Consolidated Financial Statements

Gamma Telecom Holdings Limited

For the year ended 31 December 2013

Company No. 4287779

Company information

Company registration number	4287779
Registered office	5 Fleet Place LONDON EC4M 7RD
Directors	S J Burton R M Falconer K E Kuok G Sreeves A J Stone C R H Stone M J C Stone K C Tse L P Wu
Secretary	G Sreeves
Bankers	HSBC Bank Plc 60 Queen Victoria Street LONDON EC4N 4TR
Solicitors	Charles Russell 5 Fleet Place LONDON EC4M 7RD
Auditor	Grant Thornton UK LLP Chartered Accountants Statutory Auditor 3140 Rowan Place John Smith Drive Oxford Business Park South OXFORD OX4 2WB

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Chief Executive's statement

The board is very pleased with the continued progress of the Gamma Group in 2013. Overall revenue grew from £137.2m in 2012 to £148.7m (+8.4%) and gross profit improved from £44.9m to £53.9m (+20.0%). Adjusted EBITDA (earnings before interest, taxation, depreciation, amortisation and share based payments) grew by 19.6% from £14.4m to £17.2m, while profit before tax increased to £11.2m, up 20.2% from £9.3m in 2012.

The net cash inflow before acquisitions and financing was £8.1m up 23.6% from 2012 (2012: £6.6m).

The business has now demonstrated consistent cash generation growth for six years - despite the poor economic climate over this period - and is now firmly positioned as a leading provider of next generation communications services to the business market.

We have been particularly encouraged by the rapid growth of our software and internet technology derived products. In particular SIP, an alternative to traditional ISDN for business connectivity, has grown by over 50%. This is a displacement market, where we are seen as market leader and the investment we have made in automation and resilience is clearly bearing fruit. Similarly, our Horizon product, which provides a cloud based alternative to a traditional PBX, and in which we have invested substantially, has exceeded our expectations with over 18,000 new seats added during 2013.

Significant growth has also been evident in our Inbound product (a cloud based incoming call management service), mobile services (through our MVNA* agreement with Vodafone), ethernet and business grade broadband.

This growth has more than compensated for the expected decline in both the volume and the price of traditional fixed calls through mobile substitution, intense competition and regulated reductions in fixed to mobile rates. Traditional wholesale calls and lines now only represents one third of our overall gross profit.

Our indirect sales through channel partners, which is the majority of our revenue, have shown significant growth with c650 partners now regularly placing business with Gamma.

The Gamma Retail business has grown its revenue to £29.7m (2012: £25.9m) and gross profit to £11.3m (2012: £9.5m). There have been significant wins with Care UK, Pret a Manger, Philips Electronics, Oxford and Newcastle NHS Trusts and CGI to name just some of the successes.

The business is also preparing for opportunities to provide services to national government (Gamma already supplies many organisations in local government). The Group is therefore pleased to have achieved accreditation in both ISO27001 and ISO22301 standards for security and business continuity respectively, and was accepted on to the new government Public Services (PSN) framework.

I'm also pleased to say that our new venture in Manchester (branded "The Loop"), whilst still modest, is now making a positive operating contribution to the Gamma Group just over a year from its formation; this is ahead of plan and follows some major long-term contract wins. This venture exploits Gamma's historic extensive fibre and ducting around Manchester to connect up major users of data communications, particularly in the media and datacentre industries.

Overall the strong sales growth has justified an increase in capital investment in the business and investment is being made in a new (MPLS) data network to support larger multi-sited customers whilst contract successes with 'The Loop' generally require a local 'dig' to the customers' premises in return for a longer term revenue stream. More generally the network infrastructure is being expanded to both extend its reach and to position the business for future services and growth.

Chief Executive's statement (continued)

The business also continues to invest heavily in product development, with close to 20% of the staff resources allocated to this function. With a broad product portfolio, much of the focus has been on enhancing the current product set. One interesting development this year was a collaborative development with Semafone (a specialist in electronic credit card payments) to create a SIP connectivity product that ensured that the customers' card details never reached the merchant, thereby removing the need for the merchant to comply with ever stricter rules imposed by the Financial Services Authority. This will have immediate appeal to the many organisations that take sales over the phone. We have also launched a voice Business Continuity product enabling a business to immediately redirect all its incoming calls to a pre-prepared plan in the event of difficulty.

There remains a very strong emphasis on the quality of the operational service, the elimination of risk and improvements in security. The business has been certified in both ISO27001 and ISO22301 in security and business continuity. Surveys of customer satisfaction have provided very positive results with a Net Promoter score of +29 and we were very pleased to have won the Comms Business Network Operator of the Year award for the fourth consecutive year in 2013. The main cause of customer dissatisfaction remains BT Openreach whom we, and our competitors, rely upon for the local connectivity. We are very active in seeking enforceable commitments on service.

