iomart Group plc.
Report and
Financial Statements.

31 March 2006

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OFFICERS AND PROFESSIONAL ADVISERS

Directors

Nick Kuenssberg OBE, BA, FCIS, CCMI, FIoD	Non executive chairman
Angus MacSween	Chief executive officer
Sarah Haran	Operations director
Stuart Forrest	Technical sales director (web services)
Mark Hallam	Sales director (web services)
Fred Shedden MA, LLB	Non executive director
Chris Batterham MA, FCA	Non executive director

Secretary

Stewart Moir CA

Registered office

Lister Pavilion
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Nominated adviser and broker

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111 Old Broad Street
London EC2N 1PH

Bankers

Bank of Scotland
235 Sauchiehall Street
Glasgow G2 3EY

Solicitors

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70 Wellington Street
Glasgow G2 6SB

Independent auditors

Grant Thornton UK LLP
95 Bothwell Street
Glasgow G2 7JZ

Registrars

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

CHAIRMAN'S STATEMENT

Highlights

- Turnover £24.3m up by 46% (2005 - £16.6m)
- Operating profit pre-amortisation £5.0m up by 120% (2005 - £2.3m)
- Fully diluted underlying earnings per share 6.4p up by 88% (2005 - 3.4p)
- Dividend proposed of 3p per share up by 140% (2005 - 1.25p)
- 240,000 customers, numbers grown 20%
- Financial director appointed

Statement

The year 2005/06 has seen further significant progress by your company with substantial growth in sales revenue and profits on the back of an improving operational base.

Total revenue increased by 46% to £24.3m (2005 - £16.6m) with gross profit margins averaging 82%, operating profit pre-amortisation increased by 120% to £5.0m (2005 - £2.3m) and fully diluted underlying earnings per share, excluding the charge for amortisation and the deferred tax charge/credit relating to tax losses, increased by 88% to 6.4p (2005 - 3.4p).

This overall improvement was fuelled by excellent performances in the web services sector which serviced 478,000 domain names and 240,000 customers. Ufindus, with its web and directory service, opened a new sales office in Chorley and continued to generate organic growth with over 46,000 businesses. Easyspace, the web-based domain name and hosting business, continued to justify the acquisition in 2004 with very good figures.

Netintelligence, the security enterprise business, fell short of expectations but has now been converted to a hosted model for marketing to the SME sector as well. We remain convinced that this end-point security product will satisfy the requirements of the SME market in the short term and the ISP sector in the medium term and will therefore continue to support it with additional resource.

Your board has proposed a 140% increase in dividend to 3p per share (2005 - 1.25p) payable on 29 September 2006 to shareholders on the register at 11 August 2006 in line with our progressive dividend policy. Your board also confirms that it is the company's intention to introduce a scrip dividend scheme to enable shareholders to elect to receive new ordinary shares of 1p each in the capital of the company instead of cash dividends payable by the company. A circular containing full details of the proposed scheme is being sent to shareholders along with this annual report. Shareholder approval for the introduction of the scrip dividend scheme will be sought at the forthcoming annual general meeting (AGM) of the company, notice of which is included at the end of this report.

We are pleased to announce the appointment of Richard Logan, aged 49, BA, CA as finance director and look forward to his contribution.

On your behalf I recognise the commitment shown by Angus MacSween and his executive team and all the staff of the company and look forward to another year of significant progress.

Nick Kuenssberg
Non-executive chairman

16 May 2006

CHIEF EXECUTIVE OFFICER'S REPORT

The past year has been one of continuing progress on all fronts.

Revenues have risen by 46% and operating profit pre-amortisation has increased by 120%.

UfindUs, our directory service where we provide a web and directory presence to the small and micro business sector, has continued to be our main driver of growth. The growing penetration of broadband into the UK market means more and more people are using the web to source local products and services. UfindUs is gaining users with over 2 million searches per month being carried out on the directory and an additional 2 million visits per month direct to our customers' websites. More and more of our customers are extolling the amount of business that being on UfindUs brings them. We are also seeing a growing source of revenue from improving and deepening our existing 46,000 customers' web presence with over 4,000 of them now taking advantage of our web design services.

Easyspace Limited is our web based domain name and hosting business. This is a marketing led business which attracts existing and new customers to its web site for a self-serve range of web products. Easyspace has had a good year following a period of integration and is now recognised as one of the UK's leading hosting companies. We provide services to 194,000 customers and continue to lead with new products and services, such as dedicated servers, hosted mail and security.

Netintelligence has continued to make progress although more slowly than anticipated. We have recently launched our new version which has a full suite of functionality in a very simple to use, simple to deploy and simple to manage hosted format. There is a growing acceptance that as the world goes mobile there is a requirement to defend security at the end point, be it a desktop in a home office or a laptop in a coffee shop. The ISP community has been slow to adopt security products while they remain focussed on broadband land-grab at any price, and we have refocused on the SME market via our proven direct sales model. The fact that we can demonstrate the product live with potential customers is increasing the number of trials significantly.

We remain convinced that, with the right sales teams in place and appropriate marketing support, Netintelligence sales will grow significantly.

Our business models require further fine tuning and investment in systems, marketing and co-location facilities and we will develop additional innovative strategies to increase average annual revenue and total customer numbers. We will focus on the sustainability of your company as well as consider opportunities for organic growth, acquisition and partnership in the growing and consolidating web-services sector.

Results

Turnover for the year of £24.3m is 46% higher than last year and gross margin at 82% overall is consistent with our expectations.

Administrative expenses were £15.5m against £11.3m last year. The current year's figure includes a full year's charge for the Blackpool sales office opened last year, costs of larger premises in both Glasgow and Lancaster and the new Chorley sales office opened during the year, together with a full year's charge for amortisation of the goodwill arising on the acquisition of Easyspace Limited. In addition marketing expenditure, including a new television advertising campaign, was increased significantly to promote the Ufindus directory.

A total of £0.6m of capital expenditure was incurred during the year, as the group continued the programme of replacement of older more expensive equipment and purchased additional servers to support the increased levels of business during the year, together with the costs of equipping the new Chorley sales office.

Group pre-tax trading profit excluding amortisation was £5.0m compared with £2.3m in the previous year, a rise of over 120%.

Operating profit was £4.4m (2005 - £1.8m) and the profit for the year before taxation was £4.2m (2005 - £1.7m). There is no liability to corporation tax on the results for the year and research and development tax credits totalling £0.1m are due to be refunded. A charge of £0.3m has been made for deferred tax reflecting the reduction in the amount of tax losses available within one of the subsidiary companies for offset against future expected taxable profits.

This has resulted in a profit after taxation for the year of £4.0m (2005 - £3.1m after a tax credit of £1.4m).

Basic earnings per share for the year were 5.2p compared to 4.4p per share for the previous year and fully diluted earnings per share were 5.0p. Fully diluted underlying earnings per share, excluding the charge for amortisation and the deferred tax charge/credit relating to tax losses, were 6.4p (2005 - 3.4p).

The directors have proposed a dividend for the year of 3p per share payable on 29 September 2006 to shareholders on the register at 11 August 2006 in line with our progressive dividend policy. The dividend will be payable in cash or as a scrip dividend. The price of each new Ordinary Share will be calculated based on the average of the middle market quotation of an Ordinary Share on the market on which the Ordinary Shares are listed or quoted on each of the first five consecutive dealing days on which the relevant shares are quoted "ex" the relevant dividend.

