesses to dynamically manage phones calls into their business – where they arrive, who they go to, what services are added (voicemail, call queuing, etc) to inbound calls.

IP telephony
A method of delivering telephony calls over "data" lines, such as broadband, using Internet Protocol. This negates the need for businesses to have both data and voice lines for their premises.

ISDN
Means an integrated service digital network and BT's telephony product of that name which is generally sold and/or resold to businesses. The service is used primarily as a dedicated voice line for businesses.

MPLS
"Multi Protocol Layer Switching". A technology implemented across private wide area data networks that enables businesses to prioritise traffic by type – voice, video, data etc.

"SIP Trunking"
A business grade service that carries voice over a data circuit, instead of having a dedicated voice circuit (such as ISDN), enabling businesses to reduce the number of lines they pay for and has greater flexibility than dedicated voice lines (around phone numbering, capacity changes and speed of installation).

TDM
Time Division Multiplexing: A means of transmitting and switching calls and data across a single channel by providing dedicated time slots.

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