



iomart Group plc
Report and Financial Statements
31 December 2000



IOMART GROUP PLC

REPORT AND FINANCIAL STATEMENTS 2000

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IOMART GROUP PLC

REPORT AND FINANCIAL STATEMENTS 2000

OFFICERS AND PROFESSIONAL ADVISERS

Directors

Nick Kuenssberg (Non-executive Chairman)
Angus MacSween (Chief Executive Officer)
Bill Dobbie (Business Development Director)
David Harrison (Finance Director)
Neil Finlayson (Technical Director)
Sarah Haran (Customer Service Director)
Fred Shedden (Non-executive Director)

Secretary

Stewart Moir

Registered office

Fleming Pavilion
Todd Campus
West of Scotland Science Park
Glasgow G20 0XA

Nominated adviser and broker

Peel Hunt plc
62 Threadneedle Street
London EC2R 8HP

Bankers

Bank of Scotland
235 Sauchiehall Street
Glasgow G2 3EY

Solicitors

McGrigor Donald
Pacific House
70 Wellington Street
Glasgow G2 6SB

Auditors

Deloitte & Touche
Lomond House
9 George Square
Glasgow G2 1QQ

Registrars

Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Company Registration No

SC 204560

While iomart Limited was founded in late 1998 and revenues began in August 1999 the calendar year 2000 is the first real period of trading.

Gross profit for the period was £2.2 million. Turnover was £3.6 million with a loss of £4.4 million before non-recurring expenses of £0.7 million are included to give a loss for the year of £5.1 million. Shareholders' funds at year end were £13.6 million of which £12 million was cash.

The prospects for both consumer and business markets in early 2000 justified the successful flotation of the group in April, as a result of which £19 million net of expenses was raised through the placing and public offer at a price of 90p per share.

Both the financial markets for the so called "new economy" sector and the economic conditions for telecoms companies have been highly volatile, characterised by downward pressure on prices and traffic under performing anticipated activity levels. The introduction of perceived free services have undermined the ISP sector while DSL broadband demand has disappointed. Your board believes that there are many companies whose business models are far from robust; indeed many of them have been seeking additional funding.

For our part we have reviewed this turbulent scene and determined that the future will be based on the business sector rather than on the consumer sector where current aggressive pricing and weaker volume expectations make profitability a tentative long term prospect. We have accordingly reduced our marketing spend and cut back on the additional consumer services planned. This has culminated with the sale today of our Madasafish ISP business for £3 million cash.

These funds will be invested in increasing our activity in the business market. This has focused on DSL and in particular on the recently announced ThinkMail, our high volume, high security e-messaging service allied to mass storage capacity, which we believe is the leading product in the UK in this fast-growing sector.

At the year-end cash reserves were £12 million compared with a current monthly cash requirement of approximately £0.5 million. Our cash position has been further enhanced by the sale of Madasafish and this gives us comfort as well as capacity for the acquisition of businesses which will add value and revenue to the group in complementary sectors. We reviewed a number of such businesses and indeed have invested resource up to the due diligence stage. However we decided not to proceed with any project other than NSL in the belief that the prices asked were excessive under the emerging market conditions. NSL is a web hosting and co-location business in Edinburgh acquired in September 2000 which has been fully integrated into the company.

During the year we completed our executive team including David Harrison as finance director and three experienced and talented senior executives covering sales, DSL and messaging services. We now have a solid platform well placed to deliver service to our customers at levels amongst the best available in the UK.

The directors are working to build a solid long-term business rather than looking for quick results. Your board is confident that, after first quarter revenues broadly in line with expectations, the group will make real progress in the current year with a redefined strategy, innovative business products, a reduced cash burn and a clear focus on profitability in the first half of 2002.

Nick Kuenssberg
Non-executive chairman
10 May 2001

Our maiden year as a public company was certainly exhilarating. The internet seemed to advance and retreat like a tsunami and there were some spectacular highs and lows along the way. In this report, I will give a brief commentary on the business as it was at the start of the year, an insight into our strategic thinking as we progressed through the year and a view of where iomart is being positioned for the future.

iomart launched with two distinct business streams; internet dial access for consumers with our Madasafish brand and easybuild websites for small businesses marketed via the Virgin group and its Virgin Biznet brand. We believed these two business streams would enjoy solid growth.

On the consumer front Madasafish showed strong growth through the spring of 2000 until late May when the whole industry was ambushed by companies with naive and inexperienced management teams clambering over one another to announce ever more "free" services to the consumer. Our business plan was founded on many years experience of the telecoms business and the economic realities therein. That plan did not factor in our competitors subsidising individual consumers at a rate of up to £30 per month per user. We had neither the inclination nor the resources to go down this road and the number of ISP casualties and lower valuations we have seen over the last six months has vindicated that policy. This climate was also compounded by ill-informed commentators who were bemoaning the high cost of internet access in the UK. In fact for average users of around 400 minutes per month or less the UK has had probably the cheapest internet access in the world.

Inevitably our growth slowed as consumers moved to subsidised packages and we awaited market clarity and a fixed price package that was economically viable. The regulator has singularly failed to create a regime whereby internet traffic is provided at a fixed cost to BT's competitors, thereby making it impossible for them to provide fixed price packages at a known cost with a known margin. Despite this background and a reduced marketing spend we attracted close to 200,000 registrations during the year, a creditable performance.

Notwithstanding this apparent success the business model was not sufficiently robust and we decided to dispose of the Madasafish ISP activity. It has been sold as of today at a price of £3 million in cash. This generates funds which will be targeted more sensibly towards our business to business activities in line with our revised strategy.

Our Virgin biznet business also came up against the "free" market share at any cost mentality, with the availability of many such competing offers confusing the market. However we have continued to work hard with Virgin to build this business and whilst it has not achieved the forecast numbers, we believe that we jointly manage the strongest, most successful business of its type in the UK today.

During 2000 we had also intimated our intentions to enter the broadband market with ADSL. We spent significant time and effort on plans to take advantage of the competitive environment we were led to believe was being created by the "local loop unbundling" process managed by OFTEL. We quickly learned that building any competing network to BT under the scenario envisaged by OFTEL was untenable, as the economics are fundamentally flawed by the BT price structure agreed by OFTEL. In the absence of a major policy shift we believe BT will retain a de facto national monopoly for the foreseeable future. Our ADSL deployment is therefore based on reselling BT's wholesale product with the addition of iomart value-added services. Today we believe we are currently No. 3 or 4 in the UK in terms of installed ADSL lines and our sales continue to grow.

In each area of business where we have been active over the year we have as a team punched above our weight and this reflects the strong management team we have in place.

