# iomart Group plc.

## Financial Statements for year ended 31 March 2007

# CONTENTS

# OFFICERS AND PROFESSIONAL ADVISERS

***Directors***

| | |
|---|---|
| Nick Kuenssberg OBE, BA, FCIS, CCMI, FIoD | Non executive chairman |
| Angus MacSween | Chief executive officer |
| Chris Batterham MA, FCA | Non executive director |
| Stuart Forrest | Director |
| Mark Hallam | Director |
| Sarah Haran | Director |
| Richard Logan BA, CA | Director |
| Fred Shedden MA, LLB | Non executive director |

***Secretary***

Stewart Moir CA

***Registered office***

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

***Nominated adviser and broker***

KBC Peel Hunt Ltd
111 Old Broad Street
London EC2N 1PH

***Bankers***

Bank of Scotland
235 Sauchiehall Street
Glasgow G2 3EY

***Solicitors***

McGrigors
Pacific House
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

**Financial and operating highlights**

- Significant acquisition of Datacentre business funded by £11m placing
- Reduced cost of option to buy minority stake in Datacentre business
- Ufindus and Easyspace performing well
- Accounts for 2006/07 presented under IFRS convention
- Profit after tax including deferred tax credit £2,180k (2006 £11k)

This has been a pivotal year in our development, particularly with the raising of £11m through a share placement to acquire a controlling stake in significant datacentre assets. The Group is now well positioned to take advantage of the exciting market opportunities in colocation and complex hosting more easily facilitated by the datacentre business. Boosted by the reduced cost of the option to acquire the minority stake, this will deliver significant shareholder returns in the medium term.

You will note that our figures are presented under the new IFRS convention, introduced one year earlier than required; while the figures may look different, your Group has performed generally in line with expectations. Sales revenue was up 16.9% at £21,086k and profit before tax increased to £218k (2006 loss of £74k). The effect of the deferred tax credit through the recovery of losses increased profit after tax to £2,180k (2006 - £11k). We have not recommended a dividend.

The management team under Angus MacSween has successfully improved internal systems and processes. Ufindus is increasingly self-sufficient, collection methods are better, Easyspace is more robust and the welcome appointment of Richard Logan as finance director has been effective.

Dominic Marrocco, the previous owner and managing director of the datacentre business, has left, but we have a new highly experienced team under the leadership of Sarah Haran driving the integrated Easyspace and Easyspace Datacentres business.

On a personal note, having been chairman of your Group since the AIM flotation in April 2000, I believe that it is appropriate that I plan to step down. We have therefore commissioned a search firm to identify suitably experienced candidates with a view to appointing a non-executive director who will take over as chairman in due course.

The Group is now poised to deliver significant shareholder returns and I look forward to the increasing value which Angus and his team will deliver.

Nick Kuenssberg
Chairman

20 June 2007

# CHIEF EXECUTIVE OFFICER'S REPORT

**Easyspace Datacentres (UK) Ltd**

The highlight of 2006/7 has been our entry into the datacentre marketplace with the successful placing and acquisition of a controlling interest in Easyspace Datacentres (UK) Ltd (formerly Ezee DSL Ltd). Since the acquisition we have made good progress in making the datacentres operational and recruiting key senior personnel. The reaction to our initial marketing of the London datacentre has been very encouraging and we remain convinced that our strategic move into the datacentre market at this stage of the cycle will provide additional growth and profit for the Group.

I am also pleased to report that, as a result of 186k Ltd, the vendor, not funding their share of the working capital requirement, iomart Group will acquire 100% of the equity for a maximum payment of £4.8m in 2 years time. Since we had expected to pay up to £20m to acquire the 49%, based on the business plan and formula in the purchase agreement, we believe this represents significant additional value for shareholders.

Having our own datacentre capacity allows us to reshape our strategy in the hosting environment, building on our existing experience, to be able to deliver the complete set of vertical components in the hosting arena from domain names, virtual webspace, websites, dedicated servers through to complex managed hosting solutions, colocation space, power, cooling and bandwidth.

As more and more mission critical business applications move on to the web, so organisations need more resilience, security and 24 hour management; the market for managed hosting services and datacentre capacity is expected to grow significantly over the next few years. We will leverage the skills and experience within Easyspace to provide a comprehensive set of services.

**Easyspace**

The existing Easyspace business continued to provide a solid platform of revenue, cash generation and profit providing £1.9m of operating profit from revenues of £6.6m. Whilst we have seen some downward pressure on pricing at the very low end of the market, gross margins remain good at 60% and we are winning higher margin business in the corporate hosting market where business continuity is becoming ever more important.

**Ufindus**

The continuing shift from traditional media advertising and paper directory services to internet driven services is, if anything, accelerating and our online directory business UfindUs is benefiting from that with a growing number of users generating 9 million searches and visits to customer websites per month.

Despite the impact on revenues of the adoption of IFRS, explained in the Finance Director's report and in the notes to the financial statements, we have seen UfindUs revenues grow 30% from £10.9m to £14.1m providing an operating profit of £1.5m. Gross margins have also improved. The business is in much better shape operationally than was the case six months ago with well established and more robust systems around billing and collections and over 75% of new customers signing up to pay by direct debit.

UfindUs is gaining credibility in the search and directory market and, with a number of initiatives ready to launch to improve the product, is set to provide more and more business opportunities for our customers.

**Netintelligence**

Netintelligence is a highly developed leading edge product set in the 'Software as a Service' arena. We have had a disappointing year with Netintelligence but continue to develop the IPR to ensure that we remain competitive and can exploit potential opportunities. The strategy is to use indirect channels to market and we have taken steps to ensure our costs going forward are in line with our revenues.

**Current trading and outlook**

Across the Group we have taken steps to strengthen and deepen the senior management team.

Our timely entry into the datacentre market and the very encouraging response to our initial marketing reinforces our view that there is significant growth potential which can be delivered in the medium term. We have generated substantial interest, mainly from large enterprises interested in long term commitments, which should form the backbone of future sales revenues. Additionally our core business continues to perform in line with expectations and we look forward to a rewarding year.

Angus MacSween
Chief Executive Officer

20 June 2007

FINANCE DIRECTOR'S REPORT

### Trading

It is with much pleasure that I present my first report as Finance Director of iomart.

Revenue increased in the year by 16.9% to £21,086,000 (2006 - £18,032,000) principally due to the continued growth achieved by our internet directory business Ufindus.

Encouragingly, our gross profits increased by 20% to £16,400,000 (2006 - £13,671,000) meaning our gross margin percentage in the year of 78% was higher than the 76% achieved in 2006. Again the main reason for this was the increase in gross margin delivered by Ufindus due to the favourable impact of recurring revenue from customers for which there is very little cost of sale to be recognised.

Administrative expenses were 17% higher at £15,835,000 (2006 - £13,531,000). The major reason for the increase is staff costs reflecting the additional personnel we have employed to service our growing Ufindus business and also increased sales resources for part of the year in both Ufindus and Netintelligence. In addition, primarily due to debt collection issues at Ufindus there has been an increased level of bad debt expense in the current year.

Operating profit for the year of £565,000 was four times greater than that achieved in 2006.

After financing costs, which have increased this year due to the additional debt that we have serviced, pre-tax profits for the year were £218,000 compared to a loss for last year of £74,000.

The deferred taxation credit of £1,962,000 is primarily due to the recognition of a deferred tax asset in respect of tax losses relating to Ufindus which we now expect to utilise against the future profits of that operation.

As a result our profit for the year from continuing operations is £2,180,000 compared to a profit in 2006 of £11,000. Basic earnings per share for the year of 2.78p compared to 0.01p in 2006.

### Cash

There was a cash inflow for the year of £243,000 from operating activities.

During the year the Group invested £463,000 in acquiring property plant and equipment and £311,000 on developing and acquiring software. We also made dividend payments of £1,284,000, bank loan repayments of £865,000, net interest payments of £347,000, finance lease repayments of £109,000 and net corporation tax of £18,000.

To fund this, after receiving proceeds of £43,000 from the issue of shares, the Group increased its net bank overdraft by £3,111,000 over the year.

At the year end cash balances were £999,000 borrowings under finance leases amounted to £373,000, bank loans totalled £1,308,000 and overdrafts totalled £4,151,000 resulting in an overall net borrowings position of £4,833,000 which has increased by £2,555,000 over the year. The cash position of the Group changed significantly immediately after the year end with the receipt, net of expenses, of £10,466,000 from the issue of shares to fund the acquisition of a majority stake in Ezee DSL Limited.

### Acquisitions

On 30 March 2007 we acquired a controlling interest of 51% in Ezee DSL Limited for £4,890,000 including certain costs of acquisition. This was funded by the issue of 20 million shares which raised a total of £10,466,000 net of expenses and we received these funds, which had been underwritten by KBC Peel Hunt, on 2 April. The book value of the Ezee DSL datacentre assets at the time of acquisition was £8,870,000 and based on a report on the London datacentre, commissioned immediately prior to acquisition, we would estimate the replacement cost of such assets to be in the region of £28,000,000.

### Financial Position

With funding raised through the share placement, the availability of our committed overdraft facility and the anticipated cash generation from the existing operations the Group's financial position is sufficient to fund our current business plans. We believe we are now entering an important growth phase in our continued development which will place demands on our cash resources including the obligation to fully fund the Easyspace Datacentres (UK) operation and we have not recommended a dividend be paid at this time. We will continue to review this position and intend to be in a position to re-establish dividend payments in future years.

**International Financial Reporting Standards**

Once the impact of the introduction of IFRS had been assessed we made the decision to adopt IFRS as we felt in the circumstances it was the most appropriate basis for the preparation of these accounts. Consequently IFRS has been implemented one year ahead of our original plan and indeed one year ahead of its mandatory adoption.

In note 27 there is an explanation of the impact of adopting IFRS on the Group's results including the impact on prior years the results of which have been restated and I would encourage you to review the details of that note to gain a full understanding of the position.

The major impact has been in relation to the revenues of our internet directory business Ufindus. Under UK GAAP we recognised Ufindus revenue at the time of sale, on the basis that the service had been delivered and all significant obligations of the sale fulfilled. Since the vast majority of our customers take advantage of the deferred payment terms which we offer our revenue was recognised in advance of actual invoicing to customers. Under IFRS we are required to recognise revenue from the customers' perspective and therefore spread the revenue over the period of use by the customer. For a Group experiencing substantial growth in revenues, such as iomart, the impact of this has been to reduce revenues and profitability previously reported. Under IFRS the Group will continue to invoice and recognise as revenue the remaining sums due from customers in respect of contractual commitments.

Richard Logan
Finance Director

20 June 2007

# CORPORATE GOVERNANCE

As 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 five 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 chairman of the nominations committee, Fred Shedden of the remuneration committee and Chris Batterham of the audit committee.

A separate report on directors' remuneration is set out on pages 9 to 12 , 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 board established a risk register in 2006 which is formally reviewed during each calendar year.

**Going**

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 annual general meeting 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 6 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. 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.

- Share options

Executive directors are entitled to participate in share option schemes.

