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Gamma Communications plc Annual Report and Financial Statements 2016

Gamma

Driving success in a growing market

Gamma Communications plc
Annual Report and Financial Statements 2016

Gamma is an AIM-listed communications company. Welcome to our 2016 Annual Report.

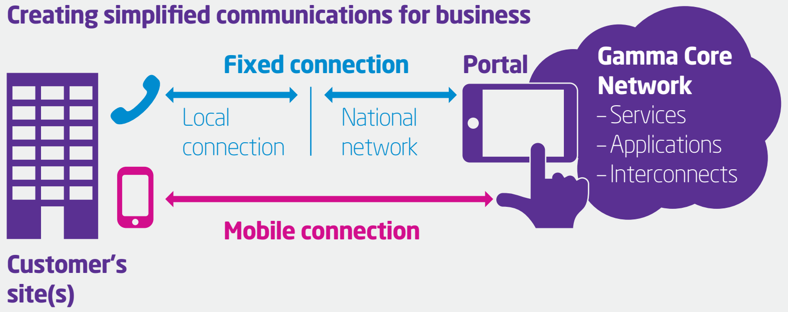
Who we are

As of December 2016, Gamma had 753 staff across six sites. We have five main sites in the UK with a small, highly capable development team in Budapest.

What we do

Gamma is a rapidly growing, technology-based provider of advanced communications services to the UK business market. We supply a broad range of simplified communications and software services 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 direct.

Creating simplified communications for business



What makes us different?

- Outstanding customer service
- Excellent network availability and resilience
- Innovative services
- Commercial strength and stability
- Strong balance sheet and consistent market strategy

All adjusted measures set out on this page and throughout this document are described as "adjusted" and are defined and reconciled in the Financial review section and are applied consistently. Where reference is made to adjusted EPS this is stated on a fully diluted basis.

?

Jargon Buster

Unsure what SIP is, or Cloud PBX? Check out our Jargon Buster through the course of the report for definitions.

Read more at **gamma.co.uk**

Highlights

£213.5m
+11%

Revenue grew from £191.8m in 2015 to £213.5m

£98.8m
+20%

Gross profit improved from £82.3m to £98.8m

£31.3m
+5%

EBITDA grew by 5% from £29.9m to £31.3m

£34.2m
+21%

Adjusted EBITDA grew by 21% from £28.3m to £34.2m

£26.5m
-6%

Net cash inflow from operating activities was £26.5m, down 6% from £28.2m in 2015 because 2015 included a £5.1m non-recurring inflow from the "ladder pricing" settlement

£21.6m
-4%

PBT fell by 4% from £22.6m to £21.6m because 2015 included a £5.7m exceptional gain from the "ladder pricing" settlement

£24.5m
+17%

Adjusted PBT grew by 17% from £21.0m to £24.5m

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Designed and produced by **SampsonMay**
Telephone: 020 7403 4099 www.sampsonmay.com

Our business is run across three service areas:

VOICE DATA MOBILE

Read more about our three service areas on:

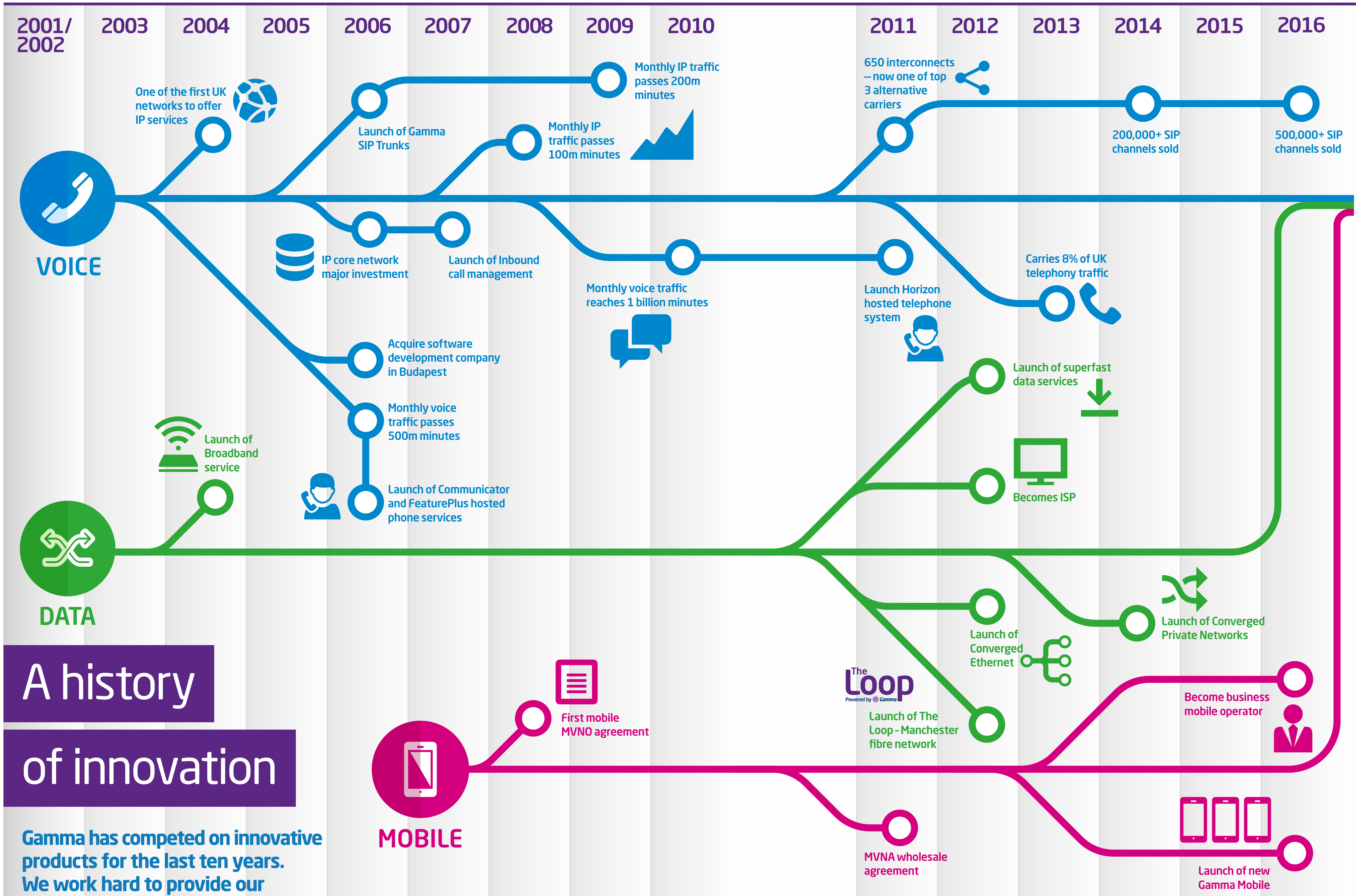
↳ p10–15

Contents

Business model
↳ p8

A history of innovation

Gamma has competed on innovative products for the last ten years. We work hard to provide our partners and customers with products that are both different and better than others in the market.



On the runway

- Availability of fixed voice services on a mobile device e.g. one number for all business uses
- Provision of computing infrastructure in the cloud – providing computing power in the cloud for a small business
- Increased bandwidth to the customer's site via Ethernet and Fibre to the Cabinet – supporting customers' moves to cloud voice and application services
- Support for business communications beyond voice – integration of messaging and collaboration services for customers and employees, at any location, on any device
- Increase in the self-serve capability for customers; helping them reduce the effort required to maximise the benefit of their business communications and application services

An exciting year for Gamma

2016 has been an excellent year for Gamma, with revenue and profit continuing to increase.

Richard Last
Chairman and Independent Non-Executive Director

Introduction
I am very pleased to present the Annual Report and Financial Statements of Gamma Communications plc for the year ended 31 December 2016.

Gamma is well positioned in the UK communications market with a strong portfolio of voice, data and mobile services to meet the growing communications needs of a modern business. With a strong core technical capability, the Group is able to bring innovative, and often disruptive, products to the market.

Overview of results
Revenue for the Group headed by Gamma ("Group") for the year ended 31 December 2016 increased by £21.7m to £213.5m (2015: £191.8m), an increase of 11.3% on the prior year. Of this increase £17.0m came from the indirect business where revenue increased to £169.0m (2015: £152.0m), while £4.7m came from the direct business which saw revenue increase to £44.5m (2015: £39.8m). Gross profit for the year to 31 December 2016 rose to £98.8m, an increase of 20.0% compared to the £82.3m achieved in 2015, whilst the overall gross margin increased to 46.3% (2015: 42.9%).

Adjusted EBITDA for the Group increased by 20.8% to £34.2m (2015: £28.3m).

Adjusted EPS for the year ended 31 December 2016 increased by 17.9% to 21.1p (2015: 17.9p). EPS is not comparable owing to the exceptional gain of £5.7m in 2015.

The adjusted net operating cash inflow before tax for the year was £31.3m compared to £25.3m in 2015. This represents a conversion ratio of adjusted net operating cash inflow before tax to adjusted EBITDA of 92%, compared to 89% for 2015. Net Cash as at 31 December 2016 amounted to £28.2m compared to £24.8m as at 31 December 2015.

Dividend
The Board is pleased to propose a final dividend, in respect of the year ended 31 December 2016, of 5.0p per share (2015: 4.4p) which, subject to the necessary shareholder approval at the forthcoming AGM, will be payable on 22 June 2017 to shareholders on the register on Friday 2 June 2017. When added to the 2.5p interim dividend, this makes a total dividend of 7.5p for the year as a whole (2015: 6.6p).

Business review
The business has demonstrated healthy growth from its channel, growing its partner base from 834 to 970, whilst at the same time winning some significant customers with its direct business arm, such as Strutt & Parker, City Electrical Factors and a substantial SIP Trunking contract with a large financial institution. I was particularly pleased that the investments we made to better position the business to bid for public sector business – where we are still significantly under-represented – are starting to bear fruit, and we have been pleased to agree new contracts with organisations such as Your Housing Group, AQA, East and North Herts NHS Trust and the Department for Communities and Local Government.

For many larger organisations the preference is to work with a Systems Integrator (SI) or BPO (Business Process Outsourcing) provider, such as CGI Group Inc, to provide much of their IT and communications needs. Following some early success, Gamma views such organisations as natural partners, and is strengthening the business to be able to work more closely with providers in this sector for business in what are usually complex bid driven processes.

In December 2014, Gamma purchased the control equipment that provides the core of a mobile network. The Board is very pleased to report that we have successfully built this core into a "Full MVNO" (a Mobile Virtual Network Operator which owns its core infrastructure); this has been no small undertaking both commercially and technically. The radio access agreement in the UK is with Three and we look forward to building further on this partnership. As one of a very small number of Full MVNOs, and the only Group with in-depth capability in both fixed and mobile services, the business is well positioned for converged services which blur the boundary between the fixed and mobile worlds. This is an area of active further product development for us.

Strong growth in our strategic SIP Trunking and Cloud PBX products has been complemented by encouraging growth in our data services, which are often sold as part of an overall bundle. Strategic and enabling products are areas where we believe we can increase market share, which we anticipate will more than offset the structural decline in sales of traditional products.

Capital investments in the core of the data network will both support growth and further simplify new product introduction.

Gamma continues to invest in new product development with the current pipeline focused on enhancements of existing products to stay ahead of the market, the release in 2017 of a fixed/mobile converged product, and some early client trials of computing as a service using AWS ("Amazon Web Services") as the core supplier.

Board and employees
We are privileged to have an active and experienced Board and a strong senior team, with real strength in depth of management. A policy of developing and growing talent from within has proved highly successful in maintaining both a clear culture and a high level of staff loyalty and tenure. The senior executives, managers and employees remain the bedrock of Gamma and they have significantly contributed to the creation of the successful Group we have today. I should like to thank them for their consistent hard work and continued support. On 1 February 2017, Richard Bligh's role changed and he became Gamma's Director of Business Development. Going forward, Richard will focus on identifying and assessing growth opportunities for the business.

Gamma is fully supportive of apprenticeship schemes and employee volunteering within the local community and has a policy of matched funding for charitable activities by staff. Employee motivation and personal development are fundamental tenets of Gamma, leading to a stronger and more successful business.

1st place
In the Comms Business Award for 'Customer Services Team of the Year 2016'

46
Gamma was recognised as 46th in 'The Sunday Times Top 100 Best Companies To Work For - 2016'

1st place
In the Comms Business Awards for 'Market Maker Connectivity 2016'

Outlook
The Board is enthusiastic about Gamma's prospects for 2017 and beyond and remains open to suitable M&A opportunities and areas for strategic capital investment. With a comprehensive product portfolio of next generation voice, data and mobile services, strong routes to market, positive management and an excellent reputation for service, the opportunities ahead are significant.

Richard Last
Chairman and Independent Non-Executive Director

Governance
↳ p40-61

Richard Last Chairman and Independent Non-Executive Director • Chairman of the Nomination Committee • Member of the Audit Committee • Member of the Remuneration Committee	**Bob Falconer** Chief Executive Officer	**Andrew Belshaw** Chief Financial Officer	**Richard Bligh** Director of Business Development
Alan Gibbins Independent Non-Executive Director • Chairman of the Audit Committee • Member of the Nomination Committee • Member of the Remuneration Committee	**Martin Lea** Independent Non-Executive Director • Chairman of the Remuneration Committee • Member of the Nomination Committee • Member of the Audit Committee	**Andrew Stone** Non-Independent Non-Executive Director • Member of Nomination Committee	**Wu Long Peng** Non-Independent Non-Executive Director • Member of Nomination Committee

The dynamic face of business communications

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

By Richard Bligh
Director of Business Development

1
The rise of converged fixed and mobile services

There is growing acceptance in the business market that companies view the integration of mobile and fixed communications as an effective way of simplifying internal and external communications and making their business more contactable for customers. Whilst technology advancements are making fixed/mobile convergence a reality, it is the drive for simplicity and cost savings that is key to business customers. Single voicemail, single phone numbers per employee, transferring calls to any device anywhere, all make a business easier to work with. Add to that single supply contracts, single bills and streamlined support, and you can see why more businesses will be attracted to buying fixed and mobile communications as a single purchase from a single supplier.

The opportunity for Gamma

As one of the very few operators in the UK with both a fixed and a mobile core network, Gamma has the technical capability and the track record to deliver a market-leading converged business telephony service. We plan to have a first release of a product in late 2017.

2
Mobility and increasing data demands from business users

The rapid growth of mobile data, driven by consumers accessing the internet, using Apps and sharing images and video, is radically affecting how businesses work. Business Apps, access to customer records on the move, providing images with invoices to improve cash flow, are all becoming widely used and supported by mobile data.

The opportunity for Gamma

By partnering with Three, the UK's leading mobile data network carrying almost 40% of the mobile data traffic, Gamma is well positioned to offer reliable, cost-effective data bundles as a core part of its business mobile offering.

3
Superfast connectivity

Slow access to the internet and business critical software services simply isn't tolerated anymore. High speed broadband and Ethernet connections are enabling businesses to afford high speed reliable connectivity wherever they are located (almost!). The core underlying service for hosted applications and IP Telephony, data connectivity speeds continue to increase and bandwidth hungry businesses continue to increase their capacity to keep pace with internal demands.

The opportunity for Gamma

Our high speed data services have been growing in volume for a number of years as businesses value the price and quality position of our services and seek to buy the circuit and the voice application from the same provider. This growth in size and scale has enabled Gamma to selectively build out its own network regionally and improve its price position, driving volumes in a price sensitive market.

4
The rise and rise of cloud services

The long predicted rise of cloud computing and data centre growth is now a reality for UK businesses. Providing on-demand software services from data centres direct to businesses, either over the public internet or via private connections (for greater security), is a common working practice across businesses of all sizes. Small and mid-sized businesses have often been quicker to adopt cloud services because they can offload the IT burden on to the cloud provider and are no longer required to buy, install and maintain hardware themselves. This simplicity, lack of capital cost, and 24/7 availability and reliability from any location, has made cloud delivery a compelling alternative to buying hardware and software and keeping it on-site. What type of services are going cloud? A whole range of services, such as any type of software, data back-up, website hosting, voice services, data analytics – all aimed at keeping a business productive and efficient.

The opportunity for Gamma

Our Cloud PBX service, Horizon, is a cloud offering and, having been in this market for ten years, we understand how to design, position and sell cloud services in volume. This track record gives us the credibility to increase the number of cloud services we provide our channel partners and customers, as cloud becomes an increasingly common way to deliver communications services and applications.

5
Network flexibility

In today's fast-paced and agile business world, coupled with the rise in demand for converged services, network flexibility is becoming increasingly important for providers that want to stay ahead in this market. The reality is that the larger, more acquisitive network companies often spend more time integrating legacy networks than they do building innovative new capabilities.

The opportunity for Gamma

Gamma has a core network that carries voice, mobile and data traffic, giving us more control over the services we offer and a real competitive opportunity for developing more innovative services. Gamma's network architecture has been built without the hindrance of legacy platforms, enabling simplicity in service delivery, the automation of provisioning and support, and the foundation to develop a set of truly converged and flexible services.

How Gamma creates value

Read more about our three service areas on:
↳ p10-15

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 provides these products and services:

VOICE

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

For more info see
↳ p10-11

DATA

Data access products are designed to assure quality of service for our voice products and services and provide a single support structure.