Cash and borrowings

Cash balances at 31 March 2006 were £1.3m. Borrowings under finance leases amounted to £0.1m, bank loans totalled £2.2m and overdrafts totalled £1.3m. The group had no other significant debt outstanding.

Trade debtors at £4.3m (2005 - £1.9m) increased disproportionately as a result of both increased sales and delayed receipts from credit card processing following the introduction of chip and pin technology, which impacted on the group's collection of recurring payments. The directors do not consider this to be an ongoing issue and measures have been put in place to address this situation.

Financial instruments

The group's financial instruments comprise cash and liquid resources, bank loans and finance leases together with 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. The group's borrowings at 31 March 2006 comprise a bank loan and overdrafts of £3.5m and finance leases totalling £0.1m. The interest rate payable on the bank loan and overdrafts is 2.5% above the base rate of Bank of Scotland plc. The interest rate at 31 March 2006 was 7.25% and the average interest rate since the loan was drawn was 7.25%. The interest rate on the finance leases is fixed for the term of the lease at 8.0%. All transactions of the holding company and the UK subsidiaries are in sterling and the group does not use derivative instruments.

Financial Position

The group's financial position remains strong with sufficient resources to fund the current business plans.

International Financial Reporting Standards

The AIM Rules require all AIM companies to adopt International Accounting Standards (IAS) for financial years commencing on or after 1 January 2007 and allow for early adoption. The board propose to adopt IAS from 1 April 2007.

The company has established a project team to plan for and achieve a smooth transition to IFRS. The project team is looking at all implementation aspects, including changes to accounting policies, systems impacts and the wider business issues that may arise from such a fundamental change and we expect that the group will be fully prepared for the transition.

Prospects

Our three lines of business are all in markets that are real, growing and changing. They also share a technical infrastructure which provides efficiencies and synergies. We own our intellectual property in each line of business and all have high gross margins. All our pricing is now on a recurring revenue model providing increasing visibility of future revenues.

We look forward to continuing the growth in each of these businesses and will consider opportunities to enhance shareholder value in each of these lines of business through organic growth, acquisition and partnership.

Angus MacSween
Chief executive officer

16 May 2006

CORPORATE GOVERNANCE

While the company is listed on the Alternative Investment Market it is not required to comply with the provisions of the Combined Code. However, 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. Your board considers that at this stage in the group's development, the expense of full compliance with the Combined Code and with the further provisions of the Revised Combined Code is not appropriate.

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. All directors have access to advice from the company secretary and independent professionals at the company's expense. Training is available for new and other directors as necessary.

The board at present comprises four executive and three non-executive directors. The size of the board is considered to be appropriate to the current size and character of the group. The non-executive directors are independent of management and any business or other relationships which could interfere with the exercise of their independent judgement. The roles of chairman and chief executive are separate appointments and it is board policy that this will continue.

The board has established three committees, the audit committee, the remuneration committee and the nominations committee. Membership of both the audit committee and the remuneration committee is exclusively non-executive while membership of the nominations committee comprises the chairman, two non-executive directors and the chief executive officer. Nick Kuenssberg is currently chairman of the audit and nominations committees and Fred Shedden of the remuneration committee. Chris Batterham will take over as chairman of the audit committee with effect from the annual general meeting.

A separate report on directors' remuneration is set out on pages 8 to 11, this to be approved by the shareholders at the annual general meeting.

Under the company's articles of association, the nearest number to one third of the board shall retire each year by rotation.

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 has meetings, at which the executive directors also have the right to attend, at least three times a year with the external auditors.

The audit committee reviews the independence and objectivity of the external auditors. The committee reviews the nature and amount of the non-audit work undertaken by the auditors to satisfy itself that there is no effect on their independence. The committee is satisfied that Grant Thornton UK LLP are independent.

Risk management

The executive carried out a risk management workshop, the results of which were reported to and discussed at the audit committee and the board, a process supported by Grant Thornton. The resulting risk register was reviewed and a number of mitigating policies were implemented, a procedure that will be repeated on an annual basis.

Going Concern

On the basis of a review of facilities available to the group together with a review of forecasts, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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 a 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 significant 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.

Relations with shareholders

The company values the views of its shareholders and recognises their interest in the group's strategy and performance, board membership and quality of management.

The AGM is used to communicate with all shareholder and investor groups, and they are encouraged to participate. The chairmen of the audit, remuneration and nominations committees are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there are resolutions to receive the annual report and accounts and the report on directors' remuneration. The company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

The company uses its website, www.iomart.com, as a means of providing information to shareholders and other related parties. The company's annual report and accounts, interim reports and other relevant announcements are maintained on the website.

REPORT OF THE BOARD TO THE MEMBERS ON DIRECTORS' REMUNERATION

The remuneration committee has given consideration to the Combined Code issued by the Financial Services Authority in framing its remuneration policy. As the company is listed on the Alternative Investment Market, it is not required to comply with the provisions of Schedule 7a of the Companies Act 1985. The following disclosures are voluntary as is the resolution (8) to approve this report at the annual general meeting.

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; and
- the continued commitment of executives to the group's success through appropriate incentive schemes.

The committee meets at least three times each year.

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. The executive directors do not receive directors' fees.

- Bonus scheme

  The executive directors are eligible to receive a bonus on top of basic salary dependent on individual and group performance at the discretion of the remuneration committee. The performance conditions are set individually for each director to ensure they are relevant and stretching.

- Car allowance and other benefits

  The executive directors are entitled to a car allowance. No other benefits are 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 are engaged under service contracts which require a notice period of 6 or 12 months.

Remuneration of non-executive directors

The fees paid to the non-executive directors include a basic fee and additional fees in respect of committee chairmanships as determined by the board. They are not entitled to receive any bonus or other benefits.

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

Directors' remuneration

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

Name of director	Salary or fees £	Bonus £	Benefits £	Pension contributions £	Year ended 31 March 2006 Total £	Year ended 31 March 2005 Total £
Angus MacSween	130,000	91,000	7,200	13,000	241,200	207,200
Sarah Haran	82,500	90,775	7,200	8,250	188,725	175,480
Stuart Forrest (appointed 20 June 2005)	48,750	110,955	-	-	159,705	-
Mark Hallam (appointed 20 June 2005)	48,750	110,955	-	-	159,705	-
Nick Kuenssberg	35,000	-	-	-	35,000	27,500
Fred Shedden	25,000	-	-	-	25,000	21,250
Chris Batterham (appointed 14 September 2005)	12,375	-	-	-	12,375	-
Bill Dobbie (resigned 20 June 2005)	5,625	-	-	-	5,625	20,625

Directors' interests in shares

The interests of the directors in the shares of the company at 31 March 2006, together with their interests at 1 April 2005 or the date of appointment were as follows:

	Number of ordinary shares	
Name of director	31 March 2006	At 1 April 2005 or date of appointment
Angus MacSween	18,395,500	18,395,500
Sarah Haran	246,955	246,955
Stuart Forrest (appointed 20 June 2005)	1,600,000	1,600,000
Mark Hallam (appointed 20 June 2005)	1,240,780	1,240,780
Nick Kuenssberg	910,010	881,777
Fred Shedden	636,122	603,222
Chris Batterham (appointed 14 September 2005)	25,000	-

Directors' interests in share options

The interests of the directors at 31 March 2006 in options over the ordinary shares of the company were as follows:

Name of director	At 1 April 2005 or date of appointment	Granted in year	Exercised	At 31 March 2006	Exercise price	Date from which exerciseable	Expiry date
Angus MacSween	1,750,000			1,750,000	78.5p	17/11/07	17/11/14
		12,302		12,302	76p	1/3/09	1/9/09
	1,750,000	12,302	-	1,762,302			
Sarah Haran	159,746			159,746	5p	11/5/00	14/12/08
	159,747			159,747	5p	11/2/01	14/12/08
	159,747			159,747	5p	11/2/02	14/12/08
	100,000			100,000	9p	27/2/05	27/2/12
	133,333		(65,000)	68,333	6.25p	2/7/04	2/7/13
	133,333			133,333	6.25p	2/7/05	2/7/13
	133,334			133,334	6.25p	2/7/06	2/7/13
	850,000			850,000	78.5p	17/11/07	17/11/14
		4,921		4,921	76p	1/3/09	1/9/09
	1,829,240	4,921	(65,000)	1,769,161			
Stuart Forrest	133,333			133,333	6.25p	2/7/04	2/7/13
	133,333			133,333	6.25p	2/7/05	2/7/13
	133,334			133,334	6.25p	2/7/06	2/7/13
	1,000,000			1,000,000	78.5p	17/11/07	17/11/14
		12,302		12,302	76p	1/3/09	1/9/09
	1,400,000	12,302	-	1,412,302			
Mark Hallam	133,333			133,333	6.25p	2/7/04	2/7/13
	133,333			133,333	6.25p	2/7/05	2/7/13
	133,334			133,334	6.25p	2/7/06	2/7/13
	1,000,000			1,000,000	78.5p	17/11/07	17/11/14
		12,302		12,302	76p	1/3/09	1/9/09
	1,400,000	12,302	-	1,412,302			

REPORT OF THE BOARD TO THE MEMBERS ON DIRECTORS REMUNERATION (CONTINUED)

The options granted during the year at 76p were granted under the company's savings related share option scheme. The options granted at 78.5p vest over a three year period subject to demanding performance criteria. All other options have already vested.

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 87p and the range of prices during the period was between 81.5p and 140p.

By order of the board

Fred Shedden
Chairman, Remuneration committee

16 May 2006

DIRECTORS' REPORT

The directors present their annual report on the affairs of the group, together with the financial statements and auditors' report, for the year ended 31 March 2006.

Principal activity
The principal activity of the group is the provision of internet services.

Business review
The chairman's statement and the chief executive officer's report contain a review of trading.

The company operates primarily in the internet arena, where the pace of change in technology, and the rapid rise of new ways of delivering products and services place an element of uncertainty over the future prospects of any internet business. We endeavour to keep abreast of trends in all our areas of business, to anticipate major shifts in business models, and to adapt as early and quickly as we can to the considerable opportunities afforded by the growth and changing patterns of internet usage.

Most of our revenues are collected online via credit card and direct debit. There are growing concerns from banks and credit card companies around the volume of transactions going on line, and the risk of fraud attached to them. Whilst the services we provide are all service based, and do not lend themselves to serious fraud, we are subject to the ever tightening rules and regulations set by these financial institutions around transacting via credit cards particularly.

The company has key performance indicators around sales growth, gross margin and customer numbers which are all closely monitored. The principal indicators for the current and the previous year are:

	Year ended 31 March 2006	**Year ended 31 March 2005**
Turnover growth	46%	87%
Gross margin	82%	79%
Number of customers	240,000	200,000

Financial instruments
The group's financial instruments comprise cash and liquid resources, bank loans and finance leases together with 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. The group's borrowings at 31 March 2006 comprise a bank loan and overdrafts of £3.5m and finance leases totalling £0.1m. The interest rate payable on the bank loan and overdrafts is 2.5% above the base rate of Bank of Scotland plc. The interest rate at 31 March 2006 was 7.25% and the average interest rate since the loan was drawn was 7.25%. The interest rate on the finance leases is fixed for the term of the lease at 8.0%. All transactions of the holding company and the UK subsidiaries are in sterling and the group does not use derivative instruments. Additional information on financial instruments is included in Note 27.

Dividends
The directors have proposed a dividend of 3p per share for the year ended 31 March 2006 (2005 - 1.25p). Subject to shareholders approving the introduction of the scrip dividend scheme referred to earlier in this report and to the terms and conditions of the scheme, it is intended that shareholders be entitled to elect to receive new ordinary shares of 1p each in the capital of the company instead of cash dividends.

Directors and their interests
The present membership of the board is set out on page 2. In accordance with the company's articles of association, Chris Batterham, Sarah Haran and Nick Kuenssberg will 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 11.

Substantial shareholdings

At 31 March 2006 the following interests in 3% or more of the issued ordinary share capital had been notified to the company:

	Number of ordinary shares	Percentage held
Angus MacSween	18,395,500	23.8%
Merrill Lynch Pensions Nominees	7,559,796	9.8%
Goldman Sachs	4,654,535	6.0%
Majedie Asset Management	4,586,100	5.9%
Pension Services Limited	3,925,000	5.1%
Noble Grossart Investments Limited	2,925,000	3.8%
New Star Select Opportunities Fund	2,500,000	3.2%
Universities Superannuation Scheme	2,490,000	3.2%
Bill Dobbie	2,320,000	3.0%

Employee involvement

A newsletter is sent to all staff 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.

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 specific option awards as appropriate to attract and retain the best available people.

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 with those terms, subject to the terms and conditions of the relevant transaction having been met by the supplier. Trade creditor days of the group at 31 March 2006, calculated in accordance with the requirements of the Companies Act 1985, were 35 days (2005 - 54 days), and of the company were 90 days (2005 - 14 days). This represents the ratio, expressed in days, between the amounts invoiced to the company in the year by its suppliers and the amounts due, at the year end, to trade creditors falling due for payment within one year.

Political and charitable donations

The group did not make any charitable donations during the year (2005 - £7,000). The group made no political donations in either the current or the previous year.

Awareness of relevant audit information

So far as each of the directors, at the time the report is approved, is aware:

- there is no relevant audit information of which the auditors are unaware, and
- the directors have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors
Grant Thornton UK LLP 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

16 May 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law in the United Kingdom 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; and
- 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.

BOARD OF DIRECTORS

Angus MacSween

49, appointed 2000; after a short service commission in the Royal Navy, Angus started his first business selling telephone systems in 1984. Since selling this first business he has established, grown and sold 5 profitable businesses in the telephony and internet sector. Following the sale of Teledata Limited, the UK's leading telephone information services company to Scottish Telecom plc, Angus spent two years on the executive of Scottish Telecom plc where he was responsible for the development of the company's Internet division. In December 1998 Angus founded iomart. Angus is non-executive chairman of Moneyquest UK Limited.

Sarah Haran

40, appointed 2000; Sarah has spent her career implementing and managing operations centres for large corporations such as Microsoft Inc, Compaq Inc, Scottish Power plc and Prestel Limited. She joined iomart in 1998, from Scottish Telecom plc and has been responsible for developing the day-to-day business processes and technical operations to support the group's customer base.

Stuart Forrest

39, appointed 2005; Stuart began his career in financial services in the North West of England. He was involved in several new starts alongside Mark Hallam before they jointly formed Business Serve Plc, a business only internet service provider, in 1995. Stuart was operations director of Business Serve until its successful sale after rapid growth in May 2000. Stuart joined iomart in March 2002 as technical sales director for webservices, now UFindUs.