In the regulatory sphere, Ofcom finally deliberated on the Margin Squeeze complaint that Gamma (and Thus plc) made against BT Wholesale in 2008**. Although recognising that BT had operated a margin squeeze on wholesale calls, it was not fined as, in Ofcom's view, there was insufficient evidence of anti-competitive effects. We were very disappointed by both the time taken by Ofcom (5 years) and the lack of any punitive action given the findings.

More positively however we were pleased with the recent news of the successful appeal in the Supreme Court in the case between BT and the four mobile network operators about termination charges for calls to non-geographic numbers in which Gamma was an intervener***.

The average number of people in the Gamma Group increased over the year from 369 to 431, largely to support the product volume growth. It is an inevitable fact that the shift to higher gross profit products requires increased support and development resources. We were particularly pleased to be once again ranked by the Sunday Times as one of the "100 Best Companies to Work For".

Bob Falconer

Chief Executive

* mobile virtual network aggregator

** see more at: http://www.gamma.co.uk/news-and-events/news/gamma-responds-to-ofcom-ruling-as-bt-wholesale-found-guilty-of-margin-squeeze#sthash.Ub9Yoxml.dpuf

*** see more at: http://supremecourt.uk/decided-cases/docs/UKSC_2012_0204_PressSummary.pdf

Strategic Report

Principal activities and business review

The group is principally engaged in the provision of communications and software services for business, the public sector and not for profit organisations.

Strategy
Gamma's strategy is to continue to grow both its market share and profitability by developing new innovative communications products for business and the public sector. These new products combine Gamma's IP network technology with its own software services platform, using software written by Gamma's in house development team.

Gamma Telecom Limited sells indirectly through third party resellers which include several major corporations including systems integrators and tier one telecommunications operators. The group also sells directly to business and the public sector through Gamma Network Solutions Limited and through Gamma Business Communications Limited via a network of independent sales agents.

Key performance indicators

	2013	2012	Change
Turnover	**£148.7m**	£137.2m	8.4%
Gross profit	**£53.9m**	£44.9m	20.0%
Gross profit percentage	**36.2%**	32.7%	3.5%
Earnings before interest, taxation, depreciation, amortisation and share based payments	**£17.2m**	£14.4m	19.6%
Profit before taxation	**£11.2m**	£9.3m	20.2%
Cash expenditure on capital equipment	**£5.9m**	£2.7m	£3.2m
Cash inflow before acquisitions and financing	**£8.1m**	£6.6m	23.6%
Average headcount	**431**	369	62

Financial overview

Despite the continued difficult economic conditions in 2013, Gamma recorded a fourth successive year of profit growth. Turnover increased by 8.4% to £148.7m (2012: £137.2m), gross profit was up 20.0% to £53.9m (2012: £44.9m). The directors attribute this increase to the continuing growth in the proportion of overall sales coming from the higher margin IP and software based products. Profit before tax increased by 20.2% to £11.2m (2012: £9.3m).

The directors are pleased with the strong performance during the year and believe Gamma is well placed to continue this growth.

Strategic Report (continued)

Operating costs
Gamma's operating costs excluding depreciation and amortisation was higher in 2013 than in the previous year at £37.6m (2012: £30.7m). During the year the average number of staff employed grew by 62 to 431 (2012: 369) and the payroll cost increased by £2.2m to £21.0m (2012: £18.8m). The majority of the headcount increases were in operations (including engineering) and they reflect the continued growth of the business and the investment required to develop and support Gamma's Next Generation products.

Capital expenditure
The total cash expenditure on fixed assets in 2013 was £5.9m (2012: £2.7m) as Gamma continued to invest in its network and to develop products on its IP and software services platform. This included £0.8m (2012: £0.9m) in relation to intellectual property created by Gamma's in house software development team.

Cash flow
Net cash inflow from operating activities was £16.3m in 2013 (2012: £10.4m). After interest payments, taxation and capital expenditure the cash inflow before acquisitions and financing was £8.1m (2012: £6.6m). This continues a consistent trend of strong cash generation over the last six years.

Principal risks and uncertainties

The directors set out the principal risks facing the business as follows:

Regulation
The UK telecoms market is subject to significant regulation through Ofcom, the industry regulator. A major part of Gamma's expenditure relates to regulated products that it buys from BT in markets where BT has significant market power. Decisions by the regulator can therefore have a significant effect on the group's performance. Gamma seeks to engage with Ofcom and relevant industry bodies on a regular basis to ensure that Gamma's views on current and future regulation are well represented.

Competition
The UK fixed line telecoms market is highly competitive despite a reduction in the number of network operators in recent years. Gamma's strategy is to continually work to develop new products, including by making significant investments in research and development, which allow it to differentiate itself from its competitors.