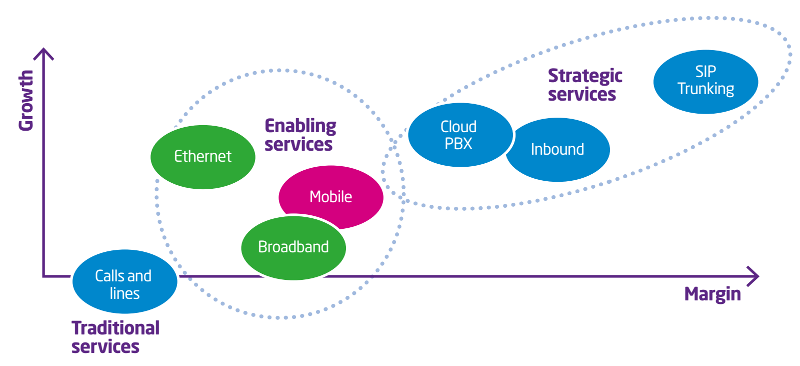
For more info see
↳ p12-13

MOBILE

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

For more info see
↳ p14-15

Service portfolio:



The products and services are provided for these business markets:

Read more about indirect and direct business:
↳ p30-33

Indirect business

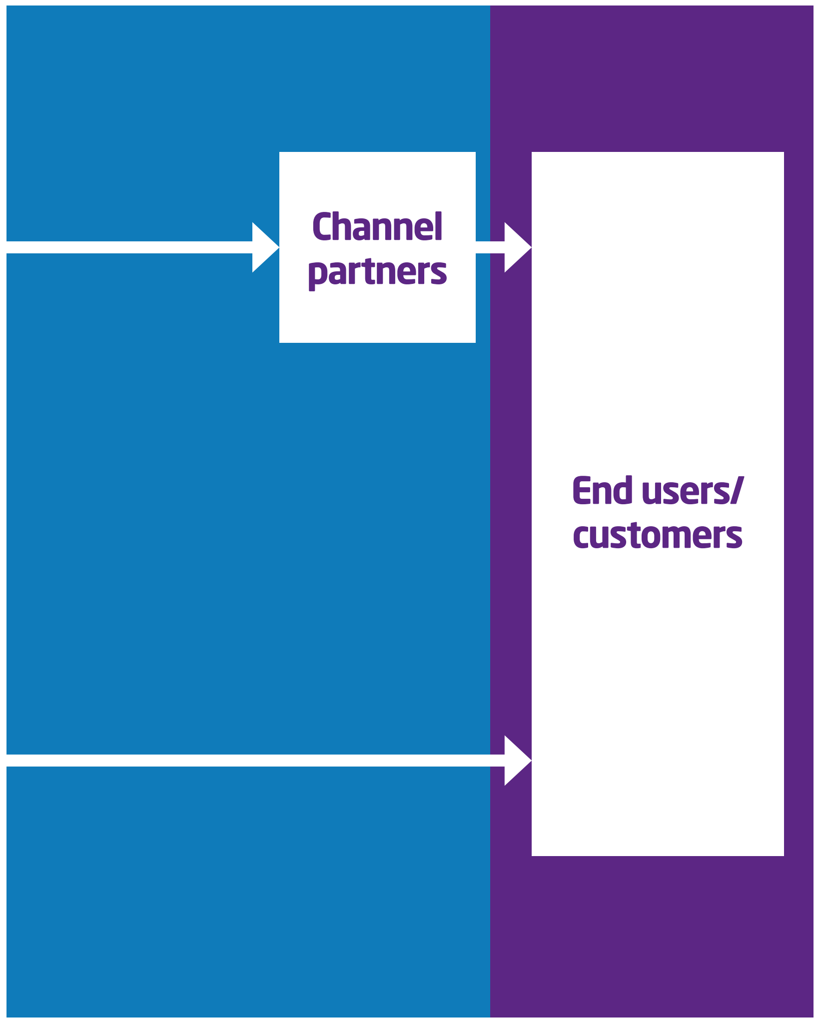
Indirect business revenue income percentage

79%

Direct business

Direct business revenue income percentage

21%



What we did in 2016

- Brought our Full MVNO service to market to service both the direct and indirect routes to market with a differentiated business mobile service
- Continued to grow, at double the market rate, our SIP Trunking and Cloud PBX services through the introduction of new features and services
- Developed the first phase of a Cloud Compute service targeted at SMEs, now in Beta trial
- Launched an extension to our Ethernet services, based on building the Gamma infrastructure into key areas of London, to enable the provision of high bandwidth services at a more cost-effective price
- Maintained the number of new channel partners in emerging segments and increased cross-sell ratios into the partner base
- Made great inroads for public sector and NHS market
- Were directly awarded a significant number of FTSE managed service contracts
- Won over 20,000 new mobile connections across public sector and enterprise customers

Looking forward to 2017:

- We are planning to launch a service that fully integrates our Cloud PBX and Mobile service, providing fixed voice features to a mobile user
- Determining whether to take the Cloud Compute services to all channel partners to service the SME market
- In early 2017 Gamma launched a new marketing platform, which gives channel partners access to all of the tools and content they need to run marketing campaigns to help generate more sales leads and drive the sales of Gamma products
- Continue to maintain cross sell ratios into the partner base
- Continue to focus on customer service and improve our market-leading NPS score further
- Further increase our success of mobile penetration in direct customers especially with FTSE companies and public sector organisations

Underpinned by 'Policy of One': Building our services and support on a single set of largely proprietary internal systems

VOICE

Service Panel
SIP Trunks
Hosted Phone System
SIP Trunk Call Manager
Inbound
Calls and Lines

A solid business foundation

Thousands of businesses trust Gamma for their critical voice services – we are one of the largest network carriers of fixed-line voice minutes in the UK. Having direct access to our own network means we can also react faster to customers' needs.

What is our Voice service?

One of the UK's largest network carriers of fixed-line voice minutes, we own and control our own national network. This means we can respond faster, provision quicker and deliver sooner. We are the UK's number one provider of SIP Trunks, replacing legacy ISDN lines with the latest technology for cheaper and smarter voice calls. For Cloud PBX services, Horizon is our fully integrated platform. For call management, our Inbound platform puts customers in complete control of their incoming calls.

Gamma's voice services provide companies with a bridge between the old and new voice technologies, allowing customers to benefit from a more efficient way of working and communicating with their clients and suppliers.

How do we create value?

Gamma is not just about better business communications, it's about better business too. We believe that communications can be more than a simple business tool. We think it should also be an enabler for improvement and change.

Our products and services help customers to drive their business forward by increasing resilience, enhancing customer service, raising operational flexibility, reducing costs and working in new ways that might have previously not been possible. That crucial Gamma difference is down to the sheer depth and breadth of our experience, and the solid business knowledge of our consultants and partners.

We create value for end customers that consume the service and for channel partners that utilise the solutions in a number of ways:

- Business continuity solutions that ensure that businesses stay connected, no matter the circumstances
- Flexible solutions that easily allow a business to change their communications solutions, as their needs adapt, such as adding new sites and flexing the number of connections to suit demand
- Integrating voice communications with the customer's key business applications, such as CRM or email, so that communications are more efficient and effective, for both fixed and mobile users.

Further potential for value

Gamma is continually developing its product portfolio to enable customers to improve operational efficiency and value generation.

The key theme of our future development is convergence, enabling customers to communicate in a way that suits their business, both within and outside the office.

Our product roadmap is focused on converging key business processes, such as customer interaction, with voice services to maximise the efficiency of the business.

In addition to solving end customer business issues, Gamma is focused on delivering services that give channel partners a solution advantage and a way of generating a long term, profitable customer base.

Key Market Trends

24%
SIP Trunking UK market growth 24% in 2016

75%
Cloud adoption in SMEs - 75%+ of SMEs have or will have a cloud service in the next 12 months

BT announcement of the end of ISDN in 2025

For more info see:
↳p6-7

Jargon Buster

What is 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 providing greater flexibility than dedicated voice lines (around phone numbering, capacity changes and speed of installation).

What is Inbound?
A software-based service that enables businesses to dynamically manage phone calls into their business – where they arrive, who they go to, what services are added (such as voicemail and call queuing) to inbound calls.

DATA

Service Panel
Broadband
Ethernet
Voice Enabled

Creating new opportunities

Our family of high speed data services connects customers' businesses directly to Gamma's national network and to the internet. We can meet a customer's growing bandwidth needs while letting them take full advantage of everything cloud-based services have to offer.

What is our Data service?

Access to secure and reliable data connectivity is key to the success of any business. Our resilient, high speed network connects businesses with the internet and the cloud. For internet access from broadband to superfast fibre Ethernet, we provide high speed connectivity with dedicated bandwidth. For converged access, we deliver internet and IP telephony on a single line.

And for the cloud we offer secure, resilient, high speed access to public, private and hybrid cloud services.

How do we create value?

Gamma creates value with our data services by developing solutions that converge the key applications of internet access, voice services and access to internal business applications via a single, highly available network. This enables customers to increase bandwidth and add services without a major infrastructure up lift.

Further potential for value

As businesses move towards more cloud-based services, the data network that they use to access applications becomes more critical. Gamma supports this trend in a number of ways:

- Higher bandwidth solutions to support increased demand
- Secure interconnections to the public cloud environments, such as Amazon Web Services (AWS), Microsoft and Google
- Security services to ensure that customers are protected from the increasing cyber security issues impacting businesses today

Key Market Trends

5.4%

Business broadband five year growth CAGR 5.4% - OfCom CMR 2016

Average broadband speed increases from 22.8Mbit/s in November 2014 to 28.9Mbit/s in November 2015 - OfCom CMR 2016

For more info see:

p6-7

Jargon Buster

What is CPN?
Converged Private Networks (CPN) is our fully managed WAN (Wide Area Network) solution that interconnects sites to support the passing of data, both internally and externally to the internet, and hosted applications. The service is ideal for businesses with multiple sites that want to boost the performance, improve the security and reduce the cost of their network.

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

MOBILE

Service Panel
Mobile

Exciting potential

Gamma Mobile is a new mobile service built exclusively for business, giving the flexibility and quality of service the customer deserves from a mobile network.

What is our Mobile service?

By owning the core network, Gamma can deliver business-specific services such as different voicemail greetings inside and outside office hours – and monitoring employee data usage in near-real time, as well as giving channel partners a Full MVNO service where they have customer ownership and control over brand and pricing.

By partnering with Three, the UK's leading mobile data network carrying almost 40% of the mobile data traffic, Gamma is well positioned to offer reliable, cost-effective data bundles as a core part of its business mobile offering. Built with the business market in mind, Gamma Mobile also offers features including 4G, business-grade voicemail, data monitoring and flexible data usage alerts.

How do we create value?

We create value by offering a mobile service focused on business users. In addition we create value for channel partners by allowing them to own the customer contract and develop their own tariffs, helping them to maximise long term customer contracts and margin.

Further potential for value

Key development in the Gamma Mobile service is the continuing convergence of fixed and mobile services, so that customers can benefit from a truly integrated service regardless of whether they are using a fixed or mobile connection, or are in or out of the office.

Key Market Trends

46%

In Q4 2015 4G accounted for almost half of all mobile subscriptions (46%) - OfCom CMR 2016

For more info see:
↳p6-7

Jargon Buster

What is MVNO?
A Mobile Virtual Network Operator (MVNO) is a wireless communications services provider that does not own the wireless radio access network assets. An MVNO provides mobile services to customers from platforms and systems that interconnect to Mobile Network Operators

Sustainable organic growth

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.

Bob Falconer
Chief Executive Officer

Introduction

2016 was a year of both strong organic growth and significant investment for the future. Our product innovation, skills and capital investments give us confidence in our ability to continue to develop long term sustainable value for our stakeholders.

Overall, revenue grew from £191.8m in 2015 to £213.5m (+11.3%) with gross profit improving from £82.3m to £98.8m (+20.0%). Adjusted EBITDA grew by 20.8% from £28.3m to £34.2m, while adjusted PBT increased to £24.5m, up16.7% from £21.0m in 2015.

Gamma pursues a strategy of identifying new product opportunities, rapidly bringing them to market in a robust and scalable way, and finally using our channel partners to generate high volume sales. This is an approach that has been consistently successful for several years. In 2016, 79% of Gamma's sales came through its extensive network of channel partners (2015: 79%). Direct sales have also continued to grow strongly, with a conscious shift to larger customers, particularly in the enterprise and public sector markets.

Indirect business

The channel route to market grew its revenues by £17.0m to £169.0m in 2016 (2015: £152.0m). The channel represents 79% of our total revenues and we remain the only carrier of scale that has such a strong and consistent focus on this highly dynamic market.

Over the course of 2016 the number of channel partners actively trading with Gamma expanded from 834 to 970. A notable, and growing, trend has been for businesses to seek to buy all their communications services, and in some cases communications and IT services, from a single supplier. The channel has been quick to respond to this and we have seen operators move rapidly to expand their portfolio from what was often a narrow specialism, such as mobile, PBX or IT services. Consequently, many of our new partners are also new to both the telecoms industry and our products, and we have significantly geared up our training and support programmes accordingly. Ensuring we are 'straightforward' to do business with is a major management focus.

Our SIP Trunking and Cloud PBX products have remained the prime contributor to growth in the channel. However, as we've invested further in our data products the growth here has also been encouraging and a number of channel partners have actively moved their business customers away from competitors to Gamma's data services. Growth in strategic and enabling products has more than offset any decline in the traditional business.

Over 2016, through our channel partners, we have successfully supplied services to thousands of businesses.

In 2016 the number of users on Gamma's Cloud telephony product, Horizon, grew by

62%

from 142,000 to 230,000

Over 2016 the number of channel partners actively trading with Gamma expanded to

970

from 834 to 970

We were particularly pleased to be able to help Alternative Networks secure a large SIP Trunking order from Homeserve. Our products are well suited to retail outlets and, by way of example, Opus Telecom, a long standing channel partner, worked closely with us to win a multi-site data network for the Côte Restaurant chain.

Direct business

Our direct business grew strongly with revenues rising to £44.5m (2015: £39.8m). The enterprise market now recognises Gamma as a leading provider of cloud communication services, enabling us to secure £33m of contracts in this market; Strutt & Parker, the UK property company, and City Electrical Factors, the leading electrical wholesaler, are both migrating their entire data, voice and mobile estates to Gamma under three year managed service agreements.

In the public sector, our investment to gain a strong position on the Crown Commercial Service Network Services framework agreement (RM1045) has proved worthwhile, with Gamma securing c. £5m of awards on this framework alone – including a significant central government contract for our new mobile service with the Department for Communities and Local Government. 2016 has also seen a significant increase in the number of public health organisations contracting with us, including some large NHS trusts.

In the SME and mid markets, our customer service, combined with our leading products, have created a compelling service with SME customers consuming our Cloud PBX and mid-market customers consuming SIP Trunking services – and both achieving significant growth.

A testament to our focus on customer service is our Net Promoter Score that has again risen from 40 in 2015 to 45; this high level of satisfaction is why Virgin Wines, Just-Eat and Cotswold Outdoor have all extended their contracts with Gamma.

Strategic products

Our core strategic products of SIP Trunking and Horizon (our Cloud PBX service) have continued to grow very strongly in the past 12 months.

Our SIP Trunking product – which is a more flexible and cost effective alternative to traditional ISDN – grew by 42%; from 360,000 to 511,000 channels during 2016. We have continued to invest in product functionality, including additional call control services. These allow customers to control inbound call routing and provide business continuity capability via an easy to use App in the event of failure of the access network. We have also extended the geographic reach of the service by partnering with providers in Europe to provide SIP Trunking services in a number of European countries. Gamma remains the current UK market leader in SIP Trunking, and has significantly exceeded the general 24% market growth of SIP Trunking channels in the UK (Cavell Report June 2016).

The market for cloud-based telephony services, as an alternative to a traditional PBX, is now well established. Indeed in the sub 25 user market, hosted services are starting to play a dominant role compared to on-site PBXs. In 2016 the number of users on Gamma's Cloud telephony product, Horizon, grew by 62% from 142,000 to 230,000, helped by a significant increase in the number of accredited partners that are selling our Horizon solution.

The product is being continuously enhanced and the underlying platform has recently been scaled up to cater for both growth and the high level of resilience demanded by business customers. Developments have included integration of the product into leading CRM (Customer Relationship Management) systems enabling customers to benefit from increased operational efficiency through more joined up business processes.

For both SIP Trunking and Horizon, we are now seeing a growth in competition, from both UK based and overseas operators, however the market remains very buoyant, and in the past 12 months Gamma has significantly outpaced the general market growth.

Enabling products

Gamma's ethernet and business-grade broadband services (which underpin our strategic products) both grew healthily during 2016. Business broadband connections expanded from 40,000 to 54,000, whilst higher speed ethernet connections increased from 2,400 connections to 3,520. This is a highly price sensitive segment of the market, and to remain in a competitive position Gamma has invested in extending its network into BT Openreach exchanges in high density business areas and, where appropriate, is using other carriers such as Virgin Media and TalkTalk as well as BT Wholesale. Currently, the majority of broadband and ethernet services are sold as part of a service bundle including Cloud PBX or SIP Trunking. As a relatively late entrant to the data market, there remains significant scope to increase market share.

The average number of people in the Gamma Group increased over the year from 626 to

732

primarily to support the increasing number of customers and future product development

Read more about our strategy:
↳ p22-23

Mobile services

Much of 2016 was focused on bringing our Full MVNO service into active use in the second half of the year. This has been a demanding and technically challenging project, requiring some parallel running, with our expiring "thin" MVNO agreement with Vodafone and the concomitant extra costs resulting from that. We have chosen to work with Three as the primary radio network provider in the UK on the basis of their excellent network capability, complementary market strategy and substantial data capability. The new Gamma mobile service, which offers a full 4G service, not only provides Gamma with a much improved cost base but also full control over its technical infrastructure, enabling product innovation and differentiation. In the latter half of 2016 and into 2017 effort has been focussed on tuning the service, the market proposition and managing the logistically difficult task of swapping the SIM cards of those customers prepared to transfer from the "thin" MVNO.

The new service was launched to new customers in October, with some early successes in the direct business; the indirect market will inevitably take more time to build momentum. We recognise that mobile growth now is fundamentally driven by data volumes, be they from person or machine, and we will use this metric to track our progress going forward. In the 2nd half of 2016 our average monthly data volume was a modest 7.4Tbytes, which we plan to grow significantly.

Gamma is one of only a very small number of companies in the UK (and by far the smallest) that owns the necessary technical infrastructure to develop a deep fixed and mobile converged service and, with work already underway, it is anticipated that we will bring a first release converged product to market in late 2017.

Operational performance

The business market is, quite rightly, highly intolerant of any service disruption and this is an area where Gamma seeks to differentiate itself from its competitors. Emphasis on continuous improvement, good capacity planning, rigorous change control and robust design – whilst never guaranteeing freedom from problems – does in the long term drive up service levels.

Our major platforms supporting SIP Trunking, Horizon and Mobile services all exceeded their service level availability targets for the year. With the levels of growth and change that have been driven through the platforms we see this as a major achievement and a strong testimony to our quality based approach. The business has retained its certification to ISO27001, Cyber Essentials (mandatory for relevant government contracts) and ISO22301, and extended these to cover the new mobile service.

Security

The Board regularly reviews the health of our security governance, to ensure appropriate resource and a high priority is placed on mitigating risk in this area. The Group subscribes to a number of sources of security intelligence, as well as participating in relevant national working groups. It regularly employs expert third parties to carry out penetration testing against its network, product platforms and online interfaces to ensure any vulnerabilities are understood and addressed.

Customer service

With a growing product portfolio, and many of our channel partners being new to the sector, we wanted to ensure that our products were well understood and easier to use than those of our competitors. We therefore developed and launched the "Gamma Academy". This is an online training environment that is used by new channel partners, new staff within existing channel partners, and as a refresh for current users.

It is intended to ensure our partners have all the material they need to make best use of our online tools and interfaces so they are equipped to deliver the best service to their own customers. Successful use of the Academy contributes to the accreditation ratings of our key partners.

As a part of our initiative to "make Gamma straightforward to do business with" we invested further in our portal user interface enabling customers to tailor the functionality around their specific requirements, ensuring a more straightforward experience, whilst also reducing our support overhead.

Network

Traffic volumes on the Gamma network have continued to grow; the network now carries over 1 billion minutes of voice traffic per month which is up from 800 million at the end of 2015, whilst data traffic has increased by 40% over the same period. This is a consequence of both an increase in the number of customers and the volume generated per customer.

Jargon Buster

What is Cloud PBX?

A "multi company" phone system that is located in Gamma data centres and provides advanced phone system 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.

What is 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

With a full capability in both mobile and fixed communications services, the business is in an excellent position to bring exciting new products to the business market during 2017.

To cater for this growth, and meet the growing demand for data services, coupled with the increasing requirement for access speeds of up to 10Gbit/s from larger enterprises and the public sector, Gamma is making a £5m investment in its national network. In the Company's Admission Document in 2014, the Directors indicated their expectation that parts of the underpinning fibre network would be retired and replaced. Therefore, as part of this investment, the Group is also taking the opportunity to replace much of the fibre on its national network with a new arrangement with CityFibre which runs through to 2042.