In September 2000 we acquired NSL, an Edinburgh based web hosting company. This fitted with our requirement to provide business class web hosting services alongside business access. It gives us a solid platform in a good Edinburgh office from which to grow this business and fits with our revised strategy.

As the year progressed and the difficulties in our chosen markets became apparent we worked hard to create a strategy which will maintain and enhance shareholder value longer term. We believed that it was important to target the business marketplace, as businesses recognise the need to pay for products and services. Further we needed to introduce value-added products alongside the access and simple hosting products.

My experience in the internet arena has led me to a strongly held view that e-mail has been the main driver of internet growth and is the original and ongoing 'killer application'. It remains the strongest growing element of the internet today. Every business or organisation will need to have it. We concluded that we should develop a set of products around e-mail. As well as being compelling products in their own right, they should:

- ⊙ create recurring revenue streams
- ⊙ be highly scalable
- ⊙ be in large and growing markets with global potential
- ⊙ have a significant element of own intellectual property
- ⊙ suffer nil or minimal regulatory burdens
- ⊙ enjoy good margins
- ⊙ have appropriate barriers to entry.

I believe our new Thinkmail product set meets all these criteria. Every business or organisation will need e-mail and it is predicted that a large proportion of the market will move to outsource e-mail and messaging requirements as those become mission critical to the organisation and the difficulties of running ever more complex services internally become increasingly apparent.

Many PCs in business today are in effect e-mail terminals, and the e-mail software programme is quickly becoming the document storage repository of virtually every document. This, combined with growing requirements for virus scanning, security, webmail, mobile services and archiving means we are in an area set to grow significantly over the next two to three years.

As our experience in the business market grows it is becoming clear that business customers often require more than single products or services. We are finding clear evidence of strong demand for bundled packages that provide broadband access, e-mail services and web hosting as a combined offering. This is being driven by the need for organisations to simplify the management of their DNS / IP address, e-mail servers and web servers. To deliver these services we have developed effective and strong business processes around sales, provisioning, billing and customer service that would be the envy of many larger companies.

During 2001 we have continued to implement this plan, refocusing the group away from the consumer sector towards an outsourced messaging business. As we move into the second half of the year iomart's strategy will be to become a world class messaging company, investing in its own product development and intellectual property alongside other messaging software, whilst providing the complementary access (ADSL and dial) and web hosting services being demanded by the market today.

Your board and management team recognise that old fashioned valuation criteria are coming back into vogue and earnings growth is the key driver once again. We welcome that and you can be assured that we are keenly focused on taking iomart through breakeven to profitability.

Angus MacSween
Chief Executive Officer
10 May 2001

Turnover

Turnover for the year of £3.58 million is made up of £2.03 million from dial up access revenue, £0.16 million from ADSL and £1.39 million from web services (co-location, hosting and domain names). Turnover from NSL (Internet) Ltd, acquired on 27 September 2000, is included for three months and amounts to £0.14 million, all in respect of web services.

Gross profit

Gross profit margin for the year was 60%.

Net operating expenses

Administrative expenses of £7.66 million comprise £2.74 million for salaries and other staff costs, £1.52 million for marketing, £0.52 million for the costs of operating the group's telecom network and related technical infrastructure, £1.52 million for premises and office expenses, £1.04 million for depreciation and amortisation and £0.32 million for items regarded by the board as being outside the normal operations of the business. This amount of £0.32 million includes £0.15 million for professional fees relating to the stock exchange listing, £0.11 million for fees and other costs in connection with potential merger and acquisition opportunities not completed and £0.06 million in connection with the local loop unbundling process. Other operating income of £0.22 million relates primarily to grants received.

Operating loss

The total operating loss of £5.29 million is attributable to £5.14 million from continuing operations and £0.15 million from NSL.

Net interest

Bank interest receivable amounted to £0.67 million. Interest payable on borrowings was £0.15 million. Interest expense also includes a charge of £0.33 million in respect of the early redemption of a loan.

Loss on ordinary activities

The loss for the year was £5.1 million including £0.7 million for the loan redemption fee and other costs outside normal operations. Excluding these items the adjusted loss is £4.4 million. No tax charge arises in respect of the group's trading.

Cash and borrowings

Cash balances at 31 December 2000 were £12.03 million. Borrowings under finance leases amounted to £2.63 million. The group had no other debt outstanding.

Financial instruments

The group's financial instruments comprise cash and liquid resources and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the group's operations. The main risk to the group is interest rate risk arising from floating rate interest rates. All transactions are in UK sterling and the group does not use derivative instruments.

Financial Position

The group's financial position remains strong with sufficient cash reserves to fund the current business plan and take the group through to profitability.

David Harrison
Finance Director
10 May 2001

While the company is listed on the Alternative Investment Market and is therefore not required to comply with the provisions of the Combined Code, the board is committed to ensuring that proper standards of corporate governance operate and has established governance procedures and policies that are considered appropriate to the nature and size of the group. The board considers that at this stage in the group's development, the expense of full compliance with the Combined Code is not appropriate although it intends, as the group grows, to ensure that it observes the provisions of the Code, so far as is practicable.

Directors and the board

The board directs the group's activities in an effective manner through regular monthly board meetings and monitors performance through timely and relevant reporting procedures. Where it deems it necessary the board requests reports on specific areas outwith the normal reporting regime.

The board comprises five executive and two non-executive directors. The roles of chairman and chief executive are separate appointments and it is board policy that this will continue.

The board has established two committees, the audit committee and the remuneration committee, membership of both being exclusively non-executive. Nick Kuenssberg is chairman of the audit committee and Fred Shedden chairman of the remuneration committee. A separate report on directors' remuneration is set out on pages 8 to 10.

Accountability and audit

The board considers that the annual report presents a balanced and understandable assessment of the group's performance and prospects.

The audit committee has written terms of reference setting out its authority and duties and meets at least twice per annum with the external auditors.

Internal financial control

The group has established policies covering the key areas of internal financial control and the appropriate procedures, controls, authority levels and reporting requirements which must be applied throughout the group. The key procedures that have been established in respect of internal financial control are as follows:

- ⊙ Financial reporting; there is in place a comprehensive system of financial reporting based on the annual budget which the board approves. The results for the group as whole and each business sector are reported monthly, along with an analysis of key variances. Year-end forecasts are updated on a regular basis.
- ⊙ Investment appraisal; applications for capital expenditure are made in a prescribed format which places emphasis on the commercial and strategic as well as the financial justification. All larger projects require specific board approval.