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 6 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 2007 Total £ | Year ended 31 March 2006 Total £ |
|---|---|---|---|---|---|---|
| Nick Kuenssberg | 35,000 | - | - | - | 35,000 | 35,000 |
| Angus MacSween | 135,000 | 47,250 | 7,200 | 13,500 | 202,950 | 241,200 |
| Chris Batterham (appointed 14 September 2005) | 24,375 | - | - | - | 24,375 | 12,375 |
| Bill Dobbie (resigned 20 June 2005) | - | - | - | - | - | 5,625 |
| Stuart Forrest (appointed 20 June 2005) | 83,754 | 104,495 | 6,000 | - | 194,249 | 159,705 |
| Mark Hallam (appointed 20 June 2005) | 83,754 | 104,495 | 6,000 | - | 194,249 | 159,705 |
| Sarah Haran | 86,670 | 84,939 | 7,200 | 8,616 | 187,425 | 188,725 |
| Richard Logan (appointed 10 July 2006) | 58,259 | 26,217 | 5,243 | 5,333 | 95,052 | - |
| Fred Shedden | 25,000 | - | - | - | 25,000 | 25,000 |
| | **531,812** | **367,396** | **31,643** | **27,449** | **958,300** | **827,335** |

There was also a gain in relation to the exercise of share options by Sarah Haran which totalled £275,000.

### Directors' interests in shares

The interests of the directors in the shares of the company at 31 March 2007, together with their interests at 1 April 2006 or the date of appointment were as follows:

| | Number of ordinary shares | |
|---|---|---|
| Name of director | 31 March 2007 | At 1 April 2006 or date of appointment |
| Nick Kuenssberg | 1,060,400 | 910,010 |
| Angus MacSween | 19,286,304 | 18,395,500 |
| Chris Batterham | 45,621 | 25,000 |
| Stuart Forrest | 1,689,284 | 1,600,000 |
| Mark Hallam | 1,324,767 | 1,240,780 |
| Sarah Haran | 720,704 | 246,955 |
| Richard Logan (appointed 10 July 2006) | 45,500 | - |
| Dominic Marrocco (appointed 30 March 2007 and resigned 20 June 2007) | 91,000 | - |
| Fred Shedden | 744,588 | 636,122 |

**Directors' interests in share options**

The interests of the directors at 31 March 2007 in options over the ordinary shares of the company were as follows:

| Name of director | At 1 April 2006 | Granted in year | Exercised | At 31 March 2007 | 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 |
| | 1,762,302 | - | - | 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 |
| | 68,333 | - | (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 |
| | 1,769,161 | - | (435,000) | 1,334,161 | | | |
| 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 |
| | 1,412,302 | - | - | 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 |
| | 1,412,302 | - | - | 1,412,302 | | | |
| Richard Logan | | 200,000 | | 200,000 | 74p | 24/08/09 | 24/08/16 |

Directors' interests in share options (continued)

Other than 50,000 of the options granted to Richard Logan which vested on his appointment the options granted at 74p and 78.5p vest over a three year period subject to demanding performance criteria. The remaining options listed have already vested. No options lapsed during the year.

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 46.0p and the range of prices during the period was between 43.5p and 90.0p.

By order of the board

Fred Shedden
Chairman, Remuneration committee

20 June 2007

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 2007.

### Principal activity

The principal activity of the Group is the provision of internet services.

### Business review

The chairman's statement, chief executive officer's and finance director's reports contain a review of trading.

The Group 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.

We are particularly pleased about the investment made in datacentres through the acquisition of 51% of Ezee DSL Limited at the end of the financial year. We believe this is a good time to enter this market segment where demand substantially exceeds supply and foresee this as a substantial business activity in the future.

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:

| | **2007** | **2006** |
|---|---|---|
| **Turnover growth** | 16.9% | 29.5% |
| **Gross margin** | 77.8% | 75.8% |
| **Number of customers** | 232,000 | 213,000 |

### 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 2007 comprise a bank loan and overdrafts of £5.5m and finance leases totalling £0.37m. The interest rate payable on the bank loan and overdrafts is between 2.5% and 2.75% above the base rate of Bank of Scotland plc. The interest rate at 31 March 2007 was between 7.75% and 8% and the average interest rate since the loan was drawn was 7.21%. The interest rates on the finance leases are fixed for the term of the lease at between 7.7% and 9.75%. All transactions of the holding company and the UK subsidiaries are in UK sterling and the Group does not use derivative instruments. Additional information on financial instruments is included in Note 26.

### Dividend

The directors do not propose a dividend for the year ended 31 March 2007 (2006 – 3.00p).

### Directors and their interests

The present membership of the board is set out on page 2. In addition Dominic Marrocco served as a director between 30 March 2007 and 20 June 2007. In accordance with the company's Articles of Association, Angus MacSween, Richard Logan and Fred Shedden 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 9 to 12.

**Substantial shareholdings**
At 14 June 2007 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 | 19,286,304 | 19.40% |
| Gartmore Investment Limited | 14,382,370 | 14.60% |
| Goldman Sachs | 5,587,826 | 5.60% |
| British Steel Pension Fund | 4,921,000 | 4.95% |
| Majedie Asset Management | 4,586,100 | 4.60% |
| Bill Dobbie | 3,361,369 | 3.40% |
| Universities Superannuation Scheme | 3,117,000 | 3.13% |

**Employee involvement**
The Group regularly communicates with 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 2007, calculated in accordance with the requirements of the Companies Act 1985, were 30 days (2006 – 35 days), and of the company were 26 days (2006 – 90 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 or 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

20 June 2007

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS).

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

**Nick Kuenssberg**

64, appointed 2000; currently chairman of Canmore Partnership Ltd, Keronite PLC and eTourism Ltd and previously chairman of Dynacast International Ltd, Stoddard International plc, GAP Group Ltd, ScotlandIS, IoD Scotland and others, director of Coats Viyella 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.

**Angus MacSween**

50, 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.

**Chris Batterham**

52, 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.

**Stuart Forrest**

40, appointed 2005; Stuart began his career in financial services in the North West of England. He was involved in several new starts alongside Mark 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**

41, 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.

**Sarah Haran**

41, 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.

**Richard Logan**

49, appointed 2006; Richard is a chartered accountant having qualified with Arthur Young in 1984. Richard then spent 7 years with Ben Line Group initially as Group treasurer and latterly as financial director of Ben Line's main container shipping division. From 1992 to 2002 Richard served as finance director of Kingston SCL a company which provided administration and billing software to the mobile communications market during which time he was involved in a management buy-out and subsequent trade sale of the company. Immediately prior to joining iomart Richard served as finance director of ePOINT Group a technology company based in Scotland.

**Fred Shedden**

62, appointed 2000; 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 and chairman of Halladale Group plc.

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

We have audited the Group financial statements of iomart Group plc for the year ended 31 March 2007 which comprise the principal accounting policies, the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of changes in shareholders' equity and notes 1 to 27. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of iomart Group plc for the year ended 31 March 2007 and the information in the Report of the board on Directors Remuneration that is described as having been audited.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group 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 Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 Group financial statements. The other information comprises only the Chairman's Statement, the Chief Executive Officer's Report, the Finance Director's Report, the Directors' Report, the Statement of Director's Responsibilities, Report of the Board to the Members on Directors' Remuneration and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group 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 Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 Group 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 Group financial statements.

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

**Opinion**

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2007 and of its profit for the year then ended;

- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and

- the information given in the Directors' Report is consistent with the financial statements.

**Separate opinion in relation to IFRSs**

As explained in Note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 March 2007 and of its profit for the year then ended.

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
GLASGOW

20 June 2007

## CONSOLIDATED INCOME STATEMENT
Year ended 31 March 2007

| Continuing | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| Revenue | 2 | 21,086 | 18,032 |
| Cost of sales | 3 | (4,686) | (4,361) |
| **Gross profit** | | 16,400 | 13,671 |
| Administrative expenses | 3 | (15,835) | (13,531) |
| **Operating profit** | | 565 | 140 |
| Finance income | 5 | 11 | 29 |
| Finance costs | 5 | (358) | (243) |
| **Profit/(loss) before taxation** | | 218 | (74) |
| Taxation | 7 | 1,962 | 85 |
| **Profit for the year from continuing operations** | | 2,180 | 11 |
| **Basic and diluted earnings per share** | | | |
| Basic | 9 | 2.78p | 0.01p |
| Diluted | 9 | 2.72p | 0.01p |

## CONSOLIDATED BALANCE SHEET
31 March 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets – goodwill | 10 | 14,475 | 14,289 |
| Intangible assets – development costs | 10 | 310 | 116 |
| Intangible assets - software | 10 | 39 | 35 |
| Deferred tax asset (non-current element) | 8 | 1,137 | - |
| Property, plant and equipment | 12 | 10,615 | 883 |
| | | **26,576** | **15,323** |
| **Current assets** | | | |
| Trade and other receivables | 13 | 2,989 | 2,531 |
| Deferred tax asset (current element) | 8 | 848 | - |
| Amount due from share placing | | 10,466 | - |
| | | **14,303** | **2,531** |
| **Total assets** | | **40,879** | **17,854** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred grants | | - | (26) |
| Minority interest payable | 16 | (4,800) | - |
| Non-current borrowings | 17 | (649) | (1,347) |
| | | **(5,449)** | **(1,373)** |
| **Current liabilities** | | | |
| Cash and cash equivalents | 14 | (3,152) | (41) |
| Trade and other payables | 15 | (4,336) | (4,829) |
| Current income tax liabilities | | - | (169) |
| Current borrowings | 17 | (1,032) | (890) |
| Amount due in relation to acquisition | 20 | (4,800) | - |
| | | **(13,320)** | **(5,929)** |
| **Total Liabilities** | | **(18,769)** | **(7,302)** |
| **Net assets** | | **22,110** | **10,552** |
| **EQUITY** | | | |
| Share capital | 19 | 994 | 773 |
| Capital redemption reserve | | 1,200 | 1,200 |
| Share premium | | 17,541 | 6,203 |
| Profit and loss reserve | | 2,375 | 2,376 |
| **Total equity** | | **22,110** | **10,552** |

These financial statements were approved by the board of directors on 20 June 2007
Signed on behalf of the board of directors

Angus MacSween
Director and chief executive officer

## CONSOLIDATED CASH FLOW STATEMENT
31 March 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **Operating profit** | | **565** | **140** |
| Depreciation | 3 | 653 | 501 |
| Amortisation | 3 | 113 | 44 |
| Share based payments | 21 | 153 | 168 |
| Recognition of deferred grants | | (48) | (16) |
| Movement in trade receivables | | (631) | (355) |
| Movement in trade payables | | (562) | (13) |
| **Cash flow from operations** | | **243** | **469** |
| Research and development tax credit received | | 142 | 123 |
| Corporation tax paid | | (160) | - |
| **Net cash flow from operating activities** | | **225** | **592** |
| | | | |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | 12 | (463) | (470) |
| Capitalisation of development costs | 10 | (282) | (140) |
| Purchase of intangible assets - software | 10 | (29) | (8) |
| **Net cash used in investing activities** | | **(774)** | **(618)** |
| | | | |
| **Cash flow from financing activities** | | | |
| Issue of shares | 19 | 43 | 101 |
| Repayment of finance lease | 22 | (109) | (113) |
| Repayment of borrowings | 22 | (865) | (864) |
| Dividends | 6 | (1,284) | (958) |
| Interest received | 5 | 11 | 29 |
| Interest paid | 5 | (358) | (243) |
| **Net cash used in financing activities** | | **(2,562)** | **(2,048)** |
| | | | |
| Net decrease in cash and cash equivalents | | (3,111) | (2,074) |
| | | | |
| Cash and cash equivalents at the beginning of the year | | (41) | 2,033 |
| | | | |
| **Cash and cash equivalents at the end of the year** | 14 | **(3,152)** | **(41)** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 March 2007

| | Note | Share capital £'000 | Share capital redemption reserve £'000 | Share premium account £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Changes in equity** | | | | | | |
| Balance at 1 April 2005 | | 767 | 1,200 | 6,108 | 3,155 | 11,230 |
| Dividends paid | 6 | | | | (958) | (958) |
| Share based payments | 21 | | | | 168 | 168 |
| Shares issued for share option redemption (net of expenses) | 19 | 6 | | 95 | | 101 |
| Profit in the period | | | | | 11 | 11 |
| **Balance at 31 March 2006** | | **773** | **1,200** | **6,203** | **2,376** | **10,552** |
| **Balance at 1 April 2006** | | 773 | 1,200 | 6,203 | 2,376 | 10,552 |
| Scrip dividend | 6 | 15 | | 1,035 | (1,050) | 0 |
| Dividends paid | 6 | | | | (1,284) | (1,284) |
| Share based payments | 21 | | | | 153 | 153 |
| Shares issued for share option redemption (net of expenses) | 19 | 6 | | 37 | | 43 |
| Issue of new shares for acquisition | 19 | 200 | | 10,266 | | 10,466 |
| Profit in the period | | | | | 2,180 | 2,180 |
| **Balance at 31 March 2007** | | **994** | **1,200** | **17,541** | **2,375** | **22,110** |

## 1. ACCOUNTING POLICIES

### Basis of preparation

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), under the historical cost convention. The measurement bases and principal accounting policies of the Group are set out below.