Technological Advances
Gamma's new product strategy is based on the transition from traditional telephony products to Next Generation IP based technology and services. As with any technological change this brings some uncertainty and risk, including the uncertainty about the speed with which the market will adopt the new technology. However, Gamma has significant expertise and experience of such technological changes which help it to mitigate these risks.

Financial risk management objectives and polices
The group is exposed to a variety of financial risks which result from both its operating and investing activities. The board is responsible for coordinating the group's risk management and focuses on actively securing the group's short to medium term cash flows.

The group does not actively engage in the trading of financial assets and has no financial derivatives.

Credit risk
The group's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of any allowance for doubtful debtors, estimated by the directors.

The group operates a strict credit vetting policy, basing its credit terms on a customer's payment history, financial performance and externally available credit data.

Strategic Report (continued)

Cash flow risks
The Group seek to manage risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

The company prepares an annual budget which is used to assess funding adequacy for at least a 12-month period and then monitors actual performance against budget. The Group is continually reviewing the credit risk associated with holding money on deposit in banks and seek to mitigate this risk by holding deposits with banks with high credit status.

Environmental policy

The group's environmental policy is focussed on five areas:

- Gamma's commitment to reducing carbon emissions began in 2006 with the early adoption of IP based soft-switching in our core network, marking the first major initiative of its kind in the UK. Soft-switching has allowed Gamma to move from a power-hungry hardware infrastructure to a more software driven environment which uses far less power. In 2013 the group consumed 3.9m kwhr (2012: 4.3m kwhr), a decrease year on year.
- Gamma is a Certified CarbonNeutral company and is one of the few network operator in the UK to have a net zero carbon footprint. The group has been independently assessed for its carbon output, taking into account all utility usage, business travel and waste across each site, as well as the electricity consumed by the network. The total carbon output has been offset through investment in renewable energy projects through the CarbonNeutral Company Ltd, so that Gamma is a net zero carbon contributor to the environment.
- Providing products that can help end customers reduce their carbon footprint, for example, by enabling more efficient home working.
- Good housekeeping and encouraging flexi-working to reduce travel.
- The group continues to support The Woodland Trust via corporate membership.

Employees

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

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

Disabled employees

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

This report was approved by the board on 24 July 2014 and signed on its behalf.

R Falconer
Director

Report of the directors

The directors present their report and the consolidated financial statements of the group for the year ended 31 December 2013.

Directors

The directors who served the company during the year were as follows:

S J Burton
R M Falconer
O R Jonathan (resigned 26 May 2014)
K E Kuok
G Sreeves
A J Stone
C R H Stone
M J C Stone
K C Tse
L P Wu

Future developments

The continuing development of IP technology is radically changing the communications industry, and over the last few years Gamma has significantly increased the proportion of its business coming from IP products and services. Now, with continued investment in network technology and software, Gamma is well positioned to maintain its role as a leading provider of Next Generation IP communication services for the business market.

Research and development

The group is continuing its policy of developing the existing product range and researching new products that will contribute further to the expansion of the business.

Matters covered in the Strategic Report

Details of the principal risks and uncertainties facing the company and its financial risk management objectives and policies are given in the strategic report.

Dividend

The directors are not recommending the payment of a dividend.

Directors' and Officers' liability insurance

The company has, as permitted by s234 and 235 of the Companies Act 2006, maintained insurance cover on behalf of the Directors and Company Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the company.

Report of the directors (continued)

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, Report of the directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group 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.

In so far as each of the directors is aware:

- there is no relevant audit information of which the group's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

Auditor

Grant Thornton UK LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

ON BEHALF OF THE BOARD

G Sreeves
Director
24 July 2014

Grant Thornton

Report of the independent auditor to the members of Gamma Telecom Holdings Limited

We have audited the financial statements of Gamma Telecom Holdings Limited for the year ended 31 December 2013 which comprise the principal accounting policies, the group profit and loss account, the group balance sheet, the parent company balance sheet, the group cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Director' 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 form an opinion 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2013 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 the information given in the Strategic Report and Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Report of the independent auditor to the members of Gamma Telecom Holdings Limited (continued)

Matters on which we are required to report by exception

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

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

Nicholas Watson
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford
24 July 2014

Principal accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

The principal accounting policies remain unchanged from the prior year and are set out below.

The accounts are prepared on the going concern basis. In assessing whether the going concern assumption is appropriate, the directors have taken into account all relevant available information about the future trading including profit and cash forecasts and available facilities and funding. The business has a track record of profitable growth and is cash generative and this is expected to continue. It is therefore considered appropriate to adopt the going concern basis of accounting in the preparation of the annual financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies. Acquisitions are accounted for under the acquisition method and the results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively.

As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 408 of the Companies Act 2006.

