22 March 2018

Gamma Communications plc
Audited Results for year ended 31 December 2017

Continued momentum from existing portfolio with launch of new products positioning Gamma for the future

Gamma Communications plc ("Gamma" or "the Group"), a leading, technology based provider of communications services to the UK business market, is pleased to announce its audited results for the year ended 31 December 2017.

	Years ended 31 December		
	2017	**2016**	**Change (%)**
Revenue	£238.4m	£213.5m	*+12%*
Gross profit	£113.0m	£98.8m	*+14%*
Gross margin	*47.4%*	*46.3%*	
EBITDA	£39.6m	£31.3m	*+27%*
Adjusted EBITDA	£41.6m	£34.2m	*+22%*
PBT	£26.4m	£21.6m	*+22%*
Adjusted PBT	£28.4m	£24.5m	*+16%*
EPS (Fully Diluted, "FD")	23.9p	18.8p	*+27%*
Adjusted EPS (FD)	24.6p	21.1p	*+17%*
Total dividend per share	8.4p	7.5p	*+12%*
Cash generated by operations	£38.8m	£31.3m	*+24%*
Cash generated by operations / Adj EBITDA	*93.3%*	*91.5%*	

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

- Continued strong growth in all non-traditional products –
    - The number of installed SIP Trunks increased from 511,000 at 31 December 2016 to 680,000 at 31 December 2017 (a gain of +33%)
    - The number of Cloud PBX users increased from 230,000 to 331,000 (+44%)
    - Volumes of access products are increasing as a result of past investment. Broadband has increased from 54,000 units to 76,000 (+41%) and Ethernet from 3,500 to 5,300(+51%); and
    - Mobile proposition has taken longer to become established in the Channel than we had hoped but volumes now growing as the proposition has developed.
- Gamma successfully launched its initial fixed/mobile converged offering in December 2017.
- Strong growth in the indirect business
    - Gross profit from indirect business increased from £78.2m to £86.6m (+11%)
    - The number of Channel Partners grew from 970 to 1089 (+12%)
- Significant wins in the direct business drive growth
    - Gross profit up from £20.6m to £26.5m (+29%)
    - The direct business made further progress with significant new contract awards including Rush Hair and Beauty, Stackhouse Poland, the insurance broker, and Thrifty UK (the latter has adopted Gamma's cloud compute platform).
    - Our Public Sector base continues to grow with key wins from Merseyside Police and Norfolk and Suffolk NHS Foundation Trust.
- The new high capacity national optical network project is on schedule and on budget. This will enable Gamma to deliver services at up to 10Gbit/s in the second half of 2018.

Bob Falconer, Chief Executive Officer, commented

"The business performed well throughout 2017, with solid growth across the product range and in both indirect and direct routes to market. Our Cloud PBX product – Horizon - now has an excellent position and reputation in the market and continues to displace traditional on-premises equipment, whilst Gamma remains synonymous with SIP Trunking, where we have continued to outpace the market growth. Data volumes have accelerated both in our fixed and mobile capabilities and this will continue to be fuelled by the general shift to Cloud based services, the expansion of fibre reach in the UK and the necessity to work from anywhere. We are seeing good returns on our selective investments in this area. Direct wins in enterprise and public sector include Leicester City Council, itsu, The Financial Ombudsman, and MacMillan Cancer Support. Our investments in development have brought many useful product enhancements and I was particularly pleased to be able to launch our initial converged fixed/mobile voice service which brings real and novel benefits to a business user.

"Having recently announced my planned retirement at the AGM on the 23rd May, these are my last set of results as Chief Executive of Gamma. The business is in excellent shape, has a clear differentiated strategy, with many exciting opportunities ahead of it; a momentum my successor Andrew Taylor and the board are keen to maintain. I would like to thank everyone at Gamma, our many partners, customers, shareholders and Board, I have enjoyed working with you all. I look forward to welcoming Andrew Taylor to Gamma as CEO Designate in April and wish him all the best for the future."

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Notes to Editors

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

Gamma also provides business-grade mobile and data services and, as a consequence of its history, has a substantial voice service capability. These services enable Gamma to provide a comprehensive range of communications services.

Gamma has enjoyed strong organic revenue and EBITDA growth driven by a high percentage of revenues which repeat monthly. The business had 901 employees at 31 December 2017. It operates across six main locations – headquartered in Newbury - with offices in London, Manchester, Glasgow, Portsmouth and Budapest.

A full set of the audited statutory accounts are available at www.gamma.co.uk/investors/financial-results-and-shareholder-communications

Chairman's statement

Introduction

I am very pleased to present the audited results of Gamma Communications plc for the year ended 31 December 2017.

Gamma is extremely 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

Group turnover for the year ended 31 December 2017 increased by £24.9m to £238.4m (2016: £213.5m), an increase of 11.7% on the prior year. Of this increase £12.4m came from the indirect channel's business where turnover increased to £181.4m (2016: £169.0m), while £12.5m came from the direct business which saw turnover increase to £57.0m (2016: £44.5m). Gross profit for the year to 31 December 2017 rose to £113.0m an increase of 14.4% compared to the £98.8m achieved in 2016, whilst the gross margin increased to 47.4% (2016: 46.3%). Adjusted EBITDA for the Group increased by 21.6% to £41.6m (2016: £34.2m). EBITDA for the group increased by 26.5% to £39.6m (2016: £31.3m).

Adjusted EPS (FD) for the year ended 31 December 2017 increased by 16.6% to 24.6p (2016: 21.1p). EPS (FD) for the year ended 31 December 2017 increased by 27.1% to 23.9p (2016: 18.8p).

Cash generated from operations for the year was £38.8m compared to £31.3m in 2016. This represents a cash generated from operations to adjusted EBITDA conversion ratio in respect of 2017 of 93%, compared to 92% for 2016. Net cash and cash equivalents as at 31 December 2017 amounted to £31.6m compared to £28.2m as at 31 December 2016.

Dividend

The Board is pleased to propose a final dividend, in respect of the year ended 31 December 2017, of 5.6p per share (2016: 5.0p) which, subject to the necessary shareholder approval at the forthcoming AGM, will be payable on Thursday 21 June 2018 to shareholders on the register on Friday 1 June 2018. When added to the 2.8p interim dividend (2016: 2.5p) this makes a total dividend declared of 8.4p for the year as a whole (2016: 7.5p).