No system can provide absolute assurance against material misstatement or loss but the group's systems are designed to provide reasonable assurance as to the reliability of financial information, ensuring proper control over income and expenditure, assets and liabilities.

Remuneration Committee

The remuneration committee determines, on behalf of the board, the group's policy for executive remuneration and the individual remuneration packages for executive directors. In setting the group's remuneration policy, the remuneration committee considers a number of factors, including the following:

- ⊙ salaries and benefits available to executive directors of comparable companies;
- ⊙ the need to attract and retain executives of an appropriate calibre;
- ⊙ continued commitment of executives to the group's success through appropriate incentive schemes.

Remuneration of non-executive directors

The fees paid to the non-executive directors, who do not receive any bonus or other benefits, are determined by the board.

Non-executive directors' letters of appointment are on a twelve month rolling basis.

Remuneration of executive directors

The remuneration packages of the executive directors comprise the following elements:

- ⊙ **Base salary**
The remuneration committee sets base salaries to reflect responsibilities and the skill, knowledge and experience of the individual.
- ⊙ **Bonus scheme**
The executive directors are eligible to receive a bonus of up to 50% of basic salary dependent on individual and group performance at the discretion of the remuneration committee.
- ⊙ **Car allowance and other benefits**
The executive directors are entitled to a car allowance. However only one director received this allowance in the year ended 31 December 2000. No other benefits were provided.
- ⊙ **Pensions**
Pension contributions to individuals' personal pension arrangements are payable by the group at the rate of twice the contribution made by the director subject to a maximum employer contribution of 10% of basic salary.

All the executive directors other than David Harrison are engaged under service contracts which require a notice period of 12 months given any time on or after 31 March 2002. David Harrison's contract is terminable on 12 months notice at any time.

Directors' remuneration

Details of individual directors' emoluments for the year are as follows:

Name of director	Salary and fees £	Bonus £	Benefits £	Pension contributions £	Year ended	18 month
					31 December 2000 Total £	period ended 31 December 1999 Total £
Executive						
Bill Dobbie	82,500	-	-	-	82,500	37,500
Neil Finlayson	54,583	3,000	-	-	57,583	48,718
Sarah Haran	49,167	3,000	4,800	1,250	58,217	47,150
David Harrison	47,283	4,000	-	-	51,283	-
Angus MacSween	82,500	-	-	-	82,500	37,500
Non-executive						
Nick Kuenssberg	18,750	-	-	-	18,750	-
Fred Shedden	14,977	-	-	-	14,977	-

Directors' interests in shares

The interests of the directors in the shares of the company at 31 December 2000, together with their interests at 1 January 2000 were as follows:

Name of director	Number of ordinary shares	
	31 December 2000	1 January 2000
Bill Dobbie	11,970,000	12,000,000
Neil Finlayson	-	-
Sarah Haran	5,555	-
David Harrison	10,000	-
Nick Kuenssberg	35,277	-
Angus MacSween	17,955,000	18,000,000
Fred Shedden	22,222	-

The shares held by Bill Dobbie and Angus MacSween at 1 January 2000 were at that time shares in iomart Limited, the relevant respective holdings being 600,000 and 900,000 ordinary shares which represented 100% of the ordinary share capital at that time. The figures given above for 1 January 2000 are the equivalent number of shares in the company represented by these iomart Limited shares.



Directors' interests in share options

The interests of the directors at 31 December 2000 in options over the ordinary shares of the company were as follows:

Options over ordinary shares of 1p each

Name of director	1 January 2000	Granted in the year	Exercised	31 December 2000	Exercise price	Date from which exercisable	Expiry date
Neil Finlayson	159,746 (1)	-	-	159,746	5p	11/5/00	14/12/08
	159,747 (1)	-	-	159,747	5p	11/2/01	14/12/08
	159,747 (1)	-	-	159,747	5p	11/2/02	14/12/08
Sarah Haran	159,746 (1)	-	-	159,746	5p	11/5/00	14/12/08
	159,747 (1)	-	-	159,747	5p	11/2/01	14/12/08
	159,747 (1)	-	-	159,747	5p	11/2/02	14/12/08
David Harrison	-	88,889	-	88,889	90p	30/5/01	30/5/10
	-	88,889	-	88,889	90p	30/5/02	30/5/10
	-	122,222	-	122,222	90p	30/5/03	30/5/10
Nick Kuenssberg	-	26,900	-	26,900	90p	19/4/01	19/4/10
	-	26,900	-	26,900	90p	19/4/02	19/4/10
	-	26,901	-	26,901	90p	19/4/03	19/4/10
Fred Shedden	-	17,933	-	17,933	90p	19/4/01	19/4/10
	-	17,934	-	17,934	90p	19/4/02	19/4/10
	-	17,934	-	17,934	90p	19/4/03	19/4/10

(1) These options were originally granted over shares in iomart Limited and were exchanged for options in shares of the company on 29 March 2000 on the basis of 20 shares in the company for each share in iomart Limited. The figures stated at 1 January 2000 show the equivalent number of shares in the company represented by the then existing number of iomart Limited shares.

In addition to the options shown, Angus MacSween and Sarah Haran have 13,454 and 8,072 options respectively under the company's savings related share option scheme. These options were granted on 1 July 2000 at a price of 72p and are exercisable during the period of six months following the third anniversary of commencement of the relevant savings contract.

No options lapsed during the period. No other directors have been granted share options in the shares of the company or other group companies.

The market price of the company's shares at the end of the financial period was 64.5p and the range of prices during the period from flotation on 19 April 2000 to the end of the financial period was between 94.0p and 64.5p.

By order of the board

Stewart Moir
Company Secretary
10 May 2001



IOMART GROUP PLC

REPORT AND FINANCIAL STATEMENTS 2000

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

Principal activity

iomart Group plc was incorporated on 28 February 2000 and on 14 March 2000 it acquired all of the issued share capital of iomart Limited by way of a share for share exchange. The principal activity of the group is the provision of internet services, including access, domain names, web hosting and e-mail management.

Business review and future developments

A review of the results and development of the business for the year and of future developments in the business is contained within the chairman's statement on page 3, the chief executive's review on pages 4 and 5 and the financial review on page 6.

Placing and public offer and admission to AIM

On 19 April 2000 shares in the company were admitted to and issued on the Alternative Investment Market raising £19 million net after expenses through a placing and public offer.

Dividends

No dividends have been paid or proposed for the year ended 31 December 2000 (1999 – nil).

Directors and their interests

The present membership of the board is set out below together with their dates of appointment. In accordance with the company's articles of association, all the directors are required to resign and offer themselves for re-election at the forthcoming annual general meeting. Details of directors' interests in the company's shares are set out in the report of the board to the members on directors remuneration on pages 8 to 10.