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.

Employee Benefit Trust (EBT)

The group records assets and liabilities of the Trust as its own, in accordance with UTIF 38. Shares held are deducted in arriving at shareholder's funds and included in reserves until such time as the shares have unconditionally vested to the employees.

Principal accounting policies (continued)

Turnover

Turnover represents the amounts (excluding VAT) derived from the provisions of goods and services to customers during the year. Call revenue is recognised in the month in which calls are made. Revenue for fixed charges such as line rentals, hosted services and broadband are recognised in the period to which it relates. Revenue from installation services is recognised upon acceptance by the customer.

Goodwill

Positive purchased goodwill arising on acquisitions and goodwill arising on consolidation representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised and amortised on a straight line basis over its estimated useful economic life as follows:

Goodwill on consolidation	-	5% - 33% straight line
Purchased goodwill	-	33% straight line

Intangible assets – research and development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the group is expected to benefit. This period is four years. Provision is made for any impairment.

Capitalisation of internal costs

Employee time costs in respect of specific projects are capitalised to the extent that they are directly attributable to those projects and create an asset for on-going use within the business. These assets are then depreciated in accordance with the depreciation policy stated.

Fixed assets and depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Network assets	-	7% - 33% straight line
Motor vehicles	-	25% straight line
Fixtures & fittings	-	20% - 25% straight line
Computer equipment	-	25% - 50% straight line

All fixed assets are initially recorded at cost.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Work in progress comprises installation costs incurred which are underway and have yet to be accepted by the customer.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Principal accounting policies (continued)

Pension costs

The group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the group. The annual contributions payable are charged to the profit and loss account.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured on an undiscounted basis using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences are taken into account in arriving at the operating profit.

The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves. All other exchange differences are dealt with through the profit and loss account.

Share options

In accordance with FRS 20 'Share based payments', the fair value of equity-settled share-based payments to employees is determined at the date of grant and is recognised on a straight line basis over the vesting period based on the company's estimate of options that will eventually vest. The fair value is measured by use of the binomial pricing model. Further details are set out in notes 19 and 20.

Cash settled share-based payments

Cash settled share-based payments are measured at fair value at the date of grant using an appropriate valuation model. Until the liability is settled, the fair value of the liability is re-measured at each reporting date, with any change in fair value being recognised in profit or loss for the period.

Where the company receiving the services is a subsidiary of the entity that will settle the obligation, a capital contribution is recognised in the subsidiary with a corresponding charge to the profit and loss account. The parent entity that will settle the obligation recognises an increase in the investment in group undertakings and a corresponding liability.

Provisions

Provisions are created for dilapidations in respect of property leases where the building (which is the subject of the lease) has to be returned to the landlord in a defined condition. The total cost of rectification is estimated once the stage of the lease has been reached at which a reliable estimate of costs can be made and a provision is built up over the remaining length of the lease.

Principal accounting policies (continued)

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.

Group profit and loss account

	Note	2013 £'000	2012 £'000
Group turnover	1	**148,714**	137,218
Cost of sales		**(94,848)**	(92,329)
Gross profit		**53,866**	44,889
Operating expenses	2	**(23,080)**	(17,394)
Selling and administrative expenses	2	**(13,608)**	(13,132)
Share based payment expense	2	**(917)**	(206)
Depreciation and amortisation	2	**(5,074)**	(4,793)
		(42,679)	(35,525)
Operating profit	3	**11,187**	9,364
Interest receivable		**42**	22
Interest payable and similar charges	6	–	(46)
Profit on ordinary activities before taxation		**11,229**	9,340
Tax on profit on ordinary activities	7	**(2,222)**	(2,026)
Profit for the financial year	21	**9,007**	7,314

All of the activities of the group are classed as continuing.

The group has no recognised gains or losses other than the results for the year as set out above.

The company has taken advantage of section 408 of the Companies Act 2006 not to publish its own profit and loss account.

Group balance sheet

	Note	2013 £'000	2012 £'000
Fixed assets			
Intangible assets	9	**9,716**	10,243
Tangible assets	10	**12,796**	18,153
		22,512	28,396
Current assets			
Stocks	12	**541**	326
Debtors	13	**26,970**	28,667
Cash at bank and in hand		**14,642**	7,183
		42,153	36,176
Creditors: amounts falling due within one year	15	**(26,530)**	(28,723)
Net current assets		**15,623**	7,453
Total assets less current liabilities		**38,135**	35,849
Creditors: amounts falling due after more than one year	16	**(1,439)**	(8,028)
		36,696	27,821
Provisions for liabilities	17	**(939)**	(885)
		35,757	26,936
Capital and reserves			
Called-up equity share capital	19	**223**	207
Share premium account	21	**2,294**	2,263
Capital redemption reserve	21	**28**	27
Share option reserve	21	**1,053**	687
Foreign exchange reserve	21	**14**	3
Profit and loss account	21	**32,145**	23,749
Shareholders' funds	22	**35,757**	26,936