Business review

2017 has been an excellent year of progress for Gamma on many fronts. The business continues to have considerable momentum in the market, coupled with a strong reputation for service quality and innovation.

In the channel – Gamma's primary route to market - the business has enjoyed solid growth; increasing the number of active channel partners to close to 1,100. Over the last two years increased emphasis has also been placed on actively supporting existing partners to take a higher overall share of the market by providing strong support, differentiated products and in helping our partners to broaden their portfolio. This has proved to be most successful.

The direct business is now well established with significant growth coming, as intended, from larger enterprises and the public sector. New contracts have been agreed with organisations such as Savills plc, for whom we have provided a UK and European network, and in the public sector we have had success with a number of councils and NHS Trusts, including City and County of Swansea and the full SIP estate of Manchester University NHS Foundation Trust.

The Gamma network, which underpins our capability, has undergone significant investment and we are pleased to see the benefits of this now coming through, giving the business a simpler and more flexible capability, and positioning it well for future growth through new product development.

Gamma's strategic products of SIP and Cloud PBX continue to be the main drivers of growth; the market for both of these products remains healthy and we continue to invest significantly in their development. I was also encouraged by the increased volume of sales of our data products as the capital investments to reduce the costs of sale came to fruition. Although more commoditised and lower margin, these products are an important part of the overall bundle of products – as is mobile. Early in 2017 we completed the transfer of customers on to our 'Full' MVNO service. Our data volumes on the new service grew in the second half of the year, albeit from a low base. In November we launched, to a select number of partners, the first release of our converged fixed/mobile service 'Connect'. This has been a significant development for Gamma, removing the distinction between the fixed and mobile phone and making new services – such as single voicemail and MIFID II compliant call recording available across fixed and mobile devices.

The Group's strategy, which is regularly reviewed by the board, remains focused on having a strong, relevant and differentiated product portfolio, with a healthy new product pipeline and a high quality service offering.

Risk committee

In recognition of the importance of the Group's services to the business market and the changing nature of threats, the board has established a Risk committee under the chairmanship of Martin Lea, Independent Non-Executive Director.

The Group remains particularly vigilant to cyber security threats and regularly reviews the health of our security governance, to ensure appropriate resourcing 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. We continue to invest in skills and technology to ensure we keep pace with the increasing quantity and complexity of cyber-crime and the constantly evolving best practice in this area.

Board and employees

Post period end, on March 16, Bob Falconer, Chief Executive Officer, announced his decision to retire at the conclusion of this year's AGM on 23 May. He has served Gamma with distinction during his time with the business and leaves the Group in a very good position to continue the strong growth it has delivered under his stewardship. We wish him a happy retirement.

At the same time, the Group reported that it had appointed Andrew Taylor as CEO Designate, Andrew will join the Board on 4 April and take over the role of Chief Executive Officer following the conclusion of the AGM on 23 May. We look forward to welcoming him to the business.

Richard Bligh, Director of Business Development, stepped down from the Board on 30 June 2017 following a decision to retire from executive roles. I am pleased to say that we continue to benefit from Richard's significant industry experience on a part-time consultancy basis.

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 successful in both maintaining a clear culture and a high level of staff loyalty. The 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.

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 development are fundamental principles of Gamma and lead to a stronger and more successful business.

Outlook

Gamma has made a significant investment in new product development and is in great shape for 2018 and the foreseeable future. The infrastructure is in place, the products are strong and the routes to market established.

Richard Last
Chairman

Chief Executive Review

Introduction

In part, 2017 was a continuation of 2016. The business concentrated on what it does well and, as a consequence, made excellent progress across sales, product growth, service quality and network modernisation.

Meanwhile our development teams successfully made many important incremental enhancements to our existing products, whilst also bringing new products to market, particularly Connect – our initial fixed/mobile converged service.

We were pleased with the growth in both our direct and indirect routes to market (29% and 11% gross profit growth respectively). The indirect channel remains our primary focus (76% of revenue) and provides an unrivalled route to the small and medium business market. Our direct sales teams concentrate on the larger enterprise and public sector markets which generally demand a more tailored solution and acceptance onto framework agreements.

Where the customer's requirements are more complex, and might involve, for example outsourcing or other broader customer specific services that we don't supply, then we would work closely with the larger Systems Integrators (SI) and Business Process Outsourcing (BPO) organisations.

Indirect business

Throughout 2017, the number of channel partners actively trading with Gamma expanded from 970 to 1,089 whilst revenues grew by £12.4m to £181.4m in 2017 (2016: £169.0m). The channel now represents 76% of our total revenues.

Although we continued to grow the number of channel partners trading actively with us, in 2017 we have placed more emphasis on working closely with existing partners to help them succeed and take a greater overall share of the business market, from which both parties directly benefit.

As part of this initiative, our digital marketing programme 'Accelerate' has put the latest marketing tools in the hands of even our smallest partners, enabling them to generate highly focussed marketing campaigns; in 2017 over 600 channel partners have taken advantage of this capability.

In a similar vein, the Gamma Academy provides an on-line training suite, enabling partners to become accredited with an impressive level of product knowledge. In 2017 over 15,200 courses were undertaken by individuals working for our channel partners, helping them to deliver a quality service to their end customers.

Product differentiation, however, remains the most valued asset and directly helped some of our channel partners move further into the mid-market. For example, the fast growing Focus Group has been highly successful in the property sector (e.g. The Kings Group), and winning the business of companies such as Fleet Alliance, as well growing its position in the Care sector. Additionally our partner G3 sold SIP to Hello Magazine.

In data, the improved competitiveness of our products helped partner TSI win an order for 243 Ethernet circuits to a nationwide retail chain, and a 100 site national MPLS solution is currently being rolled out to the National Autistic Society with Integrated Business Telecommunications.

Overall, SIP Trunking and Horizon (Cloud PBX) have continued to be the prime contributor to growth in the channel, and the approach of providing all services – line, data, handsets, and calls as a bundle - continues to resonate.

Direct business

Our direct business again grew strongly in 2017, with revenues rising to £57.0m (2016: £44.5m) and gross profit rising to £26.5m (2016: £20.6m). This growth can be attributed to the delivery and billing of contracts won in late 2016, and contracts won and delivered efficiently in 2017. The growth was concentrated in the Enterprise and Public Sectors where our brand is growing and Gamma's Managed Communications Services are making significant inroads into these markets.