The policies have changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Principles (UK GAAP). The comparative information has been restated in accordance with IFRS. The changes to accounting policies are explained in note 27, together with the reconciliation of opening balances. The date of transition to IFRS was 1 April 2005. The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in these financial statements.

### Basis of consolidation

The Group financial statements consolidate those of the company and all of its subsidiary undertakings drawn up to 31 March 2007. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

The Group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to date of transition. Accordingly the classification of the combination remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement.

### New standards and interpretations of existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2007 or later periods but which the Group has not early adopted:

- IFRS 7 Financial instruments: Disclosures, (effective for annual periods beginning on or after 1 January 2007) and the complementary amendment to IAS 1,'Presentation of financial statements – Capital disclosures', were not early adopted. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments. It is not expected to have any significant impact on the consolidated financial statements;

- IFRIC 8 Scope of IFRS 2, (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Group has applied IFRIC 8 from 4 February 2007, but it has not had any impact on the Group's financial statements;

- IFRIC 10 Interim Financial Reporting and Impairment, (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group has applied IFRIC 10 from 4 February 2007 but it has not had any significant impact on the consolidated financial statements;

- IFRS 8 Operating Segments, (effective for annual periods beginning on or after 1 January 2010) replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard uses a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. It is not expected to have any significant impact on the consolidated financial statements; and

- IFRIC 11, 'IFRS 2 – Group and Treasury Share Transactions', (effective for annual periods beginning on or after 1 January 2009) provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for instance, options over a parent's shares) should be accounted for as equity-settled or cash-settled. This is not expected to have any impact on the consolidated financial statements.

**Goodwill**
Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Any excess of the Group's interest in the net fair value of the identifiable net assets acquired over cost is recognised immediately after acquisition in the income statement.

**Revenue**
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow from the transaction and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on prior experience, taking into consideration the type of customer and the type of transaction.

***Ufindus***
This operating segment sells web based marketing services comprising the creation, maintenance and ongoing promotion of websites on an internet directory. Revenue for the initial creation and design of websites is recognised when the website has been created and all significant obligations in relation to the sale have been fulfilled. Revenue for the ongoing maintenance and promotion of websites is then recognised evenly over the period of the service.

***Easyspace***
This operating segment provides domain name registration and web hosting services. Revenue from the provision of domain names is recognised at the time the title to the domain name passes. Revenue from the provision of web hosting is recognised evenly over the period of the service and only after all significant obligations in relation to the sale have been fulfilled. Any unearned portion of revenue is included in payables as deferred revenue.

***Netintelligence***
This operating segment provides internet security software under licence. Revenue from the sale of licences is recognised evenly over the period of the licence and only after all significant obligations in relation to the sale have been fulfilled. Any unearned portion of revenue is included in payables as deferred revenue.

***Interest***
Interest is recognised on a time-proportion basis using the effective interest method.

**Intangible assets**

***Research and development***

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred. Development costs incurred are capitalised when all the following conditions are satisfied:

- completion of the intangible asset is technically feasible so that it will be available for use or sale
- the Group intends to complete the intangible asset and use or sell it
- the Group has the ability to use or sell the intangible asset
- the intangible asset will generate probable future economic benefits
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably

Development costs not meeting the criteria for capitalisation are expensed as incurred. The only development costs which are deemed to meet these criteria in the Group are in relation to developments by specific teams to develop products in the internet business. Development costs capitalised are amortised on a straight-line basis over the estimated useful life of the asset. The estimated useful life is deemed to be three years from the month of expenditure for all developments capitalised. Amortisation charges are recognised in administration expenses in the income statement.

***Software***
Software is recognised at fair value on purchase and amortised on a straight-line basis over its useful economic life, which does not generally exceed four years.

**Assets acquired as part of a business combination**
In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the group are not reliably measurable. Where the individual fair values of the complimentary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives.

**Property, plant and equipment**
Property, plant and equipment is stated at cost or valuation, net of depreciation and any provision for impairment. Leasehold property is included in property, plant and equipment only where it is held under a finance lease.

**Disposal of assets**
The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement.

**Depreciation**
Depreciation is calculated to write down the cost of all property, plant and equipment to the expected residual value by equal annual instalments over their estimated useful economic lives. All items of property, plant and equipment are deemed to have residual values of nil. The rates generally applicable are:

| | |
|---|---|
| Freehold property | Not depreciated |
| Short-term leasehold improvements | 25% per annum |
| Computer equipment | Between 20% and 50% per annum |
| Office equipment | Between 10% and 25% per annum |
| Datacentre equipment | Between 6% and 10% per annum |

**Impairment testing of goodwill, other intangible assets and property, plant and equipment**
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Details of the key assumptions and judgements are shown in note 10.

**Leased assets**
In accordance with IAS 17 Leases, the economic ownership of a leased asset is deemed to have been transferred to the Group (the lessee) if the Group bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance lease liability.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease. Where a lease is for land and buildings there is no distinction between land and buildings, with both being classified as operating leases.

**Taxation**
Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

**Financial assets**

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised as at fair value through profit or loss are recognised at fair value plus transaction costs. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through the income statement.

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the entity as at fair value through profit or loss upon initial recognition. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not be reclassified subsequently.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade and other receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

An assessment for impairment is undertaken at least at each balance sheet date.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

**Financial liabilities**

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities categorised as at fair value through profit or loss are recorded initially at fair value, all transaction costs are recognised immediately in the income statement. All other financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities categorised as at fair value through profit or loss are remeasured at each reporting date at fair value, with changes in fair value being recognised in the income statement. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial liabilities are categorised as at fair value through profit and loss on initial recognition. A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

**Cash and cash equivalents**
Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

**Dividends**
Dividend distributions payable to equity shareholders are included in "other short term financial liabilities" when the dividends are approved in general meeting prior to the balance sheet date. Scrip dividends are recognised at the fair value of the cash alternative.

**Equity**
Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.

- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

- "Capital redemption reserve" represents set aside reserves in relation to previous redemption of own shares.

- "Profit and loss reserve" represents retained profits.

**Employee benefits**
The Group operates a stakeholder pension scheme for the benefit of employees who wish to participate. The Group also makes contributions to executive directors' and some senior employees' personal defined contribution pension schemes. The pension costs charged against operating profit are the contributions payable to the schemes in respect of the accounting period.

**Share-based payment**
All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 April 2005 are recognised in the financial statements. All share-based payment arrangements in the Group are equity settled.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "Profit and loss reserve".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

**Government grants**

Government grants relating to non-current assets are treated as deferred income and credited to the income statement in equal instalments over the anticipated useful lives of the assets to which the grants relate. Other grants are credited to the income statement over the period of the project to which they relate.

**Segmental reporting**

The Group's primary reporting format is business segments and its secondary format is geographical segments. The Group is primarily UK based and focused with sales to and costs in relation to other countries accounting for less than 10% of the Group's total. All assets are located in the UK. Therefore in line with IAS 14 para 69, no geographical breakdown is provided.

## 2. SEGMENTAL ANALYSIS

As at 31 March 2007 the Group is primarily organised into three main business segments:

- Ufindus – an internet Business Directory, providing a web marketing presence to the business community.
- Easyspace – a range of managed web hosting services, domain name registration services and the provision of datacentres.
- Netintelligence – provides 'software as a service' products for a range of internet control and security services

There are no other services provided by the Group which would constitute a separately disclosable segment.

**Primary Reporting Segment – Business**

Assets and Liabilities by Primary Segment

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **Total Assets £000's** | **Liabilities £000's** | **Net Assets (Liabilities) £000's** | **Total Assets £000's** | **Liabilities £000's** | **Net Assets (Liabilities) £000's** |
| Netintelligence | 468 | (5,427) | (4,959) | 735 | (4,674) | (3,939) |
| Easyspace | 29,184 | (6,745) | 22,439 | 17,039 | (2,216) | 14,823 |
| Ufindus | 7,650 | (4,992) | 2,658 | 4,634 | (3,435) | 1,199 |
| | **37,302** | **(17,164)** | **20,138** | **22,408** | **(10,325)** | **12,083** |
| Group assets/(liabilities) | | | 1,972 | | | (1,531) |
| | | | **22,110** | | | **10,552** |

The assets and liabilities of each business segment are derived using the same classifications as management reporting, including gross inter-segment balances, but net of inter-segment dividends paid.

**Non-current assets acquired in the period by Primary Segment**

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **Tangible non-current assets acquired in period £000's** | **Intangible non-current assets acquired in period £000's** | **Total £000's** | **Tangible non-current assets acquired in period £000's** | **Intangible non-current assets acquired in period £000's** | **Total £000's** |
| Netintelligence | 82 | 29 | 111 | 39 | 4 | 43 |
| Easyspace | 9,554 | 186 | 9,740 | 13 | - | 13 |
| Ufindus | 799 | 282 | 1,081 | 494 | 144 | 638 |
| | **10,435** | **497** | **10,932** | **546** | **148** | **694** |

**Revenue by Primary Segment**

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **External £000's** | **Internal £000's** | **Total £000's** | **External £000's** | **Internal £000's** | **Total £000's** |
| Netintelligence | 382 | 520 | 902 | 669 | 514 | 1,183 |
| Easyspace | 6,609 | - | 6,609 | 6,417 | - | 6,417 |
| Ufindus | 14,095 | - | 14,095 | 10,946 | - | 10,946 |
| | **21,086** | **520** | **21,606** | **18,032** | **514** | **18,546** |

**Profit by Primary Segment**

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **EBITDA £000's** | **Depreciation & amortisation £000's** | **Operating profit £000's** | **EBITDA £000's** | **Depreciation & amortisation £000's** | **Operating profit £000's** |
| Netintelligence | (918) | (101) | (1,019) | (382) | (85) | (467) |
| Easyspace | 2,011 | (66) | 1,945 | 2,175 | (88) | 2,087 |
| Ufindus | 2,056 | (599) | 1,457 | 335 | (372) | (37) |
| Group overheads | (1,818) | - | (1,818) | (1,443) | - | (1,443) |
| | **1,331** | **(766)** | **565** | **685** | **(545)** | **140** |
| Group interest and tax | | | 1,615 | | | (129) |
| **Profit for the year** | | | **2,180** | | | **11** |

Group overheads, interest and tax are not allocated to segments.