Bill Dobbie (1)	Business development director	(appointed 14 March 2000)
Neil Finlayson (1)	Technical director	(appointed 14 March 2000)
Sarah Haran (1)	Customer service director	(appointed 14 March 2000)
David Harrison	Finance director	(appointed 15 May 2000)
Nick Kuenssberg	Non-executive chairman	(appointed 29 March 2000)
Angus MacSween (1)	Chief executive officer	(appointed 14 March 2000)
Fred Shedden	Non-executive director	(appointed 29 March 2000)

(1) The directors noted above were all directors of iomart Limited prior to their appointment as directors of iomart Group plc.

Substantial shareholdings

At 25 April 2001 the following interests in three per cent or more of the issued ordinary share capital had been notified to the company:

	Number of ordinary shares
Angus MacSween	17,955,000
Bill Dobbie	11,970,000
Henderson Smaller Companies Investment Trust	4,398,269
The Fleming Mercantile Investment Trust Plc	3,932,730
Axa Sun Life	3,050,000
Schroder UK Growth Fund plc	1,800,000

Donations

During the year the group made donations of £1,244 for charitable purposes.

Employee involvement

An employee forum meets regularly to consult with staff and to provide feedback to management on any issues raised by employees. A newsletter is sent to all staff every two months, providing information on developments within the group including updates on the group's strategy and details of new products and services provided by the group.

All staff are eligible to receive share options in the company under the group's share option schemes and it is the board's policy to make regular option awards to all levels of staff to encourage staff involvement in and commitment to the group's performance.

Employment of disabled persons

Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

Supplier payment policy and practice

The company and its subsidiaries agree the terms of payment when negotiating the terms and conditions for their transactions with their suppliers. Payment is made in compliance of those terms, subject to the terms and conditions of the relevant transaction having been met by the supplier. The group's average creditor payment period at 31 December 2000 was 49 days (1999 – 54 days). The company did not have any transactions with suppliers.

Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming annual general meeting.

By order of the board

Stewart Moir
Company Secretary
10 May 2001

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those 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 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 group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the group's system of internal financial control, for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We have audited the financial statements on pages 15 to 34 which have been prepared under the accounting policies set out on pages 19 and 20.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, including as described on page 13 preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the UK Listing Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2000 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors
Lomond House
9 George Square
Glasgow
G2 1QQ

10 May 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 December 2000

	Note	Year ended 31 December 2000 £'000	Restated 18 months ended 31 December 1999 £'000
TURNOVER			
Continuing operations	3	3,443	283
Acquisitions		138	-
Total turnover		<u>3,581</u>	<u>283</u>
Cost of sales	3	(1,424)	(225)
Gross profit	3	2,157	58
Administrative expenses		(7,663)	(2,308)
Other operating income		219	151
Net operating expenses	3	<u>(7,444)</u>	<u>(2,157)</u>
OPERATING LOSS			
Continuing operations	3,4	(5,135)	(2,099)
Acquisitions	3	(152)	-
Group operating loss		<u>(5,287)</u>	<u>(2,099)</u>
Net interest	6	185	(64)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			
Tax on loss on ordinary activities	7	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE PERIOD			
		<u>(5,102)</u>	<u>(2,163)</u>
Loss per ordinary share (pence)			
Basic	9	(10.9p)	(11.0p)
Diluted	9	(11.0p)	(11.0p)

There have been no recognised gains and losses attributable to the shareholders other than the loss for the current financial year and accordingly, no statement of total recognised gains and losses is shown.

CONSOLIDATED BALANCE SHEET
31 December 2000

	Note	2000 £'000	1999 £'000
FIXED ASSETS			
Intangible assets	10	1,174	198
Tangible assets	11	3,960	1,291
		<u>5,134</u>	<u>1,489</u>
CURRENT ASSETS			
Debtors	13	1,792	370
Cash at bank and in hand		12,026	475
		<u>13,818</u>	<u>845</u>
CREDITORS: amounts falling due within one year	14	<u>(3,772)</u>	<u>(1,387)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>10,046</u>	<u>(542)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		15,180	947
CREDITORS: amounts falling due after more than one year	15	<u>(1,620)</u>	<u>(1,610)</u>
NET ASSETS/ (LIABILITIES)		<u>13,560</u>	<u>(663)</u>
CAPITAL AND RESERVES			
Called up share capital	17	538	1,500
Capital redemption reserve	18	1,200	-
Share premium account	18	19,087	-
Profit and loss account	18	(7,265)	(2,163)
TOTAL EQUITY SHAREHOLDERS' FUNDS/ (DEFICIT)	19	<u>13,560</u>	<u>(663)</u>

These financial statements were approved by the board of directors on 10 May 2001.
Signed on behalf of the board of directors

Angus MacSween
Director

COMPANY BALANCE SHEET
31 December 2000

	Note	2000 £'000
FIXED ASSETS		
Investments	12	1,525
CURRENT ASSETS		
Debtors	13	6,756
Cash at bank and in hand		12,118
		18,874
CREDITORS: amounts falling due within one year		
		-
NET CURRENT ASSETS		
		18,874
TOTAL ASSETS LESS CURRENT LIABILITIES		
		20,399
CREDITORS: amounts falling due after more than one year		
		-
NET ASSETS		
		20,399
CAPITAL AND RESERVES		
Called up share capital	17	538
Capital redemption reserve	18	1,200
Share premium account	18	19,087
Profit and loss account	18	(426)
TOTAL EQUITY SHAREHOLDERS' FUNDS		
	19	20,399

These financial statements were approved by the board of directors on 10 May 2001.
Signed on behalf of the board of directors

Angus MacSween
Director

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2000

	Note	Year ended 31 December 2000 £'000	18 months ended 31 December 1999 £'000
Net cash outflow from operating activities	20	(4,681)	(1,001)
Returns on investments and servicing of finance	21	185	(64)
Capital expenditure	21	(1,206)	(497)
Acquisitions	21	5	-
Cash outflow before financing		(5,697)	(1,562)
Financing	21	17,248	2,037
Increase in cash in the period		11,551	475
Reconciliation of net cash flow to movement in net funds			
Increase in cash in the period		11,551	475
Cash outflows/(inflows) from debt and lease financing	22	2,077	(537)
Change in net funds/(debt) from cash flows	22	13,628	(62)
New hire purchase and finance leases	22	(2,723)	(1,403)
Hire purchase and finance leases acquired with subsidiary	22	(42)	-
Opening net debt		(1,465)	-
Closing net funds/(debt)	22	9,398	(1,465)

NOTES TO THE ACCOUNTS
Year ended 31 December 2000

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. There has been no impact on the financial statements, following the adoption of Financial Reporting Standard Numbers 15 and 16. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Restatement

Cost of sales and administrative expenses of the prior period have been restated to align them with the revised reporting structure of the group. The effect of this restatement amounts to a transfer of cost of sales to administrative expenses of £1.312 million in the period to 31 December 1999.