The new fibre network will interconnect various datacentres, Gamma locations and BT nodes in a resilient ring through London, Manchester and other major cities. This will also reduce Gamma's cost of delivery of data services in a highly competitive market. The core network is readily scalable to 8Tbit/s and is expected to go into service during 2018. This will complement other investments made in recent years to reduce cost and increase capacity which the business will begin to benefit from in the coming year.

Overall during 2017/18 Gamma will undertake a series of engineering projects and traffic migrations which will:

- bring this new core network into active service;
- enable direct data access to an increased number of BT Openreach exchanges, thereby reducing the cost of ethernet data services;
- enable full IP interconnection into the BT voice network – eliminating the legacy multiple voice interconnects into BT exchanges; and
- allow the removal of significant legacy equipment, associated support costs, and a reduction in national fibre rate charges.

The completion of this major programme of work will position the business with a lower cost base, increased capacity and greater flexibility for introducing new services.

People

The average number of people in the Gamma Group increased over the year from 626 to 732, primarily to support the growth in product volumes, channel partners and new product development.

Once again, Gamma was recognised as one of "The Sunday Times Top 100 Best Companies To Work For 2016" and retained its 2-star accreditation by Best Companies as an "Outstanding Company". The staff engagement criteria used to assess Best Companies are highly correlated with successful business performance and we have consistently found it to be a valuable tool.

To complement our successful graduate programme, we have stepped up our recruitment of apprentices to help attract nascent talent from a wider pool of candidates.

Outlook

Looking forward to 2017, our core strategy is to continue to work closely in support of the channel and to remain both market leader and disruptor in the high growth or displacement sectors of the business communications market. With a full capability in both mobile and fixed communications services, the business is in an excellent position to bring exciting new products to the business market during 2017. Quality of service and 'ease of doing business' continue to remain core underpinning enablers of growth.

Our direct business has grown significantly in recent years and the focus there is on larger opportunities and the public sector, both of which we believe have been poorly served in the past.

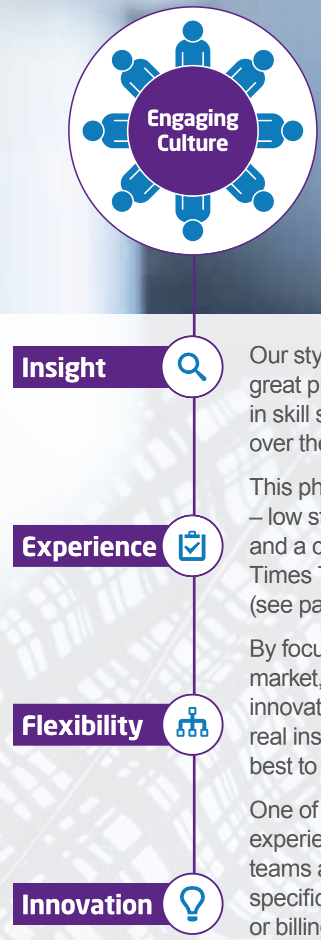
We expect volumes to continue to grow in SIP Trunking and Cloud PBX, with the expected continued decline in traditional services (phone calls and lines). We hope to build on the accelerated growth we have seen in our data services, whilst mobile generally and fixed/mobile integration presents a big opportunity for the business with our converged product being launched later in 2017. In support of the strategy the Board remains open to suitable acquisitions which the business is in a strong position to consider.

Bob Falconer
Chief Executive Officer

Gamma people and our engaging culture

Strategy: Our engaging culture in action
↳ p24-25

Our culture has been central to our growth and success over the years and the Company works very hard to ensure it maintains a distinctive way of working and communicating that enables all staff to really feel part of Gamma.



Our style is informal and trusting, and we take great pride in seeing staff grow and develop in skill sets, responsibilities and breadth of roles over the years.

This philosophy is supported by the "people facts" – low staff turnover, ability to recruit quality staff and a consistently strong showing in "The Sunday Times Top 100 Best Companies To Work For" (see page 38).

By focusing on the channel as our primary route to market, and with years of experience in developing innovative services for businesses, we can offer real insight into what the market wants and how best to deliver those solutions to market.

One of the key benefits of low staff turnover is the experience and expertise that is built up across teams and functions. This translates to very specific benefits whether technical, in engineering or billing or finance, or more customer-centric benefits in sales, marketing or customer service.

Understanding how we work and what our customers expect can often be as important as subject matter expertise. We actively encourage staff to take on new roles in different functions to provide a broader range of experience.

In many technology companies, innovation is often seen as technical innovation. At Gamma, we take a much broader view. Our areas for innovating services include unique pricing models, productising services in a simple-to-consume way, and developing support tools for our partners to diagnose issues remotely. Even our commercial contracts are flexible and innovative. Technical innovation? Yes, but that's only the beginning.

Strategy: Our engaging culture in action
↳ p24-25

Growing our profitability and market share

Our engaging culture feeds directly into our strategy, which will be principally pursued organically, but Gamma is also well placed to consider strategically relevant acquisitions as the opportunities arise.

Strategy pillars explained

What are we doing?

- 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 end-customer wallet over time as multiple services procured from the same supplier and individual incumbent contracts expire.

- We have an ongoing infrastructure investment programme 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.
- Maintaining our "Policy of One" in terms of underlying systems.

- Developing more converged services and commercial bundles of services to meet the demand for such services in the UK business market.
- Seeking commercial opportunities to expand and deepen our technical capability in mobile services.

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

Assuring reliability

How Gamma is improving partner knowledge

Academy
We launched the new Gamma Academy in December 2016. Integrated into the Gamma Portal that our partners use, the Academy provides our partners with exclusive access to easy to digest, bite-sized training material including video tutorials, eLearning courses, content and step-by-step product guides.

The platform helps partners improve their understanding of the Gamma product portfolio and ensures their teams are offering the best service to their customers, using all the available self-serve tools.

The Academy can intelligently recommend, based on partner usage patterns, what training should be undertaken and at what level for that individual. There is also an intuitive search function to help users find relevant training programmes and the ability for line managers to create learning plans for team members, view their activity and monitor progress. Once training programmes have been successfully completed, a badge is awarded which can be displayed on LinkedIn, providing differentiation to help partners stand out when competing for business.

Support Roadshows
We ran our customer Support Roadshows for the fifth time this year, with a record turnout of 228 partners attending to find out how they can increase their efficiency and deliver the best service for their customers using the Gamma Portal and other services.

The roadshows also provide an opportunity for partners to give Gamma feedback on ways we can improve their experience of working with us. We then use this insight to shape our development and support roadmap. This year especially we were able to showcase a number of developments that partners had asked for in the previous year's session, including the new Gamma Portal landing page, Gamma Academy and a number of new portal widgets, all aimed at making us easier to do business with.

The roadshows were supported by a dedicated crew of Gamma experts, running a range of master class sessions.

100% of partners who provided feedback said they had taken away knowledge to assist them in their daily role, and 89% rated the event 8 or more out 10 for usefulness.

"I've already done the SIP Beginner course, and plan to do all the others. Been with Gamma for a long time but nothing has explained our products as succinctly. Great job."

Reducing complexity

How Gamma provides Universities with a stress free Clearing process

What is Clearing?
University Clearing takes place in late August each year, starting on the morning that prospective students receive their A 'level results. Students who don't meet their required grades for a guaranteed place are eligible for "Clearing"; a way of matching Universities with available places to students without places. Consequently some Universities estimate that inquiries for places through Clearing have tripled since 2012 and a number of Universities reported call volumes exceeding 3,000 during their peak hour, a large spike versus the calls they receive on a normal day. Clearing is a way for the majority of Universities to fill their available places with students and thus generate revenue by way of tuition fees. It is a major contributor to a University's finances and it is very important that they are contactable to all prospective students. The majority of students contact the Universities on a dedicated clearing telephone number, so being able to receive all of these revenue generating calls is of paramount importance to them. It is also important for the students to receive a prompt and informative calling experience so that the caller will "stay on the line" to the University. During this 24 hour period, the University phone service is truly "mission critical" – every call is money.

How does Gamma help reduce the complexity of Clearing?
As a market leader in providing services to Universities and colleges, this period in August is critical for us to support our customers in every way possible. Our services need to scale on the day to cope with significant increases in volumes of inbound calls, and to interact seamlessly with other components of the Universities, communications infrastructure. Our services allow management of increased levels of inbound call traffic, queue and controls calls in the cloud until an agent is ready to take the call, and deliver multiple resilience and failover options to ensure no calls are missed.

What support do we provide?
We work proactively with customers well before Clearing to make sure everything is in place for "the big day". Each year we create a dedicated support team and separate support contact number just for Universities. We carry out detailed capacity analysis and load testing for call queuing before August. We also make recommendations on call flows and improving routing efficiency.

On the day itself we offer all our Universities a member of Gamma staff on-site where required, just to ensure all goes smoothly.

What did 2016 Clearing look like for Gamma's University customers?
Our clearing service has gone from strength to strength with concurrent calls on our Inbound platform increasing by 39% between 2015 and 2016 without affecting the quality and reliability of service received by our customers and delivering 100% uptime.

- 42 Universities took part in our Clearing programme – a 50% increase on 2015 and one third of UK Universities.
- All Gamma on-site engineers received positive feedback.
- No fault related support tickets were raised.
- Our Inbound platform hit 24,250 concurrent calls during Clearing 2016 versus 17,500 in 2015.

Measuring our success

Revenue (£m)

£213.5m

2016	213.5
2015	191.8
2014	173.2

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.

Gross profit (£m)

£98.8m

2016	98.8
2015	82.3
2014	67.6

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 margin (%)

46.3%

2016	46.3
2015	42.9
2014	39.0

Definition
Gross profit as a percentage of revenue.

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

Adjusted EBITDA (£m)

£34.2m

2016	34.2
2015	28.3
2014	23.1

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

Outlook
Continued growth.

Cash (£m)

£28.2m

2016	28.2
2015	24.8
2014	13.4

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)

£26.5m

2016	26.5
2015	28.2
2014	16.4

Definition
Net cash inflow from operating activities.

Outlook
In 2015, unusually high due to ladder income. In the future, growth in line with EBITDA – cash conversion is expected to remain strong.

EPS (p)

18.8p

2016	18.8
2015	19.6
2014	10.0

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

Outlook
Expected to grow in the absence of any unforeseen exceptional items.

Adjusted EPS (p)

21.1p

2016	21.1
2015	17.9
2014	15.0

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

Outlook
Continued growth.

Performance metrics

Number of Hosted seats ('000s)

230

2016	230
2015	142
2014	80

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

Outlook
Continued growth.

Relevant strategy pillars

Number of SIP channels ('000s)

511

2016	511
2015	360
2014	234

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

Outlook
Continued growth.

Relevant strategy pillars

Strategic and enabling services as percentage of gross margin (%)

79%

2016	79
2015	72
2014	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.

Relevant strategy pillars

Cross sell ratios per channel partner (%)

74%

2016	74
2015	73
2014	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
Similar.

Relevant strategy pillars

Network availability (%)

99.996%

2016	99.996
2015	99.997
2014	99.997

Definition
Availability of strategic platforms.

Outlook
Similar.

Relevant strategy pillars

Direct customer profile

131

2016	131
2015	109
2014	90

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

Outlook
Continued growth.

Relevant strategy pillars

Customer satisfaction (%)

45.0%

2016	45.0
2015	40.0
2014	22.3

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

Outlook
Similar.

Relevant strategy pillars

Number of channel partners

970

2016	970
2015	834
2014	725

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

Outlook
Continued growth.

Relevant strategy pillars

Strategic pillars: Exploiting existing services | Infrastructure investment | Introducing new services | Developing the market | Execution

Understanding the risks that affect our Company

Identification
Risks recorded in controlled risk registers.

Evaluation
Risk exposure reviewed and prioritised.

Monitoring
Risks analysed for impact and probability.

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

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.

In all aspects of risk management we identify new risk areas as they arise, 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 the opposite page. Each generic area of risk (e.g. Security) 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 is being done to mitigate them. This is not an exhaustive list and, as described, the risk profile of the business is constantly evolving:

Risk	Description	Potential impact	Mitigating actions	Impact	Change
Security	By its very nature, our network infrastructure provides customers with open access to the internet and global voice networks. As such there is a risk from cyber threat and telephony fraud as well as to the physical infrastructure. Over the last few years the profile around cyber security has changed significantly and the Company has adapted its governance accordingly.	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 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. We have also undergone assessment and certification to meet the 'Cyber Essentials' standard. In light of the increasing profile of cyber security we have enhanced our governance to ensure that we follow best practice in the identification and management of associated risk, including: increased frequency and broadened scope of both routine and bespoke penetration testing, mandated cyber security training for all our employees, dedicated security roles to track how cyber threats are evolving and are best detected, and Board visibility of the 'health' of the governance structure. 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.	High	↑
Maintaining customer service levels	Communications services are critical to businesses. The ability to order and deliver them easily, and reach support quickly when something goes wrong, are key areas that any service provider is assessed on when a customer is placing business.	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 have a comprehensive service development plan that captures customer feedback and seeks to best align the support interfaces (system and human) with the needs of our customers. This programme delivers additional self-serve tools, online training material and specific customer service training for our support teams. Our objective is to eliminate any cause of frustration and ensure any interaction is as straightforward as possible. In terms of governance, we hold a monthly quality forum chaired by the CEO that reviews performance across all parts of the business. This forum has its own action register to track through any improvements highlighted. We also employ external agencies to carry out penetration testing on our systems as well as carrying out our own security incident rehearsals. The business has retained its certification to ISO27001, Cyber Essentials (mandatory for relevant government contracts).	High	↔
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.	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.	High	↔
Increased competition	New entrants or existing service providers extend their product set to compete directly with our products and services.	This may dilute the addressable market and slow down growth.	Gamma aims to provide services which are more attractive to our customers than those of competitors.	Moderate	↔
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.	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.	Moderate	↔
Suppliers	The business relies on a number of key suppliers to provide elements of its products and services.	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.	Moderate	↔
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 Gamma.	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.	Low	↔
Key personnel	The business has grown rapidly over the last few years, with very low staff turnover. Therefore, there are individuals who have been instrumental in its development and are important to its ongoing success.	Loss of key individuals could have an impact on the continuing development of the business.	The business has a well-established team and a reputation for being a good employer. In 2016, it came 46th in 'The Sunday Times Top 100 Best 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.	Low	↓
Brexit	Britain's impending departure from the EU creates uncertainty and will result in changes for some businesses. This is likely to produce both risks and opportunities for Gamma.	The main risks anticipated are possible reduction in economic activity across the UK; possible long term reduction in the size of the financial sector in London; possible increases in the costs of international call termination and international mobile roaming.	Gamma will manage both its pricing policies and its contractual arrangements with customers and suppliers in the light of the evolution of the government's Brexit negotiations	Low	↑

Indirect business

Our primary route to market – the channel – is at the heart of what we do. Providing services to 970 channel partners, we value highly the relationships we have built. These partners own the end customer contract and hold the relationship. We are acutely aware that our partners have choice, and our objective is to make that choice simple – with Gamma you grow faster, have lower churn and more innovative and disruptive quality products. The indirect business is 79% of Group revenues.

Indirect case study:

Welcomm Communications

Welcomm Communications Limited

"We've been partnering with Gamma since 2011 and we've found them very easy to work with. As a Platinum Partner, we receive a number of valuable benefits including access to a priority support desk and excellent marketing support which has included one on one consultancy and a number of bespoke marketing campaigns to help us drive additional business. The Gamma team are an absolute pleasure to work with. We feel we're properly aligned, they work with us strategically and commercially. We're looking forward to a really bright future working with them."

Aidan Piper
Managing Director, Welcomm Communications

Leicestershire-based Gamma Platinum Partner selling Cloud-PBX, SIP Trunking and Data Services, including Converged Private Networks

The continued growth in margin demonstrates the resilience of the indirect business. Despite increasing competition in some areas, and the early signs of an expected decline in traditional voice margins, external revenues grew to £169.0m in 2016, up 11% and gross profit £78.2m, up 22%.

The indirect business has become more balanced across its product line. We have again seen strong growth from our SIP Trunking and Cloud PBX service – Horizon – whilst Inbound volumes continue to grow, albeit at tighter margins. Although a late entrant to the market we have been pleased with the growth of our Ethernet and Broadband services which have both grown volumes in excess of 30%. Our five channel sales teams are focused on very specific market sectors.

Our Cloud PBX system, Horizon, really came of age in 2016. The Cavell industry report ranked it as one of the UK's largest Cloud PBX platforms. The active customer base on Horizon grew to 206,000 in 2016, with over 75,000 net additions. During the year a significant engineering programme was completed to maintain the excellent resilience of the platform and provide a solid base for growth and feature expansion in 2017.

We launched our mobile service in the latter part of the year, bringing a real choice to the channel – particularly for those who consider customer ownership and service control essential elements of their business model.

Gamma grew the number of active partners from 834 to 970 during 2016. We now have 72% of Microsoft Gold partners signed and trading with Gamma. The penetration of the top SI's is currently 42%, although this metric has been impacted by consolidation in that sector.

In 2016 the size of the channel sales team grew by 20%, with most of the growth coming from the recruitment of graduate Internal Account Managers. Nurturing and retaining talent in the channel mould and Gamma culture is a key part of our long term strategy. Of our senior account managers, 40% have been at Gamma for 10 years and 73% for over five years.

The reach and diversity of our partners continues to expand and excite.

The propensity to purchase IT and telecoms from a single supplier is accelerating, and our partners are broadening their portfolios to match. With lines between previously distinct partner sectors becoming increasingly blurred, our sales specialist teams play a vital role in augmenting the required skills for our most sophisticated products.

As ever, we have worked hard on deepening the relationship with our partners to ensure we are well connected right across their business and are supporting all relevant aspects of their operations. Over the year we ran sales training sessions and operational workshops to support our partners' back office staff, and regular webinars on product market issues and important regulatory information. 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.

A new Platinum Partner scheme was introduced to bring a valuable intimacy to the way we do business with a number of our key resellers. On the back of this success we will shortly offer a "Gold" level, to the next tier of channel partners. In essence these programmes exchange commitment to grow the volume of their Gamma business in return for greater support in service, marketing and the use of Platinum or Gold "brands" to help them grow.

Gamma and the partner community look forward to another successful year in 2017.

22%
Gross profit increase in 2016 to £78.2m for indirect business

Indirect business revenue income percentage
79%

136
Gamma added 136 new actively trading channel partners in 2016

Current channel partner examples

CAPITA
focus
maintel

Examples of new customers through channel partners

Mattioli Woods plc
CÔTE BRASSERIE

Direct business

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

Direct business in action 2016

Horizon delivers security and performance analytics for Hudsons Property

The opportunity

Hudsons Property's original telephony was a number of leased ISDN lines and an on-premises leased PBX. The driver for change came when it was discovered that the PBX had been hacked, leaving Hudsons with an unusually high phone bill.

A heated conversation with the legacy supplier revealed that the technical limitations of the PBX meant little could be done to prevent a recurrence of the fraud.

Hudsons' wish-list was short: they wanted the reassurance of better security, to maintain good call quality, and to keep costs under control.