### 3. OPERATING COSTS

Included within operating costs from continuing operations are the following items:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Staff cost (note 4) | 12,394 | 10,496 |
| Depreciation of property plant and equipment | | |
| - Owned assets | 568 | 493 |
| - Leased assets | 85 | 8 |
| Property, plant and equipment hire | | |
| - Land and buildings | 586 | 491 |
| - Plant and machinery | 192 | 258 |
| Amortisation of intangible assets | 113 | 44 |
| R&D written to income statement | 796 | 670 |
| Marketing and sales | 1,197 | 1,592 |
| Infrastructure | 348 | 228 |
| Provision for doubtful debts | 475 | 144 |
| Premises and office | 2,033 | 1,420 |
| Other expenses | 1,734 | 2,048 |
| | **20,521** | **17,892** |
| Cost of sales | 4,686 | 4,361 |
| Administrative expenses | 15,835 | 13,531 |
| | **20,521** | **17,892** |

Included within other expenses are fees paid to the Group's auditors, an analysis of which is provided below:

| **Auditors' remuneration** | 2007 £'000 | 2006 £'000 |
|---|---|---|
| - audit fees | 44 | 39 |
| - tax compliance fees | 8 | 13 |
| - corporate finance and advisory transactions | 25 | 11 |
| | **77** | **63** |

## 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Directors' emoluments** | | |
| Aggregate emoluments | 931 | 806 |
| Pension contributions to personal money purchase schemes | 27 | 21 |
| Share based payments | 58 | 72 |
| | | |
| Emoluments payable to the highest paid director are as follows: | | |
| Aggregate emoluments | 203 | 228 |
| Pension contributions to personal money purchase schemes | 14 | 13 |

During the year the company made personal pension contributions to the personal pension schemes of 3 directors (2006: 2).
The aggregate amount of gains realised by directors on the exercise of share options during the year was £275,000 (2006: £57,000).
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 9 to 12.

| | No. | No. |
|---|---|---|
| **Average number of persons employed by the Group (including directors):** | | |
| Technical | 27 | 30 |
| Customer services | 85 | 101 |
| Sales and marketing | 345 | 283 |
| Administration | 50 | 43 |
| | 507 | 457 |
| **Number of persons employed by the Group at the year end** | | |
| Technical | 39 | 32 |
| Customer services | 91 | 105 |
| Sales and marketing | 231 | 280 |
| Administration | 48 | 40 |
| | 409 | 457 |

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Staff costs of the Group during the year in respect of employees and directors were:** | | |
| Wages and salaries | 11,141 | 9,376 |
| Social security costs | 1,073 | 928 |
| Other pension costs | 27 | 24 |
| Share based payments | 153 | 168 |
| | **12,394** | **10,496** |

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 defined contribution pension schemes.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2007

### 5. NET FINANCE COST

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Finance income:** | | |
| Bank interest receivable | 9 | 29 |
| Interest on R & D tax credit | 2 | - |
| | 11 | 29 |
| **Finance expenses:** | | |
| Bank overdraft and other borrowings | (341) | (241) |
| Finance leases | (17) | (2) |
| | (358) | (243) |
| Net finance cost | **(349)** | **(214)** |

### 6. DIVIDENDS ON SHARES CLASSED AS EQUITY

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Paid during the year** | | |
| Equity dividends on ordinary shares of 3p per share (2006: 1.25p) | 2,334 | 958 |
| **Proposed after the year end (not recognised as a liability)** | | |
| Equity dividends on ordinary shares of nil (2006: 3p) | - | 2,318 |

The dividend paid in 2007 was offered both as cash and as scrip dividend with £1,284,000 paid in cash and £1,050,000 paid in ordinary shares in the Group. The amount paid differs to the amount proposed in the prior year accounts due to the exercise of share options during the year which were within the scope of this dividend.

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Research and development tax credit | - | 85 |
| Tax (charge)/credit for the current year | - | 85 |
| Deferred tax credit | 1,985 | - |
| Under provision in prior year | (23) | - |
| | **1,962** | **85** |

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:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Profit/(loss) on ordinary activities before tax | 218 | (74) |
| Tax charge @ 30% | 66 | (22) |
| Disallowed expenditure | 1 | (94) |
| Deferred tax credit not recognised | 345 | 245 |
| Movement in short term timing differences | (23) | (11) |
| Consolidation adjustments | (15) | (15) |
| Utilisation of tax losses | (255) | (60) |
| Rate differences | - | 44 |
| Depreciation in excess of capital allowances | 8 | (15) |
| Statutory deductions on exercise of share options | (127) | (157) |
| **Tax charge/(credit) for the current year** | **-** | **(85)** |

The weighted average applicable tax rate for the year ended 31 March 2007 was 30% (2006: 30%)

## 8. DEFERRED TAX

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

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Recognised £'000 | Unrecognised £'000 | Recognised £'000 | Unrecognised £'000 |
| Tax losses carried forward | 1,985 | 1,755 | - | 4,767 |

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

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Included in non-current assets | 1,137 | - |
| Included in current assets | 848 | - |
| | 1,985 | - |

| | | |
|---|---|---|
| The movement in the deferred tax account during the year was: | | |
| Balance brought forward | - | - |
| Profit and loss account movement arising during the year | 1,985 | - |
| Balance carried forward | 1,985 | - |

The deferred tax asset is in relation to unutilised losses in the Ufindus subsidiary company. This has been recognised in line with budgets and future projections of the company over a three year period. The basis of these projections and budgets are:

- The consistent success of sales teams in generating new business
- The volume of traffic generated through Ufindus websites
- Expectations about the retention of customers
- Continuing development of the Ufindus product
- Expectations of continued growth in market prospects in relation to the internet generally and online directories in particular.

At 31 March 2006 it was deemed that the historic performance did not provide significant certainty to justify this recognition, but the performance of the company during the year to 31 March 2007, along with the business developments detailed above has led to the expectation that sustainable profits are probable in the medium term. Ufindus became profitable in the current year, and based on the foregoing assessment of budgets and projections and the expectation of sustainable profits in future years, a deferred tax asset in relation to the utilisation of these losses is recognised in line with IAS 12 Income Taxes.

### 9. 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.

| | 2007<br>£'000 | 2006<br>£'000 |
|---|---|---|
| Profit for the financial period and basic earnings attributed to ordinary shareholders | 2,180 | 11 |
| | **No<br>000** | **No<br>000** |
| Weighted average number of ordinary shares: | | |
| For basic earnings per share | 78,558 | 76,933 |
| Exercise of share options | 1,683 | 3,155 |
| For diluted earnings per share | 80,241 | 80,088 |
| Basic earnings per share | 2.78p | 0.01p |
| Fully diluted earnings per share | 2.72p | 0.01p |

### 10.INTANGIBLE ASSETS

| | 2006 | | | |
|---|---|---|---|---|
| | Goodwill £'000 | Development costs £'000 | Software £'000 | Total £'000 |
| **Cost** | | | | |
| At 1 April 2005 | 14,289 | - | 357 | 14,646 |
| Additions | - | - | 8 | 8 |
| Disposals | - | - | (154) | (154) |
| Development cost capitalised | - | 140 | - | 140 |
| **At 31 March 2006** | **14,289** | **140** | **211** | **14,640** |
| **Accumulated amortisation** | | | | |
| At 1 April 2005 | - | - | (310) | (310) |
| Charge for the year | - | (24) | (20) | (44) |
| Disposals | | | 154 | 154 |
| **At 31 March 2006** | **-** | **(24)** | **(176)** | **(200)** |
| **Carrying amount** | | | | |
| **At 31 March 2006** | **14,289** | **116** | **35** | **14,440** |
| At 31 March 2005 | 14,289 | - | 47 | 14,336 |

| | 2007 | | | |
|---|---|---|---|---|
| | Goodwill £'000 | Development costs £'000 | Software £'000 | Total £'000 |
| **Cost** | | | | |
| At 1 April 2006 | 14,289 | 140 | 211 | 14,640 |
| Additions | 186 | - | 29 | 215 |
| Development cost capitalised | - | 282 | - | 282 |
| **At 31 March 2007** | **14,475** | **422** | **240** | **15,137** |
| **Accumulated amortisation** | | | | |
| At 1 April 2006 | - | (24) | (176) | (200) |
| Charge for the year | - | (88) | (25) | (113) |
| **At 31 March 2007** | **-** | **(112)** | **(201)** | **(313)** |
| **Carrying amount** | | | | |
| **At 31 March 2007** | **14,475** | **310** | **39** | **14,824** |
| At 31 March 2006 | 14,289 | 116 | 35 | 14,440 |

All depreciation and impairment charges are included in the depreciation, amortisation and impairment of non-financial assets classification, which is disclosed as administration expenses in the income statement.

During the year, goodwill was reviewed for impairment in accordance with IAS 36 "Impairment of Assets". No impairment charges (2006: £Nil) arose as a result of this review.

For this review goodwill was allocated to individual Cash Generating Units (CGU) on the basis of the Group's operations. The carrying value of goodwill by each CGU is as follows:

| **Cash Generating Units (CGU)** | **2007 £'000** | **2006 £'000** |
|---|---|---|
| Internetters | 264 | 264 |
| Nicnames | 364 | 364 |
| Easyspace | 11,686 | 11,686 |
| Ufindus | 1,975 | 1,975 |
| Easyspace Datacentres | 186 | - |
| | **14,475** | **14,289** |

No goodwill in the Group is attributable to Netintelligence.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The growth rates and margins used to estimate future performance are based on past performance and the experience of growth rates. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The growth rates used to estimate future performance beyond the periods covered by the annual and strategic planning processes do not exceed the long-term average growth rates for similar products.

The assumptions used for the CGU included within the impairment reviews are as follows:

| | **Easyspace Datacentres** | **Internetters** | **Nicnames** | **Easyspace** | **Ufindus** |
|---|---|---|---|---|---|
| Discount rate | 17% | 15% | 15% | 15% | 16% |
| Future perpetuity rate | 1.8% | 2.5% | 2.5% | 2.5% | 2.2% |
| Years for growth | 5 | 5 | 5 | 5 | 5 |

## 11. PRINCIPAL SUBSIDIARIES

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 | Webservices | | 100 |
| Internetters Limited | England | Webservices | | 100 |
| NicNames Limited | England | Dormant | | 100 |
| Easyspace Limited | England | Webservices | 100 | |
| Easyspace Datacentres (UK) Limited (formerly Ezee DSL Limited) | England | Datacentre provision | 51 | |

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2007

### 12. PROPERTY, PLANT AND EQUIPMENT

| | 2006 | | | |
|---|---|---|---|---|
| | **Leasehold improvements £'000** | **Computer equipment £'000** | **Office equipment £'000** | **Total £'000** |
| **Cost** | | | | |
| At 1 April 2005 | 315 | 2,885 | 479 | 3,679 |
| Additions in the year | 152 | 324 | 70 | 546 |
| Disposals | - | (1,759) | - | (1,759) |
| **At 31 March 2006** | **467** | **1,450** | **549** | **2,466** |
| **Accumulated depreciation** | | | | |
| At 1 April 2005 | 198 | 2,337 | 306 | 2,841 |
| Charge for the year | 79 | 331 | 91 | 501 |
| On disposals | - | (1,759) | - | (1,759) |
| **At 31 March 2006** | **277** | **909** | **397** | **1,583** |
| **Carrying amount** | | | | |
| **At 31 March 2006** | **190** | **541** | **152** | **883** |
| At 31 March 2005 | 117 | 548 | 173 | 838 |

| | 2007 | | | | | |
|---|---|---|---|---|---|---|
| | **Freehold Property £'000** | **Leasehold improvements £'000** | **Datacentre Equipment £'000** | **Computer software and equipment £'000** | **Office equipment £'000** | **Total £'000** |
| **Cost** | | | | | | |
| At 1 April 2006 | - | 467 | - | 1,450 | 549 | 2,466 |
| Additions in the year | - | 54 | - | 750 | 77 | 881 |
| Disposals | - | - | - | - | - | - |
| Acquisition | 837 | | 8,467 | - | 250 | 9,554 |
| **At 31 March 2007** | **837** | **521** | **8,467** | **2,200** | **876** | **12,901** |
| **Accumulated depreciation** | | | | | | |
| At 1 April 2006 | - | 277 | - | 909 | 397 | 1,583 |
| Charge for the year | - | 90 | - | 466 | 97 | 653 |
| Acquisition | - | - | 48 | - | 2 | 50 |
| **At 31 March 2007** | **-** | **367** | **48** | **1,375** | **496** | **2,286** |
| **Carrying amount** | | | | | | |
| **At 31 March 2007** | **837** | **154** | **8,419** | **825** | **380** | **10,615** |
| At 31 March 2006 | - | 190 | - | 541 | 152 | 883 |

### 13.TRADE AND OTHER RECEIVABLES

| | 2007<br>£'000 | 2006<br>£'000 |
|---|---|---|
| Trade receivables (net) | 2,086 | 1,573 |
| Other receivables | 38 | 104 |
| Prepayments and accrued income | 813 | 628 |
| Research and development tax credit | 52 | 226 |
| **Trade and other receivables** | **2,989** | **2,531** |

The carrying amount of trade and other receivables approximates to their fair value, which has been calculated based on expectations of debt recovery from historic performances feeding into bad debt provision calculations. Trade receivables are stated net of the allowance for estimated irrecoverable amounts of £1,584,000 (2006: £1,194,000). The Group's main credit risk relates to its trade receivables.