Mark Hallam

40, appointed 2005; Mark's early career was in retail management in the North West of England. He then began a number of small businesses all within the direct sales sector. In 1995 Mark and Stuart Forrest started Business Serve Plc, a business only internet service provider. This company achieved rapid growth and was sold in May 2000. Mark stayed on as sales director until July 2001 when he left to pursue further internet related opportunities and joined iomart in March 2002 as sales director for webservices, now UFindUs.

Nick Kuenssberg

63, appointed 2000; currently chairman of Canmore Partnership Ltd and director of Chamberlin & Hill plc, RingProp plc and Amino Technologies plc, and previously chairman of Dynacast International Ltd, Stoddard International plc, Keronite PLC, GAP Group Ltd, ScotlandIS, IoD Scotland and others, director of Coats Viyella plc, Dawson International plc, Scottish Power plc, Standard Life Assurance Company and other companies and visiting professor at Strathclyde Business School. Nick is also chairman of The Glasgow School of Art and of Scottish Networks International and deputy chairman of the Scottish Environment Protection Agency.

Fred Shedden

61, appointed 2000; chairman of Halladale Group plc; director of Murray International Trust plc, and Equitable Life Assurance Society; member of the Board of Glasgow Housing Association Limited; deputy chairman of The Glasgow School of Art; formerly senior partner of McGrigors.

Chris Batterham

51, appointed 2005; Chris was finance director of Unipalm plc, the first internet company to IPO and stayed with the company for 5 years following its takeover by UUnet. He was CFO of Searchspace until 2005 and is currently a non executive director of SDL plc, DRS Group plc, The Risk Advisory Group and The Sporting Exchange Limited (Betfair). Chris has also served on the boards of Staffware plc, DBS Management plc and The Invesco Techmark Enterprise Trust plc.

SENIOR MANAGEMENT

Angus MacSween	Chief executive officer
Stuart Forrest	Technical sales director, webservices
Mark Hallam	Sales director, webservices
Sarah Haran	Operations director
Stewart Moir CA	Financial controller and company secretary
Bill Strain	Chief technology officer, Netintelligence
Phil Worms	Director of marketing, Netintelligence

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF IOMART GROUP PLC

We have audited the group and parent company financial statements (the "financial statements") of iomart Group plc for the year ended 31 March 2006 which comprise the principal accounting policies, the group profit and loss account, the group and company balance sheets, the group cash flow statement, and notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the chairman's statement, the chief executive officer's report, the corporate governance statement and directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, 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.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF IOMART GROUP PLC

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2006 and of the group's profit for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the directors' report is consistent with the financial statements for the year ended 31 March 2006.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

Glasgow
16 May 2006

The maintenance and integrity of the iomart Group plc website is the responsibility of the directors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 March 2006

	Note	31 March 2006 £'000	Restated 31 March 2005 £'000
TURNOVER		24,306	16,603
Cost of sales		(4,361)	(3,513)
Gross profit		19,945	13,090
Administrative expenses		(15,547)	(11,176)
Restructuring expenses		-	(113)
Total administrative expenses		(15,547)	(11,289)
OPERATING PROFIT	3	4,398	1,801
Net interest	5	(214)	(77)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,184	1,724
Tax (charge)/credit on profit on ordinary activities	8	(170)	1,415
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE YEAR		4,014	3,139
Equity minority interests		-	(11)
PROFIT FOR THE FINANCIAL YEAR	20	4,014	3,128
Earnings per ordinary share (pence)			
Basic	10	5.2p	4.4p
Diluted	10	5.0p	4.3p

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

CONSOLIDATED BALANCE SHEET
31 March 2006

	Note	2006 £'000	Restated 2005 £'000
FIXED ASSETS			
Intangible assets	11	13,470	14,289
Tangible assets	12	918	885
		14,388	15,174
CURRENT ASSETS			
Debtors	14	10,614	5,256
Deferred tax asset	18	945	1,200
Cash at bank and in hand		1,279	2,033
		12,838	8,489
CREDITORS: amounts falling due within one year	15	(7,167)	(5,933)
NET CURRENT ASSETS		5,671	2,556
TOTAL ASSETS LESS CURRENT LIABILITIES		20,059	17,730
CREDITORS: amounts falling due after more than one year	16	(1,373)	(2,201)
NET ASSETS		18,686	15,529
CAPITAL AND RESERVES			
Called up share capital	19	773	767
Capital redemption reserve	20	1,200	1,200
Share premium account	20	6,203	6,108
Profit and loss account	20	10,510	7,454
TOTAL EQUITY SHAREHOLDERS' FUNDS	21	18,686	15,529

These financial statements were approved by the board of directors on 16 May 2006.
Signed on behalf of the board of directors

Angus MacSween
Director and chief executive officer

COMPANY BALANCE SHEET
31 March 2006

	Note	2006 £'000	Restated 2005 £'000
FIXED ASSETS			
Investments	13	16,156	16,156
CURRENT ASSETS			
Debtors	14	14,305	8,515
Cash at bank and in hand		150	154
		14,455	8,669
CREDITORS: amounts falling due within one year	15	(9,184)	(4,925)
NET CURRENT ASSETS		5,271	3,744
TOTAL ASSETS LESS CURRENT LIABILITIES		21,427	19,900
CREDITORS: amounts falling due after more than one year	16	(1,307)	(2,171)
NET ASSETS		20,120	17,729
CAPITAL AND RESERVES			
Called up share capital	19	773	767
Capital redemption reserve	20	1,200	1,200
Share premium account	20	6,203	6,108
Profit and loss account	20	11,944	9,654
TOTAL EQUITY SHAREHOLDERS' FUNDS	21	20,120	17,729

These financial statements were approved by the board of directors on 16 May 2006.
Signed on behalf of the board of directors

Angus MacSween
Director and chief executive officer

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 March 2006

	Note	31 March 2006 £'000	Restated 31 March 2005 £'000
Net cash inflow from operating activities	22	362	1,057
Returns on investments and servicing of finance	23	(214)	(94)
Taxation	23	123	4
Capital expenditure and financial investment	23	(478)	(765)
Acquisitions and disposals	23	(34)	(4,103)
Equity dividends paid	23	(958)	-
Cash outflow before financing		(1,199)	(3,901)
Financing	23	(875)	2,909
Decrease in cash in the year		(2,074)	(992)

Reconciliation of net cash flow to movement in net (debt)

	Note	31 March 2006 £'000	Restated 31 March 2005 £'000
Decrease in cash in the year		(2,074)	(992)
Cash inflows/(outflows) from debt and lease financing	24	976	(2,846)
Change in net (debt) from cash flows	24	(1,098)	(3,838)
Opening net (debt)/funds		(1,104)	2,734
Inception of finance leases		(76)	-
Closing net (debt)	24	(2,278)	(1,104)

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards.

Changes in accounting policies
The particular accounting policies adopted are described below and have remained unchanged from the previous year apart from the adoption of the following Financial Reporting Standards:

FRS 21 'Events After the Balance Sheet Date'
The adoption of FRS 21 has resulted in a change in accounting policy in respect of proposed equity dividends. If the company declares dividends to the holders of equity instruments after the balance sheet date, the company does not recognise those dividends as a liability at the balance sheet date. Previously where these equity dividends were proposed after the balance sheet date but before authorisation of the financial statements they were recorded as liabilities at the balance sheet date. The aggregate amount of equity dividends proposed before approval of the financial statements, which have not been shown as liabilities at the balance sheet date, are disclosed in the notes to the financial statements. The financial effect of this change in accounting policy is set out in note 7.