The solution

The ISDN lines and on-premises PBX have gone. In their place Gamma's Assured ADSL with guaranteed quality of service provides the highest quality voice connectivity to the outside world from new desk-top SIP phones, while Gamma's Horizon solution delivers the intelligence that allows Hudsons to manage the system. The solution is priced on a per-user basis with all line items rolled in to a monthly fee with no up-front costs.

The benefits

- Enhanced security
- High voice quality
- Simple and effective conference calling
- Flexible and easy to use call forwarding
- Horizon analytics aid staff performance management
- Costs controlled, predictable

Public sector

We are pleased to have made significant advances in the Public Sector, having secured just under £10m of new contract revenue.

Significant wins for the year have been across a multitude of government sectors. In the social housing space, we have secured major contracts with customers such as Your Housing for fixed and mobile voice services and Notting Hill Housing for a wide area network.

In Central Government, we were selected for a large mobile deployment by the Department for Communities and Local Government. We further strengthened our market leading credentials in SIP, with a number of local government organisations such as Trafford Metropolitan Borough Council and Woking Borough Council selecting us to be their next generation IP Voice provider.

2016 has also seen a growth in the number of health organisations that we work with, such as Betsi Cadwaladr University Health Board. The majority of our customers now take a minimum of one of our next generation cloud telephony products.

As well as bringing on new public sector organisations, the unit is focusing on re-signing customers, cross selling and upselling additional products and solutions to our existing customers. These include migrating customers from legacy ISDN estates to next generation SIP-based services. A good example of this through 2016 was the Countess of Chester Hospital which migrated to a Gamma SIP solution. Re-signs in the year included the Open University.

We are also seeing growth in our Cloud PBX platform, Horizon, as customers move away from traditional on-site telephony systems to consumption-based-cloud replacements. Cost saving, resiliency and flexibility are the key reasons that customers are selecting Horizon.

Since the launch of our new mobile service in late 2016, Gamma has won public sector contracts totalling approximately 4,000 connections and has built a strong pipeline of over 10,000 connections.

Our churn was once again negligible with no loss of a major account which is a testament to the customer service Gamma delivers.

Our success on being awarded the right frameworks continues to play a key part in securing Public Sector business. In 2015 our investment saw us awarded access to nine lots of the Crown Commercial Service RM1045 (Network Services) framework and in 2016 this allowed us to secure 26 new contracts totalling £4.9m in new contract wins and we anticipate this to grow in 2017. We also continue to support GCloud, the Janet Telephony Purchasing Service, Procurement For Housing and Scottish Fixed Telephony Services frameworks as vehicles to access the public sector.

Mid-market/SME sector

2016 saw us build on the successes, marketing effort and sales pipeline from 2015, with Cloud PBX and SIP Trunking services still leading the way.

In the SME market (10-100 seats), Cloud PBX sales still dominate the landscape, with a significant number of new customers (in comparison to 2015) coming directly from Inbound enquiries into the business. Our Cloud PBX service, Horizon, has gained a reputation in this space for being reliable and cost-effective when compared against our competition and our customers seem happy to refer us into new opportunities, which bodes well for 2017.

Moving upwards into the mid-market, it seems that the reverse is true, where IT and technically minded support staff are more likely to have the expertise to 'plumb' themselves into their telephony environment. Hence, SIP Trunking and Inbound for resilience purposes makes up the bulk of the new sales.

2016 has also seen us hit a high level of product penetration in our major account base. We've managed to build on our relationships and re-sign customers such as Virgin Wines, Just-Eat and Cotswold Outdoor (Snow & Rock).

However, looking forward to 2017, one of the challenges we face is how we generate more business from our existing customers. With this in mind, our strategy is simple; we will be selling some new services (including our new mobile service which has little penetration thus far) and will also be looking at slightly refocusing the teams to sell to a greater number of larger SME's and mid-market businesses that have broader estates to service.

We truly believe that good customer service can help us sustain and accelerate the growth of our business. With this in mind, one of the initiatives running throughout Gamma is to 'be easy to do business with'. In 2016, with input from our customers, we came up with a short, medium and long term plan which will hopefully lead to sustainable competitive advantage moving forward.

Enterprise

This year has been a year of solid performance in our Enterprise business, achieving good growth with our existing managed accounts, meeting all our 2016 KPIs and securing significant contracts from household names. Large enterprises are seeking to unify their communications to help them meet the challenges of this digital era and they want to do this in the quickest, simplest and lowest cost way, ideally with a single provider. Whilst many operators can provide point data, voice and mobile products, Gamma's Enterprise business has become expert in delivering and managing a wide range of communication services to address the changing needs of today's enterprise organisations.

To this end we secured £33.6m of new customer contracts during 2016 with an additional 11% growth of existing managed customer contracts. Our notable wins include Strutt and Parker, the UK property partnership, that has migrated to our fully converged data, voice and mobile service. In retail, a particularly strong market for Gamma, Nando's, the leading casual dining chain, is deploying our managed network connectivity across its extensive UK estate and City Electrical Factors, the UKs leading electrical distributor, has adopted a fully unified solution for its data, voice and mobility from Gamma. We had additional major wins with Berendsen plc, Reed the employment agency and the OCS Group of companies.

The majority of contract awards are for our managed next generation cloud services, where we help large organisations navigate between fixed and mobile communications. This model resonates with larger organisations because they reduce the cost and complexity of operating large communications estates. To this end we are particularly pleased with the uptake of Gamma's new mobile service in this market sector with over 4,100 connections being contracted since its launch in late 2016 and a further sector pipeline of over 10,000 connections.

As mentioned in previous reports, we use the Net Promoter Score mechanism to measure the satisfaction of our clients. In 2016, our NPS score rose again from 40 to 45.

Direct business revenue income percentage

21%

13%

Gross profit increased in 2016 to £20.6m from £18.2m in 2015 for the direct business

Current customer examples

Metro Bank, Taylor Wimpey, Peabody

Examples of new direct customers

OCS, reed.co.uk, Nando's, AQA, Department for Communities and Local Government, Schindler

Excellent financial performance in 2016

Andrew Belshaw describes a positive set of results for 2016 as Gamma reports for the second full year as a listed group.

Andrew Belshaw
Chief Financial Officer

Revenue and gross profit

Indirect business

Revenue from the indirect business grew from £152.0m to £169.0m (+11.2%) and gross profit grew from £64.1m to £78.2m – an increase of £14.1m in the year.

That increase in gross profit is our biggest year on year growth in absolute terms. This growth is particularly pleasing despite the fact that the traditional business (which includes calls and lines and trade with other carriers) has started showing its first signs of decline; in 2016 it declined by £2.0m to £16.5m (2015: £18.5m). However, the increase from our growth products has more than offset that decline ("growth products" are together SIP Trunking, Cloud PBX, Inbound, Data and Mobile products and services).

Revenue from growth product sales increased from £93.8m to £113.2m (+20.7%) and gross profit grew from £45.6m to £61.7m (+35.3%). The gross margin grew from 48.6% to 54.5% which reflects the fact that the main contributor to this growth was SIP Trunking, which has a higher margin than other products. We have also seen margins improve significantly on our Inbound product as customers have moved from using 08 numbers to 03 numbers.

The key drivers of growth in our gross profit line continue to be SIP Trunking and Cloud PBX. However, in addition, throughout 2016 we saw our data products grow at levels above previous years due to our ability to offer lower overall pricing for customers. We had forecast previously that our investment in the network would result in a lower cost base which would drive sales and this has proved to be the case.

We continue to see growth in both the number of channel partners and also the cross-selling of products into those partners – the percentage of gross profit coming from channel partners who buy four or more products (excluding traditional calls and lines) from Gamma remains high at 74% (2015: 73%).

Direct business

The direct business has also had a good year. Revenue increased from £39.8m in 2015 to £44.5m (+11.8%) and gross profit from £18.2m to £20.6m (+13.2%). Margin increased slightly from 45.7% to 46.3%.

The growth was attributable to sales of growth products and gross profit on these products grew from £14.0m to £16.8m. This business continues to move from selling to smaller customers to larger businesses on multi-year deals. The order book at the year end was strong with some significant wins in 2016 (including a large financial institution) which will only start to contribute significantly to revenues and gross profit in 2017.

Highlights

£213.5m (+11%)
Revenue grew from £191.8m in 2015 to £213.5m

21.1p (+3.2p)
Adjusted EPS grew from 17.9p to 21.1p

£21.6m (-4%)
PBT fell by 4% from £22.6m to £21.6m because 2015 included a £5.7m exceptional gain from the "ladder pricing" settlement

£34.2m (+21%)
Adjusted EBITDA grew from £28.3m in 2015 to £34.2m

£26.5m (-£1.7m)
Cash flow from operating activities fell from £28.2m to £26.5m due to a £5.1m non-recurring inflow from the "ladder pricing" settlement in 2015

£31.3m (+£6.0m)
Adjusted net operating cash inflow before tax grew from £25.3m to £31.3m

Operating expenses before share based payment expense

Operating expenses (before share based payment expense) grew from £61.4m to £74.5m. This was due to a number of factors:

- Ongoing growth in the number of customers switching to new products for the first time continues to be a driver of overhead.
- New mobile platform operating costs of £4.2m in 2016. This was a combination of operational costs required to make it ready for service and also the ongoing maintenance of the platform. (2015: £1.8m).
- Increased investment in product R&D that doesn't meet capitalisation criteria.
- Continued investment in 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 £28.3m to £34.2m or 20.8% – adjusted EBITDA has almost doubled in the three year period since Gamma floated (having been £17.2m in 2013). The reconciliation of EBITDA to adjusted EBITDA is shown below:

	2016 £m	2015 £m
EBITDA	**31.3**	29.9
Exceptional gain	**–**	(5.7)
Share based payment expense	**2.9**	4.1
Adjusted EBITDA	**34.2**	28.3

The adjusted EBITDA excludes share based payment expense (as well as exceptional items) because these have fluctuated significantly year on year.

Adjustments to EBITDA, PBT, EPS and net operating cash inflow have been presented to ensure underlying performance year on year is understood. The Group believes that adjusted measures provide valuable additional information for users of the financial statements in assessing the Group's performance since they provide information on the performance of the business that management is more directly able to influence and on a basis consistent across the Group.

Exceptional items and share based payment expense

Exceptional items are those which are considered significant by virtue of their nature, size or incidence, and are presented separately in the income statement to enable a full understanding of the Group's financial performance. In the year ended 31 December 2016 there were no exceptional items. In the previous year there was an exceptional gain of £5.7m relating to "ladder pricing". The absence of an exceptional gain in 2016 explains why the PBT and EPS figures show a slight decline.

Share based payment expense for the year was £2.9m in 2016 (2015: £4.1m). The charge includes options being issued to senior management, an SAYE and a SIP scheme offered to all staff, and the costs of employers' National Insurance on share option gains. The reduction in the charge in the year reflects the fact that a special LTIP offered on float in 2014 has now largely unwound.

Adjusted PBT for the year of £24.5m (2015: £21.0m) excludes share based payment expense of £2.9m (2015: £4.1m), as well as an exceptional gain of £5.7m in 2015, against PBT of £21.6m (2015: £22.6m).

Taxation

The effective tax rate for the year was 18.1% (2015: 19.0%). The tax rate is lower than the statutory rate for the year (20.0%) because the Group receives research and development tax credits.

Cash flows

Good cash generation meant we had cash balances at the end of the year of £28.2m, up from £24.8m at the end of the previous year. The adjusted net operating cash inflow before tax for the year was £31.3m which represents 92% of adjusted EBITDA for the year; in line with our historical rates of cash conversion (2015: 89%). We continue to turn our trading profit into cash. (Adjusted net operating cash inflow before tax is defined as "Net cashflows from operating activities" £26.5m (2015: £28.2m) plus "Taxes paid" £4.8m (2015: £2.2m) before exceptional cashflows; in 2015 there was an exceptional cash inflow of £5.1m whereas in 2016 there were no exceptional cash flows.)

Capital spend for the year was £19.6m, which is an increase from £11.5m in the previous year. This is discussed in detail below.

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

Capital expenditure

The Group spent £19.6m (2015: £11.5m) on capital which was split as follows:

- £4.0m was on enhancement, replacement, increasing capacity and development of the core network (as well as minor network related IT items and fixtures and fittings) (2015: £3.4m).
- An additional £2.8m was spent on augmenting the mobile platform purchased in 2014 in preparation for the launch of our live service (2015: £1.0m).
- £1.8m was spent on building out our data network into a number of local exchanges which will, going forwards, reduce our cost base for our ethernet product (2015: £0.4m). This has given us the ability to reduce prices and we have already seen a marked upturn in sales.
- £0.9m was the capitalisation of development costs incurred during the year, this is in line with previous years (2015: £0.9m).
- £8.3m was on customer premises equipment ("CPE"); this is "success based" expenditure (because each new sale requires the provision of equipment) and is expected to increase in line with new sales of our data and Cloud PBX products (2015: £4.4m).
- £1.8m of other assets which are predominantly related to IT and fixtures and fittings (2015: £1.4m).

In addition, we expect to spend £5m on our new national network which will replace our existing fibre ring. This will provide Gamma with a core infrastructure for the next 25 years.

Adjusted EPS

EPS is adjusted for exceptional items and share based payment expense. Adjusted EPS increased from 17.9p to 21.1p (18%). The growth in adjusted EPS is slightly behind that of adjusted EBITDA due to depreciation and amortisation in the year increasing from £7.4m in 2015 to £9.9m. This is driven by the investment programme and success based capital spend described above. The reconciliation of EPS to adjusted EPS is shown below (both are shown on a fully diluted basis):

	2016 pence	2015 pence
EPS	**18.8**	19.6
Exceptional gain	**–**	(6.1)
Share based payment expense	**3.1**	4.4
Tax effect associated with share based payment expense and exceptional gain	**(0.6)**	–
Additional effect of dilution	**(0.2)**	–
Adjusted EPS	**21.1**	17.9

See also note 10 to the financial statements.

Dividends

The Board has proposed a final dividend of 5.0p representing a full year dividend of 7.5p per share. This is an increase of 14% against our dividend for 2015 of 6.6p and is in line with our progressive dividend policy.

Subject to shareholder approval, the final dividend is payable on Thursday 22 June 2017 to shareholders on the register as at Friday 2 June 2017.

Andrew Belshaw
Chief Financial Officer

"GammaFest is an excellent example of how we put a lot of time and effort into trying to be different from the larger companies that we compete against, and how we protect our culture as we expand.

The second GammaFest was held during September 2016 at Keele University with some great bands and singers, DJ sets, fun activities and plenty of food. The event was a big hit with almost 50% of employees travelling from all our offices to spend the weekend together – some of them even formed bands that performed on the main stage.

People power

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

Communicating with staff is obviously paramount in maintaining an involved and informed group of employees. We have quarterly conference calls where the management team individually brief the whole staff, supported by regular staff newsletters, CEO briefings (by location) and an annual survey (see Top 100 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 existing staff and we provide learning opportunities for everyone. We have also recruited and developed both graduates and apprentices. In sales, for example, our strategy is to recruit graduates as desk-based support staff, developing them into field-based sales and ultimately sales management. The average tenure of our sales staff is well over five years, with many of our sales management having been with us for over ten years.

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

Staff learning and development remains a key priority for Gamma.

Corporate social responsibility continued

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

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

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. Our annual fundraising charity event the Gamma Ball Rally raised an amazing £100,000 in 2016 (£400,000 over four years), donating £50,000 to Action Through Enterprise (£200,000 total). This fantastic charity supports a community in Ghana, where over the last three years the funds have helped 64 small businesses become sustainable and initiated the community's first school feeding programme, which in the last year has fed 850 children. We also held a cycling event which raised £5,000 to build a sensory gazebo at a school for children with learning difficulties near to our Newbury office.

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, HR, Infrastructure Support, Software Development and Customer Service, we have a good track record of offering permanent employment at the end of the apprenticeships.

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

Gamma has been, for the last four years running, recognised in the Top 100 Best Companies To Work For

Top factor ranks

Wellbeing	30th
My manager	40th
Leadership	37th
Male/female ratio	72/28
Average age	36
Voluntary leavers	12%
Earning £35,000+	39%

The Sunday Times Top 100 Best Companies To Work For 2016 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. In 2016 Gamma was recognised as the 46th 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. During the year we have been working with 'Back on Track', a Manchester charity which runs a learning centre in Manchester's Northern Quarter working with adults who are going through a process of recovery or rehabilitation, having been through problems with alcohol or drugs, offending, homelessness or mental health.

The environment and CarbonNeutral®
We made a commitment to reducing our carbon footprint across our network back in 2006, through investment in the efficiency of our IP based network and other assets as well as an active offset management programme. This means Gamma is a fully certified CarbonNeutral® company, making us one of the few communications providers in the UK to have a net zero carbon footprint.

Share scheme
In addition to the long term incentive schemes which offer options to key employees, Gamma is keen to ensure that all employees who would like to be shareholders can do so in the most efficient way. Gamma has historically offered both a Share Incentive Plan ("SIP") and, in 2016, also offered a Save As You Earn ("SAYE") scheme, both of which allow all eligible employees to acquire shares. The latter was shortlisted for the "Best New Share Scheme" award at the ProShare awards due to the extraordinary take up by 46% of eligible employees. At 31 December 2016, 455 employees were shareholders via the SIP scheme and 307 employees held options under the SAYE scheme.

ProShare Annual Awards 2016 Shortlisted

The strategic report was approved by the Board of Directors on 20 March 2017.

Andrew Belshaw
Chief Financial Officer

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.

Richard Last
Chairman and Independent Non-Executive Director

The Directors support high standards of corporate governance. Although as an AIM-quoted company, the Company is not required to comply with the UK Corporate Governance Code, we have reported on our corporate governance arrangements including those aspects of the Code we consider to be relevant to the Company.

The Board is responsible for establishing and maintaining the system of internal controls which has been in place throughout 2016. The effectiveness of the Group's system of internal controls is reviewed annually by the Audit Committee on behalf of the Board, as referred to in the Audit Committee report.

The Board comprises eight Directors, three 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 2017 and beyond.

Richard Last
Chairman and Independent Non-Executive Director

> *The Company's commitment to strong corporate governance and risk management will remain central to the business during 2017 and beyond.*

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
Chief Financial Officer

Richard Bligh
Director of Business Development

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.

Board of Directors

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

Richard Last
Chairman and Independent Non-Executive Director

Richard is 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 Tribal Group plc, an education software, systems and services group, Arcontech Group plc, a financial services software company, and Lighthouse Group plc, a 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.

Year joined
2014

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

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.

Year joined
2003

Committee membership
—

Andrew Belshaw
Chief Financial Officer

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

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

Year joined
2007

Committee membership
—

Richard Bligh
Director of Business Development

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 was appointed Director of Business Development on 1 February 2017.

Richard is a graduate of Cardiff University.

Year joined
2004

Committee membership
—

Alan Gibbins
Independent Non-Executive Director

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

His responsibilities included one of the main London audit groups and he was an Audit and Business Assurance Partner. Alan 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.

Year joined
2014

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

Martin Lea
Independent Non-Executive Director

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

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

Year joined
2014

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

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.

Year joined
2011

Committee membership
- Member of the Nomination Committee

Wu Long Peng
Non-Independent Non-Executive Director

Long Peng has more than 30 years' experience in finance and corporate affairs. He is 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.