Basis of consolidation

iomart Group plc was incorporated on 28 February 2000 and on 14 March 2000 it acquired all of the issued share capital of iomart Limited by way of a share for share exchange. The group financial statements consolidate the financial statements of iomart Group plc and its subsidiary, iomart Limited, under merger accounting principles as if the company had always owned iomart Limited and as though iomart Group plc had always existed. There was no difference between the nominal value of the shares issued by the company and the nominal value of the shares acquired in the purchase of iomart Limited. The results of NSL (Internet) Limited have been incorporated under acquisition accounting principles.

Acquisitions

On the acquisition of a business fair values are attributed to the group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and is capitalised in the group balance sheet in the year of acquisition.

The results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition.

Goodwill and intangible fixed assets

Purchased goodwill arising on the acquisition of a business is capitalised in the year in which it arises and amortised over the directors' estimate of its useful life. The purchased goodwill arising in the year is being amortised over 3 years, which is the directors' estimate of its useful life.

Software licences are capitalised as intangible assets and amortised over the period of the licence.

Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Short-term leasehold improvements	25% per annum
Computer software and equipment	Between 20% and 50% per annum
Office equipment and vehicles	25% per annum

Investments

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value.

Grants

Amounts receivable as capital grants are treated as deferred income and credited to the profit and loss account by instalments on a basis consistent with the depreciation policy. Revenue grants are credited to the profit and loss account in line with the expenditure to which they relate.

1. ACCOUNTING POLICIES (CONTINUED)

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that tax will arise.

Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Development expenditure

Development expenditure is charged to the profit and loss account as incurred.

2. ACQUISITIONS

On 27 September 2000 the whole issued share capital of NSL (Internet) Limited was acquired for a consideration of £1. This acquisition has been accounted for using the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition is £684,000 (see note 23), which is being amortised over 3 years.

3. ANALYSES OF CONTINUING OPERATIONS AND ACQUISITIONS

	Continuing Year ended 31 December 2000 £'000	Acquisitions Year ended 31 December 2000 £'000	Total Year ended 31 December 2000 £'000	Restated continuing 18 months ended 31 December 1999 £'000
Turnover	3,443	138	3,581	283
Cost of sales	(1,361)	(63)	(1,424)	(225)
Gross profit	<u>2,082</u>	<u>75</u>	<u>2,157</u>	<u>58</u>
Administrative expenses	(7,436)	(227)	(7,663)	(2,308)
Other operating income	219	-	219	151
Net operating expenses	<u>(7,217)</u>	<u>(227)</u>	<u>(7,444)</u>	<u>(2,157)</u>
Operating loss	<u>(5,135)</u>	<u>(152)</u>	<u>(5,287)</u>	<u>(2,099)</u>

Turnover comprises revenue from dial up access, ADSL and web services, excluding VAT.

NOTES TO THE ACCOUNTS
Year ended 31 December 2000

4. OPERATING LOSS

	Year ended 31 December 2000 £'000	18 months ended 31 December 1999 £'000
Operating loss is after charging/(crediting)		
Depreciation of tangible fixed assets:		
Owned assets	117	118
Leased assets	709	293
Amortisation of intangible fixed assets	219	-
Loss on sale of assets	24	-
Rentals under operating leases	145	58
Revenue grants	(120)	(99)
Amortised deferred grant income	(89)	(18)
Auditors' remuneration		
- company audit fees	10	15
- group audit fees	26	-
- other services	134	-
	<u> </u>	<u> </u>

Included within administrative expenses are exceptional items totalling £318,000, made up of £151,000 in relation to professional fees for admission to the Alternative Investment Market, £107,000 for professional fees in respect of aborted acquisitions and £60,000 in connection with the local loop unbundling process. There is also an exceptional bank redemption fee as shown in note 6.

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year ended 31 December 2000 £'000	18 months ended 31 December 1999 £'000
Directors' emoluments		
Aggregate emoluments	365	171
Pension contributions to money purchase schemes	1	-
Emoluments payable to the highest paid director are as follows:		
Aggregate emoluments	83	49
Pension contributions to money purchase schemes	-	-

The detailed numerical analysis of directors' remuneration and share options is included in the report of the board to the members on directors' remuneration on pages 8 to 10.

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)

	Year ended 31 December 2000 No	18 months ended 31 December 1999 No
Average number of persons employed by the group:		
Technical	23	10
Customer services	70	18
Sales and marketing	25	4
Administration	15	4
	133	36
	£'000	£'000
Staff costs during the year in respect of these employees were:		
Wages and salaries	2,500	637
Social security costs	244	59
Other pension costs	1	-
	2,745	696
	£'000	£'000

6. NET INTEREST

	Year ended 31 December 2000 £'000	18 months ended 31 December 1999 £'000
Investment income:		
Bank interest receivable	667	21
Interest payable and similar charges:		
Bank overdraft and other borrowings	(13)	(13)
Finance leases and hire purchase contracts	(136)	(72)
Exceptional charge on early redemption of loan	(333)	-
	(482)	(85)
Net interest	185	(64)

7. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no tax charge in the period due to the availability of losses. Unrelieved losses of £7,472,000 are carried forward and are available to reduce the tax liability in respect of future trading profits.

8. LOSS OF PARENT COMPANY

As permitted by Section 230 of the Companies Act, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's loss for the financial period was £426,000.

NOTES TO THE ACCOUNTS
Year ended 31 December 2000

9. LOSS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue on the assumption of conversion of all dilutive potential ordinary shares. The group has only one category of dilutive potential ordinary shares, being those share options granted where the exercise price is more than the average price of the company's ordinary shares during the year.