These consolidated financial statements were approved by the directors and authorised for issue on 24 July 2014 and are signed on their behalf by:

R M Falconer
Director
Company number: 4287779

G Sreeves
Director

Company balance sheet

	Note	2013 £'000	2012 £'000
Fixed assets			
Intangible assets	9	**1,856**	1,711
Tangible assets	10	**12,258**	17,861
Investments	11	**11,895**	10,973
		26,009	30,545
Current assets			
Debtors	13	**751**	1,581
Cash at bank and in hand		**1,002**	500
		1,753	2,081
Creditors: amounts falling due within one year	15	**(11,875)**	(15,994)
Net current liabilities		**(10,122)**	(13,913)
Total assets less current liabilities		**15,887**	16,632
Creditors: amounts falling due after more than one year	16	**–**	(6,924)
		15,887	9,708
Capital and reserves			
Called-up equity share capital	19	**223**	207
Share premium account	21	**2,294**	2,263
Capital redemption reserve	21	**28**	27
Share option reserve	21	**446**	–
Profit and loss account	21	**12,896**	7,211
Shareholders' funds	22	**15,887**	9,708

These consolidated financial statements were approved by the directors and authorised for issue on 24 July 2014 and are signed on their behalf by:

R M Falconer
Director

G Sreeves
Director

Company number: 4287779

Group cash flow statement

	Note	2013 £'000	2012 £'000
Net cash inflow from operating activities	23	**16,331**	10,421
Returns on investments and servicing of finance	23	**42**	(24)
Taxation	23	**(2,363)**	(1,177)
Capital expenditure and financial investment	23	**(5,907)**	(2,662)
Acquisitions and disposals	23	**–**	(893)
Cash inflow before financing		**8,103**	5,665
Financing	23	**(644)**	(10,601)
Increase /(Decrease) in cash	23	**7,459**	(4,936)

Notes to the consolidated financial statements

1 Turnover

The turnover and profit before tax are attributable to the one principal activity of the group. An analysis of turnover is given below:

	2013 £'000	2012 £'000
United Kingdom	**148,714**	137,218

2 Other operating charges

	2013 £'000	2012 £'000
Operating expenses	**23,080**	17,394
Selling and administrative expenses	**13,608**	13,132
Share based payment expense	**917**	206
Depreciation and amortisation	**5,074**	4,793
	42,679	35,525

3 Operating profit

Operating profit is stated after charging:

	2013 £'000	2012 £'000
Amortisation:		
Goodwill	**672**	647
Other intangible fixed assets	**699**	512
Depreciation:		
Tangible fixed assets, owned	**3,703**	3,634
Fees payable to the company's auditor for the audit of the company accounts	**18**	18
Fees payable to the company's auditor for other services:		
The audit of the company's subsidiaries	**62**	61
Operating lease costs:		
Land and buildings	**1,078**	976
Plant and equipment	**62**	50

4 Particulars of employees and directors

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

	2013 No	2012 No
Operational	214	168
Selling, administration and distribution	217	201
	431	369

The aggregate payroll costs of the above were:

	2013 £'000	2012 £'000
Wages and salaries	17,755	15,848
Social security costs	2,089	1,989
Other pension costs	1,180	1,005
	21,024	18,842

5 Directors

Remuneration in respect of directors was as follows:

	2013 £'000	2012 £'000
Emoluments receivable	350	303
Value of company pension contributions to money purchase schemes	206	474
	556	777

Emoluments of highest paid director:

	2013 £'000	2012 £'000
Total emoluments (excluding pension contributions)	243	187
Value of company pension contributions to money purchase schemes	86	248
	329	435

839,132 B1 shares were issued to the highest paid director in the year under a long term incentive scheme.

The number of directors who accrued benefits under company pension schemes was as follows:

	2013 No	2012 No
Money purchase schemes	2	2

6 Interest payable and similar charges

	2013 £'000	2012 £'000
Other interest payable	–	46

7 Taxation on ordinary activities

(a) Taxation

	2013 £'000	2012 £'000
Current tax:		
UK Corporation tax based on the results for the year at 22.25% (2012: 24.5%)	2,871	2,103
Adjustment in respect of prior year	(507)	(308)
Total current tax	2,364	1,795
Deferred tax:		
Origination and reversal of timing differences (note 14)	(142)	231
Tax on profit on ordinary activities	2,222	2,026

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 22.25% (2012: 24.5%).