Year joined
2011

Committee membership
- Member of the Nomination Committee

Some of our key people

The Gamma management team is made up of knowledgeable and passionate people. Strong leadership at all levels drives the business to success. Below are only some examples of our key people.

Pam Williams
HR Director

Pam has led the HR team since 2014, and is passionate about learning, development and loves to see people unleash their full potential to achieve things they did not think were possible. Outside of work Pam enjoys yoga, family walks and reading.

Keely Westbury
Group Purchase Ledger Manager

Keely has been with Gamma for four years and oversees supplier accounts and staff expenses. She is very determined and loves problem solving, and in her spare time she loves spending time with her family.

David Macfarlane
Managing Director – Gamma Network Solutions

David is a technoholic, advising Gamma's customers how best they can innovate their business through embracing technology. When offline he's a football, hockey and netball coach to his teenage kids.

Danny Jacobs
Head of Channel Support

Danny has been with Gamma since 2012 and his focus is driving up the support levels across the Gamma Product set and helping channel partners support their customers. Outside of work he plays squash, shoots clays and enjoys walks.

Steve Holden
Head of Software Development

Steve heads up the development team in Gamma and has over 18 years' experience designing and architecting software solutions for the telecoms industry. A keen traveller, Steve has covered a large part of mainland Europe, South, Central and Northern US (including Alaska).

Helen Higgons
Group Financial Controller

Helen is responsible for a team of 14 people. Helen has been with Gamma for five years. Helen enjoys spending time with friends and family outside work.

Andrew Smethurst
Head of Unified Communications

Andy has been with Gamma since 2004 looking after some of Gamma's largest resellers. Outside of work Andy loves cricket and football and has succumbed to just watching both.

Jo Shuttleworth
Head of Service Development

Jo leads a team of eight people and has been with Gamma for seven years. Jo has a passion for improving the customer experience through developing systems, processes and training support. In her spare time Jo is a keen runner.

Samantha Russell
Head of Service Provisioning

Sam joined Gamma in 2009 and is now responsible for the provisioning teams within Customer Operations, focusing on delivering excellent service.

Daryl Pile
Managing Director – Channel

Daryl has been with Gamma for 14 years and delivers innovative propositions helping our partners grow and succeed. He is a part time LEGO construction foreman for his two sons and loves to travel.

Haleem Gul
Head of Technical Services

Haleem Gul manages a team of 50 engineers and has been with Gamma for 13 years. In his spare time Haleem enjoys road cycling, walking and spending quality time with his family.

Ashley Griffiths
Managing Director, The Loop

Ashley Griffiths is Managing Director of Gamma's Manchester fibre network 'The Loop', serving high profile public and private sector customers and connects to MediaCityUK. Outside of work, Ashley enjoys classical art and contemporary music.

Matt Davies
Head of Customer Programme Management

Matt Davies has been with Gamma since 2010 leading the project delivery of Gamma managed services. In his spare time Matt enjoys the outdoors and spending time with his family.

Justin Coombes
Head of Marketing

Justin Coombes has been with Gamma for nine years and embraces B2B marketing with innovative techniques. In his spare time Justin likes the great outdoors and is a keen boater and cyclist.

John Murphy
Customer Service Director

John leads the Customer Operations teams of 211 people and has been with Gamma for over six years. John has a passion for innovation within customer service and employee development. In his spare time John enjoys travel, adventure and the great outdoors.

Andy Morris
Managing Director Service and Operations

Since 2006 Andy Morris has been responsible for managing Gamma's Network, product platforms and Customer Service teams. Away from work, Andy loves the great outdoors and live music.

Alan Mackie
Product Director

Alan Mackie has been at Gamma since 2006 and heads up the Application Services Product team, as well as the Pre Sales and Marketing teams within Gamma. Outside work, Alan enjoys running (very slowly!).

Tony MacKenzie
Head of Engineering

Tony McKenzie heads up Gamma's network engineering functions. He is passionate about 'building new stuff' and innovation. As an accomplished technical scuba diver Tony spends most of his spare time underwater, either in the sea or more recently in caves.

Siobhan Carr
Head of Direct Support

Siobhan Carr has been with Gamma for five years and looks after three teams which are the forefront for faults and provisioning giving Gamma customers a proactive and over and above experience. Outside of work Siobhan loves travelling.

James Bushell
Head of Product Lines

James leads the Application Services product management team and has been with Gamma since early 2003. His focus is on quality product delivery through understanding the needs of Gamma's customers. In his spare time he enjoys travel, good food and wine.

Cem Ahmet
Managing Director – Gamma Business Communications

Cem has been with Gamma for over 11 years and leads his 60+ strong army into the SME & mid-market battlefields. Outside of work Cem likes the odd game of golf and a good read.

Corporate governance report

The workings of the Board and its Committees

At 31 December 2016, the Board was comprised of five Non-Executive Directors, one of whom is the Chairman, and three 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 opposite, to review trading performance, set and monitor strategy, examine acquisition and divestment possibilities, approve major capital expenditure projects and other significant financing matters and report to shareholders. The Board delegates authority to the management for the day-to-day business under a set of delegated authorities which cover: routine operational matters, purchasing procedures, financial authority limits, contract approval procedures and the hiring of full time and temporary staff and consultants.

Matters for review by the Board are communicated in advance of formal meetings. All of 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. 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.

The following is a table of attendance:

	Board meeting	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Bob Falconer	12/12	N/A	N/A	N/A
Andrew Belshaw	12/12	N/A	N/A	N/A
Richard Bligh	11/12	N/A	N/A	N/A
Non-Executive Directors				
Richard Last (Independent)	12/12	3/3	5/5	1/1
Alan Gibbins (Independent)	12/12	3/3	5/5	1/1
Martin Lea (Independent)	12/12	3/3	5/5	1/1
Wu Long Peng	11/12	N/A	N/A	1/1
Andrew Stone	8/12	N/A	N/A	1/1

During 2016, certain Directors who were not committee members attended meetings of the Audit Committee and Remuneration Committee by invitation. These details have not been included in the table. Where a Director is unable to attend meetings of the Board or of Board committees, such Director is invited to review the relevant papers for the meetings and provide his comments to the Board or the Board committees in advance of such meetings.

Board performance

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

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

The 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 48.

Remuneration Committee

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

Nomination Committee

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

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

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

Relations with shareholders

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

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

Signed on behalf of the Board by:

Richard Last
Chairman and Independent
Non-Executive Director
20 March 2017

Audit Committee report

Alan Gibbins
Audit Committee Chairman

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

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

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

Objectives and responsibilities

The Committee's key objectives are to provide effective governance over Gamma's financial reporting and the performance of the external auditors; to provide oversight of the Group's systems of internal financial control; and to report to the Board on these matters.

In fulfilment of these objectives the Committee:

- reviews Gamma's financial statements and finance-related announcements, including compliance with statutory and listing requirements. As an AIM-listed company, Gamma is not required fully to comply with the UK Corporate Governance Code, but seeks nevertheless to comply in all material respects;
- considers whether these statements and announcements provide a balanced and understandable view of Gamma's strategy and performance, and of the associated risks;
- considers the appropriateness of accounting policies and significant accounting judgements and the disclosure of these in the financial statements;
- reviews the effectiveness of financial controls and systems. Gamma does not have an internal audit function and the Committee is of the view that Gamma is not yet of a size and complexity to warrant the establishment of such a function. However, as described below, during the year the Committee commissioned an internal audit of the billing systems, being the most complex area of the financial systems and fundamental to the sound financial management of Gamma; and
- oversees the relationship with and performance of the external auditors.

Activities of the Committee during the year

In fulfilment of the responsibilities set out above, the Committee's activities have focused on financial reporting and the related statutory audit; and the assessment of internal controls. In addition, the Committee conducted a review of the performance of the external auditors after their first year in post. The selection of Deloitte LLP as Gamma's external auditors was described in last year's Audit Committee report.

Financial reporting and statutory audit

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

- the overall truth and fairness of the results and financial position, including the clarity of disclosures shown in the statements and their compliance with statutory, listing and best practice requirements. This includes accounting disclosures and whether at least equal prominence is given to GAAP results where non-GAAP amounts are disclosed. The Audit Committee is satisfied that Gamma is transparent on these matters;
- the appropriateness of the accounting policies and practices used in arriving at those results;
- the resolution of management's significant accounting judgements or of matters raised by the external auditors during the course of their half year review and annual statutory audit. Key issues are described in more detail below; and
- the quality of the Annual Report taken as a whole, including disclosures on Governance, Strategy, Risks and Remuneration, and whether it gives a fair and balanced picture of the Group.

External audit

The Committee discussed, challenged and agreed with Deloitte LLP their detailed audit plans prepared in advance of the audit, which set out their assessment of key audit risks and materiality. Their approach to the review of the half year results was also discussed and agreed. As in the previous year, there were particular discussions on the complexity of auditing revenues and associated costs (to ensure the accuracy of billings to clients and that Gamma only pays for the proper amount of any corresponding external cost) and the use of specialist audit techniques for Gamma's billing and related IT systems. To help with these discussions, the Head of Revenue Assurance and Billing attended the relevant meeting.

Accounting policies, practices and judgements

The selection of appropriate accounting policies and practices is the responsibility of management, and the Committee discussed these with both management and the external auditors. Significant areas considered by the Committee in relation to the 2016 financial statements are set out below.

- Revenue recognition. Gamma has a number of revenue streams arising from its products and services which should be recognised in line with relevant contractual terms. The Committee took into account the work of Gamma's Finance function on the accuracy of amounts recognised as well as the audit work on the relevant systems carried out by Deloitte LLP. In addition, the Committee commissioned an internal audit by KPMG of the billing systems. The Committee was satisfied as to the robustness of the reporting of revenues and associated costs.
- Capitalisation of internal development costs. Gamma carries out a significant level of in-house development which is capitalised and amortised where appropriate – where projects are technically feasible, can be completed and the asset can or will be capable of use or sale. The Committee considered management's capitalisation process and the assumptions used when assessing whether expenditure should be capitalised or otherwise. The Committee was satisfied that a sufficient degree of scepticism was used by management and the external auditors in arriving at amounts which should be capitalised.
- Impairment. Gamma is required to test annually whether goodwill has suffered any impairment and to consider whether the fixed assets used in the business are carried at an appropriate amount. The Committee reviewed the impairment testing carried out and concurred with management that there was no impairment of goodwill or any of the fixed assets used in the business.
- Share based payments. The charge in the financial statements for share based payments can be complex often involving estimates around market volatility and yield. The Committee reviewed the calculations prepared by Gamma's external advisers in this area, calculations by management, the assumptions relating to performance conditions and the findings of the external auditors and was satisfied as to the amounts and disclosures.
- 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, particularly the costs to be incurred by the end of each lease. Where appropriate, relevant assets are written down to reflect their remaining useful lives.
- Onerous leases. Gamma has recently made a decision to invest in its national network which will mean the former network becomes redundant and therefore leases associated with the old network will become onerous. Where the unavoidable costs of a lease exceed the economic benefit expected to be received from it, a provision is made for the present value of the obligations under the lease. The Committee reviewed the calculation and key estimates underpinning the provision and agreed with management's view.
- Taxation. The Group recognises tax liabilities based on its assessment of the supportability of its tax return positions. The Committee considered the estimates involved in arriving at the provision for taxation, in particular where there is any possibility of challenge upon review by the tax authorities. Next year Gamma will be publishing its tax strategy and work on this is under way.

Assessment of internal financial control

Management is responsible for putting in place internal financial controls over financial reporting and to protect the business from identified material risks. Control improvements were suggested by Deloitte LLP coming out of their first year as Gamma's external auditors and management is implementing these. The Audit Committee commissioned an internal audit review of Gamma's billing systems from KPMG. The review did not find any substantive issues and management is discussing with KPMG certain enhancements to the current systems following their observations. The CFO presented to the Committee a roadmap of Gamma's financial systems and where these are to be upgraded or enhanced in the near future. The Committee was pleased to note that systems appear to be fit for purpose.

New accounting standards

The Committee has been kept appraised of progress on Gamma's preparations for the implementation of two accounting standards which will affect the amounts disclosed in Gamma's financial statements, IFRS 15 (Revenues) and IFRS 16 (Leases). Gamma expects to implement both standards in 2018 and the Committee will continue to monitor progress in this area.

External audit effectiveness

Deloitte LLP were appointed as Gamma's auditors for the 2015 financial year and following completion of the audit for that year the Audit Committee carried out an assessment of their performance and of the external audit process, taking into account the views of the finance team and of the Board. The assessment was in general positive but suggested areas where Gamma and Deloitte LLP could work and communicate better together. The Audit Committee is pleased to report that the response has been very positive and that the external audit has run smoothly and constructively.

Alan Gibbins
Audit Committee Chairman
20 March 2017

Remuneration Committee report

This report is for the period to 31 December 2016. It sets out the remuneration policy and the remuneration details for the Executive and Non-Executive Directors of the Company.

Martin Lea
Remuneration Committee Chairman

The report is split into three main areas:

Membership

The members of the Audit Committee and meetings attended are:

Name	Meetings attended
Alan Gibbins, Chairman	5/5
Richard Last	5/5
Martin Lea	5/5

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

Dear shareholder

I am pleased to introduce the Director's Remuneration Report for the 2016 financial year. The Chairman's statement (on pages 4 to 5) provides a summary of the progress the Group has made over the year. The Remuneration Committee is committed to structuring senior executive remuneration that is competitive, incentivises and rewards good performance, and that will help the Company continue to grow profitably, thereby creating value for shareholders. The Remuneration Committee is appointed by the Board, and comprises the three Independent Non-Executive Directors.

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

The Executive Directors receive an amount of fixed pay made up of a base salary, and in some cases a benefits package and pension contribution. In line with the general Company wide salary increase, and taking into account the performance of the business, it was decided to increase the base pay of the CEO and CFO by 2% with effect from January 2017. The Non-Executive Directors' fees were also increased by the same %.

Short term performance for senior executives is incentivised using an annual bonus scheme based on the achievement of profitability goals. 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. There are no changes to the structure of these schemes planned for 2017. In the policy table and the Annual Report on Remuneration we have included details of the targets associated with both the annual bonus scheme and the long term incentive plan for the relevant period.

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).

The CSOP is designed to enable the Group to selectively incentivise key high performing employees. In 2016 awards of 53,911 options were made to high performing employees under the CSOP.

In 2016, in order to further stimulate employee wide share ownership, the Company introduced a new Company wide SAYE share save scheme. Under this scheme, employees who choose to participate are granted options, at a 20% discount to market price, and then save a pre-determined sum over a period of three years. The money saved can then be used by the employee to exercise their options. In its first year 44% of all employees chose to participate, with options being granted over 641,053 shares. There were no shares issued under the SIP in 2016.

These various schemes provide the Board with tools to help it to continue to strengthen the alignment of employee and shareholder interests.

Employees in the Group generally 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 2016, and the contribution and hard work of all the employees, the Board was pleased to approve a 2% general salary increase at the 2016 year end.

As an AIM-listed company, this report is not mandatory, but is included as a matter of best practice, and it is our intention to continue to increase the scope and content of the report. Gamma's Remuneration Committee report was approved on an advisory basis at the 2016 AGM with 99.98% of votes cast in favour. We are not proposing any material policy changes for the current financial year. This Remuneration Committee report will again be put to an advisory vote at the forthcoming 2017 AGM.

Martin Lea
Remuneration Committee Chairman
20 March 2017

Directors' remuneration policy

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

Consideration of shareholders' views on remuneration

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

Policy on Executive Director remuneration

The Company's remuneration policy is designed to ensure that the Company is able to attract, retain and motivate executives and senior management of the right quality to enable the Company to fulfil its objectives and longer term potential. The retention of key management and the alignment of management incentives with the creation of shareholder value are a key objective of this policy.

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

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

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Base salary			
To be set at a level which is sufficiently competitive to recruit and retain individuals of the appropriate calibre to deliver the Company's strategy, and which takes into account the Director's experience and personal contribution to the Company's strategy.	Salaries are typically reviewed annually, with any changes effective from 1 January. The review takes into account: • Company performance; • the role, experience and performance of the individual Director; and • average workforce salary adjustments within the Company. In addition to the above, salaries are independently benchmarked from time to time against comparable roles at companies of a similar size and complexity in the Telecoms and IT services sectors.	The CEO's base salary was reviewed on 1 January 2017 (the prior review being in January 2016) and was increased by 2% to £305,878. The CFO's base salary was reviewed on 1 January 2017 (the prior review being in January 2016) and was increased by 2% to £187,272. The Director of Business Development was appointed to this new position on 1 February 2017 (having previously served as COO). His salary is £182,843 with effect from 1 March 2017.	Not applicable.

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Benefits			
To complement basic salary by providing market competitive benefits to attract and retain executives.	Reviewed from time to time to ensure that benefits when taken together with other elements of remuneration remain market competitive. Benefits for the Executive Directors currently comprise participation in the Company's life assurance and income protection schemes.	The cost of providing these benefits vary year on year depending on the schemes' premiums. The Remuneration Committee monitors the overall cost of the benefits package.	Not applicable.
Pension			
To provide retirement benefits which, when taken together with other elements of the remuneration package, will enable the Company to attract and retain executives.	The Executive Directors (together with all other eligible staff) are able to participate in the Company's defined contribution (money purchase) pension scheme. The Company contributes a maximum of 5.1% of salary.	A contribution of up to 5.1% per annum of salary is paid into the scheme, by the Company, on behalf of the Executive Directors. The Executive Directors are able to request that the Company, at the discretion of the Remuneration Committee, makes additional contributions where salary or bonus has been waived. During the year the COO (now Director of Business Development) received £2,241 in salary in lieu of a contribution by the Company to his pension of £2,550. In 2017 the CEO and Director of Business Development will not participate in the scheme.	Not applicable.
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. The bonus scheme rules do include a claw-back provision.	For the Executive Directors, the maximum capped bonus potential is 100% of salary. For 2016, the Executive Directors achieved the maximum capped bonus of 100% of salary.	For the year ending 2016, the targets were based on growth in Adjusted Profit Before Tax (PBT). To achieve maximum bonus the performance target was set at 17% annual growth in Adjusted Profit Before Tax (PBT). For 2017, targets are again based on growth in Adjusted Profit Before Tax (PBT).

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
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 managers) 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. Following the announcement of the Group's results for 2015, awards were granted under this scheme at a value of 100% of base salary. These awards will vest in April 2019, subject to service and performance conditions. It is anticipated that further awards will be made in April 2017 following announcement of the Group's annual results.	Vesting of the 2016 LTIP awards is conditional upon the following performance conditions: 15% of the shares if annual compound total shareholder return (TSR) over the performance period equals 8%, and 50% of the shares if annual compound TSR over the performance period equals 15% or higher, with straight line vesting in between. 15% of the shares if annual compound growth of adjusted EPS (adjusted for exceptional costs and share based payment costs) over the performance period equals 8%, and 50% of the shares if annual compound growth of adjusted EPS over the performance period equals 20% or higher, with straight line vesting in between. In both cases (TSR and EPS) the Committee determined that at this stage of Gamma's development and its market position, absolute performance measures are more appropriate than relative measures.