FRS 22 'Earnings per Share'
FRS 22 has been adopted and there has been no impact on the calculation of earnings per share.

FRS 25 'Financial Instruments -Presentation'
The adoption of the presentation requirements of FRS 25 has had no impact on the financial statements.

Accounting convention
The financial statements are prepared under the historical cost convention.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the company and all its subsidiaries.

Revenue recognition
Revenue from the sale of software licences, domain registration and search engine submission is recognised once the licence or service has been delivered and all significant obligations in relation to the sale have been fulfilled. Revenue from one-off services is recognised on completion of the supply of the service.

Revenue from ongoing services, including mail filter, software maintenance, webhosting and colocation, is recognised on a straight line basis over the life of the contract with the unearned portion of the revenue being included in creditors as deferred revenue.

Acquisitions and disposals
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 or up to the date of disposal.

Goodwill
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 economic life, which is between 7 and 20 years.

1. ACCOUNTING POLICIES (CONTINUED)

Tangible fixed assets
Fixed assets are stated at historic cost.

Depreciation is provided on cost in equal annual installments over the estimated useful economic 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	25% per annum

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

Deferred taxation
Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Deferred grants
Government grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account by equal annual instalments over the expected useful economic lives of the relevant assets.

Government grants of a revenue nature are credited to the profit and loss account in the same period as related expenditure.

Leases
Assets obtained under finance leases, which transfer substantially all the risks and rewards of ownership, are capitalised at their fair value on acquisition and depreciated over their estimated useful economic 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 the profit and loss account in equal annual amounts over the lease term.

Foreign currency transactions
All foreign currency transactions are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling on the balance sheet date. The group does not have any non-monetary assets or liabilities denominated in foreign currencies. All exchange differences are taken to profit and loss account when

they arise.

Financial instruments
Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for dimunition in value where appropriate.

Income and expenditure on financial instruments is recognised on the accruals basis and credited or charged to the profit and loss account in the financial period to which it relates.

Pension scheme arrangements
The group operates a stakeholder pension scheme and contributes to a number of personal pension schemes on behalf of executive directors and some senior employees. No other post retirement benefits are provided to employees. Pension costs are charged to the profit and loss account in the period to which they relate.

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

2. SEGMENTAL ANALYSIS

The analysis of turnover by destination is as follows:

	Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
Geographical analysis		
United Kingdom	23,529	16,245
European Union	214	126
USA	337	140
Other	226	92
	24,306	16,603

The analysis of profit before tax and net assets by geographical segment has not been disclosed as over 95% of the group's activities are undertaken in the UK.

3. OPERATING PROFIT

		Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
Operating profit is after charging/(crediting)			
Depreciation of tangible fixed assets:			
Owned assets		513	405
Leased assets		8	7
Amortisation of intangible fixed assets		819	547
Rentals under operating leases			
Land and buildings		491	256
Plant and machinery		258	437
Amortised deferred grant income		(48)	(60)
Auditors' remuneration	- company audit fees	16	12
	- group audit fees	20	19
	- taxation	13	11
	- corporate finance transactions	2	-
	- interim review	3	11
	- preparation of financial statements of subsidiaries	-	19
	- advice re share schemes	4	-
	- advice re risk management assessment	5	-

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
Directors' emoluments		
Aggregate emoluments	806	431
Pension contributions to personal money purchase schemes	21	21
Emoluments payable to the highest paid director are as follows:		
Aggregate emoluments	228	195
Pension contributions to personal money purchase schemes	13	12

During the year the company made personal pension contributions to the personal pension schemes of 2 directors (2005 - 2).
The aggregate amount of gains realised by directors on the exercise of share options during the year was £57,000 (2005 - £nil).
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 11.

	No.	No.
Average number of persons employed by the group (including directors):		
Technical	30	26
Customer services	101	73
Sales and marketing	283	220
Administration	43	34
	457	353
Number of persons employed by the group at the year end		
Technical	32	24
Customer services	105	89
Sales and marketing	280	234
Administration	40	38
	457	385

	£'000	£'000
Staff costs of the group during the year in respect of employees and directors were:		
Wages and salaries	8,122	6,707
Social security costs	928	770
Other pension costs	24	26
	9,074	7,503

The group operates a stakeholder pension scheme for the benefit of employees who wish to participate.
There are no other company or group pension schemes. However the group makes contributions to executive directors' and some senior employees' personal pension schemes.

	£'000	£'000
Staff costs of the company during the year in respect of employees and directors were:		
Non-executive directors' remuneration	78	69
Social security costs	8	7
	86	76

5. NET INTEREST

	Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
Investment income:		
Bank interest receivable	29	65
Interest payable and similar charges:		
Bank overdraft and other borrowings	(241)	(142)
Finance leases	(2)	(3)
	(243)	(142)
Net interest	(214)	(77)

6. DIVIDENDS ON SHARES CLASSED AS EQUITY

	Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
Paid during the year		
Equity dividends on ordinary shares	958	-
Proposed after the year end (not recognised as a liability)		
Equity dividends on ordinary shares	2,318	958

7. PRIOR YEAR ADJUSTMENT

As disclosed in the accounting polices section, a new accounting standard, which impacted on the financial results was adopted in the year. The financial effect of this has been detailed below.

FRS 21

In the prior year dividends of £958,000 were proposed and these were disclosed in the profit and loss account for the prior year. In the comparative figures these are now no longer disclosed on the face of the profit and loss account but disclosed as an appropriation of profit in note 20.

In respect of the year under review dividends of £2,318,000 were proposed after the balance sheet date. Under the previous accounting policy these would have been shown as a liability and deducted from the profit for the year. Under the new accounting policy these are not accrued and are disclosed only in note 6.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
Research and development tax credit	85	141
Tax credit	-	74
Deferred tax (charge)/credit	(255)	1,200
	(170)	1,415

The group has a deferred tax asset which has been recognised in respect of tax losses within one of the subsidiary companies, which has generated taxable profits and is expected to continue to do so.

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
Profit on ordinary activities before tax	4,184	1,724
Tax charge @ 30%	1,255	517
Non qualifying depreciation	-	7
Disallowed expenditure	152	87
Deferred tax movement	-	658
Movement in short term timing differences	(11)	14
Consolidation adjustments	-	2
Utilisation of tax losses	(1,098)	(2,291)
Rate differences	44	124
Capital allowances in excess of depreciation	(15)	(53)
Statutory deductions on exercise of share options	(157)	(480)
	170	(1,415)

There is no charge to corporation tax in the year due to the availability of losses. Unrelieved losses of £8.0 million (2005 - £12.1 million) are carried forward and are available to reduce the tax liability in respect of suitable future trading profits.

Research and development tax credits have been claimed in respect of expenditure incurred on the development of the group's Netintelligence software. These credits are at the rate of 16% of the amount of expenditure allowed as a deduction from taxable income, which is 150% of the development expenditure incurred.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

Deferred tax

The group had recognised deferred tax assets and potential unrecognised deferred tax assets as follows:

	Year ended 31 March 2006		Restated Year ended 31 March 2005	
	Recognised £'000	**Unrecognised £'000**	**Recognised £'000**	**Unrecognised £'000**
Tax losses carried forward	945	1,555	1,200	2,430

9. PROFIT OF PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial period after taxation was £3,248,000 (2005 - £1,671,000).