Some £54.5m of new contract awards were won during 2017, many of which will commence in 2018. In the public sector we saw success with the Financial Ombudsman Service, Intellectual Property Office, Leicester City Council and the City and County of Swansea who all migrated from legacy solutions to SIP. In healthcare we had further success with many NHS trusts, including Manchester University NHS Foundation Trust who have consolidated their entire estate onto Gamma SIP trunking. To strengthen our position in this sector, we are in the process of being accredited for the Health and Social Care Network; if successful this will allow Gamma and its partners to compete for the replacement to the current N3 network. This accreditation process is expected to conclude mid-2018.

Customer Service continues to be at the core of our direct business and I am pleased to report that our Net Promoter Score ("NPS") was 40 which is well above our industry average. This is one of the key reasons we secured £15.3m of customer contract renewals and extensions in 2017.

Fibre and 'The Loop' in Manchester

We are pleased to see initiatives from several companies to increase the rate of installation of 'fibre to the premises' ("FTTP"), and to see Ofcom's desire to ensure more of the duct and fibre resources held by BT can be used by other telecoms providers to increase the availability of high speed connectivity across the UK. Both of these initiatives will help to facilitate Gamma's service offering to business end-users nationally.

The trend towards FTTP will also encourage more intensive use of our own unique fibre network - branded 'The Loop' – in Manchester. This is a discrete part of Gamma's business and is a 161km, wholly owned, fibre network across the authorities of Manchester, Salford and Trafford which now connects all of Manchester's key datacentres and media-hubs (including Media City), as well as providing high capacity internet to a growing number of leading businesses in the area.

Located in close proximity to a number of key public and private sector buildings, The Loop is playing a leading role in supporting Greater Manchester's Mayor Andy Burnham's Digital Strategy. It is also a key component in an initiative with Tameside Metropolitan Borough Council to take fibre into TfGM (Transport for Greater Manchester) tram ducts, a pilot that utilises existing infrastructure to improve integration between the ten authorities of Greater Manchester.

The Loop provides services to 42 customers including The NHS, The BBC, Manchester Metropolitan University and Equinix, and it has recently been announced as strategic Fibre Partner to Manchester City Council.

Products

Unusually, Gamma devotes circa 20% of its staff resources to developing and enhancing its products. This significant, but finite, resource uses software and technology and focusses on taking products developed by others for a global market by tailoring and integrating them so they are highly accessible and relevant to the UK business market.

SIP Trunking

Although we anticipated a slowdown in the rate of conversion from ISDN to SIP in 2017 this has not been evident, and our SIP Trunking volumes have grown steadily over the year from 511,000 channels at the end of 2016 to 680,000 channels (+ 33%). Our SIP Trunk Call Manager enhancement, which provides added features such as business continuity and call reporting, has proved successful in adding value and differentiation to the product.

Gamma remains the UK market leader in SIP Trunking, and continues to outpace the general UK market growth (Cavell Report June 2017).

Although this is a displacement market, the Ofcom Market report 2017, indicated that at the end of 2016 there were still approximately 2.5m ISDN channels in operation, indicating that today there remains just shy of 2 million lines still to convert to a SIP Trunking or Cloud PBX solution.

Cloud PBX (Horizon)
In preparation for growth in 2016 the focus was on increasing both the scale and the underlying resilience of the Horizon platform. This has proved invaluable as during 2017, the number of Horizon 'seats' grew from 230,000 to 331,000 (+ 44%).

Over 2017 we were able to turn our attention back to product enhancements including, for example, providing greater integration with widely used CRM (Customer Relationship Management) systems in both the Healthcare and Recruitment Sectors thereby increasing the appeal of the product in these vertical markets.

Compliance is a growing driver in many sectors, but particularly so in both Finance and Retail. In response to this, and in particular to the challenges of MiFiD II and PCI compliance, we now provide enhanced call recording and credit card payment services and will add to this capability progressively during 2018.

It is worthy of note that the core underpinning platform of Horizon is provided by Broadsoft Inc. who have been recently acquired by Cisco. We believe that the added capability that Cisco can bring to the platform will increase its appeal, particularly to businesses and channel partners already strategically committed to Cisco products.

The Cloud PBX market continues to grow strongly (22% pa – Cavell June 2017) and Gamma continues to grow ahead of the market rate.

Cloud Compute / Backup
In 2017, we launched a Cloud based server and back up service, based on the Amazon Web Services platform. As anticipated, it has been been a relatively slow start as channel partners assess the product and consider the implications of adding it to their portfolio. To date over 100 partners have been accredited to sell the product, and we are now beginning to see the first set of orders being provisioned and billed.

Network and Data
Volumes on the Gamma network continued to grow strongly over the year: voice traffic grew 21%, whilst data more than doubled. This, very welcome, demand is being addressed through a programme of major network investments that will provide higher speed access and significant additional capacity.

In particular, I am pleased to report that the build out of Gamma's new core fibre backbone continues according to plan; 85% of the route has now been delivered by our partner CityFibre, and the overlay of our 100Gbit/s core router network remains scheduled for the second half of 2018. This overlay network greatly simplifies our infrastructure, deepens the interconnects into Openreach, thereby reducing our cost of sale and enabling the removal of legacy network elements and associated costs. This is in addition to the interconnects we have now built into other carriers, such as TalkTalk and Virgin Media, to further improve the reach and cost base of our underlying service.

As prices fall Ethernet becomes a more attractive high-speed alternative to broadband for many smaller businesses with growing connectivity needs. It will also give us the ability to provide selected customers with speeds up to 10Gbit/s and links on our national network of up to 100Gbit/s.

We have, therefore, seen healthy growth in the data market. We now have over 5,000 Ethernet services under management and business broadband connections grew over the year from 54,000 to 76,000 (+41%), driven largely by Fibre to the Cabinet (FTTC) services bringing higher speeds and reliability to businesses. We believe there is considerable scope for increasing our share of the growing market for higher speed and quality of services.

Mobile services
At the end of March 2017 we finally closed down our 'thin' MVNO with Vodafone and completed the transfer of the remaining customers that had agreed to transfer on to our own 'Full' MVNO. Mobile is now all about data, with voice just a part of the bundle. As the Gamma service became more established, and we developed the proposition, our data volumes grew in H2 2017 to 62.5 TB (H1 2017 35.0 TB).

As we anticipated, the services had a slower start in the channel relative to the direct business. Channel partners were either new to the Gamma mobile service and cautious, or contracted in to agreements with the main operators. We did, nevertheless, see encouraging growth in the channel in the second half of the year.