Alignment of executive remuneration and the market

In September 2016, the Company engaged h2glenfern, a remuneration advisory practice, to undertake a benchmarking exercise for use in considering the remuneration levels of the Executive and Non-Executive Directors. In undertaking this work h2glenfern took into account Gamma's size, position, profile and outlook, and reviewed the remuneration data for a number of comparable UK quoted telecoms/technology companies. It is planned that a similar benchmarking exercise will be undertaken every three years.

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

Consideration of employment conditions elsewhere in the Group

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

Policy on recruitment

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

Policy on loss of office

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

Basic salary: This will be paid over the contractual notice period (six months based on the current policy) however the Company has the discretion to make a lump sum payment for termination in lieu of notice. Benefits and Pension contributions: These will normally continue to be provided over the notice period, however the Company has the discretion to make a lump sum payment on termination equal to the value of the benefits payable during the notice period. Annual Bonus: The payment of any annual bonus would be entirely at the discretion of the Remuneration Committee and if made would be pro-rated to the time of active service in the year that employment ceased. The decision of the Committee, in such circumstances, would take into consideration the financial performance of the Company, the performance of the individual, and the circumstances of the termination of employment. Long Term Incentive Plan (LTIP): This is governed by the rules of the LTIP scheme. If the Executive Director's employment ceases for reasons of death, ill health, injury, disability or redundancy during the performance period of the LTIP award, then normally in these circumstances, the participant's award will vest on a time pro rata basis subject to the Remuneration Committee assessment of the satisfaction of the performance conditions applying to the award for the period prior to cessation of employment. The Committee retains discretion to decide to waive in full or in part the performance conditions if it feels that is appropriate in particular circumstances. In all other circumstances if an Executive Director's employment ceases then the award will lapse on the date of cessation, unless the Remuneration Committee determines in its discretion prior to the date of cessation that the award should vest on a pro rata basis.

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 CEO. The Non-Executive Directors are not involved in any decisions about their own remuneration.

Additional fees over and above the base fee are payable to the chairmen of the Audit 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 paid for 2016 are set out in the Annual Report on Remuneration. The Directors' fees were increased by 2% with effect from January 2017. There were no changes to the Non-Executive Director Committee Chair fees.

The current fees are as follows:

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

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	CFO Andrew Belshaw	Director of Business Development Richard Bligh
Effective date of Service Agreement	10 October 2014	10 October 2014	1 January 2016
Notice period	6 months' notice given by either party	6 months' notice given by either party	6 months' notice given by either party
Basic salary	£299,880 per annum	£183,600 per annum	£182,843 per annum
Annual bonus	Discretionary performance related	Discretionary performance related	Discretionary performance related
Pension	None	Company contributes up to 5.1% of basic salary into defined contribution money purchase scheme	None. With effect from January 2017 Company pension contributions were consolidated into salary at no additional cost to the Company
Benefits	Participation in Company life assurance and income protection schemes	Participation in Company life assurance and income protection schemes	Participation in Company life assurance and income protection schemes
Share schemes	Eligible to participate in Company share schemes	Eligible to participate in Company share schemes	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	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

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 2016.

Remuneration Committee

Membership

The Remuneration Committee consisted of the following Directors during the year to 31 December 2016:

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

Role of the Remuneration Committee

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

Activities of the Remuneration Committee in 2016

The Committee met five times in 2016 in order to conduct the following main items of business: agree the annual Remuneration Committee report; review the Chairman's fees; set senior executive bonus targets for 2016; approve the terms of the Company's new all employee SAYE share scheme; approve senior executive bonus payments relating to 2015; approve the 2016 LTIP and CSOP awards and set LTIP targets; review the projected dilution impact and cost of various share schemes; conduct the annual review of Remuneration Committee terms of reference and performance; consider the results of the Directors' remuneration market comparison conducted by h2glenfern; consider the Company annual salary review and any changes to overall Company remuneration structure.

Advisers

In September 2016, the Company engaged h2glenfern, a remuneration advisory practice to undertake a benchmarking exercise for use in considering the remuneration levels of the Executive and Non-Executive Directors. The cost of this work was £7,500 excluding VAT.

Remuneration of the Executive Directors

Bonuses are shown on an accrued basis.

The share option remuneration has been calculated as the excess of the share price on the vesting date over the exercise price for share options that vested during the year.

Director	Salary and fees	Benefits	Annual bonus	Share options	Pension	Total for 2016
Bob Falconer	£299,880	–	£299,880	–	–	**£599,760**
Andrew Belshaw	£161,459	–	£183,600	£299,978	£31,467	**£676,504**
Richard Bligh	£202,241	–	£200,000	£563,372	£7,500	**£973,113**

Richard Bligh received £2,241 salary in 2016 in lieu of a contribution by the Company to his pension of £2,550.

Andrew Belshaw waived £22,141 of his salary for 2016 and received a pension contribution of the same amount.

The bonus payment was the maximum based on achieving a target of 17% annual growth in adjusted PBT. No amount of the bonus was deferred. The share options vesting during the year relate to the pre-IPO awards made under the 2014 DSS scheme and which had no performance conditions attached.

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

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

Director	Salary and fees	Benefits	Annual bonus	Share options	Pension	Total for 2015
Bob Falconer	£294,000	–	£294,000	£1,732,287	–	£2,320,287
Andrew Belshaw	£131,305	–	£140,000	£195,363	£36,706	£503,374
Richard Bligh	£150,765	£10,000	£120,612	£366,933	£7,689	£655,999

Andrew Belshaw waived £28,695 of his salary for 2015 and received a pension contribution of the same amount.

Richard Bligh became a Director of the Company on 1 December 2015 and his salary from then until the end of 2015 was £12,564.

Remuneration of the Non-Executive Directors

Director	Directors' fee	Committee Chair fee	Total for 2016
Richard Last	£75,000	–	**£75,000**
Alan Gibbins	£35,000	£6,000	**£41,000**
Martin Lea	£35,000	£6,000	**£41,000**
Wu Long Peng	£35,000	–	**£35,000**
Andrew Stone	£35,000	–	**£35,000**

Director	Directors' fee	Committee Chair fee	Total for 2015
Richard Last	£75,000	–	£75,000
Alan Gibbins	£35,000	£5,000	£40,000
Martin Lea	£35,000	£5,000	£40,000
Wu Long Peng	£35,000	–	£35,000
Andrew Stone	£35,000	–	£35,000

Share scheme interests awarded during the year ended 31 December 2016

Deferred Share Scheme (DSS)

There were no awards made to Directors under the DSS plan during the year ended 31 December 2016 or 31 December 2015.

Unapproved share option plan

There were no awards made to Directors under the unapproved share option plan during the year ended 31 December 2016 or 31 December 2015.

Long Term Incentive Plan (LTIP)

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

2016 Director	Type of scheme interest	Basis of award	Number of awards	Vesting date	Exercise price	Exercise date
Bob Falconer	Nil-cost option	100% of salary	71,870	31 Mar 2019	£0.0025	–
Andrew Belshaw	Nil-cost option	100% of salary	44,002	31 Mar 2019	£0.0025	–
Richard Bligh	Nil-cost option	100% of salary	47,932	31 Mar 2019	£0.0025	–

2015 Director	Type of scheme interest	Basis of award	Number of awards	Vesting date	Exercise price	Exercise date
Bob Falconer	Nil-cost option	100% of salary	108,888	1 April 2018	£0.0025	–
Andrew Belshaw	Nil-cost option	100% of salary	51,851	1 April 2018	£0.0025	–
Richard Bligh	Nil-cost option	100% of salary	55,838	1 April 2018	£0.0025	–

At the time of making an award the Remuneration Committee sets challenging long term performance targets in order to align the interests of the Directors with shareholders and which, together with continuous employment conditions, must be satisfied before an award vests.

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

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

Save As You Earn (SAYE)

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

Director	Type of scheme interest	Basis of award	Number of awards	Vesting date	Exercise price	Exercise date
Richard Bligh	Discounted option	Savings-related share option	3,135	19 April 2019	£3.444	–

The awards granted will have a performance period of three years starting from the grant date, being 19 Apr 2016.

Statement of Directors' shareholding and share interests

Directors' share interests at 31 December 2016 are set out below:

2016	Number of beneficially owned shares	Options: With performance measures	Options: Without performance measures	Options: Vested but unexercised	Options: Exercised during the year
Executive Director					
Bob Falconer	3,490,075	469,038	–	–	548,740
Andrew Belshaw	277,654	266,587	35,882	–	71,765
Richard Bligh	412,222	286,281	67,389	–	134,778
Non-Executive Director					
Richard Last	53,475	–	–	–	–
Alan Gibbins	13,368	–	–	–	–
Martin Lea	13,368	–	–	–	–
Wu Long Peng	–	–	–	–	–
Andrew Stone	1,286,500	–	–	–	–

2015	Number of beneficially owned shares	Options: With performance measures	Options: Without performance measures	Options: Vested but unexercised	Options: Exercised during the year
Executive Director					
Bob Falconer	4,567,193	397,168	–	548,740	–
Andrew Belshaw	277,002	222,587	107,647	–	179,306
Richard Bligh	422,222	235,214	202,167	–	134,778
Non-Executive Director					
Richard Last	53,475	–	–	–	–
Alan Gibbins	13,368	–	–	–	–
Martin Lea	13,368	–	–	–	–
Wu Long Peng	–	–	–	–	–
Andrew Stone	3,650,000	–	–	–	–

During the 2016 AGM, a motion was set for the shareholders to approve on an advisory only basis the Directors' Remuneration Report. 99.98% votes were cast in favour of the motion.

This Remuneration Committee report will be put to an advisory vote at the forthcoming 2017 AGM. This report was approved by the Board of Directors on 20 March 2017 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 and auditor's report, for the year ended 31 December 2016.

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 5.0p per ordinary share to be paid on Thursday 22 June 2017 to ordinary shareholders on the register on Friday 2 June 2017 which, together with the interim dividend of 2.5p paid on Thursday 20 October 2016 to ordinary shareholders on the register as at Friday 23 September 2016 makes a total of 7.5p for the year (2015: 6.6p).

Capital structure

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 four share incentive schemes by which Directors and employees may: (i) be granted options under a Long Term Incentive Plan to subscribe for nil cost shares in the Company, (ii) be granted options under the Company Share Option Plan, (iii) be issued shares under a Share Incentive Plan, and (iv) be granted options under a Save As You Earn plan.

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

Composition of the Group

Details concerning subsidiary undertakings are given in note 13 to the Group financial statements.

Directors

The names and biographies of the Directors during the year are disclosed on pages 42 to 43.

Directors' interest in share capital

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

Directors' indemnities

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

Going concern

The Group's business activities, together with the factors likely to affect the future development, performance and position, are set out in the strategic report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial review section in the strategic report and in note 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 contributions
No political contributions were made in the year.

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

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

During both the year and the prior year the Group 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 Top 100 Best Companies To Work For and the Group was placed in the top 50 companies in the UK.

Auditors and their independence
A resolution to appoint auditors for the year to 31 December 2017 will be proposed at the AGM. The Company has a policy for approval by the Audit Committee of non-audit services by the auditor, to preserve independence.

Disclosure of information to auditors
Each of the persons who is a Director at the date of approval of this Annual Report confirms that, so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and the Director has taken all the steps that he ought to have taken as a Director in order 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.

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

By order of the Board,

Andrew Belshaw
Chief Financial Officer
20 March 2017

Statement of Directors' responsibilities

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

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

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

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

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

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Responsibility statement
We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 20 March 2017 and is signed on its behalf by:

Andrew Belshaw
Chief Financial Officer
20 March 2017

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

We have audited the financial statements of Gamma Communications plc for the year ended 31 December 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cashflows, the Consolidated Statement of Changes in Equity, the Company Balance Sheet, the Company Statement of Changes in Equity, and the Group and Company related notes 1 to 28 and 1 to 9 respectively. The financial reporting framework that has been applied in the 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 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), including FRS 101 "Reduced Disclosure Framework".

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2016 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 properly 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and the Directors' report.

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.

Andrew Bond FCA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
20 March 2017

Consolidated statement of comprehensive income
For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Revenue	3,4	**213.5**	191.8
Cost of sales		**(114.7)**	(109.5)
Gross profit		**98.8**	82.3
Other operating income	6	**–**	5.7
Operating expenses	5	**(77.4)**	(65.5)
Operating profit before share based payment expense, exceptional items, depreciation and amortisation	5	**34.2**	28.3
Share based payment expense	25	**(2.9)**	(4.1)
Exceptional items	6	**–**	5.7
Operating profit before depreciation and amortisation		**31.3**	29.9
Depreciation and amortisation	5	**(9.9)**	(7.4)
Profit from operations	5	**21.4**	22.5
Finance income	8	**0.2**	0.1
Profit before tax		**21.6**	22.6
Tax expense	9	**(3.9)**	(4.3)
Profit after tax		**17.7**	18.3
Total comprehensive income attributable to the owner of the parent		**17.7**	18.3
Earnings per share			
Basic per Ordinary Share (pence)		**19.4**	20.4
Diluted per Ordinary Share (pence)		**18.8**	19.6

Adjusted earnings per share is shown in note 10.

The notes on pages 67 to 89 form part of these financial statements.

Consolidated statement of financial position
As at 31 December 2016

	Notes	2016 £m	2015 £m
Assets			
Non-current assets			
Property, plant and equipment	11	33.5	23.4
Intangible assets	12	10.0	10.4
Deferred tax asset	20	1.8	2.0
		45.3	35.8
Current assets			
Inventories	14	3.0	2.3
Trade and other receivables	15	39.9	35.2
Cash and cash equivalents	16	28.2	24.8
		71.1	62.3
Total assets		116.4	98.1
Liabilities			
Non-current liabilities			
Provisions	19	1.9	1.4
Deferred tax	20	0.2	0.4
		2.1	1.8
Current liabilities			
Trade and other payables	17	32.5	27.3
Current tax		1.6	2.3
		34.1	29.6
Total liabilities		36.2	31.4
Issued capital and reserves attributable to owners of the parent			
Share capital	21	0.2	0.2
Share premium reserve	22	3.8	3.7
Merger reserve	22	2.3	2.3
Share option reserve	22	3.5	3.8
Own shares	22	(0.8)	(0.8)
Retained earnings	22	71.2	57.5
Total equity		80.2	66.7
Total equity and liabilities		116.4	98.1

The financial statements on pages 63 to 66 were approved and authorised for issue by the Board of Directors on 20 March 2017 and were signed on its behalf by:

Andrew Belshaw
Chief Financial Officer

The notes on pages 67 to 89 form part of these financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Profit for the year before tax		21.6	22.6
Adjustments for:			
Depreciation of property, plant and equipment	11	8.6	6.1
Amortisation of intangible assets	12	1.3	1.3
Share based payment expense	25	2.9	4.1
Interest income		(0.2)	(0.1)
		34.2	34.0
Increase in trade and other receivables	15	(7.3)	(3.3)
Increase in inventories	14	(0.7)	(1.2)
Increase in trade and other payables	17	4.6	0.4
Increase in provisions and employee benefits	19	0.5	0.5
Taxes paid		(4.8)	(2.2)
Net cash flows from operating activities		26.5	28.2
Investing activities			
Purchases of property, plant and equipment	11	(18.7)	(10.6)
Expenditure on development costs	12	(0.9)	(0.9)
Payment of deferred consideration		–	(0.1)
Repayment of loans made to individuals to subscribe for shares	27	2.6	0.5
Interest received	8	0.2	0.1
Net cash used in investing activities		(16.8)	(11.0)
Financing activities			
Share issues		0.1	0.5
Investment in own shares		–	(0.8)
Dividends	10	(6.4)	(5.5)
Net cash used in financing activities		(6.3)	(5.8)
Net increase in cash and cash equivalents		3.4	11.4
Cash and cash equivalents at beginning of year		24.8	13.4
Cash and cash equivalents at end of year	16	28.2	24.8

The operating cash flow in 2015 includes £5.1m of cash received relating to the laddering settlement which management considers to be non-recurring in nature.

The notes on pages 67 to 89 form part of these financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2016

	Share capital £m	Share premium reserve £m	Merger reserve £m	Share option reserve £m	Own shares £m	Retained earnings £m	Total equity £m
1 January 2015	0.2	3.2	2.3	2.4	–	43.1	51.2
Issue of shares	–	0.5	–	(1.6)	–	1.6	0.5
Current tax on share based payment expense	–	–	–	–	–	0.7	0.7
Deferred tax on share based payment expense	–	–	–	–	–	(0.7)	(0.7)
Recognition of share based payment expense	–	–	–	3.0	–	–	3.0
Dividend paid (note 10)	–	–	–	–	–	(5.5)	(5.5)
Investment in own shares	–	–	–	–	(0.8)	–	(0.8)
Transaction with owners	–	0.5	–	1.4	(0.8)	(3.9)	(2.8)
Profit for the year	–	–	–	–	–	18.3	18.3
Total comprehensive income	–	–	–	–	–	18.3	18.3
31 December 2015	0.2	3.7	2.3	3.8	(0.8)	57.5	66.7
1 January 2016	0.2	3.7	2.3	3.8	(0.8)	57.5	66.7
Issue of shares	–	0.1	–	(2.5)	–	2.5	0.1
Deferred tax on share based payment expense	–	–	–	–	–	(0.1)	(0.1)
Recognition of share based payment expense	–	–	–	2.2	–	–	2.2
Dividend paid (note 10)	–	–	–	–	–	(6.4)	(6.4)
Transaction with owners	–	0.1	–	(0.3)	–	(4.0)	(4.2)
Profit for the year	–	–	–	–	–	17.7	17.7
Total comprehensive income	–	–	–	–	–	17.7	17.7
31 December 2016	**0.2**	**3.8**	**2.3**	**3.5**	**(0.8)**	**71.2**	**80.2**

Notes forming part of the financial statements
For the year ended 31 December 2016

1. Accounting policies

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

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain properties and financial instruments. The Company has taken advantage of the exemption available within FRS 101 Reduced Disclosure Framework in respect to IFRS 7.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented.

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 2018)
- IFRS 16 Leases (effective 1 January 2019)
- Amendments to IAS 40 clarifying transfers or property to, or from, investment property (effective 1 January 2018)
- Amendments to IFRS 9 which replaces IAS 39 (effective date 1 January 2018)
- Amendments to IAS 7 as a result of the Disclosure Initiative (effective date 1 January 2017); and
- Annual improvements to IFRSs 2014-2016 Cycle (effective 1 January 2018).

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.

IFRS 15 was published in May 2014 and the effective date has been delayed to reporting periods beginning on or after 1 January 2018. Following the finalisation of the standard and IFRS 16, the Group is in the process of assessing the impact of this.

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 of £28.2m (2015: £24.8m) 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 entities shown in note 13.

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 growth) each of which typically consists of all or some of four main types of revenue – voice and data traffic, a subscription or rental, equipment 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 or data is transferred.

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

Subscriptions and rentals
Revenue from the rental of analogue and digital lines is recognised evenly over the period to which the charges relate.

Subscription fees, consisting primarily of monthly charges for access to broadband, hosted IP services and other internet access or voice services, are recognised as revenue as the service is provided.

Notes forming part of the financial statements
For the year ended 31 December 2016 continued

1. Accounting policies continued

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 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.

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

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

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.