### 14.CASH AND CASH EQUIVALENTS

| | 2007<br>£'000 | 2006<br>£'000 |
|---|---|---|
| Cash at bank and on hand | 999 | 1,279 |
| Bank overdrafts (note 17) | (4,151) | (1,320) |
| **Cash and cash equivalents** | **(3,152)** | **(41)** |

The credit risk on cash and cash equivalents is negligible because the counter parties are banks.

### 15.TRADE AND OTHER PAYABLES

| | 2007<br>£'000 | 2006<br>£'000 |
|---|---|---|
| Trade payables | (928) | (972) |
| Other taxation and social security | (1,170) | (1,748) |
| Other payables | - | (25) |
| Deferred grants | (26) | (48) |
| Accruals and deferred income | (2,212) | (2,036) |
| **Trade and other payables** | **(4,336)** | **(4,829)** |

The carrying amount of trade and other payables approximates to their fair value. The grants deferred are in relation to Regional Selective Assistance grants received in 2004 for capital expenditure which are now recognised over the life of the assets.

### 16.MINORITY INTERESTS

On 30 March 2007 the Group completed the acquisition of 51% of the ordinary share capital of Ezee DSL Limited for a cash consideration of £4.9m including certain costs of acquisition. Under the Investment Agreement the vendors were issued with a put option under which they can require iomart Group plc to purchase the remaining 49% of Ezee DSL Limited's share capital in the future. The vendors also issued a corresponding call option to the Group, under which the Group can require the vendors to sell the remaining 49% of Ezee DSL Limited's share capital in the future. These options have the same exercise dates and use the same pre-determined calculations to value the business and, subject to certain obligations which the vendor is required to fulfil, have a minimum value of £4.8m.

The Investment Agreement also requires the Group and the vendor to fund the working capital needs of Ezee DSL relative to their respective shareholdings at the time the funding is required. If one party does not provide its share of the required funding then the other party may provide funding in excess of its share and acquire shares from the other party to compensate for the excess funding so provided. Ezee DSL, in line with its agreed business plan, has required funding and the Group has provided all of that funding to date. Consequently, the Group has now begun the process of acquiring the additional shares from the vendor which will result in Group holding 99.8% of the share capital of Ezee DSL. Therefore, the Group believes that the maximum amount which will be paid to acquire the remaining 49% of the shares of Ezee DSL is the £4.8m minimum value which has been agreed within the Investment Agreement and has taken this to be the fair value of the put option held by the vendor. It is deemed highly probable that the option will be exercised and the Group will be required to pay £4.8m. The Group also believes the value of the call option to be nil.

The value of the vendor's 49% interest in the share capital of Ezee DSL, based on the fair value of the assets and the increase in that value in respect of the fair value of the put option, is as shown below. The increase in the value of the put option has, in accordance with IFRS 3 Business Combinations, been adjusted against goodwill.

| | **2007 £000** | **2006 £000** |
|---|---|---|
| Minority Interest in the assets of Ezee DSL | (4,657) | - |
| Increase to reflect fair value of put option (note 20) | (143) | - |
| Minority Interest at fair value | **(4,800)** | - |

## 17. BORROWINGS

| | **2007 £'000** | **2006 £'000** |
|---|---|---|
| Current: | | |
| Obligations under finance leases | (161) | (24) |
| Bank loan | (871) | (866) |
| Current borrowings | **(1,032)** | **(890)** |
| Bank overdraft (included in cash and cash equivalents note 14) | **(4,151)** | **(1,320)** |
| Non-current: | | |
| Obligations under finance leases | (212) | (40) |
| Bank loan | (437) | (1,307) |
| Total non-current borrowings | **(649)** | **(1,347)** |
| Total borrowings | **(5,832)** | **(3,557)** |

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

| | **2007** | | | **2006** | | |
|---|---|---|---|---|---|---|
| | **Capital £'000** | **Interest £'000** | **Total £'000** | **Capital £'000** | **Interest £'000** | **Total £'000** |
| Due within one year | 161 | 20 | 181 | 24 | 4 | 28 |
| Due between one and five years | 212 | 10 | 222 | 40 | 2 | 42 |
| | **373** | **30** | **403** | **64** | **6** | **70** |

The Group in its ordinary course of business enters into hire purchase and finance lease agreements to fund or re-finance the purchase of computer equipment and software. The lease agreements are typically for periods of 2 to 3 years and do not have contingent rent or escalation clauses. The agreements have industry standard terms and do not contain any restrictions on dividends, additional debt or further leasing.

The finance lease liability has an effective interest rate of 7.3% (2006: 8.0%). Lease payments are made on a monthly basis. The future lease obligation of £403,000 (2006: £70,000) has present value of £363,000 (2006: £65, 000).

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 (except Easyspace Datacentres (UK) Ltd) and are repayable as follows:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Due within one year | (5,022) | (2,186) |
| Due between one and two years | (437) | (871) |
| Due between two and three years | - | (436) |
| | **(5,459)** | **(3,493)** |

The bank overdrafts are repayable on demand. The bank loan and the bank overdrafts bear interest between 2.5% and 2.75% above the Bank of Scotland base rate.

**18. OPERATING LEASES**

The Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| **Leases which expire:** | **Land and buildings £'000** | **Other £'000** | **Land and buildings £'000** | **Other £'000** |
| Within one year | 73 | 31 | 19 | 159 |
| Within two to five years | 61 | 34 | 61 | 13 |
| After five years | 444 | - | 444 | - |
| | **578** | **65** | **524** | **172** |

**Lease terms for land and buildings**
Operating leases do not contain any contingent rent clauses. None of the operating leases contain renewal of purchase options or escalation clauses or any restrictions regarding further leasing or additional debt.

**19. SHARE CAPITAL**

| | Ordinary shares of 1p each | |
|---|---|---|
| | **Number of shares** | **£'000** |
| Authorised | | |
| At 31 March 2006 | 100,000,000 | 1,000 |
| Increase in year | 100,000,000 | 1,000 |
| **At 31 March 2007** | **200,000,000** | **2,000** |
| | | |
| **Called up, allotted and fully paid** | | |
| At 31 March 2006 | 77,265,054 | 773 |
| Scrip dividend | 1,522,995 | 15 |
| Issue of Shares | 20,000,000 | 200 |
| Exercise of options | 664,586 | 6 |
| **At 31 March 2007** | **99,452,635** | **994** |

During the year the company issued an additional 664,586, (2006: 601,829) ordinary shares of 1p each in respect of the exercise of options, for which a net total of £43,000 (2006: £101,000) was received. No consideration was received for the issue of 1,522,995 shares which were issued for the scrip dividend. There was also a separate issue of 20 million ordinary shares of 1p each on 30 March 2007 to raise funds for the acquisition of Ezee DSL Limited, which raised a net total of £10,466,000 net of expenses.

The share capital of iomart Group plc consists of ordinary shares with a par value of 1p. All shares are equally eligible to receive dividends and represent one vote at the shareholders' meetings of iomart Group plc. All shares issued at 31 March 2007 are fully paid; however the proceeds from the placing of 20 million ordinary shares were not received until 2 April 2007.

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

**20.ACQUISITIONS**

On 30 March 2007 through a share placing to the Group by Ezee DSL Limited, the Group completed the acquisition of 51% of the ordinary share capital of Ezee DSL Limited for a cash consideration of £4.8m plus certain costs of acquisition which resulted in a total cost of £4.89m. The £4.8m acquisition cost was actually paid on 2 April 2007, although the transaction was fully completed on 30 March 2007.

At the time of acquisition, Ezee DSL was effectively a non-trading company that owned datacentre assets which, with the exception of a small number used by the Group, were not in use. The intention of the acquisition is to bring these datacentre assets into use.

The fair value of the assets of Ezee DSL Limited shown in the table below has been assessed as their book value at the time of acquisition under the Group's depreciation policies. This required the reversal of some depreciation charged on equipment which was yet to be brought into use. Goodwill generated by the acquisition is tested for impairment in note 10.

| | Book value on acquisition 30/03/2007 £000's | Fair value to the Group £000's | 51% acquired £000's |
|---|---|---|---|
| Property, plant and equipment | 8,872 | 9,504 | 4,847 |
| Cash and cash equivalents | - | - | - |
| Receivable from share placing | 4,800 | 4,800 | 2,448 |
| Current liabilities | (4,800) | (4,800) | (2,448) |
| Goodwill | | | 186 |
| **Total fair value of acquisition** | | | **5,033** |

| **Consideration to deemed fair value** | |
|---|---|
| Total consideration (settled in cash) | 4,890 |
| Excess value of put option issued in acquisition | 143 |
| **Total consideration** | **5,033** |

The amount shown as receivable from share placing is the amount due to Ezee DSL from the Group on the acquisition of 51% of Ezee DSL Limited share capital.