10. EARNINGS 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. Fully diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the total of the weighted average number of ordinary shares in issue during the year and the dilutive potential ordinary shares relating to share options.

Underlying earnings are calculated by adding back the charge for amortisation of goodwill to the earnings attributable to ordinary shareholders and adjusting for the deferred tax charge/credit relating to the recognition of tax losses.

	Year ended 31 March 2006 £'000	**Restated Year ended 31 March 2005 £'000**
Profit for the financial period and basic earnings attributed to ordinary shareholders	4,014	3,128
Amortisation	819	547
Deferred tax charge/(credit)	255	(1,200)
Underlying earnings	5,088	2,475

	No 000	**No 000**
Weighted average number of ordinary shares:		
For basic earnings per share	76,933	70,318
Exercise of share options	3,155	3,067
For diluted earnings per share	80,088	73,385
Basic earnings per share	5.2p	4.4p
Fully diluted earnings per share	5.0p	4.3p
Basic underlying earnings per share	6.6p	3.5p
Fully diluted underlying earnings per share	6.4p	3.4p

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2006

11. INTANGIBLE ASSETS

The group	Goodwill £'000
Cost	
At 1 April 2005 and 31 March 2006	15,175
Accumulated amortisation	
At 1 April 2005	886
Charge for the year	819
At 31 March 2006	1,705
Net book value	
At 31 March 2006	13,470
At 31 March 2005	14,289

12. TANGIBLE FIXED ASSETS

The group	Leasehold improvements £'000	Computer software and equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2005	315	3,243	479	4,037
Additions in the year	152	332	70	554
Disposals	-	(1,913)	-	(1,913)
At 31 March 2006	467	1,662	549	2,678
Accumulated depreciation				
At 1 April 2005	198	2,648	306	3,152
Charge for the year	79	351	91	521
On disposals	-	(1,913)	-	(1,913)
At 31 March 2006	277	1,086	397	1,760
Net book value				
At 31 March 2006	190	576	152	918
At 31 March 2005	117	595	173	885

The net book value of the group's tangible fixed assets includes an amount of £68,000 in respect of assets held under finance leases (2005 - £nil). The depreciation charged on these assets during the year totalled £8,000 (2005 - £nil).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2006

13. INVESTMENTS HELD AS FIXED ASSETS

The company	**Shares in subsidiary undertakings £'000**
Cost	
At 1 April 2005 and 31 March 2006	16,156

All of the above investments are unlisted.
The following subsidiaries have been consolidated in the group financial statements:

			Ordinary share capital	
	Country of registration and operation	**Activity**	**Owned by the company %**	**Owned by subsidiary undertakings %**
Netintelligence Limited	Scotland	Network security	100	
iomart Limited	Scotland	Dormant		100
Ufindus Limited	England	Webservices	100	
Web Genie Internet Limited	England	Dormant		100
Internetters Limited	England	Webservices		100
NicNames Limited	England	Dormant		100
Easyspace Limited	England	Webservices	100	

14. DEBTORS

The group	**2006 £'000**	**Restated 2005 £'000**
Trade debtors	4,344	1,907
Amounts due on deferred payment terms	5,421	2,603
Other debtors	104	149
Prepayments and accrued income	519	333
Research and development tax credit	226	264
	10,614	5,256
The company		
Prepayments and accrued income	-	64
Amounts owed by subsidiary undertakings	14,305	8,451
	14,305	8,515

The company's debtors include an amount of £750,000 (2005 - £750,000) owed by a subsidiary, which is repayable after more than one year.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

The group	2006 £'000	Restated 2005 £'000
Obligations under finance leases (note 17)	24	101
Bank loan (note 17)	866	865
Bank overdrafts (note 17)	1,320	-
Trade creditors	972	983
Corporation tax	169	169
Other taxation and social security	1,748	1,350
Other creditors	25	69
Deferred consideration	-	34
Deferred grants	48	60
Accruals and deferred income	1,995	2,302
	7,167	5,933
The company		
Bank loan	866	865
Bank overdraft	1,277	-
Trade creditors	61	19
Other taxation and social security	110	504
Accruals and deferred income	53	49
Amounts owed by subsidiary undertakings	6,817	3,488
	9,184	4,925

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

The group	2006 £'000	Restated 2005 £'000
Obligations under finance leases (note 17)	40	-
Bank loan (note 17)	1,307	2,171
Deferred grants	26	30
	1,373	2,201
The company		
Bank loan	1,307	2,171

17. BORROWINGS

The group	2006 £'000	Restated 2005 £'000
Obligations under finance leases	64	101
Bank loan	2,173	3,036
Bank overdrafts	1,320	-
	3,557	3,137

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

	2006 £'000	Restated 2005 £'000
Due within one year	24	101
Due between two and five years	40	-
	64	101

The bank loan and overdrafts are secured by debentures and floating charges over all the assets of the company and each of its subsidiaries and by cross guarantees by all group companies and are repayable as follows:

The group	2006 £'000	Restated 2005 £'000
Due within one year	2,186	865
Due between one and two years	871	867
Due between two and five years	436	1,304
	3,493	3,036

The bank overdrafts are repayable on demand.
The bank loan and the bank overdrafts bear interest at 2.5% above the base rate of Bank of Scotland plc.

18. DEFERRED TAX

The deferred tax included in the balance sheet is as follows:

The group	2006 £'000	Restated 2005 £'000
Included in debtors	945	1,200

The movement in the deferred tax account during the year was:

	2006 £'000	Restated 2005 £'000
Balance brought forward	1,200	-
Profit and loss account movement arising during the year	(255)	1,200
Balance carried forward	945	1,200

The deferred tax balance represents tax losses within one of the subsidiary companies, which has generated taxable profits and is expected to continue to do so.

19. SHARE CAPITAL

The company	Ordinary shares of 1p each Number of shares	£'000
Authorised		
At 31 March 2005 and 31 March 2006	100,000,000	1,000
Called up, allotted and fully paid		
At 31 March 2005	76,663,225	767
Exercise of options	601,829	6
At 31 March 2006	77,265,054	773

During the year the company issued an additional 601,829 ordinary shares of 1p each in respect of the exercise of options, for which a net total of £101,000 was received.

The difference between the nominal value of the shares issued and the net issue price has been credited to share premium account.

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

19. SHARE CAPITAL (CONTINUED)

At 31 March 2006, 94 employees, 4 directors and 2 former employees held share options as follows:

	Number of shares	Exercise price per share	Date from which exercisable	Expiry date
Approved scheme	37,500	44.00p	24/1/2004	24/1/2011
	5,000	13.50p	26/9/2004	26/9/2011
	23,888	11.75p	31/10/2004	31/10/2011
	100,000	9.00p	27/2/2005	27/2/2012
Enterprise management incentive scheme	266,666	6.25p	26/7/2002	26/7/2012
	266,666	6.25p	26/7/2003	26/7/2012
	266,668	6.25p	26/7/2004	26/7/2012
	138,245	6.25p	2/7/2004	2/7/2013
	215,414	6.25p	2/7/2005	2/7/2013
	265,011	6.25p	2/7/2006	2/7/2013
	6,666	78.50p	17/11/2005	17/11/2014
	6,667	78.50p	17/11/2006	17/11/2014
	590,485	78.50p	17/11/2007	17/11/2014
Savings related scheme	545,761	76.00p	1/3/2009	1/9/2009
Unapproved scheme	50,000	11.75p	31/10/2001	31/10/2011
	33,333	6.25p	27/6/2002	27/6/2007
	33,333	6.25p	27/6/2003	27/6/2007
	33,334	6.25p	27/6/2004	27/6/2007
	4,256,182	78.50p	17/11/2007	17/11/2014
Other unapproved options	276,886	5.00p	11/5/2000	14/12/2008
	276,887	5.00p	11/2/2001	14/12/2008
	276,887	5.00p	11/2/2002	14/12/2008

The total number of options outstanding is 7,971,479 shares equalling 9.35% of the enlarged share capital assuming exercise of all options.