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

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

Intangible assets acquired as part of a business combination are shown at fair value at the date of the acquisition less accumulated amortisation. Amortisation is charged on a straight line basis through the 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 (whether in respect of new products or enhancement of existing products) are capitalised when all the following conditions are satisfied:

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

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

Judgement 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. Amortisation is charged to the Income Statement on a straight line basis over the estimated useful life from the date the asset is available for use.

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

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

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

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

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

Notes forming part of the financial statements
For the year ended 31 December 2016 continued

1. Accounting policies continued

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

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.

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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, it includes items that are tax deductible but which do not affect net profit and it further excludes items that are never taxable or deductible.

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

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting 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 statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment
Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Assets in the course of construction for use in the supply of communication products, or for administration purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Assets which are supplied to customers as part of a service (for example, a broadband router or a telephone handset), known as Customer Premises Equipment, are capitalised and depreciated over the expected period of the provision of that 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	4%–33% per annum straight line
Customer Premises Equipment	7%–33% 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 stated 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 EBTs, they are treated as subsidiaries and consolidated for the purposes of the consolidated financial statements. The EBTs' 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 or onerous lease provision. 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 on this page.

Judgements

(a) Revenue recognition
Revenue recognition on long-term contracts to provide services requires estimates of profits over the multiple-year terms of such agreements, considering factors such as the frequency and extent of future maintenance; the resources required to perform the services; and future billing rate and cost changes. The Company routinely reviews estimates under service agreements and regularly revises them to adjust for changes in outlook. The Company also regularly assesses customer credit risk inherent in the carrying amounts of receivables and contract costs and estimated earnings. Revisions that affect a product services agreement's total estimated profitability result in an immediate adjustment of earnings. The Company provides for probable losses.

(b) Impairment
The Group is required to test, on an annual basis, whether goodwill has suffered any impairment and to consider whether the fixed assets used in the business are carried at an appropriate amount. 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 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 upon review by tax authorities. The Group believes that its accruals for tax liabilities are adequate for all open 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) 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 over the useful economic life. 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.

Notes forming part of the financial statements
For the year ended 31 December 2016 continued

2. Critical accounting estimates and judgements continued

Estimates

(a) 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 statement of comprehensive income. The main uncertainty relates to estimating the cost that will be incurred at the end of the lease.

(b) 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.

(c) Onerous lease provisions

Where the unavoidable costs of a lease exceed the economic benefit expected to be received from it, a provision is made for the present value of the obligations under the lease. Provision has been made in respect of onerous leases for the shorter of the remaining period of the lease and the period until the Company exits the lease commitment. The amount provided is based on the future rental obligations together with other fixed outgoings and the possibility of either sub-letting or buying-out from the lease commitment. Significant assumptions are used in making these calculations and changes in assumptions and future events could cause the value of these provisions to change.

3. Revenue

Revenue in all periods principally arises from the provision of products and services. There is an immaterial level of sales of goods (which are not part of a service).

4. Segment information

The Group has two main operating segments:

- Indirect – This division sells Gamma's traditional and growth products to channel partners and contributed 79% (2015: 79%) of the Group's external revenue.
- Direct – This division sells Gamma's traditional and growth products to end users in the SME, Enterprise and public sectors together with an associated service wrap. They contributed 21% (2015: 21%) of the Group's external revenues.

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

Both operating segments sell a combination of traditional products and services (which is mainly voice traffic from which revenues are derived from channel partners and other carriers as well as rentals for wholesale lines) and growth products and services (which consists of IP voice traffic, rental income derived from SIP trunks, hosted IP voice systems and Gamma's hosted inbound product and data products). Growth products and services were formerly known as New products and services but management believes that Growth is a better description of the product set. There is no change in underlying classification.

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

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

Measurement of operating segment profit or loss, assets and liabilities

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

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

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

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
2016			
Traditional products and services	55.8	10.2	66.0
Growth (being strategic and enabling) products and services	113.2	34.3	147.5
Total revenue from external customers	**169.0**	**44.5**	**213.5**
Inter-segment revenue	*38.8*	*–*	*38.8*
Traditional products and services	16.5	3.8	20.3
Growth (being strategic and enabling) products and services	61.7	16.8	78.5
Total gross profit	**78.2**	**20.6**	**98.8**
Segment operating profit before share based payment expense, exceptional items, depreciation and amortisation	**24.8**	**9.4**	**34.2**
Share based payment expense	(2.9)	–	(2.9)
Exceptional items	–	–	–
Segment operating profit before depreciation and amortisation	**21.9**	**9.4**	**31.3**
Depreciation and amortisation	(9.0)	(0.9)	(9.9)
Profit from operations	**12.9**	**8.5**	**21.4**
Finance income	0.2	–	0.2
Tax	(2.3)	(1.6)	(3.9)
Group profit after tax	10.8	6.9	17.7

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	19.0	0.6	19.6
Reportable segment assets	100.8	15.6	116.4
Reportable segment liabilities	31.5	4.7	36.2

	Indirect £m	Direct £m	Total £m
2015			
Traditional products and services	58.2	11.5	69.7
Growth (being strategic and enabling) products and services	93.8	28.3	122.1
Total revenue from external customers	152.0	39.8	191.8
Inter-segment revenue	*29.2*	–	*29.2*
Traditional products and services	18.5	4.2	22.7
Growth (being strategic and enabling) products and services	45.6	14.0	59.6
Total gross profit	64.1	18.2	82.3
Segment operating profit before share based payment expense, exceptional items, depreciation and amortisation	20.6	7.7	28.3
Share based payment expense	(4.1)	–	(4.1)
Exceptional Items	5.7	–	5.7
Segment operating profit before depreciation and amortisation	22.2	7.7	29.9
Depreciation and amortisation	(6.6)	(0.8)	(7.4)
Profit from operations	15.6	6.9	22.5
Finance income	0.1	–	0.1
Tax	(1.9)	(2.4)	(4.3)
Group profit after tax	13.8	4.5	18.3

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 2016 continued

4. Segment information continued

	Indirect £m	Direct £m	Total £m
Additions to non-current assets	11.0	0.5	11.5
Reportable segment assets	67.6	30.5	98.1
Reportable segment liabilities	9.0	22.4	31.4

5. Profit on ordinary activities
Profit on ordinary activities is stated after charging the following amounts:

	2016 £m	2015 £m
Net foreign exchange	0.4	0.1
Research and development costs	6.3	6.1
Staff costs (see note 7)	42.3	37.1
Depreciation of property, plant and equipment (incl. impairment)	8.6	6.1
Amortisation of intangible assets	1.3	1.3
Cost of inventories recognised as an expense	2.9	3.5
Fees payable to the Company's auditor for other services:		
– Audit of the Company's subsidiaries pursuant to legislation	0.2	0.1
Operating lease expense:		
– Property	1.9	1.2

Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements totalled £55k (2015: £55k) for the year.

6. Exceptional items

	2016 £m	2015 £m
Gain from ladder pricing	–	5.7

Ladder pricing was a mechanism which was used by fixed line operators to bill other operators for calls to certain 08 numbers. In 2015, Gamma reached a commercial settlement in regard to its ladder pricing policy with the affected operators resulting in an exceptional gain of £5.7m. There was a non-recurring cash inflow of £5.1m; £0.6m was received previously but not recognised as income as the invoices had been disputed.

7. Staff costs

	2016 £m	2015 £m
Staff costs (including Directors) comprise:		
Wages and salaries	34.1	28.5
Defined contribution pension cost (note 24)	1.8	1.6
Social security contributions and similar taxes	3.5	2.9
	39.4	33.0
Share based payment expense (note 25)	2.9	4.1
	42.3	37.1

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

	2016 Number	2015 Number
Operational	419	364
Selling, administration and distribution	313	262
	732	626

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 42 and 43, and the Management Committee in place during 2016.

	2016 £m	2015 £m
Salary	3.2	2.9
Defined contribution pension costs	0.1	0.2
Social security contributions and similar taxes	0.6	0.5
	3.9	3.6
Share based payment expense (note 25)	2.0	3.6
	5.9	7.2

Emoluments in respect of Directors are summarised below:

	2016 £m	2015 £m
Salary	1.6	1.1
Social security contributions and similar taxes	0.2	0.1
	1.8	1.2
Share based payment expense	1.1	1.2
	2.9	2.4

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

	2016 £m	2015 £m
Salary	0.6	0.6
Share based payment expense	0.6	0.8
	1.2	1.4

During the year, two Directors (2015: two Directors) participated in a private money purchase defined contribution pension scheme.

8. Finance income

	2016 £m	2015 £m
Finance income		
Interest received on bank deposits	0.2	0.1
Total finance income	0.2	0.1

Notes forming part of the financial statements
For the year ended 31 December 2016 continued

9. Tax expense

	2016 £m	2015 £m
Current tax expense		
Current tax on profits for the year	3.9	4.9
Adjustment in respect of prior year	0.1	(0.4)
Total current tax	4.0	4.5
Deferred tax expense		
Origination and reversal of temporary differences (note 20)	(0.1)	(0.4)
Adjustment in respect of prior year	–	0.2
Total deferred tax	(0.1)	(0.2)
Total tax expense	3.9	4.3

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:

	2016 £m	2015 £m
Profit before income taxes	21.6	22.6
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 20.00% (2015: 20.25%)	4.3	4.6
Expenses not deductible for tax purposes	0.1	–
Change in tax rates	–	0.1
Additional deduction for R&D expenditure	(0.4)	(0.2)
Adjustment in respect of prior year	(0.1)	(0.2)
Total tax expense	3.9	4.3

The Finance Act 2015 included provision for the main rate of corporation tax to reduce to 19% for the year beginning 1 April 2017. The Finance Act 2016 includes provision for the main rate of corporation tax to reduce to 17% for the year beginning 1 April 2020.

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 £17.7m (2015: £18.3m) and 91,235,007 (2015: 89,488,163) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

The diluted earnings per Ordinary Share is calculated by including in the weighted average number of shares the dilutive effect of potential Ordinary Shares related to committed share options as described in note 25. For 2016 the diluted Ordinary Shares were based on 93,787,248 Ordinary Shares (2015: 93,226,438) that included 2,552,241 potential Ordinary Shares (2015: 3,738,275).

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

	Total 2016 £m	Total 2015 £m
Profit for the year	17.7	18.3
Exceptional income	–	(5.7)
Share based payment expense	2.9	4.1
(Less)/add tax effect associated with share based payment costs and one-off costs	(0.6)	0.1
Adjusted profit after tax for the year	20.0	16.8

	2016 No.	2015 No.
Weighted average number of Ordinary Shares for basic earnings per share	91,235,007	89,488,163
Effect of dilution resulting from share options	3,497,603	4,591,931
Weighted average number of Ordinary Shares adjusted for the effect of dilution	94,732,610	94,080,094

	2016	2015
Adjusted earnings per Ordinary Share – basic (pence)	21.9	18.8
Adjusted earnings per Ordinary Share – diluted (pence)	21.1	17.9

For statutory Earnings Per Share, the number of shares used for the fully diluted calculation is prescribed by IFRS 2. For adjusted Earnings Per Share, the Company produces a calculation formulated on management's judgement of the number of options which will vest based on full management forecasts and budgets.

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

Dividends

An interim dividend of 2.5p was paid on 20 October 2016 (2015: 2.2p).

A final dividend of 5.0p will be proposed at the Annual General Meeting but has not been recognised as it requires approval (2015: 4.4p). The total amount of dividends proposed is 7.5p.

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 2015	41.8	1.9	12.5	1.5	57.7
Additions	4.8	4.4	1.4	–	10.6
Disposals	(1.6)	(0.5)	(8.4)	(1.0)	(11.5)
Reclassification	0.9	–	(0.9)	–	–
At 31 December 2015	45.9	5.8	4.6	0.5	56.8
Depreciation					
At 1 January 2015	27.0	0.8	10.0	1.0	38.8
Charge for the year	3.7	1.4	0.9	0.1	6.1
Disposals	(1.6)	(0.5)	(8.4)	(1.0)	(11.5)
Reclassification	0.3	–	(0.3)	–	–
At 31 December 2015	29.4	1.7	2.2	0.1	33.4
Net book value					
At 1 January 2015	14.8	1.1	2.5	0.5	18.9
At 31 December 2015	16.5	4.1	2.4	0.4	23.4
Cost					
At 1 January 2016	45.9	5.8	4.6	0.5	56.8
Additions	8.6	8.3	1.6	0.2	18.7
Disposals	–	(0.8)	–	–	(0.8)
At 31 December 2016	**54.5**	**13.3**	**6.2**	**0.7**	**74.7**
Depreciation					
At 1 January 2016	29.4	1.7	2.2	0.1	33.4
Charge for the year	4.2	3.1	1.2	0.1	8.6
Disposals	–	(0.8)	–	–	(0.8)
At 31 December 2016	**33.6**	**4.0**	**3.4**	**0.2**	**41.2**
Net book value					
At 1 January 2016	16.5	4.1	2.4	0.4	23.4
At 31 December 2016	**20.9**	**9.3**	**2.8**	**0.5**	**33.5**

There was no property, plant or equipment held under finance leases at the end of either year.

There was no property, plant or equipment held as security at the end of either year.

Notes forming part of the financial statements
For the year ended 31 December 2016 continued

12. Intangible assets

	Goodwill on consolidation £m	Development costs £m	Customer contracts £m	Total £m
Cost				
At 1 January 2015	12.5	4.3	2.1	18.9
Additions	–	0.9	–	0.9
At 31 December 2015	**12.5**	**5.2**	**2.1**	**19.8**
Amortisation				
At 1 January 2015	4.5	2.4	1.2	8.1
Charge for the year	–	0.9	0.4	1.3
At 31 December 2015	**4.5**	**3.3**	**1.6**	**9.4**
Carrying value				
At 1 January 2015	8.0	1.9	0.9	10.8
At 31 December 2015	**8.0**	**1.9**	**0.5**	**10.4**
Cost				
At 1 January 2016	12.5	5.2	2.1	19.8
Additions	–	0.9	–	0.9
At 31 December 2016	**12.5**	**6.1**	**2.1**	**20.7**
Amortisation				
At 1 January 2016	4.5	3.3	1.6	9.4
Charge for the year	–	0.9	0.4	1.3
At 31 December 2016	**4.5**	**4.2**	**2.0**	**10.7**
Carrying value				
At 1 January 2016	8.0	1.9	0.5	10.4
At 31 December 2016	**8.0**	**1.9**	**0.1**	**10.0**

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

- Customer contracts – five years.
- Development costs – over the anticipated useful economic life of the asset developed 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:

	2016 £m	2015 £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 was tested for impairment at 31 December 2016 and 2015. The recoverable amount has been determined on a value-in-use basis on each CGU using the Board 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 16% for Gamma Business Communications Limited and by 27% for Gamma Network Solutions Limited (being based on historical growth rates); (b) gross margin percentage is assumed to be held constant (based on historical data); and (c) overheads are assumed to grow by 6% for Gamma Business Communications Limited and 19% for Gamma Network Solutions Limited. These cash flows are then discounted at 12% – both CGUs form the direct business 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 year (giving a recoverable amount of £44.5m in respect of Gamma Business Communications Limited and £20.4m 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	Ownership by the Company	Notes
Gamma Telecom Holdings Limited	United Kingdom	Intermediate holding company	Direct ownership	(a)
Gamma Telecom Limited	United Kingdom	Telephony services	Indirect ownership	(a)
Gamma Metronet Limited	United Kingdom	Dormant	Indirect ownership	(a)
Gamma Business Communications Limited	United Kingdom	Retail telephony services	Indirect ownership	(a)
Gamma Network Solutions Limited	United Kingdom	Data and communications networks	Indirect ownership	(a)
Peach Amber Kft	Hungary	Software services	Indirect ownership	(b)
Blue Spot Technologies Limited	United Kingdom	Dormant	Indirect ownership	(a)
Go Worldwide Communications Limited	United Kingdom	Dormant	Indirect ownership	(a)
Uniworld Bureau Services Limited	United Kingdom	Dormant	Indirect ownership	(a)

Notes:
(a) Registered Office: 5 Fleet Place, London, EC4M 7RD, England.
(b) Registered Office: 1054 Budapest, Széchenyi Rakpart 8, Hungary.

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 and the Gamma Communications plc SIP Trust.

The Group held no interests in unconsolidated structured entities.

14. Inventories

	2016 £m	2015 £m
Raw materials and consumables	**3.1**	2.4
Provision	**(0.1)**	(0.1)
Total inventories	**3.0**	2.3

15. Trade and other receivables

	2016 £m	2015 £m
Trade receivables	**22.4**	19.4
Less: provision for impairment of trade receivables	**(2.0)**	(1.2)
Trade receivables – net	**20.4**	18.2
Accrued income	**10.0**	8.1
Prepayments	**8.1**	5.0
Other receivables	**1.4**	3.9
Total trade and other receivables	**39.9**	35.2

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 2016 and 2015 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:

	2016 £m	2015 £m
Up to 3 months	**1.7**	1.1
3 to 6 months	**0.6**	0.1
6 to 12 months	**–**	–
Older than 1 year	**–**	0.1
	2.3	1.3

Notes forming part of the financial statements
For the year ended 31 December 2016 continued

15. Trade and other receivables continued
As at 31 December 2016 trade receivables of £1.7m (2015: £0.9m) were past due and impaired. The amount of the provision as at 31 December was £2.0m (2015: £1.2m). The main factors considered by the finance function in determining that the amounts due are impaired are that the customers are unlikely to be trading or the debts are three months and more past due. The ageing of these receivables is as follows:

	2016 £m	2015 £m
Not due	0.3	0.3
Up to 3 months	1.0	0.6
3 to 6 months	0.4	0.1
6 to 12 months	0.1	0.1
Older than 1 year	0.2	0.1
	2.0	1.2

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:

	2016 £m	2015 £m
At beginning of the year	1.2	1.2
Provided during the year	1.0	0.5
Receivable written off during the year as uncollectible	(0.2)	(0.5)
	2.0	1.2

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 equivalent

	2016 £m	2015 £m
Cash at bank	28.2	24.8

17. Trade and other payables

	2016 £m	2015 £m
Current		
Trade payables	8.3	4.4
Other payables	1.3	0.8
Accruals	19.8	18.7
Tax and social security	1.2	1.9
Deferred income	1.9	1.5
Total trade and other payables	32.5	27.3

Book values approximate to fair value at 31 December 2016 and 31 December 2015.

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

	2016 £m	2015 £m
Cash and cash equivalents	28.2	24.8
Trade receivables – net	20.4	18.2
Accrued income	10.0	8.1
Other receivables	1.4	3.9
Total financial assets	60.0	55.0

Financial liabilities – amortised cost

	2016 £m	2015 £m
Trade payables	8.3	4.4
Other payables	1.3	0.8
Accruals	19.8	18.7
Total financial liabilities	29.4	23.9

General objectives, policies and processes
The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's Management Committee. The Board receives monthly reports from the Management Committee through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Notes forming part of the financial statements
For the year ended 31 December 2016 continued

18. Financial instruments – risk management continued

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 below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts.

The Credit Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings where available. Purchase limits are established for each customer, which represent the maximum open amount without requiring further approval from the Credit Committee.

The Credit Committee determines concentrations of credit risk by monitoring the creditworthiness rating of existing customers and through regular reviews of the trade receivables' ageing analysis.