**21.SHARE BASED PAYMENTS**

The Group operates the following share based payment employee share option schemes; Enterprise Management Incentive scheme, Sharesave scheme, a number of other approved schemes and a number of unapproved schemes. All schemes are settled in equity only and are summarised below.

| | Vesting period | Maximum term | Performance criteria | Required to remain in employment |
|---|---|---|---|---|
| Enterprise Management Incentive scheme | Between 1 and 3 years from grant | 10 years after date of grant | As set by Remuneration Committee | Yes |
| Sharesave scheme | 3 years from grant | 6 months after vesting period | No | No |
| Other approved schemes | Between 1 and 3 years from grant | 10 years after date of grant | As set by Remuneration Committee | Yes |
| Unapproved schemes | 3 years from grant | 10 years after date of grant | As set by Remuneration Committee | Yes |

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2007

Details of options and awards outstanding, and a reconciliation of movements in the year in respect of the Company's ordinary shares of 1p each, under the various schemes are as follows:

| As at 31 March 2006 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Details | | | Options for shares outstanding | | | | | | Options for shares exercisable |
| Exercise price | Exercise date | Expiry date | 31 March 2005 | Issued | Forfeited | Exercised | Expired | 31 March 2006 | 31 March 2006 |
| **Enterprise management incentive scheme** | | | | | | | | | |
| 6.25 | 26/07/2002 | 26/07/2012 | 266,666 | | | | | 266,666 | 266,666 |
| 6.25 | 26/07/2003 | 26/07/2012 | 266,666 | | | | | 266,666 | 266,666 |
| 6.25 | 26/07/2004 | 26/07/2012 | 266,668 | | | | | 266,668 | 266,668 |
| 6.25 | 02/07/2004 | 02/07/2013 | 261,667 | | | (123,422) | | 138,245 | 138,245 |
| 6.25 | 02/07/2005 | 02/07/2013 | 270,000 | | (1,667) | (52,919) | | 215,414 | 215,414 |
| 6.25 | 02/07/2006 | 02/07/2013 | 270,000 | | (4,989) | | | 265,011 | - |
| 78.50 | 17/11/2005 | 17/11/2014 | 6,666 | | | | | 6,666 | 6,666 |
| 78.50 | 17/11/2006 | 17/11/2014 | 6,667 | | | | | 6,667 | - |
| 78.50 | 17/11/2007 | 17/11/2014 | 590,485 | | | | | 590,485 | - |
| **Savings related scheme** | | | | | | | | | |
| 76.00 | 01/03/2009 | 01/09/2009 | 545,761 | | | | | 545,761 | - |
| **Unapproved schemes** | | | | | | | | | |
| 11.75 | 31/10/2001 | 31/10/2011 | 50,000 | | | | | 50,000 | 50,000 |
| 6.25 | 27/06/2002 | 27/06/2007 | 33,333 | | | | | 33,333 | 33,333 |
| 6.25 | 27/06/2003 | 27/06/2007 | 33,333 | | | | | 33,333 | 33,333 |
| 6.25 | 27/06/2004 | 27/06/2007 | 33,334 | | | | | 33,334 | 33,334 |
| 78.50 | 17/11/2007 | 17/11/2014 | 4,256,182 | | | | | 4,256,182 | - |
| 5.00 | 11/05/2000 | 14/12/2008 | 276,886 | | | | | 276,886 | 276,886 |
| 5.00 | 11/02/2001 | 14/12/2008 | 276,887 | | | | | 276,887 | 276,887 |
| 5.00 | 11/02/2002 | 14/12/2008 | 276,887 | | | | | 276,887 | 276,887 |
| **Approved Schemes** | | | | | | | | | |
| 44.00 | 24/01/2004 | 24/01/2011 | 43,000 | | | (5,500) | | 37,500 | 37,500 |
| 13.50 | 26/09/2001 | 26/09/2011 | 62,500 | | | (62,500) | | - | - |
| 13.50 | 31/01/2003 | 26/09/2011 | 1,500 | | | (1,500) | | - | - |
| 13.50 | 26/09/2004 | 26/09/2011 | 197,500 | | | (192,500) | | 5,000 | 5,000 |
| 11.75 | 31/10/2004 | 31/10/2011 | 23,888 | | | | | 23,888 | 23,888 |
| 9.00 | 27/02/2005 | 27/02/2012 | 100,000 | | | | | 100,000 | 100,000 |
| Total | | | 8,416,476 | - | (6,656) | (438,341) | - | 7,971,479 | 2307,373 |
| **Weighted Average Exercise price** | | | **53.87** | **n/a** | **6.25** | **10.97** | **n/a** | **55.21** | **6.93** |

| As at 31 March 2007 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Details | | | Options for shares oustanding | | | | | | Options for shares exercisable |
| Exercise price | Exercise date | Expiry date | 31 March 2006 | Issued | Forfeited | Exercised | Expired | 31 March 2007 | 31 March 2007 |
| **Enterprise management incentive scheme** | | | | | | | | | |
| 6.25 | 26/07/2002 | 26/07/2012 | 266,666 | | | | | 266,666 | 266,666 |
| 6.25 | 26/07/2003 | 26/07/2012 | 266,666 | | | | | 266,666 | 266,666 |
| 6.25 | 26/07/2004 | 26/07/2012 | 266,668 | | | | | 266,668 | 266,668 |
| 6.25 | 02/07/2004 | 02/07/2013 | 138,245 | | (6,666) | (86,996) | | 44,583 | 44,583 |
| 6.25 | 02/07/2005 | 02/07/2013 | 215,414 | | (6,666) | (156,832) | | 51,916 | 51,916 |
| 6.25 | 02/07/2006 | 02/07/2013 | 265,011 | | (6,668) | (200,758) | | 57,585 | 57,585 |
| 78.50 | 17/11/2005 | 17/11/2014 | 6,666 | | | | | 6,666 | 6,666 |
| 78.50 | 17/11/2006 | 17/11/2014 | 6,667 | | | | | 6,667 | 6,667 |
| 78.50 | 17/11/2007 | 17/11/2014 | 590,485 | | (20,000) | | | 570,485 | - |
| 74.00 | 24/08/2009 | 24/08/2016 | | 64,865 | | | | 64,865 | - |
| **Savings related scheme** | | | | | | | | | |
| 76 | 01/03/2009 | 01/09/2009 | 545,761 | | (208,196) | | | 337,565 | - |
| **Unapproved schemes** | | | | | | | | | |
| 11.75 | 31/10/2001 | 31/10/2011 | 50,000 | | | | | 50,000 | 50,000 |
| 6.25 | 27/06/2002 | 27/06/2007 | 33,333 | | | (33,333) | | - | - |
| 6.25 | 27/06/2003 | 27/06/2007 | 33,333 | | | (33,333) | | - | - |
| 6.25 | 27/06/2004 | 27/06/2007 | 33,334 | | | (33,334) | | - | - |
| 78.50 | 17/11/2007 | 17/11/2014 | 4,256,182 | | | | | 4,256,182 | |
| 5.00 | 11/05/2000 | 14/12/2008 | 276,886 | | | | | 276,886 | 276,886 |
| 5.00 | 11/02/2001 | 14/12/2008 | 276,887 | | | | | 276,887 | 276,887 |
| 5.00 | 11/02/2002 | 14/12/2008 | 276,887 | | | | | 276,887 | 276,887 |
| 74.00 | 24/08/2009 | 24/08/2016 | | 135,135 | | | | 135,135 | - |
| **Approved Schemes** | | | | | | | | | |
| 44.00 | 24/01/2004 | 24/01/2011 | 37,500 | | | | | 37,500 | 37,500 |
| 13.50 | 26/09/2004 | 26/09/2011 | 5,000 | | | | | 5,000 | 5,000 |
| 11.75 | 31/10/2004 | 31/10/2011 | 23,888 | | | | | 23,888 | 23,888 |
| 9.00 | 27/02/2005 | 27/02/2012 | 100,000 | | | (100,000) | | - | - |
| Total | | | 7,971,479 | 200,000 | (248,196) | (644,586) | - | 7,278,697 | 1,914,465 |
| **Weighted Average Exercise price** | | | **55.14** | **74.00** | **70.58** | **6.68** | **n/a** | **59.42** | **6.87** |

In accordance with the transitional provisions of IFRS, the requirements of IFRS 2 Share Based Payment have not been applied to equity instruments that were granted before 7 November 2002 or equity instruments that were granted after 7 November 2002 that had vested before the date of transition, being 1 April 2005. Therefore the following disclosures relate only to awards made after 7 November 2002 that had not vested by 1 April 2005.

As disclosed in note 4, a share based payment charge of £153,000 (2006: £168,000) has been recognised in the income statement during the year in relation to the above schemes. The fair value of the employee services received is valued indirectly by valuing the options granted using the Black-Scholes option pricing model, which worked on the following assumptions.

| **Grant date** | **02-Jul-03** | | **17-Nov-04** | **01-Mar-06** | **24-Aug-06** |
|---|---|---|---|---|---|
| **Vesting date** | **02-Jul-05** | **02-Jul-06** | **17-Nov-07** | **01-Mar-09** | **24-Aug-09** |
| **Variables used** | | | | | |
| Share price at grant date | 13.75p | 13.75p | 78.50p | 95.00p | 69.00p |
| Volatility | 50% | 50% | 35% | 49% | 40% |
| Dividend yield | 0.00% | 0.00% | 1.27% | 3.16% | 4.35% |
| Number of employees holding options/units | 9 | 9 | 6 | 46 | 1 |
| Option/award life (years) | 10 | 10 | 10 | 10 | 10 |
| Expected life (years) | 2.50 | 3.50 | 3.00 | 3.00 | 3.00 |
| Risk free rate | 4% | 4% | 4% | 4.17% | 4.75% |
| Expectations of meeting performance criteria | 100% | 100% | 42% | 100% | 100% |
| Fair value | **8.53p** | **8.95p** | **20.41p** | **35.77p** | **14.91p** |
| Exercise price per share | 6.25p | 6.25p | 78.50p | 78.50p | 74.00p |

i) Expected volatility was determined at the date of grant from historic volatility, adjusted for events that were not considered to be reflective of the volatility of the share price going forward

ii) Risk free rate was calculated based on the average Bank of England zero coupon yields.

## 22. ANALYSIS OF CHANGE IN NET DEBT

| | **2006 £'000** | **Inception of finance lease £'000** | **Cash flow £'000** | **2007 £'000** |
|---|---|---|---|---|
| Cash at bank and in hand | 1,279 | | (280) | 999 |
| Bank overdrafts | (1,320) | | (2,831) | (4,151) |
| Bank loan | (2,173) | | 865 | (1,308) |
| Finance leases and hire purchase | (64) | (418) | 109 | (373) |
| **Net debt** | **(2,278)** | **(418)** | **(2,137)** | **(4,833)** |

## 23. RELATED PARTY TRANSACTIONS

The only related party transactions in the year were the payments to key management (only directors are deemed to fall into this category) disclosed in note 4.

## 24. CONTINGENCIES AND COMMITMENTS

*(a) Contingencies*
There were no contingent assets or contingent liabilities as at 31 March 2007 (2006: nil).

*(b) Commitments*
The future annual minimum lease payments under non-cancelable operating leases are as follows:

| | **2007 £'000** | **2006 £'000** |
|---|---|---|
| No later than 1 year | 104 | 178 |
| Later than 1 year and no later than 5 years | 95 | 74 |
| Later than 5 years | 444 | 444 |
| | **643** | **696** |

Capital expenditure on property, plant and equipment committed by the Group at 31 March 2007 was £nil (2006: £nil).

### 25. EVENTS AFTER THE BALANCE SHEET DATE

#### a) Operating lease contracted

On the 4 April 2007 the Group entered into an operating lease contract to lease a datacentre property in London. The lease has a term of 13 years 3 months and has an annual charge for rental and service fees totalling around £1m, as well as dilapidations provisions which are estimated to be around £2m at the end of the lease term.

#### b) Ownership of Ezee DSL

The Investment Agreement under which the Group acquired a 51% controlling interest in Ezee DSL Limited also requires the Group and the vendor to fund the working capital needs of Ezee DSL relative to their respective shareholdings at the time the funding is required. If one party does not provide its share of the required funding then the other party may provide funding in excess of its share and acquire shares from the other party to compensate for the excess funding so provided. Ezee DSL, in line with its agreed business plan, has required funding and the Group has provided all of that funding to date. Consequently, the Group has now begun the process of acquiring the additional shares from the vendor which will result in Group holding 99.8% of the share capital of Ezee DSL.