It is important to emphasise that our strategy in mobile is not to enter a mature market late in the day with a value proposition competing against much larger mobile operators with sunk costs. The objective is to leverage the inherent strengths of Gamma to create a sufficiently differentiated service for the UK business market. That is what we have been doing with the development of Connect – our first release fixed/mobile converged service.

Connect was launched to a limited number of channel partners in November 2017. The product enables users to combine their Horizon fixed line service with their Gamma mobile so it appears as a single service. Users can choose which number (fixed or mobile) to present to the called party and all the features of Horizon – including a single voicemail service – are available to the mobile. The user can make or receive calls on either device using the same services and numbers. The product will progressively be made available to all channel partners.

Operational and service performance

The business market is, quite rightly, highly intolerant of any service disruption and this is an area where the business seeks to differentiate 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, Horizon and Mobile services all exceeded their service level targets for the year. With the levels of growth and change that have been driven through the platforms this is 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, Business Continuity.

Additionally, our ‘Straightforward to do business with’ programme seeks to make it as easy as possible for our customers to interact with us. The result of this effort was backed up by a NPS of +45 in a recent customer satisfaction survey in our indirect business.

People

The average number of employees in the Gamma Group increased over the year from 732 to 845. The main areas of growth were in support of the growth in volumes, particularly the connection of new customers, sales, and the development of new products.

We have continued to focus on the recruitment of high quality graduates across the business and we have increased the opportunities available for apprentices.

Outlook

Looking forward to 2018, whilst technology marches on, our core strategy remains fundamentally unchanged. Our current product set presents us with ample growth opportunities and having a deep capability across data, IP voice and mobility, coupled with a clean, high capacity core network, gives us the opportunity to continue to innovate and disrupt in established markets. The move into IT services as a value added intermediary between the channel and large scale players such as AWS, as a route to the SMB market is logical, although it will take time to build significant volumes.

We anticipate the Direct business to continue to grow healthily, particularly in large enterprise, based on a strong reputation and product capability with an increasing contribution from the public sector, where we are still under-represented.

The business is in an excellent shape and well poised for future growth.

Bob Falconer
Chief Executive Officer

Financial review

Revenue and gross profit

Indirect business

Revenue from the indirect business grew from £169.0m to £181.4m (+7.3%) and gross profit grew from £78.2m to £86.5m – an increase of £8.3m in the year.

This growth is particularly pleasing despite the fact that we faced two notable headwinds. First, the traditional business (which includes calls and lines and trade with other carriers) is declining; in 2017 the gross profit from this part of the business declined by £4.0m to £12.5m (2016: £16.5m). Second, the growth of our new mobile product was slower than we had hoped. However, the increase from other products has more than offset those items. SIP trunking and our Cloud PBX product (Horizon) grew in line with previous years and our data products have shown increased levels of growth.

We group our data, mobile, SIP and Cloud PBX products as our “growth” products and revenue from growth product sales increased from £113.2m to £130.9m (+15.6%) and gross profit grew from £61.7m to £74.0m (+19.9%). The gross margin grew from 54.5% to 56.5%, which reflects the fact that the main contributor to this growth was SIP Trunking, which has a higher margin than other products.

Direct business

The direct business had its best ever year. Revenue increased from £44.5m in 2016 to £57.0m (+28.0%) and gross profit from £20.6m to £26.5m (+28.6%). Margin increased slightly from 46.3% to 46.5% (but the underlying trend is higher as we had some low margin equipment sales in the first half of the year).

The growth was attributable to sales of growth products and gross profit on these products grew from £16.8m to £22.8m. This business continues to move from selling to smaller customers to larger enterprise businesses and public sector customers on multi-year deals. The order book at the year end remained strong.

Adjusted operating expenses

Adjusted operating expenses grew from £64.6m (2016) to £71.4m. This was due to a number of factors:

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

The above increases were offset to some degree by our ongoing programme to reduce the running costs of our network through selective additional investment.

Alternative performance measures

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

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

2017

Measure	Statutory basis	Depreciation, amortisation and gains on disposal	Share based payment	Tax items	Adjusted basis
Operating Expenses (£m)	86.8	(13.4)	(2.0)	-	71.4
EBITDA (£m)	39.6	-	2.0	-	41.6
PBT (£m)	26.4	-	2.0	-	28.4
PAT (£m)	22.6	-	2.0	(1.4)	23.2

2016

Measure	Statutory basis	Depreciation and amortisation and gains on disposal	Share based payment	Tax items	Adjusted basis
Operating Expenses (£m)	77.4	(9.9)	(2.9)	-	64.6
EBITDA (£m)	31.3	-	2.9	-	34.2
PBT (£m)	21.6	-	2.9	-	24.5
PAT (£m)	17.7	-	2.9	(0.6)	20.0

The reconciliation of EPS to adjusted EPS is shown below (both are shown on a Fully Diluted basis):

	2017 pence	2016 pence
EPS	**23.9**	**18.8**
Share based payment expense	2.1	3.1
Tax effect associated with share based payment expense	(0.4)	(0.6)
Additional effect of dilution	-	(0.2)
Non-recurring tax credit due to the conclusion of a previously unresolved tax matter	(1.0)	-
Adjusted EPS	**24.6**	**21.1**

Adjusted EBITDA and EBITDA

The combination of increasing sales of new products and operational improvements means that adjusted EBITDA grew from £34.2m in 2016 to £41.6m or 21.6%. The statutory EBITDA performance was consistent with the adjusted measure increasing by 26.5% from £31.3m to £39.6m.

Taxation

The effective tax rate for 2017 was 14.4%. This rate is however depressed significantly by a non-recurring tax credit of £0.9m which related to a tax overpayment from 2014 and earlier years where the underlying position has only recently been resolved. Taking the credit into account, the underlying effective tax rate for the year was 17.8% (2016: 18.1%). The tax rate is lower than the statutory rate for the year of 19.25% (2016: 20.00%) because the Group benefits from research and development tax credits. Due to the on-going research that the Group does, we would expect the effective tax rate for the Group to remain slightly below the statutory rate.

Cash flows

The cash balance at the end of the year was £31.6m, up from £28.2m at the end of the previous year. The cash generated from operations for the year was £38.8m which represents 93% of adjusted EBITDA for the year (2016: 92%). Management believes that the conversion of EBITDA into pre-tax cashflow is a key metric for the business because it demonstrates that the profitability of the business is underpinned by cashflow.