The Group does not enter into derivatives to manage credit risk.

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 15.

Financial assets – maximum exposure

	2016 £m	2015 £m
Cash and cash equivalents	28.2	24.8
Trade receivables – net	20.4	18.2
Accrued income	10.0	8.1
Other receivables	1.4	3.9
Total financial assets	60.0	55.0

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 seeks to mitigate this risk by only holding deposits with banks with a credit rating of A or above, unless Board approval is obtained.

Market risk

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

During the year, the Group entered into two forward foreign exchange contracts to mitigate against the foreign exchange risk on foreign contracts. These are in USD and relate to one supplier. There were no open foreign exchange contracts at year end.

As of 31 December 2015 and 31 December 2016 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 years £m	Between 2 and 5 years £m	Over 5 years £m
2016					
Total financial liabilities	28.3	1.1	–	–	–

	Up to 3 months £m	Between 3 and 12 months £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
2015					
Total financial liabilities	23.9	–	–	–	–

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

- Trade and other 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.

	2016 £m	2015 £m
Total equity	80.2	66.7
Cash and cash equivalents	28.2	24.8
Capital	108.4	91.5
Total equity	80.2	66.7
Overall financing	80.2	66.7
Capital-to-overall-financing ratio	1.35	1.37

Notes forming part of the financial statements
For the year ended 31 December 2016 continued

19. Provisions

	2016 £m	2015 £m
Leasehold dilapidation provision	1.3	1.3
Onerous lease provision	0.6	0.1
Total provisions	1.9	1.4
Of which:		
Due within one year or less	0.1	0.1
Due after more than one year	1.8	1.3

	Leasehold dilapidation provision £m	Onerous lease provision £m	Total £m
At 1 January 2016	1.3	0.1	1.4
Additional provision in the year	0.1	0.5	0.6
Utilisation of provision	(0.1)	–	(0.1)
At 31 December 2016	**1.3**	**0.6**	**1.9**

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.

The onerous lease provision relates to lease payments on property which became onerous during the year. The amount provided is based on the future rental obligations together with other fixed outgoings and the possibility of either sub-letting or buying-out from the lease commitment. Significant assumptions are used in making these calculations and changes in assumptions and future events could cause the value of these provisions to change.

20. Deferred tax
Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2015: 18%).

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

	2016 £m	2015 £m
Asset at 1 January	1.6	2.1
Tax credit recognised in profit and loss	0.1	0.2
Recognised directly in equity	(0.1)	(0.7)
Asset at 31 December	1.6	1.6

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

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
2016					
Difference in capital allowances and depreciation/amortisation	0.1	(0.2)	(0.1)	0.1	–
Other temporary and deductible differences	0.1	–	0.1	–	–
Deferred tax on share options	1.6	–	1.6	(0.1)	(0.1)
Business combinations	–	–	–	0.1	–
Deferred tax asset/(liability)	1.8	(0.2)	1.6	0.1	(0.1)

	Asset £m	Liability £m	Net £m	(Charged)/ Credited to profit or loss £m	Credited to equity £m
2015					
Difference in capital allowances and depreciation/amortisation	0.1	(0.3)	(0.2)	(0.1)	–
Other temporary and deductible differences	0.1	–	0.1	–	–
Deferred tax on share options	1.8	–	1.8	0.2	(0.7)
Business combinations	–	(0.1)	(0.1)	0.1	–
Deferred tax asset/(liability)	2.0	(0.4)	1.6	0.2	(0.7)

21. Share capital
At 31 December the share capital was as follows:

	2016 Number	2016 £m	2015 Number	2015 £m
Allotted and fully paid				
Ordinary Shares of £0.0025 each	91,751,499	0.2	90,250,607	0.2
		0.2		0.2

Ordinary Share movement in the year is as follows:

	Number	Notes
1 January 2016	90,250,607	
16 March 2016	32,500	(a)
31 March 2016	1,022,536	(a)
18 April 2016	50,000	(a)
30 June 2016	207,856	(a)
22 September 2016	188,000	(a)
31 December 2016	**91,751,499**	

(a) Ordinary Shares were issued to satisfy options which had been exercised.

In the prior year, the share capital movements were as follows:

	Number	Notes
1 January 2015	88,529,127	
23 March 2015	1,099,111	(a)
21 May 2015	12,000	(a)
9 September 2015	221,561	(a)
2 December 2015	388,808	(a)
31 December 2015	90,250,607	

(a) Ordinary Shares were issued to satisfy options which had been exercised.

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

Reserve	Description and purpose
Share premium reserve	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Represents the share capital and share related movements of the previous holding company Gamma Telecom Holdings Limited following the common control transaction. These financial statements incorporate the results of business combinations using the acquisition method with the exception of the common control transaction on the forming of the Group. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.
Share option reserve	Represents credit to equity relating to share based payment expense on share options.
Own shares	Purchase of own shares under a SIP scheme
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

Notes forming part of the financial statements

For the year ended 31 December 2016 continued

23. Leases

The Group had future minimum lease payments as set out below:

	Land and buildings £m	Other £m
2016		
In one year or less	1.6	0.1
Between one and five years	4.6	0.1
In five years or more	2.3	–
	8.5	0.2

	Land and buildings £m	Other £m
2015		
In one year or less	1.0	0.1
Between one and five years	3.3	0.1
In five years or more	1.7	–
	6.0	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:

	2016 £m	2015 £m
Defined contribution pension scheme	1.8	1.6

25. Share based payment expense

Share options granted

On 15 April 2016 the Board approved an issue of options under the Company Share Option Plan which granted 65,382 options over £0.0025 Ordinary Shares at an exercise price of £4.3575. These will vest in April 2019.

On 17 May 2016 the Board approved an award under the Long Term Incentive Plan for the senior management team. 352,769 options were granted over £0.0025 Ordinary Shares at an exercise price of £0.0025 per share which will vest on 1 April 2019 subject to performance conditions. The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2016.

The awards issued under the Long Term Incentive Plan will vest as follows:

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

On 19 May 2016 the Board approved an issue of options under a Save As You Earn scheme which granted 641,053 options over £0.0025 Ordinary Shares at an exercise price of £3.444. These options will vest in July 2019.

Share options modified

On 31 October 2015 the following modifications were made to existing share options:

2015 Date of original grant	No. of options modified	Original vesting date	Modified vesting date	Exercise price
6 October 2014	157,971	1 February 2016	1 June 2016	£0.2500
6 October 2014	49,885	1 February 2017	1 June 2016	£0.2500

There is not considered to be a material impact on the fair value of the options. The options concerned had no performance conditions attached to them.

Share options movements

Movements in the number of options during the year were as follows:

The options below were exercised at a weighted average exercise price of £4.21.

2016 Date of grant	Start of year	Granted	Forfeited	Modified	Exercised	End of year	Exercise price	Class of share	Notes
6 June 2014	259,168	–	–	–	(199,168)	60,000	£0.2500	Ordinary	(a)
2 September 2014	1,155,912	–	–	–	–	1,155,912	£0.0025	Ordinary	(b) (j)
6 October 2014	219,497	–	–	–	(219,497)	–	£0.0025	Ordinary	(a)
6 October 2014	329,244	–	–	–	(329,244)	–	£0.0025	Ordinary	(a)
6 October 2014	545,413	–	–	–	(545,129)	284	£0.0025	Ordinary	(a)
6 October 2014	272,707	–	–	–	–	272,707	£0.0025	Ordinary	(c)
6 October 2014	67,892	–	–	–	–	67,892	£0.0025	Ordinary	(b) (j)
8 May 2015	370,349	–	–	–	–	370,349	£2.7000	Ordinary	(d)
8 June 2015	455,218	–	–	–	–	455,218	£0.0025	Ordinary	(e) (j)
31 October 2015	207,856	–	–	–	(207,856)	–	£0.0025	Ordinary	(f)
15 April 2016	–	65,382	–	–	–	65,382	£4.3575	Ordinary	(g)
17 May 2016	–	352,769	–	–	–	352,769	£0.0025	Ordinary	(h) (j)
19 May 2016	–	641,053	–	–	–	641,053	£3.4440	Ordinary	(i)

Notes:
(a) Options have vested and are exercisable.
(b) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 April 2014.
(c) Awards vest on 1 February 2017; there are no vesting conditions.
(d) The awards granted will have a performance period of three years starting from the grant date, being 8 May 2015.
(e) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2015.
(f) On 31 October 2015 49,885 options with a vesting date of 1 February 2017 and 157,971 with a vesting date of 1 February 2016 were modified to have a new vesting date of 1 June 2016.
(g) The awards granted will have a performance period of three years starting from the grant date, being 15 April 2016.
(h) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2016.
(i) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 July 2016.
(j) The awards will vest as follows:
i. 15% of the shares are subject to an award if annual compound total shareholder return over the performance period equals 8% and 50% of the shares are subject to an award if the annual compound total shareholder return over the period exceeds or equals 15% with pro rata straight line vesting in between; and
ii. 15% of the shares are subject to an award if annual compound growth of the Company's adjusted earnings per share over the performance period equals 8% between the financial years at the beginning and the end of the performance period and 50% of the shares are subject to an award if the annual compound growth of the Company's adjusted earnings per share exceeds or equals 20% with pro rata in between.

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

Notes forming part of the financial statements

For the year ended 31 December 2016 continued

25. Share based payment expense continued

Movements in the number of options during the previous year were as follows:

The options below were exercised at a weighted average share price of £3.15.

2015 Date of grant	Start of year	Granted	Forfeited	Modified	Exercised	End of year	Exercise price	Class of share	Notes
6 June 2014	716,668	–	–	–	(457,500)	259,168	£0.2500	Ordinary	(a)
6 June 2014	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	181,078	–	–	–	(181,078)	–	£0.0025	Ordinary	(a)
2 September 2014	1,399,352	–	(243,440)	–	–	1,155,912	£0.0025	Ordinary	(b) (i)
6 October 2014	922,880	–	–	–	(703,383)	219,497	£0.0025	Ordinary	(a)
6 October 2014	329,244	–	–	–	–	329,244	£0.0025	Ordinary	(a)
6 October 2014	703,384	–	–	(157,971)	–	545,413	£0.0025	Ordinary	(c)
6 October 2014	372,477	–	(49,885)	(49,885)	–	272,707	£0.0025	Ordinary	(d)
6 October 2014	123,200	–	–	–	(123,200)	–	£1.8700	Ordinary	(e)
6 October 2014	67,892	–	–	–	–	67,892	£0.0025	Ordinary	(b) (i)
8 May 2015	–	370,349	–	–	–	370,349	£2.7000	Ordinary	(f)
8 June 2015	–	530,999	(75,781)	–	–	455,218	£0.0025	Ordinary	(g) (i)
31 October 2015	–	–	–	207,856	–	207,856	£0.0025	Ordinary	(h)

Notes:
(a) Options have vested and are exercisable.
(b) The awards granted will have a performance period of three years starting from the vesting commencement date, being 1 April 2014.
(c) Awards vest on 1 February 2016; there are no vesting conditions.
(d) Awards vest on 1 February 2017; there are no vesting conditions.
(e) 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
(f) The awards granted will have a performance period of three years starting from the grant date, being 8 May 2015.
(g) The awards granted will have a performance period of three years starting from the vesting commencement date, being 31 March 2015.
(h) On 31 October 2015 49,885 options with a vesting date of 1 February 2017 and 157,971 with a vesting date of 1 February 2016 were modified to have a new vesting date of 1 June 2016.
(i) The awards will vest as follows:
i. 15% of the shares are subject to an award if annual compound total shareholder return over the performance period equals 8% and 50% of the shares are subject to an award if the annual compound total shareholder return over the period exceeds or equals 15% with pro rata straight line vesting in between; and
ii. 15% of the shares are subject to an award if annual compound growth of the Company's adjusted earnings per share over the performance period equals 8% between the financial years at the beginning and the end of the performance period and 50% of the shares are subject to an award if the annual compound growth of the Company's adjusted earnings per share exceeds or equals 20% with pro rata in between.

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

The share options outstanding at 31 December 2016 represented 4% of the issued share capital as at that date (2015: 4%) and would generate additional funds of £3.5m (2015: £1.1m) if fully exercised. The weighted average remaining life of the share options was 15 months (2015: 16 months), with a weighted average remaining exercise price of £1.03 (2015: £0.33).

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:

	2016 £m	2015 £m
Share options issued to key management	2.0	3.5
Share options issued to other employees	0.9	0.5
Modified share options in respect of key management	–	0.1
Total share based payment expense	**2.9**	4.1

Fair value is measured using the Black-Scholes model and the Monte Carlo model (where market performance conditions are imposed). The information set out in the table below is used in the calculations. The expected life used in the model assumes that vesting conditions will be met and all options will be exercised at the earliest opportunity.

	2016	2015
Share price at grant date (pence)	436 – 450	267 – 284
Exercise price (pence)	0.25 – 436	0.25 – 270
Expected volatility	27%	30%
Risk free rate	0.54 – 0.58%	0.97 – 1.405%
Expected dividend yield	2.2%	2.2%

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 2015 and 2016.

26. Capital commitments

As at 31 December 2016, amounts contracted for but not provided in the financial statements amounted to £1.7m for the Group (2015: £nil). This amount is for the purchase of property, plant and equipment.

27. Related party transactions

Details of key management's remuneration are given in note 7. As at 31 December 2016 an amount of £nil (2015: £3.0m) was owed to the Group by key management personnel.

	1 January 2015 £000	Loan made £000	Repaid £000	1 January 2016 £000	Repaid £000	31 December 2016 £000
Bob Falconer	2,591	–	–	2,591	(2,591)	–
Andrew Belshaw	50	–	(50)	–	–	–
Richard Bligh	325	–	(325)	–	–	–
Other key management	112	448	(112)	448	(448)	–
	3,078	448	(487)	3,039	(3,039)	–

Dividends of £0.4m (2015: £0.6m) were paid to Directors during the year and no dividends were payable to Directors at the year end.

There were no other transactions with related parties during the year.

28. Ultimate controlling party

There is no ultimate controlling party.

Company balance sheet
As at 31 December 2016

	Note	2016 £m	2015 £m
Fixed assets			
Investments	2	3.8	3.8
		3.8	3.8
Current assets			
Debtors	3	31.0	20.3
Cash at bank and in hand		6.0	7.6
		37.0	27.9
Creditors: amounts falling due within one year	4	(4.8)	–
Net current assets		32.2	27.9
Total assets less current liabilities		36.0	31.7
Capital and reserves			
Called-up equity share capital	5	0.2	0.2
Share premium account		3.7	3.7
Share option reserve		3.6	3.6
Profit and loss account		28.5	24.2
Shareholders' funds		36.0	31.7

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 profit in respect of the Company for the year was £10.6m (2015: £14.8m).

The financial statements of Gamma Communications plc (registered number 08943488) on pages 90 to 91 were approved and authorised for issue by the Board of Directors on 20 March 2017 and were signed on its behalf by:

Andrew Belshaw
Chief Financial Officer

The notes on pages 92 to 93 form part of these financial statements.

Company statement of changes in equity
For the year ended 31 December 2016

	Share capital £m	Share premium reserve £m	Share option reserve £m	Profit and loss account £m	Total equity £m
1 January 2015	0.2	3.2	2.1	14.9	20.4
Dividends paid	–	–	–	(5.5)	(5.5)
Share based payments	–	–	3.1	–	3.1
Exercise of share options	–	0.5	(1.6)	–	(1.1)
Transaction with owners	–	0.5	1.5	(5.5)	(3.5)
Total comprehensive income	–	–	–	14.8	14.8
31 December 2015	0.2	3.7	3.6	24.2	31.7
1 January 2016	0.2	3.7	3.6	24.2	31.7
Dividends paid	–	–	–	(6.3)	(6.3)
Share based payments	–	–	2.2	–	2.2
Exercise of share options	–	–	(2.2)	–	(2.2)
Transaction with owners	–	–	–	(6.3)	(6.3)
Total comprehensive income	–	–	–	10.6	10.6
31 December 2016	**0.2**	**3.7**	**3.6**	**28.5**	**36.0**

Notes forming part of the Company financial statements
For the year ended 31 December 2016

1. Accounting policies

Basis of preparation
The financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements and Financial Reporting Standard 101 Reduced Disclosure Framework.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain properties and financial instruments. The presentation currency used is sterling and amounts have been presented in round millions ("£m").

The financial statements are prepared on the going concern basis. In assessing whether the going concern assumption is appropriate, the Directors have taken into account all relevant available information about the future trading including profit and cash forecasts and available facilities and funding. It is therefore considered appropriate to adopt the going concern basis of accounting in the preparation of the annual financial statements.

As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the Group financial statements by the virtue of section 408 of the Companies Act 2006. The profit in respect of the Company for the year was £10.6m (2015: £14.8m).

Disclosure exemptions adopted
In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

(a) certain disclosures regarding the Company's capital;

(b) a statement of cash flows;

(c) the effect of future accounting standards not yet adopted;

(d) the disclosure of the remuneration of key management personnel;

(e) disclosure of related party transactions with other wholly owned members of the Group headed by Gamma Communications plc; and

(f) disclosures in respect of financial instruments.

Investments
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.

Notes forming part of the Company financial statements
For the year ended 31 December 2016 continued

2. Investments

	2016 £m	2015 £m
At 1 January 2016	3.8	2.3
Additions	–	1.5
At 31 December 2016	3.8	3.8

At 31 December 2016 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%	(c)
Gamma Telecom Limited	Telephony services	100%	(a) (c)
Gamma Business Communications Limited	Retail telephony services	100%	(a) (c)
Gamma Network Solutions Limited	Data and communications networks	100%	(b) (c)
Peach Amber Kft	Software services	100%	(a) (d)
Gamma Metronet Limited	Dormant	100%	(a) (c)
Uniworld Bureau Services Limited	Dormant	100%	(b) (c)
Go Worldwide Solutions Limited	Dormant	100%	(b) (c)
Blue Spot Technologies Limited	Dormant	100%	(b) (c)

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.
(c) Registered Office: 5 Fleet Place, London, EC4M 7RD, England.
(d) Registered Office: 1054 Budapest, Széchenyi Rakpart 8, Hungary.

Gamma Telecom Limited is also a member of NP4UK Limited which is a dormant company (limited by guarantee) incorporated in the United Kingdom.

3. Debtors

	2016 £m	2015 £m
Amounts owed from Group undertakings	30.9	20.2
Other debtors	0.1	0.1
	31.0	20.3

4. Creditors

	2016 £m	2015 £m
Amounts due from Group undertakings	4.6	–
Other creditors	0.2	–
	4.8	–

5. Share capital
Details of the share capital and movement during the year are given in note 21 to the consolidated financial statements.

6. Dividends paid
Details of the dividends paid during the year are given in note 10 to the consolidated financial statements.

7. Contingent liabilities
The Company had no contingent liabilities at 31 December 2015 or 31 December 2016.

8. Capital commitments
The Company had no capital commitments at 31 December 2015 or 31 December 2016.

9. Related party transactions
The Company has taken advantage of the exemption available within FRS 101 Reduced Disclosure Framework to not to disclose transactions with other members of the Group headed by the Company. See note 27 for details of the disclosed related party transactions.

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Registrar
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