	2013 £'000	2012 £'000
Profit on ordinary activities before taxation	11,229	9,340
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 22.25% (2012: 24.5%)	2,498	2,288
Fixed asset differences	1	1
Expenses not deductible for tax purposes	182	211
Income not chargeable for tax purposes	(6)	(218)
Adjustments to brought forward values	2	(38)
Additional deduction for R&D expenditure	(358)	(344)
Capital allowances in excess of depreciation	–	(35)
Depreciation in excess of capital allowances	96	47
Other timing differences	202	47
Utilisation of tax losses	–	(15)
Unrelieved tax losses	103	–
Marginal Relief	(7)	–
Goodwill amortisation	158	159
Adjustment in respect of prior year	(507)	(308)
Total current tax	2,364	1,795

8 Profit attributable to members of the parent company

The parent company's profit for the year was £6,296,000 (2012: £5,313,000).

9 Intangible fixed assets

The group

	Goodwill on consolidation £'000	Purchased Goodwill £'000	Software Development assets £'000	Total £'000
Cost				
At 1 January 2013	14,239	1,618	2,546	18,403
Additions	–	–	844	844
At 31 December 2013	14,239	1,618	3,390	19,247
Amortisation				
At 1 January 2013	5,707	1,618	835	8,160
Charge for the year	672	–	699	1,371
At 31 December 2013	6,379	1,618	1,534	9,531
Net book value				
At 31 December 2013	**7,860**	**–**	**1,856**	**9,716**
At 31 December 2012	8,532	–	1,711	10,243

The company

	Software Development assets £'000	Total £'000
Cost		
At 1 January 2013	2,546	2,546
Additions	844	844
At 31 December 2013	3,390	3,390
Amortisation		
At 1 January 2013	835	835
Charge for the year	699	699
At 31 December 2013	1,534	1,534
Net book value		
At 31 December 2013	**1,856**	**1,856**
At 31 December 2012	1,711	1,711

9 Intangible fixed assets (continued)

The goodwill on consolidation relates to the acquisition of Gamma Network Solutions Limited, Gamma Business Communications Limited, Go Worldwide Communications Limited, Blue Spot Technologies Limited and Peach Amber Kft and represents the excess of the consideration over the fair value of the assets acquired.

The purchased goodwill represents the cost of acquiring the customer bases of three smaller re-sellers.

10 Tangible fixed assets

The group	Network assets £'000	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2013	37,239	9,855	1,059	37	48,190
Additions	3,361	1,683	19	–	5,063
Disposals	(6,717)	–	–	–	(6,717)
At 31 December 2013	33,883	11,538	1,078	37	46,536
Depreciation					
At 1 January 2013	21,584	7,546	870	37	30,037
Charge for the year	2,441	1,179	83	–	3,703
At 31 December 2013	24,025	8,725	953	37	33,740
Net book value					
At 31 December 2013	**9,858**	**2,813**	**125**	**–**	**12,796**
At 31 December 2012	15,655	2,309	189	–	18,153

10 Tangible fixed assets (continued)

The company	Network assets £'000	Computer equipment £'000	Fixtures & fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2013	37,151	8,501	636	37	46,325
Additions	3,320	1,325	13	–	4,658
Disposals	(6,717)	–	–	–	(6,717)
At 31 December 2013	33,754	9,826	649	37	44,266
Depreciation					
At 1 January 2013	21,558	6,350	519	37	28,464
Charge for the year	2,417	1,076	51	–	3,544
At 31 December 2013	23,975	7,426	570	37	32,008
Net book value					
At 31 December 2013	**9,779**	**2,400**	**79**	**–**	**12,258**
At 31 December 2012	15,593	2,151	117	–	17,861

11 Investments

The company	Shares in group undertakings £'000
Cost	
At 1 January 2013	10,973
Capital Contribution	922
At 31 December 2013	11,895
Net book value	
At 31 December 2013	**11,895**
At 31 December 2012	10,973

11 Investments (continued)

At 31 December 2013 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:

	Class of share capital	Proportion held by the parent company	Nature of business
Gamma Telecom Limited	Ordinary	100%	Telephony services
Gamma Metronet Limited	Ordinary	100%	Dormant
Gamma Business Communications Limited	Ordinary	100%	Retail telephony services
Peach Amber Kft	Ordinary	100%	Software services

At 31 December 2013 Gamma Telecom Limited was a member of the following company which is registered in England and Wales:

	Class of share capital	Proportion held by the parent company	Nature of business
NP4UK Limited	Limited by Guarantee	n/a	Dormant

At 31 December 2013, Gamma Business Communications Limited held share capital of the following subsidiaries, all of which are registered in England and Wales:

	Class of share capital	Proportion held by the parent company	Nature of business
Gamma Network Solutions Limited	Ordinary	100%	Data and communications networks
Uniworld Bureau Services Limited	Ordinary	100%	Dormant
Go Worldwide Communications Limited	Ordinary	100%	Dormant
Blue Spot Technologies Limited	Ordinary	100%	Dormant