### 26. RISK MANAGEMENT

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, short term receivables/payables and borrowings.

| | **2007 £'000** | **2006 £'000** |
|---|---|---|
| **Financial assets** | | |
| The Group's financial assets and their maturity profile are: | | |
| Trade receivables | 2,086 | 1,573 |
| Cash at bank and in hand | 999 | 1,279 |
| | **3,085** | **2,852** |
| **Maturing** | | |
| One year or less or on demand | 3,085 | 2,852 |
| **Financial liabilities** | | |
| The Group's financial liabilities and their maturity profile are: | | |
| Trade payables | (928) | (972) |
| Finance leasing capital obligations | (373) | (64) |
| Bank overdrafts – floating rate | (4,151) | (1,320) |
| Bank loan – floating rate | (1,308) | (2,173) |
| | **(6,760)** | **(4,529)** |

All of the fixed interest obligations are repayable within one year.
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, overdraft and cash at bank is determined by reference to the base rate.

The Group has a committed overdraft facility of £4,500,000 (2006 - £1,500,000), which falls due for renewal on 30 October 2007.

**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 Group 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, however the revenue recognition policy takes account of this, so that there is no exposure from the deferred payment terms. Therefore the Group consider that the trade receivables 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.

## 27. CHANGES IN ACCOUNTING POLICIES – ADOPTION OF IFRS

As of 1 April 2005, the Group's accounting policies have been changed to comply with International Financial Reporting Standards (IFRS). The date of transition is 1 April 2005 and all comparative figures at 1 April 2005 and for the year ended 31 March 2006 have been restated.

The Group has taken the optional exemption available under IFRS 1 First Time Adoption of IFRS, and has not reclassified business combinations that took place before 1 April 2005, the date of transition. Therefore the purchase price in excess of assets and liabilities acquired previously recorded as goodwill has not been reclassified into goodwill and other intangible assets.
The adoption of IFRS results in changes to the accounting policies in the following areas:

### (a) Revenue recognition

Previously under UK GAAP revenue relating to Ufindus was recognised once the service had been delivered and all significant obligations in relation to the sale had been fulfilled. Under this policy revenue was recognised in advance of invoicing and recorded as an amount due on deferred payment terms and was included within debtors in the balance sheet. Under IAS 18 Revenue, revenue is recognised over the period which the customer uses the service and only where it is probable that future economic benefit will flow from the transaction. This has the effect of removing the debtor balance representing the amount due on deferred payment terms from the balance sheet and reducing the amount of trade debtors recorded in the balance sheet in both cases net of any applicable provisions for doubtful debts which had been established.

### (b) Share-based payments

In accordance with IFRS 2 Share Based Payments, the fair value of employee services received in exchange for the grant of share based compensation plans is recognised as an expense, and allocated over the vesting period.

### (c) Share based payments prior to November 2002

The Group operates a variety of share-based employee incentive arrangements which typically include the grant of share options. Under UK GAAP, the intrinsic value of an award under the Group's share plans was charged as an operating cost over the period of performance of the employee receiving the award. Inland Revenue approved SAYE schemes (and their overseas equivalents) were outside the scope of UITF Abstract 17, and a charge was therefore not recorded in respect of these schemes even where the options were granted at a discount to the market price at the date of invitation.

IFRS 2 Share Based Payments requires that an expense is recognised in the income statement based on the fair value of an award at the date of grant for all share-based incentive schemes. The expense is spread over the period for which services are received from employees, which is assumed to be the vesting period of the award. The impact of adopting IFRS is to increase the share-based payment charge in the income statement, primarily because IFRS 2 Share Based Payments covers market value schemes and schemes which were outside the scope of UITF 17.

In line with the provisions of IFRS 2 Share Based Payments a separate share based payment reserve has not been set up, and the credit is instead taken to profit and loss reserves.

**(d) Development costs**
Under UK GAAP the Group elected to expense development costs of Ufindus directory products to profit and loss, but in accordance with IAS 38 Intangible Assets, these are now capitalised on the Balance Sheet as intangible assets.

**(e) Income taxes**
In accordance with both UK GAAP and IFRS the Group recognises a deferred tax asset in respect of tax losses to the extent that it is probable that these losses will be utilised. The deferred tax asset at March 2005 and March 2006 previously reported on the basis of the expected tax loss utilisation arising from profitability measured under UK GAAP, have been restated to reflect the expected utilisation arising from profitability measured under IFRS.

**(f) Business combinations**
IFRS 3 Business Combinations prohibits merger accounting and the amortisation of goodwill. The standard requires goodwill to be carried at cost with impairment reviews both annually and when there are indications that the carrying value may not be recoverable. IFRS 3 requires certain intangible assets to be recognised at the date of acquisition and to be amortised on a systematic basis over their economic lives.

As required by IFRS 1, goodwill recognised under previous UK GAAP has been tested for impairment at the date of transition to IFRS. No impairment loss was required to be recognised. In accordance with IFRS 1, this amount has been considered the carrying amount of goodwill in the opening IFRS balance sheet.

**(g) Fair value of property, plant and equipment**
Under UK GAAP computer software was classified as property, plant and equipment, however under IAS 38 this is to be classified as an Intangible Asset. This reclassification is the only change in the figures as a result of the adoption of IAS 16 Property, Plant and Equipment.

**(h) Software**
Costs of software and software licences purchased for internal use have been reclassified from property, plant and equipment to intangible assets.

**(I) IFRS cash flow statement adjustments**
The overall cash flows of the Group do not change as a result of adopting IFRS. The IFRS cash flow format includes various cash flows in different categories and in a different order to UK GAAP. Development costs which were written-off as operating costs under UK GAAP are capitalised and amortised under IFRS and are classified as investing activities in the cash flow statement. Dividends and interest are reported as financing costs. Tax is reported as an operating cash flow. Certain leasehold properties accounted for as operating leases under UK GAAP are accounted for as finance leases under IFRS. The cash flow categorisation changes accordingly.

**Reconciliation of profit reported under UK GAAP for the year ended 31 March 2006 to profit reported under IRFS**

| | Year ended 31st March 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **UK GAAP £'000** | **Revenue Recognition £'000** | **Amortisation £'000** | **Tax £'000** | **Development costs £'000** | **Share based payments £'000** | **IFRS £'000** |
| Turnover | 24,306 | (6,274) | - | - | - | - | 18,032 |
| Cost of sales | (4,361) | - | - | - | - | - | (4,361) |
| Gross profit | 19,945 | (6,274) | - | - | - | - | 13,671 |
| Admin expenses | (15,547) | 1,249 | 819 | - | 116 | (168) | (13,531) |
| Operating profit | 4,398 | (5,025) | 819 | - | 116 | (168) | 140 |
| Net interest | (214) | - | - | - | - | - | (214) |
| (Loss)/profit before tax | 4,184 | (5,025) | 819 | - | 116 | (168) | (74) |
| Tax | (170) | - | - | 255 | - | - | 85 |
| Profit after tax | 4,014 | (5,025) | 819 | 255 | 116 | (168) | 11 |

To ensure complete focus on the appropriate revenue, whilst the Group could have continued to recognise revenue in the Ufindus statutory accounts under UK GAAP on the basis previously used, it has decided to alter UK GAAP revenue recognition to a basis consistent with IFRS. The accounts of Ufindus Limited have been prepared on the basis of the revised revenue recognition policy.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2007

| | As at 1st April 2005 | | | | | |
|---|---|---|---|---|---|---|
| | **Reported under UK GAAP £'000** | **Revenue recognition £'000** | **Software intangible asset £'000** | **Share based payments £'000** | **Tax £'000** | **Restated under IFRS £'000** |
| **Non-current assets** | | | | | | |
| Intangible assets | 14,289 | - | 47 | - | - | 14,336 |
| Tangible assets | 885 | - | (47) | - | - | 838 |
| | 15,174 | - | - | - | - | 15,174 |
| **Current assets** | | | | | | |
| Debtors | 5,256 | (3,042) | - | - | - | 2,214 |
| Deferred tax | 1,200 | - | - | - | (1,200) | - |
| Cash at bank and in hand | 2,033 | | | | | 2,033 |
| | 8,489 | (3,042) | - | - | (1,200) | 4,247 |
| **Current liabilities** | (5,933) | (57) | - | - | - | (5,990) |
| Bank overdraft | | | | | | |
| | (5,933) | (57) | - | - | - | (5,990) |
| **Total assets less current liabilities** | 17,730 | (3,099) | - | - | (1,200) | 13,431 |
| **Non-current liabilities** | (2,201) | - | - | - | - | (2,201) |
| **Net assets** | **15,529** | **(3,099)** | **-** | **-** | **(1,200)** | **11,230** |
| **Capital and reserves** | | | | | | |
| Share capital | 767 | - | - | - | - | 767 |
| Redemption reserve | 1,200 | - | - | - | - | 1,200 |
| Share premium | 6,108 | - | - | - | - | 6,108 |
| Share based payments | | | | 69 | - | 69 |
| Profit and loss account | 7,454 | (3,099) | - | (69) | (1,200) | 3,086 |
| **Total equity** | **15,529** | **(3,099)** | **-** | **-** | **(1,200)** | **11,230** |

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2007

| | As at 31st March 2006 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Reported under UK GAAP £'000** | **Revenue recognition £'000** | **Share based payments £'000** | **Software intangible asset £'000** | **Amortisation of goodwill £'000** | **Development costs £'000** | **Tax £'000** | **Restated under IFRS £'000** |
| **Non-current assets** | | | | | | | | |
| Intangible assets | 13,470 | - | - | 35 | 819 | 116 | - | 14,440 |
| Tangible assets | 918 | - | - | (35) | - | - | - | 883 |
| | 14,388 | - | - | - | 819 | 116 | - | 15,323 |
| **Current assets** | | | | | | | | |
| Debtors | 10,614 | (8,083) | - | - | - | - | - | 2,531 |
| Deferred tax | 945 | - | - | - | - | - | (945) | - |
| Cash at bank and in hand | 1,279 | - | - | - | - | - | - | 1,279 |
| | 12,838 | (8,083) | - | - | - | - | (945) | 3,810 |
| **Current liabilities** | (5,847) | (41) | - | - | - | - | - | (5,888) |
| Bank overdraft | (1,320) | - | - | - | - | - | - | (1,320) |
| | (7,167) | (41) | - | - | - | - | - | (7,208) |
| **Total assets less current liabilites** | 20,059 | (8,124) | - | - | 819 | 116 | (945) | 11,925 |
| **Non-current liabilities** | (1,373) | - | - | - | - | - | - | (1,373) |
| **Net assets** | **18,686** | **(8,124)** | **-** | **-** | **819** | **116** | **(945)** | **10,552** |
| **Capital and reserves** | | | | | | | | |
| Share capital | 773 | - | - | - | - | - | - | 773 |
| Redemption reserve | 1,200 | - | - | - | - | - | - | 1,200 |
| Share premium | 6,203 | - | - | - | - | - | - | 6,203 |
| Share based payments | | | 237 | - | - | - | - | 237 |
| Profit and loss account | 10,510 | (8,124) | (237) | - | 819 | 116 | (945) | 2,139 |
| **Total equity** | **18,686** | **(8,124)** | **-** | **-** | **819** | **116** | **(945)** | **10,552** |

HOLDING COMPANY FINANCIAL STATEMENTS
Year ended 31 March 2007

## REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF IOMART GROUP PLC

We have audited the parent company financial statements of iomart Group plc for the year ended 31 March 2007 which comprise the principal accounting policies, the balance sheet and notes 1 to 15. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of iomart Group plc for the year ended 31 March 2007.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the parent company 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 parent company 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 parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 Group financial statements. The other information comprises only the Chairman's Statement, the Chief Executive Officer's Report, the Finance Director's Report, the Directors' Report, the Statement of Director's Responsibilities, Report of the Board to the Members on Directors' Remuneration and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group 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 parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the 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 parent company 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 parent company financial statements.

HOLDING COMPANY FINANCIAL STATEMENTS
Year ended 31 March 2007

**Opinion**

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007
- the parent company 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.