	Year ended 31 December 2000 £'000	18 months ended 31 December 1999 £'000
Loss for the financial year and basic and diluted earnings attributed to ordinary shareholders	(5,102)	(2,163)
	No '000	No '000
Weighted average number of ordinary shares	46,709	19,651
Effect of dilutive share options	(134)	-
	<u>46,575</u>	<u>19,651</u>
Loss per share	(10.9p)	(11.0p)
Diluted loss per share	(11.0p)	(11.0p)

10. INTANGIBLE ASSETS

The group	Goodwill £'000	Software licences £'000	Total £'000
Cost			
At 1 January 2000	-	282	282
Additions in year	684	511	1,195
At 31 December 2000	<u>684</u>	<u>793</u>	<u>1,477</u>
Accumulated amortisation			
At 1 January 2000	-	84	84
Charge for year	57	162	219
At 31 December 2000	<u>57</u>	<u>246</u>	<u>303</u>
Net book value			
At 31 December 2000	<u>627</u>	<u>547</u>	<u>1,174</u>
At 31 December 1999	<u>-</u>	<u>198</u>	<u>198</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2000

11. TANGIBLE FIXED ASSETS

The group

	Leasehold improvements £'000	Computer software and equipment £'000	Office equipment and vehicles £'000	Total £'000
Cost				
At 1 January 2000	50	1,553	16	1,619
Additions in year	196	3,119	204	3,519
Disposals	-	(23)	(2)	(25)
At 31 December 2000	<u>246</u>	<u>4,649</u>	<u>218</u>	<u>5,113</u>
Accumulated depreciation				
At 1 January 2000	10	316	2	328
Charge for the period	36	756	34	826
Disposals	-	(1)	-	(1)
At 31 December 2000	<u>46</u>	<u>1,071</u>	<u>36</u>	<u>1,153</u>
Net book value				
At 31 December 2000	<u>200</u>	<u>3,578</u>	<u>182</u>	<u>3,960</u>
At 31 December 1999	<u>40</u>	<u>1,237</u>	<u>14</u>	<u>1,291</u>

The net book value of the group's tangible fixed assets includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	Leasehold improvements £'000	Computer software and equipment £'000	Office equipment and vehicles £'000	Total £'000
At 31 December 2000	<u>95</u>	<u>2,933</u>	<u>145</u>	<u>3,173</u>
At 31 December 1999	<u>-</u>	<u>1,096</u>	<u>-</u>	<u>1,096</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2000

12. INVESTMENTS HELD AS FIXED ASSETS

The company	Shares in subsidiary undertakings £'000
Cost	
Additions in year	1,525
Net book value	<hr/>
At 31 December 2000	1,525
	<hr/> <hr/>

All of the above investments are unlisted.

Included within the additions in the year is £1,500,000 in respect of iomart Limited and £25,000 in respect of NSL (Internet) Limited. The details of the share for share exchange between iomart Limited and iomart Group plc are included within the accounting policies on page 19. The following subsidiaries have been consolidated in the group accounts:

	Country of registration and operation	Activity	Portion of ordinary shares held %
iomart Limited	Scotland	Internet services	100
NSL (Internet) Limited	Scotland	Web services	100

13. DEBTORS

The group	2000 £'000	1999 £'000
Trade debtors	557	127
Other debtors	520	140
Prepayments and accrued income	715	103
	<hr/>	<hr/>
	1,792	370
	<hr/> <hr/>	<hr/> <hr/>
The company		
Amounts owed by subsidiary undertakings	6,756	-
	<hr/> <hr/>	<hr/> <hr/>

Included within other debtors is £40,500 in respect of an amount overpaid to Adabrock Broadcasting Company, a partnership owned by Bill Dobbie and Angus MacSween. This amount was repaid after the year end. This represents the maximum amount outstanding during the year and attracted no interest.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

The group	2000 £'000	1999 £'000
Obligations under finance leases and hire purchase contracts (note 16)	1,097	422
Trade creditors	1,373	713
Taxation and social security	149	23
Other creditors	30	-
Accruals and deferred income	1,123	229
	<u>3,772</u>	<u>1,387</u>

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

The group	2000 £'000	1999 £'000
Bank loan	-	1,000
Obligations under finance leases and hire purchase contracts (note 16)	1,531	518
Deferred income	89	92
	<u>1,620</u>	<u>1,610</u>

The bank loan was repayable in full on the earlier of either an admission to the Stock Exchange, or in October 2004. The bank loan was repaid in full on 19 April 2000, the date of admission to the Alternative Investment Market.

16. BORROWINGS

The group	2000 £'000	1999 £'000
Bank loan	-	1,000
Obligations under finance leases and hire purchase contracts	2,628	940
	<u>2,628</u>	<u>1,940</u>

The obligations under finance leases and hire purchase contracts are secured by the related assets and are repayable as follows:

Due within one year	1,097	422
Due between two and five years	1,531	518
	<u>2,628</u>	<u>940</u>

17. CALLED UP SHARE CAPITAL

The group and company	Number of shares			2000 £'000
	Ordinary shares of £1	Deferred shares of 1p	Ordinary shares of 1p	
Authorised				
On incorporation	1,500,000	-	-	1,500
Sub-division	(1,500,000)	120,000,000	30,000,000	-
Shares redeemed	-	(120,000,000)	-	(1,200)
Increase in year	-	-	70,000,000	700
At 31 December 2000	-	-	100,000,000	1,000
Called up, allotted and fully paid				
Allotted on acquisition of subsidiary	1,500,000	-	-	1,500
Sub-division	(1,500,000)	120,000,000	30,000,000	-
Shares redeemed	-	(120,000,000)	-	(1,200)
Allotted in placings and public offer	-	-	23,801,169	238
Shares cancelled	-	-	(5,555)	-
At 31 December 2000	-	-	53,795,614	538

On 28 February 2000 the company issued 2 ordinary shares at £1 per share on incorporation. On 14 March 2000 the company issued 1,499,998 ordinary shares at £1 per share and entered into a share exchange with iomart Limited, on a share for share basis at par value.

On 21 March 2000 the company subdivided the 1,500,000 ordinary shares of £1 into 150,000,000 ordinary shares of 1p and converted 120,000,000 of such ordinary shares into deferred shares of 1p. On 21 March 2000 the company repurchased the 120,000,000 deferred shares for a nil consideration and reduced the share capital accordingly.

On 19 April 2000 the company issued 1,578,947 ordinary shares of 1p each on the exercise of an option, as part of an arrangement for the early settlement of a bank loan, for cash consideration of £78,947.

On 19 April 2000, the company issued 22,222,222 ordinary shares of 1p in a placing and public offer for a cash consideration of £20,000,000. 5,555 ordinary shares of 1p were subsequently cancelled following non payment of the cash consideration of £5,000.

The company operates an approved share option scheme, an unapproved share option scheme and a savings related share option scheme.