12 Stocks

	The group		The company	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Consumables	**541**	280	**–**	–
Work in progress	**–**	46	**–**	–
	541	326	**–**	–

13 Debtors

	The group		The company	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Trade debtors	**15,006**	19,213	–	–
Amounts owed from group undertakings	–	–	**637**	1,215
Other debtors	**613**	1,215	**114**	114
Prepayments and accrued income	**10,763**	7,895	–	252
Deferred tax asset (note 14)	**588**	344	–	–
	26,970	28,667	**751**	1,581

14 Deferred taxation

The group's movement in the deferred taxation provision during the year was:

	The group		The company	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Net (liability)/asset brought forward	**(232)**	9	**(573)**	(106)
Profit and loss account movement arising during the period (note 7)	**142**	(231)	**(58)**	(467)
Acquisition of subsidiary undertaking	–	(10)	–	–
Net (liability) carried forward (note 13/15)	**(90)**	(232)	**(631)**	(573)

14 Deferred taxation (continued)

The deferred taxation liability consists of the tax effect of timing differences in respect of:

	The group		The company	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Excess of depreciation over taxation allowances of fixed assets	**124**	63	**–**	–
Excess of taxation allowances over depreciation of fixed assets	**(678)**	(576)	**(631)**	(573)
Other timing differences	**464**	281	**–**	–
	(90)	(232)	**(631)**	(573)

In the current year there were no unrecognised deferred tax assets or liabilities in the Company or Group. In 2012 there was an unrecognised deferred tax asset of £128,000 in the Group and £81,000 in the Company.

15 Creditors: amounts falling due within one year

	The group		The company	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Trade creditors	**6,268**	5,601	**763**	1,102
Corporation tax	**1,103**	1,101	**270**	–
Taxation and social security	**1,432**	1,927	**1,338**	1,135
Other creditors	**1,559**	1,387	**–**	–
Accruals and deferred income	**15,490**	18,131	**5,205**	4,768
Amounts owed to group undertakings	**–**	–	**3,668**	8,416
Deferred tax liability	**678**	576	**631**	573
	26,530	28,723	**11,875**	15,994

16 Creditors: amounts falling due after more than one year

	The group		The company	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Other creditors	**1,439**	8,028	**–**	6,924

17 Provisions for liabilities and charges

	The group		The company	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Balance at 1 January	**885**	913	**–**	–
Profit and loss charge in the year	**54**	(28)	**–**	–
Balance at 31 December	**939**	885	**–**	–

Provisions are created for dilapidations in respect of property leases where the building (which is the subject of the lease) has to be returned to the landlord in a defined condition. Once the stage of the lease has been reached at which a reliable estimate of costs can be made, a provision is built up over the remaining length of the lease.

18 Commitments under operating leases

At 31 December 2013 the group had annual commitments under non-cancellable operating leases as set out below.

	2013		2012	
	Land and buildings	**Other**	Land and Buildings	Other
	£'000	**£'000**	£'000	£'000
In one year or less	**209**	**–**	143	–
Between one and five years	**245**	**78**	290	23
In five years or more	**446**	**–**	238	–
	900	**78**	671	23

19 Share capital

Authorised share capital:

	2013	2012
	£'000	£'000
50,000,000 Ordinary shares of 1p each	**500**	500
1,410,083 A1 Shares of 0.1p each	**1**	–
1,700,083 B1 shares of 1p each	**17**	–

Allotted, called up and fully paid:

	2013		2012	
	No	**£'000**	No	£'000
Ordinary shares of 1p each	20,590,196	206	20,731,862	207
B1 shares of 1p each	1,700,083	17	–	–

In June 2013 the company bought back 141,666 ordinary shares, representing 0.7% of the called up ordinary share capital, with a nominal value of 1p each. A cash consideration of £480,428 was paid with the purpose of returning funds to shareholders. During 2013 1,700,083 B1 shares were issued for a cash consideration of £46,141.

19 Share capital (continued)

The group has granted the following options:

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

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

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

20 Share-based payments

Share options subject to equity-settled share-based payments are set out within note 19.

Equity-settled share-based payments are measured at fair value (excluding the effect of non-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 group'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 for the year ended 31 December 2013 of £917k (2012: £206k) 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 in that company.