Capital spend for the year was £24.7m, which is an increase from £19.6m in the comparative period. This is discussed in detail below.

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

Capital expenditure

The Group spent £24.7m (2016: £19.6m) on capital which was split as follows.

- £13.2m was on enhancement and replacement of existing assets (2016: £11.3m). Of this amount
    - £4.4m was spent on our new national network, which will replace our existing fibre ring. This will provide Gamma with a core infrastructure for the next twenty-five years (and is therefore not representative of the underlying run rate spend). (2016:nil). There is another £1.0m of spend to come in 2018 on this project.
    - £7.7m was the cost of increasing capacity and development of the core network as well as other minor items such as IT and fixtures and fittings (2016: £8.6m).
    - There was no significant spend on the build out of our data network (2016: £1.8m).
    - £1.1m was the capitalisation of development costs incurred during the year (2016: £0.9m).
- £11.5m was on customer premises equipment; this is "success based" expenditure and has increased in line with sales in our data and Cloud PBX products (2016: £8.3m). (See also note 2 on impact of implementation of IFRS 15).

Adjusted EPS (FD) and Statutory EPS (FD)

Adjusted EPS (FD) increased from 21.1p to 24.6p (16.6%). The growth in adjusted EPS (FD) is slightly behind that of adjusted EBITDA due to depreciation and amortisation in the year increasing from £9.9m in 2016 to £13.4m. This is driven by the investment programme and success based capital spend described above. The statutory EPS (FD) performance was better than the adjusted measure increasing by 27.1% from 18.8p to 23.9p; this was caused by a settlement of a historical tax liability resulting in a non-recurring tax credit.

Dividends

The Board has proposed a final dividend of 5.6p representing a full year dividend of 8.4p per share. This is an increase of 12% against our dividend for 2016 of 7.5p and is in line with our progressive dividend policy.

Subject to shareholder approval, the final dividend is payable on Thursday 21 June 2018 to shareholders on the register as at Friday 1 June 2018.

New accounting standards

Gamma has now concluded its analysis in respect of the new accounting standards relating to revenue recognition (IFRS 15), leases (IFRS 16) and Financial Instruments (revision to IFRS 9). Our full assessment is discussed in Note 3 to the 2017 Annual Report and Accounts and this is summarised in Note 2 of these abbreviated accounts. As indicated at the half year, EPS (FD) for 2017 would not have been materially affected had the new standards been applied.

IFRS 15 will be adopted from 1 January 2018 and therefore in next year's audited financial statements, Gamma will restate the 2017 figures under the new accounting policies. The effect of implementing IFRS 15 in 2017 would have been as follows –

	As reported (current GAAP)	**Restatement following implementation of IFRS 15**	**Change**
Revenue	£238.4m	£242.9m	+1.9%
EBITDA	£39.6m	£36.8m	-7.1%
Adjusted EBITDA	£41.6m	£38.8m	-6.7%
PBT	£26.4m	£26.5m	+0.4%
Adjusted PBT	£28.4m	£28.5m	+0.3%
EPS (FD)	23.9p	24.0p	+0.4%
Adjusted EPS (FD)	24.6p	24.7p	+0.4%
Net Assets	£98.8m	£95.3m	-3.5%

A full reconciliation and explanation for the above changes is given in Note 3 to the 2017 Annual Report and Accounts. This is summarized in the notes to these abbreviated Financial Statements.

The group will also be implementing IFRS 16 from 1 January 2018 (which is earlier than required). The group will take advantage of the practical expedient whereby modified retrospection is allowed and therefore will not restate the comparatives when the 2018 financial statements are prepared. As an indication of the effect of IFRS 16 at 1 January 2018 the Group will recognise a liability of £6.4m and a corresponding right of use asset of £6.1m. Management estimates that the effect on the statement of income for 2018 will be that £1.6m which would have been shown as "operating expense" will now be shown as £1.3m of depreciation and £0.2m of interest. Note that these figures assume the Group's property portfolio remains unchanged over the course of 2018.

The Group's review of the changes to IFRS 9 has not resulted in any material changes to accounting policies and therefore no impact is expected on EPS in future years.

Andrew Belshaw
Chief Financial Officer

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Revenue		**238.4**	213.5
Cost of sales		**(125.4)**	(114.7)
Gross profit		**113.0**	98.8
Operating expenses		**(86.8)**	(77.4)
Operating profit before share based payment expense, depreciation and amortisation (adjusted EBITDA)		**41.6**	34.2
Share based payment expense		**(2.0)**	(2.9)
Operating profit before depreciation and amortisation (EBITDA)		**39.6**	31.3
Depreciation and amortisation		**(14.1)**	(9.9)
Gain on disposal of assets		**0.7**	-
Profit from operations		**26.2**	21.4
Finance income		**0.2**	0.2
Profit before tax		**26.4**	21.6
Tax expense	4	**(3.8)**	(3.9)
Profit after tax		**22.6**	17.7
Total comprehensive income attributable to the owner of the parent		**22.6**	17.7
Earnings per share			
Basic per ordinary share (pence)	5	**24.4**	19.4
Diluted per ordinary share (pence)	5	**23.9**	18.8

Adjusted Earnings per share is shown in note 3.

Consolidated statement of financial position

At 31 December 2017

	Notes	2017 £m	2016 £m
Assets			
Non-current assets			
Property, plant and equipment	6	**44.1**	33.5
Intangible assets	7	**10.0**	10.0
Deferred tax asset		**1.7**	1.8
		55.8	45.3
Current assets			
Inventories		**3.2**	3.0
Trade and other receivables	8	**50.6**	39.9
Cash and cash equivalents		**31.6**	28.2
		85.4	71.1
Total assets		**141.2**	116.4
Liabilities			
Non-current liabilities			
Provisions		**1.8**	1.9
Deferred tax		**-**	0.2
		1.8	2.1
Current liabilities			
Trade and other payables	9	**39.8**	32.5
Current tax		**0.8**	1.6
		40.6	34.1
Total liabilities		**42.4**	36.2
Issued capital and reserves attributable to owners of the parent			
Share capital		**0.2**	0.2
Share premium reserve		**3.8**	3.8
Merger reserve		**2.3**	2.3
Share option reserve		**2.8**	3.5
Own shares		**(0.8)**	(0.8)
Retained earnings		**90.5**	71.2
Total equity		**98.8**	80.2
TOTAL EQUITY AND LIABILITIES		**141.2**	116.4