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
GLASGOW

20 June 2007

## HOLDING COMPANY BALANCE SHEET
31 March 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Investments | 4 | 19,930 | 16,393 |
| | | **19,930** | **16,393** |
| **CURRENT ASSETS** | | | |
| Debtors | 5 | 23,304 | 14,305 |
| Cash at bank and in hand | | (4,001) | (1,127) |
| | | **19,303** | **13,178** |
| **CREDITORS: amounts falling due within one year** | 6 | (14,071) | (7,907) |
| **NET CURRENT ASSETS** | | 5,232 | 5,271 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 25,162 | 21,664 |
| **CREDITORS: amounts falling due after more than one year** | 7 | (437) | (1,307) |
| **NET ASSETS** | | **24,725** | **20,357** |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 9 | 994 | 773 |
| Capital redemption reserve | 11 | 1,200 | 1,200 |
| Share premium account | 11 | 17,541 | 6,203 |
| Profit and loss account | 11 | 4,990 | 12,181 |
| **TOTAL EQUITY SHAREHOLDERS' FUNDS** | | **24,725** | **20,357** |

These financial statements were approved by the board of directors on 20 June 2007.
Signed on behalf of the board of directors

Angus MacSween
*Director and chief executive officer*

NOTES TO THE HOLDING COMPANY FINANCIAL STATEMENTS
Year ended 31 March 2007

## 1. ACCOUNTING POLICIES

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

**FRS 20 'Share-based Payments'**

FRS 20 has been adopted during the year. FRS 20 requires that an expense is recognised in the income statement based on the fair value of an award at the date of grant for all share-based incentive schemes. The expense is spread over the period for which services are received from employees, which is assumed to be the vesting period of the award. The impact of this adoption is to increase the share-based payment charge in the income statement, primarily because FRS 20 covers market value schemes and schemes which were outside the scope of UITF 17. The effect on the financial statements is shown in notes 10 and 13.

In line with the provisions of FRS 20 Share Based Payments a separate share based payment reserve has not been set up, and the credit is instead taken to profit and loss reserves.

**Accounting convention**

**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.

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

NOTES TO THE HOLDING COMPANY FINANCIAL STATEMENTS
Year ended 31 March 2007

### 2. 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 loss for the financial period after taxation was £4,863,000 (2006: profit - £3,416,000).

### 3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Staff costs of the company during the year in respect of employees and directors were:** | | |
| Executive directors' remuneration | 95 | - |
| Non-executive directors' remuneration | 84 | 78 |
| Social security costs | 16 | 8 |
| | 195 | 86 |

The company makes contributions to executive directors' and some senior employees' personal defined contribution pension schemes. These are the only pension arrangements of the holding company

### 4. INVESTMENTS HELD AS FIXED ASSETS

| **The company** | **Shares in subsidiary undertakings Restated for FRS 20 £'000** |
|---|---|
| **Cost** | |
| At 1 April 2006 | 16,156 |
| FRS 20 Adjustment | 237 |
| At 1 April 2006, restated | **16,393** |
| Acquisition | 4,890 |
| FRS 20 charge | 147 |
| **Cost at 31 March 2007** | **21,430** |
| **Impairment** | |
| At 1 April 2006 | - |
| Impairment during the year | (1,500) |
| Impairment at 31 March 2007 | **(1,500)** |
| **Net book value of Investments at 31 March 2007** | **19,930** |
| Net book value of Investments at 31 March 2006, restated | 16,393 |
| Net book value of Investments at 31 March 2006 | 16,156 |

All of the above investments are unlisted.

NOTES TO THE HOLDING COMPANY FINANCIAL STATEMENTS
Year ended 31 March 2007

The following subsidiaries are included in the company financial statements:

| | Country of registration and operation | Activity | Ordinary share capital Owned by the company % | Ordinary share capital 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 | Webservices | | 100 |
| Internetters Limited | England | Webservices | | 100 |
| NicNames Limited | England | Dormant | | 100 |
| Easyspace Limited | England | Webservices | 100 | |
| Easyspace Datacentres (UK) Limited (formerly Ezee DSL Limited) | England | Datacentres Provision | 51 | |

## 5. DEBTORS

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Prepayments and accrued income | 7 | - |
| Amounts due from share placing | 10,466 | - |
| Amounts owed by subsidiary undertakings | 12,831 | 14,305 |
| | 23,304 | 14,305 |

## 6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Bank loan | 871 | 866 |
| Trade creditors | 115 | 62 |
| Other taxation and social security | 561 | 110 |
| Accruals and deferred income | 134 | 53 |
| Amounts due on acquisition | 4,800 | - |
| Amounts owed to subsidiary undertakings | 7,590 | 6,816 |
| | 14,071 | 7,907 |

## 7. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Bank loan | 437 | 1,307 |

NOTES TO THE HOLDING COMPANY FINANCIAL STATEMENTS
Year ended 31 March 2007

### 8. BORROWINGS

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Current: | | |
| Bank loan | 871 | 866 |
| Bank overdrafts | 4,001 | 1,277 |
| Total current borrowings | **4,872** | **2,143** |
| Non-current: | | |
| Bank loan | 437 | 1,307 |
| Total non-current borrowings | **437** | **1,307** |
| Total borrowings | **5,309** | **3,450** |

### 9. SHARE CAPITAL

| | Ordinary shares of 1p each | |
|---|---|---|
| | **Number of shares** | **£'000** |
| **Authorised** | | |
| At 31 March 2006 | 100,000,000 | 1,000 |
| Increase in year | 100,000,000 | 1,000 |
| **At 31 March 2007** | **200,000,000** | **2,000** |
| **Called up, allotted and fully paid** | | |
| At 31 March 2006 | 77,265,054 | 773 |
| Scrip dividend | 1,522,995 | 15 |
| Issue of Shares | 20,000,000 | 200 |
| Exercise of options | 664,586 | 6 |
| **At 31 March 2007** | **99,432,635** | **994** |

The share capital of iomart Group plc consists of ordinary shares with a par value of £0.01. All shares are equally eligible to receive dividends and represent one vote at the shareholders' meetings of iomart Group plc. All shares issued at 31 March 2007 are fully paid.
During the year the company issued an additional 664,586 (2006: 601,829) ordinary shares of 1p each in respect of the exercise of options, for which a net total of £43,000 (2006: £101,000) was received.
There was also a separate issue of ordinary shares of 1p each to raise funds for the acquisition of Ezee DSL Limited, which raised a net total of £10,466,000 net of expenses. The difference between the nominal value of the shares issued and the net issue price has been credited to share premium account.

### 10. PRIOR YEAR ADJUSTMENT

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

**FRS 20, Share based payments**

FRS 20 requires the fair value of outstanding share options granted to employees to be recognised as a charge in the profit and loss account. Previous UK GAAP treatment required the intrinsic value to be recognised as a charge in the profit and loss account. Where employees of subsidiary companies have been granted options in the holding company, the profit and loss charge is transferred to the subsidiary through recognising an increase in the investment in that subsidiary (see note 4). Any options granted to employees of the holding company are recognised through the holding company profit and loss account.

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Increase in investments in subsidiaries | 147 | 237 |
| Increase in net assets | 147 | 237 |
| Increase in profit and loss account reserve | 147 | 237 |
| Recognised in profit for the period | 6 | - |

### 11. STATEMENT OF MOVEMENT IN RESERVES

| | Capital redemption reserve £'000 | Share premium account £'000 | Profit and loss account £'000 |
|---|---|---|---|
| Profit (loss)for the financial period | - | - | (4863) |
| Dividend paid | - | 1,035 | (2,334) |
| Share based payments in company only | - | - | 6 |
| Shares issued (net of expenses) | - | 10,303 | - |
| Opening balance | 1,200 | 6,203 | 12,181 |
| Closing balance | **1,200** | **17,541** | **4,990** |

### 12. MOVEMENT IN SHAREHOLDERS' FUNDS

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| (Loss)/profit for the financial period | (4,863) | 3,416 |
| Dividend paid | (2,334) | (958) |
| Share capital issued | 11,559 | 101 |
| Share based payments in company only | 6 | - |
| | **4,368** | **2,559** |
| Opening shareholders' funds | 20,357 | 17,798 |
| Closing shareholders' funds | **24,725** | **20,357** |

2006 opening shareholder funds have been restated to reflect the adoption of FRS 20. Futher information on this is shown in note 10.

NOTES TO THE HOLDING COMPANY FINANCIAL STATEMENTS
Year ended 31 March 2007

**13. SHARE BASED PAYMENTS**

For details of share based payment awards and fair values see note 1 to the Group financial statements. The Company accounts recognise the charge for share based payments for the year of £153,000 (2006: £168,000) by;

1) taking the charge in relation to employees of the holding company through the holding company income statement,

2) recording an increase to its investment in subsidiaries for the amounts attributable to directors of subsidiaries and recording a corresponding entry to the profit and loss account reserve

**14.CONTINGENCIES AND COMMITMENTS**

*(a) Contingencies*
There were no contingent assets or contingent liabilities present as at 31 March 2007 (2006 Nil).

*(b) Commitments*
There were no commitments present as at 31 March 2007 (2006 Nil).

**15.EVENTS AFTER THE BALANCE SHEET DATE**

a) Operating lease contracted
On the 4 April 2007 the Company entered into an operating lease contract to lease a datacentre property in London. The lease has a term of 13 years 3 months and has an annual charge for rental and service fees totalling around £1m, as well as dilapidations provisions which are estimated to be around £2m at the end of the lease term.

b) Ownership of Ezee DSL
The Investment Agreement under which the Company acquired a 51% controlling interest in Ezee DSL Limited also requires the Company and the vendor to fund the working capital needs of Ezee DSL relative to their respective shareholdings at the time the funding is required. If one party does not provide its share of the required funding then the other party may provide funding in excess of its share and acquire shares from the other party to compensate for the excess funding so provided. Ezee DSL, in line with its agreed business plan, has required funding and the Company has provided all of that funding to date. Consequently, the Company has now begun the process of acquiring the additional shares from the vendor which will result in Company holding 99.8% of the share capital of Ezee DSL.

## NOTICE OF 2007 ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the 2007 annual general meeting of iomart Group plc will be held at Lister Pavilion, Kelvin Campus, West of Scotland Science Park, Glasgow G20 0SP on 27 July 2007 at 2.30 pm, for the purpose of considering and, if thought fit, transacting the following business:-

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

1 To receive and adopt the financial statements of the company and the directors' and auditors' reports thereon for the year ended 31 March 2007.

2 To reappoint Richard Logan (who was appointed by the board since the last annual general meeting) as a director of the company.

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

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

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

6 To approve the report of the board to the members on directors' remuneration for the year ended 31 March 2007.

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

7 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 £371,107; 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

8 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 7 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 £49,716; 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."

9 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 9,943,263 (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**
**20 June 2007**

**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 7 - Allotment authority

Resolution 7 renews an authority given to the directors at the last annual general meeting of the company, held on 21 June 2006, 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 27 October 2007, whichever occurs first, up to a maximum aggregate nominal value of £371,107, being equal to the total of 30% of the company's issued share capital and the number of shares needed to satisfy the requirement to issue shares in respect of outstanding share options. 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 8 - Disapplication of pre-emption rights

Resolution 8 renews an authority given to the directors at the last annual general meeting of the company, held on 21 June 2006, which expires at this meeting.

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 8 asks shareholders to do this, but only 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 annual general meeting.

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, 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 8, 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 8 will, unless sooner revoked or varied by the company, last until next year's annual general meeting or 27

October 2007, whichever occurs first. This resolution complies with the IPCs' guidelines.

Resolution 9 – 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 9 to affect 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.