NOTES TO THE ACCOUNTS
Year ended 31 December 2000

17. CALLED UP SHARE CAPITAL (Continued)

At 31 December 2000, 90 employees and directors held share options as follows:

	Number of shares	Exercise price per share	Date from which exercisable	Expiry date
Approved scheme	384,550	90.0p	19/4/2003	19/4/2010
	33,333	90.0p	30/5/2003	30/5/2010
	95,000	78.5p	17/8/2003	17/8/2010
	17,500	78.5p	4/9/2003	4/9/2010
	88,000	75.0p	1/11/2003	1/11/2010
Unapproved scheme	91,130	90.0p	19/4/2001	19/4/2010
	91,130	90.0p	19/4/2002	19/4/2010
	91,130	90.0p	19/4/2003	19/4/2010
	88,889	90.0p	30/5/2001	30/5/2010
	88,889	90.0p	30/5/2002	30/5/2010
	88,889	90.0p	30/5/2003	30/5/2010
	21,111	78.5p	17/8/2001	17/8/2010
	21,111	78.5p	17/8/2002	17/8/2010
	21,111	78.5p	17/8/2003	17/8/2010
Other unapproved options	649,623	5.0p	11/5/2000	14/12/2008
	649,628	5.0p	11/2/2001	14/12/2008
	649,629	5.0p	11/2/2002	14/12/2008
Savings related scheme	229,773	72.0p	1/7/2003	1/1/2004

18. STATEMENT OF MOVEMENT ON RESERVES

	Capital redemption reserve £'000	Share premium account £'000	Profit and loss account £'000
The group			
Loss for the financial period	-	-	(5,102)
Shares redeemed	1,200	-	-
New share capital subscribed	-	19,835	-
Expenses of share issue	-	(748)	-
Net increase/(reduction)	1,200	19,087	(5,102)
Opening balance	-	-	(2,163)
Closing balance	1,200	19,087	(7,265)
The company			
Loss for the financial period	-	-	(426)
Shares redeemed	1,200	-	-
New share capital subscribed	-	19,835	-
Expenses of share issue	-	(748)	-
Net increase	1,200	19,087	(426)
Opening balance	-	-	-
Closing balance	1,200	19,087	(426)

19. MOVEMENT IN SHAREHOLDERS' FUNDS

The group	Year ended 31 December 2000 £'000	18 months ended 31 December 1999 £'000
Loss for the financial period	(5,102)	(2,163)
Shares issued – net of expenses	19,325	1,500
Net increase/(reduction) in shareholders' funds	14,223	(663)
Opening shareholders' funds	(663)	-
Closing shareholders' funds	13,560	(663)

NOTES TO THE ACCOUNTS
Year ended 31 December 2000

19. MOVEMENT IN SHAREHOLDERS' FUNDS (CONTINUED)

The company	Year ended 31 December 2000 £'000
Loss for the financial period	(426)
New share capital subscribed	20,825
Closing shareholders' funds	<u>20,399</u>

20. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Year ended 31 December 2000 £'000	18 months ended 31 December 1999 £'000
Operating loss	(5,287)	(2,099)
Depreciation	826	327
Amortisation of intangible assets	219	84
Loss on sale of assets	24	-
Increase in debtors	(1,283)	(370)
Increase in creditors	820	1,057
Net cash outflow from operating activities	<u>(4,681)</u>	<u>(1,001)</u>

21. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	Year ended 31 December 2000 £'000	18 months ended 31 December 1999 £'000
Returns on investments and servicing of finance		
Other interest receivable	667	21
Bank overdraft and other borrowings	(13)	(13)
Finance leases and hire purchase contracts	(136)	(72)
Charge on early redemption of bank loan	(333)	-
	<u>185</u>	<u>(64)</u>
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(695)	(215)
Payments to acquire intangible fixed assets	(511)	(282)
	<u>(1,206)</u>	<u>(497)</u>

21. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT (CONTINUED)

	Year ended 31 December 2000 £'000	18 months ended 31 December 1999 £'000
Acquisitions		
Purchase of subsidiary undertaking	(25)	-
Net cash acquired with subsidiary	30	-
	<u>5</u>	<u>-</u>
Financing		
Issue of ordinary shares	20,073	1,500
Expenses of share issue	(748)	-
New borrowings	-	1,000
Repayment of borrowings	(1,000)	-
Capital element of finance lease rental and hire purchase contract payments	(1,077)	(463)
	<u>17,248</u>	<u>2,037</u>

22. ANALYSIS OF CHANGE IN NET FUNDS/ (DEBT)

	At 31 December 1999 £'000	Cash flow £'000	Acquisitions excluding cash £'000	Other non-cash changes £'000	At 31 December 2000 £'000
Cash at bank and in hand	475	11,551	-	-	12,026
Bank loan	(1,000)	1,000	-	-	-
Finance leases and hire purchase	(940)	1,077	(42)	(2,723)	(2,628)
Total debt	(1,940)	2,077	(42)	(2,723)	(2,628)
Net funds/(debt)	<u>(1,465)</u>	<u>13,628</u>	<u>(42)</u>	<u>(2,723)</u>	<u>9,398</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2000

23. PURCHASE OF SUBSIDIARY UNDERTAKING

On 27 September 2000, the company acquired the entire issued shareholding of NSL (Internet) Limited. Net assets acquired, were as follows:

	£'000
Tangible fixed assets	101
Debtors	140
Cash at bank and in hand	30
Creditors	(888)
Hire purchase contracts	(42)
	<hr/>
	(659)
Goodwill	684
	<hr/>
	25
	<hr/> <hr/>
Satisfied by:	
Cash	25
	<hr/> <hr/>

The directors are satisfied that the net assets acquired are equivalent to the fair values.

The summarised profit and loss account of NSL (Internet) Limited for the period from 1 April 2000 to 27 September 2000 is as follows:

	£'000
Turnover	246
Operating loss	(522)
Loss before and after taxation	(522)
	<hr/> <hr/>

The loss after tax for NSL (Internet) Limited for the period from 1 April 1999 to 31 March 2000 was £323,000.

The subsidiary undertaking acquired during the year contributed £24,000 to the group's net operating cash flows, paid £1,000 in respect of returns on investments and servicing of finance, paid £17,000 for capital expenditure and utilised £7,000 for financing.

24. CAPITAL COMMITMENTS

The group	2000	1999
	£'000	£'000
Contracted for but not provided	140	-
	<hr/> <hr/>	<hr/> <hr/>



25. OPERATING LEASE COMMITMENTS

At 31 December 2000 the group was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 2000 £'000	Other 2000 £'000	Land and buildings 1999 £'000	Other 1999 £'000
Leases which expire:				
Within one year	30	-	30	-
Within two to five years	284	7	-	-
After five years	267	-	44	-
	581	7	74	-
	581	7	74	-

26. RELATED PARTY TRANSACTIONS

During the year the group purchased services of £255,000 (1999 - £72,000) from Abovenet Limited in respect of bandwidth usage and recharged them £33,000. Angus MacSween and Bill Dobbie were directors and shareholders in Abovenet Limited for part of the period. At the year end there is an amount due to Abovenet Limited of £53,000 (1999 - £51,000) and an amount due from Abovenet Limited of £33,000 (1999 - nil).