Consolidated statement of cash flows

For the year ended 31 December 2017

	Notes	**2017 £m**	2016 £m
Cash flows from operating activities			
Profit for the year before tax		**26.4**	21.6
Adjustments for:			
Depreciation of property, plant and equipment	6	**13.0**	8.6
Amortisation of intangible assets	7	**1.1**	1.3
Share based payment expense		**2.0**	2.9
Interest income		**(0.2)**	(0.2)
		42.3	34.2
Increase in trade and other receivables		**(10.0)**	(7.3)
Increase in inventories		**(0.2)**	(0.7)
Increase in trade and other payables		**6.8**	4.6
Increase in provisions and employee benefits		**(0.1)**	0.5
Cash generated by operations		**38.8**	31.3
Taxes paid		**(3.6)**	(4.8)
Net cash flows from operating activities		**35.2**	26.5
Investing activities			
Purchases of property, plant and equipment	6	**(23.6)**	(18.7)
Expenditure on development costs	7	**(1.1)**	(0.9)
Interest received		**0.2**	0.2
Net cash used in investing activities		**(24.5)**	(19.4)
Financing activities			
Share issues		**-**	0.1
Repayment of loans made to individuals to subscribe for shares		**-**	2.6
Dividends		**(7.3)**	(6.4)
Net cash used in financing activities		**(7.3)**	(3.7)
Net increase in cash and cash equivalents		**3.4**	3.4
Cash and cash equivalents at beginning of year		**28.2**	24.8
Cash and cash equivalents at end of year		**31.6**	28.2

Consolidated statement of changes in equity

For the year ended 31 December 2017

	Share capital £m	Share premium £m	Merger reserve £m	Share option reserve £m	Own shares £m	Retained earnings £m	Total equity £m
1 January 2016	0.2	3.7	2.3	3.8	(0.8)	57.5	66.7
Issue of shares	–	0.1	–	(2.5)	–	2.5	0.1
Recognition of share based payment expense	–	–	–	2.2	–	–	2.2
Deferred tax on share based payment expense	–	–	–	–	–	(0.1)	(0.1)
Dividend paid	–	–	–	–	–	(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**
1 January 2017	**0.2**	**3.8**	**2.3**	**3.5**	**(0.8)**	**71.2**	**80.2**
Issue of shares	–	--	–	(2.2)	–	2.2	--
Recognition of share based payment expense	–	–	–	1.5	–	–	1.5
Current tax on share based payment expense	–	–	–	–	–	2.1	2.1
Deferred tax on share based payment expense	–	–	–	–	–	(0.3)	(0.3)
Dividend paid	–	–	–	–	–	(7.3)	(7.3)
Transaction with owners	–	--	–	(0.7)	–	(3.3)	(4.0)
Profit for the year	–	–	–	–	–	22.6	22.6
Total comprehensive income	–	–	–	–	–	22.6	22.6
31 December 2017	**0.2**	**3.8**	**2.3**	**2.8**	**(0.8)**	**90.5**	**98.8**

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 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 0.1m (£m).

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

Publication of non-statutory accounts

These condensed financial statements do not constitute statutory accounts within the meaning of the Companies Act 2006. They are an extract from the full accounts for the year ended 31 December 2017 on which the auditor has expressed an unqualified opinion and do not include any statement under section 498 of the Companies Act 2006. The full accounts contain a detailed statement of the accounting policies which have been used to prepare this summary and remained unchanged from the prior year. The accounts will be posted to shareholders on or before 27 April 2018 and subsequently filed at Companies House.

A full set of the audited statutory accounts will be available at
www.gamma.co.uk/investors/financial-results-and-shareholder-communications

1. Alternative performance measures

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

The measures are adjusted for the following items:

(a) Share based payment expense
The adjusted EBITDA excludes Share Based Payment expense because the historical charges are inflated by significant levels of awards made at IPO and have reduced significantly period on period. The charge includes options being issued to senior management, an SAYE and a SIP scheme offered to all staff, and the costs of employer's National Insurance on share option gains. Because of the special float award made in 2014, the Share Based Payment charges have decreased year-on-year and this leads to increases in EBITDA, PBT and EPS which are not reflective of the business performance but are merely reflective of the fact that lower levels of options have been awarded post float. Therefore management excludes Share Based Payments from the adjusted figures to ensure that the trading performance of the business is properly understood.

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

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

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

(e) Other non-recurring items
Non-recurring items are those which are considered significant by virtue of their nature, size or incidence, and are presented separately in the Statement of Comprehensive Income to enable a full understanding of the Group's financial performance.
There were none in the period or comparative period which affected EBITDA or PBT.

2. Changes in accounting policies

IFRS 15 "Revenue from Contracts with Customers"

Based on the changes in accounting policy which will be applied from 1 January 2018, the Group has restated its 2017 results for the changes in policies required by IFRS 15. These are shown below and will form the comparative figures to the 2018 results.

There are four adjustments derived from the change in accounting policies:

Adjustment (a) has the effect of removing "up front" Cloud PBX subscriptions which were previously recognised on purchase. These are now amortised over the period for which a customer is expected to use the service.

Adjustment (b) has the effect of removing assets which were supplied as part of a service from the fixed asset register and instead recognising these as a sale at the point of delivery to the customer. There is a corresponding reduction in ongoing service revenues.

Adjustment (c) has the effect of spreading installation revenue over the length of the contract.

Adjustment (d) has the effect of spreading the cost of commissions in the direct business over the length of the contract to which they relate.

The combined effect of the four adjustments is to reduce EBITDA and adjusted EBITDA by £2.8m. Both EPS (FD) and adj EPS (FD) increased by 0.1p.