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

	2013	2012
Share price at grant date (pence)	**243-339**	n/a
Exercise price (pence)	**0-100**	n/a
Expected volatility	**25%**	n/a
Risk free rate	**0.823%**	n/a
Expected dividend yield	**0%**	n/a

21 Reserves

The group

	Share premium account £'000	Capital Redemption Reserve £'000	Share option reserve £'000	Foreign exchange reserve £'000	Profit and loss account £'000
At 1 January 2013	2,263	27	687	3	23,749
Profit for the year	–	–	–	–	9,007
Loss on retranslation of foreign subsidiary	–	–	–	11	–
Share buybacks and cancellations	–	1	(80)	–	(610)
Share issues	31	–	446	–	(1)
At 31 December 2013	2,294	28	1,053	14	32,145

The company

	Share premium account £'000	Capital Redemption Reserve £'000	Share option reserve £'000	Profit and loss account £'000
At 1 January 2013	2,263	27	–	7,211
Profit for the year	–	–	–	6,296
Share buybacks and cancellations	–	1	–	(610)
Share issues	31	–	446	(1)
At 31 December 2013	2,294	28	446	12,896

22 Reconciliation of shareholders' funds and movements on reserves

The group	2013 £'000	2012 £'000
Profit for the financial year	**9,007**	7,314
New shares issued	**493**	–
Foreign exchange movement	**11**	–
Share buybacks and cancellations	**(690)**	(6,601)
Net increase in shareholders' equity funds	**8,821**	713
Opening shareholders' funds	**26,936**	26,223
Closing shareholders' funds	**35,757**	26,936

The company	2013 £'000	2012 £'000
Profit for the financial year	**6,296**	5,313
New shares issued	**493**	–
Share buybacks and cancellations	**(610)**	(6,551)
Net increase /(decrease) in shareholders' equity funds	**6,179**	(1,238)
Opening shareholders' funds	**9,708**	10,946
Closing shareholders' funds	**15,887**	9,708

23 Notes to the statement of cash flows

Reconciliation of operating profit to net cash inflow from operating activities

	2013 £'000	2012 £'000
Operating profit	**11,187**	9,364
Depreciation and amortisation	**5,074**	4,793
Profit on sale of tangible fixed assets	**–**	1
(Increase) in stocks	**(215)**	(121)
Decrease/(increase) in debtors	**1,946**	(3,877)
(Decrease)/increase in creditors	**(2,172)**	319
Increase/(decrease) in provisions	**54**	(58)
Gain on retranslation of foreign subsidiary	**11**	–
FRS 20 charge on share options issued/cancellations	**446**	–
Net cash inflow from operating activities	**16,331**	10,421

23 Notes to the statement of cash flows (continued)

Returns on investments and servicing of finance

	2013	2012
	£'000	£'000
Interest received	**42**	22
Interest paid	–	(46)
Net cash outflow from returns on investments and servicing of finance	**42**	(24)

Taxation

	2013	2012
	£'000	£'000
Taxation	**(2,363)**	(1,177)

Capital expenditure and financial investment

	2013	2012
	£'000	£'000
Payments to acquire tangible fixed assets	**(5,063)**	(1,787)
Payments to acquire intangible fixed assets	**(844)**	(875)
Net cash outflow for capital expenditure and financial investment	**(5,907)**	(2,662)

Acquisitions and disposals

	2013	2012
	£'000	£'000
Purchase of subsidiary undertaking	**–**	(802)
Net overdraft acquired with subsidiary	**–**	(91)
Net cash outflow for acquisitions and disposals	**–**	(893)

Financing

	2013	2012
	£'000	£'000
Loans repaid in the year	**–**	(4,000)
Share buybacks and cancellations	**(690)**	(6,601)
Share issues	**46**	–
Net cash outflow from financing	**(644)**	(10,601)

23 Notes to the statement of cash flows (continued)

Reconciliation of net cash flow to movement in net funds

	2013 £'000	2012 £'000
Increase/(decrease) in cash in the year	**7,459**	(4,936)
Cash outflow from decrease in debt	**–**	4,000
Change in net funds from cash flows	**7,459**	(936)
Net funds at 1 January	**7,183**	8,119
Net funds at 31 December	**14,642**	7,183

Analysis of changes in net funds

	At 1 Jan 2013 £'000	Net Cash flows £'000	At 31 Dec 2013 £'000
Net cash:			
Cash in hand and at bank	7,183	7,459	**14,642**

24 Contingent liabilities

Neither the group nor the company had any contingent liabilities at 31 December 2013 or at 31 December 2012.

25 Capital commitments

Neither the group nor the company had any capital commitments at 31 December 2013 or at 31 December 2012.

26 Pension costs

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 in the year amounted to £1,180,000 (2012: £1,005,000).

27 Related Party Transactions

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

28 Post Balance Sheet Events

On 12 May 2014 the entire share capital of Gamma Telecom Holdings Limited was acquired by Gamma Communications Limited by way of a share for share exchange and is now the parent company.

On 9 July 2014 we learned of a successful appeal in the Supreme Court in a case in which Gamma was an intervener. It is not clear at this stage what quantifiable benefit might arise to Gamma as a result of this process. More information can be found in the Chief Executive's Statement.