During the year the group paid rent of £30,000 (1999 - £17,500) to Adabrock Broadcasting Company, a partnership in which Angus MacSween and Bill Dobbie are partners. There was also an overpayment made to Adabrock Broadcasting Company amounting to £41,000 which remained outstanding at the year end. The amount has been repaid after the year end.

On 27 March 1999 iomart Limited entered in to a ten year property rental agreement with Highlands and Islands Enterprise. The rent is £55,000 per annum with a two year rent free period. Neil Finlayson, a director of the company, is also a director of Highlands and Islands Enterprise. There are no outstanding balances at the year end (1999 - £nil).

Fred Shedden was still a partner in McGrigor Donald for a period after being appointed as a non-executive director of the company. During the year the group purchased services of £162,476 from McGrigor Donald. At the year end there was an amount due to McGrigor Donald of £51,856 (1999 - £36,437).

All of the above transactions were carried out at arms' length.

27. FINANCIAL INSTRUMENTS

The group's policies as regards financial instruments are set out in the financial review on page 6. The group does not trade in financial instruments. The group has no undrawn committed borrowing facilities (1999 - nil).

Short-term debtors and creditors have been omitted from all disclosures other than the currency profile. The fair value of the group's cash balances is the same as the carrying values as disclosed in the balance sheets on pages 16 and 17.



NOTES TO THE ACCOUNTS
Year ended 31 December 2000

28. SUPPLEMENTARY PROFIT AND LOSS ACCOUNT

The consolidated profit and loss account for the period from 28 February 2000, the date of incorporation, to 31 December 2000, which represents the parent company's accounting reference period, is as follows:

	£'000
Turnover	3,287
Cost of sales	(1,345)
	<hr/>
Gross profit	1,942
Administrative expenses	(7,036)
Other operating income	200
	<hr/>
Net operating expenses	(6,836)
	<hr/>
Group operating loss	(4,894)
Net interest	214
	<hr/>
Loss before taxation	(4,680)
Taxation	-
	<hr/>
Loss after taxation	(4,680)
	<hr/> <hr/>

29. POST BALANCE SHEET EVENT

On 10 May 2001 the group sold its dial up access business for a cash consideration of £3 million.

NOTICE OF 2001 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2001 annual general meeting of iomart Group plc will be held at Fleming Pavilion, Todd Campus, West of Scotland Science Park, Glasgow G20 0XA on 19 June 2001 at 4pm, for the purpose of considering and, if thought fit, transacting the following business:-

1 Ordinary Business

- 1.1 to receive and adopt the accounts of the company and the directors' and auditors' reports thereon for the year ending 31 December 2000;
- 1.2 to reappoint William Dobbie as a director of the company (a "Director");
- 1.3 to reappoint Neil Finlayson as a Director;
- 1.4 to reappoint Sarah Haran as a Director;
- 1.5 to reappoint David Alexander Harrison as a Director;
- 1.6 to reappoint Nicholas Christopher Dwelly Kuenssberg as a Director;
- 1.7 to reappoint Angus MacSween as a Director;
- 1.8 to reappoint Alfred Charles Shedden as a Director;
- 1.9 to reappoint Deloitte & Touche, Chartered Accountants, as auditors of the company and to authorise the directors to fix their remuneration;

2 Special Business

to consider and, if thought fit, pass the following resolution as an ordinary resolution:-

that the directors be and they are hereby empowered generally and unconditionally authorised to exercise all of the powers of the company to allot relevant securities (within the meaning of Section 80(2) of the Companies Act 1985) subject always to the provisions of the articles of association of the company provided that:-

- (a) the maximum nominal amount of relevant securities to be allotted in pursuance of such authority shall be £225,781 ;
and
- (b) this power shall expire, unless sooner revoked or varied by the company, on the conclusion of the next annual general meeting of the company or the expiry of the period of 15 months from the date of the passing of this resolution whichever is the earlier, save that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

And

to consider and, if thought fit, pass the following resolution as a special resolution:-

NOTICE OF 2001 ANNUAL GENERAL MEETING (Continued)

- 3 that the directors be and are hereby empowered pursuant to section 95(1) of the Companies Act 1985 (the "Act") to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority conferred by resolution 2 above as if Section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to:-
- (a) an offer and allotment of equity securities by way of rights in favour of holders of ordinary shares where the equity securities respectively attributable to the interest of all such holders are proportionate (as nearly as may be) to the respective number of ordinary shares held, or deemed to be held, by them but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory; and
 - (b) the allotment (otherwise than pursuant to (a) above) of equity securities up to an aggregate nominal amount of £80,693;

provided that this authority shall expire, unless sooner revoked or varied by the company, on the conclusion of the next annual general meeting of the company or the expiry of the period of 15 months from the date of the passing of this resolution whichever is the earlier, unless sooner revoked or varied by the company in general meeting and save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

By order of the board

Stewart Moir
Company Secretary
10 May 2001

Fleming Pavilion, Todd Campus
West of Scotland Science Park
Glasgow, G20 0XA

Notes

1. The register of directors' interests in the share capital of the company and copies of directors' service contracts or letters of appointment with the company will be available for inspection at the registered office of the company during usual business hours on any weekday (public holidays excluded) from the date of this notice until the date of the meeting.
2. A member of the company entitled to attend and vote at the above meeting may appoint one or more proxies (whether a member or not) to attend and on a poll vote instead of him. A form of proxy is enclosed. To be effective this form of proxy must be deposited, together with the power of attorney or other authority under which it is executed or a notarially certified copy of such power or authority, at the office of the company's registrars, Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not later than 48 hours before the time of the meeting or any adjournment thereof. Completion of a form of proxy will not preclude a member from attending and voting in person.
3. For the purposes of determining who is entitled to attend and vote (whether on a show of hands or as a poll) at the meeting a person must be entered on the register of members not later than 48 hours before the time of the meeting, or any adjournment thereof.



iomart
www.iomart.com

iomart Group plc
Fleming Pavilion, Todd Campus
West of Scotland Science Park, Glasgow, G20 0XA

Tel: +44 (0)141 931 7000
Fax: +44 (0)141 931 7001

www.iomart.com

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