Impact on Consolidated Statement of Comprehensive income of IFRS15

	Under previous accounting policies £m	Adjustment (a) – Cloud PBX Subscriptions	Adjustment (b) - CPE	Adjustment (c) - Installations	Adjustment (d) – Sales Commissions	Restated amount under IFRS 15 £m
Revenue	238.4	(1.1)	7.4	(1.8)	-	242.9
Cost of sales	(125.4)	2.5	(11.6)	1.1	-	(133.4)
Gross profit	113.0	1.4	(4.2)	(0.7)	-	109.5
Operating expenses	(86.8)	(1.9)	4.8	-	0.7	(83.2)
Operating profit before share based payment exceptional items, depreciation and amortisation (adjusted EBITDA)	**41.6**	**1.4**	**(4.2)**	**(0.7)**	**0.7**	**38.8**
Share based payment expense	(2.0)	-	-	-	-	(2.0)
Operating profit before depreciation and amortisation (EBITDA)	**39.6**	**1.4**	**(4.2)**	**(0.7)**	**0.7**	**36.8**
Depreciation and amortisation	(14.1)	(1.9)	4.8	-	-	(11.2)
Gains on disposal of assets	0.7	-	-	-	-	0.7
Profit from operations	26.2	(0.5)	0.6	(0.7)	0.7	26.3
Finance income	0.2	-	-	-	-	0.2
Profit before tax	26.4	(0.5)	0.6	(0.7)	0.7	26.5
Tax expense	(3.8)	-	-	-	-	(3.8)
Profit after tax	22.6	(0.5)	0.6	(0.7)	0.7	22.7
Total comprehensive income attributable to the owner of the parent	22.6	(0.5)	0.6	(0.7)	0.7	22.7
Earnings per share						
Basic per ordinary share (pence)	**24.4**	(0.5)	0.6	(0.8)	0.8	24.5
Diluted per ordinary share (pence)	**23.9**	(0.5)	0.6	(0.7)	0.7	24.0

Impact on Consolidated Statement of Financial Position of IFRS15

The below table shows the effect of the same four adjustments on the consolidated statement of financial position as at 31 December 2017. As above, these will form the comparatives for the 2018 financial statements. The combined effect of the four adjustments is to reduce net assets by £3.5m.

	2017 Under previous accounting policies £m	Adjustment (a) – Cloud PBX Subscriptions	Adjustment (b) - CPE	Adjustment (c) - Installations	Adjustment (d) – Sales Commissions	2017 Restated amount under IFRS 15 £m
Assets						
Non-current assets						
Property, plant and equipment	44.1	-	(16.5)	-	-	27.6
Intangible assets	10.0	5.5	-	-	-	15.5
Deferred tax asset	1.7	-	-	-	-	1.7
	55.8	5.5	(16.5)	-	-	44.8
Current assets						
Inventories	3.2	-	-	-	-	3.2
Trade and other receivables	50.6	-	18.2	3.1	2.2	74.1
Cash and cash equivalents	31.6	-	-	-	-	31.6
	85.4	-	18.2	3.1	2.2	108.9
Total assets	141.2	5.5	1.7	3.1	2.2	153.7
Liabilities						
Non-current liabilities						
Provisions	1.8	-	-	-	-	1.8
Deferred tax	-	-	-	-	-	-
	1.8	-	-	-	-	1.8
Current liabilities						
Trade and other payables	39.8	11.3	-	4.7	-	55.8
Current tax	0.8	-	-	-	-	0.8
	40.6	11.3	-	4.7	-	56.6
Total liabilities	42.4	11.3	-	4.7	-	58.4
Issued capital and reserves attributable to owners of the parent						
Share capital	0.2	-	-	-	-	0.2
Share premium reserve	3.8	-	-	-	-	3.8
Merger reserve	2.3	-	-	-	-	2.3
Share option reserve	2.8	-	-	-	-	2.8
Own shares	(0.8)	-	-	-	-	(0.8)
Retained earnings	90.5	(5.8)	1.7	(1.6)	2.2	87.0
Total equity	98.8	(5.8)	1.7	(1.6)	2.2	95.3
Total equity and liabilities	141.2	5.5	1.7	3.1	2.2	153.7

IFRS 16 "Leases"

IFRS 16 comes in to effect on 1 January 2019, however early adoption is allowed as long as IFRS 15 has been adopted and therefore the Group intends to adopt the new standard from 1 January 2018.

The standard allows two options for adoption – fully retrospective and modified retrospective. The Group has elected to take the modified retrospective approach. As a result of this the Group will:

- recognise a lease liability at 1 January 2018 for leases previously classified as an operating lease applying IAS 17. The Group will measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.
- recognise a right-of-use asset at 1 January 2018 for leases previously classified as an operating lease applying IAS 17. The Group has chosen to measure that right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2017
- 2017 comparatives are left unchanged and any opening adjustment to net assets is recognised on 1 January 2017

The modified retrospective approach also allows a number of practical expedients which the Group has made use of:

- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics, being 4%
- Reliance on an assessment of whether a lease is onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review using the principles in IAS 36 Impairment of Assets
- No recognition of leases whose term ends within 12 months of the date of initial application
- Exclusion of initial direct costs from the measurement of the right of use asset at the date of initial application
- Hindsight may be used, such as in determining the lease term if the contract contains options to extend or terminate the lease

As noted above, no comparatives are given for the change in policies brought about by IFRS 16 but the Group has calculated that the right of use asset to be recognised as at 1 January 2018 will be £6.1m (and there will be a corresponding liability of £6.4m). The expected depreciation charge on this right of use asset in the 2018 accounts (assuming no additions or disposals of leases) will be £1.3m and interest charge of £0.2m which compares to an operating lease charge of £1.6m within the operating expenses for 2017. The effect on EBITDA and adjusted EBITDA is therefore expected to be an increase of £1.6m but there will not be a material effect on PAT or EPS (FD) or adjusted EPS (FD).

The opening lease liability of £6.1m is reconciled to the table of lease commitments below –

	Land and buildings £m	**Other £m**
Lease commitments	7.2	0.2
Less practical expedients taken	(0.2)	(0.1)
Less interest to be unwound over the lease term	(0.7)	-
Opening lease liability	**6.3**	**0.1**
Less onerous lease provision	(0.3)	-
Opening Right to Use Asset	6.0	0.1

IFRS 9 (Financial Instruments)

The Group's review of the changes to IFRS 9 has not resulted in any material changes to accounting policies and therefore no adjustments are expected to be required in future years.

3. Segment information

The Group has two main operating segments:

- Indirect – This division sells Gamma's traditional and growth products and services to channel partners and contributed 76% (2016: 79%) of the Group's external revenue.

- Direct – This division sells Gamma's traditional and growth products and services to end users in the SME, Enterprise and public sectors together with an associated service wrap. They contributed 24% (2016: 21%) of the Group's external revenues.