20.STATEMENT OF MOVEMENT ON RESERVES

	Capital redemption reserve £'000	Share premium account £'000	Profit and loss account £'000
The group			
Profit for the financial period	-	-	4,014
Dividend paid	-	-	(958)
Shares issued (net of expenses)	-	95	-
Opening balance	1,200	6,108	7,454
Closing balance	1,200	6,203	10,510
The company			
Profit for the financial period	-	-	3,248
Dividend paid	-	-	(958)
Shares issued (net of expenses)	-	95	-
Opening balance	1,200	6,108	9,654
Closing balance	1,200	6,203	11,944

21.MOVEMENT IN SHAREHOLDERS' FUNDS

	Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
The group		
Profit for the financial period	4,014	3,128
Dividend paid	(958)	-
Share capital issued	101	8,413
Expenses in respect of reduction of capital	-	(28)
	3,157	11,513
Opening shareholders' funds	15,529	4,016
Closing shareholders' funds	18,686	15,529
The company		
Profit for the financial period	3,248	1,671
Dividend paid	(958)	-
Share capital issued	101	8,413
Expenses in respect of reduction of capital	-	(28)
	2,391	10,056
Opening shareholders' funds	17,729	7,673
Closing shareholders' funds	20,120	17,729

22. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
Operating profit	4,398	1,801
Depreciation	521	412
Amortisation of intangible assets	819	547
Increase in debtors	(5,396)	(2,752)
Increase in creditors	20	1,049
Net cash inflow from operating activities	362	1,057

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

	Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
Returns on investments and servicing of finance		
Other interest receivable	29	65
Bank overdraft and other borrowings	(241)	(142)
Finance leases	(2)	(17)
	(214)	(94)
Taxation		
Research and development tax credits received	123	-
Corporation tax refund	-	4
	123	4
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(478)	(765)
Acquisitions		
Purchase of subsidiary undertakings	-	(5,852)
Professional fees in connection with acquisitions	-	(182)
Payment of deferred consideration	(34)	(117)
Net cash acquired with subsidiaries	-	2,048
	(34)	(4,103)
Equity dividends paid		
Dividend paid on ordinary shares	(958)	-

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

	Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
Financing		
Issue of ordinary shares	101	327
Professional fees in connection with share exchanges	-	(236)
Expenses of capital reduction	-	(28)
Bank loan	-	3,465
Repayment of bank loan	(863)	(429)
Capital element of finance lease rentals	(113)	(190)
	(875)	2,909

24. ANALYSIS OF CHANGE IN NET (DEBT)

	Restated At 31 March 2005 £'000	Inception of finance lease £'000	Cash flow £'000	At 31 March 2006 £'000
Cash at bank and in hand	2,033	-	(754)	1,279
Bank overdrafts	-	-	(1,320)	(1,320)
Bank loan	(3,036)	-	863	(2,173)
Finance leases and hire purchase	(101)	(76)	113	(64)
Net (debt)	(1,104)	(76)	(1,098)	(2,278)

25. OPERATING LEASE COMMITMENTS

At 31 March 2006 the group was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 31 March 2006 £'000	Other 31 March 2006 £'000	Land and buildings Restated 31 March 2005 £'000	Other Restated 31 March 2005 £'000
Leases which expire:				
Within one year	19	159	33	365
Within two to five years	61	13	86	26
After five years	444	-	265	-
	524	172	384	391

26. RELATED PARTY TRANSACTIONS

There were no related party transactions during the year. Included in other debtors is £nil (2005 - £47,150) due from Stewart Moir, company secretary, in respect of share options which were exercised at the year end for personal pension purposes, which was settled in April 2005.

27. FINANCIAL INSTRUMENTS

The group finances its operations by raising finance through equity and bank borrowings. No speculative treasury transactions are undertaken and, during the last two years, no derivative contracts were entered into. Financial assets and liabilities include those assets and liabilities of a financial nature, namely cash, investments and borrowings. Short term debtors/creditors have been excluded from the following disclosures, with the exception of currency risk and credit risk.

	2006 £'000	Restated 2005 £'000
Financial assets		
The group's financial assets and their maturity profile are:		
Cash at bank and in hand	1,279	2,033
Maturing		
One year or less or on demand	1,279	2,033
Financial liabilities		
The group's financial liabilities and their maturity profile are:		
Leasing obligations - fixed rates	64	101
Bank overdrafts - floating rate	1,320	-
Bank loan - floating rate	2,173	3,036
	3,557	3,137
All of the fixed interest obligations are repayable within one year.		
Weighted average fixed interest rate	8.0%	9.2%
An analysis of the maturity of group debt is given in note 17		

Liquidity risk
The group seeks to manage financial risk to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash safely and profitably.

Interest rates
The interest rate on the group's floating rate loan and cash at bank is determined by reference to the base rate.
The group has a committed overdraft facility of £1,500,000 (2005 - £1,000,000), which falls due for renewal on 30 October 2006.

Currency risk
No forward foreign exchange contracts were entered into during the year. There were no outstanding foreign exchange contracts at the end of the current or the preceding year. The company has no non-monetary assets or liabilities denominated in foreign currencies. The monetary assets and liabilities and the level of transactions denominated in foreign currencies is minimal and there is no significant currency risk.

Credit risk
The majority of the group's customers are small businesses and a significant number of these customers take advantage of the deferred payment terms offered by the group. The board consider that the trade debtors and amounts due on deferred payment terms (note 14), both of which are stated net of applicable provisions, represent the total amount exposed to credit risk.

Further information on financial instruments policy and procedures is given in both the chief executive officer's report and the directors' report.

NOTICE OF 2006 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2006 annual general meeting of iomart Group plc will be held at Lister Pavilion, Kelvin Campus, West of Scotland Science Park, Glasgow G20 0SP on 21 June 2006 at 12 noon, for the purpose of considering and, if thought fit, transacting the following business:-

As Special Business, a resolution will be proposed as follows:-

1 To consider and, if thought fit, pass the following resolution as an ordinary resolution of the company:-

> "That the directors of the company be and are hereby authorised to exercise the powers contained in article 143 of the articles of association of the company so that, to the extent and in the manner determined by the directors, the holders of ordinary shares of 1p each in the capital of the company ("Ordinary Shares") shall be permitted to elect to receive Ordinary Shares, credited as fully paid, instead of all or part of the dividends payable on Ordinary Shares and that this authority shall expire, unless sooner revoked or varied by the company, on 21 June 2011."