2017	**Indirect £m**	**Direct £m**	**Total £m**
Traditional products and services	50.5	10.8	61.3
Growth (being strategic and enabling) products and services	130.9	46.2	177.1
Total revenue from external customers	**181.4**	**57.0**	**238.4**
Inter-segment revenue	*45.8*	-	*45.8*
Traditional products and services	12.5	3.7	16.2
Growth (being strategic and enabling) products and services	74.0	22.8	96.8
Total gross profit	**86.5**	**26.5**	**113.0**
Segment operating profit before share based payment expense, depreciation and amortisation	**29.0**	**12.6**	**41.6**
Share based payment expense	(1.8)	(0.2)	(2.0)
Segment operating profit before depreciation and amortisation and gains on disposal of property, plant and equipment	**27.2**	**12.4**	**39.6**
Depreciation, amortisation and gains on disposal of assets	(13.4)	(0.7)	(14.1)
Gain on disposal of property, plant and equipment	0.7	-	0.7
Profit from operations	**14.5**	**11.7**	**26.2**
Finance income	0.2	–	0.2
Tax	(2.0)	(1.8)	(3.8)
Group profit after tax	**12.7**	**9.9**	**22.6**

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

	Indirect £m	**Direct £m**	**Total £m**
Additions to non-current assets	22.2	2.5	24.7
Reportable segment assets	118.4	22.8	141.2
Reportable segment liabilities	34.4	8.0	42.4

2016	Indirect £m	Direct £m	Total £m
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, depreciation and amortisation	**24.8**	**9.4**	**34.2**
Share based payment expense	(2.9)	-	(2.9)
Segment operating profit before depreciation and amortisation and gains on disposal of property, plant and equipment	**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 is over 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

4. Tax expense

	2017 £m	2016 £m
Current tax expense		
Current tax on profits for the year	**5.1**	3.9
Adjustment in respect of prior year	**(0.9)**	0.1
Total current tax	**4.2**	4.0
Deferred tax expense		
Origination and reversal of temporary differences	**(0.4)**	(0.1)
Total deferred tax	**(0.4)**	(0.1)
Total tax expense	**3.8**	3.9

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:

	2017 £m	2016 £m
Profit before income taxes	**26.4**	21.6
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 19.25% (2016: 20.00%)	**5.1**	4.3
Expenses not deductible for tax purposes	**-**	0.1
Additional deduction for R&D expenditure	**(0.4)**	(0.4)
Adjustment in respect of prior year	**(0.9)**	(0.1)
Total tax expense	**3.8**	3.9

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

5. Earnings per share and dividends

Earnings per share

The calculation of basic earnings per Ordinary Share is based on a profit after tax of £22.6m (2016: £17.7m) and 92,750,844 (2016: 91,235,007) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the period.

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

	Total 2017 No.	Total 2016 No.
Weighted average number of Ordinary Shares for basic earnings per share	**92,750,844**	**91,235,007**
Effect of dilution resulting from share options	**1,651,182**	**2,552,241**
Weighted average number of Ordinary Shares adjusted for the effect of dilution	**94,402,026**	**93,787,248**

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

	Total 2017 £m	Total 2016 £m
Profit after tax for the year	**22.6**	17.7
Tax adjustment in respect of prior years	**(0.9)**	-
Share based payment expense	**2.0**	2.9
Less tax effect associated with share based payment expense and one-off costs	**(0.5)**	(0.6)
Adjusted profit after tax for the year	**23.2**	20.0

	2017	2016
Adjusted earnings per Ordinary Share – basic (pence)	**25.0**	21.9
Adjusted earnings per Ordinary Share – diluted (pence)	**24.6**	21.1

The number of shares used to calculate diluted adjusted earnings per share in 2016 was 94,732,610.

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 2.8p was paid on 19 October 2017 (2016: 2.5p).

A final dividend of 5.6p will be proposed at the Annual General Meeting but has not been recognised as it requires approval (2016: 5.0p). The total amount of dividends proposed is 8.4p (2016: 7.5p)

6. Property, plant and equipment

	Network assets £m	Customer Premises equipment £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost					
At 1 January 2017	54.5	13.3	6.2	0.7	74.7
Additions	11.0	11.5	0.8	0.3	23.6
Disposals	-	(1.4)	-	-	(1.4)
At 31 December 2017	**65.5**	**23.4**	**7.0**	**1.0**	**96.9**
Depreciation					
At 1 January 2017	33.6	4.0	3.4	0.2	41.2
Charge for the year	5.8	5.7	1.1	0.4	13.0
Disposals	-	(1.4)	-	-	(1.4)
At 31 December 2017	39.4	**8.3**	**4.5**	**0.6**	**52.8**
Net book value					
At 1 January 2017	20.9	9.3	2.8	0.5	33.5
At 31 December 2017	**26.1**	**15.1**	**2.5**	**0.4**	**44.1**
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.

7. Intangible assets

	Goodwill on Consolidation £m	Development costs £m	Customer Contracts £m	Total £m
Cost				
At 1 January 2017	12.5	6.1	2.1	20.7
Additions	–	1.1	–	1.1
At 31 December 2017	**12.5**	**7.2**	**2.1**	**21.8**
Amortisation				
At 1 January 2015	4.5	4.2	2.0	10.7
Charge for the year	–	1.0	0.1	1.1
At 31 December 2017	**4.5**	**5.2**	**2.1**	**11.8**
Carrying value				
At 1 January 2017	8.0	1.9	0.1	10.0
At 31 December 2017	**8.0**	**2.0**	**-**	**10.0**
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 anticipated useful economic life of asset developed but no more than four years
- Goodwill on consolidation – indefinite (subject to impairment)

8. Trade and other receivables

	2017 **£m**	2016 £m
Trade receivables	**25.9**	22.4
Less: provision for impairment of trade receivables	**(2.7)**	(2.0)
Trade receivables – net	**23.2**	20.4
Accrued income	**10.5**	10.0
Prepayments	**10.9**	8.1
Other receivables	**6.0**	1.4
Total trade and other receivables	**50.6**	39.9

9. Trade and other payables

	2017 **£m**	2016 £m
Current		
Trade payables	**7.9**	8.3
Other payables	**1.9**	1.3
Accruals – Cost of Sales	**15.0**	10.6
Accruals – Operating expenses (non-payroll)	**3.2**	2.5
Accruals – Payroll related (excl tax and social security)	**6.7**	6.7
Tax and social security	**2.4**	1.2
Deferred income	**2.7**	1.9
Total trade and other payables	**39.8**	32.5

10. Subsequent events

There have been no subsequent events that the Directors of the Group are aware of at the date of signing.