As Ordinary Business, ordinary resolutions will be proposed as follows:-

2 To receive and adopt the financial statements of the company and the directors' and auditors' reports thereon for the year ended 31 March 2006.

3 To approve the payment of the proposed dividend of 3p per share on 29 September 2006 to shareholders on the register at 11 August 2006.

4 To reappoint Chris Batterham (who was appointed by the board since the last annual general meeting) as a director of the company.

5 To reappoint Sarah Haran (who retires by rotation and, being eligible, offers herself for re-election) as a director of the company.

6 To reappoint Nick Kuenssberg (who retires by rotation and, being eligible, offers himself for re-election) as a director of the company.

7 To reappoint Grant Thornton UK LLP, Chartered Accountants, as auditors of the company and to authorise the directors to fix their remuneration.

8 To approve the report of the board to the members on directors' remuneration for the year ended 31 March 2006.

As further Special Business, resolutions will be proposed as follows:-

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

> "That the directors be and they are hereby 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 (the "Act")) 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 £227,349; 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 fifteen 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

10 To consider and, if thought fit, pass the following resolution as a special resolution of the company:-

"That the directors be and are hereby empowered pursuant to section 95(1) of the Act to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by resolution 9 above as if Section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to:-

(a) the allotment of equity securities in connection with one or more issues 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 practicable) 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, regulatory or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory;

(b) the allotment of equity securities pursuant to any authority conferred upon the directors in accordance with and pursuant to article 143 of the articles of association of the company; and

(c) the allotment (otherwise than pursuant to (a) and/or (b) above) of equity securities up to an aggregate nominal amount of £38,632;

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 fifteen 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 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."

11 To consider and, if thought fit, pass the following resolution as a special resolution of the company:-

"That the company be generally and unconditionally authorised for the purposes of section 166 of the Act to make one or more market purchases (within the meaning of section 163(3) of the Act) on a recognised investment exchange (as defined in section 163(4) of the Act) of ordinary shares of 1p each in the capital of the company ("Ordinary Shares") provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased is 7,726,505 (representing 10% of the company's issued ordinary share capital at the date of the notice of this annual general meeting);

(b) the minimum price, exclusive of any expenses, which may be paid for any such Ordinary Share is 1p;

(c) the maximum price, exclusive of any expenses, which may be paid for any such Ordinary Share shall be not more than 5% above the average of the middle market quotations for an Ordinary Share on the relevant investment exchange on which the Ordinary Shares are traded for the five business days immediately preceding the date on which such Ordinary Share is contracted to be purchased;

(d) unless previously revoked or varied, the authority hereby conferred shall expire on the earlier of the date which is fifteen months from the date of the passing of this resolution and the conclusion of the next annual general meeting of the company; and

(e) the company may make a contract or contracts for the purchase of Ordinary Shares under this authority before the expiry of this authority which would or might be executed wholly or partly after the expiry of such authority, and may make purchases of Ordinary Shares in pursuance of such a contract or contracts as if such authority had not expired."

By order of the board

Stewart Moir
Company Secretary
16 May 2006

Lister Pavilion, Kelvin Campus
West of Scotland Science Park
Glasgow G20 0SP

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 on 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.

Explanatory Notes to the Notice of Annual General Meeting

Resolutions to be considered as Special Business

Resolution 1 - Scrip Dividend Scheme

Resolution 1 seeks authority to implement the power given to the company under article 143 of the articles of association of the company to offer participation in a scrip dividend scheme. Shareholders will then have the opportunity to elect to receive Ordinary Shares instead of cash dividends payable on Ordinary Shares. The authority given by Resolution 1 will expire on 21 June 2011 (i.e. 5 years after the date of the passing of the Resolution). The 5 year period is the maximum recommended by the Association of British Insurers ("ABI").

Resolution 9 - Allotment authority

Resolution 9 renews an authority given to the directors at the last annual general meeting of the company, held on 20 June 2005, which expires at this meeting, and authorises the directors generally and unconditionally, in accordance with Section 80 of the Companies Act 1985 (the "Act"), to allot unissued shares in the capital of the company during the period expiring (unless sooner revoked or varied by the company) on the conclusion of the next annual general meeting of the company or 21 September 2007, whichever occurs first, up to a maximum aggregate nominal value of £227,349, being equal to the difference between the company's issued share capital at the date of the notice of AGM and its authorised share capital. This Resolution complies with the guidelines issued by the Investment Committees of the ABI and the National Association of Pension Funds (the "IPCs") in respect of companies whose shares are admitted to the Official List of the UK Listing Authority. The IPCs regard it as good practice for the guidelines to be followed by companies whose shares are traded on the Alternative Investment Market of the London Stock Exchange.

Resolution 10 - Disapplication of pre-emption rights

Paragraphs (a) and (c) of Resolution 10 renew an authority given to the directors at the last annual general meeting of the company, held on 20 June 2005, which expires at this meeting. Paragraph (b) comprises an additional authority in respect of shares issued pursuant to the scrip dividend scheme.

Under Section 89(1) of the Act, if the directors wish to allot any of the unissued shares for cash, they must in the first instance offer them to existing shareholders in proportion to the number of shares they each hold at that time. An offer of this type is called a "rights issue" and the entitlement to be offered a new share is known as a "pre-emption right".

There may be circumstances, however, where it is in the interests of the company for the directors to allot some of the new shares for cash other than by way of a rights issue. This cannot be done under the Act unless the shareholders first waive their pre-emption rights. Resolution 10 asks shareholders to do this, but only (1) in respect of new shares issued under the scrip dividend scheme and (2) additionally, in respect of new shares equal to 5 per cent of the company's issued ordinary share capital at the date of the notice of AGM.

The directors will be able to use this power without obtaining further authority from shareholders before they allot new shares covered by it. If the directors wish, other than by rights issue or pursuant to the scrip dividend scheme, to allot for cash new shares which would exceed the 5 per cent limit referred to above, they would first have to ask the company's shareholders to waive their pre-emption rights in respect of that proportion of new shares which exceeds the 5 per cent ceiling.

There are legal, regulatory and practical reasons why it may not always be possible to issue new shares under a rights issue to some shareholders, particularly those resident overseas. To cater for this, Resolution 10, in authorising the directors to allot new shares by way of a rights issue, also permits the directors to make appropriate exclusions or arrangements to deal with such difficulties.

The power given by Resolution 10 will, unless sooner revoked or varied by the company, last until next year's annual general meeting or 21 September 2007, whichever occurs first. This resolution complies with the IPCs' guidelines.

Resolution 11 - Authority to purchase company's own shares

This resolution grants authority to the company to make purchases of up to a maximum of 10% of the issued ordinary share capital of the company.

In certain circumstances it may be advantageous for the company to purchase its Ordinary Shares. The directors would use the share purchase authority with discretion and purchases would only be made from funds not required for other purposes and in light of market conditions prevailing at the time. In reaching a decision to purchase Ordinary Shares, your directors would take account of the company's cash resources and capital, the effect of such purchases on the company's business and on earnings per Ordinary Share.

The directors have no present intention of using the authority. However, the directors consider that it is in the best interests of the company and its shareholders as a whole that the company should have the flexibility to buy back its own shares should the directors in the future consider that it is appropriate to do so.

In relation to any buy back, the maximum price per Ordinary Share at which the company is authorised in terms of Resolution 11 to effect that buy back is 5% above the average middle market price of an Ordinary Share for the five business days immediately preceding the date on which the buy back is effected.

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